Desert Energy

Desert Energy Limited
ACN 123 102 974

ANNUAL FINANCIAL REPORT

30 JUNE 2010

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Desert Energy 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 Energy Limited and its controlled entities, for the year ended 30 June 2010.

DIRECTORS

The names and details of the Directors of Desert Energy 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, mining 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 is currently a director and senior executive of the Australian and Asian subsidiaries of a large multinational oil services company. He has been a director of a number of Australian public companies, holds an MBA, 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. Phillip is a non-executive director of listed company, Scotgold Resources Limited. Phillip is responsible for monitoring the Company's corporate governance.

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

Desert Energy's Executive Director, Rob Taylor, comes from a large company background and brings to Desert Energy 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 Garry Patrick O'Hara BSc, MAIMM (resigned 7 July 2010)

Garry O'Hara, Desert Energy's Executive Director, is a geologist with an extensive experience in the Australian junior company sector. He has been exploration manager of a number of Australian resource companies where his primary role has been identification and acquisition of project opportunities and the application of modern exploration techniques. He has been associated with a number of gold and nickel discoveries in the greenstone belts of Western Australia where he has interests in a number of exploration projects. Garry has considerable business development experience including negotiating joint ventures with major mining companies. In recent years he has gained extensive corporate experience in ASX listed companies including in financing and administration. Garry has been executive director of Aurora Minerals Limited since its ASX listing in 2004. Garry resigned as a director of the Company on 7 July 2010.

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

Martin has a broad range of experience gained over more than 20 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 Syndicated Metals Limited and Midwinter Resources No Liability and non-executive director of Eleckra Mines Limited. Mr Pyle 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 Pyle also served as a director of the following listed company:

Nickelore Limited	24/08/2009 to 15/10/2009

Company Secretary
Mr Peter Campbell Ruttledge BSc, CA, FFin

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.

PRINCIPAL ACTIVITIES

The principal activity of the group is exploration in Western Australia and assessing further opportunities.

OPERATING RESULTS

The consolidated loss of the group for the financial year after providing for income tax amounted to $3,495,594 (2009: $4,213,071).

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

Significant changes in the state of affairs included:

1. The issue of 10,000,000 fully paid ordinary shares at $0.17 each on 22 February 2010 to raise $1,700,000 before costs;
2. Entering into a farm in and joint venture agreement with Aurora Resources Pty Ltd, a wholly owned subsidiary of Aurora Minerals Limited, to earn a 51%, 70% or 75% interest in Aurora Resources Pty Ltd's Camel Hills Project. Shareholder approval was received on 15 June 2010.

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

On 24 August 2010 Desert Energy Limited advised the Australian Securities Exchange that it had become aware that funds were, during the period February 2009 to October 2009, drawn without proper authority from its bank accounts and has subsequently commenced legal action against a former consultant seeking return of those funds.
The amount of Desert's claim is $360,782.50. The Company has informed the Western Australian Police, who are conducting an investigation.

Other than the above there has not been any matter or circumstance that has arisen after balance date that has 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

Calcrete Uranium

During the year the Company continued its vigorous exploration campaign on its granted exploration licences in the northeast Yilgarn region of Western Australia. Initial drill testing of calcrete-uranium targets was completed at five projects in the northeast Yilgarn Region of central Western Australia: Barrambie, Kurrajong, Bellview, Maitland and Downs East Extended.

Anomalous uranium was intersected in wide spaced reconnaissance drilling at the Downs East Extended Project, which is located 44 km north-west along the interpreted line of the drainage from the major calcrete-hosted Yeerlirrie uranium deposit being developed by BHP-Billiton.

Anomalous uranium results were also received from drill testing at the Kurrajong Project. Exploration activity on the calcrete uranium projects will be re-assessed in the light of the grant of approval for the Camel Hills joint venture which will be the main focus of Desert's exploration campaign in 2010/2011.

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

Camel Hills is a large project covering some 5,000km^2 in the southern Gascoyne Region of Western Australia. Desert's geologists consider it has exploration potential for magnetite iron ore, gold, copper-nickel-PGE and uranium mineralisation.

The joint venture with Aurora Minerals Limited was approved by shareholders on 15 June 2010.

During the year, reconnaissance sampling was undertaken within the tenement package and samples collected for assaying and petrographic appraisal. Reconnaissance sampling, mapping and prospecting on the Camel Hills tenements is continuing with the aim of generating early drill targets.

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of Directors held during the financial year ended 30 June 2010 and the number of meetings attended by each Director:

	Full Board Meetings		Meetings by Circular Resolutions	
Director	**Number Attended**	**Number eligible to attend**	**Number Held**	**Number eligible to attend**
Phillip Jackson	3	3	8	8
Robert Taylor	3	3	8	8
Garry O'Hara (i)	3	3	8	8
Martin Pyle (ii)	-	-	-	-

	Governance Committee Meetings		Remuneration Committee Meetings	
Director	**Number Attended**	**Number eligible to attend**	**Number Held**	**Number eligible to attend**
Phillip Jackson	2	2	1	1
Robert Taylor	-	-	1	1
Garry O'Hara (i)	-	-	1	1
Martin Pyle (ii)	-	-	-	-

(i) Garry O'Hara resigned 7 July 2010
(ii) Martin Pyle appointed 6 May 2010

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

Remuneration of Directors is not related to the performance of the Company.

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 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 and other terms of engagement for the Executive Director, Dr Robert Taylor, are formalised in a consulting agreement with Able Kids Pty Ltd ("Able Kids"). The Company entered into a revised consulting agreement on normal commercial terms and conditions dated 13 April 2010 with Able Kids, a company of which Dr Taylor is a director and shareholder, whereby Able Kids is engaged to provide the services of Dr Taylor to the Company for an annual fee of $75,000 plus the cost of insurance. This remuneration is based on an average of 100 working days per year.

- The Company may terminate the consulting agreement for any reason by providing six months' written notice;
- Should services of the director not be required during that six month period the cost to the Company would be $37,500; and
- Able Kids may terminate the consulting agreement for any reason by providing six months' written notice.

Remuneration and other terms of engagement for the Chairman, Mr Phillip Jackson, are formalised in a consulting agreement with Holihox Pty Ltd ("Holihox"). The Company entered into a revised consulting agreement on normal commercial terms and conditions dated 13 April 2010 with Holihox, a company of which Mr Jackson is a sole director and shareholder, whereby Holihox is engaged to provide the services of Mr Jackson to the Company for an annual fee of $45,000 plus the cost of insurance. This remuneration is based on an average of 65 working days per year.

