



ASX ANNOUNCEMENT

28 October 2011

## **TELLUS RESOURCES TO ACQUIRE NORTHERN DISCOVERY**

The Board of Directors of Tellus Resources Limited ("Tellus") (ASX code: TLU) today announces its intention to acquire a 100% interest in Northern Discovery Limited (NDL), an unlisted Australian public company with a portfolio of coal assets in Indonesia.

Tellus has signed a Memorandum of Understanding ("MOU") to acquire 100% of the issued capital of NDL, subject to a number of conditions.

### **HIGHLIGHTS OF THE ACQUISITION**

- **Tellus to pursue significant coal development opportunities in Indonesia in addition to its current Australian gold strategy.**
- **The NDL strategy is directed toward becoming a major player in the Indonesian coal sector.**
- **Transaction is expected to significantly boost Tellus market capitalisation and deliver strong growth opportunities.**

The Transaction involves the acquisition by Tellus of all the issued shares in NDL entirely via an exchange of shares and options.

NDL currently has 44,000,002 shares on issue and is in the process of raising further capital toward interim funding the development of its Indonesian energy coal exploration and mining strategy in Indonesia. For every four NDL shares on issue at completion TLU will issue three of its shares, plus one TLU option for every two TLU shares issued. In addition NDL has a commitment to issue shares to one of its Indonesian partners or its nominees, the obligation for which will form part of the Transaction and require the issue of 12 million TLU shares and 3 million TLU options. All options to be issued will be convertible to TLU shares at 25 cents each, within 2 years of issue.

### **About NDL**

Northern Discovery Limited is an Australian unlisted public company that was incorporated on the 6th of October 2010. NDL's corporate strategy is to generate shareholder value through the selective identification, exploration, acquisition and development of energy coal mining tenements in Indonesia.

NDL'S Non-Executive Chairman is Gary Cochrane, founder and former Director of Millenium Coal and current Chairman of Bounty Mining Ltd. He is an experienced coal executive with more than 25 years in the mining industry.

NDL has built a local Indonesian team with deep in-country experience targeting 2-50 million tonne concessions in "known" coal bearing formations principally within the regions of Balikpapan, East Kutai, South & Central Sumatra and Papua.

To date NDL has sourced and entered into a series of MOU's to secure interests in a range of coal concessions (IUP's) in strategically identified areas of Indonesia. Prior to entering into MOU's, NDL carried out high-level



stage 1 due diligence to determine if the IUP is of interest and has purchased (and thus secured legal tenure) of between 51% and 72% of the following three concessions:

PROJECT	LOCATION	PERCENTAGE INTEREST	NATURE OF TENEMENT	AREA
CV JAVA HUNIAN	SAMBOJA	CSPA-51%	IUP-ER	138 Ha
PT TRY NANDA	SUNGAI RICO	CSPA-72%	IUP-ER	2,030 Ha
PT TRY NANDA -A	ANGKASA-1&2	CSPA-72%	IUP-ER	357 Ha

### CV Java Hunian

The concession is located north of Balikpapan, and can be accessed by land road from “Balikpapan Bay” in the south. The distance to the coast is approximately 50KM for shipping. The results of NDL’s geological surface mapping on both properties conclude that there is a significant appearance of coal outcrops and continuity of identified coal seams. This coal project justifies more intensive exploration and scout drilling to delineate additional seams and confirm coal continuity both along strike and down dip.

Location Map (Note the area depicted is not to scale)

