

Management's Discussion & Analysis

Of the financial condition and results of operations of Talison Lithium Limited

As at and for the interim period ended December 31, 2011

February 9, 2012

This document provides management's discussion and analysis ("**MD&A**") of the financial condition and results of operations of Talison Lithium Limited ACN 140 122 078 ("**Talison**" or the "**Company**") as at December 31, 2011 and for the three and six months ended December 31, 2011. This MD&A is prepared as at February 9, 2012 and is current to that date unless otherwise stated.

This MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements of Talison as at December 31, 2011 and for the three and six months ended December 31, 2011 (collectively, the "**Financial Statements**"). The financial information contained in this MD&A is derived from the Financial Statements, which were prepared in accordance with International Financial Reporting Standards ("**IFRS**"). All amounts in this MD&A are expressed in Australian dollars ("**A\$**") unless otherwise identified. References to "**C\$**" are to Canadian dollars and references to "**US\$**" are to United States dollars.

The following discussion contains forward-looking statements that involve numerous risks and uncertainties. Actual results of Talison could differ materially from those discussed in such forward-looking statements as a result of these risks and uncertainties, including those set forth under the heading "Cautionary Notes — Forward-Looking Statements" and under the heading "Risk Factors" in Talison's annual information form for the year ended June 30, 2011 dated September 23, 2011 (the "**Annual Information Form**"), which risk factors are incorporated herein by reference and can be found on Talison's SEDAR profile at www.sedar.com.

Readers of this MD&A are cautioned that certain statements in this MD&A may relate solely to the debt and capital structure of Talison Minerals Pty Ltd ("**Talison Minerals**") before the Reorganization (as defined below) and may be of no consequence to the ongoing operations of Talison.

Additional information about Talison and its business activities is included in Talison's continuous disclosure documents, which are located on Talison's SEDAR profile at www.sedar.com. Readers are cautioned not to rely solely on the summary of such information contained in this MD&A, but should also read the Annual Information Form and subsequent press releases which can be found on Talison's SEDAR profile at www.sedar.com.

1. Overview

Talison was incorporated under the Corporations Act 2001 (Commonwealth of Australia) (the "**Corporations Act**") as a public company on October 22, 2009 and was listed on the Toronto Stock Exchange (the "**TSX**") under the trading symbol "TLH" on September 22, 2010.

Talison mines and processes lithium bearing mineral spodumene at its operations located at Greenbushes, Western Australia (the "**Greenbushes Lithium Operations**"), located approximately 250 kilometres from Perth, Western Australia. Talison acquired the Greenbushes Lithium Operations by acquiring Talison Minerals on August 12, 2010 in connection with a substantial debt and equity restructuring of Talison Minerals (the "**Reorganization**").

Management of Talison believes that the Greenbushes Lithium Operations host the world's largest known reserves of lithium minerals with a current mine life of 22 years. Talison produces a range of lithium concentrates which are distributed to a well-established global customer base. Talison has a leading position in the growing Chinese lithium concentrates market.

Talison produces two categories of lithium concentrates: (i) technical-grade lithium concentrates which have low iron content for use in the manufacture of, among other applications, glass, ceramics and heat-proof cookware; and (ii) a high-yielding chemical-grade lithium concentrate which is used to produce lithium chemicals which form the basis for manufacture of, among other applications, lithium-ion batteries for laptop computers, mobile phones, electric bicycles and electric vehicles.

Talison currently produce lithium concentrates the majority of which is sold to customers for processing into lithium chemicals, primarily lithium carbonate.

Following the Reorganization, Talison completed a statutory plan of arrangement under the *Business Corporations Act* (British Columbia) ("**Plan of Arrangement**") on September 22, 2010, pursuant to which Talison acquired, directly and indirectly, all of the outstanding securities of Salares Lithium Inc. ("**Salares**"). Upon completion of the Plan of Arrangement, Salares became an indirect wholly-owned subsidiary of Talison. In connection with the Plan of Arrangement, Salares undertook a private placement financing to raise gross proceeds of C\$40 million (the "**Financing**"). Further details regarding the Plan of Arrangement and the Financing can be found on Talison's SEDAR profile at www.sedar.com.

Through its acquisition of Salares, Talison has an extensive lithium brine exploration project in Region III, Chile (the "**Salares 7 Project**"). The Salares 7 Project is made up of seven salars (brine lakes, and the surrounding concessions) that are prospective for sub-surface lithium and potassium. Five of the seven salars are clustered within 155 kilometres. Talison and its Chilean partner own 100% of five of the salares, Grande, Aguilar, Agua Amarga, La Isla and Las Parinas and hold a portion of the remaining two salares, Piedra Parada and Maricunga.

Talison completed a bought deal financing on February 10, 2011 ("**Bought Deal Financing**") for gross proceeds of C\$69.6 million which together with the exercise of a related over-allotment option resulted in the total gross proceeds of C\$80.0 million. Net proceeds from the Bought Deal Financing are being used primarily to fund the Stage 2 expansion of the Greenbushes Lithium Operations, exploration of the Salares 7 Project, and for general corporate and working capital purposes.

Talison is currently completing the Stage 2 expansion of the Greenbushes Lithium Operations at a total capital cost of A\$65-70 million which will see production capacity more than double to approximately 740,000 tonnes per annum of lithium concentrate (approximately 110,000 tonnes per annum lithium carbonate equivalent ("**LCE**"). Commissioning of the Stage 2 expansion is anticipated to commence in the second quarter of calendar 2012.

2. Highlights for the Second Quarter ended December 31, 2011

- During the second quarter Talison negotiated prices with its customers for sales in the third and fourth quarter of the 2012 financial year for chemical-grade and for the full 2012 calendar year for technical-grade. A price increase of 15% has been agreed, across Talison's entire product range
- In anticipation of sustained growth in lithium consumption, driven primarily by the secondary lithium battery market, Talison continued to pursue its growth projects encompassing its Australian capacity expansion, proposed lithium minerals conversion plant, resource definition drilling at the Greenbushes Lithium Operations to increase lithium mineral reserves and extend the mine life and its South American salar exploration property.
- Construction of the Stage 2 expansion of the Greenbushes Lithium Operations to double production capacity continued during the quarter in line with budget. Foundations are complete, installation of steelwork is continuing and the conveyer belt to the finished product stockpile is being constructed.
- The preliminary engineering study in relation to the proposed construction of a lithium mineral conversion plant producing 20,000 tonnes per annum of lithium carbonate was completed and provided encouraging results. The project has moved into the next phase, which includes an engineering study and obtaining the required approvals.

- A location in the Kwinana Industrial Area, which is located 40km south of Perth, has been selected as the preferred location for the plant and Talison is in discussions to secure an option to enter into a long term lease over its preferred site.
- Lithium concentrate production for the second quarter of 89,015 tonnes (approximately 13,200 tonnes LCE), representing a 7% increase over the corresponding period in the prior year.
- Lithium concentrate sales for the second quarter of 75,221 tonnes (approximately 11,200 tonnes LCE), representing a 23% reduction over the corresponding period in the prior year. Sales in the quarter were affected by significant congestion at the Port of Bunbury due to berth closures and unplanned Port shutdowns impacting all Port users. This resulted in approximately 38,000 tonnes of Talison's lithium concentrate sales that were ready at the Port for shipment in early December being delayed into January 2012. These shipments have now departed and will be included in third quarter sales. Total sales for the 2012 financial year are not expected to be affected.
- Technical-grade prices in US\$ terms increased in the second quarter by an average of 13% over the corresponding period in the prior year.
- Operating cost per tonne for the second quarter reduced by 10% due to the new lithium mineral reserve announced in May 2011 which substantially increased the mine life and lowered the life of mine strip ratio of the ore body and a 7% increase in the chemical-grade plant yield.
- Cash inflow from operating activities for the three months ended December 31, 2011 of A\$12.0 million was A\$16.3 million higher than the corresponding period in the prior year.
- EBITDA as a percentage of sales revenue increased to 24%, despite a 4% increase in the A\$/US\$ exchange rate compared to the corresponding period in the prior year which had an adverse impact on profitability. (The average A\$/US\$ exchange rate for the three months ended December 31, 2010 was 0.99. A constant A\$/US\$ exchange rate of 0.99 for the three months ended December 31, 2011 would have resulted in EBITDA, as a percentage of sales revenue, increasing to approximately 27% reflecting the reduction in the average A\$ cash operating cost of goods sold compared to the corresponding period in the prior year.)

