DESERT MINES AND METALS LIMITED

ABN 56 123 102 974

ANNUAL FINANCIAL REPORT

30 JUNE 2013

Contents

DIRECTORS' REPORT

Desert Mines and Metals Limited ("the Company" of "Desert") 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 Mines and Metals Limited and its controlled entities, for the year ended 30 June 2013.

DIRECTORS

The names and details of the Directors of Desert Mines and Metals 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, resources 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 was for many years a director and senior executive of the Australian and Asian subsidiaries of a large multinational oil services company. He is now the Legal Manager of the regional operations of a large oil and gas company. He has been a director of a number of Australian public companies 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 and is a non-executive director of listed company Scotgold Resources Limited. He is responsible for monitoring the Company's corporate governance.

Managing Director
Mr Chris Rashleigh BSc (Hons), MAusIMM, MPDAC, 1st Class Mine Manager (Certificate of Competency, Qld) (appointed 31 May 2013)

Chris Rashleigh, the Managing Director, graduated from Leeds University in 1970, majoring in mining engineering. He has had almost 40 years of experience in the resources industry, both in Australia and overseas. He has held senior operational and management positions with Mount Isa Mines and British Steel Corporation Overseas Services, and has an excellent knowledge of both open pit and underground mining. His corporate experience with North Queensland Resources, Billiton Australia, Acacia Resources Limited and AngloGold Australasia Limited has allowed him to work on substantial acquisitions, divestment and property valuation assignments. Chris has substantial skills in the areas of mine development and operational management. He also has proven ability in the production and management of pre-feasibility and feasibility studies of mineral deposits, together with their economic assessments. His executive role will include oversight of the day to day business management of the Company.

Non-executive Director
Mr Sang Bom Hong LLB, BEcon (Accounting**)** (appointed 1 July 2013)

Mr Sang Hong, non-executive Director, is a lawyer and brings to Desert's Board his very wide ranging experience in legal and corporate matters, particularly in relation to South Korea, where his fluency with the Korean language will prove invaluable. His consulting role will include corporate strategy, particularly in relation to the Company's South Korean projects, assistance with fundraising as required, and oversight of the day to day business management of the Company.

Executive Director
Dr Robert Spencer Taylor BSc (Mining Geology), PhD (Geology), ARSM, Member IMM (resigned 31 May 2013)

Desert Mines and Metals's Executive Director, Rob Taylor, comes from a large company background and brings to Desert Mines 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 Martin James Pyle BSc, MBA (appointed 6 May 2010)

Martin has a broad range of experience gained over more than 25 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 Midwinter Resources No Liability and non-executive director of Gold Road Resources Limited. Martin 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 also served as a director of the following listed companies:

Syndicated Metals Limited	24/05/2010 to 29/11/2011
Tanami Gold NL	15/04/2013 to 20/04/2013

Company Secretary
Eric Gordon Moore (appointed 27 July 2012)

Eric (Ric) Moore has been Desert Mines and Metal's General Manager since its foundation. He has held senior managerial positions in a number of resource companies during the past 20 years and prior to joining Desert Mines and Metals Ltd was Company Secretary of a public listed company between 1996 and 2005. Ric has also been appointed as Company Secretary of Aurora Minerals Ltd.

PRINCIPAL ACTIVITIES

The principal activity of the group is exploration in Western Australia and assessing, and if appropriate, acquiring exploration and mine development projects worldwide.

OPERATING RESULTS

The consolidated loss of the group for the financial year after providing for income tax amounted to $1,569,365 (2012: $1,548,225).

FINANCIAL POSITION

The net assets of the group at 30 June 2013 were $1,347,691 (2012:$1,841,257). At year end, the group had $1.33 million net cash (2012: $1.56 million).

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

On 31 May 2013, the company acquired 100% of the issued capital of Korean Resources Limited, which through its wholly owned subsidiary Suyeon Mining Company Limited has contractual rights to acquire the Daehwa molybdenum-tungsten exploration project in South Korea. Consideration comprised the issue to vendors of 20,700,000 ordinary fully paid shares in the Company and the forgiveness of a loan of $100,000.

Other than the above there have been no significant changes in the state of affairs of the Company.

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

On 1 July 2013, Mr Sang Hong was appointed to the board of directors of the Company.

On 22 August 2013 the following options were issued:
- 300,000 options expiring on 22 August 2014 were issued to consultants.
- 8,100,000 options expiring 22 August 2015 were issued to Directors and consultants.
- 8,100,000 options expiring on 22 August 2016 were issued to Directors and consultants.

Other than the above, there were no other known significant events from the end of the financial year to the date of this report.

REVIEW OF OPERATIONS

The primary activity of Desert during the year was the acquisition of the South Korean Molybdenum-Tungsten ("Mo-W") project and exploration of the Camel Hills Joint Venture.

