

TALISON LITHIUM LIMITED

Unaudited Condensed Consolidated Interim Financial Report

For the six months ended 31 December 2011

Expressed in thousands of Australian dollars (A\$000) unless otherwise stated

	Note	Three months ended		Six months ended	
		31 Dec 2011 A\$'000	31 Dec 2010 A\$'000	31 Dec 2011 A\$'000	31 Dec 2010 A\$'000
Sales revenue		22,686	32,810	48,565	53,882
Operating costs	7	(14,097)	(21,442)	(30,691)	(34,677)
Other income		28	25	243	93
General and administration expenses		(2,353)	(2,654)	(4,525)	(3,910)
Share option expense		(755)	(1,390)	(1,908)	(2,762)
Other expenses		(122)	(116)	(171)	(623)
EBITDA ⁽¹⁾		5,387	7,233	11,513	12,003
Depreciation and amortisation	7	(725)	(1,047)	(1,413)	(1,867)
Profit from operating activities		4,662	6,186	10,100	10,136
Financial income		1,131	305	2,509	375
Financial expenses		(542)	(1,491)	(1,063)	(5,420)
Net gain on the settlement of derivatives		975	677	3,023	637
Net realised foreign exchange gain		581	5,746	1,012	9,195
Net fair value gain/(loss) on financial assets and liabilities	7	1,065	(3,093)	(5,354)	2,974
Net finance income		3,210	2,144	127	7,761
Profit before income tax		7,872	8,330	10,227	17,897
Income tax expense		(2,230)	(3,033)	(2,978)	(6,726)
Profit for the period		5,642	5,297	7,249	11,171
Other comprehensive income/(expense)					
Net change in fair value of cash flow hedges, net of tax		1,157	-	(975)	-
Foreign currency translation differences		(3,852)	(292)	(3,727)	(292)
Other comprehensive income/(expense) for the period		(2,695)	(292)	(4,702)	(292)
Total comprehensive income for the period		2,947	5,005	2,547	10,879
Earnings per share					
Basic earnings per share (cents)	8	5.2	5.6	6.7	15.1
Diluted earnings per share (cents)	8	5.2	5.4	6.7	14.6

(1) EBITDA – results before depreciation and amortisation, net finance income/(expense) and income tax expense.

The above consolidated interim statement of comprehensive income should be read in conjunction with the accompanying notes

	<i>Note</i>	31 Dec 2011 A\$'000	30 June 2011 A\$'000
ASSETS			
Current 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	9	4,410	10,205
Total current assets		<u>122,344</u>	<u>145,535</u>
Non-current assets			
Property, plant and equipment	10	127,078	95,215
Exploration and evaluation assets	11	59,467	61,714
Total non-current assets		<u>186,545</u>	<u>156,929</u>
Total assets		<u>308,889</u>	<u>302,464</u>
LIABILITIES			
Current liabilities			
Trade and other payables		12,455	12,380
Interest-bearing liabilities		3,503	3,812
Tax payable		3,970	-
Provisions		3,050	3,441
Derivative financial instruments	9	160	-
Total current liabilities		<u>23,138</u>	<u>19,633</u>
Non-current liabilities			
Interest-bearing liabilities		24,823	25,431
Provisions		11,674	11,227
Deferred tax liabilities	12	8,552	10,622
Total non-current liabilities		<u>45,049</u>	<u>47,280</u>
Total liabilities		<u>68,187</u>	<u>66,913</u>
Net assets		<u>240,702</u>	<u>235,551</u>
EQUITY			
Share capital	13	225,594	225,425
Shares held in trust	13	(15,480)	(16,138)
Reserves		2,474	5,399
Retained profits		28,114	20,865
Total equity		<u>240,702</u>	<u>235,551</u>

The above consolidated interim statement of financial position should be read in conjunction with the accompanying notes

Unaudited condensed consolidated interim statements of changes in equity
For the six months ended 31 December 2011



