

TELLUS RESOURCES LTD

FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2014

INDEX	PAGE
CORPORATE DIRECTORY	1
DIRECTORS' REPORT	2
REMUNERATION REPORT	9
AUDITOR'S INDEPENDENCE DECLARATION	17
CORPORATE GOVERNANCE STATEMENT	18
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	24
STATEMENT OF FINANCIAL POSITION	25
STATEMENT OF CHANGES IN EQUITY	26
STATEMENT OF CASH FLOWS	27
NOTES TO THE FINANCIAL STATEMENTS	28
DIRECTORS' DECLARATION	61
INDEPENDENT AUDITOR'S REPORT	62

CORPORATE DIRECTORY

ABN 35 144 733 595

Directors

Robert Kennedy
Non-Executive Chairman

Carl Dorsch
Managing Director

Neil Young
Non-Executive Director

Company Secretary

George Yatzis

Registered Office and Principal Place of Business

Level 5
70 Pirie Street
Adelaide SA 5000
T: (08) 8100 9200
F: (08) 8227 0544
W: www.tellusresources.com.au
E: info@tellusresources.com.au

Share Register

Computershare Investor Services Pty Ltd
Level 5
115 Grenfell Street
Adelaide SA 5000
T: 1300 787 272

Securities Exchange Listing

ASX Code: TLU

Auditor

Grant Thornton Audit Pty Ltd
Level 1 67 Greenhill Road
Wayville SA 5034
T: (08) 8372 6666
F: (08) 8372 6677
www.grantthornton.com.au

Solicitor

Johnson Winter & Slattery
Level 10, 211 Victoria Square,
Adelaide SA 5000
T: (08) 8239 7111
F: (08) 8239 7100
www.jws.com.au

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

The Directors of Tellus Resources Ltd ("Tellus Resources" and/or "the Company") present their Report together with the financial report of the Company and the entities it controls (referred to hereafter as the "Group") at the end of, or during the year ended 30 June 2014, unless otherwise stated.

Directors

The following persons held office as Directors of Tellus Resources Ltd during or since the end of the reporting period and up to the date of this report:

Robert Kennedy

Non-Executive Chairman

Date of Appointment: 4 December 2013

Expertise and Experience

Mr Kennedy has been Non-executive Chairman of Tellus Resources Ltd since 4 December 2013.

He is a Chartered Accountant and a consultant to Kennedy & Co, Chartered Accountants, a firm he founded.

Mr Kennedy brings to the Board his expertise and extensive experience as Chairman and non-executive Director of a range of listed public companies in the resources sector. In particular, he has a great depth of experience in the Oil and Gas industry having served on Boards in that industry for over 20 years.

He conducts the review of the Board including the Managing Director in his executive role. Mr Kennedy leads the development of strategies for the development and future growth of the Company. Apart from his attendance at Board and Committee meetings Mr Kennedy leads the Board's external engagement of the Company meeting with Government, investors and is engaged with the media. He is a regular attendee of Audit Committee functions of the major accounting firms.

Current and former directorships in the last 3 years

Mr Kennedy is a Director of ASX listed companies Ramelius Resources Limited (since listing in March 2003), Flinders Mines Limited (since 2001), Maximus Resources Limited (since 2004), Tychean Resources Limited (since 2006), Monax Mining Limited (since 2004) and Marmota Energy Limited (since 2006) and formerly Beach Energy Limited (since 1991 until 2012), Somerton Energy Limited (from 2010 to 2012), Adelaide Energy Ltd (from 2011 to 2012) and Impress Energy Ltd (from 2011 to 2012). He was appointed the Chairman of the University of Adelaide's Institute of Minerals and Energy Resources in 2008 and his term ended early in 2014.

Responsibilities

His special responsibilities include membership of the Audit, Governance and Remuneration Committee.

Interest in shares and options

1,000,000 fully paid ordinary shares.

7,500,000 unlisted options over ordinary shares with an exercise price of \$0.093 cents, exercisable on or before 31 December 2016.

Carl Dorsch

Managing Director

Date of Appointment: 23 August 2013

Expertise and Experience

Mr Dorsch has been an Executive Director and Managing Director of Tellus Resources Ltd since 23 August 2013.

He is a Chartered Chemical Engineer with a 35 year career in hardrock, Oil and Gas exploration and development projects in Australia and Internationally. He has held a number of Managing Director positions in ASX listed companies since 2005 and has extensive experience in the capital raising and the operational requirements of companies in the Oil, Gas and Minerals exploration industry.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

Carl Dorsch (continued)

Managing Director

Date of Appointment: 23 August 2013

Current and former directorships in the last 3 years

Mr Dorsch was a Director of Adelaide Energy Limited between 2007 and 2012, he does not hold any other directorships in ASX listed companies and has not held any directorships in the last three years.

Responsibilities

His special responsibilities include overseeing the delivery of the Group's strategic and operational objectives.

Interest in shares and options

17,631,078 fully paid ordinary shares.

45,000,000 performance rights over ordinary shares subject to Mr Carl Dorsch remaining employed as Managing Director of the Company. These rights convert into fully paid ordinary shares in the Company on a 1:1 ratio, for nil consideration as follows:

- 5,000,000, where the 30 day volume weighted average price (VWAP) for the ordinary shares of the Company reaches at least \$0.175 per share;
- 5,000,000, where the 30 day VWAP for the ordinary shares of the Company reaches at least \$0.200 per share;
- 5,000,000, where the 30 day VWAP for the ordinary shares of the Company reaches at least \$0.225 per share;
- 15,000,000, when production testing of PEL 105 in either open or closed hole that can demonstrate an immediate flow capacity for the well in excess of a sustained minimum of 100 BOEPD for a period in excess of 7 days. Such test must be certified by a relevant expert in the field being either an independent consulting reservoir engineer or the contracted testing Company, provided that such threshold is achieved on or prior to 31 December 2014; and
- 15,000,000 where the Company has acquired a direct or indirect interest in the Wichita County Project and the production from the leases which form the Wichita County Project reaches an average of 50 BOEPD over a three month period

Neil Young

Non-Executive Director

Date of Appointment: 4 December 2013

Expertise and Experience

Mr Young has been a Non-executive Director of Tellus Resources Ltd since 4 December 2013.

He has an Honours degree in Economics and Politics from the University of Edinburgh and obtained a professional qualification in tax accounting whilst working for the accounting firm Ernst & Young in Aberdeen, Scotland. After moving to Australia in the early 1990's, Mr Young's career focused on business development, commercial and financial roles in the upstream and downstream sectors of the energy industry. Mr Young has worked in senior management roles for various Oil and Gas companies including Santos Ltd, Adelaide Energy Ltd and Tarong Energy Corporation.

Current and former directorships in the last 3 years

Mr Young does not hold any other Directorships in ASX listed companies and has not held any directorships in the last three years.

Responsibilities

His special responsibilities include membership of the Audit, Governance and Remuneration Committee.

Interest in shares and options

110,000 fully paid ordinary shares.

2,000,000 unlisted options expiring on the 5th of March 2018 exercisable at \$0.20.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

Ben J Salmon RFD QC

Former Non-Executive Director

Date of Appointment: 19 October 2012 (Resigned 6 June 2014)

Expertise and Experience

Mr Salmon resigned as a Non-executive Director of Tellus Resources Ltd on 6 June 2014.

He has practised as a barrister in Canberra since 1967. He was elected as a member of the ACT Law Society Council and the ACT Bar Council. He served two terms as President of the Bar Council. Mr Salmon has served in the Australian Army Reserve, initially in Infantry and later in the Legal Corps being appointed a Judge Advocate and Defence Force Magistrate. He was appointed Queens Counsel in 1985. He has practised in many areas of the law including commercial and Company matters. Mr Salmon has a Bachelor of Laws from Sydney University and was first admitted to practice by the Supreme Court of New South Wales in July 1965. During his tenure he represented Asia Pacific Mining Capital Pte Ltd, a cornerstone investor following the capital raising for the Chillagoe Gold Project in 2012.

Current and former directorships in the last 3 years

Mr Salmon is a Director of ASX listed Company Land and Mineral Exploration Limited (since December 2013).

Interest in shares and options

Nil

Anthony Wehby

Former Non-Executive Chairman

Date of Appointment: 21 June 2010 (Resigned 29 November 2013)

Expertise and Experience

Mr Wehby resigned as a Non-Executive Director of Tellus Resources Ltd on 29 November 2013.

He has more than 35 years professional experience. He was a partner with PwC for 19 years until 2000 and since that time has been a consultant providing advice on mergers and acquisitions, IPO's, funding and valuations. During his time at PwC, Mr Wehby specialised in providing corporate finance advice to a wide range of clients, including those in the mining and exploration sectors.

Current and former directorships in the last 3 years

Mr Wehby is a Director of Aurelia Metals Ltd (Previously YTC Resources Limited).

Interest in shares and options

660,000 fully paid ordinary shares.

Richard Willson

Former Non-Executive Director

Date of Appointment: 12 November 2010 (Resigned 5 December 2013)

Expertise and Experience

Mr Wilson resigned as a Non-Executive Director of Tellus Resources Ltd on 5 December 2013.

He has worked in public practice and in various financial management and Company secretarial roles within the resources and agricultural sectors for both publicly listed and private companies. In addition to his role as Chief Financial Officer and Company Secretary with Aurelia Metals Ltd, Richard is a Director of the ASX listed Aus Tin Mining Ltd, a Director and Company Secretary of the not for profit Unity Housing Company and an Alternate Director of Aurelia Metals Ltd.

Former Non-Executive Director

Date of Appointment: 12 November 2010 (Resigned 5 December 2013)

Mr Wilson has a Bachelor of Accounting from the University of South Australia, is a Fellow of CPA Australia and a Fellow of the Institute of Company Directors. Richard is a founding member of the AICD Emerging Directors Committee.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

Richard Willson (continued)

Current and former directorships in the last 3 years

Mr Wilson is a Director of Aus Tin Mining Ltd (Previously Ausnico Limited) and Aurelia Metals Limited (Previously YTC Resources Limited).

Interest in shares and options

Nil

Stephen Woodham

Former Executive Director, (former Managing Director)

Date of Appointment: 30 January 2012 (Resigned 18 October 2013)

Expertise and Experience

Mr Woodham resigned as an Executive Director of Tellus Resources Ltd on 18 October 2013.

He has over 20 years' experience in the mining and exploration industry in Western Australia and New South Wales specialising in field logistics and support and land access in rural and remote environments. He also has a successful track record of tenement acquisition, mining investment and commercial and cross cultural negotiation.

He has served on the Boards of Force Resources Ltd, Aurelia Metals Limited (AMI) and Centaurus Resources. Stephen was a founding Director of AMI and he was successful in attracting Chinese state-owned Yunnan Tin Company as a seed investor. Stephen was also a founding Director of Centaurus Resources, a Company now operating in the Iron Ore sector of Brazil.

Current and former directorships in the last 3 years

Mr Woodham is a former Director of Aurelia Metals Ltd (Formally YTC Resources Limited.)

Interest in shares and options

1,568,000 fully paid ordinary shares.

700,000 performance rights that convert as follows;

- 300,000 performance rights, to convert if the 20 day VWAP for the Shares reaches 25 cents per Share, on or before 27 January 2017; and
- 400,000 performance rights, to convert if the 20 day VWAP for the Shares reaches 40 cents per Share, on or before 27 January 2017.

Company Secretary

George Yatzis

Company Secretary (appointed 5 September 2013)

Mr Yatzis has held the role of Company Secretary since 5 September 2013 and has experience as a Company secretary of both listed and unlisted companies in Australia.

He is a Chartered Accountant and is a Director and shareholder of the entities that comprise the BDO Chartered Accounting practice in Adelaide South Australia. Mr Yatzis is not an executive of the Company and therefore not a member of its key management personnel.

Anne Adaley

Former Company Secretary (Resigned 30 September 2013)

Ms Adaley held the role of Company secretary to 30 September 2013 and has more than 25 years' experience in the resources sector, including senior management roles with a number of listed public Australian exploration and mining companies.

Principal Activities

The principal activities of the Group are: exploration and evaluation of minerals, oil & gas. It also has hard rock mineral tenements in Queensland and NSW and is actively seeking to extract value for them through sale or promoting the JV activity.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

Operating Results

The Group incurred a loss after tax for the reporting period of **\$6,707,296** (2013: a loss of \$1,376,816).

Review of Operations

During the reporting period, the Group continued to evaluate and assess value adding opportunities into its portfolio which resulted in the following key events;

- Completion of the PNC Aust acquisition;
- Agreement was entered into to participate in an exciting drilling project in the United States called the Covenant Mondo Project.
- Entering into a conditional Share Purchase Agreement to acquire an interest in a Block in onshore Madagascar.

In line with the Senex Energy Limited farmin arrangement the Group drilled the first well in the Cooper Basin in South Australia with mixed results. To assist with funding asset acquisitions and drilling activity during the period the Group placed shares to a variety of sophisticated investors.

The Group's gold assets have been maintained in good standing and have been regularly monitored and considered as the Group works towards building a balanced portfolio of good quality assets.

Changes in the State of Affairs

There were no significant changes in the state of affairs of the Group during the reporting period ended 30 June 2014 other than as referred to in this report and the Financial Statements or notes thereto.

Dividends

The Directors recommend that no dividend be paid for the reporting period ended 30 June 2014 nor have any amounts been paid or declared by way of dividend during the reporting period.