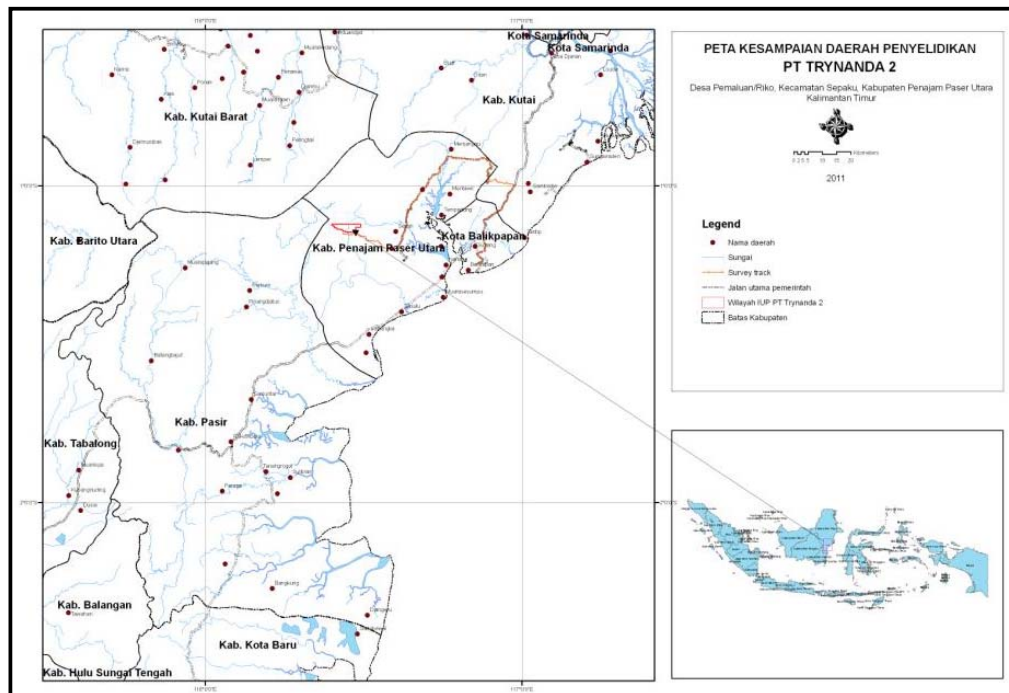


### PT Try Nanda

The property is 2.030Ha and located in Rico District, North Paser Penajam Regent, East Kalimantan Province. This research area is located about 40km to the southwest of the city of Balikpapan and can be reached by road. The concession is covered by Pulaubalang and Pamaluan Formations, both of which are coal bearing. The Pulaubalang Formation consists of quartz, sandstone and mudstone with inset coal, deposited in shallow sublitoral environment with the formation of about 900 meters thick. The Pamaluan Formation consists of mudstone and shale with inset marl, sandstones and limestones with the formation being about 1500-2500 feet thick, deposited in deep-sea environments.



### Location Map



### Further Projects

Advanced negotiations continue with the owners of more than 10 other areas of interest covering a total area of more than 50,000 hectares across five regions - Central and South Sumatra, Balikpapan, East Kutai and Papua. It is probable that not all these negotiations and subsequent due diligence will conclude with acquisitions.

The ownership and location of areas of interest under negotiation is commercially sensitive for competitive reasons. While none of the areas of interest has a defined JORC resource at this stage of negotiation, they are considered to be highly prospective.

### Proposal

The MOU remains subject to:-

- i. The MOU being replaced with a more detailed agreement on or before 15 November 2011.
- ii. Satisfactory due diligence by TLU and NDJ in respect of each other on or before 15 November 2011.
- iii. Shareholder and regulatory (including ASX) approvals.

It is expected that TLU shareholders will be asked to vote on this transaction early in the New Year.

NDJ will continue its strategy to secure further interests in coal projects and opportunities in strategically located areas, with a view to moving into production in the most cost effective manner and in the shortest period of time.



### Further Funding

Under the terms of the MOU and concurrent with the NDL transaction, Tellus will prepare a prospectus to raise no less than \$5.0 million at no less than \$0.25 to facilitate the ongoing purchase of coal concessions in Indonesia and for working capital purposes. In addition, TLU proposes to advance working capital to NDL secured by way of a charge over the assets of NDL.

### Effect of Transaction on TLU's Capital Structure

SHARES	NUMBER
Current Shares on issue	26,150,000
Shares under scrip bid for NDL <sup>1</sup>	33,000,000
Shares in satisfaction of NDL commitment to an Indonesian partner	12,000,000
Placement Shares issued pursuant to prospectus <sup>2</sup>	20,000,000
<b>TOTAL SHARES ON ISSUE</b>	<b>91,150,000</b>

Notes:

1. NDL is in the process of completing a capital raising. Any additional NDL shares issued as a result of this raising will be issued Shares in TLU on the same terms: 3 Shares for every 4 NDL shares held plus one TLU Option (exercise price 25c, expiry date 2 years from issue) for every 2 Shares issued.
2. Under the terms of the MOU, TLU is to use its best endeavours to raise not less than \$5,000,000 by issuing Shares at not less than \$0.25. The figure above assumes a capital raising of \$5,000,000 at \$0.25 per Share. In the event more money is raised or the issue price is higher the number of Shares to be issued may differ.

