

TELLUS RESOURCES LIMITED
ACN 144 733 595

RIGHTS ISSUE PROSPECTUS

For a pro-rata renounceable rights issue to Eligible Shareholders of 3 New Shares for every 2 Shares held at 7.00pm (Sydney time) on 13 January 2015 at an issue price of \$0.002 per New Share.

Unless extended, the closing date for applications is 5.00pm (Adelaide time) on 28 January 2015.

The offer is partially underwritten by entities associated with the Company's Managing Director. Refer to Section 1.5 for details regarding terms of the underwriting agreements.

Important Information

This is an important document that should be read in its entirety. If you do not understand it you should consult your stockbroker, accountant, or other independent professional adviser without delay.

An investment in the securities offered by this Prospectus should be considered as speculative.

Important information

Important notice

You should read this entire Prospectus carefully. It is important that you consider the risk factors (see Section 4) that could affect the Company's financial performance, before deciding on your course of action.

This Prospectus is dated 7 January 2015. A copy of this Prospectus was lodged with ASIC on that date. ASIC and ASX take no responsibility for the content of this Prospectus. The expiry date of the Prospectus is 13 months after the date the Prospectus was lodged with ASIC (Expiry Date). No Shares will be allotted or issued on the basis of this Prospectus after the Expiry Date.

The Company will apply to the ASX within 7 days after the date of this Prospectus for the New Shares to be quoted on the ASX.

Applications for New Shares offered pursuant to this Prospectus can only be submitted on an original Entitlement and Acceptance Form which accompanies this Prospectus or by payment of the Application Monies by BPAY® in accordance with the Entitlement and Acceptance Form. The Entitlement and Acceptance Form sets out a Shareholders' Entitlement to participate in the Offer. Eligible Shareholders who do not take up their Entitlement will have their existing interest in the Company diluted. Please refer to Section 1 for details of how to accept the Offer.

The Company has not authorised any person to give information, or to make any representation, in connection with this Prospectus which is not contained in the Prospectus or inconsistent with it. Any information or representation not so contained, or inconsistent with the information in this Prospectus, may not be relied on as having been authorised by the Company in connection with this Prospectus.

Some words in this Prospectus have defined meanings. The definitions appear in Section 7 at the end of this Prospectus. References to dollars are to Australian dollars unless otherwise indicated.

This Prospectus contains an offer to Eligible Shareholders in Australia or in New Zealand of "**continuously quoted securities**" (as defined in the Corporations Act) and has been prepared in accordance with Section 713 of the Corporations Act. In making representations in this Prospectus regard has been had to the fact that the Company is a disclosing entity for the purposes of the Corporations Act and certain matters may reasonably be expected to be known to investors and professional advisers whom potential investors may consult. Please refer to Section 1 for further information concerning the nature of this Prospectus.

Neither ASIC nor ASX takes any responsibility for the contents of this Prospectus, or the merits of the investment to which this Prospectus relates.

Foreign Shareholders and Foreign jurisdictions

The New Shares being offered under this Prospectus are being offered to Eligible Shareholders with registered addresses in New Zealand in reliance on the *Securities Act (Overseas Companies) Exemption Notice 2002 (New Zealand)*.

No member of the public in New Zealand may accept the offer made under this Prospectus except in reliance on the *Securities Act (Overseas Companies) Exemption Notice 2002 (New Zealand)*. This Prospectus is not an investment statement or prospectus under New Zealand law and has not been registered, filed with or approved by any New Zealand regulatory authority or under any relevant law in New Zealand. This Prospectus may not contain all the information that an investment statement or prospectus under New Zealand law is required to contain.

This Prospectus does not constitute an offer in any place where it would not be lawful to make such an offer, nor does it constitute an offer to any person to whom it would not be lawful to make such an offer. Ineligible Foreign Shareholders are not entitled to participate in the Rights Issue.

Future performance

Except as required by law, and only then to the extent required, neither the Company nor any other person guarantees the future performance of the Company or any return on any investment made pursuant to this Prospectus.

Any investment in the New Shares should be considered speculative.

Chairman's letter

7 January 2015

Dear Shareholder

On behalf of the Board of Tellus Resources Limited, I am pleased to invite you to participate in a renounceable Rights Issue to raise up to a total of approximately \$897,000.

The Rights Issue provides all Eligible Shareholders the opportunity to invest in 3 New Shares for every 2 Shares held at 7.00pm (Sydney time) on the Record Date (13 January 2015). The New Shares will be issued at \$0.002 per New Share.

In addition, Eligible Shareholders may apply for Additional Shares over and above their Entitlement at the same price of \$0.002 per Additional Share, if and to the extent there is any Shortfall.

The Prospectus was lodged with ASIC on 7 January 2015 and a copy will be sent to all Shareholders of the Company who are on the register of members as at 7.00pm (Sydney Time) on 13 January 2015 and who have registered addresses in Australia or New Zealand.

I encourage those Shareholders who may have smaller, perhaps unmarketable, parcels of Shares to apply for Additional Shares. This may particularly be the case for those Shareholders who acquired Shares through their shareholding in Caravel Energy Ltd. The Board intends to look favourably upon such applications.

Full details of the issue are contained in the Prospectus dated 7 January 2015 which is attached to this letter. Key Dates that shareholders should note are as follows:

- Record Date for Offer 13 January 2015
- Opening Date for Offer 16 January 2015
- Closing Date for Offer 28 January 2015
- Issue Date 4 February 2015

The funds to be raised from the Rights Issue will be used to fund the Company's ongoing working capital requirements, meet expenses associated with the Covenant Mondo joint venture and maintain its various tenements and other assets in good standing.

You are urged to read the Prospectus in full and to consult your stockbroker or financial advisor in relation thereto before deciding whether to accept the Offer.

The Company's Managing Director, Mr Carl Dorsch (through entities controlled by him), has underwritten up to \$200,000 of the Rights Issue.

The Company's other Directors have indicated that they intend to take up their Entitlements under the Rights Issue, subject to legal and other limitations imposed upon them and their associates.

On behalf of the Directors, I commend this Offer to you.

Yours sincerely



Robert Kennedy
Chairman

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Summary of Important Dates

Announcement of Rights Issue	19 December 2014
Prospectus and Appendix 3B lodged with ASIC and ASX.	7 January 2015
“Ex” date from which Shares commence trading without entitlement to participate in the Rights Issue. Rights trading commences on ASX	9 January 2015
Record Date to determine Entitlements under Rights Issue	13 January 2015
Prospectus and Entitlement & Acceptance forms sent to Shareholders – Opening Date	16 January 2015
Rights trading ends	20 January 2015
Deferred settlement trading begins	21 January 2015
Closing Date for acceptances*	5.00pm (Adelaide time) 28 January 2015
Company notifies ASX of under subscriptions	2 February 2015
Issue Date (deferred settlement trading ends)	4 February 2015
Expected date for commencement of normal trading of New Shares on ASX	5 February 2015

The above dates are indicative only and may change without notice. The Directors reserve the right to vary these dates without prior notice, subject to the Corporations Act and the Listing Rules. The Directors reserve the right to withdraw all or part of the Offer at any time prior to the issue of New Shares, in which case the Company will refund Application Monies in accordance with the Corporations Act without payment of interest.

* Unless you pay by BPAY®, Entitlement and Acceptance Forms must be received by the Share Registry by 5.00pm (Adelaide time) on the Closing Date, together with a cheque, bank draft or money order in Australian currency for the amount of the Application Monies payable to “Tellus Resources Limited” and crossed “Not Negotiable”. If you wish to pay by BPAY®, you do not need to return the Entitlement and Acceptance Form, but you must ensure that funds submitted through BPAY® are received by no later than 5.00pm (Adelaide time) on 28 January 2015.

Defined terms and abbreviations

Terms and abbreviations used in this Prospectus are defined in the Glossary in Section 7.

1. DETAILS OF THE OFFER

1.1 General

This Prospectus invites Eligible Shareholders to participate in a pro-rata renounceable Rights Issue on the basis of 3 New Shares for every 2 Shares held on the Record Date at an issue price of \$0.002 per New Share.

If no Options are exercised or Performance Rights converted into Shares prior to the Record Date and all of the Shareholders take up their Entitlement in full, then:

- (1) 448,272,443 New Shares will be offered under the Rights Issue; and
- (2) the amount of \$896,545, before costs, will be raised by the Company from the Rights Issue.

If in the unlikely event that all Options are exercised and all Performance Rights converted into Shares prior to the Record Date, then an additional 80,574,999 New Shares will be offered under the Rights Issue, and an additional \$161,150 (before costs) may be raised.

1.2 Additional Shares

Eligible Shareholders who take up their full Entitlement may also apply for Additional Shares. Applications for Additional Shares may be considered if not all of the Offer Shares are taken-up by the Eligible Shareholders under the Offer. Additional Shares will be issued at the discretion of the Directors and, as a result, there is no guarantee that you will receive Additional Shares. If available, Additional Shares will be issued under the Shortfall Offer referred to in Section 1.14.