EBITDA Analysis	Three Months Ended Dec 31 2011	Three Months Ended Sept 30 2011	Twelve Months Ended June 30 2011	Three Months Ended June 30, 2011	Three Months Ended Mar 31 2011	Three Months Ended Dec 31 2010	Three Months Ended Sept 30 2010	Twelve Months Ended Jun 30 2010
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Sales (tonnes lithium concentrate)	75,221	80,315	339,501	92,416	97,001	97,559	52,525	256,767
Average sales price (US\$/tonne lithium concentrate)	US\$310 ⁽¹⁾	US\$330	US\$308	US\$302	US\$303	US\$315	US\$313	US\$281
Sales revenue (\$A'000)	A\$22,686	A\$25,879	A\$109,501	A\$26,412	A\$29,207	A\$32,810	A\$21,072	A\$81,278
Cash operating cost of goods sold (A\$/tonne lithium concentrate)	A\$187 ⁽¹⁾	A\$207	A\$200	A\$184	A\$195	A\$208	A\$221	A\$226
General/Administration/ Other (A\$'000)	A\$3,203	A\$3,159	A\$13,186	A\$3,680	A\$3,937	A\$3,566	A\$2,003	A\$4,553
EBITDA (A\$'000)	A\$5,387	A\$6,126	A\$24,066	A\$5,755	A\$6,308	A\$7,233	A\$4,770	A\$18,661
EBITDA as a percentage of sales revenue	24%	24%	22%	22%	22%	22%	23%	23%

Note:

- (1) Compared to the September 30, 2011 quarter, the average sale price for the December 31, 2011 quarter reduced by 6% to US\$310/tonne. This was due to a change in the sales mix with proportionately less higher value technical-grade lithium concentrate sold in the December 31, 2011 quarter. The change in sales mix also contributed to the decrease in the cash operating cost of goods sold compared to the September 30, 2011 quarter;

however, reductions in the mining, crushing and technical-grade plant processing costs also contributed to the reduction. EBITDA, as a percentage of sales revenue in the December 31, 2011 quarter remained steady at 24%.

3. Market Trends and Fundamentals

During the second quarter of the 2012 financial year, the market for technical-grade lithium concentrate in Asia and the USA remained firm. There is evidence of some softening in demand from European markets, however the 15% price increase Talison negotiated in December 2011 extends across Talison's technical-grade products including sales to European customers. Talison is not highly exposed to European markets, with approximately 89% of total sales destined for Asia and the USA.

Demand for chemical-grade lithium concentrate from both new and existing customers remained strong during the second quarter.

During the second quarter, global supply of lithium products from existing producers in China was impacted by weather conditions and cost increases for labour and energy. Supply from new projects is not expected to have a major impact on the global market for several years due to the lower quality of the deposits, high capital costs and time required for development.

There are no terminal markets for lithium concentrates, with the market determined directly by supplier/customer negotiations. Because of this, the lithium market is relatively opaque and therefore pricing trends are not widely published. Generally, statistics on sales volumes and prices are based on global import/export data. Prices for lithium concentrates used for conversion into chemicals are correlated to, and tend to follow the same trend as, lithium carbonate prices. Talison has agreed a price increase of 15% with customers for first half calendar 2012. Approximately 90% of sales for the period have been contracted with the balance to be sold to other customers who typically contract on a shipment by shipment basis.

Foreign Currency Fluctuations

Talison's revenues are received in US\$. However, operations are carried out in Australia, with the majority of operating costs and capital expenditures incurred in A\$. The A\$/US\$ exchange rate for the three and six months ended December 31, 2011 both averaged US\$1.03 per A\$1.00, an increase of 4% and 9%, respectively, compared to the corresponding period in the prior year. This has had the effect of lowering A\$ revenues by a corresponding amount. Talison hedges the A\$/US\$ exchange rate to partially mitigate its US\$ foreign currency exposure.

4. Outlook

For the three months ending March 31, 2012, Talison expects production of lithium concentrate to be in-line with the three months ended December 31, 2011. Sales tonnages of lithium concentrate for the three months ending March 31, 2012 will include the approximately 38,000 tonnes that were delayed from the second quarter due to port congestion in December 2011. Sales are expected to materially match production for the nine months ending March 31, 2012.

During the year ending June 30, 2012, Talison expects production and sales tonnages to be consistent with the nine months ended March 31, 2012, on an annualized basis.

During the second quarter Talison negotiated prices with its customers for sales in the third and fourth quarter of the 2012 financial year for chemical-grade and for the full 2012 calendar year for technical-grade. A price increase of 15% has been agreed, across Talison's entire product range.

5. Operations Overview

Greenbushes Lithium Operations Stage 2 Expansion

The Stage 2 expansion of the chemical-grade plant at the Greenbushes Lithium Operations is currently in progress. Upon completion of the expansion, which is scheduled for the fourth quarter of the 2012 financial year, the capacity of the Greenbushes Lithium Operations will more than double to approximately 740,000 tonnes per annum lithium concentrate (approximately 110,000 tonnes per annum LCE).

As the expansion works near completion the project will move through the phases of dry commissioning, water commissioning and ore commissioning and this will include linking of the existing production circuits to the new expanded production circuits. At this time, commissioning is not expected to impact sales for the 2012 financial year.

The increased capacity provided by the expansion will enable Talison to respond rapidly to changing conditions in the lithium market. In addition to the ability to increase sales volumes, the expansion is expected to substantially reduce Talison's unit operating costs and increase its competitiveness, through improved lithium recovery and economies of scale.

Talison believes that the long-term viability of the lithium market is best achieved by product prices that enable existing producers to justify further capital expenditure to maintain a stable, secure and growing supply of lithium, and Talison intends to pursue a pricing strategy for its lithium products on the basis of this objective.

Proposed Minerals Conversion Plant

Responding to growing global demand for an additional secure supply of lithium carbonate, particularly from electric vehicle battery manufacturers, Talison is aggressively pursuing its proposed plant to convert lithium minerals into lithium carbonate ("Minerals Conversion Plant").

Commencing in early calendar 2012, the next phase of the project includes an engineering study of a 20,000 tonnes per annum lithium carbonate plant located in Western Australia. Talison is targeting commissioning in 2015 and anticipates making an investment decision on the project by the end of calendar 2012.

Discussions with potential customers for the Minerals Conversion Plant are continuing positively. To accelerate the formation of customer relationships in Japan, Talison has entered into Memoranda of Understanding with Sojitz Corporation and Mitsui & Co Ltd to discuss on a non-exclusive basis collaborative marketing and distribution of lithium carbonate produced by Talison to customers in Japan.

The Memoranda of Understanding provide a framework for Talison to discuss collaboration opportunities with Sojitz Corporation and Mitsui & Co., Ltd on a non-binding basis and are valid for an initial period of 12 months.

On February 9, 2012 Talison announced that the Kwinana Industrial Area in Western Australia had been selected as the preferred location for the Minerals Conversion Plant. The Kwinana Industrial Area is located approximately 40km south of Perth and 200km north-east of the Greenbushes Lithium Operations.

The Kwinana Industrial Area is one of the largest dedicated industrial areas in Western Australia and comprises a range of industries including fabrication and construction facilities, power stations, waste water plants, chemical manufacturers and alumina, nickel and oil refineries.

Talison selected the Kwinana Industrial Area as its preferred location for the Minerals Conversion Plant due to the similarities between the lithium carbonate plant and the surrounding industries; its proximity to water, reagent supply and energy; access to skilled labour; potential customers for by-products located in the vicinity; and close location to Fremantle Port for container exports.

Talison is currently negotiating an option to lease its preferred site in the Kwinana Industrial Area and intends to commence the regulatory approvals process once this is completed.

