DESERT MINES AND METALS LIMITED

ABN 56 123 102 974

(FORMERLY DESERT ENERGY LIMITED)

ANNUAL FINANCIAL REPORT

30 JUNE 2012

Contents

DIRECTORS' REPORT

Desert Mines and Metals Limited ("the Company") is a public company incorporated and domiciled in Australia and listed on the Australian Securities Exchange. The registered office of the Company is located at 271 Great Eastern Highway, Belmont, Western Australia.

The Directors of the Company present their report on the group, which comprises Desert Mines and Metals Limited and its controlled entities, for the year ended 30 June 2012.

Desert Mines and Metals Limited changed its name from Desert Energy Limited on 9 December 2011.

DIRECTORS

The names and details of the Directors of Desert Mines and Metals Limited during the financial year and up to the date of this report are:

Chairman
Mr Phillip Sidney Redmond Jackson BJuris, LLB, MBA, FAICD

Phillip Jackson, the Chairman and a Director of the Company, is a barrister and solicitor with significant legal and international corporate experience, especially in the areas of commercial and contract law, resources law and corporate governance. He was formerly a managing legal counsel for Western Mining Corporation, and in private practice specialised in small to medium resource companies. Phillip was for many years a director and senior executive of the Australian and Asian subsidiaries of a large multinational oil services company. He is now the Legal Manager of the regional operations of a large oil and gas company. He has been a director of a number of Australian public companies and has management experience in administration, finance, accounting and human resources. Phillip has been Chairman of Aurora Minerals Limited since it listed in June 2004 and is a non-executive director of listed company Scotgold Resources Limited. He is responsible for monitoring the Company's corporate governance.

Executive Director
Dr Robert Spencer Taylor BSc (Mining Geology), PhD (Geology), ARSM, Member IMM

Desert Mines and Metals's Executive Director, Rob Taylor, comes from a large company background and brings to Desert Mines a strong track record of discovery in gold, base metals and diamonds. Rob was General Manager Exploration for Goldfields Limited (1997 – 2001), through its merger with Delta Gold NL in 2001 which formed Australia's largest gold producer AurionGold Limited, and then General Manager Exploration for AurionGold in 2002 up to its takeover by Placer Dome Asia Pacific Limited. He was closely involved in consolidating the Kalgoorlie gold district which included the takeover of Gilt Edged Mining NL to acquire the Rubicon and Hornet gold deposits, the acquisition of Centaur Mining and Exploration Ltd and exploration assets including the Quarters operating mine, and the Goldfield's discoveries at Aphrodite and Raleigh, as well as the Darwin Zone at the Henty Mine, Tasmania. Prior to this, Rob spent 23 years in senior positions with Rio Tinto in Africa, Kennecott, BP Minerals and the Selection Trust Group in North and Central America and parts of Europe exploring for a diverse range of commodities and was associated with a number of discoveries including gold (Yellow Aster, California), copper-gold (Minas de Oro, Honduras), diamonds (Zimbabwe), and base metals (Maranda Zinc, South Africa). Rob served as Managing Director of Aurora Minerals Limited since its ASX listing in 2004 until July 2010, and since July 2010 has served as an Executive Director.

Executive Director
Mr Martin Pyle BSc, MBA (appointed 6 May 2010)

Martin has a broad range of experience gained over more than 25 years in the resources industry in Australia. His roles have included positions as Corporate Finance Executive with prominent east and west coast broking firms. During this time he was responsible for the generation and execution of resources related equity raisings, mergers & acquisitions, corporate advisory and research. Most recently he has provided corporate advisory services to a number of junior resource companies and is Managing Director of Aurora Minerals Limited, Chairman of Midwinter Resources No Liability and non-executive director of Gold Road Resources Limited. Martin has a Bachelor of Science degree with First Class Honours in Geology and a Masters of Business Administration.

In the three years immediately prior to the end of the financial year, Martin also served as a director of the following listed companies:

Nickelore Limited	24/08/2009 to 15/10/2009
Syndicated Metals Limited	24/05/2010 to 29/11/2011

Company Secretary
Mr Peter Campbell Ruttledge BSc, CA, FFin (resigned 27 July 2012)

Peter Ruttledge is a chartered accountant and has a broad background in corporate finance, administration and accounting. He has been a director and company secretary of several mining and exploration companies and is currently company secretary of a number of ASX listed exploration companies including Aurora Minerals Limited.

Company Secretary
Eric Gordon Moore (appointed 27 July 2012)

Eric (Ric) Moore has been Desert Mines and Metal's General Manager since its foundation. He has held senior managerial positions in a number of resource companies during the past 20 years and prior to joining Desert Mines and Metals Ltd was Company Secretary of a public listed company between 1996 and 2005. Ric has also been appointed as Company Secretary of Aurora Minerals Ltd.

PRINCIPAL ACTIVITIES

The principal activity of the group is exploration in Western Australia and assessing, and if appropriate, acquiring exploration and mine development projects worldwide.

OPERATING RESULTS

The consolidated loss of the group for the financial year after providing for income tax amounted to $1,548,225 (2011: $2,728,813).

FINANCIAL POSITION

The net assets of the group at 30 June 2012 were $1,841,257 (2011:$3,249,046). At year end, the group had $1.56 million net cash (2011: $3.28 million).

DIVIDENDS

No dividends were paid during the year and the directors do not recommend the payment of a dividend.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the Company.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD AND LIKELY DEVELOPMENTS

There are no matters or circumstances which have arisen after balance date that have significantly affected, or may significantly affect, the operations of the group, the results of those operations, or the state of affairs of the group in future financial periods.

REVIEW OF OPERATIONS

The primary activity of Desert during the year was exploration of the Camel Hills Joint Venture.

Camel Hills Joint Venture (Desert earning an initial 51%)

Camel Hills is a large project covering some 1,900km^2 in the southern Gascoyne Region of Western Australia. Desert's geologists consider it has exploration potential for magnetite iron ore, copper, gold, nickel-PGE and rare earths-uranium mineralisation. As the tenement package was progressively explored, areas which do meet the company's exploration criteria were relinquished.

During the year Desert completed approximately $1.1m of expenditure on the project, bringing its total expenditure on the project to date to approximately $3.1m. In order to earn a participating 51% in the JV Desert must complete expenditure of $3.4m. Desert can elect to continue sole funding to earn an additional 19% interest in the project, for a total 70% interest.

Exploration for the year comprised, prospecting and mapping, soil sampling, geophysical data interpretation and reverse circulation (RC) drilling.

Copper/Gold

At the Dalgety prospect, twenty five reverse circulation (RC) holes were drilled to test for possible down dip extensions of surface copper and gold anomalies identified from prospecting and sampling. Four Prospect areas were targeted for reconnaissance shallow RC drilling. The targets were generated from prospect scale mapping and sampling and structural interpretation and are considered possible extensions of the mineralised corridor that hosts Gascoyne Resources' Glenburgh gold deposits situated several kilometres to the southeast.