OPTIONS	NUMBER
Current Options on issue <sup>1</sup>	6,000,000
Options under scrip bid for NDL <sup>2,3</sup>	16,500,000
Options in satisfaction of NDL commitment to an Indonesian partner <sup>2</sup>	3,000,000
Options to be issued to executives and advisers <sup>2</sup>	8,000,000
<b>TOTAL OPTIONS ON ISSUE</b>	<b>33,500,000</b>

Notes:

1. Unlisted options with an exercise price of \$0.30 and an expiry date of 31 March 2014.
2. Unlisted options with an exercise price of \$0.25 and an expiry date of 2 years from the date of issue.
3. NDL is in the process of completing a capital raising. Any additional NDL shares issued as a result of this raising will be issued Shares in TLU on the same terms: 3 Shares for every 4 NDL shares held plus one TLU Option (exercise price 25c, expiry date 2 years from issue) for every 2 Shares issued.

PERFORMANCE SHARES	NUMBER
Current Performance Shares on issue	NIL
Performance Shares to be issued to NDL executives <sup>1</sup>	18,000,000
<b>TOTAL PERFORMANCE SHARES ON ISSUE</b>	<b>18,000,000</b>



Notes:

1. Convertible into Shares on a 1:1 basis subject to satisfaction of specified milestones and all necessary ASX Listing Rule approvals: 6,000,000 upon execution of formal share purchase agreements to acquire 4 IUP's pursuant to 4 MOU's entered into by NDL, 6,000,000 upon achieving production of 40,000 tonnes of coal per month for three consecutive months, 6,000,000 upon achieving a JORC Code compliant indicated resource in excess of 50,000,000 tonnes of coal.

**Change to Nature and Scale – Chapter 11 of the ASX Listing Rules**

The acquisition of NDL will constitute a significant change to the nature and scale of the Company's activities.

**The Company will be suspended from trading today and recommence trading on Monday 31<sup>st</sup> October 2011.**

As part of satisfying its requirements to re-comply with Chapters 1 and 2 of the ASX Listing Rules, the Transaction must be approved by TLU Shareholders at a general meeting (**Meeting**). TLU's Shareholders will receive a notice of meeting setting out various resolutions relating to the Transaction, including a change in the scale and nature of the Company's activities and the issue of shares under a prospectus (**Notice**). A detailed explanatory statement will accompany the Notice and will be distributed to all Shareholders prior to the Meeting.

In addition to the Notice, TLU will issue a prospectus that will provide full disclosure of material matters and enable TLU to comply with Chapters 1 and 2 of ASX Listing Rules (**Prospectus**). The Company will request a voluntary suspension of its securities on the day prior to the Meeting at which Shareholder approval of the Transaction contemplated will be sought. Once the Company has obtained Shareholder approval for the Transaction and has complied with Chapters 1 and 2 of ASX Listing Rules, it is anticipated that TLU's securities will be reinstated for trading.

The issue of securities by the Company in consideration for the acquisition of NDL is conditional on the Company re-complying with Chapters 1 and 2 of ASX Listing Rules.

**Indicative Timetable**

The dates below are indicative only. The Directors reserve the right to vary the dates without prior notice, which may have a consequential effect on the other dates.

The expected dates in relation to quotation of the securities on ASX are subject to the determination of ASX.

DATE <sup>1</sup>	EVENT
19 December 2011	Notice dispatched to Shareholders
19 December 2011	Prospectus lodged with ASIC and ASX
19 December 2011	Offer under Prospectus opens
20 January 2011	General Meeting (see Note 1)
27 January 2011	Allotment of Shares under Prospectus
03 February 2011	Completion of Transaction

1. The proposed change in activities will trigger a suspension of the Company's securities which will be activated on the morning of the meeting and will cease once TLU has satisfied the requirements of Chapters 1 and 2 of the ASX Listing Rules.



### **Chairman's comments**

Commenting on the proposed transaction Tellus Chairman Tony Wehby said: "the acquisition of NDL is a great opportunity for Tellus to participate in the growing demand for Indonesian coal, both domestically and internationally. It presents a compelling growth proposition for the Company which we expect will translate into enhanced value for our shareholders.

"Looking ahead we are excited about the possibilities in unlocking the value already identified by NDL in the Indonesian coal sector and look forward to the sustainable development of our assets in the region for many years to come", he said.

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