Greenbushes Resource Development and Salares 7 Project

Talison is accelerating resource definition drilling at the Greenbushes Lithium Operations due to the encouraging progress to date in the development of the Minerals Conversion Plant. The objective of accelerating the drilling is to increase lithium mineral reserves and extend the mine life at Greenbushes to support future additional expansions of the lithium concentrate processing plants and a potential doubling in capacity of the Minerals Conversion Plant.

Talison expects to invest approximately A\$1.9 million in the 2012 financial year on the resource definition drilling program which has the potential to significantly increase lithium mineral reserves at the Greenbushes Lithium Operations.

Consequently, Talison is reallocating resources for the balance of the 2012 financial year from the Salares 7 Project to the drilling at Greenbushes. The drilling program at the Salares 7 Project will be deferred and the focus will be on the environmental approvals process. This is not anticipated to affect the overall development timetable for the Salares 7 Project.

6. Results of Operations

The table below summarizes selected financial data for Talison for the three and six months ended December 31, 2011, compared to the comparable financial data for the three and six months ended December 31, 2010. This financial data is derived from the Financial Statements which were prepared in accordance with IFRS.

INCOME STATEMENT	Three Months Ended December 31, 2011 (Unaudited) A\$'000	Three Months Ended December 31, 2010 (Unaudited) A\$'000	Six Months Ended December 31, 2011 (Unaudited) A\$'000	Six Months Ended December 31, 2010 (Unaudited)(1) A\$'000
Sales revenue.....	22,686	32,810	48,565	53,882
Operating costs.....	(14,097)	(21,442)	(30,691)	(34,677)
Other income / (expenses)	(3,202)	(4,135)	(6,361)	(7,202)
EBITDA⁽³⁾	5,387	7,233	11,513	12,003⁽²⁾
Depreciation and amortization.....	(725)	(1,047)	(1,413)	(1,867)
Net financing income / (costs).....	589	(1,186)	1,446	(5,045)
Net realized US\$ hedging gain	975	677	3,023	637
Net realized foreign exchange gain / (loss).....	581	5,746	1,012	9,195
Net fair value gain/(loss) on financial assets and liabilities.....	1,065	(3,093)	(5,354)	2,974
Income tax (expense) / benefit.....	(2,230)	(3,033)	(2,978)	(6,726)
Net profit/(loss) for the period	5,642	5,297	7,249	11,171
Basic earnings per share (cents/share) ⁽⁴⁾	5.2	5.6	6.7	15.1
Diluted earnings per share (cents/share) ⁽⁴⁾	5.2	5.4	6.7	14.6
Basic weighted average number of shares	107,771,151	94,484,098	107,751,096	74,018,163

Notes:

- (1) The financial results for the six months ended December 31, 2010 are comprised of the results of Talison for the period from August 12, 2010 to December 31, 2010 (i.e., post-Reorganization) and the carve-out results of the Greenbushes Lithium Operations for the period from July 1, 2010 to August 11, 2010 (i.e., pre-Reorganization). Readers are cautioned that the results for the period from July 1, 2010 to August 11, 2010 may not be reflective of the ongoing affairs of Talison.
- (2) EBITDA for the six months ended December 31, 2010 included A\$1.6 million in non-recurring Reorganization costs.
- (3) EBITDA is a non IFRS financial measure. For a reconciliation of EBITDA to its IFRS compliant income statement, see "Non-IFRS Performance Measures".
- (4) Basic and diluted earnings per share have been calculated based on the weighted average number of shares on issue. For the three and six months ended December 31, 2011, the weighted average number of shares includes both the outstanding ordinary shares of Talison adjusted to remove ordinary shares held by the Talison Long Term Incentive Plan Trust which is consolidated under IFRS, and the exchangeable shares of Talison Lithium Exchangeco Limited, an indirect wholly-owned subsidiary of Talison that are exchangeable (on a one-for-one basis) for ordinary shares of Talison. For the three and six months ended December 31, 2010, the weighted average number of shares includes the outstanding ordinary shares of Talison adjusted to remove ordinary shares held by the Talison Long Term Incentive Plan Trust which is consolidated under IFRS, the exchangeable shares of Talison Lithium Exchangeco Limited that are exchangeable (on a one-for-one basis) for ordinary shares of Talison, and the ordinary shares of Talison Minerals adjusted for the Talison Minerals share consolidation which occurred as part of the Reorganization. See "Outstanding Share Data".

The table below summarizes selected key operating statistics for Talison for the three and six months ended December 31, 2011, as compared to the key operating statistics for the three and six months ended December 31, 2010.

KEY OPERATING STATISTICS	Three Months Ended December 31, 2011 (Unaudited)	Three Months Ended December 31, 2010 (Unaudited)	Percentage Change	Six Months Ended December 31, 2011 (Unaudited)	Six Months Ended December 31, 2010 (Unaudited)	Percentage Change
Production (tonnes lithium concentrate)	89,015	83,548	7%	179,723	164,277	9%
Sales (tonnes lithium concentrate)	75,221	97,559	-23%	155,536	150,084	4%
Average sales price (US\$/tonne lithium concentrate)	310	315	-2%	320	314	2%

SECOND QUARTER OF 2012 FINANCIAL YEAR COMPARED TO SECOND QUARTER OF 2011 FINANCIAL YEAR

Demand for Talison's technical-grade and chemical-grade lithium concentrates continued at robust levels for the three months ended December 31, 2011.

A total of 89,015 tonnes of lithium concentrate (approximately 13,200 tonnes LCE) were produced during the three months ended December 31, 2011, representing a 7% increase over the corresponding period in the prior year. The strong production results are attributable to a successful production process improvement program that continually targets de-bottlenecking in both the technical-grade and chemical-grade plants and completion of the Stage 1 expansion of the Greenbushes Lithium Operations in December 2010. The volume of ore processed across both plants in the quarter was 4% higher than that in the corresponding period in the prior year and the average product yield improved by 2%.

Sales of lithium concentrate during the three months ended December 31, 2011 of 75,221 tonnes (approximately 11,200 tonnes LCE) represented a 23% reduction over the corresponding period in the prior year. Sales in the quarter were affected by significant congestion at the Port of Bunbury due to berth closures and unplanned Port shutdowns impacting all Port users. This resulted in approximately 38,000 tonnes of Talison's lithium concentrate sales that were ready at the Port for shipment in early December being delayed into January 2012. Had the delay not occurred sales of lithium concentrate during the three months ended December 31, 2011 would have increased 16% over the corresponding period in the prior year. The timing of Talison's shipment program will result in variations between production and sales in individual quarters.

The average sales price of lithium concentrates sold during the three months ended December 31, 2011 was US\$310 per tonne, as compared with an average price of US\$315 per tonne during the three months ended December 31, 2010, representing a 2% decrease. The decrease in average price was due to a lower proportion of higher value technical-grade products sold in the three months ended December 31, 2011 compared to the corresponding prior year period, partly offset by underlying price increases averaging 13% for technical-grade products sold.

Sales revenue for the three months ended December 31, 2011 was A\$22.7 million. In US\$ terms, sales revenue was 24% lower than that of the corresponding period in the prior year due to the above-mentioned sales delay. Sales revenue in A\$ terms was 31% lower than the corresponding period in the

prior year due to a combination of the sales delay and the adverse effect of a 4% increase in the value of the A\$ against the US\$ between the two periods.

Operating costs for the three months ended December 31, 2011 were A\$14.1 million, a reduction of 34% over the corresponding period in the prior year, as a result of the reduction in sales. The operating cost per tonne of lithium concentrate sold decreased by 10%, due to the new lithium mineral reserve announced in May 2011 which substantially increased the mine life and lowered the life of mine strip ratio of the ore body and a 7% increase in the chemical-grade plant yield.

Other income and expenses for the three months ended December 31, 2011 of A\$3.2 million included A\$2.4 million in corporate administration costs and A\$0.8 million for share option expenses. In total, this is A\$0.9 million lower than the amount in the corresponding prior year period due to a reduction in share option expenses.