Forty percent of holes drilled intersected anomalous copper and/or gold mineralisation over generally narrow widths.
Field mapping, prospecting and sampling continued along the Errabiddy Shear zone which trends approximately NE-SW over part of the Camel Hills Project area. The Main Grid gold-in-soil anomaly was extended during the year. Results confirm and extend Desert's earlier soil anomaly to a 2.3km long by 200m wide zone at the +10ppb Au level, within which is a coherent 600m long by 100m +50ppb Au anomaly with maximum value of 907ppb Au. Both anomalies cover the northern edge of a sequence of sheared, mixed, high-grade metamorphic rocks along the northern edge of a 13km long by 1km wide highly magnetic calc-silicate unit.

An application for drill funding support from the State Government has been successful and a grant pursuant to its Exploration Incentive Scheme's Co-funded Exploration Drilling Program awarded, which is expected to contribute up to $100,000 towards the direct drilling costs. The approval process and preparations for drilling this target have commenced.

Iron Ore

Twenty-ones holes were drilled into iron ore targets. The targets were generated from detailed aero-magnetic surveys, prospect scale mapping and sampling, and ground based magnetic and gravity surveys.

Due to the reconnaissance nature of the program most targets received only one or two holes. The results indicate that several of the targets are worthy of more detailed drilling to potentially generate resources. A number of other targets remain untested by drilling.

Metallurgical Testwork

Ten samples from the Camel Hill magnetite iron project were submitted to a commercial laboratory for liberation size and magnetic iron recovery testwork. The testwork revealed that a simple processing circuit comprising crushing, grinding and wet low intensity magnetic separation should be able to produce a high grade iron concentrate from the Camel Hills iron ore, with relatively modest energy consumption. The concentrate produced from the testwork also displayed low levels of contaminants.

Copper/Nickel

Copper - Nickel potential has been identified in the Southern portion of the Camel Hills tenements.

REVIEW OF OPERATIONS *(continued)*

At prospect T10, ultramafic rocks were encountered with minor sulphides (mostly pyrite) noted in RC drill chip logging. Hole BCT10RC006 encountered 77m of anomalous pyrite (up to 5%) from 63m down-hole and a further 4 holes drilled on the same line encountered anomalous sulphide minerals.

At the Innouendy Prospect two "bulls-eye" targets were defined from interpretation of the airborne VTEM survey completed during year. Both targets were drilled during the year with up to 5% sulphide (mostly pyrite) logged in hole INRC004 over a 31m interval from 107m downhole.

No significant assays results were reported from these holes, however the source of the VTEM anomalies remains unresolved.

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of Directors held during the financial year ended 30 June 2012 and the number of meetings attended by each Director:

	Full Board Meetings		Meetings by Circular Resolution		Remuneration Committee Meetings	
Director	**Number Attended**	**Number eligible to attend**	**Number Attended**	**Number eligible to attend**	**Number Attended**	**Number eligible to attend**
Phillip Jackson	5	5	5	5	1	1
Robert Taylor	5	5	5	5	1	1
Martin Pyle	5	5	5	5	1	1

REMUNERATION REPORT (Audited)

Board policy

The objective of the Company's remuneration policy for directors and executives is to ensure reward for performance is appropriate for the results delivered. The policy is designed to ensure that the following key criteria for good governance practices are followed:

-Acceptability to shareholders
-Transparency
-Capital management

Company performance, shareholder wealth and director and executive remuneration
The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives by the issue of options to the directors and executives to encourage the alignment of personal and shareholder interests. The company believes this policy will be effective in increasing shareholder wealth.

The constitution of the Company provides that the non-executive Directors may collectively be paid as remuneration for their services a fixed sum not exceeding the aggregate maximum sum per annum from time to time determined by the Company in a general meeting. The Company has entered into separate Consulting Agreements with each of the Directors and accordingly the Company has resolved not to pay any Directors' fees as additional remuneration to the non-executive Directors.

A Director may be paid fees or other amounts as the Directors determine where a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director. A Director may also be reimbursed for out of pocket expenses incurred as a result of their directorship or any special duties.

REMUNERATION REPORT (audited)

Terms and Conditions of Engagement

Name	Role	Associated Company	Date of Agreement	Date last Modified	Current Annual Fee	Notice Period Required from Company	Notice Period Required from Consultant	Termination Fees Payable
Directors								
Robert Taylor	Executive Director	Able Kids Pty Ltd	13 April 2010	01 June 2010	$75,000	6 months	6 months	$37,500
Phillip Jackson	Chairman	Holihox Pty Ltd	13 April 2010	01 June 2010	$45,000	6 months	6 months	$22,500
Martin Pyle	Executive Director	Whitby (2009) Pty Ltd	06 May 2010	01 Oct 2011	$75,000	6 months	2 months	$37,500
Specified Executives								
John Jordan (resigned 21 Aug 2012)	Chief Operating Officer	Churchlands Consulting Pty Ltd	12 Aug 2009	01 Jan 2012	$53,534	2 months	2 months	$8,922
Kenneth Banks (resigned 31 Mar 2012)	Investor Relations Manager	KMB Australia Pty Ltd	11 June 2007	01 July 2011	$47,250	2 months	2 months	$7,875
Eric Moore	General Manager/ Company Secretary	Golden Kilometre Mines Pty Ltd	11 June 2007	01 July 2012	$78,500	2 months	2 months	$13,083
Guy Watkins	Operations & Logistics Mgr, Exploration Mgr	Nero Consulting Pty Ltd	25 Mar 2008	01 Jan 2012	$51,912	2 months	2 months	$8,652
Peter Ruttledge (resigned 27 July 2012)	Company Secretary	Sable Management Pty Ltd	11 June 2007	01 Sept 2009	$19,000	2 months	2 months	$3,168

REMUNERATION REPORT (audited)

(a) Details of Key Management Personnel Remuneration

The remuneration of the key management personnel, being the Directors, and other specified executives is summarised below.

No salaries, fees, commissions, bonuses, superannuation or other form of remuneration were paid or payable to key management personnel during the year other than fees and options paid to companies associated with the directors, in terms of consulting agreements, as follows:

2012	Short-term Benefits	Long Term Benefits	Other Benefits	Total	Represented by Equity
	Fees Paid to Associated Entity	Equity			
	$	$	$	$	%
Directors					
Robert Taylor	75,000	-	-	75,000	-
Phillip Jackson	45,000	-	-	45,000	-
Martin Pyle	87,502	69,655	-	157,157	44
Specified Executives*					
Peter Ruttledge (i)	19,008	6,441	-	25,449	25
John Jordan (ii)	69,642	32,204	-	101,846	32
Kenneth Banks (iii)	35,438	15,146	-	50,584	30
Guy Watkins	62,706	21,470	-	84,176	26
Eric Moore	73,500	21,470	-	94,970	23
	467,796	**166,386**	**-**	**634,182**	

(i) Resigned 27 July 2012
(ii) Resigned 21 August 2012
(iii) Resigned 31 March 2012
* Specified executives are not key management personnel as defined by Accounting Standard AASB 124.

