



7 September 2010

Company Announcements Office
ASX Limited
Level 4, 20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

Appendix 3B: Issue of 3,000,000 unlisted options

Attached is an Appendix 3B notice relating to the issue of 3,000,000 unlisted options following shareholder approval of the issue on 2 September 2010.

Yours faithfully

P.C.Ruttledge
Company Secretary

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Appendix 3B

New issue announcement, application for quotation of additional securities and agreement

Information or documents not available now must be given to ASX as soon as available. Information and documents given to ASX become ASX's property and may be made public.

Introduced 1/7/96. Origin: Appendix 5. Amended 1/7/98, 1/9/99, 1/7/2000, 30/9/2001, 11/3/2002, 1/1/2003, 24/10/2005.

Name of entity

DESERT ENERGY LIMITED

ACN

123 102 974

We (the entity) give ASX the following information.

Part 1 - All issues

You must complete the relevant sections (attach sheets if there is not enough space).

- | | | |
|---|--|---|
| 1 | +Class of +securities issued or to be issued | OPTIONS- 2 September 2014 |
| 2 | Number of +securities issued or to be issued (if known) or maximum number which may be issued | 3,000,000 Options- 2 September 2014 |
| 3 | Principal terms of the +securities (eg, if options, exercise price and expiry date; if partly paid +securities, the amount outstanding and due dates for payment; if +convertible securities, the conversion price and dates for conversion) | Issue price- free
Exercise Price: 14.5 cents
3,000,000 Options exercisable by 2 September 2014
Full Terms are attached in Annexure to this Appendix 3B |

+ See chapter 19 for defined terms.

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<p>4 Do the ⁺securities rank equally in all respects from the date of allotment with an existing ⁺class of quoted ⁺securities?</p> <p>If the additional securities do not rank equally, please state:</p> <ul style="list-style-type: none"> • the date from which they do • the extent to which they participate for the next dividend, (in the case of a trust, distribution) or interest payment • the extent to which they do not rank equally, other than in relation to the next dividend, distribution or interest payment 	<p>These Options do not rank for voting and dividends, and are not listed.</p> <p>Each Option on exercise becomes a fully paid ordinary share which will be listed and will rank equally with other fully paid ordinary listed shares.</p>				
<p>5 Issue price or consideration</p>	<p>Issued free</p>				
<p>6 Purpose of the issue (If issued as consideration for the acquisition of assets, clearly identify those assets)</p>	<p>Issue of 3,000,000 Options to a Director as an incentive component of his remuneration, in accordance with approval granted at the Extraordinary Meeting of the Company held on 2 September 2010.</p>				
<p>7 Dates of entering ⁺securities into uncertificated holdings or despatch of certificates</p>	<p>2 September 2010</p>				
<p>8 Number and ⁺class of all ⁺securities quoted on ASX (including the securities in clause 2 if applicable)</p>	<table border="1"> <thead> <tr> <th style="text-align: center;">Number</th> <th style="text-align: center;">⁺Class</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">99,760,643</td> <td style="text-align: center;">Ordinary Shares</td> </tr> </tbody> </table>	Number	⁺ Class	99,760,643	Ordinary Shares
Number	⁺ Class				
99,760,643	Ordinary Shares				

⁺ See chapter 19 for defined terms.