In the event that Entitlements are not taken up in full, Eligible Shareholders who have taken up all of their Entitlement and have made an application for Additional Shares may be allocated Additional Shares as follows:

- (a) the number of Additional Shares allocated to an Eligible Shareholder who has applied for Additional Shares will be at the discretion of the Directors;
- (b) the Directors reserve the right to allocate Additional Shares to Eligible Shareholders in part or not at all; and
- (c) an Eligible Shareholder will not receive more Additional Shares than they have applied for.

There is no guarantee that Eligible Shareholders will be successful in being allocated any of the Additional Shares that they may apply for. If an application for Additional Shares is scaled back or the Directors decide not to issue Additional Shares to an Eligible Shareholder, then the Application Moneys for those Additional Shares which are not issued to the applicant will be returned to the applicant without any payment of interest.

1.3 Your Entitlement and trading of Entitlements

Your Entitlement is shown in the accompanying Entitlement and Acceptance Form.

In the calculation of any Entitlement, fractions will be rounded up to the nearest whole number. The Rights Issue is being made on a renounceable basis, meaning that a Shareholders' Entitlement to participate in the Offer may have some value as it may be sold to a third party (who need not be an existing Shareholder). Entitlements may be traded on the ASX from 9 to 20 January 2015. There is no guarantee regarding the level of demand for the Rights or that there will be an active market for the Rights.

1.4 Minimum Subscription

There is no minimum subscription for the Offer.

1.5 Underwriting

Entities associated with the Managing Director, Mr Carl Dorsch, have signed underwriting agreements with the Company, under which they have agreed to apply for up to \$200,000 worth of Shares.

Each underwriting agreement is in the same terms, and is summarised as follows:

- (a) the underwriter's obligations only become binding if there is a Shortfall in the subscription for New Shares under the Rights Issue. If there is a Shortfall, Mr Dorsch (or his controlled or related entity, as the case may be) (**Underwriter**) must apply for the number of shares specified in Section 3.4 ;
- (b) the Underwriter must apply for and pay for the New Shares, and the Company must allot and issue the New Shares, within 15 business days after the Closing Date;
- (c) the issue price for the New Shares will be \$0.002 each, and the New Shares will otherwise be issued pursuant to this Prospectus;
- (d) a fee of \$100 is payable to the Underwriter for partially underwriting the Offer (As there are two underwriting agreements, a total fee of \$200 is payable to the Underwriters for partially underwriting the Offer);
- (e) the obligation of the Underwriter to underwrite the Rights Issue is subject to certain events of termination. The Underwriter may terminate its obligation under the agreement if:
 - (i) The Company does not lodge the Prospectus before 31 January 2015 or the Prospectus is lodged by that date and is thereafter withdrawn by the Company;
 - (ii) The Company fails to lodge an Appendix 3B in relation to the Shortfall Shares;
 - (iii) ASX has advised the Company that it will or may not grant official quotation to the Shortfall Shares;
 - (iv) The Company is prevented from issuing the Shortfall Shares within the time required by the agreement, the Corporations Act, or the Listing Rules;
 - (v) The Takeovers Panel makes a declaration that circumstances in relation to the affairs of the Company are unacceptable circumstances under Part 6.10 of the Corporations Act, or an application for such a declaration is made to the Takeovers Panel;
 - (vi) There is an outbreak of hostilities or a material escalation of hostilities (whether or not war has been declared) after the date of the agreement involving one or more of Australia, New Zealand, Indonesia, Japan, Russia, the United Kingdom, the United States of America, India, Pakistan, the People's Republic of China, Israel or any member of the European Union, or a terrorist act is perpetrated on any of those countries or any diplomatic, military, commercial or political establishment of any of those countries anywhere in the world, which in the reasonable opinion of the Underwriter has or is likely to have a material adverse effect on the Rights Issue;
 - (vii) Any authorisation which is material to anything referred to in the Prospectus is repealed, revoked, or terminated or expires, or is modified or amended in a manner unacceptable to the Underwriter acting reasonably;
 - (viii) An event of insolvency occurs in respect of the Company or any of its subsidiaries; or

- (ix) A director or senior manager of the Company or any of its subsidiaries is charged with an indictable offence.

The Underwriters have notified the Company of their present intention not to acquire Shares prior to the Record Date. No assurance can be given that the Underwriter's intentions won't change.

The relevant interest of the Underwriter pre-Offer is disclosed in this Prospectus at Section 3.4.

1.6 **Opening Date and Closing Date**

The Rights Issue will open on 16 January 2015 (**Opening Date**) and close at 5.00pm Adelaide time on 28 January 2015 (or such later date as the Directors, in their absolute discretion and subject to compliance with the Listing Rules, may determine) (**Closing Date**).

Completed Entitlement and Acceptance Forms must be received at the Company's Share Registry by 5.00pm (Adelaide time) on 28 January 2015, together with payment, in Australian dollars, for the amount of the application in accordance with the Entitlement and Acceptance Form.

If you wish to pay by BPAY®, you do not need to return the Entitlement and Acceptance Form, but you must ensure that funds submitted through BPAY® are received by no later than 5:00pm (Adelaide time) on 28 January 2015.

1.7 **How to take up your Entitlement**

Under the Rights Issue, you may apply for 100% of your Entitlement or for a portion less than your Entitlement, by using the personalised Entitlement and Acceptance Form mailed to you with this Prospectus, or by making a payment by BPAY® in accordance with the instruction on the Entitlement and Acceptance Form.

Instructions on how to make payments are set out on the Entitlement and Acceptance Form and in Section 1.8 below.

The Entitlement and Acceptance Form details your Entitlement and should be completed in accordance with the instructions set out on the form.

You should allow sufficient time to ensure that your Entitlement and Acceptance Form reaches the Share Registry, or any payment of Application Monies by BPAY®, by the specified time of 5.00pm (Adelaide time) on the Closing Date, being 28 January 2015 unless extended by the Directors.

1.8 **Payment and return of your Entitlement and Acceptance Form**

You may pay the Application Money by BPAY®, cheque, money order or bank draft.

Payment by BPAY®

If you elect to make payment using BPAY®, you must follow the instructions for BPAY® described in the Entitlement and Acceptance Form (which includes the biller code and your unique customer reference number). Please note that should you choose to pay by BPAY®:

- (a) you do not need to submit the personalised Entitlement and Acceptance Form but you are taken to make the statements on the form; and
- (b) if you do not pay for your full Entitlement, you are deemed to have taken up your Entitlement in respect of such whole number of New Shares which is covered in full by your Application Money.

If you have multiple holdings you will have multiple unique customer reference numbers.

You should be aware that your own financial institution may implement earlier cut off times with respect to electronic payment, and you should therefore take this into consideration when making payment. It is the responsibility of the applicant to ensure that funds submitted through BPAY® must be received by no later than 5.00m (Adelaide time) on 28 January 2015.

Payment by cheque, money order or bank draft

Those who elect to pay by cheque, money order or bank draft must follow the instructions described in the Entitlement and Acceptance Form. You must ensure that:

- (a) your Entitlement and Acceptance Form is complete;
- (b) your cheque, money order or bank draft for the applicable amount of Application Money must be made in Australian currency, drawn on an Australian branch of a financial institution, be made payable to "Tellus Resources Limited" and crossed "Not Negotiable"; and
- (c) your completed Entitlement and Acceptance Form and cheque, money order or bank draft is received by the Company's Share Registry by no later than 5.00pm (Adelaide time) on 28 January 2015 at:

Computershare Investor Services Pty Ltd
GPO BOX 2987
Adelaide SA 5001

1.9 Use of Funds

The purpose of the Offer is to raise up to \$896,545. The gross proceeds of the Rights Issue are intended to be used for the purposes and in the amounts set out in the table in Section 3.1 of this Prospectus.

1.10 Issue and Allotment of New Shares

The New Shares are expected to be allotted by no later than 4 February 2015.

The New Shares will be issued fully paid and, from the date of issue, will rank equally in all respects with existing Shares.

By returning your Entitlement and Acceptance Form, or by payment of all or part of the Application Monies by BPAY®, you agree to comply with the Constitution in respect of the New Shares issued to you.

Until the issue and allotment of the Offer Shares the Application Monies will be held on trust until allotment takes place, in a separate bank account opened and maintained for that purpose only. Any interest earned on the Application Monies will be for the benefit of the Company and will be retained by it irrespective of whether allotment of the Offer Shares takes place. No allotment of Offer Shares will take place until the proceeds of the Rights Issue have been received and ASX grants permission to quote the New Shares.

1.11 ASX Quotation

On the same date as announcing the Prospectus, the Company applied to the ASX for the grant of official quotation of the New Shares to applicants.

