

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Desert Energy Limited will be held at the Company's office at Level 2, 231 Adelaide Terrace, Perth on Friday 28 November 2008 commencing at 11.00 am to conduct the following business:

1. Financial Report

To receive the Financial Report and the reports of the Directors and Auditors for the year ended 30 June 2008.

2. Resolution 1 - Re-election of Mr Phillip Jackson as a director

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That Mr Phillip Sidney Redmond Jackson, a director and Chairman of the Company, who retires by rotation in accordance with the Company's Constitution and, being eligible, offers himself for re-election, be re-elected as a director."

3. Resolution 2 – Adoption of Remuneration Report

To consider and, if thought fit, to pass the following non-binding resolution as an ordinary resolution:

"To adopt the Remuneration Report for the year ended 30 June 2008 as disclosed in the 2008 Annual Report."

Note – the vote on this resolution is advisory only and does not bind the Directors of the Company.

4. Resolution 3 - Issue of Unlisted Options to Able Kids Pty Ltd, the consulting company of Dr Robert Taylor who is an Executive Director of Desert Energy Limited

To consider and if thought fit, pass the following resolution as an ordinary resolution:

"That for the purposes of Listing Rule 10.11 of the Listing Rules of the ASX and Section 208 of the Corporations Act 2001 and for all other purposes, the Company approve and authorise the grant and issue of 3,000,000 options to subscribe for 3,000,000 ordinary shares in the capital of the Company to Able Kids Pty Ltd (a company associated with Dr Robert Taylor a director of the Company and which provides consulting services to Desert Energy Limited) or to its approved Nominee, at a 100.1% premium above the market price of the Company's shares on the date on which the Options are issued, or 50 cents, whichever is the greater, on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice of Meeting."

Voting Exclusion Statement

The Company will in accordance with section 224 of the Corporations Act disregard any votes cast on this resolution 3 by Able Kids Pty Ltd or, any associates or nominees of such persons. However, the Company need not disregard a vote if it is cast by a person as a proxy appointed in writing that specifies how the proxy is to vote on the proposed resolution and it is not cast on behalf of Able Kids Pty Ltd or any associate of Able Kids Pty Ltd or it is cast by the person chairing the meeting 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.

5. Resolution 4 - Issue of Unlisted Options to Anketell Pty Ltd, the consulting company of Mr Garry O'Hara who is an Executive Director of Desert Energy Limited

To consider and if thought fit, pass the following resolution as an ordinary resolution:

"That for the purposes of Listing Rule 10.11 of the Listing Rules of the ASX and Section 208 of the Corporations Act 2001 and for all other purposes, the Company approve and authorise the grant and issue of 3,000,000 options to subscribe for 3,000,000 ordinary shares in the capital of the Company to Anketell Pty Ltd (a company associated with Mr Garry O'Hara, a director of the Company, and which provides consulting services to Desert Energy Limited) or to its approved Nominee, at a 100.1% premium above the market price of the Company's shares on the date on which the Options are issued, or 50 cents, whichever is the greater, on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice of Meeting."

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Voting Exclusion Statement

The Company will in accordance with section 224 of the Corporations Act disregard any votes cast on this resolution 4 by Anketell Pty Ltd, or any associates or nominees of such person. However, the Company need not disregard a vote if it is cast by a person as a proxy appointed in writing that specifies how the proxy is to vote on the proposed resolution and it is not cast on behalf of Anketell Pty Ltd or any associate of Anketell Pty Ltd or it is cast by the person chairing the meeting 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.

6. Resolution 5 - Issue of Unlisted Options to Holihox Pty Ltd, the consulting company of Mr Phillip Jackson, Chairman of Directors of Desert Energy Limited

To consider and if thought fit, pass the following resolution as an ordinary resolution:

"That for the purposes of Listing Rule 10.11 of the Listing Rules of the ASX and Section 208 of the Corporations Act 2001 and for all other purposes, the Company approve and authorise the grant and issue of 1,500,000 options to subscribe for 1,500,000 ordinary shares in the capital of the Company to Holihox Pty Ltd (a company associated with Mr Phillip Jackson a director of the Company and which provides consulting services to Desert Energy Limited) or to its approved Nominee, at a 100.1% premium above the market price of the Company's shares on the date on which the Options are issued, or 50 cents, whichever is the greater, on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice of Meeting."

Voting Exclusion Statement

The Company will in accordance with section 224 of the Corporations Act, disregard any votes cast on this resolution 5 by Holihox Pty Ltd, or any associates or nominees of such person. However, the Company need not disregard a vote if it is cast by a person as a proxy appointed in writing that specifies how the proxy is to vote on the proposed resolution and it is not cast on behalf of Holihox Pty Ltd or any associate of Holihox Pty Ltd or it is cast by the person chairing the meeting 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. Resolution 6- Issue of Options to Consultants

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"For the purposes of Listing Rule 7.1 of the Listing Rules of the ASX and for all other purposes, the Company approve and authorise the grant and issue of 2,050,000 options to subscribe for 2,050,000 ordinary shares in the capital of the Company to the persons identified in the Explanatory Memorandum accompanying this Notice of Meeting on the terms and conditions set out in such Explanatory Memorandum."

Voting Exclusion Statement

The Company will disregard any votes cast on this resolution 6 by any person who may participate in the proposed issue, and any person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed, or any associates of those persons. However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- 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 forms to vote as the proxy decides.

8. Resolution 7 – Approval for possible future placement of Shares

To consider and if thought fit, pass the following resolution as an ordinary resolution:

"For the purposes of Rule 7.1 of the Listing Rules of the ASX and for all other purposes, that approval be given for the Directors, if they think fit, to issue of up to 12,340,000 ordinary fully paid Shares in the Company at an issue price that is at least 80% of the average market price for fully paid ordinary Shares in the Company and otherwise on such terms and conditions referred to in the Explanatory Memorandum accompanying this Notice of General Meeting."

