



INTERIM FINANCIAL REPORT
FOR THE HALF-YEAR ENDED
31 DECEMBER 2010

DIRECTORS' REPORT	3
CONDENSED STATEMENT OF COMPREHENSIVE INCOME	6
CONDENSED STATEMENT OF FINANCIAL POSITION	7
CONDENSED STATEMENT OF CASHFLOWS	8
CONDENSED STATEMENT OF CHANGES IN EQUITY	9
NOTES TO THE FINANCIAL STATEMENTS	10
DIRECTORS' DECLARATION	13
INDEPENDENT AUDITOR'S REVIEW REPORT	14
AUDITOR'S INDEPENDENCE DECLARATION	16

Your directors submit their report for the half-year ended 31 December 2010.

DIRECTORS

The names of the Company's directors in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Mr Phillip Jackson (Chairman)

Dr Robert Taylor (Executive Director)

Mr Garry O'Hara (Executive Director (Resigned 7 July 2010))

Mr Martin Pyle (Executive Director)

RESULTS

The operating loss for the Company for the half-year ended 31 December 2010 was \$1,401,193 (2009: \$1,626,133), of which \$972,618 (2009: \$964,502) related to exploration expenditure expensed.

REVIEW OF OPERATIONS

Operations

During the six months to 31 December 2010, the Company progressed exploration over the Camel Hills Project. The Camel Hills Project covers part of the northwest margin of the Archaean Yilgarn Block and adjacent Errabiddy Shear Zone. Under the terms of the joint venture agreement, Desert can earn a 51% interest in the Camel Hills Project from Aurora Minerals Limited by sole funding the first \$3.8 million of exploration expenditure. Desert can elect to continue sole funding to earn an additional 19% interest in the project, for a total 70% interest.

Magnetite Iron Ore

Following the receipt of approvals from the Western Australian Department of Mines and Petroleum, the Company undertook reconnaissance reverse circulation drilling on the T21 magnetite iron target at Camel Hills. The T21 prospect was identified by Desert from prospecting and surface sampling as having size potential for a magnetite iron ore deposit. Reverse circulation drilling, comprising one or two angled holes on five section lines, has been completed in this initial test phase; a total of nine holes for 1161m drilled. These were designed to test for thickness and grade continuity, and to provide larger samples for preliminary metallurgical testwork.

The northern 3km of the airborne-magnetic anomaly appears as outcropping magnetite-quartzite units while the remaining 3.5km of the anomaly is considered to represent the extensions of these units beneath sand cover.

Seven of the holes were drilled into outcropping magnetite-quartzite with a strong magnetic signature and two were drilled into the airborne magnetic anomaly beneath sand cover. All but one of the holes

REVIEW OF OPERATIONS (continued)

recorded significant magnetite iron content, suggesting the unit is mineralized over its entire interpreted 6.2km length.

Previous beneficiation testwork undertaken on rock-chip samples from other magnetite-quartzite prospects in the project area has yielded up to 70% Fe in concentrate. The testwork on four samples demonstrated that the magnetite is quite crystalline and would produce a high quality concentrate if crushed to $-75\mu\text{m}$. The concentrates displayed high iron and low combined Si, Al and Phosphorus, potentially yielding a premium product.

The raw assay data and previous Davis Tube Recovery testwork completed on rock chip samples from the project area suggests that a high grade concentrate with low levels of impurities can be produced from the Camel Hills magnetite iron-ore.

Follow up work is planned including:

- Reprocessing of aeromagnetic data to better define potential additional magnetite targets believed to be in part buried under shallow cover;
- Ground based magnetic survey(s) over prospective areas defined from surface prospecting and the reprocessed aeromagnetic survey; and,
- Drill testing of additional targets

Gold Targets

A soil sampling survey was conducted over a 3km strike of the intensely sheared zone at the Main Grid Prospect within the regional ESE trending Errabiddy Shear Zone in the northern part of the Camel Hills Project.

Results define a series of coherent gold anomalies over 2.2km strike. The largest is 700m long by 250m wide, peaking at 226ppb gold and coincides with the zone of intense shearing and quartz veinlets at the Main Grid prospect. A second anomaly lies 800m along strike on the edge of the sampled area, peaks at 169ppb gold and is open to the northeast suggesting continuation of the shear zone.