Quotation of the New Shares, if granted by the ASX, will commence as soon as practicable after the issue of the New Shares.

If approval for official quotation is not granted by ASX within 3 months after the date of this Prospectus, the Company will not allot or issue any New Shares and will repay all application Monies (where applicable) within the time prescribed under the Corporations Act, without interest.

That the New Shares have been admitted to quotation on ASX is not to be taken in any way as an indication of the merits of the Company or the New Shares.

1.12 **Overseas Shareholders**

The New Shares being offered under this Prospectus are being offered to Eligible Shareholders with registered addresses in New Zealand in reliance on the *Securities Act (Overseas Companies) Exemption Notice 2002 (New Zealand)*.

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer.

The Company believes it is unreasonable to extend the Offer to Ineligible Shareholders. The Company has formed this view having considered:

- (a) the number and value of the securities that would be offered to those shareholders; and
- (b) the cost of complying with the legal requirements and requirements of regulatory authorities in the overseas jurisdictions.

Accordingly, the Offer under this Prospectus is not made to Ineligible Shareholders (as defined in Section 7).

However, in order for the Offer to satisfy Listing Rule 7.7.1(c) in respect of a renounceable rights issue, the Company is required to do each of the following:

- (a) appoint a nominee (**Nominee**) to arrange for the sale of the entitlements that would have been given to the Ineligible Shareholders and to account to them for the net proceeds of the sale; and
- (b) advise each Ineligible Shareholder not given the entitlement that the Nominee will arrange for the sale of the entitlements and, if they are sold, for the net proceeds to be sent to the Ineligible Shareholder.

The Company has appointed Taycol Nominees Pty Ltd as the Nominee for Ineligible Shareholders to undertake the matters set out in paragraphs (a) and (b) above and also Section 9A of the Corporations Act.

The Company will advise the Ineligible Shareholders of the matters set out in Listing Rule 7.7.1(c) shortly after the date of this Prospectus.

1.13 **Brokerage and stamp duty payable on subscription under Entitlement**

No brokerage or stamp duty will be payable by you in respect of a subscription for New Shares under your Entitlement.

1.14 **Shortfall Offer**

The Directors reserve the right to issue any Shortfall in subscription for New Shares at their discretion after the close of the Offer. Offers of Shortfall are made as a separate offer under this Prospectus. Should the Directors decide to issue any Shortfall; the Shortfall Offer will remain open after the Closing Date. The issue price for each New Share to be issued under any Shortfall Offer will not be less than \$0.002.

Pursuant to Listing Rule 7.2 (exception 3), New Shares issued under the Shortfall Offer not later than three months after the close of the Offer do not detract from the Company's capacity to issue 15% of its issued capital without security holder approval in a 12 month period.

Allotment of Shortfall Shares under the Shortfall Offer may occur on a progressive basis at any time on or after the date of allotment of New Shares under the Offer.

1.15 Tax implications

The Company makes no representation and provides no advice in relation to the tax consequences for any Shareholder of taking up their Entitlement under the Offer. Shareholders should seek professional taxation advice about the tax consequences of taking up the Entitlement.

1.16 CHESS

The Company will apply to the ASX to participate in CHESS, for those investors who have, or wish to have, a sponsoring stockbroker. Investors who do not wish to participate through CHESS will be issuer sponsored by the Company. Because the sub-registers are electronic, ownership of securities can be transferred without having to rely upon paper documentation.

Electronic registers mean that the Company will not be issuing share certificates to investors. Instead, investors will be provided with a statement (similar to a bank account statement) that sets out the number of New Shares allotted to them under this Prospectus. The notice will also advise holders of their Holder Identification Number (**HIN**) or Shareholder Reference Number (**SRN**) and explain, for future reference, the sale and purchase procedures under CHESS and issuer sponsorship.

Further monthly statements will be provided to holders if there have been any changes in their security holding in the Company during the preceding month.

1.17 The Company's regular reporting and disclosure requirements

This Prospectus is issued pursuant to section 713 of the Corporations Act as a prospectus for the offer of continuously quoted securities.

The Company is a "disclosing entity" for the purposes of the Corporations Act and as such is subject to regular reporting and disclosure obligations. Specifically, as a listed company, the Company is subject to the Listing Rules which require continuous disclosure to the market of any information the Company has which a reasonable person would expect to have a material effect on the price or value of the Company's Shares.

The ASX maintains files containing publicly disclosed information about all listed companies. The Company's file is available for inspection at the ASX during normal working hours or via the ASX website at www.asx.com.au. In addition, copies of documents lodged with the ASIC in relation to the Company may be obtained from, or inspected at, any regional ASIC office.

During the period that the Offer remains open, the Company will provide copies of the following to any person on request, free of charge:

- (a) the Company's annual financial report for the year ended 30 June 2014;
- (b) any continuous disclosure notices used to notify ASX of information relating to the Company between 30 September 2014 (being the date of lodgement with ASIC of the annual financial report referred to in paragraph (a) and the date of lodgement of this Prospectus. The documents listed in Schedule 1 to this Prospectus were lodged by the Company with ASX during this period.

All requests for copies of the above documents should be addressed to the Company Secretary.

1.18 Privacy

By completing the Entitlement and Acceptance Form or making a payment by BPAY® to apply for New Shares, you are providing personal information to the Company.

The *Privacy Act 1988* (Cth) regulates the way the Company collects, uses, disposes, keeps secure and gives people access to their personal information.

The Company collects, holds and uses that personal information in order to process your application and to administer your shareholding in the Company, including:

- setting up and maintaining a register of shareholders in accordance with the Corporations Act;
- paying dividends to you should the Company at a later date declare a dividend;
- communicating with Shareholders, including sending annual reports, notices of meetings and any other documents which the Company wishes or is required to send to you as a Shareholder;
- carrying out general administration including monitoring, auditing, evaluation, modelling data, dealing with complaints and answering queries; and
- complying with its legal and regulatory obligations.

If you do not provide the information requested in the Entitlement and Acceptance Form, the Company may not be able to process or accept your application for New Shares.

Your personal information may be provided to the Company's agents or service providers.

The types of agents and service providers that may be provided with your personal information include:

- the Share Registry for ongoing administration of the share register;
- printers and mail houses for the purposes of preparation and distribution of documents to you and for handling mail; and
- professional service providers such as lawyers, accountants, auditors and other professional advisers for the purpose of administering, and advising on, the New Shares and for any associated actions.

Your personal information may be provided to certain third parties. The types of third parties that may be provided with your personal information, and the circumstances in which your personal information may be disclosed, include:

- your financial adviser or broker (other than your tax file number information) in connection with services provided to you by your adviser or broker;
- government, regulatory authorities or other people when permitted or required by law, such as ASIC or people inspecting the Share register in accordance with the Corporations Act;
- ASX; and
- in certain circumstances and with safeguards to respect your privacy, potential or actual purchasers of an interest in the Company or the Company's business or any part thereof.

You have the right to gain access to your personal information held by, or on behalf of, the Company, subject to certain exemptions under the law. You may be required to pay a reasonable charge in order to access your personal information. You can request access to your personal information by telephoning or writing to the Company Secretary as follows:

Tellus Resources Ltd
Company Secretary
PO Box 190, Rundle Mall
Adelaide SA 5000

Tel: 08 8100 9200

1.19 Enquiries

If you have any questions regarding your Entitlements please contact the Company's Share Registry, Computershare Investor Services Pty Limited by telephone on 1300 556 161 (inside Australia) or +61 3 9415 4000 (outside Australia).

2. COMPANY OVERVIEW

2.1 Summary of Key Assets

- Rights to earn up to a 25% working interest in certain leases collectively known as the Covenant Mondo joint venture, located in Utah, USA.
- An effective 25% working interest in a Production Sharing Contract (PSC) of ~10,000 km² in size, known as Block 3114, located onshore Madagascar. By funding certain work programs, the Company can earn up to an effective 80% interest in this PSC.
- 50% working interest in PRLs 108,109 and 110 (formerly PEL 105) in the Cooper Basin.
- 100% interest in a number of mineral exploration tenements located in Queensland and New South Wales.

Covenant Mondo Joint Venture

On 17 December 2013, the Company, through its wholly owned subsidiary PNC Aust Pty Ltd (PNC), announced that it had signed a Participation Agreement (PA) with a private U.S. company giving it certain rights to an onshore conventional oil-play called Covenant Mondo Joint Venture (CMJV), located in Sevier County, Utah, USA. The Operator of the CMJV is a private US company.

Covenant Mondo consists of two leases with a total area of approximately 3,900 acres held over private lands. The leases are located on the well-known "hingeline" overthrust structure in the Rocky Mountains which trends in a North Easterly direction from Arizona in the South right up into Canada.

