



TALISMAN MINING LIMITED

ABN 71 079 536 495

NOTICE OF ANNUAL GENERAL MEETING EXPLANATORY STATEMENT AND PROXY FORM

TIME: 10.00am (WST)

DATE: 18 November 2011

PLACE: Celtic Club
48 Ord Street
West Perth, Western Australia 6005

This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on (+61 8) 9380 4230.

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TIME AND PLACE OF MEETING AND HOW TO VOTE

VENUE

The Annual General Meeting of the Shareholders to which this Notice of Meeting relates will be held at 10.00am (WST) on 18 November 2011 at:

Celtic Club
48 Ord Street
West Perth, Western Australia 6005

YOUR VOTE IS IMPORTANT

The business of the Annual General Meeting affects your shareholding and your vote is important.

HOW TO VOTE

Shareholders can vote by either:

- attending the meeting and voting in person or by attorney or, in the case of corporate shareholders, by appointing a corporate representative to attend and vote; or
- appointing a proxy to attend and vote on their behalf using the proxy form accompanying this Notice of Meeting and by submitting their proxy appointment and voting instructions in person, by post, or by facsimile.

VOTING IN PERSON

Shareholders, or their attorneys, who plan to attend the meeting are asked to arrive at the venue 15 minutes prior to the time designated for the meeting, if possible, so that their holding may be checked against the Company's share register and attendance recorded. Attorneys should bring with them an original or certified copy of the

power of attorney under which they have been authorised to attend and vote at the meeting.

VOTING BY A CORPORATION

A Shareholder that is a corporation may appoint an individual to act as its representative and vote in person at the meeting. The appointment must comply with the requirements of section 250D of the Corporations Act. The representative should bring to the meeting evidence of his or her appointment, including any authority under which it is signed. Shareholders can download and fill out the 'Appointment of Corporate Representation' form from the website of the share registry of the Company – www.linkmarketservices.com.au.

VOTING BY PROXY

- A Shareholder entitled to attend and vote is entitled to appoint not more than two proxies. Each proxy will have the right to vote on a poll and also to speak at the meeting.
- The appointment of the proxy may specify the proportion or the number of votes that the proxy may exercise. Where more than one proxy is appointed and the appointment does not specify the proportion or number of the shareholder's votes each proxy may exercise, the votes will be divided equally among the proxies (i.e. where there are two proxies, each proxy may exercise half of the votes).

- A proxy need not be a shareholder.
- The proxy can be either an individual or a body corporate.
- If a proxy is not directed how to vote on an item of business, the proxy may generally vote, or abstain from voting, as they think fit. **However, for the purposes of Resolution 1 (Adoption of the Remuneration Report), where a Restricted Voter is appointed as your proxy, that person will not cast your vote on Resolution 1 if you have not directed them how to vote on that Resolution. For the purposes of Resolution 4 (Issue of Director Options), where a Restricted Voter is appointed as your proxy, that person will not cast your vote on Resolution 4 if you have not directed them how to vote on that Resolution or, if the proxy is the Chair of the Meeting, unless the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel. These rules are explained in this Notice.**
- **If you choose to appoint a proxy, you are encouraged to direct your proxy how to vote on Resolution 1 (Adoption of the Remuneration Report) and Resolution 4 (Issue of Director Options) by marking either "For", "Against" or "Abstain" for that item of business.**
- Should any resolution, other than those specified in this Notice, be proposed at the meeting, a proxy may vote on that resolution as they think fit.
- If a proxy is instructed to abstain from voting on an item of business, they are directed not to vote on the shareholder's behalf on the poll and the shares that are the subject of the proxy appointment will not be counted in calculating the required majority.
- Shareholders who return their proxy forms with a direction how to vote but do not nominate the identity of their proxy will be taken to have appointed the Chairman of the meeting as their proxy to vote on their behalf. If a proxy form is returned but the nominated proxy does not attend the meeting, the Chairman of the meeting will act in place of the nominated proxy and vote in accordance with any instructions. Proxy

appointments in favour of the Chairman of the meeting, the secretary or any Director that do not contain a direction how to vote will be used where possible to support each of the resolutions proposed in this Notice, provided they are entitled to cast votes as a proxy under the voting exclusion rules which apply to some of the proposed resolutions.