Daehwa South Korean Molybdenum-Tungsten Project
On 31 May 2013 Desert completed the acquisition of Korean Resources Limited (KRL) from Indo Gold Ltd, a public unlisted Australian company. KRL, through its wholly owned Korean subsidiary, Suyeon Mining Company Limited (SMCL) has contractual rights to acquire 100% ownership of the molybdenum-tungsten exploration properties in South Korea collectively known as the Daehwa Project.

The project is located some 100km southeast of Seoul in Chungbuk Province in the centre of South Korea. The project area contains two former Mo-W mines, Daehwa and Donsan and is comprised of three Mining Rights with granted tenure until 2027-2028 subject to meeting performance conditions.

At completion of the acquisition Mr Chris Rashleigh was appointed Managing Director of Desert. Mr Rashleigh is a mining engineer with over 43 years of experience in the minerals industry both within Australia and internationally. He is a director of KRL and was instrumental in establishing KRL's corporate and exploration activities in South Korea.

Further to the South Korea acquisition, the Board of Desert was pleased to announce the appointment of Mr Sang Bom Hong as a non-executive director of the Company effective from 1 July 2013.

A full information presentation of the Daehwa Project was lodged with ASX on 24 July and shareholders are encouraged to visit the Company's website to access that information.

Camel Hills Joint Venture (Desert has earned an initial 51%)
Camel Hills is a large project covering some 1,200km^2 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. During the year, Desert completed the necessary expenditure to earn a 51% participating interest in the joint venture from Aurora Minerals Limited (49%).

Exploration for the year comprised prospecting and mapping, soil sampling, geophysical data interpretation and reverse circulation drilling.

Desert has been granted Western Australian Department of Mines and Petroleum Exploration Incentive Scheme co-funding for further drilling at Innouendy where the second, deeper EM anomaly remains untested.

During the December 2012 quarter Desert completed a 1:4 non-renounceable rights issue of ordinary shares which raised $588,143 before costs of the issue.

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of Directors held during the financial year ended 30 June 2013 and the number of meetings attended by each Director:

	Full Board Meetings		Meetings by Circular Resolution		Remuneration Committee Meetings	
Director	**Number Attended**	**Number eligible to attend**	**Number Attended**	**Number eligible to attend**	**Number Attended**	**Number eligible to attend**
Phillip Jackson	3	3	9	9	1	1
Martin Pyle	3	3	9	9	1	1
Robert Taylor	2	2	8	8	1	1
Chris Rashleigh	1	1	1	1	0	0

Weekly management meetings are held in which all directors participate when available.

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

Company performance, shareholder wealth and director and executive remuneration
The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives by the issue of options to the directors and executives to encourage the alignment of personal and shareholder interests. The company believes this policy will be effective in increasing shareholder wealth.

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 pays Directors' fees as additional 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 REPORT (audited)

Terms and Conditions of Engagement (as at the date of this report):

Name	Role	Associated Company	Date of Agreement	Date last Modified	Current Annual Consulting Fee	Directors' Fee	Notice Period Required from Company	Notice Period Required from Consultant	Termination Fees Payable
Directors									
Chris Rashleigh	Managing Director	Chris Rashleigh Mining Pty Ltd	31 May 2013	31 May 2013	$120,000	-	4 months	2 months	$40,000
Phillip Jackson	Chairman	Holihox Pty Ltd	13 April 2010	21 Aug 2013	$25,000	$10,925	6 months	6 months	$17,962
Martin Pyle	Executive Director	Whitby (2009) Pty Ltd	06 May 2010	21 Aug 2013	$30,925	-	6 months	2 months	$15,462
Sang Hong	Non-executive Director	Emchon Pty Ltd	01 July 2013	21 Aug 2013	$20,400	$10,925	1 month	1 month	$2,610
Specified Executives						-			
Eric Moore	General Manager/ Company Secretary	Golden Kilometre Mines Pty Ltd	11 June 2007	01 Oct 2012	$39,250	-	2 months	2 months	$6,542

REMUNERATION REPORT (audited)

(a) Details of Key Management Personnel Remuneration

The remuneration of the key management personnel, being the Directors, and other specified executives is summarised below.

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:

2013	Short-term Benefits	Long Term Benefits	Other Benefits	Total	Represented by Equity
	Fees Paid to Associated Entity	Equity (i)			
	$	$	$	$	%
Directors					
C Rashleigh	10,000	-	-	10,000	-
P Jackson	22,500	-	-	22,500	-
M Pyle	37,500	29,007	-	66,507	44
R Taylor (ii)	34,375	-	-	34,375	-
Specified Executives*					
P Ruttledge (iii)	1,379	353	-	1,732	20
J Jordan (iv)	8,922	3,474	-	12,396	28
G Watkins	19,001	5,202	-	24,203	21
E Moore	49,063	13,859	-	62,922	22
	182,740	**51,895**	**-**	**234,635**	

(i) Long Term Benefits – Equity relates to options granted in prior periods vesting over the year
(ii) Resigned as director on 31 May 2013
(iii) Resigned 27 July 2012
(iv) Resigned 21 August 2012
* Specified executives are not key management personnel as defined by Accounting Standard AASB 124.

