



DESERT MINES AND METALS LIMITED

ABN 56 123 102 974

ASX RELEASE

31 October 2012

Large Diversified Exploration Portfolio In Western Australia

Substantial Shareholder
Aurora Minerals Limited
40%

Website

www.desertminesandmetals.com

For further information on this
release and the Company please
contact:

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QUARTERLY ACTIVITIES REPORT ENDING 30 SEPTEMBER 2012

Highlights

- **Ground based Electromagnetic (“EM”) survey highlights that Innouendy nickel copper target was not effectively tested with previous drilling**
- **Diamond Drilling of target to be undertaken in Q4 2012**
- **All approvals for drilling in place**
- **Preparation for drilling Main Grid and Challenger gold prospects in progress**

Camel Hills Joint Venture, Western Australia

Camel Hills is a large project covering some 1740km² in the southern Gascoyne Region of Western Australia. The project covers part of the north-western margin of the Archaean Yilgarn Craton and adjacent Proterozoic Errabiddy Shear Zone. Desert is earning into an initial 51% interest from Aurora Minerals Limited.

Nickel-Copper Sulphide 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, Central Western Australia (Figure 1).

Corporate

Desert’s cash position is ~\$1.4 million. Post the quarter end the Company announced a 1:4 non-renounceable rights issue of ordinary shares to raise up to ~\$900,000. Drilling is planned for exciting nickel, copper and gold targets and proceeds of the rights issue will be utilised to finance the Company’s exploration and business development programmes as well as for working capital. The Company’s controlling shareholder, Aurora Minerals Limited, has indicated that it intends to take up its Entitlement in full.

Camel Hills Joint Venture

(Desert earning into an initial 51% interest)

Nickel-Copper Sulphide 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, Central Western Australia.

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.

Innouendy Nickel Prospect

Desert Mines and Metals recently commissioned geophysical contractors to undertake a ground electromagnetic (EM) survey over an interpreted nickel copper target at its Innouendy Prospect. This is to follow up on an unresolved EM conductor first identified from a heliborne VTEM survey completed in 2011 (refer ASX announcement 24 September 2012). Three RC holes were drilled to test the heliborne VTEM target, but no significant mineralisation was intersected nor did the logging of the holes detect any feature which might have explained the VTEM conductor. Notwithstanding, anomalous Ni, Cu, Cr soil geochemistry reported immediately to the west of the anomaly (Figure 2 – Northern VTEM Conductor).

An EM survey crew was mobilised late September and a ground based EM traverse was undertaken. The preliminary data has been modelled by independent geophysical consultants and Figure 3 shows the indicative position of the interpreted ground EM conductor relative to the previous RC drilling. The figure clearly indicates the conductor was not effectively tested by the first pass drilling and remains a high priority target.

The ground EM survey is consequently being extended to better resolve the strike extent of the conductor. Desert anticipates drilling this target in Q4, 2012 using a diamond drilling rig to test the conductor. Depending on success, follow-up ground EM and drilling at Far West, 3D and CN2 prospects is planned.

