



DESERT MINES AND METALS LIMITED

ABN 56 123 102 974

INTERIM FINANCIAL REPORT
FOR THE HALF-YEAR ENDED
31 DECEMBER 2012

DESERT MINES AND METALS LIMITED AND CONTROLLED ENTITIES
ACN 123 102 974
TABLE OF CONTENTS

DIRECTORS' REPORT	3
STATEMENT OF COMPREHENSIVE INCOME	6
STATEMENT OF FINANCIAL POSITION	7
STATEMENT OF CASH FLOWS	8
STATEMENT OF CHANGES IN EQUITY	9
NOTES TO THE FINANCIAL STATEMENTS	10
DIRECTORS' DECLARATION	14
INDEPENDENT AUDITOR'S REVIEW REPORT	15
AUDITOR'S INDEPENDENCE DECLARATION	17

DESERT MINES AND METALS LIMITED AND CONTROLLED ENTITIES
ACN 123 102 974
DIRECTORS' REPORT

Your directors submit their report for the half-year ended 31 December 2012.

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 Martin Pyle (Executive Director)

RESULTS

The operating loss for the Company for the half-year ended 31 December 2012 was \$507,799 (2011: \$1,099,405), of which \$391,580 (2011: \$781,621) related to exploration and evaluation expenditure expensed.

REVIEW OF OPERATIONS

Operations

During the six months to 31 December 2012, the Company progressed exploration over the Camel Hills Joint Venture Project. The Camel Hills Project covers part of the northwest margin of the Archaean Yilgarn Block and adjacent Proterozoic aged metamorphic rocks of the Gascoyne Complex. Several large fault systems are recognised including the Errabiddy Shear Zone, Deadman Fault and Cardilya Fault which are interpreted to have had significant influence on the emplacement of base and precious metals mineralisation in the tenement package. During the half-year Desert completed the minimum \$3.4 million of expenditure to earn a 51% contributing interest in the Camel Hills Project from Aurora Minerals Limited. The Joint Venture will now proceed on a Desert 51% /Aurora Minerals 49% contributing basis with Desert maintaining its role as manager of the Joint Venture.

Copper Nickel Targets

Desert's exploration model is targeting massive nickel-copper sulphide deposits in discrete mafic to ultramafic intrusive bodies in the high-grade gneissic terrane of the northwestern Yilgarn Craton.

The Camel Hills JV tenements include two previously known but undrilled intrusives, and recent exploration has discovered three additional bodies.

To overcome poor outcrop and extensive laterite cover, aeromagnetic images were utilised to identify potential intrusives, with ground prospecting and sampling follow-up to discover gossanous or mineralised outcrop (Far West, 3D prospects) and Electromagnetic ("EM") geophysical surveys (Far West, 3D, CN2 and Innouendy prospects) for subsequent drill-testing. A soil sampling program in 2010 confirmed the presence of ultramafic intrusive and highlighted Nickel-Copper-Chrome anomalies as indicators of potential sulphide mineralisation.

REVIEW OF OPERATIONS (continued)

Copper Nickel Targets (continued)

A ground based Electromagnetic survey was conducted during the half-year and the results of which indicated the previous drilling had not effectively targeted the conductor(s) identified from an earlier heliborne VTEM survey.

The first diamond drill hole into the Innouendy Prospect was successfully completed to a down-hole depth of 276m; a subsequent down-hole EM survey has yielded a strong "off-hole" conductor. The principal lithologies intersected in diamond drill hole (IND001) were (from collar) surficial alluvials, saprolite passing into a sequence of differentiated gneissic units. Between 171m-200m down-hole an amphibole/magnetite/quartz unit was intersected. While sulphide occurrences are rare, handheld XRF readings indicate anomalous nickel and copper in minor blebs and stringers of sulphide.