2012	Short-term Benefits	Long Term Benefits	Other Benefits	Total	Represented by equity
	Fees Paid to Associated Entity	Equity(i)			
	$	$	$	$	%
Directors					
R Taylor	75,000	-	-	75,000	-
P Jackson	45,000	-	-	45,000	-
M Pyle	87,502	69,655		157,157	44
Specified Executives*					
P Ruttledge	19,008	6,441	-	25,449	25
J Jordan	69,642	32,204	-	101,846	32
K Banks	35,438	15,146	-	50,584	30
G Watkins	62,706	21,470	-	84,176	26
E Moore	73,500	21,470	-	94,970	23
	467,796	**166,386**	**-**	**634,182**	

(i) Long Term Benefits – Equity relates to options granted in prior periods vesting over the year
* Specified executives are not key management personnel as defined by Accounting Standard AASB 124

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 or Specified Executives.

REMUNERATION REPORT (audited)

(c) Compensation Options

Options granted as Compensation

No options were shares were issued to the Key Management Personnel or Specified Executives during the years ended 30 June 2013 and 30 June 2012.

Subsequent to year end, options were issued as per the table below.

	Number Granted	Grant Date	Exercise Price	Expiry Date	Vesting Date
2014					
Directors					
C Rashleigh	2,500,000	21 Aug 2013	$0.0343	22 Aug 2015	22 Aug 2013
C Rashleigh	2,500,000	21 Aug 2013	$0.0457	22 Aug 2016	22 Aug 2013
M Pyle	1,000,000	21 Aug 2013	$0.0343	22 Aug 2015	22 Aug 2013
M Pyle	1,000,000	21 Aug 2013	$0.0457	22 Aug 2016	22 Aug 2013
P Jackson	1,000,000	21 Aug 2013	$0.0343	22 Aug 2015	22 Aug 2013
P Jackson	1,000,000	21 Aug 2013	$0.0457	22 Aug 2016	22 Aug 2013
S Hong	1,000,000	21 Aug 2013	$0.0343	22 Aug 2015	22 Aug 2013
S Hong	1,000,000	21 Aug 2013	$0.0457	22 Aug 2016	22 Aug 2013
Specified Executives					
E Moore	1,000,000	21 Aug 2013	$0.0343	22 Aug 2015	22 Aug 2013
E Moore	1,000,000	21 Aug 2013	$0.0457	22 Aug 2016	22 Aug 2013
	13,000,000				

All options were granted for nil consideration.

END OF REMUNERATION REPORT

PARTICULARS OF DIRECTORS' INTERESTS IN SHARES IN THE COMPANY

The relevant interest of each Director 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
C Rashleigh	871,539	-	5,000,000	-
P Jackson	1,450,312	-	7,000,000	-
M Pyle	-	625,000	-	5,000,000
S Hong	-	-	2,000,000	-

SHARE OPTIONS

Options to take up ordinary fully paid shares in the Company at the date of this report are as follows:

Number of Options	Listed/Unlisted	Grant Date	Exercise Price	Expiry Date
7,500,000	Unlisted	30 Nov 07	$0.34017	31 Oct 14
7,500,000	Unlisted	15 Dec 08	$0.50	22 Nov 15
8,000,000	Unlisted	18 June 10	$0.40	17 May 17
3,850,000	Unlisted	18 June 10	$0.40	17 Sept 14
1,000,000	Unlisted	10 Nov 09	$0.34	31 Oct 13
10,000,000	Unlisted	23 June 10	$0.40	22 June 17
200,000	Unlisted	31 Jul 10	$0.40	31 July 14
3,000,000	Unlisted	02 Sept 10	$0.145	02 Sept 14
300,000	Unlisted	07 Dec 10	$0.1508	07 Dec 14
300,000	Unlisted	21 Aug 13	$0.05	22 Aug 14
8,100,000	Unlisted	21 Aug 13	$0.0343	22 Aug 15
8,100,000	Unlisted	21 Aug 13	$0.0457	22 Aug 16

50,000 options issued to consultants in July 2009 were cancelled on 2 July 2012,175,000 cancelled on 30 July 2012, a further 250,000 cancelled on 11 February 2013 and 975,000 expired on 30 June 2013. 1,500,000 options issued to consultants in June 2010 were cancelled on 30 August 2012, 1,000,000 were cancelled on 14 November 2012, 750,000 were cancelled on 22 November 2012, and a further 500,000 were cancelled on 11 February 2013. 562,500 options issued to employees in December 2007 expired on 30 November 2012. 630,000 options issued to employees in August 2008 expired on 30 November 2012. 300,000 options expiring on 22 August 2014 were issued to consultants on 22 August 2013. 8,100,000 options expiring 22 August 2015 were issued to Directors and consultants on 22 August 2013. 8,100,000 options expiring on 22 August 2016 were issued to Directors and consultants on 22 August 2013.

The names of all persons who currently hold options are entered in the register kept by the Company pursuant to section 170 of the Corporations Act (2001). Inspection of the register and of the documents kept pursuant to subsection 170 (3) may be made free of charge.