Events Subsequent To Reporting Date

Madagascan Asset Opportunity

In May 2014, the Company entered into a Share Purchase Agreement with ASX listed Company Caravel Energy Limited to acquire a 25% (with rights to acquire up to a further 55%) interest in a Company called Petromad (Mauritius) Limited. This Company owns a 100% interest in Block 3114 located onshore Madagascar and is a party to a production sharing contract with respect to petroleum exploration and production in the block.

The consideration payable by the Company for the acquisition is 85,000,000 Tellus Resources Ltd ordinary shares.

Completion of the purchase was conditional upon the Company obtaining shareholder approval at an Extraordinary General meeting held on the 26th of September 2014, the Company received shareholder approval at the Extraordinary General Meeting and consequently the transaction will be finalised upon satisfaction of the conditions precedent.

Extraordinary Shareholders Meeting

On the 6th of August 2014 the Company received a notice to call an Extraordinary General Meeting of shareholders with certain resolutions aimed at adding Directors to the Company. On the 26th August 2014, the Company announced that the date of the meeting will be the 7th October 2014.

Share Placement

On 14 August 2014 the Company announced a placement of 22,000,000 ordinary shares to sophisticated investors at an average price of 3 cents per share to raise a total of AUD \$660,000 to assist with the Company's working capital requirements.

Likely Future Developments

The Directors of the Group will continue to focus upon the Cooper Basin and Utah assets whilst also seeking further oil and gas opportunities. In addition, strategies to maximise the value of its highly prospective gold assets will be pursued.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

Directors' Meetings

The number of meetings of Directors held during the year and the number of meetings attended by each Director was as follows:

DIRECTOR	BOARD MEETINGS		AUDIT COMMITTEE MEETINGS	
	NUMBER ELIGIBLE TO ATTEND	NUMBER ATTENDED	NUMBER ELIGIBLE TO ATTEND	NUMBER ATTENDED
R Kennedy (Appointed 4 December 2013)	5	5	1	1
C Dorsch (Appointed 23 August 2013)	10	10	-	-
N Young (Appointed (4 December 2013)	5	5	1	1
B Salmon (Resigned 5 June 2014)	12	10	-	-
A Wehby (Resigned 29 November 2013)	7	7	-	-
S Woodham (Resigned 23 August 2013)	3	3	-	-
R Willson (Resigned 5 December 2013)	8	8	-	-

The Board does not have separately established committees dealing with nomination, remuneration and risk management. The full Board carried out this role in accordance with the principles as set out in the Company's Corporate Governance Plan. There were a total of 13 Board Meetings held during the year. The Board has established a separate Audit Committee.

Share Options and Performance Rights

Details of unissued shares or interests of Tellus Resources Ltd under option at the date of this report are:

DATE GRANTED	NUMBER OF PERFORMANCE RIGHTS	NUMBER OF SHARES UNDER OPTION	CLASS OF SHARES	EXERCISE PRICE OF OPTIONS	EXPIRY DATE OF OPTIONS
5 Apr 2012	300,000	-	Ordinary	N/A	27 Jan 2017
5 Apr 2012	400,000	-	Ordinary	N/A	27 Jan 2017
21 Sep 2012	350,000	-	Ordinary	N/A	21 Sep 2015
24 Sep 2012		5,000,000	Ordinary	\$0.25	25 Sep 2014
23 Aug 2013*	45,000,000*	-	Ordinary	N/A	**N/A
24 Sep 2013		5,000,000	Ordinary	\$0.20	17 Sep 2017
4 Dec 2013		7,500,000	Ordinary	\$0.093	31 Dec 2016
5 Mar 2014		2,000,000	Ordinary	\$0.20	5 Mar 2018
5 Mar 2014		1,500,000	Ordinary	\$0.20	17 Sep 2017
17 Apr 2014		6,666,666	Ordinary	\$0.10	31 Dec 2015
Total	46,050,000	27,666,666			

*On the 23rd of August 2013, 45,000,000 performance rights over ordinary shares were granted to Mr Carl Dorsch subject to remaining employed as Managing Director of the Company.

These performance rights convert into fully paid ordinary shares in the Company on a 1:1 ratio, for nil consideration as follows:

- 5,000,000, where the 30 day volume weighted average price (VWAP) for the ordinary shares of the Company reaches at least \$0.175 per share;
- 5,000,000, where the 30 day VWAP for the ordinary shares of the Company reaches at least \$0.200 per share;
- 5,000,000, where the 30 day VWAP for the ordinary shares of the Company reaches at least \$0.225 per share;

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

Share Options and Performance Rights (continued)

- iv) 15,000,000, when production testing of PEL 105 in either open or closed hole that can demonstrate an immediate flow capacity for the well in excess of a sustained minimum of 100 BOEPD for a period in excess of 7 days. Such test must be certified by a relevant expert in the field being either an independent consulting reservoir engineer or the contracted testing Company, provided that such threshold is achieved on or prior to 31 December 2014; and
- v) 15,000,000 where the Company has acquired a direct or indirect interest in the Wichita County Project and the production from the leases which form the Wichita County Project reaches an average of 50 BOEPD over a three month period.

**Pursuant to a service agreement between Mr Dorsch and the Company the Performance Rights granted to Mr Dorsch will expire at the time that his employment with the Company ceases.

No options have been exercised as at the date of this report.

Environmental Issues

The Group is subject to environmental regulations under the laws of the Commonwealth and State. The Group has a policy of complying with its environmental performance obligations and at the date of this report is not aware of any breach of such regulations.

Indemnities given and insurance premiums paid to auditors and officers

During the reporting period, the Company paid an insurance premium to insure the Directors and Officers of the Group. The Officers of the Company covered by the insurance policy include all Directors and the Company Secretary. The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else to cause detriment to the Company. Details of the amount of the premium paid in respect of the insurance policies are not disclosed as such disclosure is prohibited under the terms of the contract.

The Company has entered into an agreement with the Directors and Officers to indemnify them against any claim and related expenses, which arise as a result of work completed in their respective capabilities.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify any current or former officer or auditor of the Company against a liability incurred as such by an officer or auditor.

Non Audit Services

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Board to ensure they do not impact upon the impartiality and objectivity of the auditor; and
- The non-audit services do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditors of the Group, Grant Thornton, and its related practices for audit and non-audit services provided during the year are set out in Note 24 to the Financial Statements.

A copy of the auditor's independence declaration as required under s307C of the Corporations Act 2001 is included on page 17 of this financial report and forms part of this Directors' report.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

Remuneration Report (Audited)

The Directors of Tellus Resources Ltd ("the Group") present the Remuneration Report for Non-Executive Directors, Executive Directors and other Key Management Personnel, prepared in accordance with the Corporations Act 2001 and the Corporations Regulations 2001.

The remuneration report is set out under the following main headings:

- a) Principles used to determine the nature and amount of remuneration
- b) Details of remuneration
- c) Service agreements
- d) Share based remuneration; and
- e) Other information

a) Principles used to determine the nature and amount of remuneration

The following report determines the principle used to determine the nature and amount of remuneration. The Board is responsible for determining and reviewing compensation arrangements for the Directors and Key Management Personnel. The role also includes responsibility for share options incentives, superannuation entitlements, retirement and termination entitlements, fringe benefits policies, liability insurance policies and other terms of employment.

The Board will review the arrangements having regard to performance, relevant comparative information and at its discretion may obtain independent expert advice on the appropriateness of remuneration packages or fees paid to Key Management Personnel. No remuneration consultant was used during the period. Remuneration packages are set at levels intended to attract and retain Key Management Personnel capable of managing the Group's activities. Where Key Management Personnel positions are held by consultants, fees are based on normal commercial terms and conditions.

The remuneration of an Executive Director will be decided by the Board, without the affected Executive Director participating in that decision-making process.

The total maximum remuneration of Non-Executive Directors is the subject of a Shareholder resolution in accordance with the Company's Constitution, the Corporations Act and the ASX Listing Rules, as applicable. The determination of Non-Executive Directors' remuneration within that maximum will be made by the Board having regard to the inputs and value to the Company of the respective contributions by each Non-Executive Director. The current limit, which may only be varied by Shareholders in general meeting, is an aggregate amount of \$250,000 per annum.

The Board may award additional remuneration to Non-Executive Directors called upon to perform extra services or make special exertions on behalf of the Group.

The executive pay and reward framework has three components:

- Base pay and benefits;
- Long-term incentives through share schemes; and
- Other remuneration such as superannuation.

The combination of these comprises the Key Management Personnel total remuneration.

All remuneration is fixed and no portion is based on performance targets. The award of long-term incentives is based upon the discretion of the Board.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

Remuneration report (Audited Continued)

b) Details of remuneration

Details of the nature and amount of each element of the remuneration of each of the Key Management Personnel ("KMP") of the Group for the year ended 30 June 2014 are set out in the following table:

DIRECTORS	YEAR	SHORT-TERM BENEFITS		POST-EMPLOYMENT BENEFITS	LONG TERM BENEFITS	TERMINATION BENEFITS	SHARE BASED PAYMENTS		ELEMENTS OF REMUNERATION				
		SALARY & FEES	ALLOWANCES	SUPER-ANNUATION	LSL	TERMINATION PAYMENTS	OPTIONS	PERFORMANCE RIGHTS	TOTAL	RELATED TO PERFORMANCE	%	NOT RELATED TO PERFORMANCE	%
		\$	\$	\$	\$	\$	\$	\$	\$	\$		\$	%
R Kennedy Chairman	2014	29,169	-	2,698	-	-	237,750*	-	269,617	-	-	269,617	100%
	2013	-	-	-	-	-	-	-	-	-	-	-	-
C Dorsch Managing Director	2014	282,204	4,007	26,104	-	-	-	764,400*	1,076,715	764,400	71%	312,315	29%
	2013	-	-	-	-	-	-	-	-	-	-	-	-
N Young Non Executive Director	2014	24,964	-	-	-	-	47,200*	-	72,164	-	-	72,164	100%
	2013	-	-	-	-	-	-	-	-	-	-	-	-
A Wehby Non Executive Director	2014	20,835	-	2,302	-	-	-	-	23,137	-	-	23,137	100%
	2013	60,227	-	4,500	-	-	-	-	64,727	-	-	64,727	100%
S Woodham Executive Director	2014	73,332	18,698	2,764	-	119,728	-	-	214,522	-	-	214,522	100%
	2013	219,996	20,500	19,800	-	-	-	26,867*	287,163	26,867	9%	260,296	91%
R Willson Non Executive Director	2014	16,665	-	1,841	-	-	-	-	18,506	-	-	18,506	100%
	2013	40,000	-	3,600	-	-	-	-	43,600	-	-	43,600	100%
B Salmon Non Executive Director	2014	40,595	-	-	-	-	-	-	40,595	-	-	40,595	100%
	2013	30,344	-	-	-	-	-	-	30,344	-	-	30,344	100%
Total	2014	487,764	22,705	35,709	-	119,728	284,950	764,400	1,715,256	764,400		950,856	
Total	2013	350,567	20,500	27,900	-	-	-	26,867	425,834	26,867		398,967	

*The fair value of share based payments have been determined as at the grant date. The share based payments included as remuneration in the table above are not related to or indicative of the benefit (if any) that individuals may ultimately realise or have realised during the reporting period. The fair value of the performance rights as at the date of their grant has been determined in accordance with AASB 2. The calculations are performed using various approved valuation methodologies. The total value of the options and rights, if the performance conditions are not met, is nil.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

Remuneration report (Audited Continued)

c) Service Agreements

Contracts for services of key management personnel in place during the reporting period are as follows:

Carl Dorsch

Managing Director

Under an Executive Service Agreement the Company engaged the services of Mr Carl Dorsch to serve as Managing Director for a period until termination under the Agreement. The key terms of the Agreement are as follows:

- The Company may terminate the employment at any time without cause, by giving 6 months' notice in writing; or immediately in instances of misconduct.
- Mr Dorsch may terminate the employment at any time by giving 6 months' notice in writing.

Under the terms of the Agreement, the Company shall pay a Base Salary of A\$335,000 per annum plus superannuation contributions of \$25,000. A package of performance rights (as disclosed elsewhere in this report) were granted under the Agreement.

The performance rights granted to Mr Dorsch will convert into fully paid ordinary shares in the Company on a 1:1 ratio, for nil consideration as follows;

- 5,000,000 where the 30 day volume weighted average price (VWAP) for the ordinary shares of the Company reaches at least \$0.175 per share;
- 5,000,000, where the 30 day VWAP for the ordinary shares of the Company reaches at least \$0.200 per share;
- 5,000,000, where the 30 day VWAP for the ordinary shares of the Company reaches at least \$0.225 per share;
- 15,000,000, when production testing of PEL 105 in either open or closed hole that can demonstrate an immediate flow capacity for the well in excess of a sustained minimum of 100 BOEPD for a period in excess of 7 days. Such test must be certified by a relevant expert in the field being either an independent consulting reservoir engineer or the contracted testing Company, provided that such threshold is achieved on or prior to 31 December 2014; and
- 15,000,000 where the Company has acquired a direct or indirect interest in the Wichita County Project and the production from the leases which form the Wichita County Project reaches an average of 50 BOEPD over a three month period.