- To be effective, proxies must be lodged by 10.00am (WST) on 16 November 2011. Proxies lodged after this time will be invalid.
- Proxies may be lodged using any of the following methods:

by post using the pre-addressed envelope provided with this Notice;

by post to Talisman Mining Ltd C/- Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235;

in person to Level 12, 680 George Street, Sydney NSW 2000;

by faxing a completed proxy form to +61 2 9287 0309; or

online - www.linkmarketservices.com.au
Select 'Investor Login' and enter the holding details as shown on the proxy form. Select the 'Voting' tab and then follow the prompts. You will be taken to have signed your Proxy Form if you lodge it in accordance with the instructions given on the website.

The proxy form must be signed by the shareholder or the shareholder's attorney. Proxies given by corporations must be executed in accordance with the Corporations Act. Where the appointment of a proxy is signed by the appointer's attorney, a certified copy of the power of attorney, or the power itself, must be received by the Company at the above address, or by facsimile, and by 10.00 am (WST) on 16 November 2011. If facsimile transmission is used, the power of attorney must be certified.

SHAREHOLDERS WHO ARE ENTITLED TO VOTE

In accordance with Regulations 7.11.37 and 7.11.38 of the Corporations Regulations 2001, the Board has determined that a person's entitlement to vote at the Annual General Meeting will be the entitlement of that person set out in the Register of Shareholders as at 4.00 pm (WST) on 16 November 2011.

NOTICE OF ANNUAL GENERAL MEETING

Notice is given that the Annual General Meeting of Shareholders will be held at 10.00 am (WST) on 18 November 2011 at the Celtic Club, 48 Ord Street, West Perth, Western Australia 6005.

The Explanatory Statement to this Notice of Meeting provides additional information on matters to be considered at the Annual General Meeting. The Explanatory Statement and the Proxy Form are part of this Notice of Meeting.

The directors have determined pursuant to Regulations 7.11.37 and 7.11.38 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the Annual General Meeting are those who are registered Shareholders of the Company at 4.00pm (WST) on 16 November 2011.

Terms and abbreviations used in this Notice of Meeting and Explanatory Statement are defined in the Glossary.

AGENDA

1. ANNUAL REPORT

To receive and consider the financial report of the Company together with the reports of the directors and the auditor for the financial year ended 30 June 2011.

2. RESOLUTION 1 – ADOPTION OF THE REMUNERATION REPORT

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

“That, for the purposes of section 250R(2) of the Corporations Act and for all other purposes, the remuneration report for the financial year ended 30 June 2011 be adopted”.

The vote on this Resolution is advisory only and does not bind the Company or the directors. Shareholders are encouraged to read the Explanatory Statement for further details on the consequences of voting on this Resolution.

Voting Exclusion:

The Company will disregard any votes cast on Resolution 1 by or on behalf of a Restricted Voter. However, the Company need not disregard a vote if:

- (a) it is cast by a person as a proxy appointed by writing that specifies how the proxy is to vote on the proposed resolution; and
- (b) it is not cast on behalf of a Restricted Voter.

If you appoint a proxy you should direct him / her how to vote on this Resolution if you want your shares to be voted on this item of business.

3. RESOLUTION 2 – RE-ELECTION OF MR PETER LANGWORTHY

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

“That, Mr Peter Langworthy, a director of the Company who retires in accordance with clause 13.2 of the Company’s constitution and, being eligible, offers himself for re-election, be re-elected as a director of the Company”.

4. RESOLUTION 3 – RE-ELECTION OF MR BRIAN DAWES

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

“That, Mr Brian Dawes, a director of the Company who retires in accordance with clause 13.4 of the Company’s constitution and, being eligible, offers himself for re-election, be re-elected as a director of the Company”.

5. RESOLUTION 4 – ISSUE OF DIRECTOR OPTIONS

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

“That, pursuant to and in accordance with section 208 of the Corporations Act and Listing Rule 10.11 and for all other purposes, the Directors be and are hereby authorised to grant and issue up to 3,000,000 Director Options for no consideration, vesting on the dates and subject to the exercise prices set out in the Explanatory Statement (including Annexure A) and expiring on 31 October 2014 to Mr Gary Lethridge (or his nominee) on the terms and conditions set out in the Explanatory Statement (including Annexure A to the Explanatory Statement).”

Voting Exclusion: The Company will disregard any votes cast on Resolution 4 by Mr Lethridge (or his nominee/s) and any associate of Mr Lethridge (or his nominee/s). However, the Company need not disregard a vote if:

- (a) it is cast by a person as a proxy appointed by writing that specifies how the proxy is to vote on the proposed resolution; and
- (b) it is not cast on behalf of Mr Lethridge or an associate of Mr Lethridge.

