



TELLUS
RESOURCES LTD

TELLUS RESOURCES LTD

ABN 35 144 733 595

HALF YEAR
FINANCIAL REPORT
31 DECEMBER 2011



TELLUS
RESOURCES LTD

CORPORATE DIRECTORY

Directors

Anthony Wehby
Non-Executive Chairman

Stephen Woodham
Managing Director

Richard Willson
Non-Executive Director

Company Secretary

Anne Adaley

Registered Office and Principal Place of Business

Level 3, Suite 301
66 Hunter Street
SYDNEY NSW 2000
T: (02) 9231 6231
F: (02) 9231 6687
W: www.tellusresources.com.au
E: info@tellusresources.com.au

Share Register

Boardroom Limited
Level 7
207 Kent Street
Sydney NSW 2000
T: (02) 9290 9600
F: (02) 9279 0664

Stock Exchange Listing

Australian Securities Exchange
ASX Code: TLU

Auditor

Grant Thornton Audit Pty Ltd
Level 17
383 Kent Street
SYDNEY NSW 2000
T: (02) 8297 2400
F: (02) 9299 4445
www.grantthornton.com.au

Solicitor

Steinpreis Paganin
Lawyers and Consultants
Level 4, The Read Buildings
16 Milligan Street
Perth WA 6000
T: (08) 9321 4000
F: (08) 9321 4333
www.steinpag.com.au



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DIRECTORS' REPORT

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

The Directors of Tellus Resources Ltd ("Tellus Resources" and/or "the Company") present their Report together with the financial report of the Company for the half year ended 31 December 2011.

Directors

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

Mr Anthony Wehby	Non-Executive Chairman
Mr Stephen Woodham	Managing Director (appointed 1 February 2012)
Mr Richard Willson	Non-Executive Director
Mr David Ward	Executive Technical Director (resigned 1 February 2012)

Principal Activities

The principal activities of the Company are: exploration for minerals including gold deposits; and the acquisition and development of mineral tenements.

Operating Results

The Company incurred a loss after tax for the reporting period of \$675,960 (2010: \$60,337 loss).

Review of Operations

Exploration Program

During the reporting period, exploration efforts were focused on the Southern New England Projects in New South Wales being EL 7699 the "Glen Morrison" project and EL 7698 the "Cobark" project.

Drilling focused on following up on the high grade rock chip sampling results discovered around the Golden Bar and Golden Star Reefs in the June 2011 quarter. A total of 1,327 metres of Reverse Circulation (RC) drilling was completed on the Glen Morrison Prospect during the reporting period. Best results included 4 metres at 0.67g/t Au from 12 metres in hole GMRC002, including one metre at 1.15g/t Au. Most rock chip samples demonstrated a strong arsenopyrite-gold correlation. Gold assays were highest where there was a lower concentration of arsenopyrite in the mineral signature. A seven metre veined and mineralised intersection in hole GMRC007 returned 7 metres at 0.13g/t gold from a depth of 72 metres.

Since the end of the reporting period, management assessed the carrying value of the Glen Morrison and Cobark projects resulting in an impairment charge of \$322,252. Tellus retains these licenses for future evaluation and assessment.

Corporate

- On 28 October 2011, Tellus Resources announced it had entered into a Memorandum of Understanding ("MOU") to acquire 100% of the issued capital of Northern Discovery Limited (NDL), an unlisted Australian public company with a portfolio of coal assets in Indonesia, subject to a number of conditions. On 23 January 2012, by mutual consent both parties agreed to terminate the MOU.
- On 21 November 2011, Tellus Resources announced it had entered into Binding Heads of Agreement ("the Agreement") to acquire 100% of the issued capital of Premier Minerals Pty Ltd, a wholly owned subsidiary of Premier Mining Limited ("Premier"), an unlisted Australian public company.

Upon execution of the Agreement Tellus Resources paid Premier a non-refundable deposit of \$50,000, which provides the Company exclusivity until settlement. On Settlement of the agreement Tellus Resources will pay Premier a further \$950,000 in cash and issue Premier \$1,000,000 worth of shares in Tellus. These shares will be subject to a voluntary escrow period of 24 months.