Voting Exclusion Statement

The Company will disregard any votes cast on this resolution 7 by any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed and any associates of such persons. However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- 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 forms to vote as the proxy decides.

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The Explanatory Memorandum that accompanies and forms part of this Notice describes in more detail the matters to be considered.

PROXIES

A form of proxy is enclosed herewith. A member who is entitled to attend and vote at a meeting is entitled to appoint a proxy (and a member who is entitled to cast 2 or more votes may appoint not more than two proxies) to attend and vote at the meeting. A proxy need not be a member of the Company. Where a member appoints two proxies, the proportion of the member's voting rights given in favour of each proxy must be specified. Proxies must be received by the Company not later than 48 hours before the meeting. Proxies may be lodged by fax.

ENTITLEMENT TO VOTE

In accordance with regulation 7.11.37 of the Corporations Regulations 2001, the Company determines that members holding ordinary shares held as at 5.00pm Perth time on 26 November 2008 will be entitled to attend and vote at the Annual General Meeting.

BY ORDER OF THE BOARD

P C RUTTLEDGE
Company Secretary
27 October 2008

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Notice of Annual General Meeting

Explanatory Memorandum

This Explanatory Memorandum has been prepared for the information of Shareholders of Desert Energy Limited ("Desert Energy" or "the Company") in connection with the business to be conducted at the Annual General Meeting of Shareholders to be held at Level 2, 231 Adelaide Terrace, Perth on Friday 28 November 2008 ("the Meeting").

This Explanatory Memorandum should be read in conjunction with the accompanying Notice of Annual General Meeting ("the Notice").

The following matters should be noted in respect of the resolutions in the Notice:

1. Financial Report

Appropriate time will be devoted to the consideration of the Financial Report of the Company for the year ended 30 June 2008 and the Directors' and Auditors' reports thereon.

A printed hard copy of the Annual Report which includes the Financial Report, Directors' Report and Auditor's Report for the year ended 30 June 2008, has been sent to all Shareholders who requested it. The Annual Report is available on the Company's website at www.desertenergy.com.au

2. Resolution 1 – Re-election of Mr Phillip Jackson as a Director

Mr Phillip Jackson, who has been a director of the Company since its incorporation, will retire by rotation at the Annual General Meeting pursuant to Clause 11.3 of the Company's Constitution and, being eligible, offers himself for re-election.

The Directors recommend the re-election of Mr Phillip Jackson.

3. Resolution 2 – Approval of Remuneration Report

In accordance with section 250R(2) of the Corporations Act 2001 the Company presents to shareholders for their consideration and adoption by way of non-binding resolution the Company's Remuneration Report as disclosed in the Directors' Report in the Company's 2008 Annual Report.

A reasonable opportunity will be provided for discussion of the Remuneration Report at the meeting.

The Directors recommend that Shareholders vote in favour of adopting the Remuneration Report.

4. Resolutions 3, 4 & 5 - Issue of Options to Consulting Companies associated with Directors of the Company

4.1 Background

Shareholder approval is being sought in Resolutions 3, 4 and 5 to grant and issue a total in aggregate of 7,500,000 Options to consulting companies which provide high level consulting services to Desert Energy Limited which are associated with the Directors of the Company, namely Dr Robert Taylor, Mr Garry O'Hara and Mr Phillip Jackson.

The exercise price for the Options will be the closing market price for the Shares as at the date of the issue of the Options plus 100.1% of that price, or 50 cents, whichever is the greater. For example if the market price for the shares in the Company at the time the Options are issued is 18 cents, the exercise price will be 50 cents and if all of the Options are exercised this will raise \$3,750,000 for the Company.

The Company proposes to offer, and if accepted, grant and issue a total of:

- 3,000,000 Options to Able Kids Pty Ltd or its Nominee. Able Kids Pty Ltd, the consulting company of Desert Energy Limited's Executive Director, Dr Robert Taylor, has been retained by Desert Energy Limited to provide the Company with geological and business development services; and

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- 3,000,000 Options to Anketell Pty Ltd or its Nominee. Anketell Pty Ltd, the consulting company of Desert Energy Limited's Executive Director, Mr Garry O'Hara, has been retained by Desert Energy Limited to provide the Company with geological and business development services; and
- 1,500,000 Options to Holihox Pty Ltd or its Nominee. Holihox Pty Ltd, the consulting company of Desert Energy Limited's Chairman of Directors, Mr Phillip Jackson, has been retained by Desert Energy Limited to provide the Company with commercial advice.

The grant of Options is designed to provide a material additional incentive for the ongoing commitment and dedication of the above consultants to the continued growth of the Company without drawing on the Company's cash reserves.

The terms and conditions attaching to the Options are set out in the Appendix.

4.2 Chapter 2E of the Corporations Act 2001

Chapter 2E of the Corporations Act 2001 prohibits the Company from giving a financial benefit to a related party of the Company unless either:

- (a) the giving of the financial benefit falls within one of the nominated exceptions to the provisions; or
- (b) prior shareholder approval is obtained to the giving of the financial benefit.

For the purposes of Chapter 2E, each director of the Company is considered to be a related party of the Company. Similarly each company controlled by a director is considered to be a related party of the Company. Accordingly, the issue of the Options to Anketell Pty Ltd, Able Kids Pty Ltd or Holihox Pty Ltd or their respective Nominee pursuant to the proposed Resolutions constitutes the provision of a financial benefit to related parties of the Company.

Although the issue of Options may fall within one of the nominated exceptions referred to in paragraph (a), this is not entirely certain and accordingly, in the interests of certainty it has been determined to seek shareholder approval to the issue of the Options to the consulting companies or their Nominees.