Options do not entitle their holders to participate in entitlement offers of new shares in the Company unless the holders first exercise their options. No person entitled to exercise any option above has or had, by virtue of the option, a right to participate in any share issue of any other body corporate.

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.

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 2013.

AUDITOR'S INDEPENDENCE DECLARATION

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, 26 September 2013

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013

		Consolidated	
	Note	**2013 $**	**2012 $**
Revenue	4	92,634	206,506
Administration expenses	5	(381,879)	(676,717)
Exploration and evaluation expenditure	11	(1,280,120)	(1,078,014)
Loss before tax		(1,569,365)	(1,548,225)
Income tax expense	6	-	-
Net loss for the year		(1,569,365)	(1,548,225)
Other comprehensive income			
Item that may be reclassified subsequently to operating result			
Foreign currency translation		920	-
Total comprehensive loss for the year		(1,568,445)	(1,548,225)
Basic loss per share (cents per share)	28	(1.18)	(1.29)
Diluted loss per share (cents per share)	28	(1.18)	(1.29)

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

	Note	Consolidated 2013 $	Consolidated 2012 $
Current Assets			
Cash and cash equivalents	7	1,326,904	1,562,009
Trade and other receivables	8	225,203	292,099
Other current assets	9	42,311	18,362
Total current assets		1,594,418	1,872,470
Non-Current Assets			
Plant and equipment	10	31,946	60,700
Exploration and evaluation expenditure	11	-	-
Total non-current assets		31,946	60,700
Total assets		1,626,364	1,933,170
Current Liabilities			
Trade and other payables	13	278,673	91,913
Total current liabilities		278,673	91,913
Total liabilities		278,673	91,913
Net Assets		1,347,691	1,841,257
Equity			
Issued capital	14	14,140,598	13,061,977
Reserves	15	3,905,939	3,908,761
Accumulated losses		(16,698,846)	(15,129,481)
Total Equity		1,347,691	1,841,257

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2013

	Issued Capital	Accumulated Losses	Foreign Currency Translation Reserve	Share Based Payments Reserve	Total
	$	$	$	$	$
CONSOLIDATED					
At 1 July 2011	13,061,977	(13,581,256)	-	3,768,325	3,249,046
Loss for the year	-	(1,548,225)	-	-	(1,548,225)
Total comprehensive loss for the year	-	(1,548,225)	-	-	(1,548,225)
Transactions with owners in their capacity as owners:					
Share based payments	-	-	-	140,436	140,436
At 30 June 2012	13,061,977	(15,129,481)		3,908,761	1,841,257
At 1 July 2012	13,061,977	(15,129,481)	-	3,908,761	1,841,257
Loss for the year	-	(1,569,365)	-	-	(1,569,365)
Other comprehensive income		-	920	-	920
Total comprehensive loss for the year	-	(1,569,365)	920	-	(1,568,445)
Transactions with owners in their capacity as owners:					
Share based payments	-	-	-	(3,742)	(3,742)
Issue of share capital	1,105,643	-	-	-	1,105,643
Transaction costs	(27,022)	-	-	-	(27,022)
At 30 June 2013	14,140,598	(16,698,846)	920	3,905,019	1,347,691

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2013

	Note	Consolidated 2013 $	2012 $
Cash flows from operating activities			
Other payments to suppliers and employees		(314,717)	(507,925)
Payments for exploration expenditure		(623,547)	(1,343,126)
Other income		177,047	7,615
Interest received		66,433	124,689
Net cash (outflow) from operating activities	27	(694,784)	(1,718,747)
Cash flows from investing activities			
Receipt on sale of assets		-	350
Payments for purchase of plant and equipment		(1,698)	-
Cash received from acquisition of subsidiary	29	256	-
Loan to other entity		(100,000)	-
Net cash inflow from investing activities		(101,442)	350
Cash flows from financing activities			
Proceeds from issue of shares		588,143	-
Payment for share issue costs		(27,022)	-
Net cash inflow from financing activities		561,121	-
Net (decrease) in cash held		(235,105)	(1,718,397)
Cash at the beginning of the financial year		1,562,009	3,280,406
Cash at the end of the financial year	7	1,326,904	1,562,009

The accompanying notes form part of these financial statements

NOTE 1: BASIS OF PREPARATION

The consolidated financial statements of Desert Mines and Metals Limited comprises the Company and its subsidiaries (together referred to as the 'group' or 'consolidated entity'). The separate financial statements of the parent entity, Desert Mines and Metals Limited, have not been presented within this financial report as permitted by the *Corporations Act 2001*.

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*. The group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

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

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB.

Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The financial statements were authorised for issue on 26 September 2013 by the directors of the company.

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 Mines and Metals Limited at the end of the reporting period. A controlled entity is any entity over which Desert Mines and Metals Limited has the ability and the right 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 in full 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 reported 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 group 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 group'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

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

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

(g) Business combinations

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) Comparatives

Where required by accounting standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

(j) Earnings per share

Basic earnings per share
Basic earnings per share is determined by dividing the operating profit after income tax by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(k) Interest in Joint Venture

The group's share of the assets, liabilities, revenue and expense of joint venture operations are included in the appropriate items of the statements of financial performance and financial position.

