NOTICE OF ANNUAL GENERAL MEETING AND EXPLANATORY STATEMENT

Annual General Meeting to be held at Grant Thornton
Level 17, 383 Kent Street, Sydney, NSW 2000 on
Wednesday 21 November 2012, 11.00am AEDST

TELLUS
RESOURCES LTD

IMPORTANT NOTICE

This Notice of Annual General Meeting and Explanatory Statement require your immediate attention. It should be read in its entirety.

If you are in doubt as to the course of action you should take and how you should vote, you should seek advice from your accountant, solicitor or other professional adviser without delay.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Shareholders of Tellus Resources Ltd (Tellus Resources or the Company) will be held at Grant Thornton, Level 17, 383 Kent Street, Sydney NSW 2000 on Wednesday 21 November 2012, at 11.00am AEDST.

The Explanatory Statement that accompanies and forms part of this Notice of Annual General Meeting sets out the background information on the various matters to be considered. This Notice of Annual General Meeting and Explanatory Statement should be read in their entirety.

AGENDA

1. Receipt of Financial Report

To receive the Financial Report of the Company for the year ended 30 June 2012 together with the Directors' Report in relation to that financial year and the Auditor's Report on the Financial Report.

2. Remuneration Report

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an advisory resolution:
"That, for the purpose of Section 250R(2) of the Corporations Act and for all other purposes, the Remuneration Report as set out in the Company's annual report for the financial year ended 30 June 2012 be approved."

Note: the vote on this Resolution is advisory only and does not bind the Directors or the Company.

Voting Prohibition Statement

In accordance with the Corporations Act, the Company will disregard any votes cast on Item 2 by Key Management Personnel and any Closely Related Party of any Key Management Personnel as those terms are defined in section 9 of the Corporations Act. However, the Company need not disregard a vote if:

(a) it is cast by a person who is appointed as a proxy by writing that specifies the way the proxy is to vote on the resolution; or

(b) it is cast by the Chair of the meeting and the appointment of the Chair as proxy:
- (i) does not specify the way the proxy is to vote on the resolution; and
- (ii) expressly authorises the Chair to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the company.

3. Re-election of Director

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:
"That Mr Richard Willson, who was appointed to the Board on 12 November 2010, who will retire at the close of the meeting in accordance with Clause 13.2 of the Company's Constitution, and being eligible, offers himself for re-election, be re-elected as a director of the Company"

4. Election of Director – Mr Ben Salmon

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:
"That, for the purposes of Clause 13.4 of the Company's Constitution and for all other purposes, Mr Ben Salmon, who was appointed to the Board on 10 October 2012, who retires in accordance with Clause 13.4 of the Company's constitution, and being eligible, offers himself for re-election"

5. Approval of 10% Placement Facility

To consider and, if thought fit, to pass, with or without amendment, the following resolution as a special resolution:
"That, pursuant to and in accordance with Listing Rule 7.1A and for all other purposes, Shareholders approve the issue of Equity Securities up to 10% of the issued capital of the Company (at the time of the issue) calculated in accordance with the formula prescribed in Listing Rule 7.1A.2 and on the terms and conditions in the Explanatory Memorandum."

Voting Exclusion

The Company will disregard any votes cast on this Item 5 by a person (and any associates of such a person) who may participate in the 10% Placement Facility and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of Shares, if this Item 5 is passed.

However, the Company will not disregard a vote if:

(a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or

(b) it is cast by the Chairman as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

6. Approval of Option Plan

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

"That, for the purposes of Exception 9 of Listing Rule 7.2 and for all other purposes, approval is given for the executive, officer, employee and consultants Option Plan (Option Plan) on the terms and conditions summarised in the accompanying Explanatory Statement and to grant Options from time to time under the Option Plan".

Voting Exclusion Statement

The Company will disregard any votes cast on this Item 6 by any of the Directors of the Company or the persons who may participate in the proposed issue of Options referred to in Item 6, or who may obtain a benefit if this Item 6 is passed (except a benefit solely in the capacity of a holder of ordinary securities) and an associate of those persons.

However, the Company need not disregard a vote if:

(a) it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the direction on the proxy form; or

(b) it is cast by the person chairing the Meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

7. Approval of Performance Rights Plan

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

"That, for the purposes of Exception 9 of Listing Rule 7.2 and for all other purposes, approval is given for the Company to amend the executive, officer, employee performance and consultants rights plan (PRP) on the terms and conditions summarised in the accompanying Explanatory Statement and to grant Performance Rights from time to time under the PRP".

Voting Exclusion Statement

The Company will disregard any votes cast on Item 7 by any of the Directors of the Company or the persons who may participate in the proposed issue of Performance Rights referred to in Item 7, or who may obtain a benefit if this Item 7 is passed (except a benefit solely in the capacity of a holder of ordinary securities) and an associate of those persons.

However, the Company need not disregard a vote if:

(a) it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the direction on the proxy form; or

(b) it is cast by the person chairing the Meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Other Business

To transact any other business which may be properly brought before the meeting in accordance with the Company's Constitution and the Corporations Act.

Please note defined terms used in this Notice have the same meanings set out in the Glossary of Explanatory Memorandum.

Explanatory Statement

Shareholders are referred to the Explanatory Statement accompanying and forming part of this Notice of Annual General Meeting.

Voting Entitlement

Pursuant to regulation 7.11.37 of the Corporations Regulations 2001, the Directors have determined that the shareholding of each shareholder for the purposes of ascertaining the voting entitlements for the Annual General Meeting will be as it appears in the Share Register at 7.00pm AEDST on Monday 19 November 2012.