Upon successful delineation and announcement by Tellus Resources of an Indicated JORC resource of at least 300,000 ounces of gold with a cut-off grade of 3.0 grams per tonne, Tellus Resources will pay Premier a further \$2,000,000 in cash; and issue Premier \$2,000,000 worth of shares in Tellus.



DIRECTORS' REPORT

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

Changes in the State of Affairs

There were no significant changes in the state of affairs of the Company during the reporting period ended 31 December 2011 other than as referred to in this report and the Financial Statements or notes thereto.

Events Subsequent To Reporting Date

On 4 January 2012, the Company was granted Exploration Licence 7877 Niangala project in the New England region of region of New South Wales.

On 28 October 2011, Tellus Resources announced it had entered into a Memorandum of Understanding ("MOU") to acquire 100% of the issued capital of Northern Discovery Limited (NDL), an unlisted Australian public company with a portfolio of coal assets in Indonesia, subject to a number of conditions. On 23 January 2012, by mutual consent both parties agreed to terminate the MOU.

On 5 March 2012, the Company issued a Notice of General Meeting to shareholders to hold a meeting on 5 April 2012. At the General Meeting, it is proposed to ratify the allotment and issue of 3,750,000 Shares at an issue price of \$0.20 per Share to raise \$750,000.

Directors are not aware of any other matters or circumstances at the date of this report that have significantly affected or may significantly affect the operations, the results of the operations or the state of affairs of the Company in subsequent financial years.

Dividends

The Directors recommend that no dividend be paid for reporting period ended 31 December 2011 nor have any amounts been paid or declared by way of dividend during the reporting period.

Likely Future Developments

No other likely developments of the Company are included in this report as the Directors believe, on reasonable grounds, that inclusion of such information would be likely to result in unreasonable prejudice to the Company.

Non Audit Services

A copy of the auditor's independence declaration as required under s307C of the Corporations Act 2001 is included on page 3 of this financial report and forms part of this Directors report.

Signed in accordance with a resolution of the Directors

Anthony Wehby

Chairman

6 March 2012

Sydney

Grant Thornton Audit Pty Ltd
ACN 130 913 594

Level 17, 383 Kent Street
Sydney NSW 2000
Locked Bag Q800
QVB Post Office
Sydney NSW 1230

T +61 2 8297 2400
F +61 2 9299 4445
E info.nsw@au.gt.com
W www.grantthornton.com.au

**Auditor's Independence Declaration
To The Directors of Tellus Resources Limited**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Tellus Resources Limited for the half-year ended 31 December 2011, I declare that, to the best of my knowledge and belief, there have been:

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



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



A J Archer
Partner – Audit & Assurance

Sydney, 6 March 2012



STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

	NOTE	31 DEC 2011 \$	31 DEC 2010 \$
Revenue from continuing operations	5	90,333	1,259
Administration costs		(40,902)	(19,012)
Business development		(57,648)	-
Capitalised exploration costs written off	6	(322,252)	-
Corporate costs		(138,591)	(9,024)
Depreciation and amortisation	6	(7,976)	-
Management fees and on costs		(198,924)	(33,560)
Loss before income tax		(675,960)	(60,337)
Income tax expense relating to the ordinary activities		-	-
Net loss for the year		(675,960)	(60,337)
Other comprehensive income, net of tax		-	-
Total comprehensive loss		(675,960)	(60,337)
EARNINGS/LOSS PER SHARE:			
Basic loss per share (cents per share)		(2.6)	-
Diluted loss per share (cents per share)		(2.6)	-