The performance rights granted to Mr Dorsch are subject to Mr Dorsch remaining employed as the Managing Director of the Company.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

Remuneration report (Audited Continued)

d) Share Based Remuneration - Share Options held by Key Management Personnel

Details of Share Options held by Key Management Personnel ("KMP") of the Group for the year ended 30 June 2014 are set out in the following table:

		OPENING BALANCE AT START OF YEAR	OPTIONS GRANTED	OPTIONS EXERCISED	NET CHANGE OTHER	CLOSING BALANCE	TOTAL EXERCISABLE AT 30 JUNE	TOTAL EXERCISABLE 30 JUNE	TOTAL UN- EXERCISABLE 30 JUNE
		\$	\$	\$	\$	\$	\$	\$	\$
R Kennedy	2014	-	7,500,000	-	-	7,500,000	7,500,000	7,500,000	-
Chairman	2013	-	-	-	-	-	-	-	-
C Dorsch	2014	-	-	-	-	-	-	-	-
Managing Director	2013	-	-	-	-	-	-	-	-
N Young	2014	-	2,000,000	-	-	2,000,000	2,000,000	2,000,000	-
Non Executive Director	2013	-	-	-	-	-	-	-	-
A Wehby	2014	500,000	-	-	(500,000)*	-	-	-	-
Non Executive Director	2013	500,000	-	-	-	500,000	500,000	500,000	-
S Woodham	2014	-	-	-	-	-	-	-	-
Executive Director	2013	-	-	-	-	-	-	-	-
R Willson	2014	500,000	-	-	(500,000)*	-	-	-	-
Non Executive Director	2013	500,000	-	-	-	500,000	500,000	500,000	-
B Salmon	2014	-	-	-	-	-	-	-	-
Non Executive Director	2013	-	-	-	-	-	-	-	-
Total	2014	1,000,000	9,500,000	-	(1,000,000)	9,500,000	9,500,000	9,500,000	-
Total	2013	1,000,000	-	-	-	1,000,000	1,000,000	1,000,000	-

*The figures in the "Net Change Other" column in the table above relate to Options that have expired.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

Remuneration report (Audited Continued)

d) Share Based Remuneration - Performance Rights held by Key Management Personnel

Details of Performance Rights held by Key Management Personnel ("KMP") of the Group for the year ended 30 June 2014 are set out in the following table:

		OPENING BALANCE AT START OF YEAR	RIGHTS GRANTED	RIGHTS EXERCISED	NET CHANGE OTHER	CLOSING BALANCE	TOTAL EXERCISABLE 30 JUNE	TOTAL UN- EXERCISABLE 30 JUNE
		\$	\$	\$	\$	\$	\$	\$
R Kennedy	2014	-	-	-	-	-	-	-
Chairman	2013	-	-	-	-	-	-	-
C Dorsch	2014	-	45,000,000	-	-	45,000,000	-	45,000,000
Managing Director	2013	-	-	-	-	-	-	-
N Young	2014	-	-	-	-	-	-	-
Non Executive Director	2013	-	-	-	-	-	-	-
A Wehby	2014	-	-	-	-	-	-	-
Non Executive Director	2013	-	-	-	-	-	-	-
S Woodham	2014	700,000	-	-	-	700,000	700,000	-
Executive Director	2013	700,000	-	-	-	700,000	700,000	-
R Willson	2014	-	-	-	-	-	-	-
Non Executive Director	2013	-	-	-	-	-	-	-
B Salmon	2014	-	-	-	-	-	-	-
Non Executive Director	2013	-	-	-	-	-	-	-
Total	2014	700,000	45,000,000	-	-	45,700,000	700,000	45,000,000
Total	2013	700,000	-	-	-	700,000	700,000	-

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

Remuneration report (Audited Continued)

e) Other Information

Fully Paid Ordinary Shares

Details of Fully Paid Ordinary Shares held by Key Management Personnel ("KMP") of the Group for the year ended 30 June 2014 are set out in the following table:

		OPENING BALANCE	PURCHASES/ (SALES)	NET OTHER CHANGE	CLOSING BALANCE	BALANCE HELD NOMINALLY
		\$	\$	\$	\$	\$
DIRECTORS						
R Kennedy	2014	-	-	-	-	--
Chairman	2013	-	-	-	-	-
C Dorsch	2014	-	17,300,000*	-	17,300,000*	-
Managing Director	2013	-	-	-	-	-
N Young	2014	-	110,000	-	110,000	-
Non Executive Director	2013	-	-	-	-	-
A Wehby	2014	660,000	-	-	660,000	60,000
Non Executive Director	2013	660,000	-	-	660,000	60,000
S Woodham	2014	1,568,000	-	-	1,568,000	-
Executive Director	2013	1,568,000	-	-	1,568,000	-
R Willson	2014	400,000	(400,000)	-	-	-
Non Executive Director	2013	400,000	-	-	400,000	-
B Salmon	2014	-	-	-	-	-
Non Executive Director	2013	-	-	-	-	-
Total	2014	2,628,000	17,010,000	-	19,638,000	60,000
Total	2013	2,628,000	-	-	2,628,000	60,000

*Of the 17,300,000 fully paid ordinary shares listed under Mr Dorsch in the table above that were held as at 30 June 2014, 300,000 fully paid ordinary shares are held by Dorsch Consultants Pty Ltd a company Mr Dorsch has complete control over. The remaining 17,000,000 fully paid ordinary shares are held by CNP Energy Pty Limited (ACN 159 055 384) in its capacity as trustee of the PNC Unit Trust. Mr Dorsch holds a relevant interest of (23.88%) in CNP Energy Pty Limited (ACN 159 055 384) and the PNC Unit Trust with the remaining balance held by unrelated parties to Mr Dorsch. CNP Energy Pty Ltd has three Directors, one of which is Mr Dorsch, the two other Directors are unrelated parties to Mr Dorsch.

Options-based compensation

The terms and conditions of each grant of options over ordinary shares affecting the remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

GRANT DATE	NUMBER OF OPTIONS GRANTED	NUMBER OF OPTIONS VESTED	EXPIRY DATE	EXERCISE PRICE	FAIR VALUE PER OPTION AT GRANT DATE
2014					
04-Dec-13	7,500,000	7,500,000	31-Dec-16	\$0.09	\$0.32
05-Mar-14	2,000,000	2,000,000	05-Mar-18	\$0.20	\$0.02
2013					
No options issued	-	-	-	-	-
Total 2014	9,500,000	9,500,000	-	-	-
Total 2013	-	-	-	-	-

Options granted carry no dividend or voting rights.

There are no service requirements associated with the issue of the options in the table above.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

Remuneration report (Audited Continued)

Performance Rights based compensation

The terms and conditions of each grant of Performance Rights over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

GRANT DATE	NUMBER OF PERFORMANCE RIGHTS GRANTED	NUMBER OF PERFORMANCE RIGHTS VESTED	VESTING DATE AND EXERCISABLE DATE	EXPIRY DATE	EXERCISE PRICE	FAIR VALUE PER OPTION AT GRANT DATE
2014						
23-Aug-13	45,000,000	-	Refer Note 1	Refer Note 2	N/A	\$0.02
2013						
No performance rights issued	-	-	-	-	-	-
Total 2014	45,000,000	-	-	-	-	-
Total 2013	-	-	-	-	-	-

Note 1 – The terms of the performance rights listed in the table above are outlined on page 9 of the Directors report under the table “Share Options and Performance Rights”.

Note 2 – The Performance Rights listed in the table above do not have an expiry date, they are however contingent upon Mr Dorsch being employed as Managing Director of Tellus Resources Limited and will expire at the time he is no longer employed as Managing Director.

Other transactions with key management personnel of the Group

During the financial year the following transactions took place with key management personnel;

Prior to Mr Neil Young's appointment as a director \$17,325 was paid for Mining Consultancy Services to Neil A I Young No 1 Pty Ltd a Company associated with Mr Neil Young. After Mr Young's appointment as a director \$26,950 was paid for Mining Consultancy Services to Neil A I Young No 1 Pty Ltd a Company associated with Mr Neil Young. All fees for services paid were established on arm's length terms in line with standard commercial rates and principles.

A Payment of \$15,000 was made to Dorsch Consulting Pty Ltd to acquire Furniture and Fittings at the Tellus Resources Limited Head Office in Adelaide, South Australia. Dorsch Consulting Pty Ltd is an entity associated with Mr Carl Dorsch Managing Director of Tellus Resources Limited. The Payment for Furniture and Fittings was approved by the Board of Directors at a meeting held where Mr Dorsch was not present or permitted to vote or comment upon due to having an interest in the potential transaction. The acquisition was subject to independent valuation and deliberation by the Directors without Mr Dorsch participating in the decision-making process.

End of Audited Remuneration report

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

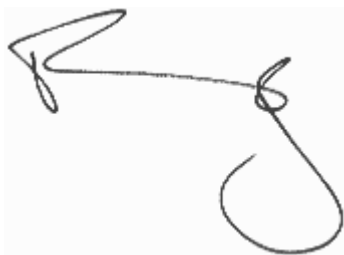
Voting and Comments at the Company's 2013 Annual General Meeting

The Company received 97% of "yes" votes on its remuneration report for the 2013 financial year. The Company did not receive any specific feedback at the AGM on its remuneration report.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

Signed in accordance with a resolution of the Directors.



Robert Kennedy

Chairman

Adelaide, 30 September 2014

Level 1,
67 Greenhill Rd
Wayville SA 5034

Correspondence to:
GPO Box 1270
Adelaide SA 5001

T 61 8 8372 6666
F 61 8 8372 6677
E info.sa@au.gt.com
W www.grantthornton.com.au

**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF TELLUS RESOURCES LIMITED**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Tellus Resources Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



S J Gray
Partner – Audit & Assurance

Adelaide, 30 September 2014

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Australia Ltd is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate one another and are not liable for one another's acts or omissions. In the Australian context only, the use of the term 'Grant Thornton' may refer to Grant Thornton Australia Limited ABN 41 127 556 389 and its Australian subsidiaries and related entities. GTIL is not an Australian related entity to Grant Thornton Australia Limited.

Liability limited by a scheme approved under Professional Standards Legislation. Liability is limited in those States where a current scheme applies.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

The Board of Directors is committed to improving and achieving good standards of corporate governance and has established corporate government policies and procedures, where appropriate and practicable, consistent with the revised Corporate Governance Principles and Recommendations with 2010 Amendments 2nd Edition issued by the ASX Corporate Governance Council ("ASX Recommendations").

The following statement sets out a summary of the Group's corporate governance practices that were in place during the financial year and how those practices relate to the revised ASX Recommendations. The Company has reported against the revised Principles and Recommendations for each of the financial years ended 30 June 2011 through to 30 June 2014.

These recommendations are not intended to be prescriptions to be followed by all ASX listed companies, but rather guidelines designed to produce an effective, quality and integrity outcome. The Corporate Governance Council has recognised that a "one size fits all" approach to Corporate Governance is not required. Instead, it states aspirations of good practice for optimising corporate performance and accountability in the interests of shareholders and the broader economy. A company may consider that a recommendation is inappropriate to its particular circumstances and has flexibility not to adopt it and explain why.

In ensuring a good standard of ethical behaviour and accountability, the Board has included in its corporate governance policies those matters contained in the ASX Recommendations where applicable. However, the Board also recognises that full adoption of the above ASX Recommendations may not be practical nor provide the optimal result given the particular circumstances and structure of the Company. The Board is, nevertheless, committed to ensuring that appropriate Corporate Governance practices are in place for the proper direction and management of the Company. This statement outlines the main Corporate Governance practices of the Company disclosed under the ASX Recommendations, including those that comply with good practice and which unless otherwise disclosed, were in place during the whole of the financial year ended 30 June 2014.

Principle 1: Lay solid foundations for management and oversight

Recommendation 1.1 – Recommendation followed

1.1 Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.

The Board's role is to govern the Company rather than manage it. The Company's Corporate Governance Plan includes a Board Charter which sets out the specific responsibilities of the Board and provides that the Board shall delegate responsibility for the day-to-day operations and administration of the Company to the Executive Directors and any Chief Executive Officer (if appointed).

Recommendation 1.2 – Recommendation followed

1.2 Companies should disclose the process for evaluating the performance of senior executives.

The Board will monitor the performance of senior management, including measuring actual performance against planned performance. The Board will follow the performance evaluation principles outlined in its Corporate Governance Plan.

Recommendation 1.3 – Recommendation followed

1.3 Companies should provide the information indicated in the Guide to reporting on Principle 1.

The Board Charter discloses the specific responsibilities of the Board and provides that the Board shall delegate responsibility for the day-to-day operations and administration of the Company to the Executive Director(s) and Chief Executive Officer (if appointed).

The Company's Corporate Governance policies are set out on the Company's website at www.tellusresources.com.au.

Principle 2: Structure the Board to add value

Recommendation 2.1 – Recommendation followed

2.1 A majority of the Board should be independent Directors.

A majority of the Directors are currently independent. The Company has three Directors and Neil Young and Robert Kennedy are independent.

The Board seeks to ensure that the appropriate mix of skills and expertise is present on the Board to facilitate successful strategic direction.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

Principle 2: Structure the Board to add value (continued)

The Board Charter specifies that an independent Director is one who is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with the exercise of independent judgment.

Independent Directors should also meet the definition of independence as set out in the ASX Corporate Governance Council Principles and Recommendations.

The independence of Directors will be regularly assessed by the Board in light of their interests, all of which must be disclosed.

Recommendation 2.2 – Recommendation followed

2.2 The Chairman should be an independent Director.

The Chairman is currently Robert Kennedy, who is an independent Director.

The Company's Corporate Governance Plan outlines that the Chairman should be a non-executive Director and that if a Chairman ceases to be an independent Director, the Board will consider appointing a lead independent Director.