9 Number and +class of all +securities not quoted on ASX (including the securities in clause 2 if applicable)

Number	+Class
3,375,000	Options- exercisable at 34.017 cents by 30 November 2010
7,500,000	Options- exercisable at 34.017 cents by 31 October 2014
2,000,000	Options- exercisable at 37.2 cents by 30 November 2010
562,500	Options- exercisable at 31 cents by 30 November 2012
500,000	Options- exercisable at 38 cents by 30 April 2011
330,000	Options exercisable at 35 cents by 31 May 2013
630,000	Options exercisable at 35 cents by 30 November 2012
7,500,000	Options exercisable at 50 cents by 22 November 2015
2,050,000	Options exercisable at 50 cents by 22 December 2011
1,800,000	Options exercisable at 30 cents by 30 June 2013
1,000,000	Options exercisable at 34 cents by 30 October 2013
13,450,000	Options exercisable at 40 cents by 17 September 2014
8,000,000	Options exercisable at 40 cents by 17 September 2014
10,000,000	Options exercisable at 40 cents by 17 May 2017
200,000	Options exercisable at 40 cents by 22 June 2017
3,000,000	Options exercisable at 40 cents by 31 July 2014
	Options exercisable at 14.5 cents by 2 September 2014

10 Dividend policy (in the case of a trust, distribution policy) on the increased capital (interests)

No dividend policy is currently in place since the Company is involved only in exploration

Part 2 - Bonus issue or pro rata issue - Not Applicable

11 Is security holder approval required?

N/A

12	Is the issue renounceable or non-renounceable?	N/A
13	Ratio in which the +securities will be offered	N/A
14	+Class of +securities to which the offer relates	N/A
15	+Record date to determine entitlements	N/A
16	Will holdings on different registers (or subregisters) be aggregated for calculating entitlements?	N/A
17	Policy for deciding entitlements in relation to fractions	N/A
18	Names of countries in which the entity has +security holders who will not be sent new issue documents Note: Security holders must be told how their entitlements are to be dealt with. Cross reference: rule 7.7.	N/A
19	Closing date for receipt of acceptances or renunciations	N/A
20	Names of any underwriters	N/A
21	Amount of any underwriting fee or commission	N/A
22	Names of any brokers to the issue	N/A
23	Fee or commission payable to the broker to the issue	N/A
24	Amount of any handling fee payable to brokers who lodge acceptances or renunciations on behalf of +security holders	N/A
25	If the issue is contingent on +security holders' approval, the date of the meeting	N/A
26	Date entitlement and acceptance form and prospectus or Product Disclosure Statement will be sent to persons entitled	N/A

27	If the entity has issued options, and the terms entitle option holders to participate on exercise, the date on which notices will be sent to option holders	N/A
28	Date rights trading will begin (if applicable)	N/A
29	Date rights trading will end (if applicable)	N/A
30	How do ⁺ security holders sell their entitlements <i>in full</i> through a broker?	N/A
31	How do ⁺ security holders sell <i>part</i> of their entitlements through a broker and accept for the balance?	N/A
32	How do ⁺ security holders dispose of their entitlements (except by sale through a broker)?	N/A
33	⁺ Despatch date	N/A

Part 3 - Quotation of securities - Not Applicable

You need only complete this section if you are applying for quotation of securities

- 34 Type of securities
(tick one)
- (a) Securities described in Part 1
- (b) All other securities
- Example: restricted securities at the end of the escrowed period, partly paid securities that become fully paid, employee incentive share securities when restriction ends, securities issued on expiry or conversion of convertible securities

Entities that have ticked box 34(a) N/A

Additional securities forming a new class of securities

Tick to indicate you are providing the information or documents

- 35 If the ⁺securities are ⁺equity securities, the names of the 20 largest holders of the additional ⁺securities, and the number and percentage of additional ⁺securities held by

those holders

- 36 If the +securities are +equity securities, a distribution schedule of the additional +securities setting out the number of holders in the categories
 1 - 1,000
 1,001 - 5,000
 5,001 - 10,000
 10,001 - 100,000
 100,001 and over
- 37 A copy of any trust deed for the additional +securities

Entities that have ticked box 34(b) - Not Applicable

38 Number of securities for which +quotation is sought N/A

39 Class of +securities for which quotation is sought N/A

40 Do the +securities rank equally in all respects from the date of allotment with an existing +class of quoted +securities?