Consequently, in accordance with section 219 of the Corporations Act, the following information is provided to Shareholders to allow them to assess the proposed issue of Options to related parties.

The related party to whom the proposed resolutions would permit the financial benefit to be given:

Anketell Pty Ltd, Able Kids Pty Ltd and Holihox Pty Ltd (or their respective Nominees) are the related parties to whom a financial benefit would be given.

The nature of the potential financial benefit

The proposed financial benefit to be given to Able Kids Pty Ltd or Nominee is the grant and issue of 3,000,000 Options for nil consideration and on the terms and conditions set out in the Appendix to this Explanatory Memorandum.

The proposed financial benefit to be given to Anketell Pty Ltd or Nominee is the grant and issue of 3,000,000 Options for nil consideration and on the terms and conditions set out in the Appendix to this Explanatory Memorandum.

The proposed financial benefit to be given to Holihox Pty Ltd or Nominee is the grant and issue of 1,500,000 Options for nil consideration and on the terms and conditions set out in the Appendix to this Explanatory Memorandum.

Directors' recommendation

Dr Robert Taylor has a material personal interest in Resolution 3 and accordingly does not wish to make a recommendation in relation to Resolution 3. The other Directors, who do not have a material personal interest in the outcome of Resolution 3, recommend that Shareholders approve Resolution 3 as they are of the view that the issue of Options to Able Kids Pty Ltd is appropriate recognition of its efforts to date, and assists the Company in retaining the services and dedication of Able Kids Pty Ltd and therefore Dr Robert Taylor whilst maintaining the Company's cash reserves at a time when there is significant competition for the services of experienced exploration and mining personnel.

The Directors (other than Dr Taylor) considered Dr Taylor's experience, his contribution to date to the Company and the potential future contributions to the Company, the current market price of the Shares and current market practice when determining the terms of the Options and the number of Options to be issued to Able Kids Pty Ltd;

All Directors were available to consider Resolution 3.

Mr Garry O'Hara has a material personal interest in Resolution 4 and accordingly does not wish to make a recommendation in relation to Resolution 4. The other Directors, who do not have a material personal interest in the outcome of Resolution 4, recommend that Shareholders approve Resolution 4 as they are of the view that the issue of Options to Anketell Pty Ltd is appropriate recognition of its efforts to date, and assists the Company in retaining the services and dedication of Anketell Pty Ltd and therefore Mr Garry O'Hara whilst maintaining the Company's cash reserves at a time when there is significant competition for the services of experienced exploration and mining personnel.

The Directors (other than Mr O'Hara) considered Mr O'Hara's experience, his contribution to date to the Company and the potential future contributions to the Company, the current market price of the Shares and current market practice when determining the terms of the Options and the number of Options to be issued to Anketell Pty Ltd;

All Directors were available to consider Resolution 4.

Mr Phillip Jackson has a material personal interest in Resolution 5 and accordingly does not wish to make a recommendation in relation to Resolution 5. The other Directors, who do not have a material personal interest in the outcome of Resolution 5, recommend that Shareholders approve Resolution 5 as they are of the view that the issue of Options to Holihox Pty Ltd is appropriate recognition of its efforts to date, and assists the Company in retaining the services and dedication of Holihox Pty Ltd and therefore Mr Phillip Jackson whilst maintaining the Company's cash reserves at a time when there is significant competition for the services of experienced exploration and mining personnel.

The Directors (other than Mr Jackson) considered Mr Jackson's experience, his contribution to date to the Company and the potential future contributions to the Company, the current market price of the Shares and current market practice when determining the terms of the Options and the number of Options to be issued to Holihox Pty Ltd;

All Directors were available to consider Resolution 5.

4.3 Other information that is reasonably required by members to make a decision whether it is in the best interests of the Company to pass Resolutions 3, 4 and 5 that is known to the Company or any of its Directors:

(i) Value attributed to the proposed issue of Options

The Company's advisers have valued the Options using the Black-Scholes Option Pricing Model ("**BSModel**") and the Binomial Option Valuation Methodology ("**Binomial Model**"), which are two of the most widely used and recognised models for pricing options.

The BS Model calculates the expected benefit from acquiring the Shares outright less the present value of paying the exercise price for the Options on date of expiration. This model is considered robust and sufficiently accurate as an option pricing tool where options are not expected to be exercised until the end of the option's life. The model uses historical share price volatility measures and therefore may not approximate actual share price behaviours in

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the future. The Binomial Model is able to value American options which may be exercised at any time over their life.

The Binomial Model uses a "discrete-time" model of the varying price over time of financial instruments; the model is thus able to handle a variety of conditions for which other models cannot be applied. Essentially, the Binomial Model valuation is via application of the risk neutrality assumption over the life of the option, as the price of the underlying instrument evolves.

For European options, the Binomial Model value converges on the BS Model value as the number of time steps increase.

Similar assumptions underpin both the Binomial Model and the BS Model, and the Binomial Model thus provides a discrete time approximation to the continuous process underlying the BS Model.

The following table incorporates the assumptions used in determining values for each the Options, and the results of the valuation methodologies employed.

Assumption	Note	Able Kids Pty Ltd, Anketell Pty Ltd & Holihox Pty Ltd
Underlying Share spot price	1	18 cents
Exercise Price	2	50 cents
Dividend rate	3	Nil
Standard deviation of returns (annualised)	4	75.00%
Risk free interest rate	5	6.25%
Valuation date	6	14 October 2008
Expiry date	6	28 October 2015
Exercise period (months)	7	From the date of issue to 83 months from the date of issue
Black Scholes Valuation (per Option)	8	\$0.0827
Binomial Valuation (per Option)	9	\$0.0841

Note 1 The underlying share spot price used for the purposes of this valuation is based on the price of the Shares on the ASX at 14 October 2008.