Proxies

To vote by proxy, please complete and sign the enclosed Proxy Form and return by the time and in accordance with the instructions set out on the Proxy Form.

In summary, under sections 250BB and 250BC of the Corporations Act

(a) if proxy holders vote, they must cast all directed proxies as directed; and

(b) any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed.

Further details are set out below.

Proxy vote if appointment specifies way to vote
Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, if it does:

(a) the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed); and
(b) if the proxy has 2 or more appointments that specify different ways to vote on the resolution – the proxy must not vote on a show of hands; and
(c) if the proxy is the chair of the meeting at which the resolution is voted on – the proxy must vote on a poll, and must vote that way (i.e. as directed); and
(d) if the proxy is not the chair – the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).

Transfer of non-chair proxy to chair in certain circumstances
Section 250BC of the Corporations Act provides that, if:

(a) an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members; and
(b) the appointed proxy is not the chair of the meeting; and
(c) at the meeting, a poll is duly demanded on the resolution; and
(d) either of the following applies:
(i) the proxy is not recorded as attending the meeting;
(ii) the proxy does not vote on the resolution,

the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

Important for Items 2, 6 and 7
How undirected proxies held by the Chairman of the meeting will be voted – Item 2
If you appoint the Chair of the Meeting as your proxy and you do not specify in the Proxy Form the manner in which you wish the Chair to vote on the resolutions to be considered at the meeting, you expressly authorise the Chair to vote in accordance with the voting intentions of the Chair to vote in favour of all resolutions. In particular, if you do not direct the Chair how to vote on the resolution in Item 2 you expressly authorise the Chair to vote in favour of the resolution in Item 2 for the adoption of the remuneration report even though it is connected with the remuneration of a member of Key Management Personnel.

How undirected proxies held by the Chairman of the meeting will be voted – Items 6 and 7
If the Chair of the Meeting is your Proxy and you have not directed the Proxy to vote on Items, 6 and 7, (or ticked the box in Step 1 of the Proxy Form if you do not wish to direct the Chair how to vote) the Chair will be prevented from casting your votes on Items 6 and 7. If the Chair is your Proxy, in order for your votes to be counted on Items 6 and 7 you must direct your Proxy how to vote on Items 6 and 7, or tick the box in Step 1 of the Proxy Form.

The Company encourages all shareholders who submit proxies to direct their proxy how to vote on each resolution.

General

A member entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two proxies to attend and vote at the Annual General Meeting.

Where more than one proxy is appointed and the appointment does not specify the proportion or number of the member's votes, each proxy may exercise half of the votes. A proxy may, but need not be, a member of Tellus Resources.

Appointment of a proxy by a member who is a corporation must be executed in accordance with section 127 of the Corporations Act.

A Proxy Form accompanies this Notice of Annual General Meeting.

To be effective, the completed proxy together with the power of attorney (if any) under which it is signed, must be received at the Company's corporate registry, Boardroom Pty Limited, at one of the addresses or the facsimile number below no later than 48 hours before the commencement of the meeting:

- In Person: Level 7, 207 Kent Street, Sydney NSW Australia
- By Mail: GPO Box 3993 Sydney NSW 2001 Australia
- By Facsimile: +61 2 9290 9655
- On-line: www.boardroomlimited.com.au/vote/tellusagm2012

Any proxy form received later than 48 hours before the commencement of the meeting will not be valid for the meeting.

Corporate Representative

If a representative of a Shareholder corporation is to attend the Meeting the attached "Corporate Representative Certificate" should be completed and produced prior to the meeting.

Questions from Shareholders

The Chairman of the meeting will allow a reasonable opportunity for shareholders to ask questions or make comments on the management of the Company at the meeting. Members with specific queries concerning any aspect of the Financial Report for the year ended 30 June 2012 are requested to submit those queries in writing by no later than 14 November 2012 to enable the Board time to consider the queries and where appropriate to make enquires of the Auditor.

By Mail: Company Secretary
GPO Box 2658
Sydney NSW 2000
Australia

By Facsimile: +61 2 9231 6687

By order of the Board

ANNE ADALEY

Company Secretary

19 October 2012

EXPLANATORY STATEMENT

INTRODUCTION

This Explanatory Statement has been prepared for the information of shareholders in relation to the business to be conducted at the Annual General Meeting to be held at Grant Thornton, Level 17, 383 Kent Street, Sydney NSW 2000 on Wednesday 21 November 2012 at 11.00am AEDST.

This Explanatory Statement should be read in conjunction with the accompanying Notice of Meeting. This Explanatory Statement is to provide shareholders with information that is reasonably required by them to decide how to vote upon the resolution.

1. To receive Financial Report

The first agenda item in the Notice of Meeting deals with a procedural matter, namely to receive the Financial Report, Directors' Report and Auditor's Report for the Company for the year ended 30 June 2012. There is no requirement for shareholders to approve these Reports. Shareholders will be provided with a reasonable opportunity to ask questions about the reports.

In accordance with the Corporations Act the Company is not required to provide a hard copy of the Company's Annual Report to shareholders unless a shareholder has specifically elected to receive a printed copy.

Whilst the Company will not provide a hard copy of the Company's Annual Report which includes the Financial Report, Directors' Report and Auditor's Report for the year ended 30 June 2012 unless specifically requested to do so, Shareholders may view the Company's Annual Report on the Company's website at www.tellusresources.com.au or request a copy from the Company at any time.

2. Adoption of remuneration report

2.1. General

The Corporations Act requires that at a listed company's annual general meeting, a resolution that the remuneration report be adopted must be put to the shareholders. However, such a resolution is advisory only and does not bind the Directors or the Company.