The PA originally allowed PNC to earn up to a 41.67% interest (amended to 25% as at 16 July 2014) in the two leases through the payment of an upfront fee and then paying for up to 50% (amended to 30% as at 16 July 2014) of the costs of two exploration wells. The Company has paid 50% of costs incurred up to 15 July 2014 and 30% of costs from 16 July 2014.

Pursuant to the amended terms of the PA, PNC could be in default, among other things if it fails to pay, when due, any of the cash calls, costs and expenses of the wells.

A default may be remedied by taking appropriate action after receiving notification. If however a default is not cured then the PA terminates in its entirety and PNC has no further right to earn any further interest and PNC owes to the Operator US\$1,000,000 for each well not yet drilled and 'Completed'¹ as at the date of termination, if the PA terminates prior to the completion of the second well.

All of PNC's obligations under the PA are guaranteed by the Company. The Company indemnifies the Operator against any liability or loss and any costs it incurs arising from PNC not complying with an obligation it has under the PA.

The first well was recently drilled and was plugged and abandoned as a dry hole. The second well is expected to be drilled sometime in 2015. The Operator has yet to advise the date of this.

The Company is currently in dispute with the Operator of the CMJV – see Section 4.1.

¹ 'Completed', 'Completing' or 'Completion' means, with respect to each well running production casing; procuring and installing flow lines, wellheads, tanks and other production equipment.

Block 3114

In June 2014, the Company announced that it had acquired an effective 25% interest (with the right to acquire up to an 80% interest) in a PSC of ~10,000 kms², located off the south-east coast of Africa on the island of Madagascar.

Consideration for the asset was the issue of 89.5M Shares to the vendor, their creditors and promoters.

The Company can fund a multi-stage exploration program to earn further effective interests in the PSC and will progress said program in 2015.

PRLs 108,109,110

The Company currently has a 50% working interest in these three long term retention licences in the Cooper Basin.

The Company has recently executed an Agreement with the Operator of these licences, Senex Energy Ltd (SXY) which has the effect of amending the prior Farmin Agreement between the parties as follows;

1. Instead of drilling a carried well, SXY will instead fully fund the acquisition, processing and interpretation of a 3D seismic program covering 42 square kilometres of the PRLs (and additional "tails" extending into neighbouring licences).
2. In return SXY will earn an additional 7% equity in the PRLs and the Company will have a 43% interest.
3. SXY intends to commence the seismic program in the first quarter of 2015. The Agreement has mechanisms to encourage the timely performance of this farm-in work.

A well, known as Pirie 1, was drilled in the permits in 2013. The well was cased and suspended in the Nappamerri formation and as a potential Birkhead oil producer.

Minerals Tenements

The Company owns a 100% interest in a number of mineral exploration tenements in New South Wales and Queensland. Although these tenements are considered to be prospective for gold and copper in particular, they are currently viewed as non-core assets for the Company, given its primary focus on oil and gas exploration.

2.2 The Company's Board and Senior Management

The Company's board and management have extensive experience in exploration, project development, resource operations and public company administration, with a unique suite of experience in the international oil and gas industry.

The Board comprises:

Robert Kennedy (Chairman).
Carl Dorsch (Managing Director).
Neil Young (Non-Executive Director).

Mr George Yatzis is the Company's Company Secretary.

2.3 Market Prices of the Company's Shares on ASX

The highest and lowest market sale price of the Company's shares on the ASX during the three months immediately preceding the date of this Prospectus, and the respective dates of those sales, and the last sale on the ASX trading day immediately preceding the date of this Prospectus were as follows:

	Price	Dates
Highest	\$0.030	8, 9 and 29 October 2014
Lowest	\$0.003	19 and 24 December 2014
Latest	\$0.004	6 January 2015

2.4 The Company's Share Capital

At the date of this Prospectus the Company had:

- (1) 298,848,295 Shares on issue.
- (2) 22,666,666 Vested Options which are capable of being exercised. The terms of these are summarised in Section 3.3 below.
- (3) 31,050,000 Performance Rights. The terms of these are summarised in Section 5.5 below.

3. PURPOSE AND EFFECT OF THE RIGHTS ISSUE ON THE COMPANY

3.1 Purpose of the Rights Issue

The purpose of the Rights Issue is to raise up to \$896,545 before expenses². Expenses related to the Offer are expected to be approximately \$77,000.

The gross proceeds to be raised from the Offer are planned to be used in accordance with the table set out below:

Use of proceeds if full amount raised	\$	%
Expenses related to the Rights Issue	\$77,000	9%
General working capital and administration expenses	\$100,000	11%
Expenses relating to the Covenant Mondo Joint Venture – US 82c conversion*	\$415,000	46%
Expenses relating to non-core mineral exploration tenements	\$100,000	11%
Expenses relating to Madagascar Block 3114	\$204,545	23%
Total	\$896,545	100%

**Subject to foreign exchange risk between date of prospectus and payment in early 2015*

There is no minimum subscription under the Offer and the Offer is partially underwritten for up to \$200,000. If less than 448,272,443 New Shares are issued pursuant to the Rights Issue, then the Company will raise less than \$896,545. In this case, it is intended that the gross proceeds of the Rights Issue will be used in accordance with the table set out below:

Use of proceeds if less than full amount raised	\$
Expenses related to the Rights Issue	The first \$77,000
General working capital and administration expenses	The next \$50,000
Expenses relating to the Covenant Mondo Joint Venture – US 82c conversion	The next \$415,000
Expenses relating to non-core mineral exploration tenements	The next \$100,000
Expenses relating to Madagascar Block 3114	The balance of proceeds raised

² This amount has been calculated on the assumption that none of the Options and Performance Rights are exercised or vested before the Record Date.

The above tables are a statement of current intentions as at the date of this Prospectus. As with any budget, intervening events and new circumstances have the potential to affect the manner in which the proceeds are ultimately applied. The Board reserves the right to alter the way proceeds are applied on this basis.

3.2 Principal effect of Rights Issue

If no Options or Performance Rights are exercised prior to the Record Date and if all of the Shareholders take up their Entitlement in full, then the principal effect of the Rights Issue on the Company will be that:

- (a) cash reserves and contributed equity of the Company will increase by approximately \$896,545 before deducting the expenses of the Rights Issue; and
- (b) the number of Shares on issue will increase by 448,272,443 from 298,848,295 shares to 747,120,738 shares.

If 100% of the Options are exercised prior to the Record Date and all Entitlements are taken up, then the principal effect of the Rights Issue on the Company will be that:

- (c) cash raised would be approximately \$3.06 million from the exercise of the Options and up to approximately \$964,545 from the Rights Issue before deducting the expenses of the Rights Issue; and
- (d) the number of Shares on issue will increase by 482,272,442 from 321,514,961 to 803,787,403.

3.3 Impact on capital structure

- (a) Undiluted

At the date of this Prospectus, the Company has 298,848,295 Shares on issue.

Assuming no Options are exercised prior to the Record Date and no Shares are issued prior to the Record Date, then if all of the Eligible Shareholders take up their entitlement in full the New Shares issued pursuant to this Prospectus will be 448,272,443 or 60% of the expanded issued capital, and the total Shares on issue after the Rights Issue will be 747,120,738.

- (b) Diluted

The Company has 22,666,666 Options on issue which have not been exercised at the date of this Prospectus. The details of Options on issue are:

Table 1: Options on Issue

Amount	Vested / Not Vested	Expiry	Exercise Price
7,500,000	Vested	31.12.16	\$0.093
5,000,000	Vested	17.09.17	\$0.20
6,666,666	Vested	31.12.15	\$0.10
2,000,000	Vested	05.03.18	\$0.20
1,500,000	Vested	17.09.17	\$0.20
22,666,666	Total Vested		

As noted in Section 1, only holders of Options who have exercised their Options and been issued Shares prior to the Record Date are entitled to participate in the Rights Issue.

If 100% of the Options are exercised prior to the Record Date, the number of fully paid ordinary Shares on issue will increase by 22,666,666 from 298,848,295 to 321,514,961 before the Rights Issue. If all Entitlements are taken up, the number of fully paid ordinary Shares on issue will increase by 482,272,442 from 321,514,961 to 803,787,403 after the Rights Issue.

The pro-forma capital structure of the Company following the Rights Issue on both an undiluted, and fully diluted basis for the 22,666,666 Options, is set out below:

Table 2: Issued Capital Post Rights Issue

Issued Capital	Undiluted	100% Diluted (Options Only #)
Existing Shares	298,848,295	321,514,961
New Shares to be issued pursuant to this Prospectus	448,272,443	482,272,442
Total Shares on issue following the Rights Issue	747,120,738	803,787,403
Options on issue*	22,666,666*	Nil if fully exercised*
Performance Rights on issue	31,050,000	31,050,000

Options only, as Performance Rights which are not vested cannot be exercised.

* Not including the potential issue to Adelaide Equity of 2,500,000 Options in the event that the entire Shortfall from the Offer is successfully placed. Refer to Section 5.6 for additional information.