EBITDA achieved by Talison for the three months ended December 31, 2011 of A\$5.4 million was a A\$1.8 million or 26% decrease over the corresponding period in the prior year. This was due to the above-mentioned sales delay. (The term "EBITDA" is a non-IFRS financial measure. For a reconciliation of Talison's EBITDA to its IFRS-compliant income statement, see "Non-IFRS Performance Measures").

Depreciation and amortization charges for the three months ended December 31, 2011 were A\$0.7 million, a decrease of 31% over the corresponding period in the prior year. The majority of Talison's depreciation and amortization charges are determined by reference to production levels as a proportion of remaining lithium mineral reserves. While production levels increased during the period, the substantial increase in lithium mineral reserves announced on May 4, 2011, resulted in a reduction in depreciation between the two periods.

The net finance income of Talison for the three months ended December 31, 2011 was A\$0.6 million consisting of the net interest income on cash deposits of A\$1.1 million, and finance expenses of A\$0.5 million, mainly in relation to Talison's senior debt, and represents an improvement of A\$1.8 million compared to the corresponding period in the prior year, due to an increase in cash reserves and a reduction in finance expenses on Talison's senior debt following refinancing of this facility in December 2010. Talison's ongoing debt levels and their terms are discussed under the heading "Discussion of Financial Position, Capital Resources and Liquidity — Interest Bearing Liabilities".

Talison managed its A\$/US\$ exchange rate risk by hedging. The net realized US\$ hedging gain / (loss) reflects the net gain / (loss) on those hedging activities. It is calculated as the difference between the A\$/US\$ exchange rate realized on delivering into the hedge and the spot exchange rate on the day of delivery less any net realized US\$ hedging gain / (loss) recognized in sales revenue and any costs incurred in establishing the hedge.

The net realized foreign exchange gain of \$0.6 million relates to gains realized on US\$ denominated cash deposits and trade debtors. The corresponding prior year period includes a large foreign exchange gain realized as a result of refinancing Talison's senior debt.

The net fair value gain on financial assets and liabilities for the three months ended December 31, 2011 of A\$1.1 million represents mainly an unrealized gain in the mark to market value of Talison's US\$ senior debt as a result of a 6% increase in the A\$/US\$ exchange rate from 0.97 at September 30, 2011 to 1.03 at December 31, 2011.

The income tax expense is based on Australia's corporate income tax rate of 30%.

SIX MONTHS ENDED DECEMBER 31, 2011 COMPARED TO SIX MONTHS ENDED DECEMBER 31, 2010

A total of 179,723 tonnes of lithium concentrate (approximately 26,700 tonnes LCE) were produced during the six months ended December 31, 2011, representing a 9% increase over the corresponding period in the prior year. The strong production results are attributable to a successful production process improvement program that continually targets de-bottlenecking in both the technical-grade and chemical-grade plants and completion of the Stage 1 expansion of the Greenbushes Lithium Operations in December 2010. The volume of ore processed across both plants in the six months was 6% higher than that in the corresponding period in the prior year and the average product yield improved by 3%.

Sales of lithium concentrate during the six months ended December 31, 2011 of 155,536 tonnes (approximately 23,100 tonnes LCE) represented a 4% increase over the corresponding period in the prior year. This increase was driven by an increase in demand for both Talison's technical-grade and chemical-grade products and the expansion in production capacity following the completion of the Stage 1 expansion of the Greenbushes Lithium Operations in December 2010. Lithium concentrate sales for the first six months of the 2012 financial year were lower than lithium concentrate production during the six months as a result of significant congestion at the Port of Bunbury due to berth closures and unplanned Port shutdowns impacting all Port users which resulted in approximately 38,000 tonnes of Talison's lithium concentrate sales that were ready at the Port for shipment in early December being delayed into January 2012.

The average sales price of lithium concentrates sold during the six months ended December 31, 2011 was US\$320 per tonne, as compared with an average price of US\$314 per tonne during the six months ended December 31, 2010, representing a 2% increase. The increase in average price was due to an underlying average price increase of 13% for technical-grade products sold in the six months ended December 31, 2011 compared to the corresponding prior year period, partly offset by a greater proportion of lower value chemical-grade products sold.

Sales revenue for the six months ended December 31, 2011 was A\$48.6 million. In US\$ terms, sales revenue was 6% higher than that of the corresponding period in the prior year. However, including the sale of crushed ore in 2010 (which was a one off sale) and as a result of the adverse effect of a 9% increase in the value of the A\$ against the US\$ between the two periods, sales revenue in A\$ terms was 10% below the corresponding period in the prior year.

Operating costs for the six months ended December 31, 2011 were A\$30.7 million, an reduction of 11% over the corresponding period in the prior year. The operating cost per tonne of lithium concentrate sold decreased by 7%, due to the new lithium mineral reserve announced in May 2011 which substantially increased the mine life and lowered the life of mine strip ratio of the ore body, and economies of scale as a result of the high production and sale volumes.

Other income and expenses for the six months ended December 31, 2011 of A\$6.4 million included A\$4.5 million in corporate administration costs and A\$1.9 million for share option expenses and is A\$0.8 million lower than the amount in the corresponding prior year period due to a reduction in share option expenses.

EBITDA achieved by Talison for the six months ended December 31, 2011 of A\$11.5 million was a A\$0.5 million or 4% reduction over the corresponding period in the prior year. This was mainly due to the above-mentioned sales delay; however, a 9% increase in the value of the A\$ against the US\$ between the two periods also contributed. These negatives were partly offset by a 7% decrease in the operating

cost per tonne of lithium sold. (The term "EBITDA" is a non-IFRS financial measure. For a reconciliation of Talison's EBITDA to its IFRS-compliant income statement, see "Non-IFRS Performance Measures").

Depreciation and amortization charges for the six months ended December 31, 2011 were A\$1.4 million, a decrease of 24% over the corresponding period in the prior year. The majority of Talison's depreciation and amortization charges are determined by reference to production levels as a proportion of remaining lithium mineral reserves. While production levels increased during the period, the substantial increase in lithium mineral reserves announced on May 4, 2011, resulted in a reduction in depreciation between the two periods.

The net finance income of Talison for the six months ended December 31, 2011 was A\$1.4 million consisting of the net interest income on cash deposits of A\$2.5 million, and finance expenses of A\$1.1 million, mainly in relation to Talison's senior debt. These amounts are not comparable to the amount in the corresponding period in the prior year as that amount reflected the debt levels of Talison Minerals which were significantly higher than the debt levels of Talison. Talison's ongoing debt levels and their terms are discussed under the heading "Discussion of Financial Position, Capital Resources and Liquidity — Interest Bearing Liabilities".

Talison managed its A\$/US\$ exchange rate risk by hedging. The net realized US\$ hedging gain / (loss) reflects the net gain / (loss) on those hedging activities. It is calculated as the difference between the A\$/US\$ exchange rate realized on delivering into the hedge and the spot exchange rate on the day of delivery less any net realized US\$ hedging gain / (loss) recognized in sales revenue and any costs incurred in establishing the hedge.

The net realized foreign exchange gain of \$1.0 million relates to gains realized on US\$ denominated cash deposits and trade debtors. The corresponding prior year period includes large foreign exchange gains realized as a result of the Reorganization of Talison Minerals and refinancing of Talison's senior debt.

The net fair value loss on financial assets and liabilities for the six months ended December 31, 2011 of A\$5.4 million represents mainly a reduction in the mark to market value of Talison's US\$ hedge book (A\$4.3 million) and an unrealized loss on the revaluation of Talison's US\$ senior debt (A\$1.2 million).

The income tax expense is based on Australia's corporate income tax rate of 30%.

7. Summary of Quarterly Results

Selected financial data from the time the Company became a reporting issuer is included in the table below.