Further, a Restricted Voter who is appointed as a proxy will not vote on Resolution 4 unless:

- (a) the appointment specifies the way the proxy is to vote on Resolution 4; or
- (b) the proxy is the Chair of the Meeting and the appointment expressly authorises the Chair to exercise the proxy even though the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel. The Chair will use any such proxies to vote in favour of Resolution 4.

If you choose to appoint a proxy, you are encouraged to direct your proxy how to vote on this Resolution by marking either “For”, “Against” or “Abstain” for that item of business.

DATED: 13 OCTOBER 2011



BY ORDER OF THE BOARD

**DANIEL MADDEN
COMPANY SECRETARY**

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared for the information of the Shareholders in connection with the business to be conducted at the Annual General Meeting to be held at 10.00am (WST) on 18 November 2011 at the Celtic Club, 48 Ord Street, West Perth, WA 6005.

The purpose of this Explanatory Statement is to provide information which the directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions in the Notice of Meeting.

1. ANNUAL REPORT

Section 317 of the Corporations Act requires the reports of the directors and of the auditors and the Annual Report, including the financial statements to be put before the Annual General Meeting and the Constitution provides for those reports and statements to be received and considered at the Annual General Meeting. Neither the Corporations Act nor the Constitution requires a vote of Shareholders at the Annual General Meeting on the reports or statements. However, Shareholders will be given the opportunity to raise questions on the reports and the statements at the Annual General Meeting, relevant to:

- the conduct of the audit;
- the preparation and content of the independent audit report;
- the accounting policies adopted by the Company in relation to the preparation of accounts; and
- the independence of the auditor in relation to the conduct of the audit.

The Company's 2011 Annual Report is available at www.talismanmining.com.au. Those holders that elected to receive a printed copy of the Annual Report will have received a copy with this Notice of Annual General Meeting.

2. RESOLUTION 1 – ADOPTION OF THE REMUNERATION REPORT

Section 250R(2) of the Corporations Act requires that a resolution that the Remuneration Report be adopted and be put to a vote of Shareholders at the Company's Annual General Meeting. The vote on this resolution is advisory only to the Company and does not bind the Board or the Company. However, if at least 25% of the votes cast are against adoption of the Remuneration Report at the 2011 Annual General Meeting, and then again at the 2012 Annual General Meeting, the Company will be required to put a resolution to the 2012 Annual General Meeting, to approve calling an extraordinary general meeting (**spill resolution**). If more than 50% of Shareholders vote in favour of the spill resolution, the Company must convene an extraordinary general meeting (**spill meeting**) within 90 days of the 2012 Annual General Meeting. All of the Directors who were in office when the 2012 Directors' Report is approved, other than the Managing Director, will (if desired) need to stand for re-election at the spill meeting.

The Directors will consider the outcome of the vote and comments made by Shareholders on the Remuneration Report at the meeting when reviewing the Company's remuneration policies.

The Remuneration Report is set out in and forms part of the Director's Report within the Annual Report and is available on the Company website at www.talismanmining.com.au. The Remuneration Report:

- explains the Board's policy for determining the nature and amount of remuneration of Key Management Personnel of the Company;

- discusses the relationship between such policy and the Company's performance; and
- sets out remuneration details for each member of Key Management Personnel.

Voting

Note that the directors and other Restricted Voters may not vote on this Resolution and may not cast a vote as proxy, unless the appointment gives a direction on how to vote. Shareholders are urged to carefully read the proxy form and provide a direction to the proxy on how to vote on this Resolution.

If you appoint a proxy, you should direct him / her how to vote on this Resolution if you want your shares to be voted on this item of business.

3. RESOLUTION 2 – RE-ELECTION OF MR PETER LANGWORTHY

Clause 13.2 of the Constitution provides that at each Annual General Meeting one-third of the Directors shall retire from office. Mr Peter Langworthy retires from office in accordance with this requirement and being eligible offers himself for re-election by Shareholders as a Director of the Company, with effect from the end of the meeting.

Mr Langworthy is a Geologist with over 24 years' experience in the exploration and mining industry, including senior technical, management and corporate roles. Prior to taking his current role with Talisman he held the role of Executive General Manager – Exploration with Jubilee Mines NL where he played a significant role in the exploration, mining and management of the company. Following the successful takeover of Jubilee by Xstrata, Mr Langworthy acted as the Chief Operating Officer and was responsible for the integration of the Jubilee business into the Xstrata Nickel Business. He has extensive experience in nickel sulphide, gold and base metals exploration, extending to regional exploration and operating mines.