3.4 Effect on control of Company

If all Eligible Shareholders take up their Entitlements, there will be no impact on control of the Company.

Based on publicly available information, the substantial Shareholders in the Company as at 6 January 2015 are set out below:

Name	Number of shares held	Percentage of issued shares
Mr Jason Peterson	25,000,000	8.37
Austin Exploration Ltd	19,776,020	6.62
Paragon Group Holdings Ltd	18,760,463	6.28
Susan Lockens	17,942,054	6.00
Mr Carl Dorsch and associates	17,753,694	5.94

Managing Director, Mr Carl Dorsch, and his associates, including Dorsch Consultants Pty Ltd, CNP Energy Pty Ltd and CW Dorsch Super Fund, have a combined voting power of 5.94% as at the date of this Prospectus. In addition, entities associated with Mr Dorsch have agreed to apply for \$200,000 worth of Shares pursuant to underwriting agreements as outlined in Section 1.5 above. Therefore, if Mr Dorsch and his associates take up their full Entitlement and \$200,000 worth of Shares pursuant to the underwriting agreements, the number of Shares in the Company issued to Mr Dorsch and his associates on completion of the Offer will be up to 144,384,235 as set out in the following table

Description of holding	Number of Shares held
Existing Shares	17,753,694
Shares issued pursuant to underwriting agreements	100,000,000
Entitlement	26,630,541
Total	144,384,235

The following table summarises the potential impact of the Offer on Mr Dorsch's voting power under different scenarios, as follows:

Event	Shares held by Mr Dorsch and associates	Total Shares	Voting power of Mr Dorsch and associates
Date of Prospectus	17,753,694	298,848,295	5.94%
Offer fully subscribed with no Shortfall	44,384,235	747,120,738	5.94%
Offer 50% subscribed with entities associated with Mr Dorsch underwriting	144,384,235	622,984,517	23.18%
Offer 25% subscribed with entities associated with Mr Dorsch underwriting	144,384,235	510,916,406	28.26%

This assumes that in each scenario Mr Dorsch and his associates participate to the full extent of their Entitlement to Shares under the Offer.

This also assumes that no Options are exercised or Performance Rights vest prior to the Record Date.

Section 606(1) of the Corporations Act prohibits the acquisition of a 'relevant interest' in issued voting shares in a company if the company is listed and the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person; and because of the transaction, that person's or someone else's voting power in the company increases from 20% or below to more than 20% (or from a starting point that is above 20% and below 90%). However, that person may acquire the 'relevant interest' under one of the exceptions set out in section 611 of the Corporations Act. In particular, an acquisition that results from an issue under a disclosure document of securities in the company in which the acquisition is made, if the issue is to a person as underwriter to the issue and the disclosure document disclosed the effect that the acquisition would have on the person's voting power in the company, is an exempt acquisition. Included in this Prospectus at Section 3.4 are details of Mr Dorsch's acquisition of a 'relevant interest' and its effect on his voting power. Accordingly, Mr Dorsch and his associates will be able to increase their voting power without breaching the prohibition in section 606 of the Corporations Act.

The voting power of each substantial Shareholder (other than Mr Dorsch) will not increase above 20% as a result of their participation in the Offer even in the highly unlikely event that no other Eligible Shareholders take up their Entitlements.

3.5 Financial Effect of the Offer

The effect of the Offer on the Company's financial position if all Eligible Shareholders take up their Entitlements in full (and none of the Options are exercised prior to the Record Date) will be to increase consolidated net assets and consolidated total equity by \$819,545 after payment of the cash expenses of the Rights Issue which are estimated to be \$77,000. It is intended that these funds will be applied as set out in Section 3.1 of this Prospectus.

If all of the Options are exercised prior to the Record Date and all of the Eligible Shareholders take up their Entitlement in full then the consolidated net assets and consolidated total equity will increase by \$964,545 before payment of the cash expenses of the Rights Issue which are estimated at \$77,000. An additional \$3,064,167 would be raised from the exercise of Options.

3.6 Pro-forma Statement of Financial Position

Set out in this Section of the Prospectus is a pro forma consolidated statement of financial position of the Company taking into account the Rights Issue. It is based on consolidated financial statements for the year ended 30 June 2014. The pro forma consolidated statement of financial position illustrates the effect of the Rights Issue as if the Rights Issue had occurred on 30 June 2014, fully subscribed. This assumes no Options will be exercised.

	Audited	Rights Issue Transaction	Pro Forma Unaudited Full rights Entitlement
	30 Jun 2014		30 Jun 2014
	\$	\$	\$
CURRENT ASSETS			
Cash and cash equivalents	409,330	819,545	1,228,875
Trade and other receivables	1,560,959		1,560,959
Prepayments	69,493		69,493
Total Current Assets	2,039,782	819,545	2,859,327
NON-CURRENT ASSETS			
Property, plant & equipment	49,398		49,398
Exploration and development	8,662,845		8,662,845
Total Non-Current Assets	8,712,243		8,712,243
TOTAL ASSETS	10,752,025	819,545	11,571,570
CURRENT LIABILITIES			
Trade and other payables	892,610		892,610
Loans	550,392		550,392
Provisions	20,510		20,510
Total Current Liabilities	1,463,512		1,463,512
NON-CURRENT LIABILITIES			
Long term provisions	6,780		6,780
Total Non-Current Liabilities	6,780		6,780
TOTAL LIABILITIES	1,470,292		1,470,292
NET ASSETS	9,281,733	819,545	10,101,278
EQUITY			
Issued Capital	17,485,869	819,545	18,305,414
Reserves	1,632,735		1,632,735
Accumulated losses	(9,836,871)		(9,836,871)
TOTAL EQUITY	9,281,733	819,545	10,101,278

Notes:

1. At 30 June 2014 the Company had cash and cash equivalents of \$409,330. Since 30 June 2014, the Company has expended further cash on exploration and for general working capital. Cash and cash equivalents as at 31 December 2014, which has not been subject to audit, is \$170,030.
2. Current Assets – Trade & other receivables – A material amount being \$1,431,659 of the \$1,560,959 has been received in August 2014 in relation to the 2013/14 R&D Refund from AusIndustry. This has not been subject to audit.
3. Current Liabilities - Loans as at 31 December 2014 is \$400,391. This has not been subject to audit.

4. RISK FACTORS

The Company's activities are subject to a number of risks which may impact future financial performance and the market price at which New Shares trade. Some of these risks can be mitigated by the use of safeguards and appropriate controls. However, others are outside the Company's control and cannot be mitigated. Therefore, investors who acquire New Shares may be exposed to a number of risks. Broadly, these risks can be classified as risks that are general to investing in the share market and risks specific to an investment in Shares and the Company's underlying business.

This Section sets out the identified major risks associated with investing in New Shares. This list is not exhaustive and investors should read this Prospectus in its entirety before making an investment decision. Investors should also have regard to their own investment objectives and financial circumstances, and should consider seeking appropriate independent investment advice before deciding whether to invest in the New Shares.

4.1 Key risks

Going Concern

The Company's auditor, Grant Thornton Audit Pty Ltd noted in respect of the Annual financial report as at 30 June 2014 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 annual financial report.

Future capital needs and additional funding

The future capital requirements of the Company will depend on many factors. There can be no guarantee that the Company will be able to raise additional capital to meet future funding requirements.

Any inability to obtain additional finance, if required, would have a material adverse effect on the Company's business and its financial condition and performance.

As noted in Section 2.1, the Participation Agreement (as amended from time to time) which the Company has in relation to the CMJV requires it to fund 50% of costs incurred up to 15 July 2014 and 30% of costs from 16 July 2014. The second well is expected to be drilled sometime in 2015, although the date has not yet been set. The Company will need to finance its share of this second well. This may be sourced in a number of ways, including equity raising and sale of assets.

The Company's other primary current oil and gas focus area in Madagascar is also likely to require further capital in order to progress material exploration activities. That may be sourced in a number of ways, including farm-out, equity raising, sale, etc.

Litigation and material disputes

Covenant Mondo Joint Venture

As announced on 20 and 27 November 2014, the Company and the Operator of the CMJV are in formal dispute over various matters. These include but are not limited to: the timely provision of data; the general performance and competence of the Operator; and, costs allegedly still due in connection with the recently drilled well. (Further detail regarding the Participation Agreement in relation to the CMJV is set out in Section 2.1.)

The Operator has served the Company with a notice which purports to be a default notice in connection with alleged unpaid amounts.

As provided for under the relevant agreement between the parties, an arbitration process has been initiated to resolve the matters under dispute. To date, each party has appointed an arbitrator and those two parties will shortly select a third arbitrator. The arbitration process will be conducted in the US (likely in Colorado) and is expected to deliver its verdict in February 2015. That verdict will be final and binding on the parties.

The outcome of the arbitration is outside the Company's control and may be unfavourable to it.