Recommendation 2.3 – Recommendation followed

2.3 Carl Dorsch was appointed Managing Director on 23 August 2013 and undertakes the role of Chief Executive Officer and Robert Kennedy is the Non-Executive Chairman, thus not been being the same individual.

The Company's Corporate Governance Plan also outlines that in the future the Chief Executive Officer should not be the Chairman of the Company during his term as Chief Executive Officer or in the future.

Recommendation 2.4 – Recommendation not followed

2.4 The Board should establish a nomination committee.

Based on the fact that the Company is in its early stages of development, and given the current size and structure of the Board, the Board has not yet formed a separate Nomination Committee. Currently matters typically dealt with by such a committee are dealt with by the Board, however, the Board has formal terms of reference for the establishment of a Nomination Committee.

Recommendation 2.5 – Recommendation followed

2.5 Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors.

In order to ensure the Board continues to discharge its responsibilities in an appropriate manner, a review of the performance over the previous 12 months of the Board, its committees and individual Directors will be arranged by the Board in accordance with the terms of the Nomination Committee Charter, until such time as a Nomination Committee is established.

Recommendation 2.6 – Recommendation followed

2.6 Companies should provide the information indicated in the Guide to reporting on Principle 2.

A description of the skills and experience of each of the current Directors is contained in the Company's Directors' Report and on the Company's website. Two of the three members of the current Board, Robert Kennedy and Neil Young are considered to be independent Directors in accordance with the definition of an independent Director as contained in the Company's Corporate Governance Plan.

Based on the fact that the Company is in its early stages of development, the Company has not yet fully complied with Principle 2 of the ASX Corporate Governance Council Principles and Recommendations. To the extent that it has not complied with Principle 2, the Company will seek to do so as the Company develops.

The Nomination Committee, when established, will determine the procedure for the selection and appointment of new Directors and the re-election of incumbents, having regard to the ability of the individual to assist the Board in fulfilling its responsibilities, as well as assist the Company in achieving growth and delivering value to shareholders. The policy for the appointment of new Directors is set out in the Company's Corporate Governance Plan.

The Company's Corporate Governance policies are set out on the Company's website at www.tellusresources.com.au.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

Principle 3: Promote ethical and responsible decision-making

Recommendation 3.1 – Recommendation followed

3.1 Companies should establish a code of conduct and disclose the code or a summary of the code as to:

- the practices necessary to maintain confidence in the Company's integrity
- the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The Company's Corporate Governance Plan includes a Corporate Code of Conduct, which provides a framework for decisions and actions in relation to ethical conduct in employment.

Recommendation 3.2 – Recommendation not followed

3.2 Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measureable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.

The Company's Corporate Governance Plan does not include an express policy specifically addressing diversity. The Company is not currently in compliance with this recommendation as the Board is comfortable that the Company already has an appropriate approach to encouraging workplace diversity without the need for a formal policy

Under the Corporate Code of Conduct contained in the Company's Corporate Governance Plan, employees must not harass, discriminate or support others who harass and discriminate against colleagues or members of the public on the grounds of sex, pregnancy, marital status, age, race (including their colour, nationality, descent, ethnic or religious background), physical or intellectual impairment, homosexuality or transgender. Such harassment or discrimination may constitute an offence under legislation. Managers should understand and apply the principles of Equal Employment Opportunity.

Recommendation 3.3 – Recommendation not followed

3.3 Companies should disclose in each annual report the measureable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.

As noted above, the Company's Corporate Governance Plan does not include an express policy specifically addressing diversity.

The Company is not currently in compliance with this recommendation as the Board is comfortable that the Company already has an appropriate approach to encouraging workplace diversity without the need for a formal policy.

Recommendation 3.4 – Recommendation not followed

3.4 Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.

There are currently no women on the Board of the Company. This will be reviewed on an on-going basis.

Recommendation 3.5 – Recommendation followed

3.5 Companies should provide the information indicated in the Guide to reporting on Principle 3.

The Corporate Code of Conduct can be found in the Company's Corporate Governance Plan on the Company's website at www.tellusresources.com.au.

Principle 4: Safeguard integrity in financial reporting

Recommendation 4.1 – Recommendation followed

4.1 The Board should establish an Audit Committee.

The Board has established an Audit Committee and of which Neil Young is the Chairman. The Board has established a formal terms of reference for an Audit and Risk Committee.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

Principle 4: Safeguard integrity in financial reporting (continued)

Recommendation 4.2 – Recommendation not followed

4.2 The Audit Committee should be structured so that it:

- consists only of non-executive Directors
- consists of a majority of independent Directors
- is chaired by an independent Chairman, who is not Chairman of the Board
- has at least three members.

The Audit Committee satisfies all but one of the conditions outlined in principle 4.2, due to the number of Directors on the Board there are only two independent Directors available to sit on the committee.

Recommendation 4.3 – Recommendation followed

4.3 The Audit Committee should have a formal charter.

The Company's Corporate Governance Plan includes a formal charter for the Audit and Risk Committee.

Recommendation 4.4 – Recommendation followed

4.4 Companies should provide the information indicated in the Guide to reporting on Principle 4.

As above.

The Company's Corporate Governance policies are set out on the Company's website at www.tellusresources.com.au.

Principle 5: Make timely and balanced disclosure

5.1 Recommendation 5.1 – Recommendation followed

Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

The Company has a continuous disclosure program in place designed to ensure the factual presentation of the Company's financial position. The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX and shareholders, as well as providing guidance to Directors and employees on disclosure requirements and procedures.

Recommendation 5.2 – Recommendation followed

5.2 Companies should provide the information indicated in *Guide to Reporting on Principle 5*.

As above.

The Company's Corporate Governance policies are set out on the Company's website at www.tellusresources.com.au.

Principle 6: Respect the rights of shareholders

Recommendation 6.1 – Recommendation followed

6.1 Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

The Company's Corporate Governance Plan includes a shareholder communications strategy, which aims to ensure that the shareholders of the Company are informed of all major developments affecting the Company's state of affairs.

Recommendation 6.2 – Recommendation followed

6.2 Companies should provide the information indicated in the *Guide to reporting on Principle 6*.

As above.

The Company's Corporate Governance policies are set out on the Company's website at www.tellusresources.com.au.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

Principle 7: Recognise and manage risk

Recommendation 7.1 – Recommendation followed

7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

The Board determines the Company's "risk profile" and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control.

The Company's Corporate Governance Plan establishes formal terms of reference for disclosure of risk management review procedure and internal compliance and control.

Recommendation 7.2 – Recommendation followed

7.2 The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.

As above.

Recommendation 7.3 – Recommendation followed

7.3 The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Board has received the relevant declarations from the Managing Director and Chief Financial Officer in accordance with s295A of the Corporations Act 2001 and the relevant assurances required under Recommendation 7.3 of the ASX Corporate Governance Principles.

Recommendation 7.4 – Recommendation followed

7.4 Companies should provide the information indicated in *Guide to Reporting on Principle 7*.

As above.

The Company's Corporate Governance policies are set out on the Company's website at www.tellusresources.com.au.

Principle 8: Remunerate fairly and responsibly

Recommendation 8.1 – Recommendation not followed

8.1 The Board should establish a remuneration committee.

Given the current size and structure of the Board, the Board has not yet formed a separate remuneration committee.

However, the Board has established formal terms of reference for a remuneration committee. The Board does not consider that any efficiency or other benefits would be gained from establishing a separate committee. Accordingly, until the Remuneration Committee is established, the Board will carry out the duties of the Remuneration Committee in accordance with the terms of reference that have been adopted.

Recommendation 8.2 – Recommendation not followed

8.2 The remuneration committee should be structured so that it:

- consists of a majority of independent Directors
- is chaired by an independent Director
- has at least three members

As above.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

Principle 8: Remunerate fairly and responsibly (continued)

Recommendation 8.3 – Recommendation followed

- 8.3 Companies should clearly distinguish the structure of non-executive Directors' remuneration from that of executive Directors and senior executives.**

As above.

Recommendation 8.4 – Recommendation followed

- 8.4 Companies should provide the information indicated in the Guide to reporting on Principle 8.**

As above.

The Company's Corporate Governance policies are set out on the Company's website at www.tellusresources.com.au.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

	NOTE	CONSOLIDATED	
		2014 \$	2013 \$
Revenue from continuing operations	5	22,434	94,332
Expenses from continuing operations	6	(8,287,130)	(1,471,148)
Loss before income tax		(8,264,696)	(1,376,816)
Income tax benefit	7	(1,557,400)	-
Net loss after tax for the year		(6,707,296)	(1,376,816)
Other comprehensive income, net of tax		-	-
Total comprehensive loss		(6,707,296)	(1,376,816)
LOSS PER SHARE:			
Basic (loss) per share (cents per share)	18	(5.2)	(3.1)
Diluted (loss) per share (cents per share)	18	(5.2)	(3.1)

This statement should be read in conjunction with the notes to the financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2014

		CONSOLIDATED	
	NOTE	2014	2013
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents	20(a)	409,330	1,134,661
Trade and other receivables	8	1,560,959	752,709
Prepayments	9	69,493	13,702
TOTAL CURRENT ASSETS		2,039,782	1,901,072
NON-CURRENT ASSETS			
Plant and equipment	10	49,398	33,856
Intangibles	11	-	6,047
Exploration and evaluation expenditure	12	8,662,845	2,799,550
TOTAL NON-CURRENT ASSETS		8,712,243	2,839,453
TOTAL ASSETS		10,752,025	4,740,525
CURRENT LIABILITIES			
Trade and other payables	13	892,610	113,392
Borrowings	14	550,392	-
Employee benefits	15	20,510	5,358
TOTAL CURRENT LIABILITES		1,463,512	118,750
NON-CURRENT LIABILITIES			
Employee benefits	15	6,780	5,594
TOTAL NON-CURRENT LIABILITES		6,780	5,594
TOTAL LIABILITIES		1,470,292	124,344
NET ASSETS		9,281,733	4,616,181
EQUITY			
Share capital	16	17,485,869	7,374,031
Reserves	17	1,632,735	371,725
Accumulated losses		(9,836,871)	(3,129,575)
TOTAL EQUITY		9,281,733	4,616,181

This statement should be read in conjunction with the notes to the financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2014

	ISSUED CAPITAL \$	EQUITY RESERVE \$	ACCUMULATED LOSSES \$	TOTAL \$
Balance as at 30 June 2012	7,470,031	240,513	(1,752,759)	5,957,785
Total loss and comprehensive income for the year	-	-	(1,376,816)	(1,376,816)
Options granted	-	96,000	-	96,000
Performance rights granted	-	35,212	-	35,212
Share issue costs	(96,000)	-	-	(96,000)
Balance as at 30 June 2013	7,374,031	371,725	(3,129,575)	4,616,181
Total loss and comprehensive income for the year	-	-	(6,707,296)	(6,707,296)
Shares issued during the period	10,598,977	-	-	10,598,977
Options granted	-	496,610	-	496,610
Performance rights granted	-	764,400	-	764,400
Share issue costs	(487,139)	-	-	(487,139)
Balance as at 30 June 2014	17,485,869	1,632,735	(9,836,871)	9,281,733

The financial statements should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2014

	CONSOLIDATED	
	2014	2013
NOTE	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash payments in the course of operations	(1,385,287)	(1,379,692)
Interest received	19,913	80,464
Other Income	2,100	800
Research and development tax offset received	290,512	-
Net cash used in operating activities	20(b) (1,072,762)	(1,298,428)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for exploration and evaluation of mineral resources	(4,481,229)	(495,435)
Payments for applications and bonds	(50,000)	-
Payments for property, plant and equipment	(27,385)	-
Loan to PNC AUST Pty Ltd	-	(700,000)
Net cash by used in investing activities	(4,558,614)	(1,195,435)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	550,000	-
Proceeds from issue of shares	4,573,697	-
Payments for share issue costs	(217,652)	-
Net cash provided by financing activities	4,906,045	-
Net decrease in cash held and cash equivalents	(725,231)	(2,493,863)
Cash and cash equivalents at the beginning of the year	1,134,661	3,628,524
Cash and cash equivalents at the end of the year	20(a) 409,330	1,134,661

The financial statements should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

CONTENTS

Note 1	Nature of operations
Note 2	General information
Note 3	Significant accounting policies
Note 4	Segment information
Note 5	Revenue
Note 6	Loss for the year
Note 7	Income taxes
Note 8	Trade and other receivables
Note 9	Other assets
Note 10	Plant and equipment
Note 11	Intangible assets
Note 12	Exploration and evaluation expenditure
Note 13	Trade and other payables
Note 14	Borrowings
Note 15	Employee benefits
Note 16	Share capital
Note 17	Reserves
Note 18	Earnings per share
Note 19	Contingent liabilities and contingent assets
Note 20	Notes to the statement of cash flows
Note 21	Financial risk management
Note 22	Share-based payments
Note 23	Related party disclosures
Note 24	Remuneration of auditors
Note 25	Acquisition of (PNC) Aust Pty Ltd
Note 26	Parent entity
Note 27	Interests in joint operations
Note 28	Interests in subsidiaries
Note 29	Subsequent events
Note 30	Going concern
Note 31	Fair value measurement of assets and liabilities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

1. Nature of operations

Tellus Resources Ltd and its subsidiary (the Group) principal activities include oil & gas and mineral exploration.

2. General information

Tellus Resources Ltd is the Group's ultimate parent Company and is a listed public Company limited by shares incorporated and domiciled in Australia. Tellus Resources was incorporated on 21 June 2010.

Tellus Resources is a for-profit entity for the purpose of preparing the financial statements.