- The Company may terminate the consulting agreement for any reason by providing six months' written notice;
- Should services of the director not be required during that six month period the cost to the Company would be $22,500; and
- Holihox may terminate the consulting agreement for any reason by providing six months' written notice.

Remuneration and other terms of engagement for the Executive Director, Mr Garry O'Hara, are formalised in a consulting agreement with Anketell Pty Ltd ("Anketell"). The Company entered into a revised consulting agreement on normal commercial terms and conditions dated 13 April 2010 with Anketell, a company of which Mr O'Hara is a director and shareholder, whereby Anketell is engaged to provide the services of Mr O'Hara to the Company for an annual fee of $75,000 plus the cost of insurance. This remuneration is based on an average of 100 working days per year.

- The Company may terminate the consulting agreement for any reason by providing six months' written notice;
- Should services of the director not be required during that six month period the cost to the Company would be $37,500; and
- Anketell may terminate the consulting agreement for any reason by providing six months' written notice.

REMUNERATION REPORT (audited)

Remuneration and other terms of engagement for the Executive Director, Mr Martin Pyle, are formalised in a consulting agreement with Whitby (2009) Pty Ltd ("Whitby"). The Company entered into a consulting agreement on normal commercial terms and conditions dated 6 May 2010 with Whitby, a company of which Mr Pyle is a director and shareholder, whereby Whitby is engaged to provide the services of Mr Pyle to the Company for an annual fee of $125,000 plus the cost of insurance with effect from 1 June 2010. This remuneration is based on an average of 100 working days per year.

- The Company may terminate the consulting agreement for any reason by providing six months' written notice, at which time, at Desert Energy's discretion, Whitby may be required to perform the services for a further 6 month period, or Whitby's services may be terminated immediately ;
- Should services of the director not be required during that six month period the cost to the Company would be $62,500; and
- Whitby may terminate the consulting agreement for any reason by providing six months' written notice.

The Company entered into a consulting agreement on normal commercial terms and conditions dated 11 June 2007 with KMB Australia Pty Ltd ("KMB"), a company of which Ken Banks is a director and shareholder, whereby KMB is engaged to provide the services of Mr Banks as Investor Relations Manager of the Company for an annual fee of $60,000. This remuneration is based on an average of 115 working days per year.

- The Company may terminate the agreement for any reason by providing two months' written notice;
- Should services of the Executive not be required during that two month period the cost to the Company would be $10,000; and
- KMB may terminate the consulting agreement for any reason by providing two months' written notice.

The Company entered into a consulting agreement on normal commercial terms and conditions dated 12 August 2009 with Churchlands Consulting Pty Ltd ("Churchlands"), a company of which John Jordan is a director and shareholder, whereby Churchlands is engaged to provide the services of Mr Jordan as Chief Operating Officer of the Company for an annual fee of $70,000. This remuneration is based on an average of 115 working days per year.

- The Company may terminate the agreement for any reason by providing two months' written notice;
- Should services of the Executive not be required during that two month period the cost to the Company would be $11,667; and
- Churchlands may terminate the consulting agreement for any reason by providing two months' written notice.

The Company entered into a consulting agreement on normal commercial terms and conditions dated 25 March 2008 with Nero Consulting Pty Ltd ("Nero"), a company of which Guy Watkins is an employee, whereby Nero is engaged to provide the services of Mr Watkins as Operations & Logistics Manager of the Company. The annual fee of $62,500 was increased to $70,000 with effect from 1 June 2010. This remuneration is based on an average of 115 working days per year.

- The Company may terminate the agreement for any reason by providing two months' written notice;
- Should services of the Executive not be required during that two month period the cost to the Company would be $11,667; and
- Nero may terminate the consulting agreement for any reason by providing two months' written notice.

The Company entered into a consulting agreement on normal commercial terms and conditions dated 11 June 2007 with Golden Kilometre Mines Pty Ltd ("Golden Kilometre"), a company of which Eric Moore is a director and shareholder, whereby Golden Kilometre is engaged to provide the services of Mr Moore as General Manager of the Company. The annual fee of $62,500 was increased to $70,000 with effect from 1 June 2010. This remuneration is based on an average of 115 working days per year.The Company may terminate the agreement for any reason by providing two months' written notice;

- Should services of the Executive not be required during that two month period the cost to the Company would be $11,667; and
- Golden Kilometre may terminate the consulting agreement for any reason by providing two months' written notice.

The Company Secretary's remuneration is the subject of a consulting agreement with Sable Management Pty Ltd on normal commercial terms and conditions with effect from the date of the Company's admission to the official list of the Australian Securities Exchange.
The Company may terminate the agreement for any reason by providing two months' written notice.

REMUNERATION REPORT (audited)

(a) Key Management Personnel Remuneration

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:

2010	**Short-term Benefits Fees Paid to Associated Entity**	**Long Term Benefits Equity**	**Other Benefits**	**Total**	**Percentage represented by equity**
	$	**$**	**$**	**$**	**%**
Directors					
Garry O'Hara***	75,000	203,968	-	278,968	73%
Robert Taylor	75,000	203,968	-	278,968	73%
Phillip Jackson	43,750	135,979	-	179,729	76%
Martin Pyle*	10,417	-	-	10,417	-
Specified Executives					
Peter Ruttledge	19,008	10,569	-	29,577	36%
John Jordan**	62,500	69,798	-	132,298	53%
Kenneth Banks	62,499	8,799	-	71,298	12%
Guy Watkins	62,496	45,547	-	108,043	42%
Eric Moore	62,499	7,825	-	70,324	11%
	473,169	686,453	-	1,159,622	

* Commenced 1 June 2010
** Commenced 01 Sept 2009
*** Resigned on 7 July 2010

2009	**Short-term Benefits Fees Paid to Associated Entity**	**Long Term Benefits Equity**	**Other Benefits**	**Total**	**Percentage represented by equity**
	$	**$**	**$**	**$**	**%**
Directors					
Garry O'Hara	87,500	84,520	-	172,020	49%
Robert Taylor	87,500	84,520	-	172,020	49%
Phillip Jackson	35,000	42,259	-	77,259	55%
Specified Executives					
Peter Ruttledge	20,000	-	-	20,000	-
Guy Watkins	71,900	33,227	-	105,127	32%
Eric Moore	68,750	5,244	-	73,994	7%
	370,650	249,770	-	620,420	