In parallel to this arbitration process, the Company is engaged in commercial dialogue with the Operator in an effort to resolve the disputed matters through negotiation.

Minerals Tenements

The Company previously entered into an agreement with respect to the potential sale of certain of its minerals tenements. A deposit of \$50,000 was paid upon execution of that agreement. The agreement was ultimately not completed and the parties thereto are currently in discussions regarding whether the deposit paid is refundable or not.

Exploration and development

Prospective investors should understand that mineral and petroleum exploration, development and production are high-risk enterprises, only occasionally providing high rewards. In addition to the normal competition for prospective ground, and the high average costs of discovery of an economic resource, factors such as demand for commodities, stock market fluctuations affecting access to new capital, sovereign risk, environmental issues, labour disruption, project financing difficulties, foreign currency fluctuations and technical problems all affect the ability of a company to profit from any discovery.

There is no assurance that exploration of the oil and gas and mineral interests currently held by the Company, or in any other exploration interest the Company may subsequently acquire, will result in the discovery of an economically viable resource. Even if an apparently viable resource is identified, there is no guarantee that it can be profitably exploited.

4.2 Risks specific to an investment in the Company

Specific risks relating to the Company include, but are not limited to the following:

Operating Risks

The operations in which the Company is currently participating are generally considered high-risk undertakings and are subject to a number of risks and hazards typically associated with such operations, each of which could result in substantial damage to facilities, other property and the environment or in personal injury and/or death and/or interruption of operations.

The operations of the Company may be affected by a range of factors, including operational and technical difficulties encountered in drilling; difficulties in commissioning and operating plant and equipment; mechanical failure or plant breakdown; unanticipated drilling problems which may affect production costs; adverse weather conditions; industrial and environmental accidents; industrial disputes; and unexpected shortages or increases in the costs of consumables, spare parts, plant and equipment.

It should be noted that the Board has significant experience in oil and gas exploration, but no assurances can be given that the Company will achieve commercial viability through successful production operations in any oil and gas project.

Title of tenements

The Company's title to its exploration interests in Australia, the USA and Madagascar, are governed by the respective petroleum and mining laws of those countries and are typically evidenced by the granting of leases, licences or permits. Each lease, licence or permit is typically for a specific term and carries with it annual expenditure and reporting commitments, as well as other conditions requiring compliance. Consequently, the Company could lose title to, or its interest in, these assets if licence conditions are not met or if insufficient funds are available to meet expenditure commitments.

Licences and permits

The Company's exploration activities are dependent upon the maintenance of appropriate licences, concessions, leases, tenements, permits and regulatory consents which may be withdrawn or made subject to limitations. Maintaining tenements, obtaining renewals, or getting tenements granted, often depends on the Company being successful in obtaining the required statutory approvals for its proposed activities and that the licences, concessions, leases, permits or consents it holds will be renewed as and when required. There is no assurance that such renewals will be given as a matter of course and there is no assurance that new conditions will not be imposed in connection therewith.

Reliance on key management

The responsibility of overseeing the day to day operations and strategic management of the Company depends substantially on its senior management and its key personnel. There may be a detrimental impact on the Company if one or more of the key employees cease their employment with it.

Termination of Underwriting Agreements

The underwriting agreements include various termination events upon the occurrence of which the Underwriters may elect, in their discretion, to terminate the underwriting agreements. For further details of the underwriting agreements, refer to Section 1.5 of this Prospectus.

Risks associated with operations in foreign jurisdictions

The Company has oil and gas assets in the USA and Madagascar.

Accordingly, the Company is subject to the risks associated with operating in countries that may not have the same degree of political, financial and economic stability as enjoyed in Australia. Accordingly, the Company may be subject to various levels of political, economic and other risks and uncertainties, including, but not limited to, terrorism, hostage taking, military repression, extreme fluctuations in currency exchange rates, high rates of inflation, labour unrest, the risks of war or civil unrest, expropriation and nationalization, renegotiation or nullification of existing concessions, licences, permits and contracts, changes in taxation policies, restrictions on foreign exchange and repatriation and changing political conditions, currency controls and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction, etc.

The Company's operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, foreign currency remittance, income taxes, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and safety issues.

Failure to comply strictly with applicable laws, regulations and local practices relating to petroleum rights, could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests.

The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the operations or profitability of the Company.

Investments may not be Wholly Owned

Resource investments (oil and gas and minerals) are often structured through joint ventures. There is a risk that development/production activities could be disrupted in situations where there is a disagreement on development/production programs or other issues between the Company and the other parties in such joint ventures. Should such disagreements occur, this might have a deleterious impact on the Company's operations and performance generally.

4.3 Risks specific to the offer

Dilution Risk

If you decide to take up only part of your Entitlement or not to accept any of your Entitlement, your Entitlement will lapse and your ownership of the Company will be diluted to that extent.

Market for the Rights

There is no guarantee regarding the level of demand for the Rights or that there will be an active market for the Rights.

4.4 General investment and economic risks

A number of factors which are outside of the Company's control may significantly impact on the Company, its performance and the price of New Shares. These factors include:

Investment and Economic Risk

Economic factors both in Australia and internationally beyond the control of the Company, such as changes in commodity prices, interest rates, inflation, exchange rates, taxation, changes in government policy and legislation, may negatively impact on the operational performance of the Company.

The Company's revenues, expenses and cash flows could be negatively affected by any of these factors, which in turn may affect the price of New Shares.

No assurances can be made that the Company's performance will not be adversely affected by any such market fluctuations or factors. None of the Company or its Directors or any other person guarantees the performance of the Company or the market price at which its shares trade.

The New Shares are to be quoted on ASX where their price may rise or fall.

The New Shares issued under the Rights Issue carry no guarantee in respect of profitability, dividends, return of capital or the price at which they may trade on ASX. The value of the New Shares will be determined by the share market and will be subject to a range of factors beyond the control of the Company and its Directors including the demand and availability of Shares.

There can be no guarantee that an active market in New Shares will develop or the market price of the shares will not decline.

An investment in New Shares should be considered speculative.

Government policy

The Company's capacity to explore for and extract petroleum or minerals, as well as industry profitability generally, can be affected by changes in government policy which may be beyond the control of the Company.

Commodity price risk

The demand for and price of commodities is highly dependent on a variety of factors, including, the level of forward selling by producers, costs of production, general economic conditions, inflation levels, interest rates and exchange rates.

These factors may adversely impact on the Company's ability to fund its operations, exploration, evaluation and development activities.

Taxation risk

Variations in the taxation laws of Australia and other countries in which the Company operates could impact the Company's financial performance. Interpretation of taxation law could also change, leading to a change in taxation treatment of investments or activities.

Changes in regulatory environment

Changes to laws and regulations or accounting standards which apply to the Company from time to time could adversely impact the operating and financial performance and cash flows of the Company.

5. ADDITIONAL INFORMATION

5.1 Rights and liabilities attaching to Shares

The New Shares will be of the same class and will, once issued, rank equally in all respects with existing Shares (including equal voting rights and equal rights to dividends, profits and capital). The rights and liabilities attaching to the New Shares are identical in all material respects to the terms of the existing Shares. The following is a summary of the principal rights of the holders of Shares. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Shareholders under the Constitution.

The Constitution may be inspected free of charge by appointment between 9.00am and 5.00pm (Adelaide time) on normal business days from the Opening Date up to and including the Closing Date at the registered office of the Company at Level 7, 28 Grenfell Street, Adelaide, SA 5000.

Meetings of Shareholders and notices

Each Shareholder is entitled to receive notice of, attend and vote at general meetings of the Company and receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, the Corporations Act or the Listing Rules.

Voting

At a general meeting, every Shareholder present in person or by proxy, attorney or representative has one vote on a show of hands (irrespective of the number of Shares they hold) and one vote for each Share held on a poll. Where there are two or more joint holders of a Share and more than one joint holder tenders a vote, the vote of the holder named first in the register who tenders the vote will be accepted to the exclusion of the votes of the other joint holders.

Voting at any meeting of Shareholders is by a show of hands unless a poll is demanded. A poll may be demanded by:

- (i) at least five Shareholders entitled to vote on the resolution;
- (ii) Shareholders with at least 5% of the votes that may be cast on the resolution; or
- (iii) the Chairman.

If the votes are equal on a proposed resolution, the Chairman has a casting vote on a show of hands.

Dividends

The Directors may from time to time pay dividends to Shareholders out of the profits of the Company. The Directors may pay any interim and final dividends as, in their judgement, the financial position of the Company justifies. The Directors may fix the amount and the method of payment of the dividends. The payment of a dividend does not require any confirmation by a general meeting.

Subject to any special rights or restrictions attaching to any shares, dividends must be paid equally on all shares and in proportion to the number of, and the amounts paid on, the shares held.