	Note	Share capital A\$'000	Shares held in trust A\$'000	Share - based payment reserve A\$'000	Trans- lation reserve A\$'000	Hedging reserve A\$'000	Retained profits A\$'000	Total equity A\$'000
Balance as at 1 July 2011		225,425	(16,138)	6,894	(3,772)	2,277	20,865	235,551
Total comprehensive income for the period								
Profit for the period		-	-	-	-	-	7,249	7,249
Net change in fair value of cash flow hedges, net of tax		-	-	-	-	(975)	-	(975)
Foreign currency translation		-	-	-	(3,727)	-	-	(3,727)
Total comprehensive income for the period		-	-	-	(3,727)	(975)	7,249	2,547
Transactions with equity holders								
Share-based payment transactions	14	-	-	1,908	-	-	-	1,908
Issue of ordinary shares net of issue costs		(5)	-	-	-	-	-	(5)
Issue of ordinary shares on conversion of options and warrants		174	-	(131)	-	-	-	43
Tax effect of shares held in trust		-	658	-	-	-	-	658
Total transactions with equity holders		169	658	1,777	-	-	-	2,604
Balance as at 31 December 2011		225,594	(15,480)	8,671	(7,499)	1,302	28,114	240,702

The above consolidated interim statement of changes in equity should be read in conjunction with the accompanying notes

Unaudited condensed consolidated interim statements of changes in equity
For the six months ended 31 December 2010



	Talisson Lithium				Greenbushes Lithium Operations				Total equity A\$'000
	Share capital A\$'000	Share - based payment reserve ⁽¹⁾ A\$'000	Trans-lation Reserve A\$'000	Retained profits A\$'000	Share capital A\$'000	Share - based payment reserve A\$'000	Accum-ulated losses A\$'000	Tantalum equity A\$'000	
Balance as at 1 July 2010	-	-	-	-	110,648	1,444	(56,285)	(131,585)	(75,778)
Total comprehensive income for the period									
Profit for the period	-	-	-	9,100	-	-	2,071	-	11,171
Foreign currency translation	-	-	(292)	-	-	-	-	-	(292)
Total comprehensive income for the period	-	-	(292)	9,100	-	-	2,071	-	10,879
Transactions with equity holders									
Funding of Tantalum Operations equity interest	-	-	-	-	-	-	-	(4,380)	(4,380)
Tantalum Operations tax losses	-	-	-	-	-	-	-	479	479
Tantalum Operations loan transfer	-	-	-	-	-	-	-	459	459
Share-based payment transactions	-	1,511	-	-	-	1,251	-	-	2,762
Issue of ordinary shares for the cancellation of options	-	-	-	-	2,695	(2,695)	-	-	-
Tantalum equity distribution	-	-	-	-	(135,027)	-	-	135,027	-
Conversion of interest-bearing liabilities to ordinary shares	-	-	-	-	112,840	-	-	-	112,840
Common control transaction	36,942	-	-	-	(91,156)	-	54,214	-	-
Issue of ordinary and exchangeable shares, warrants and options related to an asset acquisition	48,986	8,969	-	-	-	-	-	-	57,955
Issue of ordinary shares net of issue costs	38,865	-	-	-	-	-	-	-	38,865
Issue of ordinary shares on conversion of options and warrants	5,408	(4,127)	-	-	-	-	-	-	1,281
Total transactions with equity holders	130,201	6,353	(292)	-	(110,648)	(1,444)	54,214	131,585	210,261
Balance as at 31 December 2010	130,201	6,353	(292)	9,100	-	-	-	-	145,362

(1) Share-based payment reserve includes amounts reported separately as warrant reserve and option reserve in the unaudited consolidated interim financial statements for the six months ended 31 December 2010

The above consolidated interim statement of changes in equity should be read in conjunction with the accompanying notes

	Three months ended		Six months ended	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
	A\$'000	A\$'000	A\$'000	A\$'000
Cash flows from operating activities				
Cash receipts from customers	28,501	16,589	55,477	44,899
Cash paid to suppliers and employees	(19,879)	(21,454)	(41,453)	(41,393)
Net receipt for settlement of derivatives	1,424	974	3,386	1,727
Interest paid	(621)	(756)	(950)	(1,977)
Interest received	2,521	305	3,422	387
Other income	27	50	305	75
Net cash inflow/(outflow) from operating activities	11,973	(4,292)	20,187	3,718
Cash flows from investing activities				
Payments for property, plant and equipment	(15,736)	(4,169)	(34,100)	(7,673)
Payments for exploration	(1,061)	(255)	(1,772)	(255)
Payments for exploration asset acquisition costs net of cash acquired	-	(2,149)	-	(2,358)
Net cash outflow from investing activities	(16,797)	(6,573)	(35,872)	(10,286)
Cash flows from financing activities				
Proceeds from the issue of share capital	-	1,281	43	41,923
Payment of share issue costs	-	(440)	(8)	(2,954)
Payment of attempted IPO costs	-	(309)	-	(543)
Proceeds from borrowings	-	30,075	-	30,075
Payment for borrowing costs	(21)	(1,297)	(43)	(1,347)
Repayment of borrowings	(1,774)	(30,073)	(2,064)	(30,073)
Cash placed on deposit as security for guarantees	-	(238)	-	(238)
Purchase of own shares	-	-	(272)	-
Funding of Tantalum Operations equity interest	-	-	-	(4,380)
Payments for finance lease liabilities	(93)	(55)	(183)	(120)
Net cash inflow/(outflow) from financing activities	(1,888)	(1,056)	(2,527)	32,343
Net increase/(decrease) in cash and cash equivalents	(6,712)	(11,921)	(18,212)	25,775
Cash and cash equivalents at beginning of period	91,341	38,811	102,605	1,400
Effects of exchange rate fluctuation on cash held	(342)	(156)	(106)	(441)
Cash and cash equivalents at 31 December	84,287	26,734	84,287	26,734