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 $
2010								
Director								
(i)	Mr P Jackson	2,000,000	17 June 10	$0.068	$0.40	16 May 17	17 June 10	-
(i)	Mr R Taylor	3,000,000	17 June 10	$0.068	$0.40	16 May 17	17 June 10	-
(i)	Mr G O'Hara	3,000,000	17 June 10	$0.068	$0.40	16 May 17	17 June 10	-
Executives								
(iii)	Mr J Jordan	1,000,000	10 Nov 09	$0.068	$0.34	31 Oct 13	10 Nov 10	-
(i)	Mr J Jordan	2,250,000	17 June 10	$0.048	$0.40	17 Sept 14	22 Dec 11	$106,226
(ii)	Mr E Moore	100,000	1 July 09	$0.069	$0.30	30 June 13	1 July 09	-
(i)	Mr E Moore	1,500,000	17 June 10	$0.048	$0.40	17 Sept 14	22 Dec 11	$70,817
(ii)	Mr K Banks	100,000	1 July 09	$0.069	$0.30	30 June 13	1 July 09	-
(i)	Mr K Banks	3,000,000	17 June 10	$0.048	$0.40	17 Sept 14	22 Dec 11	$141,634
(ii)	Mr G Watkins	500,000	1 July 09	$0.069	$0.30	30 June 13	1 July 09	-
(i)	Mr G Watkins	1,500,000	17 June 10	$0.048	$0.40	17 Sept 14	22 Dec 11	$70,817
(ii)	Mr P Ruttledge	150,000	1 July 09	$0.069	$0.30	30 June 13	1 July 09	-
(i)	Mr P Ruttledge	450,000	17 June 10	$0.048	$0.40	17 Sept 14	22 Dec 11	$21,245
		18,550,000						
2009								
Director								
(iv)	Mr P Jackson	1,500,000	28 Nov 08	$0.028	$0.50	22 Nov 2015	15 Dec 08	-
(iv)	Mr R Taylor	3,000,000	28 Nov 08	$0.028	$0.50	22 Nov 2015	15 Dec 08	-
(iv)	Mr G O'Hara	3,000,000	28 Nov 08	$0.028	$0.50	22Nov 2015	15 Dec 08	-
Executives								
(iv)	Mr E Moore	700,000	28 Nov 08	$0.0075	$0.50	22 Dec 2011	15 Dec 08	-
		8,200,000						

(i) The exercise price equates to the average market price of the Desert Energy Limited fully paid ordinary shares for the 5 trading days prior to the date of issue of the options plus 45% of that price, or 40 cents, whichever is the greater.

(ii) The exercise price was set at 30 cents.

(iii) The exercise price equates to the market price of the Desert Energy Limited fully paid ordinary shares as at the date of issue of the options plus 100% of that price, or 34 cents, whichever is the greater.

(iv) The exercise price equates to the market price of the Desert Energy Limited fully paid ordinary share price at the date of grant, plus 100.1%.

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 allocated to the reporting period.

The assumptions made in determining the fair value of the options granted during the year ended 30 June 2010 are set out in a table in Note 14 (e) of the financial statements.

REMUNERATION REPORT (audited)

PARTICULARS OF DIRECTORS' AND SPECIFIED EXECUTIVES' INTERESTS IN SHARES IN THE COMPANY

The relevant interest of each Director and Specified Executive 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
Garry O'Hara	-	-	9,000,000	-
Martin Pyle	-	-	-	3,000,000
Peter Ruttledge	147,875	-	-	600,000
John Jordan	125,000	165,0000	-	3,250,000
Ken Banks	-	63,515	-	5,100,000
Guy Watkins	-	-	-	2,500,000
Eric Moore	-	200,000	-	2,800,000

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.

LEGAL PROCEEDINGS

The group was not a party to any legal proceedings during the year.

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 2010.

AUDITOR'S INDEPENDENCE DECLARATION AND NON-AUDIT SERVICES

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, 23 September 2010

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated 2010 $	2009 $
Revenue	4	147,913	253,396
Administration expenses	5	(1,607,469)	(1,074,008)
Write-off of exploration and evaluation expenditure	11	(2,036,038)	(3,392,459)
Loss before tax		(3,495,594)	(4,213,071)
Income tax expense	6	-	-
Net loss for the year		(3,495,594)	(4,213,071)
Other comprehensive income		-	-
Total comprehensive loss for the year		(3,495,594)	(4,213,071)
Basic loss per share (cents per share)	25	(3.75)	(5.12)
Diluted loss per share (cents per share)	25	(3.75)	(5.12)

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010

		Consolidated	
	Note	2010 $	2009 $
Current Assets			
Cash and cash equivalents	7	3,016,695	4,102,175
Trade and other receivables	8	312,051	251,803
Other current assets	9	56,437	9,716
Total current assets		3,385,183	4,363,694
Non-Current Assets			
Plant and equipment	10	194,507	275,294
Exploration and evaluation expenditure	11	-	-
Total non-current assets		194,507	275,294
Total assets		3,579,690	4,638,988
Current Liabilities			
Trade and other payables	13	60,780	708,605
Total current liabilities		60,780	708,605
Total liabilities		60,780	708,605
Net Assets		3,518,910	3,930,383
Equity			
Issued capital	14	10,981,443	9,383,215
Reserves	14	3,389,910	1,904,017
Accumulated losses		(10,852,443)	(7,356,849)
Total Equity		3,518,910	3,930,383

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY
AS AT 30 JUNE 2010

	Issued Capital	Accumulated Losses	Share Based Payments	Total
	$	$	$	$
CONSOLIDATED				
At 1 July 2008	8,338,196	(3,143,778)	1,491,389	6,685,807
Loss for the year	-	(4,213,071)	-	(4,213,071)
Share based payments	-	-	414,638	414,638
Expense of share based payments	-	-	(2,010)	(2,010)
Issue of share capital	1,045,019	-	-	1,045,019
At 30 June 2009	9,383,215	(7,356,849)	1,904,017	3,930,383
At 1 July 2009	9,383,215	(7,356,849)	1,904,017	3,930,383
Loss for the year	-	(3,495,594)	-	(3,495,594)
Share based payments	-	-	1,487,903	1,487,903
Expense of share based payments	-	-	(2,010)	(2,010)
Issue of share capital	1,706,305	-	-	1,706,305
Transaction costs	(108,077)	-	-	(108,077)
At 30 June 2010	10,981,443	(10,852,443)	3,389,910	3,518,910

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated 2010 $	Consolidated 2009 $
Cash flows from operating activities			
Other payments to suppliers and employees		(754,792)	(718,943)
Payments for exploration expenditure		(2,132,558)	(1,448,848)
Interest received		206,190	211,525
Net cash (outflow) from operating activities	24	(2,681,160)	(1,956,266)
Cash flows from investing activities			
Payments for the purchase of plant and equipment		(537)	(44,578)
Proceeds from the sale of plant and equipment		-	35,909
Payments for the purchase of controlled entity	24 (b)	-	(400,000)
Net cash (outflow) from investing activities		(537)	(408,669)
Cash flows from financing activities			
Proceeds from issue of shares		1,706,305	-
Payment for share issue costs		(108,077)	-
Option issues transaction costs		(2,011)	(6,780)
Net cash inflow/(outflow) from financing activities		1,596,217	(6,780)
Net (decrease) in cash held		(1,085,480)	(2,371,715)
Cash at the beginning of the financial year		4,102,175	6,473,890
Cash at the end of the financial year	7	3,016,695	4,102,175

The accompanying notes form part of these financial statements

NOTE 1: BASIS OF PREPARATION

This financial report of Desert Energy Limited (‘the Company’) for the year ended 30 June 2010 covers the Company and its subsidiaries (collectively referred to as the ‘Consolidated’ or ‘Group’).