Results confirm the gold-bearing nature of the shear zone at Main Grid and indicate extensions to the northwest, an area which has yet to be prospected and where historic gold-in-stream anomalies remain unexplained. Ground follow-up is planned to better define the gold zones prior to delineating drill targets.

Copper Nickel Targets

At Far West and adjacent 3D ultramafic prospects, anomalous chrome (to a maximum of 930ppm) forms broad coherent soil sample anomalies which closely outline the two ultramafic intrusives. At 3D, anomalous nickel (to a maximum of 298ppm) correlates with the chrome forming a 1300m NW by 400m EW anomaly. Copper is weakly anomalous (with Cr and Ni) in a 400m by 150m wide zone along the western edge of 3D.

REVIEW OF OPERATIONS (continued)

The Far West intrusive lies 2km to the west of 3D and aero-magnetics suggest it is 2.3km NS by 1km wide. Anomalous soil chrome values occur in the southern 1.3km of the intrusive, north of which it is covered by a local creek system. Nickel is sporadically anomalous within the chrome envelope. Copper forms a series of discrete anomalies along the south-western edge.

Prospecting by Desert earlier in the year discovered the previously unknown Far West and 3D ultramafic complexes. Surface outcrop is sporadic with extensive lateritic cover. Rock-chip samples of gossanous and lateritic surface material assayed up to 5.2% Cr, 4260ppm Ni, 818ppm Cu and 1920ppm Zn, with anomalous Pt and Pd (29 and 14ppb respectively).

To the north, at the Innouendy Prospect, historic lag sampling had broadly identified an ultramafic intrusive. Desert's more detailed soil sampling has defined a 2km long by 700m wide body with anomalous nickel along its western edge (possible base of the intrusive). Results of the soil sampling program confirm the presence of ultramafic intrusive and highlight Cr-Ni-Cu anomalies as indicators of potential sulphide mineralisation.

An airborne Electro-Magnetic survey is being planned to test the above targets for the existence of possible sulphide-bearing conductors, which if successful will lead to the generation of drill targets.

EVENTS OCCURRING AFTER BALANCE DATE

No events of a significant nature occurred after the reporting date other than that disclosed in Note 7 of the financial statements.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration under Section 307C of the Corporations Act 2001 is included within this interim financial report.

Signed in accordance with a resolution of the directors.



Martin Pyle
Executive Director
4 March 2011

DESERT ENERGY LIMITED AND CONTROLLED ENTITIES
ACN 123 102 974
CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

		Consolidated	
	Note	31 December 2010 \$	31 December 2009 \$
CONTINUING OPERATIONS			
Revenue	2(i)	91,810	65,290
Exploration expenditure		(972,618)	(964,502)
Administration expenditure	2(ii)	(520,385)	(726,921)
Loss before tax		(1,401,193)	(1,626,133)
Income tax expense		-	-
Loss for the period from continuing operations		(1,401,193)	(1,626,133)
Other comprehensive income		-	-
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(1,401,193)	(1,626,133)
Basic loss per share		(1.40) cents	(1.81) cents
Diluted loss per share		(1.40) cents	(1.81) cents

The accompanying notes form part of these financial statements

DESERT ENERGY LIMITED AND CONTROLLED ENTITIES
ACN 123 102 974
CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	Consolidated	
	31 December 2010	30 June 2010
	\$	\$
ASSETS		
Current Assets		
Cash and cash equivalents	2,321,070	3,016,695
Trade and other receivables	266,034	312,051
Other current assets	25,370	56,437
Total current assets	<u>2,612,474</u>	<u>3,385,183</u>
Non Current Assets		
Deferred exploration and evaluation expenditure	-	-
Plant and equipment	150,655	194,507
Total non current assets	<u>150,655</u>	<u>194,507</u>
Total Assets	<u>2,763,129</u>	<u>3,579,690</u>
LIABILITIES		
Current Liabilities		
Trade and other payables	465,727	60,780
Total current liabilities	<u>465,727</u>	<u>60,780</u>
Total Liabilities	<u>465,727</u>	<u>60,780</u>
Net Assets	<u>2,297,402</u>	<u>3,518,910</u>
EQUITY		
Issued capital	10,981,443	10,981,443
Reserves	3,569,595	3,389,910
Accumulated losses	(12,253,636)	(10,852,443)
Total Equity	<u>2,297,402</u>	<u>3,518,910</u>