Figure 1: Camel Hills JV Project Area showing highlighted prospects

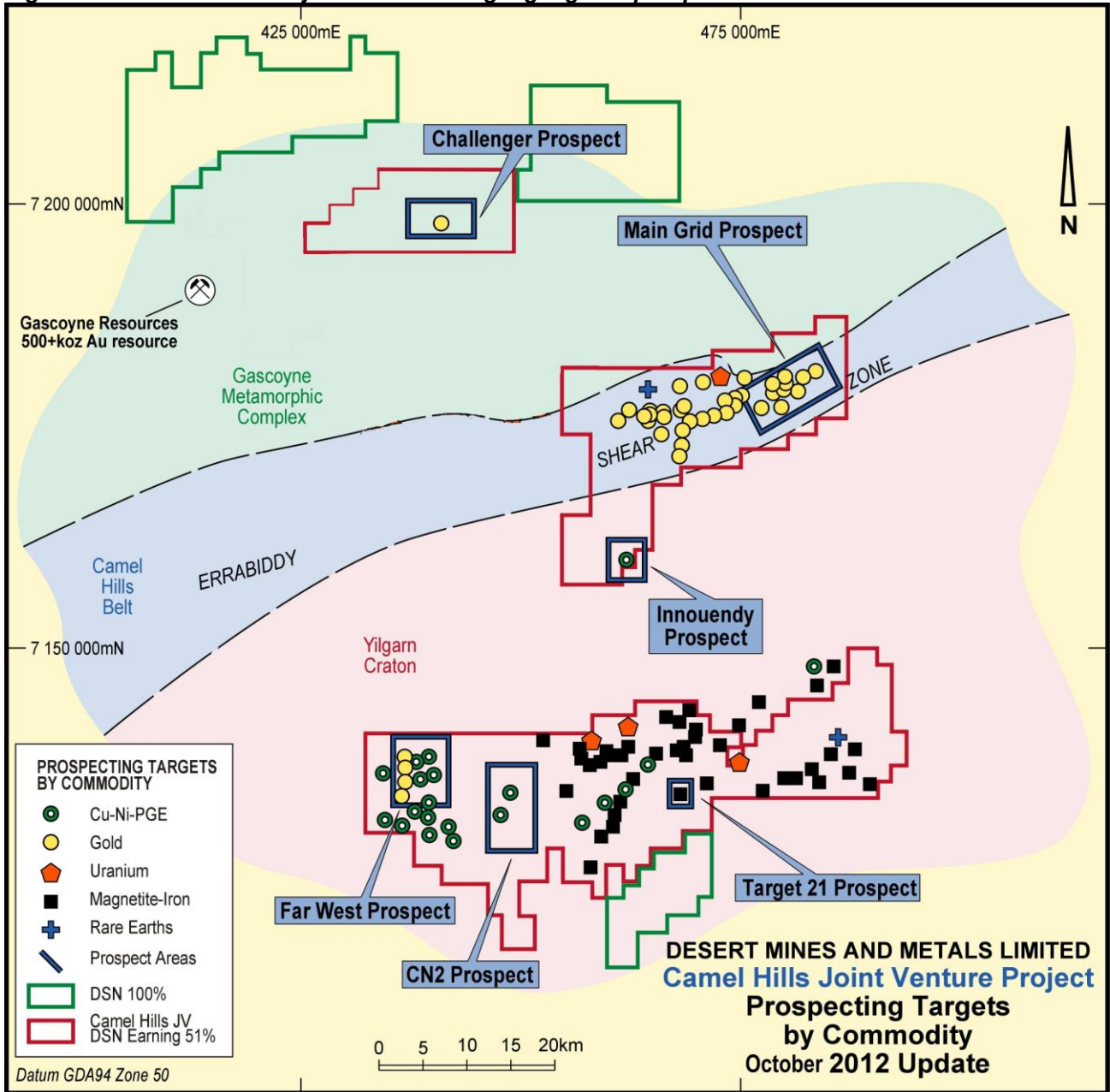
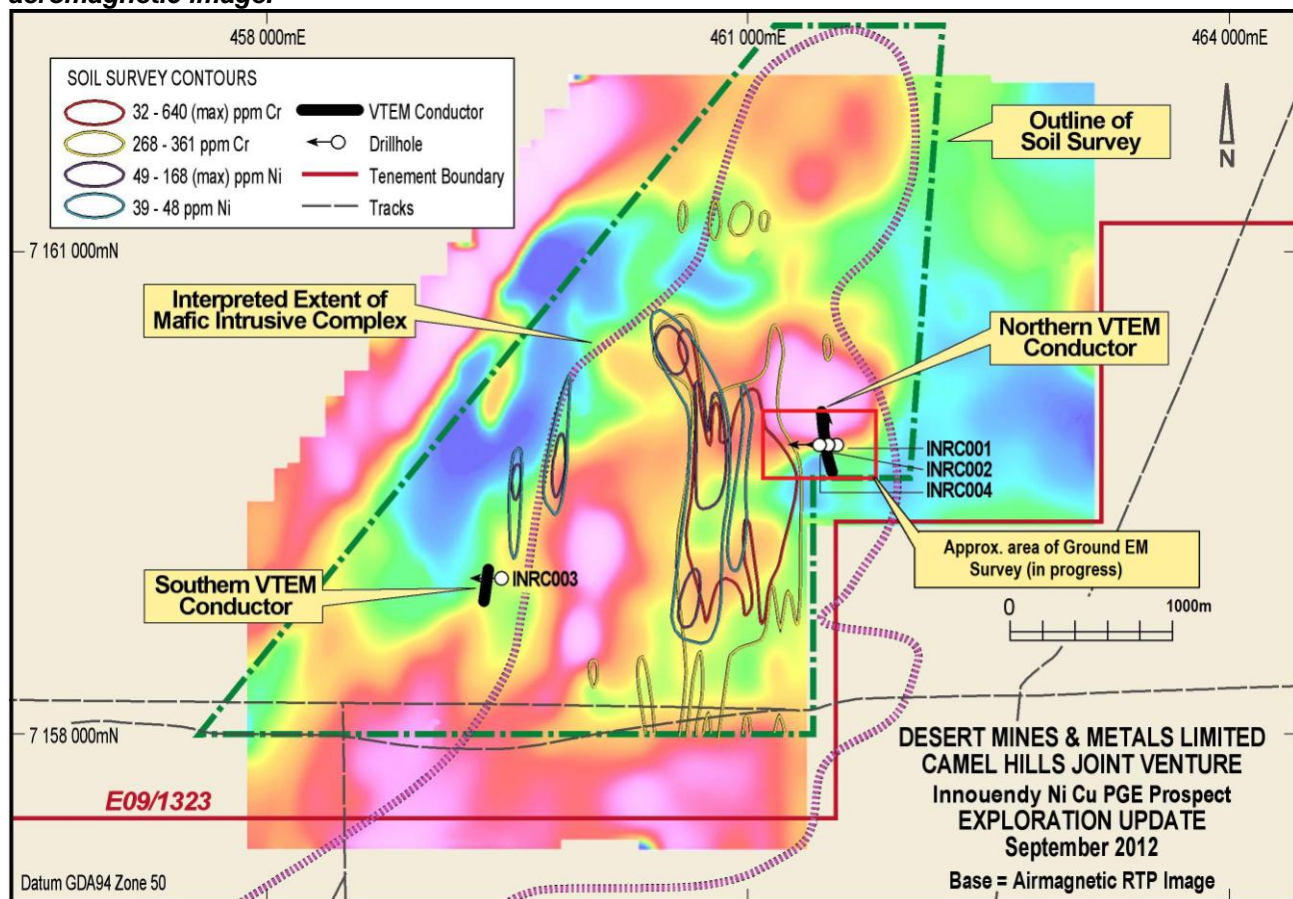