2011	Short-term Benefits	Long Term Benefits	Other Benefits	Total	Represented by equity
	Fees Paid to Associated Entity	Equity			
	$	$	$	$	%
Directors					
Garry O'Hara (i)	37,500	-	-	37,500	-
Robert Taylor	75,000	-	-	75,000	-
Phillip Jackson	45,000	-	-	45,000	-
Martin Pyle	125,004	104,215		229,219	45
Specified Executives*					
Peter Ruttledge	19,008	8,896	-	27,904	32
John Jordan	71,333	44,480	-	115,813	38
Kenneth Banks	61,292	59,307	-	120,599	49
Guy Watkins	72,375	29,654	-	102,029	29
Eric Moore	72,375	29,654	-	102,029	29
	578,887	**276,206**	**-**	**855,093**	

(i) Resigned 7 July 2010
* Specified executives are not key management personnel as defined by Accounting Standard AASB 124

The Company has not entered into any agreements to remunerate consultants on the basis of performance.

(b) Shares issued as remuneration

No shares were issued to the Key Management Personnel.

REMUNERATION REPORT (audited)

(c) Compensation Options

Options granted as Compensation

	Number Granted	Grant Date	Value of Option at Grant Date	Exercise Price	Expiry Date	Vesting Date	Value yet to Vest
2012							
Nil Options Granted							
	-						
2011							
Director							
Mr M Pyle	1,000,000	02 Sept 10	$0.069	$0.145	02 Sept 14	02 Sept 11	$12,093
Mr M Pyle	1,000,000	02 Sept 10	$0.069	$0.145	02 Sept 14	02 Sept 12	$40,569
Mr M Pyle	1,000,000	02 Sept 10	$0.069	$0.145	02 Sept 14	02 Sept 13	$50,027
	3,000,000						

All options were granted for nil consideration.

The fair value of the options was estimated at the date of grant using the Black-Scholes model and is allocated to each reporting period evenly over the period from grant date to vesting date. The values disclosed above are the portions of the fair value that will be allocated in future periods.

The assumptions made in determining the fair value of the options granted during the previous year ended 30 June 2011 are set out in a table in Note 16 (b) of the financial statements.

PARTICULARS OF DIRECTORS' INTERESTS IN SHARES IN THE COMPANY

The relevant interest of each Director in the share capital of the Company at the date of this report is as follows:

	Ordinary Shares Fully Paid		Unlisted Options	
	Direct	**Indirect**	**Direct**	**Indirect**
Phillip Jackson	1,160,250	-	-	5,000,000
Robert Taylor	-	100,000	-	9,000,000
Martin Pyle	500,000	-	-	3,000,000

SHARE OPTIONS

Options to take up ordinary fully paid shares in the Company at the date of this report are as follows:

Number of Options	Listed/Unlisted	Grant Date	Exercise Price	Expiry Date
7,500,000	Unlisted	30 Nov 07	$0.34017	31 Oct 14
7,500,000	Unlisted	15 Dec 08	$0.50	22 Nov 15
8,000,000	Unlisted	18 June 10	$0.40	17 May 17
1,225,000	Unlisted	01 Jul 09	$0.30	30 June 13
7,600,000	Unlisted	18 June 10	$0.40	17 Sept 14
1,000,000	Unlisted	10 Nov 09	$0.34	31 Oct 13
10,000,000	Unlisted	23 June 10	$0.40	22 June 17
562,500	Unlisted	18 Dec 07	$0.31	30 Nov 12
330,000	Unlisted	30 June 08	$0.35	31 May 13
630,000	Unlisted	16 Jul 08	$0.35	30 Nov 12
200,000	Unlisted	31 Jul 10	$0.40	31 July 14
3,000,000	Unlisted	02 Sept 10	$0.145	02 Sept 14
300,000	Unlisted	07 Dec 10	$0.1508	07 Dec 14

1,500,000 options issued to consultants in June 2010 were cancelled on 22 September 2011, and a further 3,750,000 cancelled on 30 April 2012. 250,000 options issued to consultants in July 2009 were cancelled on 14 November 2011, a further 50,000 were cancelled on 2 July 2012 and a further 175,000 were cancelled on 30 July 2012. 1,700,000 options issued to consultants in November 2008 expired on 22 December 2011.

The names of all persons who currently hold options are entered in the register kept by the Company pursuant to section 170 of the Corporations Act (2001). Inspection of the register and of the documents kept pursuant to subsection 170 (3) may be made free of charge.

Options do not entitle their holders to participate in entitlement offers of new shares in the Company unless the holders first exercise their options. No person entitled to exercise any option above has or had, by virtue of the option, a right to participate in any share issue of any other body corporate.

AUDIT COMMITTEE

The Company is not of a size nor are its financial affairs of such complexity to justify a separate audit committee of the board of directors. Matters that might properly be dealt with by such a committee are the subject of scrutiny at full board meetings.

ENVIRONMENTAL REGULATIONS

The mining leases, exploration licences and prospecting licences granted to the group pursuant to the Mining Act (1978) (WA) are granted subject to various conditions which include standard environmental requirements. The group's policy is to adhere to these conditions and the Directors are not aware of any contraventions of these requirements.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

INSURANCE OF OFFICERS

The Company paid a premium in respect of a contract insuring directors and officers of the Company. The contract prohibits disclosure of the nature of the liabilities insured and the amount of the premium.

NON AUDIT SERVICES

The Company's external auditor, RSM Bird Cameron Partners, did not provide any non-audit services to the Company during the year ended 30 June 2012.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the lead auditor's independence declaration as required by Section 307c of the Corporations Act 2001 is included within the Financial Report.

Signed in accordance with a resolution of Directors:

DIRECTOR
Perth, 3 September 2012

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012

	Note	Consolidated 2012 $	2011 $
Revenue	4	206,506	189,728
Administration expenses	5	(676,717)	(1,004,933)
Exploration and evaluation expenditure	11	(1,078,014)	(1,913,608)
Loss before tax		(1,548,225)	(2,728,813)
Income tax expense	6	-	-
Net loss for the year		(1,548,225)	(2,728,813)
Other comprehensive income		-	-
Total comprehensive loss for the year		(1,548,225)	(2,728,813)
Basic loss per share (cents per share)	27	(1.29)	(2.55)
Diluted loss per share (cents per share)	27	(1.29)	(2.55)