The above consolidated interim cash flow statement should be read in conjunction with the accompanying notes.

1 Reporting entity

Talison Lithium Limited (the “Company” or “Talison Lithium”) is a company domiciled in Australia. The address of the Company’s registered office is Level 4, 37 St Georges Terrace, Perth, Western Australia 6000.

The condensed consolidated interim financial report of the Company as at and for the six months ended 31 December 2011 comprises the Company and its subsidiaries (together referred to as the “Group”). The Group is primarily involved in the mining, development and exploration of mineral properties in Australia and exploration of mineral properties in Chile.

The consolidated annual financial report of the Company as at and for the period ended 30 June 2011 is available upon request from the Company’s registered office or at www.talisonlithium.com.

The Company was incorporated on 22 October 2009 and essentially did not trade before the common control transaction that occurred on 12 August 2010, whereby Talison Lithium acquired the Greenbushes Lithium Operations, as defined by the executed Lithium Business Sale Agreement between Talison Minerals Pty Ltd (“Talison Minerals”), Talison Lithium Australia Pty Ltd and Talison Greenbushes Pty Ltd dated 13 November 2009. The common control transaction consisted of the exchange of the entire share capital of Talison Minerals for the entire share capital of Talison Lithium. The transaction is accounted for using the continuity of interest method of accounting. In applying continuity of interest accounting the financial statements and comparative information for Talison Lithium are prepared on the basis that the Greenbushes Lithium Operations had been part of the Group since 27 August 2007, the date that the Greenbushes Lithium Operations was acquired by Talison Minerals. This method has been adopted by making an election under IFRS for common control transactions.

2 Basis of preparation

(a) Statement of compliance

The condensed consolidated interim financial report has been prepared in accordance with AASB 134 Interim Financial Reporting and IAS 34 Interim Financial Reporting. The condensed consolidated interim financial report does not include all of the information required for full annual financial statements.

The consolidated interim financial report was approved by the Board of Directors on 9 February 2012.

(b) Basis of measurement

The condensed consolidated interim financial report has been prepared on an historical cost basis except for derivative financial instruments which are measured at fair value.

(c) Critical accounting estimates

The preparation of financial statements in conformity with International Financial Reporting Standards (“IFRS”) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are referred to in Note 4.

(d) Functional and presentation currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The functional currency of the Australian operations is Australian dollars (“A\$” or “AUD”). The functional currency of the Chilean operations is Chilean Pesos (“CLP”). The consolidated financial statements are presented in A\$.

(e) Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(f) Non-IFRS performance measures

The financial statements disclose EBITDA. This term is not defined according to IFRS and does not have a standardised meaning prescribed by IFRS. Therefore this measure may not be comparable to a similar measure used by other enterprises. 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 presented in these financial statements has been defined to be the results before net finance income/expense, income tax expense/benefit and depreciation and amortisation.

3 Significant accounting policies

The accounting policies applied by the Group in this condensed consolidated interim financial report are consistent with those applied by the Group in its consolidated annual financial report as at and for the year ended 30 June 2011.

4 Critical accounting estimates and judgements

Estimates and judgements 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.

The Group 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 the same as those applied by the Group in its consolidated annual financial report as at and for the year ended 30 June 2011.

5 Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in its consolidated annual financial report as at and for the year ended 30 June 2011.

6 Segment reporting

(a) Reportable segments

The Company operates in the lithium exploration and production operating segment within the following geographical segments:

Australia

The Company maintains a registered office in Perth and operates the Greenbushes lithium mine.

Chile

The Company conducts exploration of its project in Chile (refer Note 11).