Under the Corporations Act, if at least 25% of the votes cast on Item 2 are voted against adoption of the Remuneration Report at the Annual General Meeting, and then again at the Company's 2013 annual general meeting, the Company will be required to put to Shareholders a resolution proposing the calling of a general meeting to consider the appointment of Directors of the Company (Spill Resolution).

If more than 50% of Shareholders vote in favour of the Spill Resolution, the Company must convene the general meeting (Spill Meeting) within 90 days of the Company's 2013 annual general meeting. All of the Directors who were in office when the Company's 2012 Directors' report was approved, other than the managing director of the Company, will cease to hold office immediately before the end of the Spill Meeting but may stand for re-election at the Spill Meeting. Following the Spill Meeting those persons whose election or re-election as Directors is approved will be the Directors of the Company.

The remuneration report sets out the Company's remuneration arrangements for the Directors and senior management of the Company. The remuneration report is part of the Directors' report contained in the annual financial report of the Company for the financial year ending 30 June 2012.

A reasonable opportunity will be provided for discussion of the remuneration report at the Annual General Meeting.

2.2. Proxy Restrictions

If you appoint the Chair of the Meeting as your proxy and you do not specify in the Proxy Form the manner in which you wish the Chair to vote on the resolutions to be considered at the meeting, you expressly authorise the Chair to vote in accordance with the voting intentions of the Chair to vote in favour of all resolutions. In particular, if you do not direct the Chair how to vote on Item 2, you expressly authorise the Chair to vote in favour of Item 2 for the adoption of the remuneration report even though it is connected with the remuneration of a member of Key Management Personnel.

If you appoint the Chair of the Meeting as your proxy and wish to direct the Chair how to vote on some or all of the resolutions to be considered at the Meeting, you must complete the directed proxy part of the Proxy Form (Step 2 on the Proxy Form).

The Company encourages all shareholders who submit proxies to direct their proxy how to vote on each resolution.

3. Re-election of Director: Mr Richard Willson

In accordance with Clause 13.2 of the Constitution, one-third of the Directors (rounded down) shall retire from office at every annual general meeting of the Company. Clause 13.2 provides that such Directors are eligible for re-election at that meeting.

In accordance with Clause 13.2 of the Constitution, Mr Richard Willson will retire at the end of the Annual General Meeting and will seek re-election pursuant to Item 3 of the Notice of Annual General Meeting.

Details of this candidate are as follows:
Mr Willson has worked in public practice and in various financial management and company secretarial roles within the resources and agricultural sectors for both publicly listed and private companies over the past fifteen years. Richard is Chief Financial Officer and Company Secretary of YTC Resources Ltd and serves on the boards of Taronga Mines Ltd and the not-for-profit Unity Housing Company Ltd.

Mr Willson was previously Chief Financial Officer and Company Secretary of ASX listed companies Flinders Mines Ltd, Maximus Resources Ltd and ERO Mines Ltd. He was heavily involved with the listing of Eromanga Uranium Ltd which later became ERO Mines Ltd and has overseen many capital raisings including share placements, share purchase plans and rights issues.

Mr Willson has a Bachelor of Accounting from the University of South Australia, is a Fellow of CPA Australia, and is a Fellow of the Australian Institute of Company Directors.

The Directors unanimously support the re-election of Mr Willson as a Director of the Company (with Mr Willson abstaining).

4. Election of Director: Mr Ben Salmon

Item 4 seeks approval for the election of the Mr Ben Salmon a director of the Company with effect from the end of the meeting.

Pursuant to Clause 13.4 of the Company's Constitution, the directors have the power to appoint any person as a director, either to fill a casual vacancy or as an addition to the directors. Clause 13.4 requires that any person appointed as a director pursuant to Clause 13.4 will retire at the next Annual General Meeting of the Company and will then be eligible for election as a director. Mr Salmon was appointed by the Board as a director of the Company with effect from 10 October 2012. Accordingly, Mr Salmon is retiring at this Annual General Meeting and is offering himself for election.

Mr Salmon retires from office in accordance with this requirement and, being eligible, has offered himself for election as a Director of the Company.

Details of this candidate are as follows:
Mr Salmon has practised as a barrister in Canberra since 1967. He was elected as a member of the ACT Law Society Council and the ACT Bar Council. He served two terms as President of the Bar Council.

Mr Salmon served in the Australian Army Reserve, initially in Infantry and later in the Legal Corps being appointed a Judge Advocate and Defence Force Magistrate. He was appointed Queens Counsel in 1985.

He has practised in many areas of the law including in commercial and company matters. Mr Salmon has a Bachelor of Laws from Sydney University and was first admitted to practice by the Supreme Court of New South Wales in July 1965.

The Directors unanimously support the re-election of Mr Salmon as a Director of the Company (with Mr Salmon abstaining).

5. Approval of 10% Placement Facility

5.1. General

Listing Rule 7.1A enables eligible entities to issue Equity Securities up to 10% of its issued share capital through placements over a 12 month period after the annual general meeting (10% Placement Facility). The 10% Placement Facility is in addition to the Company's 15% placement capacity under Listing Rule 7.1. An eligible entity for the purposes of Listing Rule 7.1A is an entity that is not included in the S&P/ASX 300 Index and has a market capitalisation of $300 million or less. The Company is an eligible entity.