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	Note	Consolidated 2012 $	2011 $
Current Assets			
Cash and cash equivalents	7	1,562,009	3,280,406
Trade and other receivables	8	292,099	269,638
Other current assets	9	18,362	17,791
Total current assets		1,872,470	3,567,835
Non-Current Assets			
Plant and equipment	10	60,700	112,068
Exploration and evaluation expenditure	11	-	-
Total non-current assets		60,700	112,068
Total assets		1,933,170	3,679,903
Current Liabilities			
Trade and other payables	13	91,913	430,857
Total current liabilities		91,913	430,857
Total liabilities		91,913	430,857
Net Assets		1,841,257	3,249,046
Equity			
Issued capital	14	13,061,977	13,061,977
Reserves	15	3,908,761	3,768,325
Accumulated losses		(15,129,481)	(13,581,256)
Total Equity		1,841,257	3,249,046

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012

	Issued Capital	Accumulated Losses	Share Based Payments Reserve	Total
	$	$	$	$
CONSOLIDATED				
At 1 July 2010	10,981,443	(10,852,443)	3,389,910	3,518,910
Loss for the year	-	(2,728,813)	-	(2,728,813)
Total comprehensive loss for the year	-	(2,728,813)	-	(2,728,813)
Transactions with owners in their capacity as owners:				
Share based payments	-	-	378,415	378,415
Issue of share capital	2,188,984	-	-	2,188,984
Transaction costs	(108,450)	-	-	(108,450)
At 30 June 2011	13,061,977	(13,581,256)	3,768,325	3,249,046
At 1 July 2011	13,061,977	(13,581,256)	3,768,325	3,249,046
Loss for the year	-	(1,548,225)	-	(1,548,225)
Total comprehensive loss for the year	-	(1,548,225)	-	(1,548,225)
Transactions with owners in their capacity as owners:				
Share based payments	-	-	140,436	140,436
At 30 June 2012	13,061,977	(15,129,481)	3,908,761	1,841,257

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2012

	Note	Consolidated 2012 $	Consolidated 2011 $
Cash flows from operating activities			
Other payments to suppliers and employees		(507,925)	(612,192)
Payments for exploration expenditure		(1,343,126)	(1,397,038)
Other income		7,615	-
Interest received		124,689	171,777
Net cash (outflow) from operating activities	26	(1,718,747)	(1,837,453)
Cash flows from investing activities			
Receipt on sale of assets		350	-
Receipt on sale of options to purchase tenements		-	20,630
Net cash inflow from investing activities		350	20,630
Cash flows from financing activities			
Proceeds from issue of shares		-	2,188,984
Payment for share issue costs		-	(108,450)
Net cash inflow from financing activities		-	2,080,534
Net (decrease) / increase in cash held		(1,718,397)	263,711
Cash at the beginning of the financial year		3,280,406	3,016,695
Cash at the end of the financial year	7	1,562,009	3,280,406

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: BASIS OF PREPARATION

The consolidated financial statements of Desert Mines and Metals Limited comprises the company and its subsidiaries (together referred to as the 'group' or 'consolidated entity'). The separate financial statements of the parent entity, Desert Mines and Metals Limited, have not been presented within this financial report as permitted by the *Corporations Act 2001*.

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*. The group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Desert Mines and Metals Limited is a listed public company, incorporated and domiciled in Australia.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB.

Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The financial statements were authorised for issue on 3 September 2012 by the directors of the company.

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Desert Mines and Metals Limited at the end of the reporting period. A controlled entity is any entity over which Desert Mines and Metals Limited has the ability and the right to govern the financial and operating policies so as to obtain benefits from the entity's activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

Where controlled entities have entered or left the group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 12 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the group have been eliminated in full on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are reported separately within the equity section of the consolidated statement of financial position and statement of comprehensive income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Taxation

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the reporting date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Desert Mines and Metals Limited is part of the Aurora Minerals Limited’s tax consolidation group. All deferred tax assets relating to unused tax losses are transferred to the head entity. The company recognises its share of the income tax expense of the group on a basis as if it was a stand alone entity.

(c) Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographic segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Exploration, evaluation and development expenditure

Exploration and evaluation are written off as incurred. The group’s policy is that such costs will only be carried forward when development of the area indicates that recoupment will occur or where activities in the area have reached an advanced stage which permits reasonable assessment of the existence of economically recoverable reserves.

Exploration, evaluation and development costs comprise acquisition costs, direct exploration and evaluation costs and an appropriate portion of related overhead expenditure but do not include general overhead expenditure which has no direct connection with a particular area of interest.

Revenue received from the sale or disposal of product, materials or services during the exploration and evaluation phase of operation is offset against expenditure in respect of the area of interest concerned.

When an area of interest is abandoned or the Directors decide that it is not commercially viable, any accumulated costs in respect of that area are written off in the financial period the decision is made. Each area of interest is also reviewed at the end of each accounting period and accumulated costs written off to the extent that they will not be recoverable in the future. Restoration costs arising from exploration activities are provided for at the time of the activities which give rise to the need for restoration.

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production commences. When production commences, carried forward exploration, evaluation and development costs are amortised on a units of production basis over the life of the economically recoverable reserves.

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Trade and other payables

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

(f) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the relevant taxation authority. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expenses.

Receivables and payables in the statement of financial position are shown inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating activities.

(g) Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The acquisition method requires that for each business combination one of the combining entities must be identified as the acquirer (ie parent entity). The business combination will be accounted for as at the acquisition date, which is the date that control over the acquiree is obtained by the parent entity. At this date, the parent shall recognise, in the consolidated financial statements, and subject to certain limited exceptions, the fair value of the identifiable assets acquired and liabilities assumed. In addition, contingent liabilities of the acquiree will be recognised where a present obligation has been incurred and its fair value can be reliably measured.

The acquisition may result in the recognition of goodwill or a gain from a bargain purchase. The method adopted for the measurement of goodwill will impact on the measurement of any non-controlling interest to be recognised in the acquiree where less than 100% ownership interest is held in the acquiree.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements. Consideration may comprise the sum of the assets transferred by the acquirer, liabilities incurred by the acquirer to the former owners of the acquiree and the equity interests issued by the acquirer.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

Included in the measurement of consideration transferred is any asset or liability resulting from a contingent consideration arrangement. Any obligation incurred relating to contingent consideration is classified as either a financial liability or equity instrument, depending upon the nature of the arrangement. Rights to refunds of consideration previously paid are recognised as a receivable. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or a liability is remeasured each reporting period to fair value through the statement of comprehensive income unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Revenue Recognition

Interest income
Interest income is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

All revenue is stated net amount of goods and services tax (GST).

(i) Comparatives

Where required by accounting standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

(j) Earnings per share

Basic earnings per share
Basic earnings per share is determined by dividing the operating profit after income tax by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(k) Interest in Joint Venture

The group's share of the assets, liabilities, revenue and expense of joint venture operations are included in the appropriate items of the statements of financial performance and financial position.

(l) Cash and cash equivalents

For the purpose of the statement of cash flows, cash includes:

Cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts; Investments in money market instruments with less than one month to maturity; and bills of exchange with short term to maturity which are readily convertible to cash.