	For the three months ended (in A\$'000)					
	Dec 31, 2011	Sept 30, 2011	Jun 30, 2011	Mar 31, 2011	Dec 31, 2010	Sept 30, 2010
Sales (tonnes lithium concentrate)	75,221	80,315	92,416	97,001	97,559	52,525
Sales revenue	22,686	25,879	26,412	29,207	32,810	21,072
Cost of sales	(14,822)	(17,282)	(17,613)	(19,887)	(22,489)	(14,055)
Gross profit	7,864	8,597	8,799	9,320	10,321	7,017
Net profit	5,642	1,607	7,891	3,874	5,297	5,874
Gross Profit Margin	35%	33%	33%	32%	31%	33%
Basic earnings per share (cents)	5.2	1.5	7.3	3.8	5.6	11.0
Diluted earnings per share (cents)	5.2	1.5	7.1	3.7	5.4	10.8

Notes:

- (1) From quarter to quarter sales revenue is dependent on the quantity of sales in the quarter and the proportions of technical-grade and chemical grade lithium concentrates. Sales are made in large shipments that can be irregular in timing and in varying proportions of technical-grade and chemical-grade. Sales for the December 31, 2011 quarter were affected by significant congestion at the Port of Bunbury due to berth closures and unplanned Port shutdowns impacting all Port users. This resulted in approximately 38,000 tonnes of Talison's lithium concentrate sales that were ready at the Port for shipment in early December being delayed into January 2012. These shipments departed early January and will be included in third quarter sales

The Company's results for the three months ended December 31, 2011 are discussed throughout this document, with the results for prior periods discussed in the respective quarterly financial statements and related management's discussion and analysis located on www.sedar.com.

8. Discussion of Cash Flows

The table below summarizes selected financial data of Talison for the three and six months ended December 31, 2011, as compared to the comparable financial data for the three and six months ended December 31, 2010. This financial data is derived from the Financial Statements which were prepared in accordance with IFRS.

CASH FLOW STATEMENT	Three Months Ended	Three Months Ended	Six Months Ended	Six Months Ended
	December 31, 2011 (Unaudited) A\$'000	December 31, 2010 (Unaudited) A\$'000	December 31, 2011 (Unaudited) A\$'000	December 31, 2010 (Unaudited) ⁽¹⁾ A\$'000
Operating Activities	11,973	(4,292)	20,187	3,718
Investing Activities.....	(16,797)	(6,573)	(35,872)	(10,286)
Financing Activities	(1,888)	(1,056)	(2,527)	32,343

Note:

- (1) The financial results for the six months ended December 31, 2010 are comprised of the unaudited results of Talison for the period from August 12, 2010 to December 31, 2010 (i.e., post-Reorganization) and the carve-out audited results of the Greenbushes Lithium Operations for the period from July 1, 2010 to August 11, 2010 (i.e., pre-Reorganization). Readers are cautioned that the results for the period from July 1, 2010 to August 11, 2010 may not be reflective of the ongoing affairs of Talison.

SECOND QUARTER OF 2012 FINANCIAL YEAR COMPARED TO SECOND QUARTER OF 2011 FINANCIAL YEAR

The Company's cash inflow from operating activities for the three months ended December 31, 2011 of A\$12.0 million was A\$16.3 million higher than the three months ended December 31, 2010, despite lower sales revenue during the three months ended December 31, 2011, mainly as a result of the three months ended December 31, 2011 including a A\$3.3 million reduction in working capital compared to a A\$17.7 million increase in working capital in the corresponding prior year period. Working capital does fluctuate from quarter to quarter depending on the timing of shipments.

The cash outflow from investing activities for the three months ended December 31, 2011 was A\$16.8 million, A\$10.2 million greater than the three months ended December 31, 2010 as costs associated with the Stage 2 expansion of the Greenbushes Lithium Operations were paid.

SIX MONTHS ENDED DECEMBER 31, 2011 COMPARED TO SIX MONTHS ENDED DECEMBER 31, 2010

The Company's cash inflow from operating activities for the six months ended December 31, 2011 of A\$20.2 million was A\$16.5 million higher than the six months ended December 31, 2010 due to an increase in net interest received and receipts from the settlement of derivatives and as the six months ended December 31, 2011 included a A\$0.9 million increase in working capital compared to a A\$9.8 million increase in working capital in the corresponding prior year period.

The cash outflow from investing activities for the six months ended December 31, 2011 was A\$35.9 million, A\$25.6 million greater than the six months ended December 31, 2010 as costs associated with the Stage 2 expansion of the Greenbushes Lithium Operations were paid.

9. Discussion of Financial Position, Capital Resources and Liquidity

The table below summarizes selected financial data for Talison as at December 31, 2011, compared to the comparable financial data for Talison as at June 30, 2011. This financial data is derived from the Financial Statements, which were prepared in accordance with IFRS.

STATEMENT OF FINANCIAL POSITION	As at December 31, 2011 (Unaudited) A\$'000	As at June 30, 2011 (Audited) A\$'000
Assets		
Cash and cash equivalents	84,287	102,605
Trade and other receivables.....	13,773	21,543
Inventories	19,874	11,182
Derivative financial instruments	4,410	10,205
Property, plant and equipment.....	127,078	95,215
Exploration and evaluation assets.....	59,467	61,714
Total assets	308,889	302,464
Liabilities		
Trade and other payables.....	12,455	12,380
Interest-bearing liabilities	28,326	29,243
Tax payable	3,970	-
Provisions	14,724	14,668
Derivative financial instruments	160	-
Deferred tax liabilities	8,552	10,622
Total liabilities	68,187	66,913
Shareholders' equity	240,702	235,551

	As at December 31, 2011 (Unaudited) A\$'000	As at June 30, 2011 (Audited) A\$'000
Outstanding number of shares		
Ordinary shares of Talison	111,542,053	110,527,347
Exchangeable shares of Talison Lithium		
Exchangeco Limited ⁽¹⁾	528,465	1,494,239
Shares held in trust ⁽²⁾	(4,299,367)	(4,299,367)
Total outstanding number of shares	107,771,151	107,722,219

Notes:

- (1) The exchangeable shares of Talison Lithium Exchangeco Limited are exchangeable (on a one-for-one basis) for ordinary shares of Talison. See "Outstanding Share Data".
- (2) On June 7, 2011, Talison Lithium established the Incentive Plan Trust. Talison Lithium issued 3,862,767 ordinary shares to the Incentive Plan Trust and the Incentive Plan Trust purchased 436,600 ordinary shares of Talison Lithium on-market.

Cash and Cash Equivalents

Cash and cash equivalents at December 31, 2011 were A\$84.3 million, a reduction of A\$18.3 million from the balance as at June 30, 2011 due mainly to the significant investment that the Company made in the Stage 2 expansion of the Greenbushes Lithium Operations.

Liquidity

As at December 31, 2011, Talison's cash and cash equivalents of A\$84.3 million, together with trade and other receivables of A\$13.8 million and inventories of A\$19.9 million, less trade and other payables of A\$12.5 million, placed it in a strong working capital position of A\$105.5 million.

For the six months ended December 31, 2011, Talison recorded an operating cash inflow of A\$20.2 million. At current lithium concentrate prices and A\$/US\$ exchange rates, management expects its current operations to be cash flow positive. In the opinion of management, the working capital as at December 31, 2011, together with the expected cash flows from operations, are sufficient to support Talison's normal operating requirements, based on current production capacity, on an ongoing basis. Talison is in the process of expanding its production capacity over the next 6 months. This expansion is fully funded from Talison's existing cash reserves.

Talison's business is such that sales of lithium concentrates are made in large irregular shipments to customers. Consequently, from month to month, Talison's working capital position can fluctuate significantly as product inventories are produced in advance of shipment followed by an increase in trade debtors when the sale is made until sale proceeds are received. Talison sells to its customers on normal commercial trading terms. To accommodate these potential fluctuations at current production capacity, the Company needs to maintain sufficient working capital of approximately A\$10 – \$15 million, which in the opinion of management, it will be able to do so from its current operations. However, the increase in production capacity following the completion of the Stage 2 expansion of the Greenbushes Lithium Operations will require an increase in working capital invested. This increased investment will be funded from Talison's existing cash reserves.