Issues of Shares

Subject to the restrictions on the issue of shares imposed by the Constitution, the Listing Rules and the Corporations Act, the Directors may issue, grant options in respect of, or otherwise dispose of further shares to any person on such terms and conditions (including preferential, deferred or special rights, privileges or conditions, or restrictions) as they see fit.

Variation of class rights

Subject to the Corporations Act and their terms of issue, the rights attached to a class of shares may be varied with the consent in writing of the holders of at least three quarters of the issued shares in the particular class, or by a special resolution passed at a separate meeting of the holders of shares in that class. In either case, the holders of not less than 10% of the votes in the class of shares whose rights have been varied or cancelled may apply to a court of competent jurisdiction to exercise its discretion to set aside such variation or cancellation.

The creation or issue of further shares ranking equally with a class of shares already on issue is not a variation of class rights.

Transfer of Shares

Shareholders may transfer Shares by a written transfer instrument in the usual form or any form approved by the Directors or, while the Company is listed on ASX, Shares can be transferred electronically in accordance with the ASX Settlement Operating Rules and ASX requirements. All transfers must comply with the Constitution, the Corporations Act, the Listing Rules and the ASX Settlement Operating Rules. The Directors may refuse to register a transfer of Shares, including in circumstances where the transfer is not in registrable form, or the refusal to register the transfer is permitted by the Listing Rules or the Corporations Act. The Directors must refuse to register a transfer of Shares where required to do so by the Listing Rules. The Directors may suspend the registration of a transfer at any time, and for any period, as permitted by the ASX Settlement Operating Rules. Subject to the Listing Rules, Shares are freely transferable.

Sale of non-marketable parcels

The Directors may cause the Company to sell a Shareholder's Shares if that Shareholder holds less than a marketable parcel of Shares, provided that the procedures set out in the Constitution are followed. A non-marketable parcel of Shares is defined in the Listing Rules and is, generally, a holding of Shares with a market value of less than \$500.

Winding up

Subject to the Constitution and any special resolution or rights or restrictions attaching to any class or classes of shares, Shareholders will be entitled on a winding up to a share in any surplus assets of the Company in proportion to the shares held by them.

Directors – appointment and removal

The minimum number of Directors is three and the maximum is fixed by the Directors but may not be more than 11, unless the Shareholders pass a resolution varying that number. Directors are elected at annual general meetings of the Company.

The Directors may also appoint a Director to fill a casual vacancy on the Board or in addition to the existing Directors, who will then hold office until the next annual general meeting of the Company.

Retirement will occur on a rotational basis so that no Director (excluding the Managing Director) may hold office beyond the third annual general meeting following the meeting at which they were last elected or re-elected (whichever is later) without Shareholders approving their reappointment.

Directors – voting

Questions arising at a meeting of Directors will be decided by a majority of votes of the Directors present at the meeting and entitled to vote on the matter. In the case of a tied vote, the Chairman has a second or casting vote, unless there are only two Directors present or qualified to vote, in which case the proposed resolution is taken as having been lost.

Directors' and officers' indemnities

The Company, on a full indemnity basis and to the full extent permitted by law, indemnifies each person who is or has been an executive officer of the Company or a Director, and such other officers or former officers of the Company or its related bodies corporate as the Directors in each case determine (each an Officer), against any liability (including costs and expenses) incurred by that person as an Officer or a related body corporate of the Company to the extent permitted by law.

The Company, to the extent permitted by law, may insure an Officer against a liability incurred by the Officer as an officer of the Company or any of its related bodies corporate including, but not limited to, a liability for negligence or for reasonable costs or expenses incurred in defending proceedings whether civil or criminal and whatever the outcome.

The Company has entered into deeds of access, indemnity and insurance with each Director which confirm the Directors' right of access to Board papers and require the Company to indemnify the Director for a liability incurred as an officer of the Company or any of its related bodies corporate, subject to the restrictions imposed by the Corporations Act and the Constitution.

Variation of the Constitution

The Constitution may be amended only by a special resolution passed by at least 75% of the votes cast by Shareholders present and entitled to vote on the resolution. At least 28 days' written notice specifying the intention to propose the resolution must be given to Shareholders.

5.2 Remuneration

The Constitution provides that the non-executive Directors may be paid for their services as Directors, a sum not exceeding such fixed sum per annum as may be determined by the Company in general meeting, where notice of the amount of the suggested increase and the maximum sum that may be paid shall have been given to shareholders in the notice convening the meeting. 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 amount has been set at an amount not to exceed \$250,000 per annum.

The remuneration of executive Directors is decided by the Board, without the affected executive Director participating in that decision-making process and may be paid by way of fixed salary or commission.

In the last two years, \$1,064,873 (\$398,967 in 2013 and \$665,906 in 2014) in cash has been paid by the Company by way of remuneration for services provided by the Directors, companies associated with the Directors or their associates, in their capacity as directors. Directors, companies associated with the Directors or their associates, are also reimbursed for all reasonable expenses incurred in the course of conducting their duties which include, but are not in any way limited to, out of pocket expenses, travelling expenses, disbursements made on behalf of the Company and other miscellaneous expenses.

The table below sets out the cash portion of remuneration provided to the Directors of the Company and their associated companies during the last financial year prior to the date of this Prospectus and the remuneration received in the current financial year to the date of this Prospectus.

Director	Financial year ended 30 June 2014	Mid-year ended 31 December 2014
Carl Dorsch*	\$312,315	\$177,278
Robert Kennedy*	\$31,867	\$27,375
Neil Young*	\$24,964	\$21,900
Anthony Wehby (Resigned 29 November 2013)	\$23,137	-
Stephen Woodham (Resigned 18 October 2013)	\$214,522	-
Richard Willson (Resigned 5 December 2013)	\$18,506	-
Ben Salmon (Resigned 6 June 2014)	40,595	-

**Not Inclusive of Share Based Payments (Performance Options & Performance Rights) totalling \$1,049,350. The total value of the options and rights, if the performance conditions are not met, is nil.*

5.3 Related party transactions

Other than as disclosed elsewhere in this Prospectus, the Company is not a party to any agreement that would be considered a related party transaction.

5.4 Litigation and material disputes

Refer to Section 4.1 for details regarding litigation and material disputes. Other than disclosed in Section 4.1, as at the date of this Prospectus, the Company is not involved in any legal or administrative proceedings and the Directors are not aware of any claim or threatened claim against the Company which may result in material legal proceedings.

5.5 Interests of Directors and promoters

Other than as set out below or elsewhere in this Prospectus, no Director or promoter of the Company (or entity in which they are a partner or director) has, or has had in the two years before the date of this Prospectus, any interest in:

- the formation or promotion of the Company;
- property acquired or proposed to be acquired by the Company in connection with its formation or promotion of the Rights Issue; or
- the Rights Issue,

and, other than as set out below or elsewhere in this Prospectus, no amounts have been paid or agreed to be paid and no value or other benefit has been given or agreed to be given to:

- any Director to induce him or her to become or to qualify as a director of the Company; or
- any Director or promoter of the Company (or entity in which they are a partner or director) for services which he or she has provided in connection with the formation or promotion of the Company or the Rights Issue.

The Directors and their related entities have the following interests in the Shares and the Options as at the date of this Prospectus.

Directors' interests include interests they have in Shares registered in the name of other persons. The terms of the Options and Performance Rights granted to the Directors have previously been disclosed to the ASX. The Directors holding Shares will be entitled to participate in the Offer on the same pro rata basis as other Eligible Shareholders.

Table 3: Directors' Interests

Director	Shares Held Directly or Indirectly	Options	Performance Rights
Carl Dorsch	631,078 ordinary shares held directly 17,122,616 ordinary shares held indirectly	Nil	5,000,000 unlisted rights exercisable for nil consideration if the 30 day VWAP reaches at least \$0.175 per Share 5,000,000 unlisted rights exercisable for nil consideration if the 30 day VWAP reaches at least \$0.200 per Share 5,000,000 unlisted rights exercisable for nil consideration if the 30 day VWAP reaches at least \$0.225 per Share 15,000,000 unlisted rights exercisable for nil consideration 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 50BOEPD over a three month period.
Robert Kennedy	Nil ordinary shares held directly 1,000,000 ordinary shares held indirectly	7,500,000 unlisted options exercisable at \$0.093 by 31.12.16 (vested)	Nil
Neil Young	110,000 ordinary shares held directly Nil ordinary shares held indirectly	2,000,000 unlisted options exercisable at \$0.20 by 5.3.18 (vested)	Nil

5.6 Interests of experts and advisers

By an agreement between Adelaide Equity Partners Limited (Adelaide Equity) and the Company, Adelaide Equity has agreed to act as an adviser in respect of the Offer (Mandate Agreement).

