



7 May 2008

The Manager
Announcements
Company Announcements Office
ASX Limited
PO Box H224 Australia Square
SYDNEY NSW 2000

Dear Sir

APPENDIX 3B

Please find attached an Appendix 3B relating to the issue of Consultant Options in accordance with the Desert Energy Limited Employee Option Plan approved at the Company's Annual General Meeting in November 2007.

Yours faithfully

Peter Rutledge
Company Secretary

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- 30 April 2011 |
| 2 | Number of +securities issued or to be issued (if known) or maximum number which may be issued | 500,000- 30 April 2011 |
| 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: 38 cents Exercisable: 500,000 Options exercisable by 30 April 2011, with 50% vesting on 30 April 2009, and the remaining 50% vesting on 30 April 2010. Full Terms are attached in Annexure to this Appendix 3B |

+ See chapter 19 for defined terms.

Appendix 3B
New issue announcement

| <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, are not listed and are not transferable.</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 500,000 Options to Eligible Persons under the Desert Energy Employee Option Plan as an incentive component of their remuneration.</p> | | | | | | |
| <p>7 Dates of entering ⁺securities into uncertificated holdings or despatch of certificates</p> | <p>7 May 2008</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 data-bbox="686 1411 989 1467">Number</th> <th data-bbox="989 1411 1291 1467">⁺Class</th> </tr> </thead> <tbody> <tr> <td data-bbox="686 1467 989 1512">82,271,001</td> <td data-bbox="989 1467 1291 1512">Ordinary Shares</td> </tr> <tr> <td data-bbox="686 1512 989 1693">20,566,700</td> <td data-bbox="989 1512 1291 1693">Options expiring 30 April 2010 exercisable at 25 cents</td> </tr> </tbody> </table> | Number | ⁺ Class | 82,271,001 | Ordinary Shares | 20,566,700 | Options expiring 30 April 2010 exercisable at 25 cents |
| Number | ⁺ Class | | | | | | |
| 82,271,001 | Ordinary Shares | | | | | | |
| 20,566,700 | Options expiring 30 April 2010 exercisable at 25 cents | | | | | | |

+ See chapter 19 for defined terms.

| | Number | +Class |
|---|--|--|
| 9 Number and +class of all +securities not quoted on ASX (including the securities in clause 2 if applicable) | 3,700,000 | 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 |
| | 740,000 | Options- exercisable at 31 cents by 30 November 2012 |
| | 500,000 | Options- exercisable at 38 cents by 30 April 2011 |
| 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- N/A

| | |
|---|-----|
| 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 |

+ See chapter 19 for defined terms.

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New issue announcement

| | | |
|----|---|-----|
| 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 |

+ See chapter 19 for defined terms.

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- 31 How do +security holders sell *part* 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)

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)

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| | | | |
|-----|--|--------|--------|
| 38 | Number of securities for which +quotation is sought | N/A | |
| 39 | Class of +securities for which quotation is sought | N/A | |
| 40 | <p>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 | N/A | |
| 41 | <p>Reason for request for quotation now</p> <p>Example: In the case of restricted securities, end of restriction period</p> <p>(if issued upon conversion of another security, clearly identify that other security)</p> | N/A | |
| 42 | Number and +class of all +securities quoted on ASX (including the securities in clause 38) | Number | +Class |
| N/A | | | |

+ See chapter 19 for defined terms.

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 May 2008
Company secretary

Print name: Peter Rutledge.....

+ See chapter 19 for defined terms.

TERMS AND CONDITIONS OF EMPLOYEE OPTIONS TO BE ISSUED TO GUY WATKINS UNDER DESERT ENERGY LTD EMPLOYEE OPTION PLAN

The Employee Options are issued in accordance with the Desert Energy Employee Option Plan (“**Plan**”) will entitle the optionholder to subscribe for Shares in the Company on the following terms:

(a) Employee Option Plan

All the Employee Options are issued pursuant to the Plan and in the event of any inconsistency between the terms set out below and the Plan, the Plan will prevail and have effect to the extent of the inconsistency. The Relevant Person is deemed to be, and accepted as, an “Eligible Person” for the purposes of the Plan and will continue to be deemed to be, and accepted as, an “Eligible Person” while he continues to provide his services to the Company on a full or part time basis, whether as a direct employee of the Company or by virtue of any arrangement whereby the Relevant Person’s services are provided to the Company by another company which employs or provides the services of the Relevant Person.