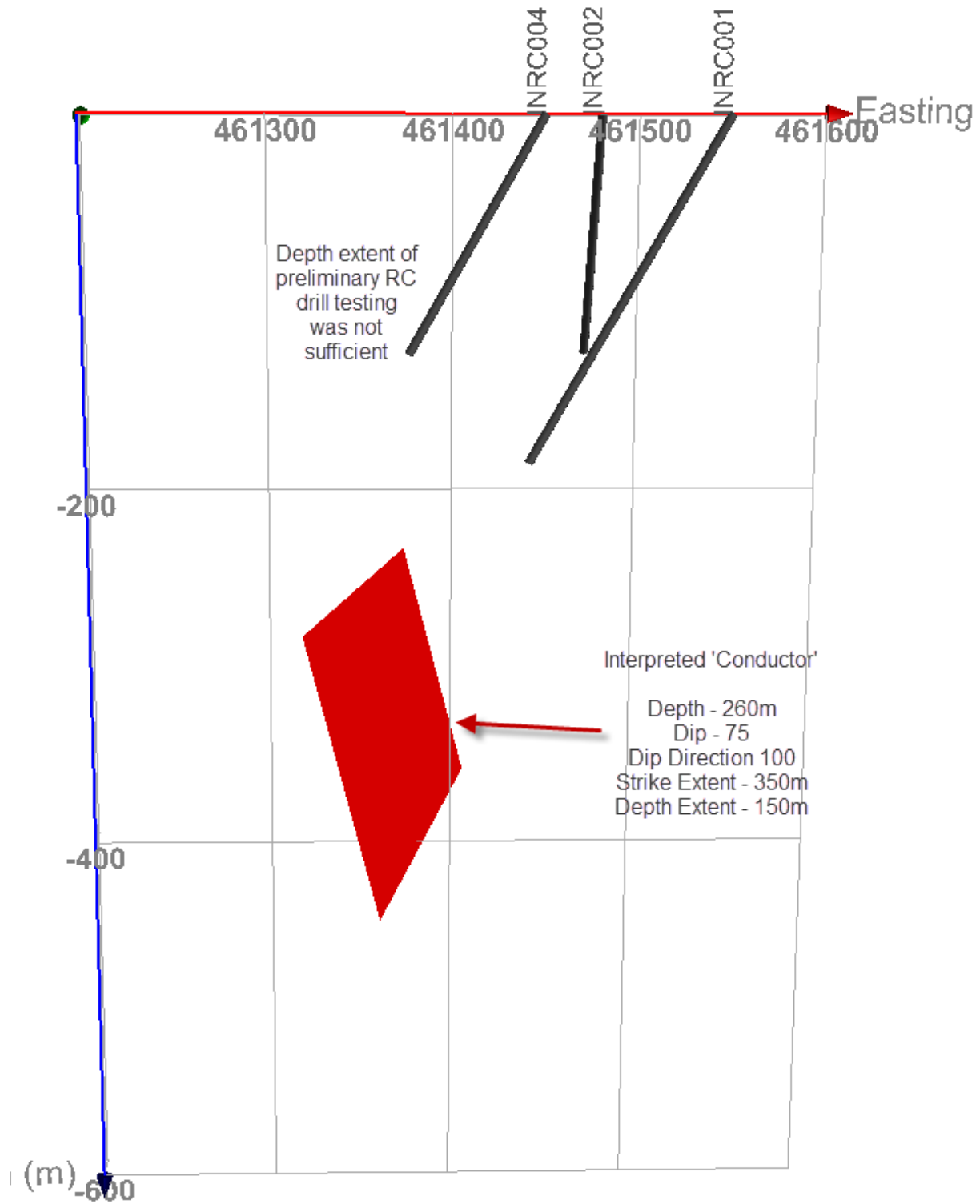
Figure 2: Innouendy Prospect Nickel – Copper Targets & location of Ground EM Survey on background aeromagnetic image.