4. RESOLUTION 3 – RE-ELECTION OF MR BRIAN DAWES

Mr Dawes previously held the position as Executive Director of the Company from 16 June 2009 to 30 June 2011. On 1 July 2011 Mr Dawes retired as an Executive Director and was subsequently appointed a Non-Executive Director of the Company by the Directors of the Company.

In accordance with clause 13.4 of the Company's constitution, a Director appointed to the Board must not hold office (without re-election) beyond the next general meeting of the Company. Accordingly, Mr Dawes retires from office and, being eligible, offers himself for election as a Director of the Company.

Mr Dawes has a mining engineering background with over 28 years' experience in project development and operational roles within the mining industry across Australia and overseas, including Africa and the Middle East. Prior to his role as Executive General Manager Operations and Projects at Jubilee Mines NL, he was General Manager Operations with ASX-listed nickel producer Western Areas NL, where he was responsible for the establishment of the Forrestania Nickel Project and Flying Fox Nickel Mine development. Prior to that he was the Group Mining Engineer with LionOre Australia, part of the LionOre Mining International group.

5. RESOLUTION 4 – ISSUE OF DIRECTOR OPTIONS

5.1 General

The Company has agreed, subject to obtaining Shareholder approval, to allot and issue a total of 3,000,000 Director Options to Mr Gary Lethridge (or his nominees) (**Related Party**) on the terms

and conditions set out in Annexure A to this Explanatory Statement. Mr Lethridge is a Director and therefore a related party of the Company.

In accordance with the Corporations Act, the grant of a 'financial benefit' to a related party of the public company requires approval under Chapter 2E of the Corporations Act (unless an exception applies). As previously noted, as a Director, Mr Lethridge is considered a related party of the Company and the proposed issue of Director Options amounts to the provision of a 'financial benefit'.

In addition, ASX Listing Rule 10.11 requires shareholder approval to be obtained where a company issues, or agrees to issue, securities (including options) to a related party, unless an exception in ASX Listing Rule 10.12 applies.

It is the view of the Directors that the exceptions set out in Sections 210 to 216 of the Corporations Act (in respect of Chapter 2E) and ASX Listing Rule 10.12 (in respect of Listing Rule 10.11) do not apply in the current circumstances. Accordingly, Shareholder approval is being sought for the grant of Director Options to Mr Lethridge.

5.2 Shareholder Approval (Chapter 2E of the Corporations Act and ASX Listing Rule 10.13)

Pursuant to and in accordance with the requirements of Sections 217 to 227 of the Corporations Act, the following information is provided in relation to the proposed grant of Director Options:

- (a) the Related Party is Mr Gary Lethridge who is a related party by virtue of being a Director;
- (b) the primary purpose of the grant of Director Options to the Related Party is to provide cost effective consideration to the Related Party for his ongoing commitment and contribution to the Company in his role as Managing Director;
- (c) other than as set out in this Explanatory Statement, the Board does not consider that from an economic and commercial point of view, there are any costs or detriments, including opportunity costs or taxation consequences to the Company or benefits foregone by the Company in issuing the Director Options upon the terms proposed;
- (d) the maximum number of Director Options to be granted is 3,000,000 Director Options to Mr Gary Lethridge (or his nominee/s). The number of proposed options to be granted is based upon what is considered by the Directors to be appropriate to fulfil the objectives of providing effective consideration for the ongoing commitment and contribution to the Company by Mr Lethridge in his role as Managing Director and to provide an incentive for Mr Lethridge to remain with the Company;
- (e) the nature of the proposed financial benefit to be given to Mr Lethridge is the grant of 3,000,000 Director Options for nil consideration;
- (f) the Director Options will have exercise prices, vesting dates and expiry dates as follows:

Tranche	Numbers	Exercise Price*	Vesting Date	Expiry Date
1	750,000	180% of 5 day VWAP	6 months from the date of grant	31 October 2014
2	750,000	200% of 5 day VWAP	12 months from the date of grant	31 October 2014
3	750,000	250% of 5 day VWAP	18 months from the date of grant	31 October 2014
4	750,000	280% of 5 day VWAP	24 months from the date of grant	31 October 2014

*The Exercise Price will be the 5 day volume weighted average share price prior to the commencement of trade on 18 November 2011 multiplied by the exercise premium.