Note 2 This exercise price has been set based on the last traded price of the underlying Shares on 14 October 2008, plus 100.1% or 50 cents, whichever is the greater.

Note 3 As at the date of this report the Company has not forecast any future dividend payments. For the purposes of the valuation it has therefore assumed been assumed that the Company's Share price is "ex-dividend". If dividend payments were forecast, the value of the Options would be reduced.

Note 4 The anticipated standard deviation over the life of the Options is based on the Company's historical data from the Australian Graduate School of Management's Risk Measurement Service.

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Note 5 The risk free rate is the Commonwealth Government securities rate with a maturity date approximately that of the expiration period of the Options as at 28 October 2015. (Source: Reserve Bank of Australia).

Note 6 The valuation date for the purposes of this report is the last traded date prior to the date of this valuation.

Note 7 The expiration period is the difference between the issue date and expiration date in years.

Note 8 See above for detailed background on the methodology of the valuation type.

Note 9 See above for detailed background on the methodology of this valuation type.

Based on the valuation methodologies adopted and the assumptions made the Company's advisers value the options, after considering the values calculated using the Black-Scholes and Binomial methods, to equal 8.27 cents each.

The valuation assumes that all Options have vested to the option holder and that there are no performance hurdles that must be achieved that would otherwise potentially dilute the value of the Options to the holder on the assumption that they may not vest.

(ii) Sensitivity Analysis

The calculation of the value of the Options has been subjected to a sensitivity analysis using the BS Model to examine the effect of varying the principal assumptions used in the valuation. The results of this analysis are as follows:

Variable – Standard deviation of returns (annualised)		Value per Option (Black Scholes)
	100.0%	0.1081
Listed standard deviation	75.0%	0.0827
	50.0%	0.0490

The table above shows that Standard Deviation has a significant influence on the value of the Options.

(iii) Total Consultancy Fee Package

Dr Taylor's consulting company, Able Kids Pty Ltd, is retained under contract to provide services to Desert Energy Limited. Its consultancy fee for the year ending 30 June 2009 and the total financial benefit to be received by it in that period as a result of the issue of Options the subject of Resolution 3 is set out below:

Director	Consulting Company	Consultancy Fees	Value of Options	Total Financial Benefit
Dr Robert Taylor (Managing Director)	Able Kids Pty Ltd	87,500	248,100	335,600

Note 1: Based upon a value of \$0.0827 per Option.

Dr Robert Taylor and his consulting company do not receive any other financial benefits from Desert Energy Limited, other than reimbursement for expenses incurred by them in the performance of their duties.

Mr O'Hara's consulting company, Anketell Pty Ltd, is retained under contract to provide services to Desert Energy Limited. Its consultancy fee for the year ending 30 June 2009 and the total financial benefit to be received by it in that period as a result of the issue of Options the subject of Resolution 4 is set out below:

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Director	Consulting Company	Consultancy Fees	Value of Options	Total Financial Benefit
Mr Garry O'Hara	Anketell Pty Ltd	87,500	248,100	335,600

Note 2: Based upon a value of \$0.0827 per Option.

Mr Garry O'Hara and his consulting company do not receive any other financial benefits from Desert Energy Limited, other than reimbursement for expenses incurred by them in the performance of their duties.

Mr Jackson's consulting company, Holihox Pty Ltd, is retained under contract to provide services to Desert Energy Limited. Its consultancy fee for the year ending 30 June 2009 and the total financial benefit to be received by it in that period as a result of the issue of Options the subject of Resolution 5 is set out below:

Director	Consulting Company	Consultancy Fees	Value of Options	Total Financial Benefit
Mr Phillip Jackson	Holihox Pty Ltd	35,000	124,050	159,050

Note 3: Based upon a value of \$0.0827 per Option.

Mr Phillip Jackson and his consulting company do not receive any other financial benefits from Desert Energy Limited, other than reimbursement for expenses incurred by them in the performance of their duties.

(iv) *Relevant Interests*

The relevant interests of Dr Robert Taylor, Mr Garry O'Hara and Mr Phillip Jackson in Shares and Options at the date of this Notice are as follows:

Direct Holdings and those of Associates	Shares	Listed options	Unlisted options
Robert Taylor	100,000	25,000	3,000,000
Garry O'Hara	Nil	Nil	3,000,000
Phillip Jackson	1,160,250	290,062	1,500,000

(v) *Impact on existing Shareholders*

If any of the 7,500,000 Options granted as proposed are exercised in full, the effect would be to dilute the shareholding of existing Shareholders.

The Company has the following Shares and Options on issue at the date of this Notice:

Shares	82,271,001
Options- Listed	20,567,750
Options- Unlisted	14,840,000

Assuming all of the proposed 7,500,000 Options to be issued to the Consulting Companies or their Nominees are exercised, and the existing 35,407,750 Options on issue are exercised, the effect would be:

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- to dilute the shareholding of existing Shareholders by approximately 52.15%; and
- if in addition the 2,050,000 Options the subject of Resolution 6 are issued and exercised the total effect would be to dilute the shareholding of existing Shareholders by approximately 54.64%.

The market price of the Shares during the term of the Options will normally determine whether or not the option holders will exercise the Options. At the time any Options are exercised and Shares are issued pursuant to the exercise of the Options, the Shares may be trading on ASX at a price which is higher than the exercise price of the Options.

(vi) *Share prices over the past 12 months*

In the 12 months ending on 14 October 2008 the highest price of shares in the Company trading on the ASX was 39 cents, which occurred on 26 February 2008, and the lowest price was 14.5 cents on each of 1, 2, 5 7 and 8 November 2007.