The registered and principal place of business is Level 5, 70 Pirie Street, Adelaide SA 5000. Tellus Resources' shares are listed on the ASX.

3. Significant accounting policies

a) Basis of preparation

Statement of compliance

The consolidated general purpose financial statements of the Group have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board. Australian Accounting Standards incorporate International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board. Compliance with Australian Accounting Standards ensure that the financial statements and notes also comply with IFRS. The consolidated financial statements for the year ended 30 June 2014 (including comparatives) were approved and authorised for issue by the Board of Directors on 30 September 2014.

Historical Cost Convention

The financial report has been prepared on an accrual basis and is based on the historical costs modified, where applicable by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Functional and presentation currency

Both the functional and presentation currency of the Group is in Australian dollars.

Critical accounting estimates and judgements

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

Judgments made by management in the application of Australian Accounting Standards that have significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in Note 3(s) below.

b) New and revised standards that are effective for these financial statements

A number of new and revised standards are effective for annual periods beginning on or after 1 July 2013. Information on these new standards is presented below.

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

3. Significant accounting policies (continued)

b) New and revised standards that are effective for these financial statements (continued)

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 10 Consolidated Financial Statements

AASB 10 supersedes AASB 127 Consolidated and Separate Financial Statements (AASB 127) and AASB Interpretation 112 Consolidation - Special Purpose Entities. The consolidated entity has applied AASB 10 from 1 July 2013, which has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights that give it the current ability to direct the activities that significantly affect the investee's returns. The consolidated entity not only has to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes

AASB 11 Joint Arrangements

The consolidated entity has applied AASB 11 from 1 July 2013. The standard defines which entities qualify as joint arrangements and removes the option to account for joint ventures using proportional consolidation. Joint ventures, where the parties to the agreement have the rights to the net assets are accounted for using the equity method. Joint operations, where the parties to the agreements have the rights to the assets and obligations for the liabilities, will account for its share of the assets, liabilities, revenues and expenses separately under the appropriate classifications.

AASB 12 Disclosure of Interests in Other Entities.

The consolidated entity has applied AASB 12 from 1 July 2013. The standard contains the entire disclosure requirement associated with other entities, being subsidiaries, associates, joint arrangements (joint operations and joint ventures) and unconsolidated structured entities. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation - Special Purpose Entities'.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13

The consolidated entity has applied AASB 13 and its consequential amendments from 1 July 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach is used to measure non-financial assets whereas liabilities are based on transfer value. The standard requires increased disclosures where fair value is used.

AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011).

The consolidated entity has applied AASB 119 and its consequential amendments from 1 July 2013. The standard eliminates the corridor approach for the deferral of gains and losses; streamlines the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income; and enhances the disclosure requirements for defined benefit plans. The standard also changed the definition of short-term employee benefits, from 'due to' to 'expected to' be settled within 12 months. Annual leave that is not expected to be wholly settled within 12 months is now discounted allowing for expected salary levels in the future period when the leave is expected to be taken.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

3. Significant accounting policies (continued)

b) New and revised standards that are effective for these financial statements (continued)

AASB 127 Separate Financial Statements (Revised), AASB 128 Investments in Associates and Joint Ventures (Reissued) and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards.

The consolidated entity has applied AASB 127, AASB 128 and AASB 2011-7 from 1 July 2013. AASB 127 and AASB 128 have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12 and AASB 2011-7 makes numerous consequential changes to a range of Australian Accounting Standards and Interpretations. AASB 128 has also been amended to include the application of the equity method to investments in joint ventures.

AASB 2012-2 Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities

The consolidated entity has applied AASB 2012-2 from 1 July 2013. The amendments enhance AASB 7 'Financial Instruments: Disclosures' and requires disclosure of information about rights of set-off and related arrangements, such as collateral agreements. The amendments apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement.

AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle

The consolidated entity has applied AASB 2012-5 from 1 July 2013. The amendments affect five Australian Accounting Standards as follows: Confirmation that repeat application of AASB 1 'First-time Adoption of Australian Accounting Standards' is permitted; Clarification of borrowing cost exemption in AASB 1; Clarification of the comparative information requirements when an entity provides an optional third column or is required to present a third statement of financial position in accordance with AASB 101 'Presentation of Financial Statements'; Clarification that servicing of equipment is covered by AASB 116 'Property, Plant and Equipment', if such equipment is used for more than one period; clarification that the tax effect of distributions to holders of equity instruments and equity transaction costs in AASB 132 'Financial Instruments: Presentation' should be accounted for in accordance with AASB 112 'Income Taxes'; and clarification of the financial reporting requirements in AASB 134 'Interim Financial Reporting' and the disclosure requirements of segment assets and liabilities.

AASB 2012-10 Amendments to Australian Accounting Standards - Transition Guidance and Other Amendments

The consolidated entity has applied AASB 2012-10 amendments from 1 July 2013, which amends AASB 10 and related standards for the transition guidance relevant to the initial application of those standards. The amendments clarify the circumstances in which adjustments to an entity's previous accounting for its involvement with other entities are required and the timing of such adjustments

Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine and AASB 2011-12 Amendments to Australian Accounting Standards arising from Interpretation 20

The consolidated entity has applied Interpretation 20 and its consequential amendments from 1 July 2013. The Interpretation clarifies when production stripping costs should lead to the recognition of an asset and how that asset should be initially and subsequently measured. The Interpretation only deals with waste removal costs that are incurred in surface mining activities during the production phase of the mine.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement

The consolidated entity has applied 2011-4 from 1 July 2013, which amends AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). Corporations and Related Legislation Amendment Regulations 2013 and Corporations and Australian Securities and Investments Commission Amendment Regulation 2013 (No.1) now specify the KMP disclosure requirements to be included within the Directors' report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

3. Significant accounting policies (continued)

c) Basis of consolidation

The Group financial statements consolidate those of the Parent Company and all of its subsidiaries as of 30 June 2014. The Parent controls a subsidiary if it is exposed, or has rights to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 30 June 2014.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

d) Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

e) Plant and equipment

Each class of plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation.

Depreciation is calculated on the diminishing balance method as follows:

Computer equipment	40%
Computer software	40%
Field equipment	20%
Furniture and fittings	20%

The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period and adjusted if appropriate.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Statement of Profit or Loss and Other Comprehensive Income.

f) Intangibles

Amortisation is calculated on the diminishing balance method as follows:

Computer software	40%
-------------------	-----

g) Segment Reporting

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

3. Significant accounting policies (continued)

g) Segment Reporting (continued)

The Group's expansion into additional geographic locations in Australia and Internationally has resulted in additional detail being provided about operating segments that was not disclosed in the 2013 annual report.

Management has determined the operating segments based on internal reports about components of the group that are regularly reviewed by the Chief Operating Decision Maker, the Managing Director, in order to make strategic decisions. The reportable operating segments reflect the group's current strategic business units. The following summary describes the operations in each of the group's reportable segments;

- South Australian projects;
- Eastern Australian projects;
- Utah, United States projects;

The Managing Director monitors performance in these areas separately. Unless stated otherwise, all amounts reported to the Managing Director are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the group. The group has three operating segments; South Australia, Eastern Australia and the United States.

h) Exploration and Evaluation Expenditure

Exploration and evaluation costs related to an area of interest are written off as incurred except they may be carried forward as an item in the statement of financial position where the rights of tenure of an area are current and one of the following conditions is met:

- The costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; and
- Exploration and/or evaluation activities in the area of interest have not at the end of each reporting period reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Capitalised costs include costs directly related to exploration and evaluation activities in the relevant area of interest. General and administrative costs are allocated to an exploration or evaluation asset only to the extent that those costs can be related directly to operational activities in the area of interest to which the asset relates.

Capitalised exploration and evaluation expenditure is written off where the above conditions are no longer satisfied. Identifiable exploration assets acquired are recognised as assets at their cost of acquisition, as determined by the requirements of AASB 3: Business Combinations.

Exploration and evaluation expenditure incurred subsequent to the acquisition in respect of an exploration asset acquired is accounted for in accordance with the policy outlined above. All capitalised exploration and evaluation expenditure is assessed for impairment if facts and circumstances indicate that an impairment may exist.

i) Employee Benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be wholly settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

3. Significant accounting policies (continued)

i) Employee Benefits (continued)

The liability for long service leave not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

j) Joint Operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The consolidated entity has recognised its share of jointly held assets, liabilities, revenues and expenses of joint operations. These have been incorporated in the financial statements under the appropriate classifications

k) Comparative Figures

Comparative figures are adjusted to conform to Accounting Standards when required.

l) Foreign currency translation

The financial statements are presented in Australian dollars, which is Tellus Resources Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars 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 financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss

m) Impairment

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit

n) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the Australian Tax Office ("ATO"). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

o) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

3. Significant accounting policies (continued)

p) Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the Statement of Profit or Loss and Other Comprehensive Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the Balance Sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for:

- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit;
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future; and
- no temporary differences are recognised on the initial recognition of goodwill.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tellus Resources Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts.

q) Trade and Other Payables

Trade and other payables are stated at cost and are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services. The amounts are unsecured and usually paid within 30 days of recognition.

r) Trade and Other Receivables

Trade and other receivables are stated at their cost less impairment losses.

s) Revenue

Interest revenue is recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

t) Operating expenses

Operating expenses are recognised in profit and loss upon utilisation of the service or at date of their origin.

u) Share based payments

Equity-settled share-based payments granted are measured at fair value at the date of grant. Fair value is calculated using the Black Scholes methodology share options. The fair value determined at the grant date of the equity-settled share-based payments is recognised over the vesting period.

Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

3. Significant accounting policies (continued)

u) Share based payments (continued)

The costs of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The costs of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

v) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are recognised directly in equity as a deduction, net of tax allowable from proceeds.

a) Earnings per share

i. Basic earnings per share

Basic earnings per share is calculated by dividing:

- The profit attributable to owners of the Group, excluding any costs of servicing equity other than ordinary shares; and
- By the weighted average number of ordinary shares outstanding during the financial year.

ii. Diluted earnings per share

Diluted earnings per share adjust the figures used in the determination of basic earnings per share to take into account:

- The after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

w) New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2014. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments and its consequential amendments

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2018 and completes phases I and III of the IASB's project to replace IAS 39 (AASB 139) 'Financial Instruments: Recognition and Measurement'. This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. Chapter 6 'Hedge Accounting' supersedes the general hedge accounting requirements in AASB 139 and provides a new simpler approach to hedge accounting that is intended to more closely align with risk management activities undertaken by entities when hedging financial and non-financial risks. The consolidated entity will adopt this standard and the amendments from 1 July 2017 but the impact of its adoption is yet to be assessed by the consolidated entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

3. Significant accounting policies (continued)

w) New Accounting Standards and Interpretations not yet mandatory or early adopted (continued)

Annual Improvements to IFRSs 2010-2012 Cycle

These amendments are applicable to annual reporting periods beginning on or after 1 July 2014 and affects several Accounting Standards as follows: Amends the definition of 'vesting conditions' and 'market condition' and adds definitions for 'performance condition' and 'service condition' in AASB 2 'Share-based Payment'; Amends AASB 3 'Business Combinations' to clarify that contingent consideration that is classified as an asset or liability shall be measured at fair value at each reporting date; Amends AASB 8 'Operating Segments' to require entities to disclose the judgements made by management in applying the aggregation criteria; Clarifies that AASB 8 only requires a reconciliation of the total reportable segments assets to the entity's assets, if the segment assets are reported regularly; Clarifies that the issuance of AASB 13 'Fair Value Measurement' and the amending of AASB 139 'Financial Instruments: Recognition and Measurement' and AASB 9 'Financial Instruments' did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amount, if the effect of discounting is immaterial; Clarifies that in AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets', when an asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount (i.e. proportional restatement of accumulated amortisation); and Amends AASB 124 'Related Party Disclosures' to clarify that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a 'related party' of the reporting entity. The adoption of these amendments from 1 July 2014 will not have a material impact on the consolidated entity.

Annual Improvements to IFRSs 2011-2013 Cycle

These amendments are applicable to annual reporting periods beginning on or after 1 July 2014 and affects four Accounting Standards as follows: Clarifies the 'meaning of effective IFRSs' in AASB 1 'First-time Adoption of Australian Accounting Standards'; Clarifies that AASB 3 'Business Combination' excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself; Clarifies that the scope of the portfolio exemption in AASB 13 'Fair Value Measurement' includes all contracts accounted for within the scope of AASB 139 'Financial Instruments: Recognition and Measurement' or AASB 9 'Financial Instruments', regardless of whether they meet the definitions of financial assets or financial liabilities as defined in AASB 132 'Financial Instruments: Presentation'; and Clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in AASB 3 'Business Combinations' and investment property as defined in AASB 140 'Investment Property' requires the separate application of both standards independently of each other. The adoption of these amendments from 1 July 2014 will not have a material impact on the consolidated entity.

x) Key judgement estimates

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

y) Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

3. Significant accounting policies (continued)

y) Critical accounting judgements, estimates and assumptions (continued)

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Estimation of useful lives of assets

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions. It is reasonably possible that the underlying metal price assumption may change which may then impact the estimated life of mine determinant and may then require a material adjustment to the carrying value of mining plant and equipment, mining infrastructure and mining development assets. Furthermore, the expected future cash flows used to determine the value-in-use of these assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including reserves and production estimates, together with economic factors such as metal spot prices, discount rates, estimates of costs to produce reserves and future capital expenditure.