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



STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

	NOTE	31 DEC 2011 \$	30 JUNE 2011 \$
CURRENT ASSETS			
Cash and cash equivalents		2,955,618	3,704,471
Trade and other receivables		38,906	35,383
Prepayments		14,464	15,876
TOTAL CURRENT ASSETS		3,008,988	3,755,730
NON-CURRENT ASSETS			
Property, plant and equipment		48,635	2,106
Intangibles		13,404	16,798
Other financial assets	9 (i)	50,000	-
Mineral properties	7	106,963	118,260
TOTAL NON-CURRENT ASSETS		219,002	137,164
TOTAL ASSETS		3,227,990	3,892,894
CURRENT LIABILITIES			
Trade and other payables		57,866	46,810
TOTAL CURRENT LIABILITES		57,866	46,810
TOTAL LIABILITIES		57,866	46,810
NET ASSETS		3,170,124	3,846,084
EQUITY			
Share capital		4,141,076	4,141,076
Reserves		192,000	192,000
Accumulated losses		(1,162,952)	(486,992)
TOTAL EQUITY		3,170,124	3,846,084

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



STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

	ISSUED CAPITAL \$	SHARE OPTION RESERVE \$	ACCUMULATED LOSSES \$	TOTAL \$
Balance as at 21 June 2010	100	-	-	100
Total loss and comprehensive income for the period	-	-	(60,337)	(60,337)
Shares issued during the period	459,400	-	-	459,400
Options granted	-	-	-	-
Share issue costs	(15,000)	-	-	(15,000)
Balance as at 31 December 2010	444,500	-	(60,337)	384,163
Balance as at 1 July 2011	4,141,076	192,000	(486,992)	3,846,084
Total loss and comprehensive income for the period	-	-	(675,960)	(675,960)
Shares issued during the period	-	-	-	-
Options granted	-	-	-	-
Share issue costs	-	-	-	-
Balance as at 31 December 2011	4,141,076	192,000	(1,162,952)	3,170,124

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



STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

	31 DEC 2011 \$	31 DEC 2010 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	100,607	674
Cash payments in the course of operations	(433,015)	(78,928)
Net cash used in operating activities	(332,408)	(78,254)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for exploration expenditure	(304,489)	-
Payments for applications and security bonds	(5,737)	(11,095)
Payments for property, plant and equipment	(56,221)	-
Payment for Chillagoe acquisition	(50,000)	-
Net cash used in investing activities	(416,447)	(11,095)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	-	444,500
Payments for share issue costs	-	-
Net cash provided by financing activities	-	444,500
Net (decrease)/increase in cash held and cash equivalents	(748,855)	355,151
Cash and cash equivalents at the beginning of the period	3,704,471	-
Cash and cash equivalents at the end of the period	2,955,616	355,151

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



NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

1. General information

Tellus Resources Ltd (“Tellus Resources” and/or the “Company”) is a listed public company limited by shares incorporated and domiciled in Australia. Tellus Resources was incorporated on 21 June 2010, so therefore the comparative figures for the period ended 31 December 2010 are for the period 21 June 2010 to 31 December 2010.

The registered and principal place of business is Suite 301, Level 3, 66 Hunter Street, Sydney NSW 2000. Tellus Resource’s shares are listed on the ASX.

2. Significant accounting policies

a) Basis of preparation

This general purpose condensed financial report for the half year ended 31 December 2011 has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standard AASB 134 *Interim Financial Reporting*, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2011 and any public announcements made by Tellus Resources during the half-year in accordance with continuous disclosure requirements of the ASX listing rules.

The half-year financial report does not include full disclosures of the type normally included in an annual financial report.

Significant Accounting Policies

The half-year report has been prepared on an accrual basis and is based on historical costs, except where applicable, for the revaluation of mineral sales and certain financial instruments. The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company’s 2011 annual financial report for the year ended 30 June 2011, unless otherwise described herein.

3. Dividends

There have been no dividends paid or declared in the period or in the previous reporting period.

4. Segment information

During the reporting period the Company operated predominantly in one operating segment, being mineral exploration.