The closing price of the Company's shares on 14 October 2008 was 18 cents. The share price during this period has traded at various levels.

(vii) *Impact of International Financial Reporting Standards*

The Company's adoption of Australian equivalents to International Financial Reporting Standards means that, under AASB2 Share-based Payment, equity-based compensation is recognised as an expense in respect of the services received.

Except as stated in this Explanatory Memorandum the Directors do not consider that from an economic and commercial point of view, there are any costs or detriments including opportunity costs or taxation consequences for the Company or benefits foregone by granting the Options pursuant to Resolutions 3, 4 and 5.

The Directors (other than in respect of the Resolution that they receive a benefit, in which case they decline to comment) do not consider there are any significant costs or detriments including opportunity costs or taxation consequences to the Company or benefits foregone by the Company in issuing the Options to the Consulting Companies or their Nominees upon the terms proposed except as otherwise disclosed in this Explanatory Statement.

Neither the Company nor the Directors are aware of any undisclosed information that would be reasonably required by shareholders to make a decision in relation to the potential financial benefits contemplated by the proposed Resolutions 3, 4 and 5.

4.4 ASX Listing Rule 10.11

ASX Listing Rule 10.11 prohibits a listed company from issuing securities to a person who is a director of the Company without the approval of shareholders.

The following additional information is provided to Shareholders in accordance with ASX Listing Rule 10.13:

- (a) the Options will be issued to Able Kids Pty Ltd or its Nominee, Anketell Pty Ltd or its Nominee, and Holihox Pty Ltd or its Nominee;
- (b) the maximum number of Options to be issued is 7,500,000 (being 3,000,000 to Able Kids Pty Ltd or its Nominee, 3,000,000 to Anketell Pty Ltd or its Nominee and 1,500,000 to Holihox Pty Ltd or its Nominee);
- (c) the Options will be issued and allotted on a date which will be no later than one month after the date of the Meeting;
- (d) the Options will be issued for nil consideration;

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- (e) the exercise price for the Options will be the closing market price for the Shares on ITS (excluding special crossings, overnight sales and exchange traded option exercises) as at the date of the issue of the Options plus 100.1% of that price, or 50 cents, whichever is the greater;
- (f) no funds will be raised by the issue of the Options although funds will be raised if the Options or any of them are exercised. The amount which will be raised on exercise will depend on the number of options exercised and their exercise prices (which exercise price will vary depending on the market price on the date of issue); and
- (g) the terms and conditions of the Options are set out in the Appendix to this Explanatory Memorandum.

As approval of Shareholders is being sought pursuant to ASX Listing Rule 10.11 under resolutions 3, 4 and 5 to the issue of up to 7.5 millions options, under ASX Listing Rule 7.2 (Exception 14), Shareholder approval under ASX Listing 7.1 is not required for the issue of those Options.

5. Resolution 6- Issue of Options to Consultants

The Company proposes to offer, and if accepted, grant and issue a total of 2,050,000 Options in the portions, and to the persons (or their approved Nominees), specified in column two of Table 1 below, being consulting companies which have been retained by the Company to provide the consultancy services of the persons named in column one of Table 1 below.

The exercise price of these Options will be at a 100.1% premium above the market price of the Company's shares on the date upon which the Options are issued, or 50 cents, whichever is the greater. For example if the market price for the shares in the Company at the time the Options are issued is 18 cents, the exercise price will be 50 cents and if all of the Options are exercised this will raise \$1,025,000 for the Company.

The grant of the Options is designed to:

- i) encourage the consultants to have a greater involvement in the achievement of the Company's objectives by providing a material additional incentive for their ongoing commitment and dedication to the continued growth of the Company and
- ii) do this in a way which does not deplete the Company's cash reserves.

The number of Options to be issued to each Consultant was negotiated with the consulting companies at arms length and is considered by the Directors to be appropriate.

If this Resolution is approved by shareholders, in order to retain a reasonable balance of remuneration between the Company's various consultants, the Company intends to offer the options referred to in this Resolution provided each of Resolutions 3, 4 and 5 are also approved.

Table 1

Name	Consulting Company which provides the person's services under contractual arrangements.	Consulting Services	Number of Options
Kenneth Banks	KMB Australia Pty Ltd	Investor Relations	1,000,000
Andrew Kenny	Airmax International Pty Ltd	Business Development	350,000
Eric Moore	Golden Kilometre Mines Pty Ltd	Corporate	700,000
			2,050,000

Additional information

The following additional information is provided to Shareholders pursuant to Listing Rule 7.3:

- (a) the maximum number of Options to be issued under Resolution 6 is 2,050,000;
- (b) the exercise price for the Options is the closing market price for the Shares on ITS (excluding special crossings, overnight sales and exchange traded option exercises) as at the date of the issue of the Options plus 100.1% of that price, or 50 cents, whichever is the greater;

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- (c) the Options will be issued and allotted on a date which is no later than one month after the date of the Meeting;
- (d) the Options will be issued for nil consideration;
- (e) the allottees are the Consulting Companies specified in the second column in Table 1 above, or their Nominees who are not related parties of the Company;
- (f) the Options will be exercisable from the date of issue until 36 months after their issue date;
- (g) the terms and conditions of the Options are set out in the Appendix to this Explanatory Memorandum;
- (h) no funds will be raised by the issue of the Options; and
- (i) if all the Options are ultimately exercised, the amount raised will depend on the exercise price for the Options which will vary depending on the market price for the Company's Shares on the date of issue of the Options; and
- (j) the Company's adoption of Australian equivalents to International Financial Reporting Standards means that, under AASB2 Share-based Payment, equity-based compensation is recognised as an expense in respect of the services received. In the case of the Consultant Options, using the example in 5.3 above, the cost to the Company would be \$81,590.