(b) Information about reportable segments

The profit of the Group for the six months ended 31 December 2011 is entirely attributable to the Australian operation. The Chilean operation did not earn revenue nor incur expenses during the six months ended 31 December 2011.

Segment assets and liabilities at 31 December 2011 were as follows:

	A\$'000
Assets	
Australia	249,197
Chile	59,692
Consolidated total assets	<u>308,889</u>
Liabilities	
Australia	67,718
Chile	469
Consolidated total liabilities	<u>68,187</u>

7 Income and expense

(a) Cost of sales

A reconciliation of operating costs to cost of sales follows:

	Three months ended		Six months ended	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
	\$'000	\$'000	\$'000	\$'000
Operating costs	14,097	21,442	30,691	34,677
Depreciation and amortisation	725	1,047	1,413	1,867
Cost of sales	14,822	22,489	32,104	36,544

(b) Net fair value gain/(loss) on financial assets and liabilities

Net fair value loss on financial assets and liabilities for the three months to 31 December 2011 includes an unrealised gain on the revaluation of US dollar denominated senior debt of \$1.493 million (2010: \$4.777 million loss), an increase in the fair value of foreign exchange derivatives through profit and loss of \$0.563 million (2010: \$1.866 million gain) and an unrealised loss on the revaluation of trade debtors of \$0.769 million (2010: \$1.559 million loss).

Net fair value loss on financial assets and liabilities for the six months to 31 December 2011 includes an unrealised loss on the revaluation of US dollar denominated senior debt of \$1.161 million (2010: \$2.114 million loss), a decrease in the fair value of foreign exchange derivatives through profit and loss of \$4.270 million (2010: \$5.613 million gain) and an unrealised gain on the revaluation of trade debtors of \$0.098 million (2010: \$0.464 million loss).

8 Earnings per share

The calculation of basic earnings per share for the three months ended 31 December 2011 was based on the profit attributable to ordinary shareholders of \$5.642 million (2010: \$5.297 million), and a weighted average number of ordinary shares excluding shares held by the Trust (refer Note 13(b)) of 107.771 million (2010: 94.484 million).

The calculation of basic earnings per share for the six months ended 31 December 2011 was based on the profit attributable to ordinary shareholders of \$7.249 million (2010: \$11.171 million), and a weighted average number of ordinary shares excluding shares held by the Trust (refer Note 13(b)) of 107.751 million (2010: 74.018 million).

The calculation of diluted earnings per share for the three months ended 31 December 2011 was based on the profit attributable to dilutive potential ordinary shareholders of \$5.642 million (2010: \$5.297 million) and a weighted average number of ordinary shares excluding shares held by the Trust (refer Note 13(b)) after adjustment for the effects of all dilutive potential ordinary shares of 108.544 million (2010: 98.605 million).

The calculation of diluted earnings per share for the six months ended 31 December 2011 was based on the profit attributable to dilutive potential ordinary shareholders of \$7.249 million (2010: \$11.171 million) and a weighted average number of ordinary shares excluding shares held by the Trust (refer Note 13(b)) after adjustment for the effects of all dilutive potential ordinary shares of 108.503 million (2010: 76.575 million).

9 Derivative financial instruments

	31 Dec 2011	30 Jun 2011
	A\$'000	A\$'000
Current asset		
Foreign exchange – forward contracts	1,677	2,690
Foreign exchange – options	2,733	7,515
	4,410	10,205
Current liability		
Foreign exchange – collars	(160)	-
Net derivative financial instruments	4,250	10,205

Sales revenue of the Group is mainly denominated in US dollars. Given the predominately Australian dollar cost base of the business and a functional currency of Australian dollars, these US dollar sales create a foreign exchange exposure in terms of earnings and cash flow. In order to protect against this exposure, the Group has entered into foreign currency options, collars and forward exchange contracts.

These derivative contracts are hedging highly probable forecast sales over a three year timeframe. The contracts are timed to mature when receipts from customers are expected to be received. Where a hedging relationship has been designated between a derivative contract and a highly probable forecast sale, unrealised gains or losses on the effective portion of the derivative are deferred in equity until the forecast sale occurs, at which point the gain or loss is released to the income statement.

Where no hedging relationship has been designated, unrealised gains or losses on the derivatives are immediately recognised in the income statement.

The USD options hedge a notional value of US\$53.500 million at 31 December 2011 (2010: US\$55.500 million) and have exercise prices which range between AUD/USD 0.89 to 1.06 (2010: 0.89 to 0.94).