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

The financial report was authorised for issue on 23 September 2010.

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The following is a summary of the significant accounting policies adopted by the Group in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

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 Energy Limited at the end of the reporting period. A controlled entity is any entity over which Desert Energy Limited has the power 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 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 shown 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 Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(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 Company'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

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company.

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

(g) Business combination

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) Cash and cash equivalents

For the purpose of the statement 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.

(j) 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.

(k) Equity based payments

The company 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 Company 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).

At each subsequent reporting date until vesting , the cumulative charge to the statement of comprehensive income reflects:
(i) the grant date fair value of the options;
(ii) 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
(iii) 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.

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

(k) Equity based payments *(continued)*

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.

(l) 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%

(m) Impairment of assets

At each reporting date the Company 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 income statement. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(n) 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.

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

(o) 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 model, detailed in note 14. 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.

(p) 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 Australian Accounting Standards Board (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, except as noted below.

AASB 3 Business Combinations (revised 2008) and AASB 127 Consolidated and Separate Financial Statements (revised 2008)
AASB 3 (revised 2008) introduces significant changes in the accounting for business combinations occurring after 1 July 2009. Changes affect the valuation of non-controlling interests (previously "minority interests"), the accounting for transaction costs, the initial recognition and subsequent measurement of contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period when an acquisition occurs and future reported results.

AASB 127 (revised 2008) requires that a change in the ownership interest of a subsidiary (without a change in control) is to be accounted for as a transaction with owners in their capacity as owners. Therefore such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss in the statement of comprehensive income. Furthermore the revised Standard changes the accounting for losses incurred by a partially owned subsidiary as well as the loss of control of a subsidiary. The changes in AASB 3 (revised 2008) and AASB 127 (revised 2008) will affect future acquisitions, changes in, and loss of control of, subsidiaries and transactions with non-controlling interests. The change in accounting policy was applied prospectively and had no material impact on earnings per share.

AASB 8 Operating Segments
The group has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting*. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has not resulted in an increase in the number of reportable segments presented. There has been no change to the way goodwill is allocated. There has been no other impact on the measurement of the company's assets and liabilities and no restatement of 2009 comparatives has been necessary.

AASB 101 Presentation of Financial Statements
The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The group has elected to present one statement.

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

New accounting standards for application in future periods

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The Company's assessment of these new standards and interpretations is set out below:

New/revised pronouncement	*Superseded pronouncement*	*Explanation of amendments*	*Effective date (i.e. annual reporting periods ending on or after)*	*Impact of new standard on the financial report*	*Likely impact*
Accounting Standards					
AASB 9 Financial Instruments AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9	AASB 139 Financial Instruments: Recognition and Measurement (part)	AASB 9 introduces new requirements for the classification and measurement of financial assets. AASB 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in AASB 139 and removes the impairment requirement for financial assets held at fair value.	31 December 2013	AASB 9 amends the classification and measurement of financial assets; the effect on the entity will be that more assets are held at fair value and the need for impairment testing has been limited to assets held at amortised cost only.	Unlikely to have significant impact.
AASB 124 Related Party Disclosures AASB 2009-12 Amendments to Australian Accounting Standards arising from AASB 124.	AASB 124 Related Party Disclosures	This revision amends the disclosure requirements for government related entities and the definition of a related party.	31 December 2011	Since the entity is not a government related entity; there is not expected to be any changes arising from this standard.	Unlikely to have significant impact.
AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	N/a	Makes various amendments to a number of standards and interpretations in line with the IASB annual improvements project.	31 December 2010	Unlikely to have significant impact on the financial report.	Unlikely to have significant impact.
AASB 2009-9 Amendments to Australian Accounting Standards – Additional Exemptions for First-time Adopters	AASB 1 First Time adoption of Australian Equivalents to International Financial Reporting Standards (June 2007)	AASB 2009-9 makes amendments to ensure that entities applying Australian Accounting Standards for the first time will not face undue cost or effort in the transition process in particular situations.	31 December 2010	As this is not the first year of adoption of IFRSs, these amendments will not have any impact on the entity's financial report	No impact for entities who are applying IFRS.
AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues	AASB 132 Financial Instruments: Presentation	AASB 2009-10 makes amendments which clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all existing owners of the same class of its non-derivative equity instruments.	31 January 2011	As the entity does not have any rights, options or warrants to acquire their own equity instruments, these amendments will not have any impact on the entity's financial report.	Unlikely to have significant impact.

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

New/revised pronouncement	*Superseded pronouncement*	*Explanation of amendments*	*Effective date (i.e. annual reporting periods ending on or after)*	*Impact of new standard on the financial report*	*Likely impact*
AASB 2009-13 Amendments to AASB 1 arising from Interpretation 19	Interpretation 19	This standard amends AASB 1 to allow a first-time adopter to use the transitional provisions in Interpretation 19.	30 June 2011	As the entity is not a first-time adopter of IFRS, this standard will not have any impact.	Unlikely to have significant impact.
AASB 2010-01 Limited exemption from comparative AASB 7 disclosures for first time adopters (Amendments to AASB 1 and AASB 7)	AASB 1: First-time adoption of Australian Accounting Standards AASB 7 Financial instruments: Disclosures	These amendments principally give effect to extending the transition provisions of AASB 2009-2 Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments to first-time adopters of Australian Accounting Standards.	30 June 2011	As the entity is not a first-time adopter of IFRS, this standard will not have any impact.	No impact.
IFRS Annual Improvements 2010 (May 2010)	Various	Makes various amendments to a number of standards and interpretations.	Application dates either 30 June 2011 or 31 December 2011.	Unlikely to have significant impact on the financial report.	Unlikely to have significant impact.
Australian Accounting Interpretations					
Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	N/A	This interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. These transactions are sometimes referred to as 'debt for equity swaps'.	30 June 2011	As the entity has not renegotiated any financial liabilities into equity instruments this interpretation is not expected to have any impact on the entity's financial report.	Unlikely to have significant impact.
AASB 2009-14 Prepayments of a Minimum Funding Requirement (Amendments to Interpretation 14)	N/A	This amendment to Interpretation 14 addresses the unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan.	31 December 2011	As the entity does not have a defined benefit pension plan this amendment to Interpretation 14 is not expected to have any impact on the entity's financial report.	No impact.