- (g) other terms and conditions of the Director Options are set out in Annexure A;
- (h) a valuation of the Director Options and the pricing methodology for that valuation is set out in Annexure B. The value of these Director Options will be expensed in the Company's financial statements over the relevant vesting periods;
- (i) as at the date of this Notice, the Related Party's relevant interests in the securities of the Company are as tabled below:

Related Party	Shares	Options	Total Securities Held
Gary Lethridge	1,666,667 ¹	-	1,666,667

1. 666,667 held indirectly by Our Jubilee Pty Ltd, a company of which Mr Lethridge is a director and shareholder ATF the Lethridge Family Trust.

- (j) a summary of the estimated value of the Director Options is tabled below:

Tranche	Value per Director Option (\$)
Tranche 1	\$0.20
Tranche 2	\$0.19
Tranche 3	\$0.17
Tranche 4	\$0.16

The total value of Director Options proposed to be issued to Mr Lethridge is \$539,159. This is a theoretical valuation derived using the Black & Scholes Model.

Refer to Annexure B for full details of the valuation of the Directors Options.

- (k) the remuneration and emoluments paid by the Company to the Related Party for the current financial period, including the value of the Director Options proposed to be granted and previous financial year are as follows:

Period	Salary & Fees	Superannuation	Non-monetary	Total
4 Months to 31 October 2011	\$116,667	\$8,333	\$7,344	\$132,344
Financial Year to 30 June 2011	\$350,000	\$26,250	\$-	\$376,250

Further details of remuneration and emoluments for the financial year ending 30 June 2011 are available in the remuneration report contained within the 2011 Annual Report available on the ASX and Talisman Mining Limited's website.

- (l) if the Director Options granted to the Related Party are exercised, a total of 3,000,000 Shares would be allotted and issued. The Company presently has on issue 131,538,627 Shares and 11,175,000 Options exercisable into Shares over various exercise periods and at various exercise prices. The dilution effect of exercise of the 3,000,000 Director Options as proposed above is 2.28% of Shares on issue (assuming no other Options are issued) and 2.10% on a fully diluted basis (that is, assuming that all other Options on issue are exercised);

- (m) the market price for Shares during the term of the Director Options would normally determine whether or not the Director Options are exercised. If, at any time, any of the Director Options are exercised and the Company's Shares are trading on ASX at a price that is higher than the exercise price of the Director Options, there may be a perceived cost to the Company. The trading history of the Shares on ASX in the 12 months before the date of this Notice of General Meeting is set out below:

	Price	Date
Highest	\$1.24	11 October 2010
Lowest	\$0.37	5 October 2011
Last	\$0.37	5 October 2011

- (n) Mr Lethridge declines to make a recommendation to Shareholders in relation to Resolution 4 due to his interest (as a potential recipient of Director Options) in the outcome of the Resolution. The other Directors, who do not have an interest in the outcome of Resolution 4, recommend that Shareholders vote in favour of Resolution 4 for the following reasons:
- (i) it is important for the Company to be able to retain experienced Directors and the proposed Director Options to be granted to Mr Lethridge are appropriate for his level of experience and contribution to the Company;
 - (ii) the issue of Director Options to Mr Lethridge is consistent with the Company's objective of ensuring that the interests of Key Management Personnel are aligned with the long-term objectives of the Company;
 - (iii) options vest at various prices during the life of the options and value will only be realised by Mr Lethridge upon growth of the Company's share price from the date of issue of the options of a minimum of 180% to 280%; and
 - (iv) the Company has previously issued options to Executive and Non-Executive Directors and Resolution 4 ensures consistency of treatment.
- (o) the Board (other than Mr Lethridge) is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass the Resolution.

The following information in relation to the Director Options to be granted pursuant to Resolution 4 is provided to Shareholders for the purposes of Listing Rule 10.13:

- (a) the Director Options will be granted to Mr Lethridge (or his nominee/s);
- (b) the maximum number of Director Options to be granted is 3,000,000 Director Options;
- (c) the Director Options will be granted to Mr Lethridge on 18 November 2011;
- (d) the Director Options will be issued to Mr Lethridge no later than one (1) month after the date of the General Meeting (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules) and it is anticipated that all of the Director Options will be issued on one date;
- (e) the Director Options will be granted for nil cash consideration and accordingly no funds will be raised by their issue. Any funds raised upon the exercise of the Director Options will be used for working capital purposes; and
- (f) other terms and conditions of the Director Options are set out in Annexure A.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to issue the Director Options to the Related Party as approval is being sought under ASX Listing Rule 10.11 (and where approval is given under Listing Rule 10.11, it is not separately required under Listing Rule 7.1). Accordingly, the issue of Director Options to the Related Party will not be included in the 15% calculation of the Company's annual placement capacity pursuant to ASX Listing Rule 7.1.