Talison is currently undertaking or planning several growth projects including the Stage 2 expansion of the chemical-grade plant at the Greenbushes Lithium Operations, various studies relating to Talison's proposed minerals conversion plant as well as resource development drilling at the Greenbushes Lithium Operations and exploration activities at the Salares 7 Project. These capital development projects are expected to cost approximately A\$32 – A\$37 million over the next 12 months and will be funded from the Company's existing cash reserves.

In the opinion of management, subject to the occurrence of any unforeseen event and an investment decision to construct a minerals conversion plant, the working capital as at December 31, 2011, together with the expected cash flows from operations will be sufficient to fund Talison's operations for at least the next two years.

As a result of volatility in equity markets, global uncertainty in the capital markets, potential fluctuations in the demand and pricing of lithium concentrates and cost pressures, the Company continually reviews expenditures in order to ensure adequate liquidity and flexibility to support its growth strategy.

All of the Company's existing debt facilities are in good standing. The Company's debt facilities contain certain customary covenants and undertakings in relation to financial performance, minimum liquidity and reporting. Management is not aware of any significant risks that could cause the Company to default on its existing debt facilities in the short term or long term.

Trade and Other Receivables

Trade and other receivables were A\$13.8 million as at December 31, 2011. This amount consists mainly of amounts receivable from customers for the sale of lithium concentrates.

Lithium concentrate sales are made on credit terms and in some cases are secured by letters of credit or alternatively by a commercial trade debtor insurance policy. Given the fact that product shipments can be large in size and irregular in timing, the amount outstanding as trade and other receivables at any point in time can vary significantly.

Inventories

Inventories on hand at December 31, 2011 totaled A\$19.9 million and consisted of finished products, ore stockpiles and spare parts and consumable stocks. Again, given the potentially large and irregular nature of product shipments, inventory levels can also vary significantly at any particular point in time. During the six months ended December 31, 2011, inventories on hand increased by A\$8.7 million in the ordinary course of operations.

Derivative Financial Instruments

Derivative financial instruments represent the mark to market value of Talison's US\$ hedge book, in the form of foreign currency options, collars and forward exchange contracts (see "Financial Instruments and Other Instruments — Foreign Currency Options, Collars and Forward Exchange Contracts"). During the six months ended December 31, 2011, as in-the-money hedging matured and as a result of the depreciation in the A\$ against the US\$, the mark to market value of Talison's hedge book decreased by A\$6.0 million.

Property, Plant and Equipment

Property, plant and equipment relates to the processing plants, infrastructure and mine development which comprises the Greenbushes Lithium Operations.

Property, plant and equipment increased A\$31.9 million during the six months ended December 31, 2011 mainly due to capital expenditure at the Greenbushes Lithium Operations on the Stage 2 expansion of the chemical-grade plant.

Exploration and Evaluation Assets

Talison acquired the sole and irrevocable right and option to acquire up to a 70% ownership interest in a group of concessions in Region III, Chile, known as Piedra Parada, Grande, Aguilar, Agua Amarga, La Isla, Las Parinas and Maricunga (collectively the "Concessions") on September 22, 2010. Talison exercised its option to acquire a 50% ownership interest in the Concessions on September 29, 2011. An additional 20% ownership interest in the Concessions can be obtained upon completion, at Talison's sole expense, of a feasibility study on the Concessions by September 29, 2013.

Trade and Other Payables

Trade and other payables were A\$12.5 million at December 31, 2011 and were consistent with trade and other payables at June 30, 2011.

Interest Bearing Liabilities

The interest bearing liabilities consist mainly of a US\$28.5 million senior secured loan with the Commonwealth Bank of Australia ("CBA"). The loan is repayable in installments of US\$1.5 million on June 30, 2012, quarterly installments of US\$1.75 million from December 31, 2012 to September 30, 2013 inclusive, and a final payment of US\$20 million on December 31, 2013. The loan is provided on commercial terms at an interest rate of LIBOR plus a margin of 3.5% and is fully secured over the Australian assets of Talison.

In addition, Talison has a bank guarantee facility provided by CBA for A\$5.2 million under which CBA agrees to issue bank guarantees on behalf of Talison. Talison pays a fee of 1.5% of the face value of the bank guarantees issued and the facility is fully secured over the Australian assets of Talison. As at December 31, 2011, the facility was drawn to A\$4.8 million with the majority of the guarantees issued to secure Talison's rehabilitation obligations in relation to the Greenbushes Lithium Operations. This facility does not constitute an interest bearing liability until a bank guarantee is called; as such, it is not included in the balance of interest bearing liabilities in the Company's Statement of Financial Position.

Provisions

Provisions include employee leave entitlements and rehabilitation obligations in relation to the Greenbushes Lithium Operations and at A\$14.7 million were consistent with provisions at June 30, 2011. The rehabilitation obligations are partially secured by bank guarantees referred to above.

Contractual Obligations

	Payments due by period as at December 31, 2011				
	Total A\$'000	Less than 1 Year A\$'000	1 to 3 Years A\$'000	4 to 5 Years A\$'000	After 5 Years A\$'000
Senior secured debt	31,197	4,407	26,790	-	-
Operating leases.....	2,410	566	744	646	454
Insurance premium funding	308	308	-	-	-
Financing leases	754	290	368	96	-
Asset retirement obligations	16,411	-	-	-	16,411
Total contractual obligations	51,180	5,571	27,902	742	16,865

Shareholders' Equity

Talison's total shareholders' equity as at December 31, 2011 was A\$240.7 million.

Details of the Company's equity instruments are contained in Note 13 of the Financial Statements.

10. Financial Instruments and Other Instruments

Foreign Currency Options, Collars and Forward Exchange Contracts

The sales revenue of Talison is mainly denominated in U.S. dollars. Given the predominately Australian dollar cost base of the business and a main functional currency of Australian dollars, these U.S. dollar sales create a foreign exchange exposure in terms of earnings and cash flow. A one cent movement in the A\$/US\$ exchange rate affects annual pre-tax earnings and cash flows, before the effects of any hedging, by approximately A\$1 million per year. In order to hedge against this exposure, Talison enters

into foreign currency options, collars and forward exchange contracts to sell U.S. dollars and receive Australian dollars.

The objective of entering into these derivative contracts is to manage this currency risk and provide increased certainty on earnings and cash flows over the next 36 months. The general strategy employed is to hedge between 50 and 85% of forecast U.S. dollar sales revenues for the next 12 months, followed by a lower level of hedging for the subsequent 24-month period. As at December 31, 2011, Talison has hedged 57% and 45% of its U.S. dollar exposure for the period from January 2012 to December 2012 and from January 2012 to August 2014, respectively, with a combination of purchased currency options at an average exchange rate of US\$1.01, currency collars with an average cap exchange rate of US\$1.06 and an average floor exchange rate of US\$0.86, forward exchange contracts at an average exchange rate of US\$0.93 and offsetting U.S. dollar costs which provide a natural hedge.

These derivative contracts are hedging highly probable forecast sales. The foreign currency options, collars and forward exchange contracts are timed to mature when receipts from customers are expected to be received. Talison purchases the foreign currency options by paying an upfront premium. The foreign currency options give Talison the right, but not the obligation, to sell U.S. dollars in the future. As such, the maximum risk to Talison is that the options will expire unexercised and therefore a loss equal to the premium paid is realized. Talison manages this risk by firstly not hedging 100% of forecast revenues and secondly carefully monitoring and reviewing the maturity date of the foreign currency options to ensure they match the expected timing of future sales receipts.

By entering into foreign currency collars Talison has the right to sell U.S. dollars at a predetermined time and at a predetermined A\$/US\$ exchange rate (the exchange rate cap) and the obligation to sell U.S. dollars at a predetermined time and at a predetermined A\$/US\$ exchange rate (the exchange rate floor). Talison enters into zero cost collars and as such does not pay or receive a premium on entry into the collar.

By entering into forward exchange contracts Talison has the right and the obligation to sell U.S. dollars at a predetermined time and at a predetermined A\$/US\$ exchange rate.