(l) Cash and cash equivalents

For the purpose of the statement of 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.

(m) 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.

(n) Equity based payments

The group 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 group 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).

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

(n) Equity based payments *(continued)*

At each subsequent reporting date until vesting, the cumulative charge to the statement of comprehensive income reflects:

- the grant date fair value of the options;
- 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 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.

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.

(o) 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%

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

(p) Impairment of assets

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

(q) 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.

(r) Financial Instruments

Recognition and initial measurement
Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the group commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement
Finance instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or cost.

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the *effective interest method*.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense item in profit or loss.

The group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

(i) *Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, where they are expected to mature within 12 months after the end of the reporting period.

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

(r) Financial Instruments *(continued)*

(ii) *Financial assets at fair value through profit or loss*
Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

(iii) *Financial assets at fair value through reserve*
Available-for-sale investments are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with any remeasurements other than impairment losses and foreign exchange gains and losses recognised in other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are classified as non-current assets when they are expected to be sold after 12 months from the end of the reporting period. All other available-for-sale financial assets are classified as current assets.

(iv) *Financial liabilities*
Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Impairment
At the end of each reporting period, the group assesses whether there is objective evidence that a financial asset has been impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant (30% or more) or prolonged decline in the market value (12 months or greater) of the instrument is considered to constitute impairment. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

Derecognition
Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

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

(s) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

(t) 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 valuation model. 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.

(u) Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

(v) Foreign Currency Transactions

The functional currency of each of the Company's controlled entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the group's functional and presentation currency.

Transactions in foreign currencies have been converted at rates of exchange ruling on the date of those transactions. At reporting date, amounts receivable and payable in foreign currencies are translated to Australian currency at rates of exchange at that date. Realised and unrealised gains and losses are brought to account in determining the profit or loss for the financial year.

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting period;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed.

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

(w) 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 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.

New accounting standards issued but not yet effective

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the group. The group has decided not to early adopt any of the new and amended pronouncements. The group's assessment of the new and amended pronouncements that are relevant to the group but applicable in future reporting periods is set out below:

– AASB 9*: Financial Instruments* (December 2010) and AASB 2010–7: *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010).*

  These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

  The key changes made to accounting requirements include:

  - simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
  - simplifying the requirements for embedded derivatives;
  - removing the tainting rules associated with held-to-maturity assets;
  - removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
  - allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
  - requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
  - requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

  These Standards were mandatorily applicable for annual reporting periods commencing on or after 1 January 2013. However, AASB 2012–6*: Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures* (issued September 2012) defers the mandatory application date of AASB 9 from 1 January 2013 to 1 January 2015. In light of the change to the mandatory effective date, the group is expected to adopt AASB 9 and AASB 2010–7 for the annual reporting period ending 31 December 2015. Although the directors anticipate that the adoption of AASB 9 and AASB 2010–7 may have a significant impact on the group's financial instruments, it is impracticable at this stage to provide a reasonable estimate of such impact.

– AASB 10*: Consolidated Financial Statements*, AASB 11: *Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities*, AASB 127: *Separate Financial Statements* (August 2011) and AASB 128: *Investments in Associates and Joint Ventures* (August 2011) (as amended by AASB 2012–10: *Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments*), and AASB 2011–7: *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (applicable for annual reporting periods commencing on or after 1 January 2013).

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

AASB 10 replaces parts of AASB 127: *Consolidated and Separate Financial Statements* (March 2008, as amended) and Interpretation 112: *Consolidation – Special Purpose Entities*. AASB 10 provides a revised definition of "control" and additional application guidance so that a single control model will apply to all investees. This Standard is not expected to significantly impact the group's financial statements.

AASB 11 replaces AASB 131: *Interests in Joint Ventures* (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either "joint operations" (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or "joint ventures" (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement).

AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a "structured entity", replacing the "special purpose entity" concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities. This Standard will affect disclosures only and is not expected to significantly impact the group's financial statements.

To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued. The revisions made to AASB 127 and AASB 128 are not expected to significantly impact the group's financial statements.

– AASB 13: *Fair Value Measurement* and AASB 2011–8: *Amendments to Australian Accounting Standards arising from AASB 13* (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurement.

AASB 13 requires:

- inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and
- enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) to be measured at fair value.

These Standards are expected to result in more detailed fair value disclosures, but are not expected to significantly impact the amounts recognised in the group's financial statements.

– AASB 2011–4: *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (applicable for annual reporting periods beginning on or after 1 July 2013).

This Standard makes amendments to AASB 124: *Related Party Disclosures* to remove the individual key management personnel disclosure requirements (including paras Aus29.1 to Aus29.9.3). These amendments serve a number of purposes, including furthering trans-Tasman convergence, removing differences from IFRSs, and avoiding any potential confusion with the equivalent *Corporations Act 2001* disclosure requirements.