The Company is now seeking shareholder approval by way of a special resolution to have the ability to issue Equity Securities under the 10% Placement Facility. The exact number of Equity Securities to be issued under the 10% Placement Facility will be determined in accordance with the formula prescribed in Listing Rule 7.1A.2 (refer to Section 3.2.3 below). The Company is currently undertaking exploration activities at its existing projects and is also seeking to acquire new resources assets or investments. The Company may use the funds raised from the issue of Equity Securities under the 10% Placement Facility on its existing projects and/or acquisition of new resource assets or investments.

5.2. Description of Listing Rule 7.1A

5.2.1. Shareholder approval

The ability to issue Equity Securities under the 10% Placement Facility is subject to shareholder approval by way of a special resolution at an annual general meeting.

5.2.2. Equity Securities

Any Equity Securities issued under the 10% Placement Facility must be in the same class as an existing quoted class of Equity Securities of the Company. The Company, as at the date of the Notice, has on issue three classes of Equity Securities: Shares, unlisted options and unlisted performance rights.

5.2.3. Formula for calculating 10% Placement Facility

Listing Rule 7.1A.2 provides that eligible entities which have obtained shareholder approval at an annual general meeting may issue or agree to issue, during the 12 month period after the date of the annual general meeting, a number of Equity Securities calculated in accordance with the following formula:

(A x D) – E

A is the number of shares on issue 12 months before the date of issue or agreement:

(A) plus the number of fully paid shares issued in the 12 months under an exception in Listing Rule 7.2;
(B) plus the number of partly paid shares that became fully paid in the 12 months;
(C) plus the number of fully paid shares issued in the 12 months with approval of holders of shares under Listing Rule 7.1 and 7.4. This does not include an issue of fully paid shares under the entity's 15% placement capacity without shareholder approval;
(D) less the number of fully paid shares cancelled in the 12 months.

Note that A has the same meaning in Listing Rule 7.1 when calculating an entity's 15% placement capacity.

D is 10%

E is the number of Equity Securities issued or agreed to be issued under Listing Rule 7.1A.2 in the 12 months before the date of the issue or agreement to issue that are not issued with the approval of shareholders under Listing Rule 7.1 or 7.4.

5.2.4. Listing Rule 7.1 and Listing Rule 7.1A

The ability of an entity to issue Equity Securities under Listing Rule 7.1A is in addition to the entity's 15% placement capacity under Listing Rule 7.1. At the date of this Notice, the Company has on issue 44,380,555 Shares and therefore has a capacity to issue:

(i) 6,307,083 Equity Securities under Listing Rule 7.1; and
(ii) subject to Shareholder approval being obtained under this Item 5, 4,438,055 Equity Securities under Listing Rule 7.1A.

The actual number of Equity Securities that the Company will have capacity to issue under Listing Rule 7.1A will be calculated at the date of issue of the Equity Securities in accordance with the formula prescribed in Listing Rule 7.1A.2 (refer to Section 3.2.3 above).

5.2.5. Minimum Issue Price

The issue price of Equity Securities issued under Listing Rule 7.1A must be not less than 75% of the VWAP of Equity Securities in the same class calculated over the 15 Trading Days immediately before:

(i) the date on which the price at which the Equity Securities are to be issued is agreed; or

(ii) if the Equity Securities are not issued within 5 Trading Days of the date in paragraph (i) above, the date on which the Equity Securities are issued.

5.2.6. 10% Placement Period

Shareholder approval of the 10% Placement Facility under Listing Rule 7.1A is valid from the date of the annual general meeting at which the approval is obtained and expires on the earlier to occur of:

(i) the date that is 12 months after the date of the annual general meeting at which the approval is obtained; or

(ii) the date of the approval by shareholders of a transaction under Listing Rules 11.1.2 (a significant change to the nature or scale of activities) or 11.2 (disposal of main undertaking), or such longer period if allowed by ASX (10% Placement Period).

5.3. Listing Rule 7.1A

The effect of Item 5 will be to allow the Directors to issue the Equity Securities under Listing Rule 7.1A during the 10% Placement Period without using the Company's 15% placement capacity under Listing Rule 7.1. Item 5 is a special resolution and therefore requires approval of 75% of the votes cast by Shareholders present and eligible to vote (in person, by proxy, by attorney or, in the case of a corporate Shareholder, by a corporate representative).

5.4. Specific information required by Listing Rule 7.3A

Pursuant to and in accordance with Listing Rule 7.3A, information is provided in relation to the approval of the 10% Placement Facility as follows:

5.4.1. The Equity Securities will be issued at an issue price of not less than 75% of the VWAP for the Company's Equity Securities over the 15 Trading Days immediately before:

(i) the date on which the price at which the Equity Securities are to be issued is agreed; or

(ii) if the Equity Securities are not issued within 5 Trading Days of the date in paragraph (i) above, the date on which the Equity Securities are issued.

5.4.2. If Item 5 is approved by Shareholders and the Company issues Equity Securities under the 10% Placement Facility, the existing Shareholders' voting power in the Company will be diluted as shown in the below table (in the case of Listed Options, only if the Listed Options are exercised). There is a risk that:

(i) the market price for the Company's Equity Securities may be significantly lower on the date of the issue of the Equity Securities than on the date of the Meeting; and

(ii) the Equity Securities may be issued at a price that is at a discount to the market price for the Company's Equity Securities on the issue date or the Equity Securities are issued as part of consideration for the acquisition of a new asset, which may have an effect on the amount of funds raised by the issue of the Equity Securities. The below table shows the dilution of existing Shareholders on the basis of the current market price of Shares and the current number of ordinary securities for variable "A" calculated in accordance with the formula in Listing Rule 7.1A(2) as at the date of this Notice.