(m) Issued capital

Issued and paid up capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(n) Equity based payments

The group provides benefits to its directors, consultants and contractors in the form of share-based payments, whereby directors, consultants and contractors render services in exchange for options to acquire shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions is measured by reference to the fair value to the group of the equity instruments at the date at which they were granted. The fair value is determined using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted.

The cost of equity-settled transactions is recognised as an expense, together with a corresponding increase in equity, on a straight-line basis, over the period in which the vesting and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant directors and employees become fully entitled to the options (the vesting date).

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Equity based payments *(continued)*

At each subsequent reporting date until vesting, the cumulative charge to the statement of comprehensive income reflects:

- the grant date fair value of the options;
- the current best estimate of the number of options that will ultimately vest, taking into account such factors as the likelihood of personnel turnover during the vesting period and the likelihood of vesting conditions being met, based on best available information at balance date; and the extent to which the vesting period has expired.

The charge to the statement of comprehensive income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of the modification.

If an equity-settled award is cancelled, it is treated as if it has vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

(o) Plant and Equipment

Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation.

Plant and equipment is measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation is calculated on a straight line basis so as to write off the net cost of each fixed asset over its effective life.

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset’s carrying amount is written down immediately to its recoverable amount if the assets carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Plant and Equipment	7.5% - 33.33%

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Impairment of assets

At each reporting date, the group reviews the carrying values of tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the assets fair value less costs to sell and value in use, is compared to the assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the statement of comprehensive income. Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(q) Leases

Lease payments for operating leases, where substantially all the risk and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(r) Financial Instruments

Recognition and initial measurement
Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the group commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified “at fair value through profit or loss”, in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement
Finance instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or cost.

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the *effective interest method*.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm’s length transactions, reference to similar instruments and option pricing models.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense item in profit or loss.

The group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

(i) *Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, where they are expected to mature within 12 months after the end of the reporting period.

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Financial Instruments *(continued)*

(ii) *Financial assets at fair value through profit or loss*
Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

(iii) *Financial assets at fair value through reserve*
Available-for-sale investments are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with any remeasurements other than impairment losses and foreign exchange gains and losses recognised in other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are classified as non-current assets when they are expected to be sold after 12 months from the end of the reporting period. All other available-for-sale financial assets are classified as current assets.

(iv) *Financial liabilities*
Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost

Impairment
At the end of each reporting period, the group assesses whether there is objective evidence that a financial asset has been impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant (30% or more) or prolonged decline in the market value (12 months or greater) of the instrument is considered to constitute impairment. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

Derecognition
Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

(s) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Share-based payment transactions

The group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instrument at the date at which they are granted. The fair value is determined using the Black-Scholes valuation model. The accounting estimates and assumptions relating to the equity-settled share-based payments would have no impact on the carrying amount of assets and liabilities within the next annual reporting period but may impact expense and equity.

(u) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

(v) Adoption of new and revised standards

In the current year, the group has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in a significant or material change to the group's accounting policies.

New accounting standards issued but not yet effective

At the date of this financial report the following accounting standards, which may impact the group in the period of initial application, have been issued but are not yet effective:

Reference	***Title***	***Summary***	***Application date (financial years beginning)***
AASB 9	*Financial Instruments*	Replaces the requirements of AASB 139 for the classification and measurement of financial assets. This is the result of the first part of Phase 1 of the IASB's project to replace IAS 39.	1 January 2013 (likely to be extended to 2015 by ED215)
AASB 10	*Consolidated Financial Statements*	Replaces the requirements of AASB 127 and Interpretation 112 pertaining to the principles to be applied in the preparation and presentation of consolidated financial statements.	1 January 2013
AASB 11	*Joint Arrangements*	Replaces the requirements of AASB 131 pertaining to the principles to be applied for financial reporting by entities that have in interest in arrangements that are jointly controlled.	1 January 2013
AASB 12	*Disclosure of Interests in Other Entities*	Replaces the disclosure requirements of AASB 127 and AASB 131 pertaining to interests in other entities.	1 January 2013
AASB 127	*Separate Financial Statements*	Prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.	1 January 2013

NOTE 2: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Adoption of new and revised standards *(continued)*

Reference	***Title***	***Summary***	***Application date (financial years beginning)***
AASB 128	*Investments in Associates and Joint Ventures*	Prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.	1 January 2013
AASB 13	*Fair Value Measurement*	Provides a clear definition of fair value, a framework for measuring fair value and requires enhanced disclosures about fair value measurement.	1 January 2013
AASB 119	*Employee Benefits*	Prescribes the accounting and disclosure for employee benefits. This Standard prescribes the recognition criteria when in exchange for employee benefits.	1 January 2013
IFRIC Interpretation 20	*Stripping Costs in the Production Phase of a Surface Mine*	This Interpretation clarifies the requirements for accounting for stripping costs in the production phase of a surface mine, such as when such costs can be recognised as an asset and how that asset should be measured, both initially and subsequently.	1 January 2013

The group has decided not to early adopt any of the above accounting standards. Furthermore, these changes in standards and interpretations are not expected to have a material impact on the group in the current or future reporting periods and on foreseeable future transactions.

NOTE 3: FINANCIAL RISK MANAGEMENT

The group, in its normal course of business, is exposed to financial risks comprising market risk (essentially interest rate risk), credit risk and liquidity risk.

The directors have overall responsibility for the group's management of these risks and seek to minimise these risks through on-going monitoring and review of the adequacy of the risk management framework in relation to the risks encountered by the group.

Liquidity risk
The group has no significant exposure to liquidity risk as the group's only debt is that associated with trade creditors in respect of which the group's policy is to ensure payment within 30 days. The group manages its liquidity by monitoring forecast cash flows.

Market risk
The group's market risk exposure is to the Australian money market interest rates in respect of its cash assets. The risk is managed by monitoring the interest rate yield curve out to 90 days to ensure a balance is maintained between the liquidity of its cash assets and interest rate return.

The weighted average rate of interest earned by the group on its cash assets at year end was 5.15% (2011: 5.43%).

The table below summarises the sensitivity of the group's cash assets to interest rate risk. The group has no interest rate risk associated with any of its other financial assets or liabilities.

NOTE 3: FINANCIAL RISK MANAGEMENT *(continued)*

Financial Assets	**Effect of decrease or increase of interest rate on profit and equity of the Group**			
	-1%		**+1%**	
	Profit	**Equity**	**Profit**	**Equity**
	$	**$**	**$**	**$**
CONSOLIDATED				
30 June 2012				
Total increase/(decrease)	(23,678)	(23,678)	23,678	23,678
30 June 2011				
Total increase/(decrease)	(31,142)	(31,142)	31,142	31,142

Credit risk
The group's only exposure to credit risk arises from its cash deposits at the bank. The group manages this minimal exposure by ensuring its funds are deposited only with major banks with high security ratings.

Exposure to credit risk

	Consolidated	
	2012	**2011**
	$	**$**
Trade and other receivables	292,099	269,638
Cash and cash equivalents	1,562,009	3,280,406

Fair value estimates
The carrying amount of the group's financial assets and liabilities approximates fair value due to their short term maturity.