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.

NOTE 3: FINANCIAL RISK MANAGEMENT (*continued*)

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 as at the year end was 4.45% (2009: 4.82%).

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. Whilst this analysis reflects the effect of a 1% decline in interest rates recent Australian Treasury announcements and press reports would indicate a further downward movement in interest rates of the magnitude to be unlikely over the next twelve months.

Financial Assets	**Carrying amount of cash assets of the Group**	**Effect of decrease or increase of interest rate on profit and equity of the Group**			
		-1%		**+1%**	
		Profit	**Equity**	**Profit**	**Equity**
	$	$	$	$	$
CONSOLIDATED					
30 June 2010					
Cash & cash equivalents	3,016,695	(30,167)	(30,167)	30,167	30,167
Total increase/decrease					
30 June 2009					
Cash & cash equivalents	4,102,175	(41,022)	(41,022)	41,022	41,022
Total increase/decrease					

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

	2010 $	2009 $
	Consolidated	
Trade and other receivables	312,051	251,803
Cash and cash equivalents	3,016,695	4,102,175

Fair value estimates

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

NOTE 3: FINANCIAL RISK MANAGEMENT (*continued*)

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	
	2010	**2009**
	$	**$**
NOTE 4: REVENUE		
Interest income	144,322	258,801
Other income	3,591	-
Gain/(loss) disposal of plant	-	(5,405)
	147,913	253,396
NOTE 5: EXPENSES		
Loss before income tax expense includes the following specific expenses:		
Depreciation	81,323	85,772
Share based compensation	1,487,903	414,638
Less: capitalised to exploration	(765,645)	(85,666)
	803,581	414,744
Consulting & labour hire	301,889	343,773
Facility charges	84,000	72,000
Insurance & legal	41,238	60,679
ASX , ASIC and related fees	43,094	32,558
Expense arising from alleged misappropriation of funds	258,915	-
Other expenses	74,752	150,254
	1,607,469	1,074,008

NOTE 6: INCOME TAX

(a) Reconciliation of income tax to operating loss

The aggregate amount of income tax attributable to the financial period is reconciled to the operating loss as follows:

	2010	2009
Loss before income tax	(3,495,594)	(4,213,071)
Income tax calculated at 30% (2009 – 30%)	(1,048,678)	(1,263,921)
Tax effect of amounts which are taxable / (deductible) in calculating taxable income		
Entertainment	-	193
Option based remuneration	241,043	124,391
Capital raising costs recognized in equity	(35,368)	(28,763)
Under-provision in prior year	-	33,560
Tax loss and temporary differences not brought to account	843,004	1,134,540
Income tax expense	-	-

	Consolidated 2010 $	2009 $

NOTE 6: INCOME TAX *(continued)*

(b) 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 a tax rate of 30% are made up as follows:

	2010 $	2009 $
Deferred tax assets at 30% (2009 – 30%)		
Carry forward losses	2,562,195	1,726,008
Temporary differences	(11,378)	(18,195)
	2,550,817	1,707,813

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.

NOTE 7: CASH AND CASH EQUIVALENTS

	2010 $	2009 $
Cash at bank	3,016,695	4,102,175
	3,016,695	4,102,175

NOTE 8: TRADE AND OTHER RECEIVABLES

	2010 $	2009 $
CURRENT		
Bond	225,206	97,178
Interest receivable	13,236	75,102
Amount receivable from ultimate parent entity	-	2,837
GST receivable	34,188	61,144
Others	39,421	15,542
	312,051	251,803

NOTE 9: OTHER CURRENT ASSETS

	2010 $	2009 $
Prepayments	56,437	9,716
	56,437	9,716

NOTE 10: PLANT AND EQUIPMENT

	Consolidated 2010 $	Consolidated 2009 $
Office furniture and equipment – at cost	4,101	4,101
Accumulated depreciation	(2,109)	(1,288)
	1,992	2,813
Field equipment – at cost	63,623	63,086
Accumulated Depreciation	(26,701)	(15,608)
	36,922	47,478
Motor vehicles and mobile equipment – at cost	316,643	316,642
Accumulated depreciation	(161,050)	(91,639)
	155,593	225,003
Total plant and equipment	194,507	275,294

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 2009	2,813	47,478	225,003	275,294
Additions during the year	-	536	-	536
Depreciation expense	(821)	(11,092)	(69,410)	(81,323)
Carrying amount at 30 June 2010	1,992	36,922	155,593	194,507
Carrying amount at 1 July 2008	3,632	58,562	323,905	386,099
Additions during the year	-	-	16,281	16,281
Disposals during the year	-	-	(41,314)	(41,314)
Depreciation expense	(819)	(11,084)	(73,869)	(85,772)
Carrying amount at 30 June 2009	2,813	47,478	225,003	275,294

NOTE 11: DEFERRED EXPLORATION AND EVALUATION COSTS

	2010 $	2009 $
Balance at beginning of period	-	-
Exploration and evaluation costs incurred	2,036,038	3,392,459
Exploration and evaluation costs written off	(2,036,038)	(3,392,459)
Balance at end of year	-	-

NOTE 12: CONTROLLED ENTITY

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

	Consolidated 2010 $	2009 $
NOTE 13: CURRENT TRADE AND OTHER PAYABLES		
Amount payable to ultimate parent entity	41,880	669,637
Accruals and other creditors	18,900	38,968
	60,780	708,605
NOTE 14: ISSUED CAPITAL		
99,760,643 (2009: 89,735,421) fully paid ordinary shares	10,981,443	9,383,215

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 2010	Number 2009	$ 2010	$ 2009
At the beginning of the period	89,735,421	82,271,001	9,383,215	8,338,196
Placement	10,000,000	-	1,700,000	-
Issue of share for acquisition of Dawn Metals Limited (refer 24 (c))	-	7,464,420	-	1,045,019
Costs of share placement	-	-	(108,077)	-
Exercise of loyalty options	25,222	-	6,305	-
At reporting date	99,760,643	89,735,421	10,981,443	9,383,215

(b) Options

Options to take up fully paid ordinary fully paid shares in the Company at 30 June 2010 are as follows:

Number of Options	Listed/Unlisted	Exercise Price	Expiry Date
7,500,000	Unlisted	$0.34017	31 October 2014
3,375,000	Unlisted	$0.34017	30 November 2010
7,500,000	Unlisted	$0.50	22 November 2015
8,000,000	Unlisted	$0.40	17 May 2017
500,000	Unlisted	$0.38	30 April 2011
2,050,000	Unlisted	$0.50	22 December 2011
1,800,000	Unlisted	$0.30	30 June 2013
13,450,000	Unlisted	$0.40	17 September 2014
2,000,000	Unlisted	$0.372	30 November 2010
1,000,000	Unlisted	$0.34	31 October 2013
10,000,000	Unlisted	$0.40	22 June 2017
562,500	Unlisted	$0.31	30 November 2012
330,000	Unlisted	$0.35	31 May 2013
630,000	Unlisted	$0.35	30 November 2012

NOTE 14: ISSUED CAPITAL *(continued)*

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.