The forward exchange contracts hedge a notional value of US\$27.100 million at 31 December 2011 (2010: nil) and have strike rates that range between AUD/USD 0.89 to 0.96.

The USD collar arrangements hedge a notional value of US\$20.900 million at 31 December 2011 (2010: nil) with a strike rate cap of AUD/USD 1.06 and a floor which ranges between AUD/USD 0.76 and 0.96.

10 Property, plant and equipment

During the six months ended 31 December 2011 the Group added assets with a cost of \$33.347 million (2010: \$7.934 million) primarily in relation to its stage 2 expansion of the Greenbushes Lithium Operations. During the six months ended 31 December 2011 the Group disposed of assets with a carrying value of \$0.062 million (2010: nil).

The Group had the following capital commitments at 31 December:

	2011 A\$'000	2010 A\$'000
<i>Contracted but not provided for and payable:</i>		
Within one year	23,785	-

11 Exploration and evaluation assets

The Group 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 22 September 2009. The Group exercised its option to acquire a 50% ownership interest in the Concessions on 29 December 2011. An additional 20% ownership interest in the Concessions can be obtained upon completion, at the Group's sole expense, of a feasibility study on the Concessions by 29 September 2013.

During the six months ended 31 December 2011 the Group incurred \$1.518 million (2010: nil) in expenditure on this asset. The AUD value of the asset decreased by \$3.765 million (2010: nil) when the asset, which has a functional currency of CLP, was translated into the Group's presentation currency of AUD.

12 Deferred tax assets / (liabilities)

Deferred tax assets not recognised

A deferred tax asset of \$26.435 million relating to prior year tax revenue losses of Talison Minerals and its subsidiaries has not been recognised at 31 December 2011 as it may not be considered probable that the conditions for deductibility will be satisfied.

Legislative amendments to company tax loss recoupment rules are proposed which, if enacted in a manner consistent with a previously released Exposure Draft, may result in it being probable that the conditions for deductibility of a significant portion of prior year tax revenue losses will be satisfied. When the substantial enactment of this legislative change occurs, an income tax benefit, in the amount of the losses for which recoupment may be considered probable, will be recognised in the financial statements which will positively impact the income tax expense for the relevant financial year and the income tax payable and deferred tax assets as at the date of recognition.

13 Share capital

(a) Movements in share capital

	Ordinary and exchangeable shares	Number of shares	Total A\$'000
1 Jul 2011	Opening balance	112,021,586	225,425
15 Sep 2011	Warrants converted to ordinary shares	48,932	174
31 Dec 2011	Closing balance	112,070,518	225,599
	Less: After tax share issue costs		(5)
			<u>225,594</u>

(b) Shares held in trust

As at 31 December 2011 the Group holds 4,299,367 of its own shares in the Talison Long Term Incentive Plan Trust (the "Trust"). Although the Company does not hold any ownership interest in the Trust, Talison Services Pty Ltd, a wholly owned subsidiary of the Company, acts as trustee of the Trust and is able to govern the financial and operating policies of the Trust in accordance with the trust deed.

(c) Ordinary shares

These shares have no par value and are fully paid ordinary shares. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll each share is entitled to one vote.

(d) Talison Lithium Exchangeco Limited Exchangeable shares

These shares have no par value and are fully paid exchangeable shares issued by Talison Lithium Exchangeco Limited (a controlled entity of the Company, incorporated in Canada) and are exchangeable on a 1 for 1 basis for fully paid ordinary shares of the Company. Exchangeable shareholders are able to exercise essentially the same voting rights (through a Special Voting Share issued for the Exchangeable shareholders) with respect to the Company as the holders of ordinary shares of the Company. Exchangeable shareholders participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. There were 528,465 exchangeable shares on issue at 31 December 2011.

(e) Unlisted warrants on issue

The Company had on issue warrants exercisable for 500,896 ordinary shares at 31 December 2011 (2010: 1,176,863). The warrants have an effective exercise price of C\$0.90 per ordinary share of Talison Lithium and an expiry date of 1 December 2012.

(f) Unlisted options on issue

The Company had the following ordinary shares underlying unlisted options at 31 December 2011. Each option holder is entitled to the ordinary shares underlying the vested option(s) held on payment of the exercise price.