Income tax

The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Employee benefits provision

As discussed in note 1, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Exploration and evaluation costs

Exploration and evaluation costs have been capitalised on the basis that the consolidated entity will commence commercial production in the future, from which time the costs will be amortised in proportion to the depletion of the mineral resources. Key judgements are applied in considering costs to be capitalised which includes determining expenditures directly related to these activities and allocating overheads between those that are expensed and capitalised. In addition, costs are only capitalised that are expected to be recovered either through successful development or sale of the relevant mining interest. Factors that could impact the future commercial production at the mine include the level of reserves and resources, future technology changes, which could impact the cost of mining, future legal changes and changes in commodity prices. To the extent that capitalised costs are determined not to be recoverable in the future, they will be written off in the period in which this determination is made.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

4. Segment information

Reportable segment performance for the financial year ended 30 June 2014 is set out below:

	SOUTH AUSTRALIA		EASTERN AUSTRALIA		UTAH UNITED STATES		TOTAL SEGMENT AMOUNTS		ADD/(DEDUCT) NON SEGMENT AMOUNTS		TOTALS	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
REVENUE												
Interest income	-	-	-	-	-	-	-	-	19,913	94,332	19,913	94,332
Total segment revenue	-	-	-	-	-	-	-	-	22,013	94,332	22,013	94,332
RESULTS												
Operating loss before tax	(4,588,106)	-	(1,657,218)	(6,050)	-	-	(6,245,324)	(6,050)	(2,019,372)	(1,370,766)	(8,264,696)	(1,376,816)
Net loss after tax	(4,588,106)	-	(1,657,218)	(6,050)	-	-	(6,245,324)	(6,050)	(461,972)	(1,370,766)	(6,707,296)	(1,376,816)
Included within segment results:												
Depreciation and amortisation	-	-	-	-	-	-	-	-	17,892	15,207	17,892	15,207
Impairment	4,588,106	-	1,657,218	6,050	-	-	6,245,324	6,050	-	-	6,245,324	6,050
SEGMENT ASSETS AND LIABILITIES												
Segment assets	6,436,770	-	1,227,270	2,839,551	2,410,657	-	10,074,697	2,839,551	677,328	1,900,974	10,752,025	4,740,525
Segment liabilities	424,115	-	-	-	-	-	-	-	1,046,177	124,344	1,470,292	124,344

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

5. Revenue

	2014	2013
	\$	\$
Revenue		
Interest revenue – bank deposits	19,913	80,464
Interest revenue on loan to PNC Aust Pty Ltd	-	13,068
Service revenue	2,100	800
Foreign exchange gain	421	-
	<u>22,434</u>	<u>94,332</u>

6. Loss for the year

Loss before income tax includes the following specific expenses:

	2014	2013
	\$	\$
Administrative and corporate costs	841,318	945,836
Business Development costs	105,769	485,953
Share based incentives	338,609	-
Management fees and on-costs	728,218	-
	<u>2,013,914</u>	<u>1,431,789</u>
Depreciation and amortisation:		
Depreciation of non-current assets	11,845	11,072
Amortisation of intangible assets	6,047	4,135
	<u>17,892</u>	<u>15,207</u>
Capitalised exploration costs written off:		
Impairment South Australian assets	4,588,106	-
Impairment New South Wales Assets	39,291	24,152
Impairment Queensland assets	1,617,927	-
	<u>6,245,324</u>	<u>24,152</u>
Total operating expenses	<u>8,287,130</u>	<u>1,471,148</u>
Operating loss before tax	<u>8,264,696</u>	<u>1,378,816</u>

During the reporting period, the Group did not assess the carrying value of its Utah, United States Exploration and Evaluation assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

7. Income Taxes

a) Income tax expense

	2014	2013
	\$	\$
Current tax expense	163,792	-
Deferred tax	-	-
Research and development tax offset	(1,721,192)	-
Income tax expense	(1,557,400)	-

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

Loss before income tax expense	(8,264,696)	(1,376,816)
Prima facie tax payable on (loss)	(2,479,409)	(413,045)
Tax effect of non-temporary differences	1,472,957	156,350
Tax effect of equity raising costs debited to equity	(163,792)	(48,628)
Tax effect of tax losses and temporary differences not recognised	(387,156)	305,323
Total income tax expense	(1,557,400)	-

b) Income tax recognised directly in equity

There is no amount of tax benefit recognised in equity as the tax effect of temporary differences has not been booked.

c) A deferred tax asset (DTA) has not been recognised in respect of temporary differences as they do not meet the recognition criteria set out on Note 1 (p) of the financial statements. A DTA has not been recognised in respect of tax losses either as realisation of the benefit is not regarded as probable.

The Group has derecognised net DTA of \$3,126,762 (2013: \$893,274) that are available indefinitely for offset against future taxable profits.

The tax rates applicable to each potential benefit are as follows;

- Timing differences 30%
- Permanent differences 30%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

8. Trade and other receivables

	2014	2013
	\$	\$
GST receivable	53,373	36,672
Other receivables	75,927	8,398
Research and development tax offset	1,431,659	-
Loan to PNC AUST Pty Ltd*	-	707,639
Total	1,560,959	752,709

*Loan to PNC AUST Pty Ltd - On 23rd of August 2013 the conditions precedent in relation to the acquisition of PNC Aust Pty Ltd were satisfied and PNC Aust Pty Ltd became a 100% owned subsidiary of Tellus Resources Limited. Consequently the loan is eliminated on Consolidation.

There were no past due amounts at 30 June 2014 and no provision has been recorded (2013: nil).

9. Other assets

	2014	2013
	\$	\$
Prepaid acquisition costs	65,099	-
Prepayments	4,393	13,702
Total	69,493	13,702

10. Plant and equipment

	FURNITURE AND FITTINGS	COMPUTER HARDWARE	FIELD EQUIPMENT	TOTAL
	\$	\$	\$	\$
Gross Carrying Amount				
Balance at 30 June 2012	-	14,683	42,089	56,772
Additions	-	-	-	-
Balance at 30 June 2013	-	14,683	42,089	56,772
Additions	15,000	12,387	-	27,387
Balance at 30 June 2014	15,000	27,070	42,089	84,159
Accumulated depreciation /amortisation and impairment				
Balance at 30 June 2012	-	4,250	7,594	11,844
Depreciation expense	-	4,173	6,899	11,072
Balance at 30 June 2013	-	8,423	14,493	22,916
Depreciation expense	1,123	5,202	5,520	11,845
Balance at 30 June 2014	1,123	13,625	20,013	34,761
Net Book Value				
30 June 2013	-	6,260	27,596	33,856
30 June 2014	13,877	13,445	22,076	49,398

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

10. Plant and equipment (continued)

Aggregate depreciation allocated, whether recognised as an expense, or capitalised as part of the carrying amount of other assets during the year.

	2014	2013
	\$	\$
Plant and equipment	11,845	11,072

11. Intangible assets

	SOFTWARE	TOTAL
	\$	\$
Gross Carrying Amount		
Balance at 30 June 2013	16,970	16,970
Additions	-	-
Balance at 30 June 2013	16,970	16,970
Additions	-	-
Balance at 30 June 2014	16,970	16,970

	SOFTWARE	TOTAL
	\$	\$
Accumulated amortisation and impairment		
Balance at 30 June 2012	6,788	6,788
Amortisation expense	4,135	4,135
Balance at 30 June 2013	10,923	10,923
Amortisation expense	6,047	2,419
Balance at 30 June 2014	16,970	13,342
Net Book Value		
30 June 2013	6,047	6,047
30 June 2014	-	3,628

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

12. Exploration and evaluation expenditure

	30 JUNE 2014 \$	30 JUNE 2013 \$
Non-producing properties		
Exploration and evaluation expenditure:		
Balance at the beginning of the reporting year	2,799,550	2,512,841
Additions through normal acquisition	5,299,748	304,811
Tenements and licenses acquired on acquisition of		
PNC Aust Pty Ltd (refer note 1) – including costs of acquisition	6,267,676	-
Tenements and licenses acquired – 50% interest in PEL 105	1,750,000	-
Farm out of 50% interest to Senex Energy Limited – in PEL 105	(3,500,000)	-
Covenant Mondo Project Utah, USA – participation costs (refer note 2)	2,291,195	-
Impairment of exploration and evaluation assets*	(6,245,324)	(18,102)
Balance at the end of the reporting year	8,662,845	2,799,550
Closing balance comprises :		
Exploration and Evaluation	1,371,650	2,799,550
Exploration and Evaluation – Joint Operations	7,291,195	-
	8,662,845	2,799,550

(*The Impairment of exploration and evaluation assets occurs where senior management conclude that capitalised expenditure is unlikely to be recovered by sale or future exploration)

Impairment of exploration and evaluation assets:

ASSET	NATURE	REPORTABLE SEGMENT	30 JUNE 2014 \$	30 JUNE 2013 \$
Cooper Basin SA	Oil & gas exploration	South Australia	(4,588,106)	-
Upper Hunter NSW	Gold exploration	Eastern Australia	(39,291)	(18,102)
Chillagoe QLD	Gold exploration	Eastern Australia	(1,528,711)	-
ATP 904 QLD	Oil & gas exploration	Eastern Australia	(89,216)	-
			(6,245,324)	(18,102)

Note 1 – Uplift on Acquisition of PNC Aust Pty Ltd

As part of the acquisition of PNC (Aust) Pty Ltd an Uplift on Acquisition was applied as follows:

Net Assets acquired from PNC (Aust) Pty Ltd (\$197,581)*

Consideration paid:

- Issue of Shares \$4,000,000
 - Issue of options \$764,400 \$4,764,400
- Uplift on asset acquisition \$4,961,981

*Included in net liabilities acquired was \$1,305,695 of exploration assets.

The recoverable amounts were determined based on the fair value of the assets, less cost to sell. In the absence of a binding sale agreement and active market, the Board determined the fair value based on the best information available to reflect an estimated amount that the entity could obtain from the disposal of the assets in an arm's length transaction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

12. Exploration and evaluation expenditure (continued)

Note 2 – Covenant Mondo Project

The Group has agreed with the Operator of the Covenant Mondo Project that the Group's participation Interest in the project would reduce to 25% resulting in a reduction in the cost contribution requirement for the two wells from 50% to 30%. The balance of funds paid in relation to the project is represented by the following;

• Participation Interest payments	\$1,454,472
• USA Costs contributions	\$ 266,033
• Australian operational costs	\$ 273,087
• Project Finder's fee	<u>\$ 297,603</u>
	<u>\$2,291,195</u>

13. Trade and other payables

	2014	2013
	\$	\$
Current		
Trade payables	600,466	52,143
Accruals and Other Payables	221,731	29,214
Payroll liabilities	70,413	32,035
	<u>892,610</u>	<u>113,392</u>

14. Borrowings

	2014	2013
	\$	\$
Current		
Unsecured loans (refer note 1)	550,392	-
	<u>550,392</u>	<u>-</u>

Note 1: Interest has been capitalised as part of the loans where applicable in accordance with loan agreements entered into.

15. Employee benefits

	2014	2013
	\$	\$
Current		
Annual leave	20,510	5,358
	<u>20,510</u>	<u>5,358</u>
Non-current		
Long-service leave	6,780	5,594
	<u>6,780</u>	<u>5,594</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

16. Share capital

	2014 \$	2013 \$
168,099,767 fully paid ordinary shares (2013: 44,380,555 fully paid ordinary shares)	18,783,477	8,184,500
Share issue expenses net of tax	(1,297,608)	(810,469)
	17,485,869	7,374,031

Each ordinary share carries the right to one vote at shareholders' meetings and is entitled to participate in any dividends or other distributions of the Group.

	2014 NUMBER	2014 \$	2013 NUMBER	2013 \$
Fully paid ordinary shares				
Balance at the beginning of the period	44,380,555	7,374,031	44,380,555	7,470,031
Shares issued during the period and fully paid	123,719,212	10,598,977	-	-
Share issue transaction costs net of tax	-	(487,139)	-	(96,000)
Ordinary fully paid shares at end of year	168,099,767	17,485,869	44,380,555	7,374,031

a) Movements in ordinary share capital

DETAILS	DATE	NO OF SHARES	ISSUE PRICE	\$
Balance	1 July 2012	44,380,555		7,470,031
Issue of shares		-	-	-
Share issue transaction costs, net of tax		-	-	(96,000)
Balance	30 June 2013	44,380,555		7,374,031
Issue of shares – placement	23 August 2013	20,736,953	\$0.10	2,073,695
Issue of shares – placement	23 August 2013	7,721,414	\$0.055	424,678
Issue of shares – PNC Aust Pty Ltd *	23 August 2013	40,000,000	\$0.10	4,000,000
Issue of Shares – 50% PEL 105	16 October 2013	19,776,020	\$0.089	1,750,000
Issue of Shares – placement	24 December 2013	11,719,348	\$0.07	820,355
Issue of Shares – placement	6 January 2014	585,715	\$0.07	41,000
Issue of Shares – placement	29 January 2014	1,982,142	\$0.07	138,749
Issue of Shares – placement	6 March 2014	7,864,288	\$0.07	550,500
Issue of Shares – placement	17 April 2014	13,333,332	\$0.06	800,000
Share issue transaction costs, net of tax		-	-	(487,139)
Balance	30 June 2014	168,099,767		17,485,869

*Shares Issued as consideration for the acquisition of PNC Aust Pty Ltd.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

16. Share capital (continued)

b) Capital Management

Management controls the capital of the Group in order to maximise the return to shareholders and ensure that the Group can fund its operations and continue as a going concern.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, working capital requirements, distributions to shareholders and share issues.