Capital management risk
The group's objective in managing capital is to safeguard its ability to continue as a going concern, so that it can continue to explore for minerals with the ultimate objective of providing returns for shareholders whilst maintaining an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the group may issue new shares, sell assets, or farm out joint venture interests in its projects.

	Consolidated	
	2012	**2011**
NOTE 4: REVENUE	**$**	**$**
Interest income	121,895	169,098
Other income	84,611	20,630
	206,506	189,728

	Consolidated	
	2012	2011
	$	$

NOTE 5: EXPENSES

Loss before income tax expense includes the following specific expenses:		
Depreciation	50,405	77,991
Less: capitalised to exploration	(50,299)	(77,885)
	106	106
Consulting and labour hire	332,145	388,243
Facility charges	84,000	84,000
Insurance and legal	34,234	32,280
Share based compensation	140,436	378,415
ASX, ASIC and related fees	33,002	45,320
Loss on disposal of fixed assets	613	4,447
Other expenses	52,181	72,122
	676,717	1,004,933

NOTE 6: INCOME TAX

(a) Income tax expense/benefit

The components of income tax expense/benefit comprise:		
Current tax	-	-
Deferred tax	-	-
	-	-

(b) Reconciliation of income tax expense/(benefit) to prima facie tax payable on accounting profit/(loss)

Operating (loss) before income tax	(1,548,225)	(2,728,813)
Prima facie tax payable/(benefit) at Australian rate of 30% (2011: 30%)	(464,468)	(818,644)
Adjusted for tax effect of the following amounts:		
Taxable/non-deductible items	42,131	113,525
Non-taxable/deductible items	(41,860)	(41,860)
Under-provision in prior year	61,583	
Tax benefits not brought to account	402,614	746,979
Income tax expense	-	-

(c) Deferred tax assets and liabilities not brought to account

The directors estimate that the potential future income tax benefits carried forward but not brought to account at year end at the Australian corporate tax rate of 30% (2011: 30%) are made up as follows:		
Carry forward tax losses	3,696,425	3,297,318
Deductible temporary differences	6,314	3,645
Taxable temporary differences	(2,329)	(3,167)
	3,700,410	3,297,796

These benefits will only be obtained if:

(i) the group derives future assessable income of a nature and of an amount sufficient to enable the benefits from the deductions for the losses to be realised,

(ii) the group continues to comply with the conditions for deductibility imposed by tax legislation, and

(iii) no changes in tax legislation adversely affect the group in realising the benefit from the deduction for the losses.

	Consolidated 2012 $	Consolidated 2011 $
NOTE 7: CASH AND CASH EQUIVALENTS		
Cash at bank	1,562,009	3,280,406
	1,562,009	3,280,406
NOTE 8: TRADE AND OTHER RECEIVABLES		
CURRENT		
Bonds	186,868	228,376
Interest receivable	7,763	10,557
Amount receivable from ultimate parent entity	-	2,122
GST receivable	20,471	28,438
Others	76,997	145
	292,099	269,638
NOTE 9: OTHER CURRENT ASSETS		
Prepayments	18,362	17,791
	18,362	17,791
NOTE 10: PLANT AND EQUIPMENT		
Office furniture and equipment – at cost	4,101	4,101
Accumulated depreciation	(3,340)	(2,929)
	761	1,172
Field equipment – at cost	63,623	63,623
Accumulated Depreciation	(44,851)	(36,926)
	18,772	26,697
Motor vehicles and mobile equipment – at cost	294,762	306,762
Accumulated depreciation	(253,595)	(222,563)
	41,167	84,199
Total plant and equipment	60,700	112,068

A reconciliation of the carrying amounts of each class of plant and equipment at the beginning of the current financial year is set out below:

	Office furniture & equipment $	Field equipment $	Vehicles & mobile plant $	Total $
CONSOLIDATED				
Carrying amount at 1 July 2011	1,172	26,697	84,199	112,068
Disposals during the year	-	-	(963)	(963)
Depreciation expense	(411)	(7,925)	(42,069)	(50,405)
Carrying amount at 30 June 2012	761	18,772	41,167	60,700
Carrying amount at 1 July 2010	1,992	36,922	155,593	194,507
Disposals during the year	-	-	(4,447)	(4,447)
Depreciation expense	(820)	(10,225)	(66,947)	(77,992)
Carrying amount at 30 June 2011	1,172	26,697	84,199	112,068

NOTE 11: DEFERRED EXPLORATION AND EVALUATION COSTS

	Consolidated 2012 $	Consolidated 2011 $
Balance at beginning of period	-	-
Exploration and evaluation costs incurred	1,078,014	1,913,608
Exploration and evaluation costs written off	(1,078,014)	(1,913,608)
Balance at end of year	-	-

NOTE 12: CONTROLLED ENTITY

Controlled Entity	Dawn Metals Pty Ltd (formerly Dawn Metals Limited)
Place of Incorporation	Australia
Interest Held	100% (2011: 100%)
Date Acquired	11 June 2009

The registered office of Dawn Metals Pty Ltd is located at 271 Great Eastern Highway, Belmont, Western Australia.

NOTE 13: CURRENT TRADE AND OTHER PAYABLES

	Consolidated 2012 $	Consolidated 2011 $
Amount payable to ultimate parent entity	40,708	187,181
Accruals and other creditors	51,205	243,676
	91,913	430,857

NOTE 14: ISSUED CAPITAL

	2012	2011
119,660,641 (2011:119,660,641) fully paid ordinary shares	13,061,977	13,061,977

Ordinary shares have no par value. There is no limit to the authorised share capital of the Company.

Rights attaching to ordinary shares

Ordinary shares entitle the holder to participate in dividends and in the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll each share is entitled to one vote.

(a) Movements in ordinary share capital

Fully Paid Shares	Number 2012	Number 2011	$ 2012	$ 2011
At the beginning of the period	119,660,641	99,760,643	13,061,977	10,981,443
Placement	-	19,899,998	-	2,188,984
Costs of share placement	-	-	-	(108,450)
At reporting date	119,660,641	119,660,641	13,061,977	13,061,977

NOTE 14: ISSUED CAPITAL *(continued)*

(b) Options

Options to take up fully paid ordinary fully paid shares in the Company at 30 June 2012 are as follows:

Number of Options	Listed/Unlisted	Exercise Price	Expiry Date
7,500,000	Unlisted	$0.34017	31 Oct 2014
7,500,000	Unlisted	$0.50	22 Nov 2015
8,000,000	Unlisted	$0.40	17 May 2017
1,450,000	Unlisted	$0.30	30 June 2013
7,600,000	Unlisted	$0.40	17 Sep 2014
1,000,000	Unlisted	$0.34	31 Oct 2013
10,000,000	Unlisted	$0.40	22 June 2017
562,500	Unlisted	$0.31	30 Nov 2012
330,000	Unlisted	$0.35	31 May 2013
630,000	Unlisted	$0.35	30 Nov 2012
200,000	Unlisted	$0.40	31 July 2014
3,000,000	Unlisted	$0.145	02 Sep 2014
300,000	Unlisted	$0.1508	07 Dec 2014
48,072,500			

NOTE 15: RESERVES

The option reserve records items recognised as expenses on from the issue of share options.