EM Anomaly Analysis

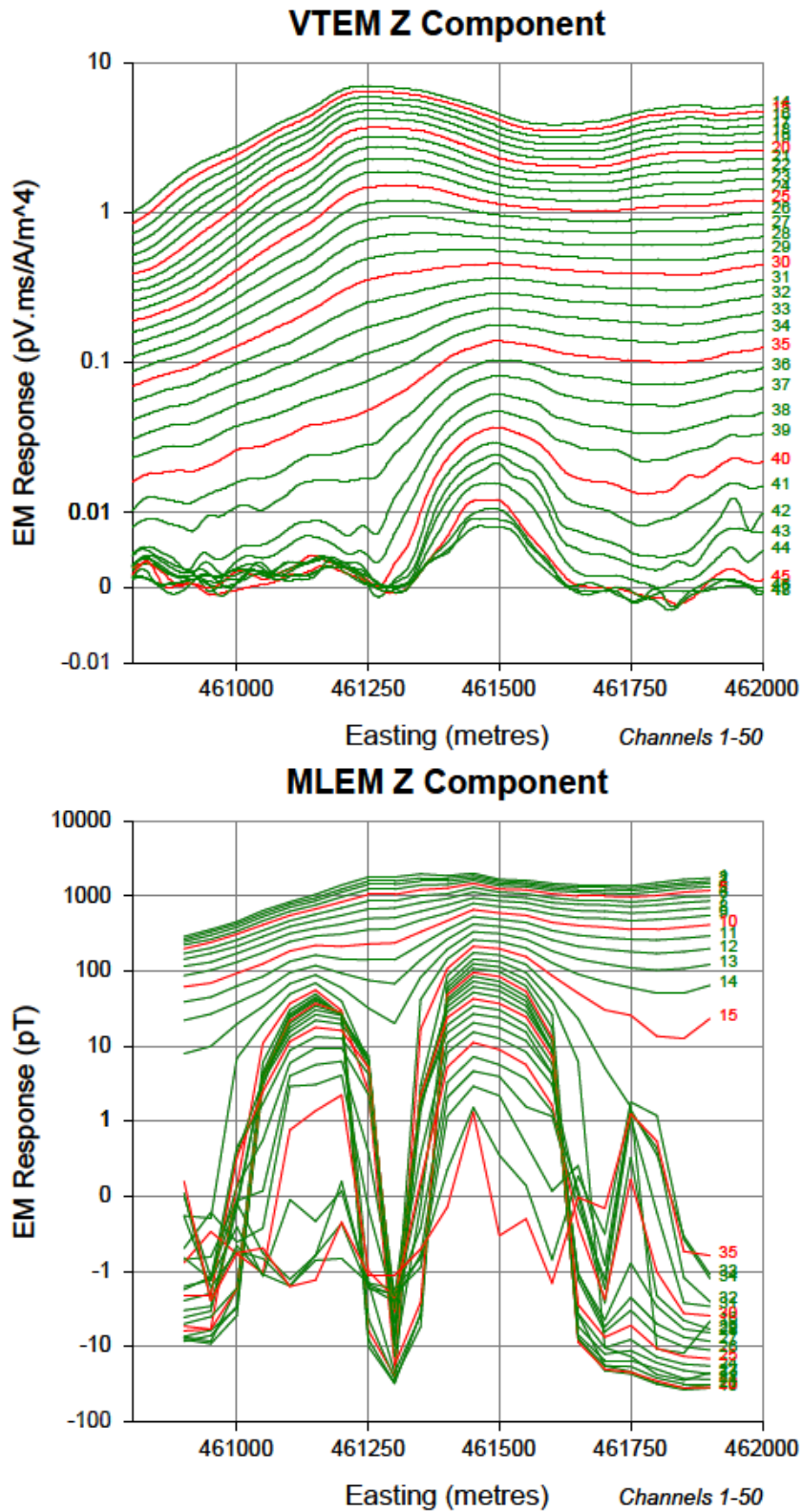
Figure 4 shows the preliminary results of the Moving Loop Ground EM (MLEM) survey refining the VTEM anomaly. Ground EM surveys can be acquired at a lower frequency than airborne EM methods, effectively obtaining EM information from greater depths. The VTEM survey initially identified the EM anomaly and has resolved the eastern limb well, but the western peak, clearly observed in the ground EM data, has very small amplitude. The MLEM profile indicates a steeper dipping conductor than interpreted from the VTEM data. Modelling of the ground EM data also suggests that the source of the anomaly is deeper.

Figure 3: Cross section along northing 7159800mN.



Note: Location of the interpreted ground EM conductor relative to the depth extent of the RC drillholes previously drilled to test the conductor interpreted from the heliborne VTEM survey.

Figure 4: The ground EM data (lower panel) has greatly increased the resolution of the EM anomaly first identified from the VTEM survey (upper panel) - Northern VTEM Conductor. Profile lines are located along northing 7159800mN.



Gold and Magnetite Iron-Ore 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 Gold Prospect

Desert has found that gold tends to occur in a wider “corridor” of low grade, say <1g/t, within which are narrower, discrete, high-grade and structurally controlled shoots occasionally containing high gold assays in rock chip samples. A “Corridor” tends to be continuous and consistent over several kilometres of strike; there may be several parallel “corridors”.

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. The approval process and preparations for drilling this target are ongoing.

Challenger Prospect

Soil sampling at Challenger conducted by Desert in late 2011 indicated several cohesive anomalies, with peak values of 84.7ppb, extending over 400m by 300m at the +10ppb Au level, parallel to regional stratigraphy/structure, trending approximately 020° open to the North and East. The soil sampling has now been extended both north and southwards and to cover a possible eastern trend. The results of this sampling support Desert’s interpretation of a 020° trend to the geology, not the East-West trend as originally envisaged.

The area has now been geologically mapped by Desert. This revealed a series of 020° trending, prominent bands of coarse grained felsic gneisses, medium grained banded gneiss and a calcareous laminated sediment. The areas between these bands consist of flat areas of colluvium with scattered small outcrops of dolerite, mafic gneiss and cherty sediments. Small outcrops of vein quartz are scattered throughout the zone. The geology in the northern area is largely obscured by colluvium. Soil types range from calcareous clays to hardpan to thin scrapings and quartz sand over gneiss outcrops.