Voting

Note that a voting exclusion applies to Resolution 4 in the terms set out in the Notice of Meeting. In particular, the Directors and other Restricted Voters may not vote on this Resolution and may not cast a vote as proxy, unless the appointment gives a direction on how to vote or the proxy is given to the Chair and expressly authorises the Chair to exercise your proxy even if the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel. The Chair will use any such proxies to vote in favour of the Resolution.

Shareholders are urged to carefully read the proxy form and provide a direction to the proxy on how to vote on the Resolution.

6. ENQUIRIES

Shareholders are required to contact the Company Secretary on (+ 61 8) 9380 4230 if they have any queries in respect of the matters set out in these documents.

GLOSSARY

\$ means Australian dollars.

Annual General Meeting means the meeting convened by the Notice of Meeting.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited.

ASX Listing Rules means the Listing Rules of ASX.

Board means the current board of Directors of the Company.

Business Day means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that ASX declares is not a business day.

Closely Related Party has the meaning given in the Corporations Act.

Company means Talisman Mining Limited (ABN 71 079 536 495).

Constitution means the Company's constitution.

Corporations Act means the Corporations Act 2001 (Cth).

Directors means the current Directors of the Company.

Director Options means those Options to be granted to the a Director the subject of Resolution 4.

Explanatory Statement means the explanatory statement accompanying the Notice of Meeting.

Key Management Personnel has the meaning given in the accounting standards.

Notice of Meeting or **Notice of Annual General Meeting** means this notice of annual general meeting including the explanatory statement.

Option means an option to acquire a Share.

Optionholder means a holder of an Option, Director Option or Employee Option as the context requires.

Resolutions means the resolutions set out in the Notice of Meeting, or any one of them, as the context requires.

Restricted Voter means Key Management Personnel and their Closely Related Parties.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a holder of a Share.

VWAP means the volume weighted average price of Shares.

WST means Western Standard Time as observed in Perth, Western Australia.

1. ANNEXURE A –TERMS AND CONDITIONS OF DIRECTOR OPTIONS

The Director Options entitle the holder to subscribe for Shares on the following terms and conditions:

- (a) Each Director Option gives the Optionholder the right to subscribe for one Share. To obtain the right given by each Director Option, the Optionholder must exercise the Director Options in accordance with the terms and conditions of the Director Options.
- (b) The Director Options will expire at 5:00 pm (WST) on 31 October 2014 (Expiry Date). Any Director Options not exercised before the Expiry Date will automatically lapse on the Expiry Date.
- (c) The Director Options shall comprise four tranches with the following exercise prices (Exercise Price) and different vesting dates as follows:

Gary Lethridge

Tranche	Number of options	Vesting date	Exercise Price*	Expiry date
1	750,000	6 months from date of grant	180% of 5 day VWAP	31 October 2014
2	750,000	12 months from date of grant	200% of 5 day VWAP	31 October 2014
3	750,000	18 months from date of grant	250% of 5 day VWAP	31 October 2014
4	750,000	24 months from date of grant	280% of 5 day VWAP	31 October 2014

*The Exercise Price will be the 5 day volume weighted average share price prior to the commencement of trade on 18 November multiplied by the exercise premium.

- (d) Any Director Options which have not vested at the time the Optionholder ceases to be a Director shall automatically lapse. Any that have vested shall remain capable of exercise up to the Expiry Date.
- (e) The Director Options held by the Optionholder may be exercised in whole or in part, and if exercised in part, multiples of 1,000 must be exercised on each occasion.
- (f) An Optionholder may exercise their Director Options (provided that they have vested) by lodging with the Company, before the Expiry Date:
 - (i) a written notice of exercise of Director Options specifying the number of Director Options being exercised; and
 - (ii) a cheque or electronic funds transfer for the Exercise Price for the number of Director Options being exercised.
- (g) An Exercise Notice is only effective when the Company has received the full amount of the Exercise Price in cleared funds.
- (h) Within 10 Business Days of receipt of the Exercise Notice accompanied by the Exercise Price, the Company will allot the number of Shares required under these terms and conditions in respect of the number of Director Options specified in the Exercise Notice.
- (i) The Director Options are not transferable.
- (j) All Shares allotted upon the exercise of Director Options will upon allotment rank pari passu in all respects with other Shares.