The table also shows:

(i) two examples where variable "A" has increased, by 50% and 100%. Variable "A" is based on the number of ordinary securities the Company has on issue. The number of ordinary securities on issue may increase as a result of issues of ordinary securities that do not require Shareholder approval (for example, a pro rata entitlements issue or scrip issued under a takeover offer) or future specific placements under Listing Rule 7.1 that are approved at a future Shareholders' meeting; and

(ii) two examples of where the issue price of ordinary securities has decreased by 50% and increased by 100% as against the current market price.

		Dilution		
Variable "A" in Listing Rule 7.1A.2		**$0.055 50% decrease in issue price**	**$0.11 Issue price**	**$0.22 100% increase in issue price**
44,380,555 Current Variable A	10% voting dilution	4,438,055 Shares	4,438,055 Shares	4,438,055 Shares
	Funds raised	$244,093	$488,186	$976,372
66,570,832 50% increase in current Variable A	10% voting Dilution	6,657,083 Shares	6,657,083 Shares	6,657,083 Shares
	Fund raised	$366,140	$732,279	$1,464,558
88,761,110 100% increase in current Variable	10% voting Dilution	8,876,111 Shares	8,876,111 Shares	8,876,111 Shares
	Funds raised	$488,186	$976,372	$1,952,744

5.4.3. The Company will only issue and allot the Equity Securities during the 10% Placement Period. The approval under Item 5 for the issue of the Equity Securities will cease to be valid in the event that Shareholders approve a transaction under Listing Rule 11.1.2 (a significant change to the nature or scale of activities or Listing Rule 11.2 (disposal of main undertaking).

5.4.4. The Company may seek to issue the Equity Securities for the following purposes:

(i) non-cash consideration for the acquisition of the new resources assets and investments. In such circumstances the Company will provide a valuation of the non-cash consideration as required by Listing Rule 7.1A.3; or

(ii) cash consideration. In such circumstances, the Company intends to use the funds raised towards the exploration activities at its existing projects and/or for acquisition of new assets or investments (including expenses associated with such acquisition) and general working capital.

The Company will comply with the disclosure obligations under Listing Rules 7.1A(4) and 3.10.5A upon issue of any Equity Securities. The Company's allocation policy is dependent on the prevailing market conditions at the time of any proposed issue pursuant to the 10% Placement Facility. The identity of the allottees of Equity Securities will be determined on a case-by-case basis having regard to the factors including but not limited to the following:

(i) the methods of raising funds that are available to the Company, including but not limited to, rights issue or other issue in which existing security holders can participate;

(ii) the effect of the issue of the Equity Securities on the control of the Company;

(iii) the financial situation and solvency of the Company; and

(iv) advice from corporate, financial and broking advisers (if applicable).

The allottees under the 10% Placement Facility have not been determined as at the date of this Notice but may include existing substantial Shareholders and/or new Shareholders who are not related parties or associates of a related party of the Company.

Further, if the Company is successful in acquiring new resources assets or investments, it is likely that the allottees under the 10% Placement Facility will be the vendors of the new resources assets or investments.

5.4.5. The Company has not previously obtained Shareholder approval under Listing Rule 7.1A.

5.4.6. A voting exclusion statement is included in the Notice. At the date of the Notice, the Company has not approached any particular existing Shareholder or security holder or an identifiable class of existing security holder to participate in the issue of the Equity Securities. No existing Shareholder's votes will therefore be excluded under the voting exclusion in the Notice.

6. Approval of Option Plan

6.1. General

Item 6 seeks shareholder approval to adopt a revised Option Plan (Option Plan) to provide ongoing incentives to executives, officer, employees and consultants of the Company. The original option plan was adopted by the Company prior to its listing on the ASX.

The objective of the Option Plan is to provide the Company with a remuneration mechanism, through the issue of securities in the capital of the Company, to motivate and reward the performance of executives, officers, employees and consultants in achieving specified performance milestones within a specified performance period. The Board will ensure that the performance milestones attached to the securities issued pursuant to the Option Plan are aligned with the successful growth of the Company's business activities.

The executives, officer, employees and consultants of the Company have been, and will continue to be, instrumental in the growth of the Company. The Directors consider that the Option Plan is an appropriate method to:

(a) reward executives, officers, employees and consultants for their past performance;

(b) provide long term incentives for participation in the Company's future growth;

(c) motivate executives, officers, employees and consultants and generate loyalty from senior employees; and

(d) assist to retain the services of valuable executives, officers, employees and consultants.

6.2. ASX Listing Rule 7.1

ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more equity securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

One of the exceptions to ASX Listing Rule 7.1 is Listing Rule 7.2 (Exception 9) which provides that ASX Listing Rule 7.1 does not apply to an issue under an employee incentive scheme if, within the 3 years before the date issue, shareholders have approved the issue as an exception to ASX Listing Rule 7.1.

The effect of Item 6 will be to allow the Directors to grant Options to employees of the Company pursuant to the Option Plan during the period of 3 years after the meeting (or a longer period, if allowed by ASX), and to issue shares to those employees if they achieve the performance and vesting conditions of the Performance Rights, without using the Company's 15% annual placement capacity.

6.3. Terms of the Option Plan

A summary of the terms of the Option Plan is provided in Schedule 1 to this explanatory memorandum. A copy of the Option Plan will be made available free of charge to any shareholder on request.

No options have been issued under the Option Plan as at the date of this Notice.

The Directors recommend that Shareholders vote in favour of the approval of the Option Plan.

7. Approval of Performance Rights Plan

7.1. General

Item 7 seeks shareholder approval to adopt a revised executive, officer, employee and consultants Performance Rights Plan (PRP) to provide ongoing incentives to executives, officers, consultants and employees of the Company. On 8 November 2011 shareholders approved a performance rights plan.