1-Jul-11	Issued under a share option plan	Exercised	Forfeited	31-Dec-11	Exercise price	Vesting date (if not vested at 31 Dec 2011)	Expiry date
22,241	-	-	-	22,241	C\$1.69		3-Apr-12
1,920,891	-	-	6,802	1,914,089	C\$3.50		21-Sep-12
20,000	-	-	13,333	6,667	C\$4.60	22-Mar-12	21-Mar-13
1,920,891	-	-	106,800	1,814,091	C\$3.50	22-Sep-12	21-Sep-13
-	108,667	-	8,000	100,667	C\$3.65	22-Sep-12	21-Sep-13
-	35,000	-	-	35,000	C\$3.82	22-Sep-12	21-Sep-13
20,000	-	-	13,333	6,667	C\$4.60	22-Mar-13	21-Mar-14
-	35,000	-	-	35,000	C\$3.82	22-Sep-13	21-Sep-14
1,920,892	-	-	106,800	1,814,092	C\$3.50	22-Sep-13	21-Sep-14
-	108,667	-	8,000	100,667	C\$3.65	22-Sep-13	21-Sep-14
138,789	-	-	-	138,789	C\$0.57		13-Oct-14
311,386	-	-	-	311,386	C\$1.69		18-Feb-15
8,897	-	-	-	8,897	C\$1.69		18-Feb-15
9,342	-	-	-	9,342	C\$1.86		7-Mar-15
3,114	-	-	-	3,114	C\$1.86		7-Mar-15
20,000	-	-	13,333	6,667	C\$4.60	22-Mar-14	21-Mar-15
-	108,667	-	8,000	100,667	C\$3.65	22-Sep-14	21-Sep-15
6,316,443	396,001	-	284,401	6,428,045			

14 Share-based payments

Under the Company's share option plan, all directors, officers, employees and consultants that elect to participate in the plan are entitled to options over ordinary shares of the Company. All options expire on the earlier of their expiry date or termination of the director's directorship, the employee's employment or the consultants' consultancy arrangement, except where the termination occurs for certain reasons, in which case, the director, employee or consultant (as applicable) retains the vested options and all unvested options expire.

70,000 options were granted under the plan on 12 July 2011. All options have an exercise price of C\$3.82 and are to be settled by physical delivery of shares. Half of the options vest on 22 September 2012 and the remaining half of the options vest on 22 September 2013. All options expire on the anniversary of the vesting date. The fair value of services received in return for share options granted under the share option plan is based on the fair value of options granted of C\$1.46 per option (A\$1.43 per option based on an exchange rate at 12 July 2011 of A\$1.00 = C\$1.032), measured using a Black-Scholes formula. The model inputs were: the share price of C\$3.82, expected volatility of 67 percent, nil expected future dividends, an expected term of 1 to 3 years and a risk free interest rate of 0.92 percent.

326,000 options were granted under the plan on 22 September 2011. All options have an exercise price of C\$3.65 and are to be settled by physical delivery of shares. 1/3rd of the options vest on each anniversary of the grant date until all options have vested. All options expire on the anniversary of the vesting date. The fair value of services received in return for share options granted under the share option plan is based on the fair value of options granted of C\$1.54 per option (A\$1.51 per option based on an exchange rate at 22 September of A\$1.00 = C\$1.021), measured using a Black-Scholes formula. The model inputs were: the share price of C\$3.65, expected volatility of 69 percent, nil expected future dividends, an expected term of 1 to 4 years and a risk free interest rate of 1.01 percent.

The expected volatility was determined using the historical volatility of comparable companies to the Group for historical periods which compare to the expected life of the options granted.

The recognised expense for share-based payments for the three and six months ended 31 December 2011 was A\$0.755 million (2010: A\$1.390 million) and A\$1.908 million (2010: A\$2.762 million) respectively.

15 Events occurring after the balance sheet date

No matters have arisen in the interval between 31 December 2011 and the date of this report regarding any items, transactions or events of a material and unusual nature which in the opinion of the Board of Directors of Talison Lithium will significantly affect the operations of the Group in the future years.

Directors' declaration

- 1 In the opinion of the directors of Talison Lithium Limited ('the Company'):
 - (a) the financial statements and notes set out on pages 2 to 12 hereof:
 - (i) give a true and fair view of the Group's financial position as at 31 December 2011 and of its performance for the three and six month periods ended on that date;
 - (ii) comply with Australian Accounting Standard AASB134: *Interim Financial Reporting*;
 - (iii) comply with International Accounting Standard IAS34: *Interim Financial Reporting*; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:



P R Oliver
Director

Perth
Dated: 9 February 2012