The risk to Talison under both foreign currency collars and forward exchange contracts is that, depending on the A\$/US\$ exchange rate when the instruments mature, Talison may have the obligation to sell U.S. dollars at a A\$/US\$ exchange rate that is less favourable to the prevailing spot A\$/US\$ exchange rate. Also a further risk to Talison is that at the time the instruments mature, Talison may not hold sufficient U.S. dollars to meet its sale obligation. Talison manages this risk firstly by not hedging greater than 30% of forecast revenues by a combination of foreign currency collars and forward exchange contracts and secondly carefully monitoring and reviewing the maturity date of the instruments to ensure they match the expected timing of future sales receipts.

At each reporting date, the outstanding foreign currency options, collars and forward exchange contracts are valued at fair value and reported in the balance sheet of Talison as a current asset or liability. The fair value of the foreign currency options, collars or the forward exchange contracts represents the price at which the foreign currency options could be exchanged or the foreign currency collars or forward exchange contracts could be settled in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. In the case of currency options and collars the fair value is determined using an option pricing model with the key input assumptions being the exercise price of the options and collars, the option and collar period and the market volatility. As the foreign currency options give Talison the right, but not the obligation, to sell U.S. dollars in the future, the fair value of the foreign currency options cannot be negative and will therefore never result in a liability being recorded on the balance sheet.

Talison has adopted hedge accounting for derivatives entered into since March 2011. Where a hedging relationship has been designated between a derivative contract and a highly probable forecast sale, unrealized gains or losses on the effective portion of the derivative are recorded in other comprehensive income as part of net changes in fair value of cash flow hedges and are deferred in equity until the forecast sale occurs, at which point the gain or loss is recognized in the income statement as sales revenue. Gains or losses on the derivative contract that occur after the sale takes place are recognized in the income statement as part of net finance income / (expense).

For derivatives that economically hedge transactions denominated in foreign currencies entered into prior to March 2011 hedge accounting has not been applied and therefore, all changes in the fair value of these derivatives are recorded in the income statement as part of net finance income / (expense).

During the three and six months ended December 31, 2011, a gain of A\$0.1 million and A\$0.5 million, respectively, on U.S. dollar hedging was recorded as sales revenue (three and six months ended December 31, 2010: nil for both) and a "net realized U.S. dollar hedging gain" of A\$1.0 million and A\$3.0 million, respectively, (three and six months ended December 31, 2010: A\$0.7 million and A\$0.6 million respectively) was also recorded in the income statement.

During the three and six months ended December 31, 2011, in relation to US\$ hedging, Talison recorded a net fair value gain of A\$0.6 million and loss of A\$4.3 million, respectively, as part of "net fair value gain/(loss) on financial assets and liabilities" in the income statement. The net fair value of foreign currency options, collars and forward exchange contracts outstanding at the reporting date and recorded as either a current asset or current liability in the balance sheet as of December 31, 2011 was a net asset of A\$4.3 million.

11. Related Party Transactions

Talison has entered into the following related party transactions:

Remuneration of Directors and Key Management Personnel

The remuneration of directors and key management are recorded at cost through the income statement as incurred. The remuneration of directors and key management of Talison totaled approximately A\$1.3 million and A\$2.6 million, respectively, for the three and six months ended December 31, 2011. This includes the fair value of equity instruments recognised as a share-based payment expense during the period.

Granting of Equity Instruments to Directors and Key Management Personnel

The granting of equity instruments to directors and key management are recorded at fair value through the income statement over the period in which the equity instruments vest. The following table provides details on equity instruments, in the form of options to purchase fully paid ordinary shares in Talison, issued to directors and key management during the period:

	Three Months Ended December 31, 2011	Six Months Ended December 31, 2011
Options outstanding at the beginning of the period	3,114,589	3,114,589
Options granted during the period	-	-
Options forfeited during the period	-	-
Options outstanding at the end of the period	3,114,589	3,114,589
Outstanding options which have vested as at the end of the period	1,147,922	1,147,922

12. Outstanding Share Data

As at February 8, 2012, Talison had outstanding one class of ordinary shares (the “**Ordinary Shares**”) and one special voting share (the “**Special Voting Share**”). As at February 8, 2012, Talison had outstanding 111,746,412 Ordinary Shares. In addition, as at February 8, 2012, 6,411,245 Ordinary Shares are issuable upon the exercise of Talison’s outstanding options, and 378,477 Ordinary Shares are issuable upon the exercise of Talison’s outstanding warrants.

The Special Voting Share was issued to Computershare Trust Company of Canada on September 22, 2010 in connection with the Plan of Arrangement. Computershare Trust Company of Canada serves as trustee in voting matters on behalf of the holders of exchangeable shares (the “**Exchangeable Shares**”) of Talison Lithium Exchangeco Limited (“**Exchangeco**”), an indirect wholly-owned subsidiary of Talison. The Exchangeable Shares were issued on September 22, 2010 in conjunction with the Plan of Arrangement to certain former holders of common shares of Salares that had the right to elect to receive Exchangeable Shares in lieu of Ordinary Shares. The Special Voting Share provides a mechanism through which the holders of Exchangeable Shares (other than Talison and its affiliates) may exercise voting rights with respect to Talison. The Exchangeable Shares (other than Exchangeable Shares held by Talison and its affiliates) are intended to be substantially the economic equivalent of the Ordinary Shares and (a) have the same voting rights, dividend entitlements and other attributes as the Ordinary Shares, (b) are exchangeable, at each holder’s option, on a one-for-one basis into Ordinary Shares, and (c) will automatically be exchanged for Ordinary Shares three years from closing of the Plan of Arrangement and earlier than three years in certain limited circumstances. As at February 8, 2012, 463,324 Exchangeable Shares are exchangeable (on a one-for-one basis) for Ordinary Shares.

13. Non-IFRS Performance Measures

Talison uses EBITDA as a key metric in assessing its operating performance. EBITDA represents Talison’s profit / (loss) before the effect of interest, taxes and depreciation and amortization. Management of Talison believes EBITDA is a useful measure of the operating performance of the business as it excludes the effect that changes in financial structure has on Talison’s performance. EBITDA is not a defined financial measure according to IFRS and does not have any standardized meaning prescribed by IFRS. Therefore, this measure may not be comparable to a similar measure used by other enterprises. This measure should not be considered an alternative to net profit / (loss), cash flow from operating activities or other measures of financial performance calculated in accordance with IFRS. Rather, EBITDA is provided as additional information to complement IFRS measures by providing further understanding of the results of operations from management’s perspective.

EBITDA is calculated by adding net finance expense/(income), income tax expense/(benefit) and depreciation and amortization to net profit/(loss). The following table reconciles EBITDA with net profit / (loss) for the periods indicated.

INCOME STATEMENT	Three Months Ended Dec 31, 2011 (Unaudited) A\$'000	Three Months Ended Dec 31, 2010 (Unaudited) A\$'000	Six Months Ended Dec 31, 2011 (Unaudited) A\$'000	Six Months Ended Dec 31, 2010 (Unaudited) A\$'000
Net profit / (loss).....	5,642	5,297	7,249	11,171
Add:				
Net finance expense / (income)	(3,210)	(2,144)	(127)	(7,761)
Income tax expense / (benefit)	2,230	3,033	2,978	6,726
Depreciation and amortization	725	1,047	1,413	1,867
EBITDA	5,387	7,233	11,513	12,003

14. Subsequent Events

No matters have arisen in the interval between the end of the interim period ended December 31, 2011 and the date of this MD&A regarding any items, transactions or events of a material and unusual nature which will significantly affect the operations of Talison in the future years.

15. Critical Accounting Estimates

IFRS requires Talison to make estimates and assumptions that affect the amounts reported in the financial statements and related notes.

Accounting estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Talison makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Deferred Waste Mining Costs

Talison capitalizes the costs associated with the removal of waste rock using a life of mine waste-to-ore strip ratio. Costs of mining of waste rock, in excess of the life of mine waste-to-ore strip ratio, are accumulated and classified as property, plant and equipment. Significant judgment is required in determining the life-of-mine strip ratio. Factors that will affect this ratio include future changes in pit design, cost structures, product price, ore grade and recoveries against modeled grades and recoveries. When these factors change or become known in the future, such differences will impact the deferred stripping costs in property, plant and equipment in the period in which they change or become known.