On 28 September 2012 the Board adopted the amended PRP to widen the scope of Participants in the PRP to allow consultants to be granted Performance Rights to acquire shares in the Company.

The objective of the PRP is to provide the Company with a remuneration mechanism, through the issue of securities in the capital of the Company, to motivate and reward the performance of executives, officers, consultants and employees in achieving specified performance milestones within a specified performance period. The board will ensure that the performance milestones attached to the securities issued pursuant to the PRP are aligned with the successful growth of the Company's business activities.

The executives, officers, consultants and employees of the Company have been, and will continue to be, instrumental in the growth of the Company. The Directors consider that the PRP is an appropriate method to:

(a) reward executives, officers, consultants and employees for their past performance;

(b) provide long term incentives for participation in the Company's future growth;

(c) motivate executives, officers, consultants and employees and generate loyalty from senior employees; and

(d) assist to retain the services of valuable executives, officers, consultants and employees.

7.2. ASX Listing Rule 7.1

ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more equity securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

One of the exceptions to ASX Listing Rule 7.1 is Listing Rule 7.2 (Exception 9) which provides that ASX Listing Rule 7.1 does not apply to an issue under an employee incentive scheme if, within the 3 years before the date issue, shareholders have approved the issue as an exception to ASX Listing Rule 7.1.

The effect of Item 7 will be to allow the directors to grant Performance Rights to employees of the Company pursuant to the PRP during the period of 3 years after the meeting (or a longer period, if allowed by ASX), and to issue shares to those employees if they achieve the performance and vesting conditions of the Performance Rights, without using the Company's 15% annual placement capacity.

7.3. Terms of the PRP

A summary of the terms of the PRP is provided in Schedule 2 to this explanatory memorandum. A copy of the PRP will be made available free of charge to any shareholder on request.

1,000,000 Performance Rights have been issued since the date of the last shareholder approval of the PRP.

The Directors recommend that Shareholders vote in favour of the approval of the PRP.

GLOSSARY OF TERMS

In this Explanatory Statement the following expressions have the following meanings:

Annual General Meeting or **Meeting** means the annual general meeting of shareholders of the Company convened by this Notice.

ASIC means the Australian Securities and Investments Commission.

ASX means Australian Securities Exchange operated by ASX Ltd.

Board means the board of directors of the Company.

Closely Related Party of a member of the Key Management Personnel means:

(a) a spouse or child of the member;
(b) a child of the member's spouse;
(c) a dependent of the member or the member's spouse;
(d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealing with the entity;
(e) a company the member controls; or
(f) a person prescribed by the Corporations Regulations 2001 (Cth).

Company means Tellus Resources Ltd (ACN 144 733 595).

Constitution means the Constitution of the Company.

Corporations Act means the Corporations Act 2001 (Cth).

Director means a director of the Company.

Equity Securities has the same meaning as in the Listing Rules.

Key Management Personnel has the same meaning as in the accounting standards and broadly includes those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company.

Listing Rules means the listing rules of the ASX.

Notice or **Notice of Meeting** means the notice of annual general meeting which accompanies this Explanatory Statement.

Performance Right means a performance right issued under the terms of the PRP.

PRP means the Executive, Officer Employee and Consultants Performance Rights Plan the subject of Resolution 7 of the Notice of Meeting.

Remuneration Report means the remuneration report set out in the Director's report section of the Company's annual financial report for the year ended 30 June 2012.

Resolution means a resolution referred to in the Notice of Meeting.

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

Shareholder means a holder of a Share.

Trading Day means a day determined by ASX to be a trading day in accordance with the Listing Rules.

SCHEDULE 1

SUMMARY OF THE TERMS OF THE OPTION PLAN

The Company has established an incentive option plan (Option Plan). The full terms of the Option Plan may be inspected at the registered office of the Company during normal business hours.

A summary of the terms of the Option Plan is set out below.

(a) Grant of Options – the Directors, at their discretion, may issue options to subscribe for Shares (Plan Options) to Participants (or to a nominee as the Participant directs) at any time, having regard to relevant considerations such as the Participant's past and potential contribution to the Company and their period of employment with the Company;

(b) Participants – full-time and part-time employees, executives, officers, and consultants of the Company or its associated bodies corporate, or nominees of these persons, are eligible to participate in the Option Plan (Participants);

(c) Issue Price of Plan Options – Plan Options are to be issued to Participants for no consideration;

(d) Maximum Number of Plan Options – If the Company makes an offer of Plan Options where:
   (i) the number of Shares which would be issued if each outstanding offer of Shares and Options under the Option Plan or any other employee incentive scheme of the Company were accepted or exercised; and
   (ii) the number of Shares issued during the previous 5 years under the Option Plan or any other employee incentive scheme of the Company,
   (iii) exceeds 5% of the total number of issued shares in that share class of the Company at the time the Plan Option is offered, then the Company must comply with the disclosure requirements of Chapter 6D of the Corporations Act at the time of that offer.