Movements in options

Date of Issue	Details	Number of Options	Exercise Price Per Share $	Expiry Date
2010				
01/07/2009	Balance	45,339,200		
01/07/2009	Issue of consultant options	1,800,000	$0.30	30 June 2013
10/11/2009	Issue of employee options	1,000,000	$0.34	31 October 2013
30/04/2010	Expiry of loyalty options	(20,566,700)	$0.25	30 April 2010
17/06/2010	Issue of consultant options	8,000,000	$0.40	17 May 2017
17/06/2010	Issue of Consultant options	13,450,000	$0.40	17 September 2014
22/06/2010	Issue of options (Camel Hills JV)	10,000,000	$0.40	22 June 2017
30/06/2010	Cancellation of consultant options	(325,000)	$0.34	30 November 2010
		58,697,500		
2009				
01/07/2008	Balance	35,406,700		
25/07/2008	Issue of employee options	780,000	$0.35	30 November 2012
27/07/2008	Issue of employee options	30,000	$0.35	31 May 2013
25/11/2008	Cancellation of employee options	(250,000)	$0.35	31 May 2013
25/11/2008	Cancellation of employee options	(177,500)	$0.31	30 November 2012
29/12/2008	Issue of director options	7,500,000	$0.50	22 November 2015
29/12/2008	Issue of consultant options	2,050,000	$0.50	22 December 2011
		45,339,200		

Movements in Options Reserve

Date	Details	Number of Options	Consideration /Value $	Amount $
2010				
01/07/2009	Balance	45,339,200		1,904,017
01/07/2009	Issue of consultant options	1,800,000	$0.069	123,315
10/11/2009	Issue of employee options	1,000,000	$0.068	68,337
30/04/2010	Expiry of loyalty options	(20,566,700)		-
17/06/2010	Issue of consultant options	8,000,000	$0.068	543,915
17/06/2010	Issue of consultant options	13,450,000	$0.048	9,614
22/06/2010	Issue of options to Aurora Minerals	10,000,000	$0.068	684,428
30/06/2010	Cancelled consultant options	(325,000)		-
	Employee option expenses from options issued in prior years	-		58,294
	Less: cost of options issues	-		(2,010)
		58,697,500		3,389,910

NOTE 14: ISSUED CAPITAL *(continued)*

Movements in Options Reserve (continued)

Date	Details	Number of Options	Consideration /Value $	Amount $
2009				
01/07/2008	Balance	35,406,700		1,491,389
25/07/2008	Issue of employee options	780,000	$0.192	68,668
25/07/2008	Issue of employee options	30,000	$0.155	2,995
25/11/2008	Cancelled employee options	(250,000)	$0.075	(18,392)
25/11/2008	Cancelled employee options	(177,500)	$0.192	-
29/12/2008	Issue of director options	7,500,000	$0.028	211,295
29/12/2008	Issue of consultant options	2,050,000	$0.007	15,357
	Employee option expenses from options issued in prior years			134,715
	Less: cost of options issues			(2,010)
		45,339,200		1,904,017

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

The Company has issued consultant options to three directors of the Company on one occasion during the year. Consultant options and employee options were issued on three 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
2010					
Director					
(i) Mr P Jackson	2,000,000	17 June 2010	$0.068	$0.40	17 May 2017
(i) Mr R Taylor	3,000,000	17 June 2010	$0.068	$0.40	17 May 2017
(i) Mr G O'Hara	3,000,000	17 June 2010	$0.068	$0.40	17 May 2017
Specified Executives					
(ii) Mr P Ruttledge	150,000	1 July 2009	$0.069	$0.30	30 June 2013
(i) Mr P Ruttledge	450,000	17 June 2010	$0.048	$0.40	17 September 2014
(iii) Mr J Jordan	1,000,000	10 Nov 2009	$0.068	$0.34	31 October 2013
(i) Mr J Jordan	2,250,000	17 June 2010	$0.048	$0.40	17 September 2014
(ii) Mr E Moore	100,000	1 July 2009	$0.069	$0.30	30 June 2013
(i) Mr E Moore	1,500,000	17 June 2010	$0.048	$0.40	17 September 2014
(ii) Mr K Banks	100,000	1 July 2009	$0.069	$0.30	30 June 2013
(i) Mr K Banks	3,000,000	17 June 2010	$0.048	$0.40	17 September 2014
(ii) Mr G Watkins	500,000	1 July 2009	$0.069	$0.30	30 June 2013
(i) Mr G Watkins	1,500,000	17 June 2010	$0.048	$0.40	17 September 2014
Non Specified Contractors					
(ii) Other	950,000				
(i) Other	4,750,000				
	24,250,000				

(i) The exercise price equates to the average market price of the Desert Energy Limited fully paid ordinary shares for the 5 trading days prior to the date of issue of the options plus 45% of that price, or 40 cents, whichever is the greater.

(ii) The exercise price was set at 30 cents.

(iii) The exercise price equates to the market price of the Desert Energy Limited fully paid ordinary shares as the date of issue of the options plus 100% of that price, or 34 cents, whichever is the greater.

NOTE 14: ISSUED CAPITAL *(continued)*

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

	Number Granted	Grant Date	Value of Option at Grant Date	Exercise Price	Expiry Date
2009					
Director					
*Mr P Jackson	1,500,000	15 December 2008	$0.028	$0.50	22 November 2015
*Mr R Taylor	3,000,000	15 December 2008	$0.028	$0.50	22 November 2015
*Mr G O'Hara	3,000,000	15 December 2008	$0.028	$0.50	22 November 2015
Specified Executives					
*Mr E Moore	700,000	15 December 2008	$0.007	$0.50	22 December 2011
Non Specified Contractors					
*Other	1,350,000	15 December 2008	$0.007	$0.50	22 December 2011
	9,550,000				

*The exercise price equates to the market price of the Desert Energy Limited fully paid ordinary share price at the date of grant, plus 100.1%, or 50 cents, whichever is the greater. Options vested immediately. All options were granted for nil consideration.