Pursuant to the Mandate Agreement the Company has agreed to pay Adelaide Equity:

- an equity raising fee of 6.0% of monies raised comprising a 2% management fee and 4% placement fee. The placement fee is inclusive of fees on-payable to brokers and participants in any Shortfall; and
- in the event that the entire Shortfall from the Offer is successfully placed, the Company will issue Adelaide Equity (or nominee) with 2,500,000 Options at an exercise price of \$0.004 each expiring 24 months from the date of issue.

Taycol Nominees Pty Ltd has been appointed as the Nominee under Listing Rule 7.7.1 (c) and will be paid for this service on standard industry terms and conditions.

5.7 Interests of advisers

Other than as set out below or elsewhere in this Prospectus, all persons named in this Prospectus as having performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus, do not have, and have not had in the two years before the date of this Prospectus, any interests in:

- the formation or promotion of the Company;
- property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Rights Issue; or
- the Rights Issue,

and, other than as set out below or elsewhere in this Prospectus, no amounts have been paid or agreed to be paid and no other benefit has been given or agreed to be given to any persons named in this Prospectus as having performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus, in connection with the formation or promotion of the Company or the Rights Issue.

5.8 Consents to statements in the Prospectus and consents to be named

Computershare Investor Services Proprietary Limited has given and, at the time of lodging of this Prospectus with ASIC, has not withdrawn, its consent to be named in this Prospectus as Share Registry for the Company in the form and context in which it is named.

Computershare Investor Services Proprietary Limited:

- has not authorised or caused the issue of this Prospectus;
- does not make or purport to make, any statement in this Prospectus, or any statement in which a statement in this Prospectus is based, other than as specified above; and
- to the maximum extent permitted by law, expressly disclaim and take no responsibility for any part of this Prospectus other than the reference to their name or as otherwise specified above.

Adelaide Equity Partners Limited has given and, at the time of lodging of this Prospectus with ASIC, has not withdrawn, its consent to be named in this Prospectus as corporate adviser for the Company in the form and context in which it is named.

Adelaide Equity Partners Limited:

- has not authorised or caused the issue of this Prospectus;
- does not make or purport to make, any statement in this Prospectus, or any statement in which a statement in this Prospectus is based, other than as specified above; and
- to the maximum extent permitted by law, expressly disclaim and take no responsibility for any part of this Prospectus other than the reference to their name or as otherwise specified above.

Taycol Nominees Pty Ltd has given and, at the time of lodging of this Prospectus with ASIC, has not withdrawn, its consent to be named in this Prospectus as the Company's Nominee under Listing Rule 7.7.1 (c) in the form and context in which it is named.

Taycol Nominees Pty Ltd:

- has not authorised or caused the issue of this Prospectus;
- does not make or purport to make, any statement in this Prospectus, or any statement in which a statement in this Prospectus is based, other than as specified above; and
- to the maximum extent permitted by law, expressly disclaim and take no responsibility for any part of this Prospectus other than the reference to their name or as otherwise specified above.

5.9 Estimated Costs of the Rights Issue

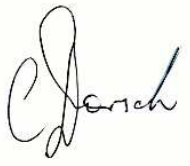
The expenses of the Rights Issue (exclusive of GST) are estimated to be approximately \$77,000 made up as follows:

Expenses	\$
Broker and adviser fees	20,000
Legal fees	15,000
ASX listing fees, printing, postage and share registry	40,000
ASIC lodgement fee	2,000
Total estimated costs of Rights Issue	77,000

6. **AUTHORISATION**

Each Director has consented to the lodgement of this Prospectus with ASIC and has not withdrawn that consent.

This Prospectus is signed for and on behalf of the Company by:

A handwritten signature in black ink, appearing to read 'C. Dorsch', is placed over a light yellow rectangular background.

**Carl William Dorsch
Managing Director
Tellus Resources Limited**

7. GLOSSARY

In this Prospectus and in the Entitlement and Acceptance Form, unless the context otherwise requires, the following terms have the meanings listed:

Additional Shares	New Shares applied for in addition to the number shown on the Shareholders' Entitlement and Acceptance Form.
Application Monies	The monies received from persons applying for New Shares pursuant to the terms of the Rights Issue.
ASIC	Australian Securities and Investments Commission.
Associate	Has the meaning given to that term in the Corporations Act.
ASX Settlement Operating Rules	The Settlement Operating Rules for the ASX.
ASX	ASX Limited ABN 98 008 624 691 or the Australian Securities Exchange operated by it (as the context requires).
Board	Board of Directors of the Company.
Business Day	Has the meaning given to that term in the Listing Rules.
CHESS	Has the meaning attributed to that term in the ASX Settlement Operating Rules.
Closing Date	5.00pm Adelaide time on 28 January 2015, or such later date as the Directors, in their absolute discretion and subject to compliance with the Listing Rules, may determine.
Company	Tellus Resources Limited ACN 144 733 595
Constitution	The constitution of the Company.
Corporations Act	<i>Corporations Act 2001</i> (Cth).
Director	A director of the Company.
Eligible Shareholder	A registered holder of the Company's Shares on the Record Date whose registered address is in Australia or New Zealand.
Entitlement	A Shareholder's entitlement under the Rights Issue to subscribe for New Shares.
Entitlement and Acceptance Form	The entitlement and acceptance form accompanying this Prospectus.

Ineligible Shareholder	A Shareholder with an address in the Company register of Shareholders outside Australia and New Zealand, unless the Company is satisfied that it is not precluded from lawfully issuing New Shares to that Shareholder either unconditionally or after compliance with conditions which the Board in its sole discretion regards as acceptable and not unduly onerous.
Listing Rules	The listing rules of the ASX.
New Share	A Share offered pursuant to the Rights Issue.
Offer	The offer to Eligible Shareholders to subscribe for New Shares under the Rights Issue.
Offer Shares	New Shares offered pursuant to the Rights Issue.
Option	An option to subscribe for Shares.
Performance Right	A right to be issued a Share for no consideration upon the satisfaction of specified performance conditions
Prospectus	This document.
Record Date	7.00pm Sydney time on 13 January 2015.
Right	The right to subscribe for New Shares in accordance with an Entitlement under the Offer described in this Prospectus.
Rights Issue	A pro rata renounceable offer to the Eligible Shareholders to subscribe for 3 New Shares at the price of \$0.002 per New Share for every 2 Shares held at the Record Date.
Section	A section of this Prospectus.
Share	A fully paid, ordinary share issued in the share capital of the Company.
Share Registry	Computershare Investor Services Pty Limited
Shareholder	A shareholder of the Company.
Shortfall	Has the meaning given to that term in Section 1.14 of this Prospectus.
Shortfall Offer	The offer of any Shortfall on the terms and conditions set out in Section 1.14 of this Prospectus.

Shortfall Shares

Those New Shares offered under the Rights Issue but not applied for by Eligible Shareholders under their Entitlement.

8. CORPORATE DIRECTORY**Tellus Resources Limited**

ACN 144 733 595

ASX Code

TLU

Board of Directors

Robert Kennedy (Chairman)
Carl Dorsch (Managing Director)
Neil Young (Non-Executive Director)

Registered Office

Level 7
28 Grenfell Street
Adelaide SA 5000
Tel: +61 8 8100 9200

Share Registry

Computershare Investor Services Pty Ltd
Level 5, 115 Grenfell Street
Adelaide SA 5000

SCHEDULE 1 – DOCUMENTS LODGED WITH ASX UP TO 6 January 2015

<u>Date</u>	Headline
31/12/2014	Becoming a substantial holder
30/12/2014	Expiry of Performance Rights
30/12/2014	Appendix 3B
24/12/2014	Cooper Basin Update
19/12/2014	Capital Raising & Strategic Review
17/12/2014	Trading Halt
08/12/2014	Change of Director's Interest Notice
02/12/2014	Change Of Registered Office & Address
28/11/2014	Results of Annual General Meeting
28/11/2014	Chairman's Address & Managing Directors Presentation
27/11/2014	Covenant Monod JV Update
20/11/2014	Covenant Mondo JV Update
18/11/2014	Trading Halt
17/11/2014	Covenant Mondo Joint Venture Update
13/11/2014	Trading Halt
12/11/2014	Open Briefing
12/11/2014	NSW Mineral Tenements Update
11/11/2014	Covenant Mondo Well - 1st Update
04/11/2014	Covenant Mondo Well Spuds

Liability limited by a scheme approved under the Professional Standards Legislation

<u>Date</u>	Headline
31/10/2014	Quarterly Activities and Cashflow Report
30/10/2014	AWW: TLU Update and Board Appointment
29/10/2014	Appendix 3B
28/10/2014	Annual Report to shareholders
28/10/2014	Notice of Annual General Meeting / Proxy Form
27/10/2014	Rig Contracted For Covenant Mondo
17/10/2014	Notice of initial substantial holder
17/10/2014	Cooper Basin Update
09/10/2014	Appendix 3B
08/10/2014	CRJ: Completion of Sale Agreement with Caravel Energy Ltd
03/10/2014	Cancellation of General Meeting