17. Reserves

a) Movement in Reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Option Reserve

The reserve is used to recognise the value of options granted for services rendered by consultants and employees of the Company in accordance with the accounting policy described at note 1.

	TOTAL
	\$
OPTION RESERVE	
Total Balance at 1 July 2012	240,513
Fair value of Options issued during the reporting period	96,000
Fair value of Performance Rights vested	35,212
Balance at 30 June 2013	371,725
Fair value of Performance Rights (Options) issued as part of the acquisition of PNC (Aust) Pty Ltd	764,400
Fair value of Options issued during the reporting period (refer note 1)	454,812
Fair value of Performance Rights vested	41,798
Balance at 30 June 2014	1,632,735

Note 1: The following options over ordinary shares in the Company were granted during the reporting year:

1. On the 24th of September 2013, the Company issued pursuant to approval at the shareholders meeting held on 10 July 2013 5,000,000 options to Helmsec exercisable at \$0.20 on or before 17 September 2017.
2. On the 10th of December 2013, the Company issued to Mr Robert Kennedy 7,500,000 options exercisable at \$0.093 on or before 31 December 2016.
3. On the 5th March 2014, the Company issued to Mr Neil Young 2,000,000 options exercisable at \$0.20 on or before 5th of March 2018.
4. On the 5th of March 2014 the Company issued to Robert Lord 1,500,000 options exercisable at \$0.20 on or before 17th of September 2017.

For the options above the fair value at grant date has been calculated using the Black Scholes methodology. Volatility has been calculated with reference to comparable entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

18. Earnings per share

	2014 CENTS PER SHARE	2013 CENTS PER SHARE
Basic (loss) per share	(5.2)	(3.1)
Diluted (loss) per share	(5.2)	(3.1)

The following reflects the income and share data used in the calculations of the basic and diluted earnings per share:

	2014 \$	2013 \$
Earnings reconciliation		
Net loss for the period	(6,707,296)	(1,376,816)
Earnings used in calculating basic and diluted earnings per share	(6,707,296)	(1,376,816)
Weighted average number of ordinary shares used as the denominator in calculating basic and dilutive earnings per share	129,012,489	44,380,555
	129,012,489	44,380,555

The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares and potential ordinary shares in the calculation of diluted earnings per share:

	2014 NUMBER	2013 NUMBER
\$0.30 29 July 2011 unlisted options	-	4,800,000
\$0.30 30 April 2011 unlisted options	-	1,200,000
\$0.25 25 September 2012 unlisted options	5,000,000	5,000,000
\$0.20 17 September 2013 unlisted options	5,000,000	-
\$0.093 4 December 2013 unlisted options	7,500,000	-
\$0.20 5 March 2014 unlisted options	2,000,000	-
\$0.20 5 March 2014 unlisted options	1,500,000	-
\$0.10 17 April 2014 unlisted options	6,666,666	-

19. Contingent liabilities and contingent assets

Chillagoe Gold Project, QLD, Australia

In accordance with the Agreement dated 15 May 2012 with Premier Minerals Limited, upon the successful delineation and announcement by Tellus Resources Limited of an Indicated JORC resource of at least 300,000 ounces of gold with a cut-off grade of 3.0 grams per tonne at the Chillagoe Gold Project, Tellus Resources Limited will pay Premier Minerals Limited a further \$2,000,000 in cash; and issue Premier Minerals Limited \$2,000,000 worth of shares in Tellus Resources Limited.

Covenant Mondo Project, Utah, USA

The Group is committed to expenditure pursuant to the Participation Agreement entered into with Trans Western Petroleum LLC for the Covenant Mondo Project in Utah in the United States of America, as a result a contingent liability for costs in accordance with the Participation Agreement entered into exists. As at the date of this report the Group has paid all amounts due pursuant to the agreements entered into and has not been advised on any additional costs by the operator of the Covenant Mondo Project.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

19. Contingent liabilities and contingent assets (continued)

Tenement Minimum expenditure

The Company has minimum expenditure commitments to meet the conditions under which certain tenements were granted. These minimum expenditure commitments total \$385,000. These minimum commitments may vary from time to time, subject to approval by the grantor of titles or by variation of contractual agreements. The expenditure represents potential expenditure which may be reduced by entering into sale, joint venture or relinquishment of the interests and may vary depending upon the results of exploration. Should expenditure not reach the required level in respect of each area of interest, the Company's interest could be either reduced or forfeited.

20. Notes to the statement of cash flows

a) Reconciliation of cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	2014	2013
	\$	\$
Cash at bank and on hand	409,330	1,134,661

b) Reconciliation of loss for the period after income tax to cash flows used in operating activities

Loss for the year	(6,707,296)	(1,376,816)
Depreciation and amortisation of non-current assets	17,892	15,207
Impairment of exploration assets	6,245,324	18,102
Amounts set aside for provisions	-	1,870
Equity settled share based payments	338,610	35,212
Tax effect of share issue costs	(163,793)	-
Exploration expenditure expensed	-	6,050
(Increase)/decrease in assets:		
Current receivables	-	18,600
Prepayments	9,309	(3,089)
Increase/(decrease) in liabilities:	(808,250)	-
Current and non-current payables	(20,896)	(13,564)
Provisions	16,338	-
Net cash used in operating activities	(1,072,762)	(1,298,428)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

21. Financial Risk Management

Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are interest rate risk, liquidity and credit risk. Due to the size of the Group, a separate finance committee does not exist. The Board is responsible for the financial risk management and considers future cash flow requirements as required.

Interest rate risk

Interest rate risk is managed by investing cash with major financial institutions in both cash on deposit and term deposit accounts.

Liquidity risk

The Group manages liquidity risk by monitoring forecast cash flows. The Group's operations require it to raise capital on an on-going basis to fund its planned exploration program and to commercialise its tenement assets. If the Group does not raise capital in the short term, it can continue as a going concern by reducing planned but not committed exploration expenditure until funding is available and/or entering into joint venture arrangements where exploration is funded by the joint venture partner.

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group as well as through deposits with financial institutions. The Group has adopted a policy of only dealing with credit worthy counterparties obtaining sufficient collateral or other security where appropriate as a means of mitigating the risk of financial loss from defaults and only banks and financial institutions with an 'A' rating are utilised. The Group measures risk on a fair value basis.

The maximum exposure to credit risk at reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

Price risk

The Group does not derive revenue from sale of products, therefore the effect on profit and equity as a result of changes in the price risk is not considered material. The fair value of the mineral projects will be impacted by commodity price changes and could impact future revenues once operational. However, management monitors current and projected commodity prices.

The Group is mainly exposed to mining services price risk. Management constantly monitors price movements and seeks ways to minimise the cost on operating activities.

Financial instruments

The Group has exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and the financial liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

21. Financial Risk Management (continued)

The Group's exposure to interest rate risk and effective weighted average interest rate for financial assets and liabilities is set out below. These tables also set out the Groups remaining contractual maturity for its financial liabilities, they have been drawn up based on the undiscounted cash flows of financial liabilities and are based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

FIXED MATURITY DATES							
	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	VARIABLE INTEREST RATE	LESS THAN 1 YEAR	1-2 YEARS	2-3 YEARS	NON INTEREST BEARING	TOTAL
2014	%	\$	\$	\$	\$	\$	\$
Financial assets							
Cash and cash equivalents	2.77%	409,330	-	-	-	-	409,330
Trade and other receivables		-	-	-	-	1,560,959	1,560,959
		409,330	-	-	-	1,560,959	1,970,289
Financial liabilities							
Trade and other payables		-	-	-	-	892,610	892,610
Borrowings	15.00%	-	-	300,392	-	250,000	550,392
		-	-	300,392	-	1,142,610	1,443,002

FIXED MATURITY DATES							
	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	VARIABLE INTEREST RATE	LESS THAN 1 YEAR	1-2 YEARS	2-3 YEARS	NON INTEREST BEARING	TOTAL
2013	%	\$	\$	\$	\$	\$	\$
Financial assets							
Cash and cash equivalents	2.77%	1,080,530	40,000	-	-	14,131	1,134,661
Trade and other receivables		-	-	-	-	45,070	45,070
Loan to PNC AUST Pty Ltd	7.0%	-	707,639	-	-	-	707,639
		1,080,530	747,639	-	-	59,201	1,887,370
Financial liabilities							
Trade and other payables		-	-	-	-	113,392	113,392

Fair values

The Directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

21. Financial Risk Management (continued)

Sensitivity analysis

Interest Rate Risk and Price Risk

The Group has performed sensitivity analysis relating to its exposure to interest rate risk and price risk at reporting date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

Interest Rate Sensitivity Analysis

At 30 June 2014, the effect on loss and equity as a result of fluctuations in the interest rate, with all other variables remaining constant has been considered. For the purpose of this exercise, a 1% increase in the interest rate results in a decrease in loss by \$67,073 (2013: \$13,768) and an increase in equity by \$67,073 (2013: \$13,768). These changes are considered to be reasonably possible based on observation of current market conditions.

Price Risk Sensitivity Analysis

As the Group does not derive revenue from sale of products, the effect on profit and equity as a result of changes in the price risk is not considered material. The fair value of the exploration projects will be impacted by commodity price changes and could impact future revenues once operational. However, management monitors current and projected commodity prices.

22. Share-based payments

Employee share option plan

There were no employee options granted during the reporting period.

Other share-based payment options on issue

The following reconciles other outstanding share-based payment options on issue at the beginning and at the end of the reporting year:

2014

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of the reporting year	11,000,000	\$0.28
Granted during the financial year	16,000,000	\$0.15
Expired during the financial year	(6,000,000)	\$0.30
Balance at end of the reporting year	21,000,000	\$0.19

The options outstanding at 30 June 2014 had a weighted average exercise price of \$0.18 and weighted average remaining contractual life of 2.96 years.

2013

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of the reporting year	6,000,000	\$0.30
Granted during the financial year	5,000,000	\$0.25
Expired during the financial year	-	
Balance at end of the reporting year	11,000,000	\$0.28

The options outstanding at 30 June 2013 had a weighted average exercise price of \$0.28 and weighted average remaining contractual life of 2.93 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

22. Share based payments (continued)

The following share-based payment arrangements were in existence during the reporting year:

OPTIONS SERIES	NUMBER	GRANT DATE	EXPIRY DATE	EXERCISE PRICE	FAIR VALUE AT GRANT DATE*
Issued 25 Sept 2012	5,000,000	25 Sept 2012	25 Sept 2014	\$0.25	\$96,000
Issued 23 Sept 2013	5,000,000	23 Sept 2013	24 Sept 2017	\$0.20	\$158,000
Issued 4 Dec 2013	7,500,000	4 Dec 2013	31 Dec 2016	\$0.093	\$237,750
Issued 5 Mar 2014	2,000,000	5 Mar 2014	5 Mar 2018	\$0.20	\$47,200
Issued 5 Mar 2014	1,500,000	5 Mar 2014	17 Sept 2017	\$0.20	\$31,350

*The fair value at grant date has been calculated using the Black Scholes methodology. Volatility has been calculated with reference to comparable entities.

INPUTS INTO THE MODEL	OPTION SERIES	OPTION SERIES	OPTION SERIES	OPTION SERIES	OPTION SERIES
Grant date	25-Sep-12	23-Sept-13	4-Dec-13	5-Mar-2014	5-Mar-2014
Exercise price	\$0.25	\$0.20	\$0.093	\$0.20	\$0.20
Expected volatility	82.6%	75%	75%	75%	75%
Option life	2 years	4 years	3 years	4 years	3.5 years
Risk-free interest rate	3.65%	2.80%	2.80%	2.80%	2.80%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2014

22. Share based payments (continued)

Performance Rights

The following Performance Rights were in existence during the reporting year:

2014

	NUMBER OF PERFORMANCE RIGHTS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of the reporting year	1,050,000	\$0.33
Granted during the financial year	45,000,000	N/A
Expired during the financial year	-	
Balance at end of the reporting year	46,050,000	

2013

	NUMBER OF PERFORMANCE RIGHTS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of the reporting year	700,000	\$0.33
Granted during the financial year	350,000	\$0.33
Expired during the financial year	-	
Balance at end of the reporting year	1,050,000	\$0.33

PERFORMANCE RIGHTS	NUMBER	GRANT DATE	FAIR VALUE AT GRANT DATE/VESTED
S Woodham	700,000	5 April 2012	\$48,513
Consultants	350,000	21 Sept 2012	\$23,367
C Dorsch	45,000,000	23 Aug 2013	\$764,400

Milestones

The Performance Rights will convert as follows:

- 1) 300,000 Performance Rights, to convert if the 20 day VWAP for the Shares reaches 25 cents per Share, on or before 27 January 2017; and
- 2) 400,000 Performance Rights, to convert if the 20 day VWAP for the Shares reaches 40 cents per Share, on or before 27 January 2017.
- 3) 5,000,000, where the 30 day volume weighted average price (VWAP) for the ordinary shares of the Company reaches at least \$0.175 per share;
- 4) 5,000,000, where the 30 day VWAP for the ordinary shares of the Company reaches at least \$0.200 per share;
- 5) 5,000,000, where the 30 day VWAP for the ordinary shares of the Company reaches at least \$0.225 per share;
- 6) 15,000,000, when production testing of PEL 105 in either open or closed hole that can demonstrate an immediate flow capacity for the well in excess of a sustained minimum of 100 BOEPD for a period in excess of 7 days. Such test must be certified by a relevant expert in the field being either an independent consulting reservoir engineer or the contracted testing Company, provided that such threshold is achieved on or prior to 31 December 2014; and
- 7) 15,000,000 where the Company has acquired a direct or indirect interest in the Wichita County Project and the production from the leases which form the Wichita County Project reaches an average of 50 BOEPD over a three month period;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2014

22. Share based payments (continued)

Valuation of Performance Rights

The Performance Rights have been independently valued by Stantons International. The valuation noted above is not necessarily the market price that the Performance Rights could be traded at and is not automatically the market price for taxation purposes.