NOTE 16: SHARE BASED PAYMENTS

Each option entitles the holder to take up one fully paid ordinary share in the Company at anytime up to and including the expiry date. Upon exercise of an option, the resulting ordinary share has the same rights as other ordinary shares. Options do not entitle their holders to receive dividends, participate in entitlement issues or vote at general meetings of shareholders.

(a) Movements in Options

	Weighted average exercise price 2012	Number of options 2012	Weighted average exercise price 2011	Number of options 2011
Outstanding at 1 July	$0.3874	55,272,500	$0.3983	58,697,500
Forfeited/cancelled during the period	$0.4201	(7,200,000)	$0.3649	(6,925,000)
Granted during the period	-	-	$0.1601	3,500,000
Outstanding at 30 June [(1)]	$0.3825	48,072,500	$0.3874	55,272,500
Exercisable at 30 June	$0.3919	40,772,500	$0.4030	39,022,500

(1) The weighted average life of the outstanding options is 1,217 days or 3.33 years (2011: 1,497 days or 4.10 years)

NOTE 16: SHARE BASED PAYMENTS *(continued)*

(b) Fair Value

The fair value of the options was estimated at the date of grant using the Black-Scholes valuation model.

There were no options granted during the year ended 30 June 2012.

2011	**Options Granted July 2010 (1)**	**Options Granted Sept 2010 (2)**	**Options Granted Dec 2010 (3)**
Expected volatility (%)	107	107	107
Risk free interest rate (%)	4.80	4.52	5.14
Weighted average expected life of options (years)	4.00	4.00	4.00
Option exercise price (cents)	40.0	14.5	15.08
Share price at grant date (cents)	11.0	10.0	10.0
Fair value of option	$0.060	$0.069	$0.069
Vesting date (50%)	31/07/11	-	-
Vesting date (50%)	31/07/12	-	-
Vesting date (33.3%)	-	02/09/11	07/12/10
Vesting date (33.3%)	-	02/09/12	07/09/11
Vesting date (33.3%)	-	02/09/13	17/06/12

(1) Options issued to Employees
(2) Options issued to Directors
(3) Options issued to Consultants

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur.

The expected volatility is based on the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

(c) Terms and Conditions for each grant of Consultants Options

The group has issued no options during the year ended 30 June 2012.

In the year ended 30 June 2011, the group issued Director options to one director of the group on one occasion. Consultant options and employee options were issued on two occasions during the financial year and have varying exercise prices and expiry dates.

	Number Granted	**Grant Date**	**Value of Option at Grant Date**	**Exercise Price**	**Expiry Date**
2011					
Director					
Mr M Pyle	3,000,000	02 Sept 2010	$0.069	$0.145	02 Sept 2014
Non Specified Contractors					
Other-employees	200,000	31 July 2010	$0.060	$0.40	31 Jul 2014
Other	300,000	07 Dec 2010	$0.069	$0.1508	07 Dec 2014
	3,500,000				

NOTE 16: SHARE BASED PAYMENTS *(continued)*

(d) Terms and Conditions for each grant of Employee Options

The Desert Mines and Metals Limited Employee Option Plan ("EOP") was approved at the group's Annual General Meeting in November 2007. A summary of the rules of the EOP is set out below:

The allocation of options to employees, directors and consultants of the group is at the discretion of the Board. Each option is to subscribe for one fully paid ordinary share in the group and will expire no later than five years from the date of issue. Options are issued free and the exercise price of options is determined by the Board. An option is exercisable at a time determined by the Board.

There were no options issued as part of the EOP during the financial year.

NOTE 17: KEY MANAGEMENT PERSONNEL COMPENSATION

(a) Names and positions of key management personnel

The names and positions of persons who were key management personnel of Desert Mines and Metals Limited at any time during the financial year are as follows:

Key Management Personnel

P S R Jackson	Chairman (Non-Executive)
M J Pyle	Executive Director
R S Taylor	Executive Director

Key management personnel remuneration

	Consolidated	
	2012	**2011**
	$	**$**
Short-term personnel benefits	207,502	282,504
Share based payments	69,655	104,215
	277,157	386,719

Refer to the remuneration report contained in the directors' report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2012.

(b) Details of transactions of Key Management Personnel concerning shares

	Opening Balance	**Purchased during Period**	**Sold during Period**	**Options Exercised**	**Closing Balance**
2012					
Robert Taylor	100,000	-	-	-	100,000
Phillip Jackson	1,160,250	-	-	-	1,160,250
Martin Pyle	-	500,000	-	-	500,000
2011					
Robert Taylor	100,000	-	-	-	100,000
Phillip Jackson	1,160,250	-	-	-	1,160,250
Martin Pyle	-	-	-	-	-

NOTE 17: KEY MANAGEMENT PERSONNEL COMPENSATION *(continued)*

(c) Details of transactions of Key Management Personnel concerning share options

Details of options provided as remuneration, together with terms and conditions of the options, can be found in the audited remuneration report set out in the Directors' Report.

	Opening Balance	Received as Remuneration	Net Change Other [(a)]	Options Exercised	Closing Balance
2012					
Robert Taylor	9,000,000	-	-	-	9,000,000
Phillip Jackson	5,000,000	-	-	-	5,000,000
Martin Pyle	3,000,000	-	-	-	3,000,000
2011					
Garry O'Hara	9,000,000	-	(9,000,000)	-	-
Robert Taylor	9,000,000	-	-	-	9,000,000
Phillip Jackson	5,000,000	-	-	-	5,000,000
Martin Pyle	-	3,000,000	-	-	3,000,000

(a) In 2011, net change other pertains to the resignation of Garry O'Hara.

NOTE 18: REMUNERATION OF AUDITORS

	Consolidated 2012 $	Consolidated 2011 $
Audit or review services	24,000	24,000
	24,000	24,000

NOTE 19: CONTINGENCIES

Contingent Liabilities

There were no contingent liabilities for termination benefits under service agreements with Directors or executives at 30 June 2012.

The Directors are not aware of any other contingent liabilities at 30 June 2012.

NOTE 20: COMMITMENTS FOR EXPENDITURE

Mineral Tenements

In order to maintain the mineral tenements in which the group is involved, the group is committed to fulfil the minimum annual expenditure conditions under which the tenements are granted. The minimum estimated expenditure requirements in accordance with the requirements of the Western Australian Department of Mines and Petroleum are:

	Consolidated 2012 $	Consolidated 2011 $
Exploration commitments		
Within 1 year	98,000	31,000

These requirements are expected to be fulfilled in the normal course of operations and may be varied from time to time subject to approval by the grantor of titles. The estimated expenditure represents potential expenditure which may be avoided by relinquishment of tenure. Exploration expenditure commitments beyond twelve months cannot be reliably determined.