(e) Entitlement – each Plan Option entitles the holder to subscribe for one Share. The Shares issued upon the exercise of a Plan Option will rank equally with all of the Company's then existing Shares;

(f) Exercise Price – the exercise price of each Plan Option shall be determined at the discretion of the Board, provided that the exercise price may not be less than any minimum price specified in the ASX Listing Rules;

(g) Exercise of Plan Options – A Plan Option may only be exercised after the Plan Option has vested in the holder, and on or before the expiry date determined by the Board (Expiry Date). The Board may determine the time periods after which the Plan Options will vest in the holder of the Plan Options, and any further vesting conditions, including a requirement that the Participant satisfies:
   (i) a service continuity period; and
   (ii) any performance criteria,
   (iii) specified by the Board at the time of issue of the Plan Options (Exercise Conditions);

(h) Lapse of Plan Options – a Plan Option will immediately lapse if:
   (i) the Participant ceases to be an employee or director of the Company and the Exercise Conditions have not been met;
   (ii) the Exercise Conditions are unable to be met;
   (iii) the Expiry Date has passed; or
   (iv) the Participant ceases to be an employee or director of the Company where the Exercise Conditions have been satisfied but the Plan Options are not exercised within 3 months of that Participant ceasing to be an employee or director of the Company.

(i) Quotation of Plan Options and Shares – Plan Options issued under the Option Plan will not be quoted on ASX, however, the Company will make application for official quotation of all Shares issued upon the exercise of the Plan Options;

(j) Future Issues of Shares – holders of Plan Options will not be entitled to participate in new issues of capital offered to Shareholders. However, the Company will ensure that the record date for determining entitlements for any such issue will be at least seven business days after the issue is announced, to allow holders of Plan Options an opportunity to exercise the Plan Options prior to the record date. If the Company makes a bonus issue of Shares to Shareholders (Bonus Issue), the number of Shares over which a Plan Option is exercisable will not be increased by the number of Shares which the holder of the Plan Option would have received if the Plan Option had been exercised before the record date for the Bonus Issue;

SCHEDULE 1

(k) Reconstruction of Capital – in the event of any reconstruction of the issued capital of the Company prior to the expiry of any Plan Options, the number of Plan Options to which each Participant is entitled or the exercise price of his or her Plan Options or both will be reconstructed in accordance with the provisions of the ASX Listing Rules; and

(l) Powers of the Board of Directors – the Option Plan is administered by the Directors of the Company, who have the power to:

(i) determine procedures for the administration of the Option Plan;

(ii) amend or waive the provisions of the Option Plan without the consent of Shareholders, provided that rights or entitlements in respect of any Plan Option granted before the date of amendment shall not be reduced or adversely affected unless prior written approval from the affected holder(s) is obtained; and

(iii) suspend or terminate the Option Plan.

SCHEDULE 2

SUMMARY OF THE TERMS OF THE PERFORMANCE RIGHTS PLAN

The Company has established the Performance Rights Plan (PRP).

The key terms of the PRP are summarised below:

(m) The Board of the Company will administer the PRP in accordance with the PRP Rules and the Board has a broad discretion to determine which executives, officers, employees and consultants are eligible to participate in the PRP (Eligible Participants).

(n) Under the PRP the Board may grant Performance Rights to Eligible Participants with effect from the date determined by the Board, upon the terms set out in the PRP and upon such additional terms and vesting conditions as the Board determines.

(o) The Board will advise each Eligible Participant of the following minimum information regarding the Performance Rights:
- (i) the number of Performance Rights being offered (each entitling its holder to one Share upon vesting of that Performance Right);
- (ii) any applicable Vesting Conditions;
- (iii) the period or periods during which any vested Performance Rights may be exercised;
- (iv) the dates and times when the Performance Rights lapse;
- (v) any amount that will be payable upon vesting of a Performance Right; and
- (vi) any other relevant conditions to be attached to the Performance Rights or the Shares.

(p) A Performance Right granted under the PRP will not vest unless the vesting conditions (if any) have been satisfied and the Board has notified the Eligible Participant.

(q) A Performance Right will not be transferrable, except with the permission of the Board or as required by law.

(r) A vested Performance Right may only be exercised by a Participant once the Board has notified the Eligible Participant that the vesting conditions attached to the Performance Right have been satisfied.

(s) A Performance Right will lapse upon the earlier to occur of:
- (i) failure to meet the Performance Right's vesting conditions;
- (ii) the date specified by the Board;
- (iii) where the Participant purports to transfer a Performance Right other than in accordance with the terms of the PRP;
- (iv) the cessation of employment where a Performance Right requires the holder of the Performance Right (Participant) to remain an employee of the Company or one of its subsidiaries or other entity declared by the Board;
- (v) where, in the opinion of the Board, an Eligible Participant's Performance Rights vest as a result of the fraud, dishonesty, or breach of obligations of another person and, in the opinion of the Board, the Performance Rights would not otherwise have vested; or
- (vi) the 7 year anniversary of the date of grant of the Performance Rights.

(t) A Share issued as a result of or transferred on the exercise of a Performance Right must not be dealt with in any way by the Participant until the earlier of:
- (i) the time when the Participant is no longer employed by the Company or one of its subsidiaries or other entity declared by the Board;
- (ii) the Board approving the removal of the restriction on dealing; and
- (iii) the 7 year anniversary of the date of grant of the Performance Right.

(u) In the event of a takeover bid or a court ordered compromise or arrangement meeting, the Board may, in its absolute discretion, determine that all or a specified number of a Participant's unvested Performance Rights vest. Any Performance Right which the Board determines does not vest will automatically lapse, unless the Board determines otherwise.