The hole was targeting possible sulphide mineralisation associated with an interpreted ultramafic intrusive with supporting data including;

- Strong electromagnetic conductors ("EM")
- Favourable magnetic features
- Nickel/Chrome soil anomaly
- Favourable lithology & structural setting

Gold Targets

A data review has enabled tenement rationalisation of the various targets, with retention of the Challenger and Main Grid gold-in-soil anomalies in the north and the magnetite-quartzite sequences in the southern part of the project area. Drill-site rehabilitation was also undertaken.

Main Grid Prospect

An Aboriginal heritage survey over several prospects including Main Grid Gold Prospect was successfully completed. A first pass reconnaissance RC drilling program to test this extensive gold-in-soil anomaly will commence when field conditions permit.

From mapping, rock chip and soil sampling Desert has found that the gold mineralisation tends to occur in a wider "corridor" of low grade, say <1g/t, within which are narrower, discrete, high-grade and structurally controlled shoots occasional containing high gold assays in rock chip samples.

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

Magnetite Iron Ore

No field work was conducted on the iron targets during the half year.

DESERT MINES AND METALS LIMITED AND CONTROLLED ENTITIES
ACN 123 102 974
DIRECTORS' REPORT (continued)

REVIEW OF OPERATIONS (continued)

Business Development

Desert assessed several new projects for potential acquisition. For at least one project the due diligence review is ongoing.

Corporate

During the period the Company completed a 1:4 non-renounceable rights issue of ordinary shares which raised \$588,143 before costs of the issue.

The information in this review that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Dr Robert S Taylor, a Member of The Institute of Materials, Minerals and Mining. Executive Director of Desert Mines and Metals Limited, Robert Taylor consults through his consulting company Able Kids Pty Ltd.

Robert Taylor has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Robert Taylor consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

EVENTS OCCURRING AFTER BALANCE DATE

No events of a significant nature occurred after the reporting date.

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
7 March 2013

DESERT MINES AND METALS LIMITED AND CONTROLLED ENTITIES
ACN 123 102 974
STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

		Consolidated	
	Note	31 December 2012 \$	31 December 2011 \$
CONTINUING OPERATIONS			
Revenue	2(i)	43,613	82,226
Exploration expenditure		(391,580)	(781,621)
Administration expenditure	2(ii)	(159,832)	(400,010)
Loss before tax		(507,799)	(1,099,405)
Income tax expense		-	-
Loss for the period from continuing operations		(507,799)	(1,099,405)
Other comprehensive income		-	-
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(507,799)	(1,099,405)
Basic loss per share		(0.41) cents	(0.92) cents
Diluted loss per share		(0.41) cents	(0.92) cents

The accompanying notes form part of these financial statements

DESERT MNES AND METALS LIMITED AND CONTROLLED ENTITIES
ACN 123 102 974
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

	Consolidated	
	31 December 2012	30 June 2012
	\$	\$
ASSETS		
Current Assets		
Cash and cash equivalents	1,873,985	1,562,009
Trade and other receivables	217,639	292,099
Other current assets	20,213	18,362
Total current assets	<u>2,111,837</u>	<u>1,872,470</u>
Non Current Assets		
Plant and equipment	43,243	60,700
Total non-current assets	<u>43,243</u>	<u>60,700</u>
Total Assets	<u>2,155,080</u>	<u>1,933,170</u>
LIABILITIES		
Current Liabilities		
Trade and other payables	290,682	91,913
Total current liabilities	<u>290,682</u>	<u>91,913</u>
Total Liabilities	<u>290,682</u>	<u>91,913</u>
Net Assets	<u>1,864,398</u>	<u>1,841,257</u>
EQUITY		
Issued capital	13,626,601	13,061,977
Reserves	3,875,077	3,908,761
Accumulated losses	(15,637,280)	(15,129,481)
Total Equity	<u>1,864,398</u>	<u>1,841,257</u>

The accompanying notes form part of these financial statements

DESERT MINES AND METALS LIMITED AND CONTROLLED ENTITIES
ACN 123 102 974
STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