All of the Directors were available to consider the proposed Resolution.

6. Resolution 7– Approval for possible future placement of Shares

The purpose of this Resolution is to give the Company the opportunity, if it arises, to take advantage of any favourable market conditions in early 2009 to raise capital by the issue of shares. Resolution 7 seeks prior shareholder approval under ASX Listing rule 7.1 for the issue of up to 12,340,000 fully paid ordinary shares in the Company ("Issue") at the date of the issue, at a price that is at least 80% of the average market share price of the Company's fully paid ordinary shares over the last 5 days on which sales of the Company's shares are recorded before the day of issue of the Shares (or if a prospectus or other disclosure statement issued in relation to the issue before the date of signing of that document). "Market price" means the closing price for the Shares on ITS (excluding special crossings, overnight sales and exchange traded option exercises) on the relevant five trading days.

Shareholder approval of the Placement is sought pursuant to Listing Rule 7.1 so as to preserve the ability of the Company to also issue up to 15% of the issued capital of the Company during the next twelve months without obtaining prior shareholder approval in addition to the Shares referred to in Resolution 7.

The reasons for such a possible placement will be to raise additional capital to allow the Company to continue with its exploration programs and business development, as necessary.

The Company is not aware of the names of the allottees but it is expected that they will be clients of stockbrokers, or other sophisticated investors.

Any Shares to be issued in accordance with Resolution 7 will be issued no later than 3 months after the Annual General Meeting.

The Shares will be fully paid ordinary shares and will rank equally with all other existing fully paid shares in the Company from their date of issue.

The Directors believe that Resolution 7 is in the best interests of the Company and its shareholders and unanimously recommend that shareholders vote in favour of it.

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Glossary

In this Explanatory Memorandum (including the terms and conditions of the Consultant Options, the following terms have the following meanings unless the context otherwise requires:

ASIC	Australian Securities & Investments Commission.
ASX	ASX Limited ABN 98 008 624 691, the operator of the Australian Securities Exchange.
ASX Listing Rules or Listing Rules	The Listing Rules of the ASX.
Board	The Board of Directors.
Company	Desert Energy Limited ACN 123 102 974.
Corporations Act	Corporations Act 2001 (Cth).
Director	A director of the Company.
Market price	The closing price on ITS excluding special crossings, overnight sales and exchange traded option exercises.
Meeting	The Annual General Meeting of the Company to be held on 28 November 2008.
Nominee	A Nominee as defined in the Appendix.
Notice	The Notice of Meeting accompanying this Explanatory Memorandum.
Option	An option to acquire a Share.
Optionholder	the holder of any options issued pursuant to Resolutions 3, 4, 5 or 6 of the Notice.
Shareholders	Holders of Shares.
Shares	Fully paid ordinary shares in the capital of the Company.

Appendix**Terms and Conditions of Consultant Options**

The Consultant Options will entitle the optionholders to subscribe for Shares in the Company on the following terms:

(a) Issue price

Each Consultant Option is issued for nil consideration.

(b) Exercise price

Each Consultant Option shall entitle the optionholder to acquire one fully paid ordinary share in the capital of the Company upon exercise and payment of an exercise price equal to the closing market price for a Share at the issue date of the Consultant Option plus 100.1 % of that market price or 50 cents, whichever is the greater ("the Exercise Price").

(c) Expiry date

Subject to certain provisions herein providing for earlier lapse in certain circumstances, the Consultant Options will expire on the Expiry Date for that class of Options. The Expiry Dates for the different classes of Consultant Options are as follows:

Able Kids Options 83 calendar months after the date of issue.

Anketell Options 83 calendar months after the date of issue.

Holihox Options 83 calendar months after the date of issue.

KBM Options 36 calendar months after the date of issue

Airmax Options 36 calendar months after the date of issue

Golden Options 36 calendar months after the date of issue

(d) Certificate

A certificate will be issued for the Consultant Options and sent to the optionholder together with the terms and conditions of the Consultant Options and a written notice that is to be completed when exercising Consultant Options.

(e) Consultant Options not listed

The Consultant Options will not be listed for official quotation on the ASX.

(f) Consultant Options not transferable

(i) For Able Kids, Anketell and Holihox Options, subject to the Listing Rules of the ASX, the Consultant Options can be transferred to a Nominee of the optionholders (as defined in Section (o) Interpretation), but otherwise are not transferable, without the prior written approval of the Directors.

(ii) For KMB, Airmax and Golden Options, subject to the Listing Rules of the ASX, the Consultant Options can be transferred to a Nominee of the optionholders (as defined in Section (o) Interpretation), except that (o) f shall not apply to KMB, Airmax and Golden Options, but otherwise are not transferable, without the prior written approval of the Directors.

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(g) Exercise

Subject to m) below, the Consultant Options may be exercised by notice in writing to the Company ("the Exercise Notice"), delivery of the Consultant Option certificates and payment of the Exercise Price to the Company at any time between the date of issue and the Expiry Date ("the Exercise Period"). The Consultant Options may be exercised in one or more lots, of not less than 10,000 Options at any one time, on different occasions during the Exercise Period. Within 5 business days of receipt of the "Exercise Notice" and Consultant Option certificates and payment of the "Exercise Price", the Company will allot the corresponding number of fully paid ordinary shares to the optionholder, procure the issue a statement of holding for the shares and apply for the shares to be listed on the stock exchanges on which the Company is listed. The shares issued as a result of exercise of the Consultant Options shall rank equally in all respects with the other issued fully paid shares in the Company.

(h) New share issue

If the Consultant Options are exercised before the record date of an entitlement, the optionholder can participate in a pro rata issue to the holders of the underlying securities in the Company. The Company must notify the optionholder of the proposed issue at least 9 business days before the record date. Optionholders do not have a right to participate in new share issues without exercising their Consultant Options in accordance with Listing Rule 6.19.