 If the additional securities do not rank equally, please state:

- the date from which they do
- the extent to which they participate for the next dividend, (in the case of a trust, distribution) or interest payment
- the extent to which they do not rank equally, other than in relation to the next dividend, distribution or interest payment

N/A

41 Reason for request for quotation now
 Example: In the case of restricted securities, end of restriction period

 (if issued upon conversion of another security, clearly identify that other security)

N/A

Number	+Class
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42 Number and ⁺ class of all ⁺ securities quoted on ASX (including the securities in clause 38)	N/A	
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Quotation agreement - Not Applicable

~~1 Quotation of our additional ⁺securities is in ASX's absolute discretion. ASX may quote the ⁺securities on any conditions it decides.~~

~~2 We warrant the following to ASX:~~

~~• The issue of the ⁺securities to be quoted complies with the law and is not for an illegal purpose.~~

~~• There is no reason why those ⁺securities should not be granted ⁺quotation.~~

~~• An offer of the ⁺securities for sale within 12 months after their issue will not require disclosure under section 707(3) or section 1012C(6) of the Corporations Act.~~

Note: An entity may need to obtain appropriate warranties from subscribers for the securities in order to be able to give this warranty

~~• Section 724 or section 1016E of the Corporations Act does not apply to any applications received by us in relation to any ⁺securities to be quoted and that no one has any right to return any ⁺securities to be quoted under sections 737, 738 or 1016F of the Corporations Act at the time that we request that the ⁺securities be quoted.~~

~~• If we are a trust, we warrant that no person has the right to return the ⁺securities to be quoted under section 1019B of the Corporations Act at the time that we request that the ⁺securities be quoted.~~

~~3 We will indemnify ASX to the fullest extent permitted by law in respect of any claim, action or expense arising from or connected with any breach of the warranties in this agreement.~~

~~4 We give ASX the information and documents required by this form. If any information or document not available now, will give it to ASX before ⁺quotation of the ⁺securities begins. We acknowledge that ASX is relying on the information and documents. We warrant that they are (will be) true and complete.~~

Sign here: Date: 7 September 2010
Company secretary

Print name: Peter Rutledge.....

Terms and Conditions of Consultant Options to be issued by Desert Energy Limited to Mr Martin Pyle

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 45 % of that market price ("the Exercise Price").

(c) Expiry date

Consultant Options will expire on the Expiry Date for that class of Options. The Expiry Date is 48 months after the date of issue unless expiry occurs earlier under these terms and conditions.

(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

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.

(g) Exercise

Subject to m) to n) 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 First Exercise Date for such Options and the Expiry Date ("the Exercise Period"). The Consultant Options may be exercised in one or more lots on different occasions during the Exercise Period, provided that such lots are equal to or a multiple of 100,000 Options. 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:

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

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.

(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 Mr Pyle then all of the 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) in the event that Whitby or Mr Pyle ceases to provide services to the Company or any of its subsidiaries as a consultant, then from the date of such cessation of services one half of the Options which can be validly be exercised at such date shall remain in full force and effect for the full term up until the Expiry Date and the other half of the Options may only be exercised by the optionholder within 3 months of

the effective date on which Whitby or Mr Pyle ceases to provide services to the Company, 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) In the event that Whitby's or Mr Pyle's services as a consultant to the Company or any of its subsidiaries are terminated by the Company following the takeover of the Company or following a Change in Control, all the Options shall remain in full force and effect for the full term up until the Expiry Date.

(n) Directorships

For the avoidance of doubt it is recorded that the Options will not be affected in the event that in the future if Mr Pyle ceases to be a director of the Company.

(o) Interpretation

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

"Consultant Options" or "Options" means 3,000,000 Consultant Options issued to Whitby 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;

"First Exercise Date" means:

for the first tranche of 1,000,000 Options, 12 months after the date of issue;

for the second tranche of 1,000,000 Options, 24 months after the date of issue;
and

for the third tranche of 1,000,000 Options, 36 months after the date of issue.

"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 other nominee approved by the Company

"Relevant Person" means Mr Martin Pyle

"Whitby" means Whitby 2009 Pty Ltd.