	Consolidated	
	31 December 2012	31 December 2011
	\$	\$
Cash flows from operating activities		
Other payments to suppliers	(194,116)	(274,514)
Payments for exploration expenditure	(268,548)	(1,135,804)
Other income	86,654	7,963
Receipts from security deposits and bonds	73,860	-
Interest received	35,314	77,566
	<u> </u>	<u> </u>
Net cash (outflow) from operating activities	(266,836)	(1,324,789)
Cash flows from investing activities		
Receipts on sale of tenements	-	1
	<u> </u>	<u> </u>
Net cash inflow from investing activities	-	1
Cash flows from financing activities		
Proceeds from the issue of shares	588,143	-
Payments of share issue costs	(9,331)	-
	<u> </u>	<u> </u>
Net cash inflow from financing activities	578,812	-
Net increase/(decrease) in cash and cash equivalents	311,976	(1,324,788)
Cash and cash equivalents at the beginning of the half-year	1,562,009	3,280,406
	<u> </u>	<u> </u>
Cash and cash equivalents at the end of the half-year	<u>1,873,985</u>	<u>1,955,618</u>

The accompanying notes form part of these financial statements.

DESERT MINES AND METALS LIMITED AND CONTROLLED ENTITIES
ACN 123 102 974
STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

Consolidated	Issued Capital	Accumulated Losses	Share- based Payments	Total Equity
	\$	\$	\$	\$
At 1 July 2011	13,061,977	(13,581,256)	3,768,325	3,249,046
Loss for the period	-	(1,099,405)	-	(1,099,405)
Total comprehensive loss for the period	-	(1,099,405)	-	(1,099,405)
Expense of share based payments	-	-	125,535	125,535
At 31 December 2011	13,061,977	(14,680,661)	3,893,860	2,275,176
At 1 July 2012	13,061,977	(15,129,481)	3,908,761	1,841,257
Loss for the period	-	(507,799)	-	(507,799)
Total comprehensive loss for the period	-	(507,799)	-	(507,799)
Reversal of share based payments (net)	-	-	(33,684)	(33,684)
Issue of share capital	588,143	-	-	588,143
Transaction costs	(23,519)	-	-	(23,519)
At 31 December 2012	13,626,601	(15,637,280)	3,875,077	1,864,398

The accompanying notes form part of these financial statements.

DESERT MINES AND METALS LIMITED AND CONTROLLED ENTITIES
ACN 123 102 974
NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

NOTE 1 - BASIS OF PREPARATION

These general purpose interim financial statements for the half-year reporting period ended 31 December 2012 have been prepared in accordance with Australian Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001*. The consolidated entity is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

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 2012 and any public announcements made by Desert Mines and Metals Limited during the half-year reporting period in accordance with the continuous requirements of the *Corporations Act 2001*.

The accounting policies have been consistently applied with those of the previous financial year and corresponding interim reporting period, except in relation to the matters disclosed below.

New and Revised Accounting Standards

The consolidated entity has adopted all of the new and revised Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that are mandatory for the current reporting period. The adoption of these new and revised Accounting Standards and Interpretations has not resulted in a significant or material change to the consolidated entity's accounting policies.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted by the consolidated entity.

DESERT MINES AND METALS LIMITED AND CONTROLLED ENTITIES
ACN 123 102 974
NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

31 December
2012
\$

31 December
2011
\$

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	33,956	74,261
Other revenue	9,657	7,965
	<u>43,613</u>	<u>82,226</u>

(ii) Administration expenditure

Depreciation	17,457	27,753
Less: capitalised to exploration	(17,403)	(27,700)
	54	53
Consultants fees	98,760	141,347
Facility charges	37,800	42,000
Insurance and legal	17,550	18,601
Securities exchange and registry fees	21,252	16,980
Share based compensation	(33,684)	125,535
Audit fees	8,000	7,500
Other expenses	10,100	47,994
Total administration expenditure	<u>159,832</u>	<u>400,010</u>