- (k) The Company will not apply for quotation of the Director Options on ASX. However, The Company will apply for quotation of all Shares allotted pursuant to the exercise of Director Options on ASX within 10 Business Days after the date of allotment of those Shares.
- (l) If at any time the issued capital of the Company is reconstructed, all rights of an Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.
- (m) There are no participating rights or entitlements inherent in the Director Options and Optionholders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Director Options without first exercising the Director Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 7 Business Days after the issue is announced. This will give Optionholders the opportunity to exercise their Director Options prior to the date for determining entitlements to participate in any such issue.
- (n) In the event the Company proceeds with a pro rata issue (except a bonus issue) of securities to Shareholders after the date of issue of the Director Options, the exercise price of the Director Options will be reduced in accordance with the formula set out in ASX Listing Rule 6.22.2.
- (o) In the event the Company proceeds with a bonus issue of securities to Shareholders after the date of issues of the Director Options, the number of securities over which a Director Option is exercisable may be increased by the number of securities which the Optionholder would have received if the Director Option had been exercised before the record date for the bonus issue.
- (p) Upon the occurrence of a Trigger Event, all of the outstanding Director Options shall vest. For the purposes of this clause a Trigger Event means:
 - i. the Company obtaining approval at a general meeting for it and its members to enter a scheme of arrangement pursuant to the Corporations Act;
 - ii. the date that the relevant interest of a bidder under a takeover bid for the Company is recorded as a minimum of 50.1% and the bid being declared unconditional;
 - iii. the Company obtaining approval at a general meeting for a transaction under Section 611 Item 7 of the Corporations Act; or
 - iv. the date upon which a person or a group of associated persons becomes entitled to sufficient Shares to give it or them the ability, in general meeting, to replace all or appoint a majority of the Board in circumstances where such ability was not already held by a person associated with such person or group of associated persons.

2. ANNEXURE B – VALUATION OF DIRECTOR OPTIONS

The Director Options to be issued to the Related Party pursuant to Resolution 4 has been valued by internal management (who, it is considered, have sufficient qualifications, expertise and experience to conduct such a valuation) based on a valuation methodology using the Black & Scholes Option Pricing Model, which is the most widely used and recognised model for pricing options. The acceptance of this model is due to its derivation being grounded in economic theory. The value of an option calculated by the Black & Scholes Model is a function of a number of variables and is rounded to the nearest one hundredth of a cent.

The following estimated valuation assumes that the issue date and share price on date of issue of the Director Options is 5 October 2011. The valuation is not a representative valuation of the Director Options at the proposed date of issue. In order for this valuation to be provided, a new valuation model would need to be run at the time of issue (ie immediately following the General Meeting of Shareholders).

The assessment of the estimated value of the Options has been prepared applying the following assumptions:

	Tranche 1	Tranche 2	Tranche 3	Tranche 4
Valuation date	5-Oct-11	5-Oct-11	5-Oct-11	5-Oct-11
Expiry date	31-Oct-14	31-Oct-14	31-Oct-14	31-Oct-14
5 day vwap at 5 Oct 2011	\$0.41	\$0.41	\$0.41	\$0.41
Exercise premium (5 day vwap)	180%	200%	250%	280%
Exercise price*	\$0.74	\$0.82	\$1.03	\$1.15
Risk free rate	3.45%	3.45%	3.45%	3.45%
Volatility	110%	110%	110%	110%
Value per Option	\$0.20	\$0.19	\$0.17	\$0.16
Number of Options	750,000	750,000	750,000	750,000
Total value	\$146,371	\$140,943	\$128,841	\$123,004

*In the example above the exercise price is the 5 day volume weighted average share price at valuation date (5 October 2011) multiplied by the exercise premium.

The total value of Director Options issued to Lethridge in the example above is \$539,159.

In deriving the valuation the Black & Scholes Model relies upon the following assumptions:

- there are no transaction costs, options and shares are infinitely divisible, and information is available to all without cost;
- the risk free interest rate is known and constant throughout the duration of the option contract;
- the underlying shares do not pay a dividend; and
- share prices behave in a manner consistent with a random walk in continuous time.