(b) Issue Price and Exercise price

Each Employee Option is issued for nil consideration.

Each Employee 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 of 38 cents (“the Exercise Price”).

(c) Expiry date

Subject to the provisions herein which provide for Employee Options to lapse earlier in certain circumstances, the Employee Options will expire on the Expiry Date.

(d) Certificate

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

(e) Employee Options not listed

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

(f) Employee Options not transferable

The Employee Options are not transferable except with the consent of the Board or as permitted in clause 14.5 of the Plan.

(g) Exercise

Except as otherwise permitted under clause 12 of the Plan, one half of the number of Employee Options issued to the optionholder are exercisable only on or after 30 April 2009 and the other half of the Employee Options issued to the option holder are exercisable only on or after 30 April 2010.

Subject to (m) below, the Employee Options may be exercised by notice in writing to the Company (“the Exercise Notice”), delivery of the Employee Option certificates and payment of the Exercise Price to the Company at any time between the date of First Exercise Date for those Employee Options and the Expiry Date (“the Exercise Period”). The Employee Options may be exercised in one or more lots in multiples of 10,000 on different occasions during the Exercise Period for those Employee Options. Within 5 business days of receipt of the “Exercise Notice” and Employee 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 Employee Options shall rank equally in all respects with the other issued fully paid shares in the Company.

(h) New share issue

If the Employee 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 Employee 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 Employee Options will be reorganized by the Company in accordance with the Listing Rules (including without limitation by the Company changing the number or exercise price for the Employee Options in such manner as may be required by the Listing Rules.)

(k) Change of Employee 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 Employee Options may be reduced according to the following formula:

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

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

O = the old exercise price of the Employee 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 Employee Options will be adjusted for bonus issues made prior to exercise of Employee Options. The effect will be that upon exercise of the Employee Options the number of shares received by the optionholder will include the number of bonus shares that would have been issued if the Employee Options had been

exercised prior to the record date for bonus issues. The exercise price of the Employee Options shall not change as result of any such bonus issue.

(l) Dividends

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

(m) Cessation of engagement of the Relevant Person.

In relation to the Relevant Person, the period from the date of issue of the Employee Options to such person or Nominee until the First Exercise Date is deemed a minimum period for the purposes of clause 14.3a) of the Plan such that if the Relevant Person ceases to be classified as an Eligible Person during such period all Employee Options issued to that Relevant Person or Nominee will lapse such that none of those Employee Options will be exercisable.

In the event that a Relevant Person ceases to be an Eligible Person after the First Exercise Date then some or all of the Employee Options issued to that Relevant Person or his Nominee may lapse or be subject to a shortened Exercise Period in accordance with the application of the provisions of Clause 14 of the Plan.

It is a condition of exercise of the Employee Options which are exercisable only on or after 30 April 2010 that the Relevant Person remain classified as an Eligible Person until 30 April 2010 such that if the Relevant Person ceases to be classified as an Eligible Person on or after 30 April 2009 but prior to 30 April 2010, then the Employee Options which would otherwise have been exercisable only on or after 30 April 2010 will lapse.

(n) Interpretation

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

“**ASX**” means the Australian Securities Exchange;

“**Board**” means the board of directors of the Company

“**Company**” means Desert Energy Limited ACN 123 102 974

“**Eligible Person**” will bear the same meaning as in the Plan.

“Employee Options” means the options the subject of these terms and conditions which are to be granted to the Relevant Person or their Nominee under the Plan

“Exercise Period” means the period referred to in clause (g).

“Expiry Date” means 30 April 2011;

“First Exercise Date” means: 30 April 2009;

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

“Nominee” means a Permitted Nominee as defined in the Plan;

“Plan” means the Desert Energy Limited Employee Option Plan as amended from time to time;

“Relevant Person” means Guy Watkins in relation to the Employee Options issued or to be issued to Guy Watkins or to his nominee;