The existing soil anomaly is centred over the laminated sediments.

Iron Ore

No field work was conducted on the iron targets during the quarter.

Background on the Camel Hills Joint Venture

Camel Hills is a large exploration project located in the southern Gascoyne Region of Western Australia. 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 \$3.4 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. The tenement package currently exceeds some 1,740km² deemed by the company's geologists as being prospective for gold, copper, nickel and iron ore.

CORPORATE

As of 30 September 2012, Desert Mines and Metals had approximately \$1.44 million in cash. Regular exploration expenses were partly offset by a rebate received from the Australian Tax Office for 2011 Research & Development activities of (\$78,000) and a release of an Unconditional Performance Bond by the Department of Mines and Petroleum (\$74,000).

Following the quarter end the Company announced a Rights Issue. The non-renounceable, pro rata, rights issue to existing shareholders is for up to 29,915,160 fully paid ordinary New Shares in Desert Mines and Metals Limited, on the basis of one new ordinary share for every four shares held on the record date of 2 November 2012, at an issue price of 3 cents per new share, to raise up to approximately \$897,455 before costs of the Rights Issue. The Rights Issue is not underwritten and there is no minimum subscription amount. The Company's controlling shareholder, Aurora Minerals Limited, has indicated that it intends to take up its entitlement in full. The Directors reserve the right to issue any shortfall at their discretion. Drilling is planned for exciting nickel, copper and gold targets and proceeds of the Rights Issue will be utilised to finance the Company's exploration and business development programmes as well as for working capital.

Martin Pyle
Executive Director
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Robert Taylor
Executive Director

The information in this report 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 is employed 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 is being undertaken to qualify as Competent Persons 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 this report of the matters based on this information in the form and context in which it appears.

The Company's website (www.desertminesandmetals.com.au) is recommended reading for interested market watchers, brokers and investors. The website contains information on the Company's projects, project maps, a list of the Company's announcements to ASX, information on Native Title (including the tenement grant process and heritage surveys), the legislative environments under which the Company operates, Corporate Governance, a section on risks, many of which are common to exploration companies, and other useful information. A list of the Company's announcements is also obtainable from the Australian Securities Exchange.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

Desert Mines and Metals Limited

ABN

56 123 102 974

Quarter ended ("current quarter")

30 September 2012

Consolidated statement of cash flows

| | Current quarter \$A'000 | Year to date (3 months) \$A'000 |
|--|----------------------------|---------------------------------------|
| Cash flows related to operating activities | | |
| 1.1 Receipts from product sales and related debtors | | |
| 1.2 Payments for (a) exploration & evaluation (b) development (c) production (d) administration | (125) | (125) |
| 1.3 Dividends received | | |
| 1.4 Interest and other items of a similar nature received | 21 | 21 |
| 1.5 Interest and other costs of finance paid | | |
| 1.6 Income taxes paid | | |
| 1.7 Other (provide details if material) | 152 | 152 |
| Net Operating Cash Flows | (125) | (125) |
| Cash flows related to investing activities | | |
| 1.8 Payment for purchases of: (a) prospects (b) equity investments (c) other fixed assets | | |
| 1.9 Proceeds from sale of: (a) prospects (b) equity investments (c) other fixed assets | | |
| 1.10 Loans to other entities | | |
| 1.11 Loans repaid by other entities | | |
| 1.12 Other (provide details if material) | | |
| Net investing cash flows | 0 | 0 |
| 1.13 Total operating and investing cash flows (carried forward) | (125) | (125) |

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

| | | | |
|------|--|--------------|--------------|
| 1.13 | Total operating and investing cash flows (brought forward) | (125) | (125) |
| | Cash flows related to financing activities | | |
| 1.14 | Proceeds from issues of shares, options, etc. | | |
| 1.15 | Proceeds from sale of forfeited shares | | |
| 1.16 | Proceeds from borrowings | | |
| 1.17 | Repayment of borrowings | | |
| 1.18 | Dividends paid | | |
| 1.19 | Other (provide details if material) | | |
| | Net financing cash flows | 0 | 0 |
| | Net increase (decrease) in cash held | (125) | (125) |
| 1.20 | Cash at beginning of quarter/year to date | 1,562 | 1,562 |
| 1.21 | Exchange rate adjustments to item 1.20 | | |
| 1.22 | Cash at end of quarter | 1,437 | 1,437 |