NOTE 20: COMMITMENTS FOR EXPENDITURE *(continued)*

	Consolidated	
	2012	**2011**
	$	**$**
Exploration commitments contracted from arising from interest in Joint Ventures		
Within 1 year	-	-
Within 1 to 5 years	270,723	1,857,072
Total	270,723	1,857,072

The details of the joint ventures are detailed in Note 21 below.

Consultancy Agreements

In the event that the group terminates all of the Directors' and Executives' consultancy agreements, there is a requirement to continue payment of the fees for a period of six months in the case of Directors or two months in the case of Executives. Should the services of the Directors and Executives not be required during the respective periods the cost to the group would be $130,492 (2011: $170,293).

NOTE 21 – INTEREST IN JOINT VENTURES

On 22 April 2010, the group entered into the Camel Hills Joint Venture Agreement. The details of the joint venture's term and conditions are as follows:

Joint Venture	**Activity**	**Other Party**
Camel Hills Joint Venture	Mineral Exploration	Aurora Minerals Limited

Desert Mines and Metals Limited ('Desert'), a subsidiary of Aurora Minerals Limited ('Aurora'), may earn a 51% interest in Aurora's Camel Hills Project by spending a minimum of $3,800,000, with $1,500,000 to be spent in the first year of the joint venture. Allowable expenditure includes an administration overhead charge of 15% of costs. Desert's interest may be increased to 70% by jointly funding a bankable feasibility study. If Aurora elects not to contribute towards the cost of the feasibility study, Deserts' interest may be further increased to 75%. The minimum commitment of $3,800,000 was reduced to $3,400,000 during the year under the terms of the Agreement due to a substantial relinquishment of tenements.

Desert Mines and Metals Limited has met its obligation to spend $1,500,000 in the first year of the joint venture.

NOTE 22: RELATED PARTIES

(a) Controlled Entity

As at 30 June 2012, the group is a 39.67% controlled entity of Aurora Minerals Limited, which is the ultimate parent entity.

(b) Remuneration and retirement benefits

Information on remuneration of Directors during the financial period is disclosed in Note 17.

(c) Other transactions of Directors and Director-related entities

There are no other transactions with Directors and Director-related entities.

(d) Transactions of Directors and Director-related entities concerning shares and share options

Details of transactions of Directors and Director-related entities concerning shares and share options are set out in Note 16.

NOTE 23: PARENT ENTITY DISCLOSURES

(a) Financial Position

	2012 $	2011 $
Assets		
Current assets	1,870,763	3,586,580
Non-current assets	60,700	112,068
Total assets	1,931,463	3,698,648
Liabilities		
Current liabilities	91,913	430,857
Total liabilities	91,913	430,857
Equity		
Issued capital	13,061,977	13,061,977
Reserves	3,908,761	3,768,325
Retained earnings	(15,131,188)	(13,562,511)
Total equity	1,839,550	3,267,791
Financial Performance		
Loss for the year	(1,568,677)	(2,711,606)
Other comprehensive income	-	-
Total comprehensive loss for the year	(1,568,677)	(2,711,606)

(b) Guarantees entered into by the parent entity in relation to the debts of its subsidiary

Desert Mines and Metals Limited has not entered into any guarantees in relation to the debts of its subsidiary.

(c) Contingent liabilities of the parent

The parent entity did not have any contingent liabilities as at 30 June 2012 (30 June 2011: nil).

(d) Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2012 (30 June 2011: nil), the parent entity did not have any contractual commitments for the acquisition of property, plant or equipment.

NOTE 24: EVENTS OCCURRING AFTER REPORTING DATE

There are no matters or circumstances which have arisen since the end of the financial year that have significantly affected the operations of the group or the results of those operations or the state of affairs of the group, nor are there any such matters or circumstances or likely developments which may significantly affect the future operations or the results of those operations or the state of affairs of the group, in subsequent financial years.

NOTE 25: SEGMENT INFORMATION

The group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The group operates as a single segment which is mineral exploration within Australia.

The group is domiciled in Australia. All revenue from external customers is generated from Australia only. Segment revenues are allocated based on the country in which the customer is located. All assets are located within Australia. Segment assets are allocated to countries based on where the assets are located.

No operating revenue was derived during the year (2011: nil)

NOTE 26: STATEMENT OF CASH FLOWS

	Consolidated	
	2012	**2011**
	$	**$**
(a) Reconciliation of loss after income tax to net cash flow from operating activities		
Operating loss after income tax	(1,548,225)	(2,728,813)
Cash flow excluded from loss attributable to operating activities:		
Revenue recognised on sale of option to purchase tenements	-	(20,630)
Non cash flow in loss:		
Loss on disposal of asset	613	4,447
Share based payment	140,436	378,415
Depreciation expense	50,405	77,991
Movement in assets and liabilities:		
Receivables	(23,031)	81,058
Payables	(338,945)	370,079
Net cash outflow from operating activities	(1,718,747)	(1,837,453)

(b) Credit standby arrangements

The Company has no credit standby arrangements.

NOTE 27: EARNINGS PER SHARE

	Consolidated	
	2012	**2011**
	$	**$**
Basic loss per share (cents per share)	(1.29)	(2.55)
Diluted loss per share (cents per share)	(1.29)	(2.55)
Reconciliation of loss		
Loss used in calculating earnings per share – basic and diluted	(1,548,225)	(2,728,813)
Net loss for the reporting period	(1,548,225)	(2,728,813)
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic and diluted earnings per share	119,660,641	107,209,968

DIRECTORS' DECLARATION

The directors of the company declare that the financial statements and notes are in accordance with the *Corporations Act 2001* and:

a. comply with Australian Accounting Standards, which, as stated in accounting policy Notes 1 and 2 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and

b. give a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date;

the directors have declared that:

a. the financial records of the company for the financial year have been properly maintained in accordance with s286 of the *Corporations Act 2001*;

b. the financial statements and notes for the financial year comply with Australian Accounting Standards; and

c. the financial statements and notes for the financial year give a true and fair view; and

in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

DIRECTOR
Perth, 3 September 2012

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DESERT MINES AND METALS LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Desert Mines and Metals Limited, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

RSM Bird Cameron Partners

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Desert Mines and Metals Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Desert Mines and Metals Limited is in accordance with the *Corporations Act 2001*, including:

    (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

    (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report contained within the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001.* Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Desert Mines and Metals Limited for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

RSM Bird Cameron Partners

RSM BIRD CAMERON PARTNERS

TUTU PHONG
Partner

Perth, WA
Dated: 3 September 2012

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Desert Mines and Metals Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

RSM Bird Cameron Partners

RSM BIRD CAMERON PARTNERS

Perth, WA
Dated: 3 September 2012

TUTU PHONG
Partner