(i) Bonus Issue

If, from time to time, before the expiry of the Options the Company makes a pro rata issue of Shares to Shareholders for no consideration, the number of Shares over which the Options are exercisable will be increased by the number of Shares which the optionholder would have received if the Option had been exercised before the record date for calculating entitlements to the pro rata issue.

(j) Reorganisations

In the event of any reorganization of the issued capital of the Company, the Consultant Options will be reorganized by the Company in accordance with the Listing Rules (including without limitation by changing the number or exercise price for the Consultant Options) in such manner as may be required by the Listing Rules.

(k) Change of Consultant Option's exercise price or the number of underlying securities

- (i) In the event that a pro rata issue (except a bonus issue) is made to the holders of the underlying securities in the Company, the exercise price of the Consultant Options may be reduced according to the following formula:

$$O' = \frac{O - E[P - (S + D)]}{N + 1}$$

O' = the new exercise price of the Consultant Option;

O = the old exercise price of the Consultant Option;

E = the number of underlying securities in the Company into which one option is exercisable;

P = the average market price per security (weighted by reference to volume) of the underlying securities in the Company during the five (5) trading days ending on the day before the ex rights date or ex entitlements date;

S = the Subscription price for a security under the pro rata issue;

D = the Dividend due but not yet paid on the existing underlying securities (except those to be issued under the pro rata issue);

N = the Number of securities with rights or entitlements that must be held to receive a right to one new security in the Company.

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- (ii) The number of shares to be issued pursuant to the exercise of Consultant Options will be adjusted for bonus issues made prior to exercise of Consultant Options. The effect will be that upon exercise of the Consultant Options the number of shares received by the optionholder will include the number of bonus shares that would have been issued if the Consultant Options had been exercised prior to the record date for bonus issues. The exercise price of the Consultant Options shall not change as result of any such bonus issue.

(l) Dividends

The Consultant Options carry no entitlement to participate in dividends until shares are allotted pursuant to the exercise of the Consultant Options.

(m) Cessation of engagement of the Consultant or death of the optionholder.

- (i) In the event of the death of a Relevant Person in relation to a parcel of Consultant Options then such parcel of Consultant Options shall remain in full force and effect for the full term up until the Expiry Date and may be exercised at any time up to the Expiry Date by the holder or a deceased optionholder's legal personal representative.
- (ii) Subject to paragraph (iii), (iv) and (v) below, in the event of a Consultant (other than a Specified Consultant) ceasing to be engaged by the Company or any of its subsidiaries as a consultant one half of the Consultant Options issued to that Consultant or its Nominee shall remain in full force and effect for the full term up until the Expiry Date and the other half of such Consultant Options may only be exercised by the optionholder within 3 months of such Consultant ceasing to be so engaged and immediately following that 3 months shall forthwith lapse and have no further effect unless otherwise determined by the board of directors of the Company.
- (iii) If at the time a Consultant ceases to provide consulting services to the Company, the Relevant Person in relation to the Consultant Options issued to such Consultant (or its Nominee) commences providing consulting services to the Company or becomes an employee of the Company then for then for the purposes of (ii) above, that Consultant will be deemed to continue to provide consulting services to the Company for such period as such Relevant Person continues as a consultant or employee of the Company and accordingly all such Consultant Options will remain in full force and effect during such period.
- (iv) In the event of a Consultant ceasing to be engaged as a consultant or deemed consultant by the Company or any of its subsidiaries following the takeover of the Company or following a Change in Control, all Consultant Options issued to such Consultant or its Nominee shall remain in full force and effect for the full term up until the Expiry Date.
- (v) In the event that a Specified Consultant ceases to be engaged by the Company or any of its subsidiaries as a consultant within two years of the issue of any Consultant Options to such Specified Consultant or its Nominee, then all such Consultant Options will immediately and automatically lapse.
- (vi) In the event that a Specified Consultant ceases to be engaged as a consultant by the Company or any of its subsidiaries, other than in the circumstances described in (iii), (iv) or (v) above, any Options held by that Specified Consultant or its Nominee may only be exercised within 3 months of the Consultant ceasing to be so engaged by the Company unless otherwise determined by the Board of Directors of the Company.

(n) Directorships

For the avoidance of doubt it is recorded that the Able Kids Options, the Anketell Options and the Holihox Options will not not cease to be exercisable merely because any of Robert Taylor, Garry O'Hara or Phillip Jackson cease to be directors of the Company.

(o) Interpretation

In these terms and conditions the following terms will bear the following means unless the context otherwise requires:

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“**Able Kids Options**” means 3,000,000 Consultant Options issued to Able Kids Pty Ltd or its Nominee;

“**Airmax Options**” means 350,000 Consultant Options issued to Airmax International Pty Ltd or its Nominee;

“**Anketell Options**” means 3,000,000 Consultant Options issued to Anketell Pty Ltd or its Nominee;

“**Change in Control**” means a change in the composition of the shareholders of the Company whereby a person who does not presently control the Company within the meaning of section 50AA of the Corporations Act gains such control over the Company;

“**Company**” means Desert Energy Limited;

“**Consultant**” means any of Able Kids Pty Ltd, Airmax International Pty Ltd, Anketell Pty Ltd, Golden Kilometre Mines Pty Ltd, Holihox Pty Ltd and KMB Australia Pty Ltd;

“**Consultant Options**” means the Able Kids Options, the Airmax Options, the Anketell Options, the Golden Options, the Holihox Options, and the KMB Options;

“**Golden Options**” means 700,000 Consultant Options issued to Golden Kilometre Mines Pty Ltd or its Nominee;

“**Holihox Options**” means 1,500,000 Consultant Options issued to Holihox Pty Ltd or its Nominee;

“**KBM Options**” means 1,000,000 Consultant Options issued to KBM Australia Pty Ltd or its Nominee;

“**Listing Rules**” means the listing rules as amended from time to time of the ASX;

“**Nominee**” means:

- (a) the Relevant Person;
- (b) a spouse or de facto spouse of the Relevant Person;
- (c) a child, sibling or parent of the Relevant Person;
- (d) a family trust associated with the Relevant Person;
- (e) a superannuation fund in which the Relevant Person or any of the persons referred to above is a member;
- (f) any third party as part of a bona fide arrangement entered into by the option holder in order to finance the exercise of the Consultant Options or any of them; or
- (g) any other nominee approved by the Company.