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

| | | Current quarter \$A'000 |
|------|--|----------------------------|
| 1.23 | Aggregate amount of payments to the parties included in item 1.2 | 49 |
| 1.24 | Aggregate amount of loans to the parties included in item 1.10 | - |

1.25 Explanation necessary for an understanding of the transactions

1.7 Rebate received from Australian Tax Office for 2011 R&D activities of \$78k. Release of bond for \$74k.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

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

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

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

Financing facilities available

Add notes as necessary for an understanding of the position.

| | Amount available \$A'000 | Amount used \$A'000 |
|---------------------------------|-----------------------------|------------------------|
| 3.1 Loan facilities | Nil | Nil |
| 3.2 Credit standby arrangements | Nil | Nil |

+ See chapter 19 for defined terms.

Estimated cash outflows for next quarter

| | | \$A'000 |
|--------------|----------------------------|------------|
| 4.1 | Exploration and evaluation | 324 |
| 4.2 | Development | - |
| 4.3 | Production | - |
| 4.4 | Administration | 87 |
| Total | | 411 |

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

| | Current quarter \$A'000 | Previous quarter \$A'000 |
|--|----------------------------|-----------------------------|
| 5.1 Cash on hand and at bank | 60 | 125 |
| 5.2 Deposits at call | 1,377 | 1,437 |
| 5.3 Bank overdraft | | |
| 5.4 Other (provide details) | | |
| Total: cash at end of quarter (item 1.22) | 1,437 | 1,562 |

Changes in interests in mining tenements- Nil

| | Tenement reference | Nature of interest (note (2)) | Interest at beginning of quarter | Interest at end of quarter |
|-----|---|----------------------------------|--|----------------------------------|
| 6.1 | Interests in mining tenements relinquished, reduced or lapsed | | | |
| 6.2 | Interests in mining tenements acquired or increased | | | |

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

| | Total number | Number quoted | Issue price per security (see note 3) (cents) | Amount paid up per security (see note 3) (cents) |
|--|------------------------------------|--------------------|---|--|
| 7.1 Preference + securities <i>(description)</i> | | | | |
| 7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions | | | | |
| 7.3 +Ordinary securities | 119,660,641 | 119,660,641 | | Fully Paid |
| 7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs | | | | |
| 7.5 +Convertible debt securities <i>(description)</i> | | | | |
| 7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted | | | | |
| 7.7 Options <i>(description and conversion factor)</i> | | | <i>Exercise price</i> | <i>Expiry date</i> |
| | 7,500,000 | - | 34.017 cents | 31/10/ 2014 |
| | 7,500,000 | - | 50.0 cents | 22/11/2015 |
| | 562,500 | - | 31.0 cents | 30/11/2012 |
| | 330,000 | - | 35.0 cents | 31/05/2013 |
| | 630,000 | - | 35.0 cents | 30/11/2012 |
| | 1,225,000 | - | 30.0 cents | 30/06/2013 |
| | 1,000,000 | - | 34.0 cents | 31/10/2013 |
| | 6,100,000 | - | 40.0 cents | 17/09/2014 |
| | 8,000,000 | - | 40.0 cents | 17/05/2017 |
| | 10,000,000 | - | 40.0 cents | 22/06/2017 |
| | 200,000 | - | 40.0 cents | 31/07/2014 |
| | 3,000,000 | - | 14.5 cents | 02/09/2014 |
| | 300,000 | - | 15.08 cents | 07/12/2014 |
| 7.8 Issued during quarter | | | | |
| 7.9 Exercised during quarter | | | | |
| 7.10 Expired/cancelled during quarter | 225,000 1,500,000 | - - | 30.0 40.0 | 30/06/2013 17/09/2014 |

+ See chapter 19 for defined terms.

| | | | | |
|------|--|--|--|--|
| 7.11 | Debentures <i>(totals only)</i> | | | |
| 7.12 | Unsecured notes <i>(totals only)</i> | | | |

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does ~~not~~* *(delete one)* give a true and fair view of the matters disclosed.

Sign here: Eric Gordon Moore
(Company Secretary)

Date: 31 October 2012

Print name: Eric Gordon Moore

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.