Rehabilitation and Mine Closure Provisions

Rehabilitation and mine closure provisions represent the discounted value of the present obligation to restore, dismantle and rehabilitate certain items of property, plant and equipment. The discounted value reflects a combination of management's assessment of the cost of performing the work required, the timing of the cash flows and the discount rate.

A change in any, or a combination, of the three key assumptions used to determine the provisions could have a material impact to the carrying value of the provision. In the case of provisions for assets which remain in use, adjustments to the carrying value of the provision are offset by a change in the

carrying value of the related asset. Where the provisions are for assets no longer in use or for obligations arising from the production process, the adjustment is reflected directly in the income statement.

Reserves

Reserves are estimates of the amount of mineral product that can be economically extracted from Talison's properties. In order to calculate reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, future capital requirements, short and long-term commodity prices and exchange rates.

Estimating the quantity and/or grade of reserves requires the size, shape and depth of ore bodies to be determined by analyzing geological data. This process may require complex and difficult geological judgments and calculations to interpret the data.

Talison determines and reports ore reserves in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code") and the standards prescribed by National Instrument 43-101. The JORC Code and National Instrument 43-101 require the use of reasonable investment assumptions to calculate reserves. Due to the fact that economic assumptions used to estimate reserves change from period to period, and geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect Talison's financial results and financial position in a number of ways, including:

- asset carrying values may be impacted due to changes in estimated future cash flows;
- depreciation and amortization charged in the income statement may change where such charges are calculated using the units of production basis;
- decommissioning, site restoration and environmental provisions may change where changes in estimated reserves alter expectations about the timing or cost of these activities; and
- depreciation and amortization of mining assets is prospectively adjusted, based on these changes.

16. Accounting Policies

Hedge Accounting

Under the existing accounting policy applicable to derivatives (*AASB 139 Financial Instruments: Recognition and Measurement*), Talison is able to recognize derivatives at fair value through profit and loss, or apply hedge accounting. Talison has chosen to apply hedge accounting for derivatives entered into from March 2011 onwards. The ability to recognize the change in the fair value of derivative hedging instruments, designated and effective as cash flow hedges, in other comprehensive income, results in the matching of gains or losses on derivative instruments with the underlying hedged transaction being sales revenue, subject to meeting the relevant hedge accounting criteria. During the three and six months ended December 31, 2011, Talison recognized a gain of A\$1.2 million and a loss of A\$1.0 million, net of tax, respectively, on the revaluation of designated and effective cash flow hedges in other comprehensive income. Had Talison not adopted hedge accounting for derivatives entered into during the three and six months ended December 31, 2011 this would have been recognized in NPAT.

On initial designation of a hedge, Talison formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. Talison makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, on whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognized in other comprehensive income to the extent the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognized immediately in the income statement.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction impacts the income statement, at which point the cumulative gain or loss is released to the income statement. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in the income statement.

17. Additional Disclosures

Corporate Responsibility and Financial Reports

Talison's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining Talison's disclosure controls and procedures. Access to material information with respect to Talison is facilitated by the small size of Talison's senior management team.

Disclosure Controls and Procedures

Talison's disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is communicated to senior management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

An evaluation of the effectiveness of Talison's disclosure controls and procedures was conducted as of February 9, 2012. Based on the results of that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that Talison's disclosure controls and procedures are adequate and effective to ensure that (i) material information relating to Talison is made known to them by others, particularly during the current interim period, and (ii) information required to be disclosed by Talison in its annual filings, interim filings or other reports filed or submitted by Talison under applicable securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. There have not been any changes in Talison's disclosure controls and procedures during the six months ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, its disclosure controls or procedures.

Internal Controls over Financial Reporting

Talison's internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of Talison's financial reporting and the preparation of financial statements in compliance with IFRS. Talison's internal control over financial reporting includes policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of Talison;
- are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS and that receipts and expenditures of Talison are being made only in accordance with authorizations of management and directors of Talison; and
- are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or dispositions of Talison's assets that could have a material effect on Talison's annual and interim financial statements.

Management of Talison, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of Talison's internal controls over financial reporting as of February 9, 2012. Based on this evaluation, management has concluded that Talison's internal controls over financial reporting were effective. There have not been any changes in Talison's internal controls over financial reporting during the six months ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

Limitations of Controls and Procedures

Talison's management, including the Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable and not absolute assurance that the objectives of the control system are met. Further, the design of a control system reflects the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within Talison have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

Legal Proceedings, Disputes and Regulatory Actions

Talison may be involved in legal proceedings from time to time, arising in the ordinary course of its business. Typically, the amount of ultimate liability with respect to these actions will not, in the opinion of management of Talison, materially affect Talison's financial position, statement of income or cash flows.

In assessing loss contingencies relating to legal proceedings that are pending against Talison (if any) or unasserted claims that may result in any such proceedings (if any), Talison and its legal counsel will

evaluate the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought. If the assessment of a contingency suggests that a material loss is probable, and the amount can be reliably estimated, then a loss will be recorded. If a contingent loss is not probable but is reasonably possible, or is probable but the amount of loss cannot be reliably estimated and may be material, then details of the contingent loss will be disclosed. Loss contingencies considered remote will generally not be disclosed unless they involve guarantees, in which case Talison will disclose the nature of the guarantees. Legal fees incurred in connection with pending legal proceedings will be expensed as incurred.

18. Cautionary Notes

Risk Factors

This MD&A should be read in conjunction with detailed risk factors included under the heading "Risk Factors" in the Annual Information Form, which risk factors are incorporated by reference into this MD&A and which can be found on Talison's SEDAR profile at www.sedar.com.

Forward-Looking Statements

Certain information contained or incorporated by reference in this MD&A, including any information regarding Talison's strategy, projects, plans, prospects, future outlook, anticipated events or results or future financial or operating performance, constitutes "forward-looking statements" within the meaning of Canadian securities laws. All statements, other than statements of historical fact, are forward-looking statements. Forward-looking statements can often, but not always, be identified by the use of words such as "plans", "expects", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", "predicts", "potential", "continue" or "believes", or variations (including negative variations) of such words; or statements that certain actions, events or results "may", "could", "would", "should", "might", "potential to", or "will" be taken, occur or be achieved or other similar expressions concerning matters that are not historical facts. The purpose of forward-looking statements is to provide the reader with information about management's expectations and plans for 2012 and subsequent financial years.

Forward-looking statements are necessarily based on a number of factors, estimates and assumptions that, while considered reasonable by Talison, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Such factors, estimates and assumptions include, but are not limited to, anticipated financial or operating performances of Talison, its subsidiaries and their respective projects; future prices of lithium and/or lithium concentrates; the estimation of mineral reserves and resources; the realization of mineral reserve estimates; the timing and amount of estimated future production; estimated costs of future production; the grade, quality and content of the concentrate produced; the sale of production and the performance of offtakers; capital, operating and exploration expenditures; costs and timing of the development of the Greenbushes Lithium Operations and the Salares 7 Project, the costs of Talison's hedging policy; costs and timing of future exploration; requirements for additional capital; government regulation of exploration, development and mining operations; environmental risks; reclamation and rehabilitation expenses; title disputes or claims; and limitations of insurance coverage. While Talison considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect and actual results may vary.

Readers are cautioned that forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Talison and/or its subsidiaries to be materially different from any future results, performance or

achievements expressed or implied by the forward-looking statements. These risks, uncertainties and factors are discussed in the Financial Statements, and in the Annual Information Form, each of which can be found on Talison's SEDAR profile at www.sedar.com. Readers are cautioned that forward-looking statements are not guarantees of future performance. All of the forward-looking statements made or incorporated in this document are qualified by these cautionary statements.

Although Talison has attempted to identify statements containing important factors that could cause actual actions, event or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking information contained herein are made as of the date of this document based on the opinions and estimates of management on the date statements containing such forward-looking information are made. Except as required by law, Talison disclaims any obligation to update any forward-looking information, whether as a result of new information, estimates or opinions, future events or results or otherwise. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information.