	31 DEC 2011	31 DEC 2010
	\$	\$
REVENUE		
Interest income	90,333	1,259
Total segment revenue	90,333	1,259
RESULTS		
Operating loss before tax	(675,960)	(60,337)
Net loss	(675,960)	(60,337)
Included within segment results:		
Depreciation and amortisation of segment assets	7,976	-
Segment assets	3,227,990	395,782
Segment liabilities	57,866	11,619



NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2011

5. Revenue

	31 DEC 2011	31 DEC 2010
	\$	\$
Revenue		
Interest income – bank deposits	90,333	1,259
	<u>90,333</u>	<u>1,259</u>

6. Loss for the reporting period

Loss before income tax includes the following specific expenses:

	31 DEC 2011	31 DEC 2010
	\$	\$
Depreciation and amortisation:		
Depreciation of non-current assets	4,582	-
Amortisation of intangible assets	3,394	-
	<u>7,976</u>	<u>-</u>
Capitalised exploration costs written off:		
EL 7699 Glen Morrison	307,204	-
EL 7698 Cobark	15,048	-
	<u>322,252</u>	<u>-</u>

The Directors assessed that the carrying value of these exploration costs was as reported at 31 December 2011.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2011

7. Mineral properties

	31 DEC 2011 \$	30 JUNE 11 \$
Non-producing properties		
Exploration and evaluation expenditure:		
Intangibles		
Balance at the beginning of the reporting period	118,260	-
Additions	310,955	118,260
Less: capitalised costs written off	(322,252)	-
Balance at the end of the reporting period	106,963	118,260

All interests in mineral properties are held 100% by the Company. The ultimate recoupment of balances carried forward in relation to areas of interest still in the exploration or valuation phase is dependent on successful development, and commercial exploitation, or alternatively sale of the respective areas. The Company shall conduct impairment testing on an annual basis unless indicators of impairment are present at the reporting date.

8. Commitments for expenditure

The Company has minimum expenditure commitments to meet the conditions under which the properties are granted. These minimum expenditure commitments total \$1,044,000 (annual minimum expenditure on mineral properties from grant date of the licence to the renewal date is \$398,500). These minimum commitments may vary from time to time, subject to approval by the grantor of titles or by variation of contractual agreements. The expenditure represents potential expenditure which may be reduced by entering into sale, joint venture or relinquishment of the interests and may vary depending upon the results of exploration. Should expenditure not reach the required level in respect of each area of interest, the Company's interest could be either reduced or forfeited.

9. Contingent liabilities and contingent assets

i) Chillagoe Gold Project, QLD

On 21 November 2011, Tellus Resources announced it had entered into Binding Heads of Agreement ("the Agreement") to acquire 100% of the issued capital of Premier Minerals Pty Ltd, a wholly owned subsidiary of Premier Mining Limited, an unlisted Australian public company.

Upon execution of the Agreement Tellus paid Premier a non-refundable deposit of \$50,000, which provides Tellus exclusivity until settlement. The deposit has been recorded as a non-current other financial asset. On Settlement of the agreement Tellus will pay Premier a further \$950,000 in cash and issue Premier \$1,000,000 worth of shares in Tellus. These shares will be subject to a voluntary escrow period of 24 months.

Upon successful delineation and announcement by Tellus of an Indicated JORC resource of at least 300,000 ounces of gold with a cut-off grade of 3.0 grams per tonne, Tellus will pay Premier a further \$2,000,000 in cash; and issue Premier \$2,000,000 worth of shares in Tellus.

ii) Litigation

Tellus Resources has been joined as a party in two proceedings in the New South Wales Court of Appeal by Mr Albert Gilbert Martin. Mr Martin has alleged that the Company was granted certain exploration licences as a result of the alleged misuse of confidential information by the Department of Industry and Investment and others, information which Mr Martin alleges he supplied.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2011

9. *Contingent liabilities and contingent assets (continued)*

Tellus Resources is the Sixth Respondent in proceeding 2011/84040 in the Court of Appeal and the Fifth Respondent in proceeding 2011/185491 in that court. The proceedings are appeals brought by Mr Anthony Gilbert Martin against various decisions of the New South Wales Land and Environment Court. Tellus Resources was not a party in either of the proceedings in the Land and Environment Court, to which the appeals relate, although Mr Martin unsuccessfully sought to join the company to the Court of Appeal proceedings 2011/185491.

On 14 September 2011, the Court of Appeal delivered judgement in the two Court of Appeal proceedings. In proceeding CA2011/185491, the appeal was struck out as incompetent, leave to appeal was refused and Mr Martin was ordered to pay costs of the Respondents, including Tellus Resources.