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

The Desert Energy Limited Employee Option Plan ("EOP") was approved at the Company'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 Company is at the discretion of the Board. Each option is to subscribe for one fully paid ordinary share in the Company 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.

Details of options issued as part of the EOP during the financial year are as follows:

Grant Date	Vesting Date	Expiry Date	Exercise Price	Value of Option at Grant Date	Granted during Year
*10/11/09	10/11/09	31/10/13	$0.34	$0.068	1,000,000

*The exercise price was set at market price on date of issue, plus 100%, or 34 cents, whichever is the greater. All of the options vested on grant date.

NOTE 14: ISSUED CAPITAL *(continued)*

(e) Fair Value

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

The following table sets out the assumptions made in determining the fair value of the options granted during the year ended 30 June 2010.

2010	Options Granted July 2009	Options Granted Nov 2009	Options Granted June 2010 (1)	Options Granted June 2010 (2)	Options Granted June 2010 (3)
Expected volatility (%)	98	100	97	97	97
Risk free interest rate (%)	4.00	5.11	5.04	5.36	5.33
Weighted average expected life of options (years)	4.05	4.97	4.26	6.92	7.02
Option exercise price (cents)	30.0	34.0	40.0	40.0	40.0
Share price at grant date (cents)	12.5	12.5	10.0	10.0	10.0
Vesting date (100%)	01/07/09	10/11/09		17/06/10	17/06/10
Vesting date (33.3%)			22/12/11		
Vesting date (33,3%)			30/06/13		
Vesting date (33.3%)			17/06/14		

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

2009	Options Granted July 2008	Options Granted July 2008	Options Granted Nov 2008 (1)	Options Granted Nov 2008 (2)
Expected volatility (%)	70	70	75	70
Risk free interest rate (%)	6.57	6.57	6.25	6.25
Weighted average expected life of options (years)	4.83	4.83	6.1	3
Option exercise price (cents)	35.00	35.00	50.00	50.00
Share price at grant date (cents)	25.0	25.0	7.00	7.00
Vesting date (50%)	30/06/09	31/05/09	15/12/08	15/12/08
Vesting date (50%)	30/06/10	31/05/10		

(1) Options issued to Directors
(2) 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.

NOTE 15: 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 Energy Limited at any time during the financial year are as follows:

Key Management Personnel

P S R Jackson	Chairman (Non-Executive)
R S Taylor	Executive Director
G P O'Hara	Executive Director – resigned 7 July 2010
M J Pyle	Executive Director – appointed 6 May 2010
K Banks	Investor Relations & Corporate Finance Manager
J Jordan	Chief Operating Officer
G Watkins	Operations & Logistics Manager
E G Moore	General Manager
P C Ruttledge	Company Secretary

(b) Key management personnel remuneration

	Consolidated	
	2010	**2009**
	$	$
Short-term personnel benefits	473,169	370,650
Share based payments	686,453	249,770
Other benefits	-	-
	1,159,622	620,420

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

2010	**Balance 01/07/2009**	**Received as Remuneration**	**Purchased during Period**	**Sold during Period**	**Options Exercised**	**Balance 30/06/2010**
Garry O'Hara	-	-	-	-	-	-
Robert Taylor	100,000	-	-	-	-	100,000
Phillip Jackson	1,160,250	-	-	-	-	1,160,250
Martin Pyle	-	-	-	-	-	-
Peter Ruttledge	147,875	-	-	-	-	147,875
Ken Banks	186,350	-	-	83,350	-	103,000
John Jordan	290,000	-	-	-	-	290,000
Guy Watkins	-	-	-	-	-	-
Eric Moore	200,000	-	-	-	-	200,000

2009	**Balance 01/07/2008**	**Received as Remuneration**	**Purchased during Period**	**Sold during Period**	**Options Exercised**	**Balance 30/06/2009**
Garry O'Hara	-	-	-	-	-	-
Robert Taylor	100,000	-	-	-	-	100,000
Phillip Jackson	1,160,250	-	-	-	-	1,160,250
Peter Ruttledge	147,875	-	-	-	-	147,875
Guy Watkins	-	-	-	-	-	-
Eric Moore	200,000	-	100,000	(100,000)	-	200,000

NOTE 15: KEY MANAGEMENT PERSONNEL COMPENSATION *(continued)*

(d) 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.

2010	Balance 01/07/2009	Received as Remuneration	*Net Change Other	Options Exercised	Balance 30/06/2010
Share Options					
Garry O'Hara	6,000,000	3,000,000	-	-	9,000,000
Robert Taylor	6,025,000	3,000,000	(25,000)	-	9,000,000
Phillip Jackson	3,290,062	2,000,000	(290,062)	-	5,000,000
Martin Pyle	-	-	-	-	-
Peter Ruttledge	35,831	600,000	(35,831)	-	600,000
Ken Banks	2,000,000	3,100,000	-	-	5,100,000
John Jordan	-	3,250,000	-	-	3,250,000
Guy Watkins	500,000	2,000,000	-	-	2,500,000
Eric Moore	1,200,000	1,600,000	-	-	2,800,000

*Net Change Other relates to the expiry of loyalty options during the financial year.

2009	Balance 01/07/2008	Received as Remuneration	*Net Change Other	Options Exercised	Balance 30/06/2009
Share Options					
Garry O'Hara	3,000,000	3,000,000	-	-	6,000,000
Robert Taylor	3,025,000	3,000,000	-	-	6,025,000
Phillip Jackson	1,790,062	1,500,000	-	-	3,290,062
Peter Ruttledge	35,831	-	-	-	35,831
Guy Watkins	500,000	-	-	-	500,000
Eric Moore	550,000	700,000	(50,000)	-	1,200,000

*Net Change Other relates to the sale of loyalty options during the financial year.

NOTE 16: REMUNERATION OF AUDITORS

	Consolidated	
	2010 $	2009 $
Audit or review services	24,000	16,000
	24,000	16,000

NOTE 17: CONTINGENCIES

Contingent Liabilities

There were no contingent liabilities for termination benefits under service agreements with Directors or executives at 30 June 2010.

The Directors are not aware of any other contingent liabilities at 30 June 2010.

NOTE 18: 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 Industry and Resources are:

	2010	2009
Exploration commitments		
Within 1 year	1,200,000	2,776,000
Exploration commitments contracted from arising from interest in Joint Ventures		
Within 1 year	1,500,000	-
Within 1 to 5 years	2,300,000	-
Total	3,800,000	-

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.