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
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

SECURITIES EXCHANGE LISTING

ASX Code: TLU

AUDITOR

Grant Thornton Audit Pty Ltd
Level 17
383 Kent Street
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T: (02) 8297 2400
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TELLUS
RESOURCES LTD

www.tellusresources.com.au

Tellus Resources Ltd
ABN 35 144 733 595

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ALL CORRESPONDENCE TO:
Boardroom Pty Limited
GPO Box 3993
Sydney NSW 2001
Australia

☐ **Your Address**
This is your address as it appears on the company's share register. If this is incorrect, please mark the box with an "X" and make the correction on the form. Securityholders sponsored by a broker should advise your broker of any changes. **Please note, you cannot change ownership of your securities using this form.**

YOUR VOTE IS IMPORTANT

FOR YOUR VOTE TO BE EFFECTIVE IT MUST BE RECORDED BEFORE 11.00 am (AEDST) MONDAY 19th NOVEMBER 2012

Reference Number:
Please note it is important you keep this confidential

TO VOTE ONLINE

STEP 1 : VISIT www.boardroomlimited.com.au/vote/tellusagm2012
STEP 2: Enter your holding/Investment type
STEP 3: Enter your Reference Number and VAC:

TO VOTE BY COMPLETING THE PROXY FORM

STEP 1 Appointment of Proxy
Indicate here who you want to appoint as your Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If you wish to appoint someone other than the Chairman of the Meeting as your proxy please write the full name of that individual or body corporate. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a security holder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

Proxy which is a Body Corporate
Where a body corporate is appointed as your proxy, the representative of that body corporate attending the meeting must have provided an "Appointment of Corporate Representative" prior to admission. An Appointment of Corporate Representative form can be obtained from the company's securities registry.

Appointment of a Second Proxy
You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's securities registry or you may copy this form.

To appoint a second proxy you must:
(a) complete two Proxy Forms. On each Proxy Form state the percentage of your voting rights or the number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
(b) return both forms together in the same envelope.

STEP 2 Voting Directions to your Proxy
You can tell your Proxy how to vote

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

STEP 3 Sign the Form
The form **must** be signed as follows:

Individual: This form is to be signed by the securityholder.
Joint Holding: where the holding is in more than one name, all the securityholders must sign.
Power of Attorney: to sign under a Power of Attorney, you must have already lodged it with the registry. Alternatively, attach a certified photocopy of the Power of Attorney to this form when you return it.
Companies: this form must be signed by a Director jointly with either another Director or a Company Secretary. Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. **Please indicate the office held by signing in the appropriate place.**

STEP 4 Lodgement of a Proxy
This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below not later than 48 hours before the commencement of the meeting at **11.00 am (AEDST) on Wednesday 21st November 2012**. Any Proxy Form received after that time will not be valid for the scheduled meeting.
Proxies may be lodged using the reply paid envelope or:

BY MAIL - Share Registry – Boardroom Pty Limited, GPO Box 3993, Sydney NSW 2001 Australia

BY FAX - + 61 2 9290 9655

IN PERSON - Share Registry – Boardroom Pty Limited, Level 7, 207 Kent Street, Sydney NSW 2000 Australia

Vote online at: www.boardroomlimited.com.au/vote/tellusagm2012 or turnover to complete the Form ➔

Attending the Meeting
If you wish to attend the meeting please bring this form with you to assist registration.

Tellus Resources Ltd

STEP 1 - Appointment of Proxy

I/We being a member/s of **Tellus Resources Ltd** and entitled to attend and vote hereby appoint

☐ the Chairman of the Meeting (mark with an 'X') **OR** ☐

If you are not appointing the Chairman of the Meeting as your proxy please write here the full name of the individual or body corporate (excluding the registered Securityholder) you are appointing as your proxy.

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy at the **Annual General Meeting of Tellus Resources Ltd to be held at the offices of Grant Thornton, Level 17, 383 Kent Street, Sydney, NSW 2000 on Wednesday the 21st of November 2012 at 11.00 am (AEDST)** and at any adjournment of that meeting, to act on my/our behalf and to vote in accordance with the following directions or if no directions have been given, as the proxy sees fit.

☐ If the Chairman of the Meeting is appointed as your proxy or may be appointed by default, and you do not wish to direct your proxy how to vote in respect of Items 6 and 7, please mark this box. By marking this box, you acknowledge that the Chairman of the Meeting may vote as your proxy even if he has an interest in the outcome of the resolution and votes cast by the Chairman of the Meeting for those resolutions, other than as proxy holder, will be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chairman of the Meeting will not cast your votes on the resolution and your votes will not be counted in calculating the required majority if a poll is called.

The Chair will vote all undirected proxies in favour of the resolutions.

STEP 2 - Voting directions to your Proxy – please mark ☒ to indicate your directions

Ordinary Business		For	Against	Abstain*
Item 2	Adoption of the Remuneration Report	☐	☐	☐
Item 3	Re-election of Mr Richard Willson as a Director	☐	☐	☐
Item 4	Election of Mr Ben Salmon as a Director	☐	☐	☐
Item 5	Approval of 10% Placement Facility	☐	☐	☐
Item 6	Approval of Option Plan	☐	☐	☐
Item 7	Approval of Performance Rights Plan	☐	☐	☐

Important Note for Item 2 - Chairman authorised to exercise undirected proxies on remuneration related resolutions: Where I/we have appointed the Chairman of the Meeting as my/our proxy (or the Chairman becomes my/our proxy by default), I/we expressly authorise the Chairman to exercise my/our proxy on Item 2 (Adoption of Remuneration Report) (except where I/we have indicated a different voting intention below) even though Item 2 (Adoption of Remuneration Report) is connected directly or indirectly with the remuneration of a member of key management personnel, which includes the Chairman.

In addition to the intentions advised above, the Chairman of the Meeting intends to vote undirected proxies in favour of each of the items of business.

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

STEP 3 - PLEASE SIGN HERE **This section *must* be signed in accordance with the instructions overleaf to enable your directions to be implemented.**

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary	Director	Director/Company Secretary