In proceeding CA2011/84040, the Court of Appeal granted leave to appeal on limited grounds, being grounds relating to an order for security of costs. Otherwise leave to appeal was refused.

On 19 September, 2011 the Court of Appeal delivered a further judgment in proceedings 2011/84040 in which orders were made striking out certain orders in the Notice of Appeal, including the orders relating to Tellus Resources Limited, and for costs in favour of the Company.

Mr Martin filed a Notice of Motion in the Court of Appeal proceedings to which Tellus Resources Limited was a party, wherein Mr Martin sought orders against Tellus Resources and other parties for alleged contempt of Court and exemplary damages. This Notice of Motion was heard by the Court of Appeal on 27 September, 2011. The Court of Appeal has reserved judgment in respect of the Notice of Motion.

Tellus Resources has received legal advice that the Court of Appeal has no original jurisdiction to award damages.

Mr Martin filed a further Notice of Motion on 26 September, 2011, in which he seeks orders that the orders made by the Court of Appeal on 14 and 19 September, 2011 be set aside. The Court ordered Mr Martin to file and serve his written submissions in respect of this Notice of Motion within 28 days and the Court would then proceed to determine the Notice of Motion on the papers 28 October 2011, Mr Martin served Tellus Resources with written submissions

The Court of Appeal has not required Tellus Resources to respond to these written submissions. Judgment on this Notice of Motion is reserved.

Tellus Resources relied on publicly available information in applying for and obtaining its exploration licences that are the subject of Mr Martin's allegations about misuse of confidential information. Tellus Resources has received legal advice on that basis that there are no reasonable grounds for any claim for damages for misuse of confidential information belonging to Mr Martin in obtaining those licences.

Tellus Resources awaits the Court's judgment.

10. *Subsequent events*

On 4 January 2012, the Company was granted Exploration Licence 7877 Niangala project in the New England region of region of New South Wales.

On 28 October 2011, Tellus Resources announced it had entered into a Memorandum of Understanding ("MOU") to acquire 100% of the issued capital of Northern Discovery Limited ("NDL"), an unlisted Australian public company with a portfolio of coal assets in Indonesia, subject to a number of conditions. On 23 January 2012, by mutual consent both parties agreed to terminate the MOU.

On 5 March 2012, the Company issued a Notice of General Meeting to shareholders to hold a meeting on 5 April 2012. At the General Meeting, it is proposed to ratify the allotment and issue of 3,750,000 Shares at an issue price of \$0.20 per Share to raise \$750,000.

The Directors are not aware of any other matters or circumstances at the date of this report that have significantly affected or may significantly affect the operations, the results of the operations or the state of affairs of the Company in subsequent financial years.



DIRECTORS' DECLARATION

1. In the opinion of the directors of Tellus Resources Ltd:
 - a the consolidated financial statements and notes of Tellus Resources Limited are in accordance with the Corporations Act 2001, including
 - i. giving a true and fair view of its financial position as at 31 December 2011 and of its performance for the half year ended on that date; and
 - ii. complying with Australian Accounting Standard AASB 134 Interim Financial Reporting; and
 - b there are reasonable grounds to believe that Tellus Resources will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

Anthony Wehby
Chairman

Sydney, 6 March 2012

Grant Thornton Audit Pty Ltd
ACN 130 913 594

Level 17, 383 Kent Street
Sydney NSW 2000
Locked Bag Q800
QVB Post Office
Sydney NSW 1230

T +61 2 8297 2400
F +61 2 9299 4445
E info.nsw@au.gt.com
W www.grantthornton.com.au

Independent Auditor's Review Report To the Members of Tellus Resources Limited

We have reviewed the accompanying half-year financial report of Tellus Resources Limited ("Company"), which comprises the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410: Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Tellus Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review

procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Tellus Resources Limited is not in accordance with the Corporations Act 2001, including:

- a giving a true and fair view of the Company's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- b complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



A J Archer
Partner – Audit & Assurance

Sydney, 6 March 2012