This Standard is not expected to significantly impact the group's financial report as a whole because:

- some of the disclosures removed from AASB 124 will continue to be required under s 300A of the Corporations Act, which is applicable to the group; and
- AASB 2011–4 does not affect the related party disclosure requirements in AASB 124 applicable to all reporting entities, and some of these requirements require similar disclosures to those removed by AASB 2011–4.

– AASB 119: *Employee Benefits* (September 2011) and AASB 2011–10: *Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)* (applicable for annual reporting periods commencing on or after 1 January 2013).

These Standards introduce a number of changes to the presentation and disclosure of defined benefit plans, including:

- removal of the "corridor" approach from AASB 119, thereby requiring entities to recognise all changes in a net defined benefit liability/(asset) when they occur; and
- disaggregation of changes in a net defined benefit liability/(asset) into service cost, net interest expense and remeasurements and recognition of:

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

(i) service cost and net interest expense in profit or loss; and

(ii) remeasurements in other comprehensive income.

AASB 119 (September 2011) also includes changes to the criteria for determining when termination benefits should be recognised as an obligation.

This Standard is not expected to significantly impact the group’s financial statements.

– AASB 2012–2: *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities* (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 2012–2 principally amends AASB 7: *Financial Instruments: Disclosures* to require entities to include information that will enable users of their financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity’s recognised financial assets and recognised financial liabilities, on the entity’s financial position.

This Standard is not expected to significantly impact the group’s financial statements.

– AASB 2012–3: *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities* (applicable for annual reporting periods commencing on or after 1 January 2014).

This Standard adds application guidance to AASB 132: *Financial Instruments: Presentation* to address potential inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of “currently has a legally enforceable right of set-off” and that some gross settlement systems may be considered equivalent to net settlement.

This Standard is not expected to significantly impact the group’s financial statements.

– AASB 2012–5: *Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011* (applicable for annual reporting periods commencing on or after 1 January 2013).

This Standard amends a number of Australian Accounting Standards as a consequence of the issuance of *Annual Improvements to IFRSs 2009–2011 Cycle* by the International Accounting Standards Board, including:

- AASB 1: *First-time Adoption of Australian Accounting Standards* to clarify the requirements in respect of the application of AASB 1 when an entity discontinues and then resumes applying Australian Accounting Standards;
- AASB 101: *Presentation of Financial Statements* and AASB 134: *Interim Financial Reporting* to clarify the requirements for presenting comparative information;
- AASB 116: *Property, Plant and Equipment* to clarify the accounting treatment of spare parts, stand-by equipment and servicing equipment;
- AASB 132 and Interpretation 2: *Members’ Shares in Co-operative Entities and Similar Instruments* to clarify the accounting treatment of any tax effect of a distribution to holders of equity instruments; and
- AASB 134 to facilitate consistency between the measures of total assets and liabilities an entity reports for its segments in its interim and annual financial statements.

This Standard is not expected to significantly impact the group’s financial statements.

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 during the year was 3.69% (2012: 5.15%).

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.

Financial Assets	Effect of decrease or increase of interest rate on profit and equity of the Group			
	-1%		+1%	
	Profit $	Equity $	Profit $	Equity $
CONSOLIDATED				
30 June 2013				
Total increase/(decrease)	(16,921)	(16,921)	16,921	16,921
30 June 2012				
Total increase/(decrease)	(23,678)	(23,678)	23,678	23,678

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

	Consolidated	
	2013 $	2012 $
Trade and other receivables	225,203	292,099
Cash and cash equivalents	1,326,904	1,562,009

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

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.

NOTE 4: REVENUE

	Consolidated 2013 $	Consolidated 2012 $
Interest income	62,428	121,895
Joint Venture management income	29,512	-
Other income	694	84,611
	92,634	206,506

NOTE 5: EXPENSES

	Consolidated 2013 $	Consolidated 2012 $
Loss before income tax expense includes the following specific expenses:		
Depreciation	33,387	50,405
Less: capitalised to exploration	(33,212)	(50,299)
	175	106
Consulting and labour hire	180,053	332,145
Salaries and wages	7,335	-
Facility charges	71,400	84,000
Insurance and legal	52,693	34,234
Share based compensation	(3,742)	140,436
ASX, ASIC and related fees	33,446	33,002
Loss on disposal of fixed assets	-	613
Other expenses	40,519	52,181
	381,879	676,717

NOTE 6: INCOME TAX

(a) Income tax expense/benefit

	2013	2012
The components of income tax expense/benefit comprise:		
Current tax	-	-
Deferred tax	-	-
	-	-

(b) Reconciliation of income tax expense/(benefit) to prima facie tax payable on accounting profit/(loss)