DESERT MINES AND METALS LIMITED AND CONTROLLED ENTITIES
ACN 123 102 974
NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

NOTE 3 – EQUITY SECURITIES ISSUED

	Shares No.	Listed Options No.	Unlisted Options No.
At 1 July 2011	119,660,641	-	55,272,500
Issue of options	-	-	-
Options cancelled/expired	-	-	(3,450,000)
At 31 December 2011	119,660,641	-	51,822,500
At 1 July 2012	119,660,641	-	48,072,500
Issue of share capital	19,604,777	-	-
Options cancelled/expired	-	-	(4,667,500)
At 31 December 2012	139,265,418	-	43,405,000

Details of Movements in Equity

Date	Action	Type	Quantity	Issued To	Exercise Price	Expiry Date
02 July 12	Cancel	Options – unlisted	50,000	Consultants	\$0.30	30 June 2013
30 July 12	Cancel	Options – unlisted	175,000	Consultants	\$0.30	30 June 2013
30 Aug 12	Cancel	Options - unlisted	1,500,000	Consultants	\$0.40	17 Sept 2014
14 Nov 12	Cancel	Options – unlisted	1,000,000	Consultants	\$0.40	17 Sept 2014
22 Nov 12	Cancel	Options – unlisted	750,000	Consultants	\$0.40	17 Sept 2014
30 Nov 12	Expiry	Options – unlisted	562,500	Employees	\$0.31	30 Nov 2012
30 Nov 12	Expiry	Options – unlisted	630,000	Employees	\$0.35	30 Nov 2012

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 exploration for and acquisitions of mineral deposits.

DESERT MINES AND METALS LIMITED AND CONTROLLED ENTITIES
ACN 123 102 974
NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

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.

	Consolidated	
	31 December	30 June
	2012	2012
	\$	\$
Minimum estimated expenditure requirements	436,585	368,723

During the period, Desert Mines and Metals Ltd completed the required expenditure commitment in the Camel Hills Joint Venture (CHJV) to earn a 51% interest in the tenements comprising the CHJV, the transfer of these titles being in process at reporting date.

Consultancy Agreements

During the half-year, the consolidated entity has revised the consultancy agreements with all the Directors and Executives. In the event of termination, there is a requirement to continue payment of the fees for a period of six months in the case of Directors or two months in the case of Executives. Should the services of the Directors and Executives not be required during the respective periods the cost to the consolidated entity would be \$39,009 (30 June 2012: \$130,432).

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

There have been no material items, transactions or events subsequent to 31 December 2012 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 (2011: Nil).

DESERT MINES AND METALS LIMITED AND CONTROLLED ENTITIES
ACN 123 102 974
DIRECTORS' DECLARATION

In the opinion of the directors of Desert Mines and Metals Limited ('the company'):

1. The financial statements and notes thereto of the consolidated entity, as set out within this financial report, are in accordance with the *Corporations Act 2001* including:
 - a. complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
 - b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half-year then ended.
2. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Martin Pyle
Executive Director

Perth, 7 March 2013.

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

We have reviewed the accompanying half-year financial report of Desert Mines and Metals Limited which comprises the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and 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 internal 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 half-year 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 2012 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 Mines and Metals 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.

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 Mines and Metals Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

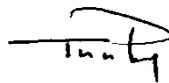
Conclusion

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 Mines and Metals 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 2012 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

RSM Bird Cameron Partners

RSM BIRD CAMERON PARTNERS



TUTU PHONG
Partner

Perth, WA
Dated: 7 March 2013

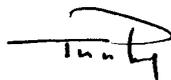
AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Desert Mines and Metals Limited for the half-year ended 31 December 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

RSM Bird Cameron Partners

RSM BIRD CAMERON PARTNERS



TUTU PHONG
Partner

Perth, WA
Dated: 7 March 2013