Performance Rights – S Woodham 27 January 2012

PERFORMANCE RIGHT	NO. OF PERFORMANCE RIGHTS	DEEMED SHARE PRICE 27 JANUARY 2012 (CENTS)	VESTING CONDITION – CONVERTING PROVIDED THE PRICE OF SHARES ON THE ASX IS ABOVE THE FOLLOWING PRICES AT THE TIME OF THE CONVERSION (CENTS)	NO. OF TIMES THE VESTING PRICE IS GREATER THAN SHARE PRICE AS AT 27 JANUARY 2012	DISCOUNT FOR VESTING PRICE BARRIER APPLIED TO FAIR VALUE BASED ON 27 JANUARY 2012 SHARE PRICE
Milestone 1	300,000	14	25	1.79	35%
Milestone 2	400,000	14	40	2.86	65%

The determination of the probability and therefore discount to apply is somewhat subjective as it is difficult to predict the future prospects of the Group or the market. However, the time to meet Milestones 2 and 3 are quite long (to 27 January 2017) and the share volatility since the shares have been traded on ASX in May 2011 approximates 67% and these have been taken into account in determining the appropriate discount. For purposes of our valuation, we have estimated the discount to apply to the value of the Performance Rights with market based vesting conditions.

Performance Rights – C Dorsch 23 August 2013

PERFORMANCE RIGHT	NO. OF PERFORMANCE RIGHTS	PERFORMANCE HURDLE	PROBABILITY OF OCCURENCE	FAIR VALUE
Milestone 3	5,000,000	30 Day VWAP \$0.175	32%	\$0.049
Milestone 4	5,000,000	30 Day VWAP \$0.200	23%	\$0.049
Milestone 5	5,000,000	30 Day VWAP \$0.225	17%	\$0.049
Milestone 6	15,000,000	100 BOEPD PEL 105	50%	\$0.049
Milestone 7	15,000,000	50 BOEPD Wichita	30%	\$0.049

The fair value of the 45,000,000 Performance Rights issued to Carl Dorsch or his Nominee were calculated using the Independent experts report from Hall Chadwick that formed part of the Notice of Meeting to shareholders when the transaction was voted upon earlier in the year. The Hall Chadwick valuation report calculated the likelihood of achieving each of the target 30-day VWAP's by applying a Monte Carlo simulation based on the assumptions of transaction completion, \$0.10 spot price, 75% share volatility, and the target prices of the respective hurdles. The likelihood of PEL 105 production being achieved has been estimated at 50% and the likelihood of acquiring the Wichita County Project has been estimated at 30% as outlined in the table above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2014

22. Share based payments (continued)

Based on the above assumptions (after discounting where appropriate for market based conditions) the values are as follows:

PERFORMANCE RIGHTS	27 JANUARY 2012 VALUE (CENTS) AFTER DISCOUNT FOR MARKET BASED CONDITIONS (MILESTONES 1 AND 2)	23 AUGUST 2013 VALUE (CENTS) AFTER DISCOUNT FOR MARKET BASED CONDITIONS (MILESTONES 3 TO 7)
300,000 Milestone 1	9.1	
400,000 Milestone 2	4.9	
5,000,000 Milestone 3		4.9
5,000,000 Milestone 4		4.9
5,000,000 Milestone 5		4.9
15,000,000 Milestone 6		4.9
15,000,000 Milestone 7		4.9

i) 350,000 Performance Rights, to convert if the Share price reaches 30 cents per Share, on or before 21 September 2015.

Valuation of Performance Rights

These Performance Rights have been valued at \$0.067 each. This valuation is not necessarily the market price that the Performance Rights could be traded at and is not automatically the market price for taxation purposes.

Performance rights price inputs

Hurdle price	\$0.30
Spot price - 25 September 2012	\$0.11
Risk free rate	2.56%
Issue date	21-Sep-2012
Conversion date	21-Sep-2015
Number of rights issued	350,000
Present value of performance right	\$0.067
Total value of performance rights	\$23,367

23. Related party disclosures

Parent entity

Tellus Resources Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 28.

Joint operations

Interests in joint operations are set out in note 27.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2014

23. Related party disclosures (continued)

Key Management Personnel

The aggregate of compensation payments made to Directors and other members of key management personnel of the Group is set out below:

	2014	2013
	\$	\$
Short term employee benefits	510,469	371,067
Post-employment benefits	35,709	27,900
Long term benefits/Termination benefits	119,728	-
Share-based payments	1,049,350	26,867
	<u>1,715,256</u>	<u>425,834</u>

Transactions with related parties:

The following transactions occurred with related parties;

	2014	2013
	\$	\$
<i>Payments for services :</i>		
Payment for accounting and Company secretarial services to BDO Administration SA Pty Ltd an entity associated with Mr George Yatzis the Company secretary of Tellus Resources Ltd.	46,000	-
<i>Payments for Furniture and Fittings</i>		
*Payment made to Dorsch Consulting Pty Ltd for Furniture and Fittings at the Tellus Resources Limited Head Office Adelaide, South Australia (Note 1)	15,000	-
Total	<u>61,000</u>	<u>-</u>

Note 1 : Dorsch Consulting Pty Ltd is an entity associated with Mr Carl Dorsch Managing Director of Tellus Resources Limited. The Payment for Furniture and Fittings was approved by the board of directors at a meeting held where Mr Dorsch was not present or permitted to vote or comment upon due to having an interest in the potential transaction,. The acquisition was subject to independent valuation and deliberation by the directors without Mr Dorsch participating in that decision-making process.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

24. Remuneration of auditors

	2014	2013
	\$	\$
Remuneration of the auditor for the Group for:		
Audit or review of the financial report	37,085	50,915
Total	<u>37,085</u>	<u>50,915</u>

The auditor of the Group is Grant Thornton Audit Pty Ltd.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2014

25. Acquisition of PNC (Aust) Pty Ltd

On 30 April 2013, the Company announced that it had entered into a conditional agreement to acquire 100% of the issued shares in PNC AUST Pty Ltd (PNC). Completion of the Acquisition was conditional on, amongst other things, the Company's shareholders approval of the resolutions as set out in the Notice of Meeting to the Extraordinary General Meeting (EGM) held on 10 July 2013. All resolutions were carried by shareholders at the EGM. Furthermore, it was a condition of the Acquisition that the Company raise a minimum of AUD \$2,000,000 to fund the ongoing operations of the Company. On the 23rd of August 2013 the Capital Raising conditions were satisfied and the acquisition of PNC Aust Pty Ltd was completed. At the date of acquisition, PNC Aust Pty Ltd had no employees and its only assets were the tenements and related cash and receivables. Accordingly PNC Aust Pty Ltd does not constitute a business and has been accounted for as an asset acquisition. As a result, costs of \$69,017 incurred through this asset acquisition have been capitalised into the cost of the assets acquired.

As part of the acquisition of PNC (Aust) Pty Ltd an Uplift on Acquisition was applied as follows:

Net liabilities acquired from PNC (Aust) Pty Ltd (\$197,581)

Consideration paid:

- Issue of Shares \$4,000,000
- Issue of options \$764,400 \$4,764,400

Uplift on asset acquisition \$4,961,981

The recoverable amounts were determined based on the fair value of the assets, less cost to sell. In the absence of a binding sale agreement and active market, the Board determined the fair value based on the best information available to reflect an estimated amount that the entity could obtain from the disposal of the assets in an arm's length transaction.

26. Parent entity information

Information relating to Tellus Resources Ltd ('the parent entity').

	2014	2013
	\$	\$
Statement of Financial Position		
Current Assets	1,912,759	1,901,072
Non-current assets	2,414,674	2,839,453
Total Assets	4,327,433	4,740,525
Current liabilities	877,462	118,750
Non-current liabilities	6,780	5,594
Total liabilities	884,242	124,344
Net Assets	3,443,191	4,616,181
Equity		
Issued capital	17,485,869	7,374,031
Equity reserve	1,632,735	371,725
Accumulated losses	(15,675,413)	(3,129,575)
Total Equity	3,443,191	4,616,181
Loss for the year	(12,545,838)	(1,376,816)
Total Comprehensive loss	(12,545,838)	(1,376,816)

Refer to note 19 for details of the parent entity's commitments and contingent liabilities. The parent entity has not entered into a deed of cross guarantee at the year end.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

27. Interests in Joint Operations

The consolidated entity has recognised its share of jointly held assets, liabilities, revenues and expenses of joint operations. These have been incorporated in the financial statements under the appropriate classifications. Information relating to joint operations that are material to the consolidated entity are set out below:

NAME	PRINCIPAL PLACE OF BUSINESS	OWNERSHIP INTEREST	
		2014 %	2013 %
PEL 105 Exploration and mining of oil	South Australia, Australia	50.00%	0.00%
Covenant Mondo Project Exploration and mining of oil	Utah Texas, United States of America	25.00%	0.00%

28. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following wholly-owned subsidiaries in accordance with the accounting policy described in note 1:

CONTROLLED ENTITY	COUNTRY OF INCORPORATION	PERCENTAGE OWNED
Premier Mining Pty Ltd	Australia	100%
PNC Aust Pty Ltd	Australia	100%
PNC USA LLC	United States of America	100%

29. Subsequent events

Madagascan Asset Opportunity

In May 2014, the Company entered into a Share Purchase Agreement with ASX listed Company Caravel Energy Limited to acquire a 25% (with rights to acquire up to a further 55%) interest in a Company called Petromad (Mauritius) Limited. This Company owns a 100% interest in Block 3114 located onshore Madagascar and is a party to a production sharing contract with respect to petroleum exploration and production in the block.

The consideration payable by the Company for the acquisition is 85,000,000 Tellus Resources Ltd ordinary shares.

Completion of the purchase was conditional upon the Company obtaining shareholder approval at an Extraordinary General meeting held on the 26th of September 2014, the Company received shareholder approval at the Extraordinary General Meeting and consequently the transaction will be finalised upon satisfaction of the conditions precedent.

Extraordinary Shareholders Meeting

On the 6th of August 2014 the Company received a notice to call an Extraordinary General Meeting of shareholders with certain resolutions aimed at adding Directors to the Company. On the 26th August 2014, the Company announced that the date of the meeting will be the 7th October 2014.

Share Placement

On 14 August 2014 the Company announced a placement of 22,000,000 ordinary shares to sophisticated investors at an average price of 3 cents per share to raise a total of AUD \$660,000 to assist with the Company's working capital requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

30. Going concern

The financial report has been prepared on the basis of going concern.

The consolidated entity incurred a net loss after tax of \$6,707,296 during the financial year ended 30 June 2014, had a net cash outflow of \$5,631,376 from operating and investing activities, and its planned expenditure exceeds its current cash held. The Group continues to be reliant on the completion of a capital raising for continued operations and the provision of working capital which it has a string history of success with.

If the additional capital is not obtained, the going concern basis may not be appropriate with the result that the Company and consolidated entity may have to realise its assets and extinguish its liabilities, other than in the ordinary course of business in amounts different from those stated in the financial report.

31. Fair value measurement of assets and liabilities

Fair value hierarchy

AASB 13 requires disclosure of fair value measurements by level of the following fair value hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The Group does not have any assets or liabilities that are measured on the basis of fair value.

DIRECTORS' DECLARATION

1. In the opinion of the Directors of Tellus Resources Ltd:
 - a the financial statements and notes of Tellus Resources Ltd are in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of its financial position as at 30 June 2014 and of its performance for the financial year ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
 - b there are reasonable grounds to believe that Tellus Resources Ltd will be able to pay its debts as and when they become due and payable.
2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Managing Director and Chief Financial Officer for the financial year ended 30 June 2014.
3. The financial statements comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:



Robert Kennedy

Chairman

Adelaide, 30 September 2014

Level 1,
67 Greenhill Rd
Wayville SA 5034

Correspondence to:
GPO Box 1270
Adelaide SA 5001

T 61 8 8372 6666
F 61 8 8372 6677
E info.sa@au.gt.com
W www.granthornton.com.au

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TELLUS RESOURCES LIMITED

Report on the financial report

We have audited the accompanying financial report of Tellus Resources Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Australia Ltd is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate one another and are not liable for one another's acts or omissions. In the Australian context only, the use of the term 'Grant Thornton' may refer to Grant Thornton Australia Limited ABN 41 127 556 389 and its Australian subsidiaries and related entities. GTIL is not an Australian related entity to Grant Thornton Australia Limited.

Liability limited by a scheme approved under Professional Standards Legislation. Liability is limited in those States where a current scheme applies.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion:

- a the financial report of Tellus Resources Limited is in accordance with the Corporations Act 2001, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 30 in the financial report which indicates that the company incurred a net loss of \$6,707,296 during the year ended 30 June 2014 and, as of that date, cash outflows from operating and investing activities equates to \$5,631,376. These conditions, along with other matters as set forth in Note 30, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2014. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Tellus Resources Limited for the year ended 30 June 2014, complies with section 300A of the Corporations Act 2001.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



S J Gray
Partner – Audit & Assurance

Adelaide, 30 September 2014