	2013	2012
Operating (loss) before income tax	(1,569,365)	(1,548,225)
Prima facie tax payable/(benefit) at Australian rate of 30% (2012: 30%)	(457,151)	(464,468)
Prima facie tax payable/(benefit) at Korean rate of 24.2% (2012: 24.2%)	(10,795)	-
Adjusted for tax effect of the following amounts:		
Taxable/non-deductible items	241,246	42,131
Non-taxable/deductible items	(15,962)	(41,860)
(Over)/Under-provision in prior year	(23,114)	61,583
Tax benefits not brought to account	265,776	402,614
Income tax expense	-	-

NOTE 6: INCOME TAX (continued)

(c) Deferred tax assets and liabilities not brought to account

	Consolidated 2013 $	Consolidated 2012 $
The directors estimate that the potential future income tax benefits carried forward but not brought to account at year end at the Australian corporate tax rate of 30% (2012: 30%) are made up as follows:		
Carry forward tax losses	3,961,159	3,696,425
Deductible temporary differences	6,155	6,314
Taxable temporary differences	(1,127)	(2,329)
	3,966,187	3,700,410

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.

	Consolidated 2013 $	Consolidated 2012 $
NOTE 7: CASH AND CASH EQUIVALENTS		
Cash at bank	1,326,904	1,562,009
	1,326,904	1,562,009
NOTE 8: TRADE AND OTHER RECEIVABLES		
Bonds	118,028	186,868
Interest receivable	3,757	7,763
GST receivable	24,162	20,471
Others	79,256	76,997
	225,203	292,099
NOTE 9: OTHER CURRENT ASSETS		
Prepayments	42,311	18,362
	42,311	18,362
NOTE 10: PLANT AND EQUIPMENT		
Office furniture and equipment – at cost	4,101	4,101
Accumulated depreciation	(3,446)	(3,340)
	655	761
Field equipment – at cost	70,716	63,623
Accumulated depreciation	(55,034)	(44,851)
	15,682	18,772
Motor vehicles and mobile equipment – at cost	302,991	294,762
Accumulated depreciation	(287,382)	(253,595)
	15,609	41,167
Total plant and equipment	31,946	60,700

NOTE 10: PLANT AND EQUIPMENT (continued)

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 2012	761	18,772	41,167	60,700
Acquisitions during the year	-	2,959	1,673	4,632
Depreciation expense	(106)	(6,050)	(27,231)	(33,387)
Carrying amount at 30 June 2013	655	15,681	15,609	31,945
Carrying amount at 1 July 2011	1,172	26,697	84,199	112,068
Disposals during the year	-	-	(963)	(963)
Depreciation expense	(411)	(7,925)	(42,069)	(50,405)
Carrying amount at 30 June 2012	761	18,772	41,167	60,700

NOTE 11: DEFERRED EXPLORATION AND EVALUATION COSTS

	Consolidated 2013 $	Consolidated 2012 $
Balance at beginning of period	-	-
Exploration and evaluation costs incurred	1,280,120	1,078,014
Exploration and evaluation costs written off	(1,280,120)	(1,078,014)
Balance at end of year	-	-

NOTE 12: CONTROLLED ENTITIES

	Country of Incorporation	Percentage Owned 2013	Percentage Owned 2012
Parent Entity:			
Desert Mines and Metals Ltd	Australia	-	-
Subsidiaries of Desert Mines and Metals Ltd:			
Dawn Metals Pty Ltd (formerly Dawn Metals Ltd)	Australia	100%	100%
Korean Resources Pty Ltd (formerly Korean Resources Ltd)	Australia	100%	0%
Suyeon Mining Company Limited	South Korea	100%	0%

The group's registered office is located at 271 Great Eastern Highway, Belmont, Western Australia.

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2(a).

NOTE 13: CURRENT TRADE AND OTHER PAYABLES

	Consolidated 2013 $	Consolidated 2012 $
Amount payable to ultimate parent entity	190,506	40,708
Accruals and other creditors	88,167	51,205
	278,673	91,913

NOTE 14: ISSUED CAPITAL

	2013 $	2012 $
159,965,418 (2012: 119,660,641) fully paid ordinary shares	14,140,598	13,061,977

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 2013	Number 2012	$ 2013	$ 2012
At the beginning of the period	119,660,641	119,660,641	13,061,977	13,061,977
Placement	19,604,777	-	588,143	-
Costs of share placement	-	-	(23,520)	-
Issue of shares as consideration	20,700,000	-	517,500	-
Transaction costs	-	-	(3,502)	-
At reporting date	159,965,418	119,660,641	14,140,598	13,061,977

(b) Options

Options to take up fully paid ordinary fully paid shares in the Company at 30 June 2013 are as follows:

Number of Options	Listed/Unlisted	Exercise Price	Expiry Date
7,500,000	Unlisted	$0.34017	31 Oct 2014
7,500,000	Unlisted	$0.50	22 Nov 2015
8,000,000	Unlisted	$0.40	17 May 2017
3,850,000	Unlisted	$0.40	17 Sep 2014
1,000,000	Unlisted	$0.34	31 Oct 2013
10,000,000	Unlisted	$0.40	22 June 2017
200,000	Unlisted	$0.40	31 July 2014
3,000,000	Unlisted	$0.145	02 Sep 2014
300,000	Unlisted	$0.1508	07 Dec 2014
41,350,000			

NOTE 15 – RESERVES

	Consolidated 2013 $	2012 $
Option reserve [(a)]	3,905,019	3,908,761
Foreign currency translation reserve [(b)]	920	-
	3,905,939	3,908,761

(a) The option reserve records items recognised as expenses on valuation of share options.
(b) The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

NOTE 16: SHARE BASED PAYMENTS

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.