The accompanying notes form part of these financial statements

DESERT ENERGY LIMITED AND CONTROLLED ENTITIES
ACN 123 102 974
CONDENSED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	Consolidated	
	31 December 2010	31 December 2009
	\$	\$
Cash flows from operating activities		
Other payments to suppliers	(297,354)	(292,979)
Payments in alleged misappropriation of funds	-	(258,915)
Payments for exploration expenditure	(502,667)	(1,578,440)
Interest received	<u>83,766</u>	<u>136,922</u>
Net cash (outflow) from operating activities	<u>(716,255)</u>	<u>(1,993,412)</u>
Cash flows from investing activities		
Receipts on sale of option to purchase tenements	<u>20,630</u>	<u>-</u>
Net cash outflow from investing activities	<u>20,630</u>	<u>-</u>
Cash flows from financing activities		
Payments of share issue costs	<u>-</u>	<u>(15,350)</u>
Net cash (outflow) from financing activities	<u>-</u>	<u>(15,350)</u>
Net (decrease) in cash and cash equivalents	<u>(695,625)</u>	<u>(2,008,762)</u>
Cash and cash equivalents at the beginning of the half-year	3,016,695	4,102,175
Cash and cash equivalents at the end of the half-year	<u><u>2,321,070</u></u>	<u><u>2,093,413</u></u>

The accompanying notes form part of these financial statements.

DESERT ENERGY LIMITED AND CONTROLLED ENTITIES
ACN 123 102 974
CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

Consolidated	Issued Capital	Retained Earnings	Share- based Payments	Attributable to owners of the parent
	\$	\$	\$	\$
At 1 July 2009	9,383,215	(7,356,849)	1,904,017	3,930,383
Loss for the period	-	(1,626,133)	-	(1,626,133)
Total comprehensive loss for the period		(1,626,133)	-	(1,626,133)
Expense of share issue	(15,351)			(15,351)
Expense of share based payments	-	-	224,845	224,845
At 31 December 2009	9,367,864	(8,982,982)	2,128,862	2,513,744
At 1 July 2010	10,981,443	(10,852,443)	3,389,910	3,518,910
Loss for the period	-	(1,401,193)	-	(1,401,193)
Total comprehensive loss for the period	-	(1,401,193)	-	(1,401,193)
Expense of share based payments	-	-	179,685	179,685
At 31 December 2010	10,981,443	(12,253,636)	3,569,595	2,297,402

The accompanying notes form part of these financial statements.

DESERT ENERGY LIMITED AND CONTROLLED ENTITIES
ACN 123 102 974
NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010



NOTE 1 - BASIS OF PREPARATION

This general purpose financial report for the half-year reporting period ended 31 December 2010 has been prepared in accordance with Australian Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001*. Compliance with AASB 134 ensures the financial report compliance with International Financial Reporting Standard IAS 34: Interim Financial Reporting.

This interim financial report does not include full disclosures of the type normally included in an annual report. It is recommended that this financial report to be read in conjunction with the annual financial report for the year ended 30 June 2010 and any public announcements made by Desert Energy Limited during the half-year.

The accounting policies have been consistently applied with those of the previous financial year and corresponding interim reporting period.

31 December	31 December
2010	2009
\$	\$

NOTE 2 – REVENUE AND EXPENSES

Loss before income tax expense includes the following revenue and expenditure, the disclosure of which is relevant to explaining the performance of the Company.

(i) Revenue

Interest revenue	71,180	65,290
Other revenue	20,630	-
	91,810	65,290

(ii) Administration expenditure

Depreciation	39,405	40,548
Less: capitalised to exploration	(39,351)	(40,494)
	54	54
Consultants fees	228,710	141,153
Facility charges	42,000	42,000
Insurance and legal	16,878	3,105
Securities exchange and registry fees	25,820	25,439
Share based compensation	179,685	224,845
Audit fees	10,000	8,000
Expenses arising from alleged misappropriation of funds	-	258,915
Other expenses	17,238	23,410
	520,385	726,921