“**Relevant Person**” means:

- (a) in relation to the Able Kids Options Dr Robert Taylor;
- (b) in relation to the Airmax Options means Mr Andrew Kenny;
- (c) in relation to the Anketell Options Mr Garry O’Hara;
- (d) in relation to the Golden Options Mr Eric Moore;
- (e) in relation to the Holihox Options Mr Phillip Jackson;
- (f) in relation to the KMB Options Mr Kenneth Banks.

“**Specified Consultant**” means any of Airmax International Pty Ltd, Golden Kilometre Mines Pty Ltd, and KMB Australia Pty Ltd.

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Facsimile: 61 (8) 9325 3163
Email: info@desertenergy.com.au
Website: www.desertenergy.com.au

Proxy Form

I/we.....(full name, block letters)

of.....
being a member of **Desert Energy Limited** hereby appoint

of.....
or, failing him, the Chairman of the meeting as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the company to be held at 11.00 am on 28 November 2008 and at any adjournment thereof.

I/we direct my/our proxy how to vote in the following manner:

	FOR	AGAINST	ABSTAIN
ORDINARY BUSINESS			
Resolution 1: To re-elect Phillip Jackson as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2: To adopt Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3: To approve Issue of Options to Able Kids Pty Ltd	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4: To approve Issue of Options to Anketell Pty Ltd	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5: To approve Issue of Options to Holihox Pty Ltd	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6: To approve issue of Options to Consultants	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7: To approve possible future placement of Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If no directions are given my/our proxy may vote as the proxy thinks fit or abstain.
If the Chair 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 as your proxy in respect of the resolution, please place a mark in the box

By marking this box, you acknowledge that the Chair of the meeting may exercise your proxy even if he has an interest in the outcome of the resolutions and that votes cast by the Chair 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 Chair will not cast your votes on the resolution(s) and your votes will not be counted in calculating the required majority if a poll is called on the resolution(s).

Where the Chairman is appointed as proxy, the Chairman's voting intention in relation to undirected proxies in respect of these resolutions is to vote **FOR** the resolutions.

<p><i>This Proxy is appointed to represent _____% of my voting right, or if 2 proxies are appointed Proxy 1 represents _____% and Proxy 2 represents _____% of my total votes My total voting right is _____ shares</i></p>

If the shareholder(s) is an individual(s), every shareholder is to sign:

If the shareholder is a company, sign in accordance with Section 127(1) of Corporations Act or affix common seal (if required by Constitution).

Signed: _____

Director or Sole Director and Secretary

Signed: _____

Director/Secretary

Dated: _____ 2008

Dated: _____ 2008

This form is to be used in accordance with the directions overleaf.

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Instructions for completing and lodging this Proxy Form

1. A shareholder who is entitled to attend and vote at a meeting is entitled to appoint a proxy (and a shareholder who is entitled to cast two or more votes may appoint not more than two proxies) to attend and vote at the meeting.
2. Where two proxies are appointed each proxy must be appointed to represent a specified proportion of the shareholder's voting rights. Where two proxies for a shareholder are present at the meeting, neither proxy shall be entitled to vote on a show of hands, and on a poll the appointment shall be of no effect, unless each proxy is appointed to represent a specified proportion of the shareholder's voting rights, not exceeding 100% in aggregate.
3. A proxy need not himself be a shareholder of the Company.
4. The proxy form must be signed personally by the shareholder or his attorney, duly authorised in writing. If a proxy is given by a corporation, the proxy must be executed under either the common seal of the corporation or in accordance with section 127 of the Corporations Act or by its duly authorised attorney. In the case of joint shareholders, this proxy must be signed by at least one of the joint shareholders, personally or by a duly authorised attorney.
5. If a proxy is executed by an attorney of a shareholder, then the original of the relevant power of attorney or a certified copy of the relevant power of attorney, if it has not already been noted by the company, must accompany the proxy form.
6. If the proxy form specifies a way in which the proxy is to vote on any of the resolutions stated above, then the following applies:
 - (a) the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way; 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 Chairman, the proxy must vote on a poll and must vote that way, and
 - (d) if the proxy is not the Chairman, the proxy need not vote on a poll, but if the proxy does so, the proxy must vote that way.

If a proxy is also a shareholder, the proxy can cast any votes the proxy holds as a shareholder in anyway that the proxy sees fit.

7. The Proxy Form (and any power of attorney or other authority pursuant to which the Proxy Form has been signed) must:
either be deposited at the registered office of the Company, Level 2, 231 Adelaide Terrace, Perth,
or be sent by post to Desert Energy Limited, PO Box 3107, Adelaide Terrace, Perth, WA 6832,
or be sent by facsimile to Desert Energy Limited at (08) 9325 3163
so as to be received not later than 48 hours before the time fixed for the holding of the meeting
- that is to be received by 11.00 am Western Daylight Saving Time on Wednesday 26 November 2008.

Change of Address

Should your address have changed please use this section to advise the Company and, if faxing your proxy form, please fax this side of the proxy form as well.

My new address is:

My email address is: _____

My phone number is: _____