The details of the joint ventures are detailed in Note 19 below.

Consultancy Agreements

In the event that the Company 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 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 Company would be $205,001 (2009: $84,167).

NOTE 19 – INTEREST IN JOINT VENTURES

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

Joint Venture	Interest	Activity	Other Party
Camel Hills Joint Venture	0%	Mineral Exploration	Aurora Minerals Limited

Desert Energy Limited, a subsidiary of Aurora Minerals Limited, 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. Desert's interest may be increased to 70% by sole funding a bankable feasibility study. That interest may increase to 75% if Aurora elects not to contribute towards the cost of the feasibility study.

NOTE 20: RELATED PARTIES

(a) Controlled Entity

As at 30 June 2010, the Company is a 47.58% controlled entity of Aurora Minerals Limited, which is the ultimate parent entity.

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

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

NOTE 21: PARENT ENTITY DISCLOSURES

(a) Financial Position

	2010 $	2009 $
Assets		
Current assets	3,386,721	4,363,694
Non-current assets	194,507	275,294
Total assets	3,581,228	4,638,988
Liabilities		
Current liabilities	60,780	708,605
Total liabilities	60,780	708,605
Equity		
Issued capital	10,981,443	9,383,215
Reserves	3,389,910	1,904,017
Retained earnings	(10,850,905)	(7,356,849)
Total equity	3,520,448	3,930,383
Financial Performance		
Loss for the year	(3,494,056)	(4,213,071)
Other comprehensive income	-	-
Total comprehensive loss for the year	(3,494,056)	(4,213,071)

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

Desert Energy 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 2010 or 30 June 2009.

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

As at 30 June 2010 (30 June 2009 – $Nil), the parent entity did not have any contractual commitments for the acquisition of property, plant or equipment.

NOTE 22: EVENTS OCCURRING AFTER REPORTING DATE

On 24 August 2010 Desert Energy Limited advised the Australian Securities Exchange that it had become aware that funds were, during the period February 2009 to October 2009, drawn without proper authority from its bank accounts and has subsequently commenced legal action against a former consultant seeking return of those funds.
The amount of Desert's claim is $360,782. The Company has informed the Western Australian Police, who are conducting an investigation

On 2 September 2010, the Company approved and authorised the grant and issue of 3,000,000 consultant options, with a term of 4 years to a director related company.

Other than the above, there are no matters or circumstances which have arisen since the end of the financial year that have significantly affected the operations of the Company or the results of those operations or the state of affairs of the Company, 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 Company, in subsequent financial years.

NOTE 23: 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.

No operating revenue was derived during the year (2009 – nil).

All the assets are located in Australia only. Segment assets are allocated to countries based on where the assets are located.

NOTE 24: STATEMENT OF CASH FLOWS

	Consolidated	
	2010	**2009**
	$	**$**
(a) Reconciliation of loss after income tax to net cash flow from operating activities		
Operating loss after income tax	(3,495,594)	(4,213,071)
Loss on disposal of investments	-	5,405
Share based payment	1,487,903	414,638
Impairment of exploration activities	-	1,445,019
Depreciation expense	81,323	85,772
Movement in assets and liabilities:		
Receivables	(73,039)	6,167
Payables	(681,753)	299,804
Net cash outflow from operating activities	(2,681,160)	(1,956,266)

(b) Acquisition of controlled entities

On 11 June 2009, shareholder approval was granted for the Company to acquire 100% of all of the issued shares in Dawn Metals Limited, a 100% owned subsidiary of Aurora Minerals Limited. The acquisition consideration comprised:

- the issue of 7,464,420 ordinary shares at 14 cents each; and
- cash consideration of $400,000.

	$
The purchase price was allocated as follows:	
Fair value of securities	1,045,019
Cash consideration	400,000
	1,445,019
Assets and liabilities acquired at acquisition date:	
Exploration and evaluation expenditure – fair value of mineral properties acquired	1,445,019
	1,445,019
The cash outflow on acquisitions is as follows:	
Net cash acquired with subsidiary	-
Cash paid	400,000
	400,000

The assets and liabilities arising from the acquisition are recognised at fair value, which, in accordance with the Company's policy on exploration and evaluation expenditure, has been written off to the statement of comprehensive income.

NOTE 24: STATEMENT OF CASHFLOWS *(continued)*

(c) Non-cash financing and investing activities

Purchase consideration paid for the purchase of Dawn Metals Limited included the issue of 7,464,420 fully paid ordinary shares. Refer to note (b) above for further information.

(d) Credit standby arrangements

The Company has no credit standby arrangements.

NOTE 25: EARNINGS PER SHARE

	Consolidated	
	2010 **$**	**2009** **$**
Basic loss per share (cents per share)	(3.75)	(5.12)
Diluted loss per share (cents per share)	(3.75)	(5.12)
Reconciliation of loss		
Loss used in calculating earnings per share – basic and diluted	(3,495,594)	(4,213,071)
Net loss for the reporting period	(3,495,594)	(4,213,071)
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic and diluted earnings per share	93,145,410	82,291,508

The Directors of the Company declare that:

1. the financial statements and notes, as set out within this financial report, are in accordance with the Corporations Act 2001 and:
   (a) comply with Accounting Standards, including the Interpretations and the Corporations Regulations 2001; and
   (b) gives a true and fair view of the financial position as at 30 June 2010 and of the performance for the year ended on that date, of the group.
2. the financial statements and notes thereto also comply with International Financial Reporting Standards, as disclosed in Note 1; and
3. the Directors have been given the declarations required by s.295A of the Corporations Act 2001.
4. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

Signed in accordance with a resolution of the Directors made pursuant to s.295(5) of the Corporations Act 2001.

R S Taylor

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DIRECTOR

Perth, 23 September 2010

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**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
DESERT ENERGY LIMITED**

Report on the Financial Report

We have audited the accompanying financial report of Desert Energy Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies, other explanatory notes 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the consolidated financial statements and notes, complies 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 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.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion:

(a) the financial report of Desert Energy 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 2010 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) 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 which is included within the directors' report for the financial year ended 30 June 2010. 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.

Auditor's Opinion

In our opinion the Remuneration Report of Desert Energy Limited for the financial year ended 30 June 2010 complies with section 300A of the *Corporations Act 2001*.

Rsm Bird Cameron Partners

RSM BIRD CAMERON PARTNERS
Chartered Accountants

TUTU PHONG
Partner

Perth, WA
Dated: 23 September 2010

RSM Bird Cameron Partners
Chartered Accountants

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Desert Energy Limited for the year ended 30 June 2010, 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
Chartered Accountants

Perth, WA
Dated: 23 September 2010

TUTU PHONG
Partner