DESERT ENERGY LIMITED AND CONTROLLED ENTITIES
ACN 123 102 974
NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010



NOTE 3 – EQUITY SECURITIES ISSUED

	Shares No.	Listed Options No.	Unlisted Options No.
At 1 July 2009	89,735,421	20,566,700	24,772,500
Issue of options	-	-	2,800,000
At 31 December 2009	89,735,421	20,566,700	27,572,500
At 1 July 2010	99,760,643	-	58,697,500
Issue of options	-	-	3,500,000
Options cancelled/expired	-	-	(6,375,000)
At 31 December 2010	99,760,643	-	55,822,500

Details of Movements in Equity

Date	Action	Type	Quantity	Issued To	Exercise Price	Expiry Date
31 July 10	Issue	Options - unlisted	200,000	Employees	\$0.40000	31 July 2014
02 Sept 10	Issue	Options – unlisted	3,000,000	Directors	\$0.1450	02 Sept 2014
20 Oct 10	Cancel	Options – unlisted	1,000,000	Consultants	\$0.34017	30 Nov 2010
20 Oct 10	Cancel	Options – unlisted	350,000	Consultants	\$0.5000	28 Nov 2011
20 Oct 10	Cancel	Options – unlisted	50,000	Consultants	\$0.3000	30 June 2013
01 Dec 10	Expiry	Options – unlisted	2,375,000	Consultants	\$0.34017	30 Nov 2010
01 Dec 10	Expiry	Options – unlisted	2,000,000	Brokers	\$0.3720	30 Nov 2010
07 Dec 10	Issue	Options – unlisted	300,000	Consultants	\$0.1508	07 Dec 2010
23 Dec 10	Cancel	Options - unlisted	600,000	Consultants	\$0.4000	30 Sept 2013

NOTE 4 - SEGMENT INFORMATION

The directors have considered the requirements of AASB 8 – Operating Segments and the internal reports that are reviewed by the chief operating decision maker (the board of directors) in allocating resources and have concluded that at this time there are no separate identifiable segments.

The Company’s principal activity is iron ore, gold, base metals and uranium exploration and prospecting in Australia.

NOTE 5 - COMMITMENTS FOR EXPENDITURE

In order to maintain the mineral covenants in which the Company and other parties are involved, the Company is committed to fulfil the minimum annual expenditure conditions under which the covenants are granted. Since the last reporting date, there has been the following change to these commitments, due to tenement licences being relinquished as greater focus is placed on the Camel Hills Joint Venture:

	Consolidated	
	31 December	30 June
	2010	2010
	\$	\$
Minimum estimated expenditure requirements	31,000	1,200,000

NOTE 6 – CONTINGENT LIABILITIES

Since the last annual reporting date there has been no material change of any contingent liabilities or contingent assets.

NOTE 7 - EVENTS OCCURRING AFTER BALANCE DATE

Subsequent to balance date, the Company has raised \$2.189 million before expenses through the placement of 19,899,998 million ordinary shares.

Other than as stated above, there have been no material items, transactions or events subsequent to 31 December 2010 which, although they do not relate to conditions existing at that date, have not been dealt with in this report and which would cause reliance on the information shown in this report to be misleading.

NOTE 8 – DIVIDENDS

There have been no dividends declared or recommended and no distributions made to shareholders or other persons during the period.

The directors of the company declare that:

- 1) The financial statements and notes, as set out within this financial report:
 - (a) comply with the Accounting Standard AASB 134: Interim Financial Reporting and the *Corporations Act 2001*; and
 - (b) gives a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date.
- 2) In the directors' opinion there are reasonable grounds to believe that Desert Energy Limited 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.303(5) of the *Corporations Act 2001*.

On behalf of the Directors



Martin Pyle
Executive Director

Perth, 4 March 2011.

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Desert Energy Limited which comprises the condensed statement of financial position as at 31 December 2010, and the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Desert Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Desert Energy Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Rsm Bird Cameron Partners

RSM BIRD CAMERON PARTNERS
Chartered Accountants



TUTU PHONG
Partner

Perth, WA
Dated: 4 March 2011

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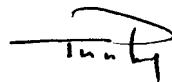
AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Desert Energy Limited for the half-year ended 31 December 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

Rsm Bird Cameron Partners

RSM BIRD CAMERON PARTNERS
Chartered Accountants



TUTU PHONG
Partner

Perth, WA
Dated: 4 March 2011