Any change in the variables applied in the Black & Scholes Model between the date of the valuation and the date the Director Options are granted would have an impact on their value.



Talisman Mining Limited
ABN 71 079 536 495

LODGE YOUR VOTE



ONLINE

www.linkmarketservices.com.au



By mail:
Talisman Mining Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia



By fax: +61 2 9287 0309



All enquiries to: Telephone: 1300 554 474 Overseas: +61 2 8280 7111



X99999999999

SECURITYHOLDER VOTING FORM

I/We being a member(s) of Talisman Mining Limited and entitled to attend and vote hereby appoint:

STEP 1

APPOINT A PROXY

☐

the Chairman
of the Meeting¹
(mark box)

OR if you are NOT appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered securityholder) you are appointing as your proxy

or failing the person/body corporate so named or, if no person/body corporate is named, the Chair of the Annual General Meeting, or the Chair's nominee, to vote in accordance with the following directions, or, if no directions have been given, as the proxy sees fit, at the Annual General Meeting of the Company to be held at 10.00 am (WST), on Friday, 18 November 2011 at The Celtic Club, 48 Ord Street, West Perth, Western Australia 6005 and at any adjournment thereof.



¹ If you appoint a proxy, Talisman Mining Limited encourages you to direct your proxy how to vote on each item of business. The Chairman of the meeting, directors and other Key Management Personnel of the Company and their closely related parties (see the Notice of Meeting and overleaf) will NOT cast any votes in respect of Resolution 1 (Remuneration Report) that arise from any undirected proxy.

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the meeting. Please read the voting instructions overleaf before marking any boxes with an **X**

STEP 2

VOTING DIRECTIONS

	For	Against	Abstain ²		For	Against	Abstain ²
Resolution 1 Adoption of the Remuneration Report ¹	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Resolution 3 Re-election of Mr Brian Dawes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2 Re-election of Mr Peter Langworthy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Resolution 4 Issue of Director Options ²	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

² If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3

IMPORTANT - VOTING EXCLUSIONS

If the Chair of the meeting is appointed as your proxy, or may be appointed by default, and you do not direct your proxy how to vote on Resolution 4 (that is, For, Against or Abstain), by signing this form you are taken to expressly authorise the Chair of the meeting to exercise your proxy even if the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel. The Chair intends to vote such proxies in favour of the Resolutions.

STEP 4

SIGNATURE OF SECURITYHOLDERS - THIS MUST BE COMPLETED

Securityholder 1 (Individual)

Sole Director and Sole Company Secretary

Joint Securityholder 2 (Individual)

Director/Company Secretary (Delete one)

Joint Securityholder 3 (Individual)

Director

This form should be signed by the securityholder. If a joint holding, either securityholder may sign. If signed by the securityholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the Corporations Act 2001 (Cth).

TLM PRX104



HOW TO COMPLETE THIS PROXY FORM

Your Name and Address

This is your name and address as it appears on the company's security register. If this information is incorrect, please make the correction on the form. Securityholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your securities using this form.**

Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person in Step 1. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a securityholder of the company. A proxy may be an individual or a body corporate.

Votes on Items of Business - Proxy Appointment

You should direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

If the Chairman of the meeting or another of the Key Management Personnel of the company or their closely related parties is your proxy, that person will not vote your shares on Item 1 (Remuneration Report) if you have not directed them how to vote on that item.

Key Management Personnel of the company are the Directors and those persons having authority and responsibility for planning, directing and controlling the activities of the company, directly or indirectly. The Remuneration Report identifies the company's Key Management Personnel for the financial year to 30 June 2011. Their closely related parties are defined in the *Corporations Act 2001* (Cth), and include certain of their family members, dependants and companies they control.

Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's security registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- return both forms together.

Signing Instructions

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either securityholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

Corporate Representatives

If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the company's security registry.

Lodgement of a Proxy Form

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **10:00am (WST) on Wednesday, 16 November 2011**, being not later than 48 hours before the commencement of the meeting. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy Forms may be lodged using the reply paid envelope or:



ONLINE

www.linkmarketservices.com.au

Login to the Link website using the holding details as shown on the proxy form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, securityholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the proxy form).



by mail:

Talisman Mining Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia



by fax:

+61 2 9287 0309



by hand:

delivering it to Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000.

**If you would like to attend and vote at the Annual General Meeting, please bring this form with you.
This will assist in registering your attendance.**