(a) Movements in Options

	Weighted average exercise price 2013	Number of options 2013	Weighted average exercise price 2012	Number of options 2012
Outstanding at 1 July	$0.3825	48,072,500	$0.3874	55,272,500
Forfeited/cancelled during the period	$0.3638	(6,722,500)	$0.4201	(7,200,000)
Granted during the period	-	-	-	-
Outstanding at 30 June [(1)]	$0.3855	41,350,000	$0.3825	48,072,500
Exercisable at 30 June	$0.3909	37,650,000	$0.3919	40,772,500

(1) The weighted average life of the outstanding options is 954 days or 2.61 years (2012: 1,217 days or 3.33 years)

(b) Fair Value

The fair value of any options granted are estimated at the date of grant using the Black-Scholes valuation model.

There were no options granted during the year ended 30 June 2013.

There were no options granted during the year ended 30 June 2012.

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

The group has granted no options during the year ended 30 June 2013.

The group has granted no options during the year ended 30 June 2012.

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

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

There were no options issued as part of the EOP during the financial year.

NOTE 16: SHARE BASED PAYMENTS *(continued)*

(e) Share based payment to vendors

Exploration Expenditure
During the financial year the company issued 20,700,000 shares to the vendor of Korean Resources Pty Ltd as consideration for the acquisition of 100% interest in Korean Resources Pty Ltd. The fair value of the shares of $517,500 was determined by reference to the market value on the Australian Securities Exchange on the date the transaction was approved by shareholders.

NOTE 17: 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 Mines and Metals Limited at any time during the financial year are as follows:

Key Management Personnel

P S R Jackson	Chairman (Non-Executive)
C Rashleigh	Managing Director (Appointed 31 May 2013)
M J Pyle	Executive Director
R S Taylor	Executive Director (Resigned 31 May 2013)

Key management personnel remuneration

	Consolidated	
	2013	**2012**
	$	**$**
Short-term personnel benefits	104,375	207,502
Share based payments	29,007	69,655
	133,382	277,157

Refer to the remuneration report contained in the directors' report for details of the remuneration paid or payable to each member of the group's key management personnel for the year ended 30 June 2013.

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

	Opening Balance	Purchased during Period	Net Change Other (i)	Options Exercised	Closing Balance
2013					
R Taylor	100,000	25,000	(125,000)	-	-
P Jackson	1,160,250	290,062	-	-	1,450,312
M Pyle	500,000	125,000	-	-	625,000
C Rashleigh	-	871,539	-	-	871,539
2012					
R Taylor	100,000	-	-	-	100,000
P Jackson	1,160,250	-	-	-	1,160,250
M Pyle	-	500,000	-	-	500,000

(i) Net Change Other – R Taylor resigned as a director of the Company on 31 May 2013.

NOTE 17: KEY MANAGEMENT PERSONNEL COMPENSATION *(continued)*

(c) 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.

	Opening Balance	Received as Remuneration	Net Change Other (i)	Options Exercised	Closing Balance
2013					
R Taylor	9,000,000	-	(9,000,000)	-	-
P Jackson	5,000,000	-	-	-	5,000,000
M Pyle	3,000,000	-	-	-	3,000,000
C Rashleigh	-	-	-	-	-
2012					
R Taylor	9,000,000	-	-	-	9,000,000
P Jackson	5,000,000	-	-	-	5,000,000
M Pyle	3,000,000	-	-	-	3,000,000

(i) Net Change Other – R Taylor resigned as a director of the Company on 31 May 2013.

NOTE 18: REMUNERATION OF AUDITORS

	Consolidated	
	2013	**2012**
	$	**$**
Audit or review services	23,000	24,000
	23,000	24,000

NOTE 19: CONTINGENCIES

Contingent Liabilities

There were no contingent liabilities for termination benefits under service agreements with Directors or executives at 30 June 2013.

The Directors are not aware of any other contingent liabilities at 30 June 2013.

NOTE 20: 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 Mines and Petroleum are:

	Consolidated	
	2013	**2012**
	$	**$**
Exploration commitments		
Within 1 year	369,585	98,000

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.

NOTE 20: COMMITMENTS FOR EXPENDITURE *(continued)*

	Consolidated	
	2013	2012
	$	$
Capital commitments		
Within 1 year*	188,463	-

*Suyeon Mining Company Limited, a 100% controlled subsidiary of Korean Resources Pty Ltd, a subsidiary of the Company, is required to pay the vendor an amount of KRW 200,000,000 (AUD $188,463 at 30 June 2013) by 18 January 2014, to complete the purchase of the mining tenements on which the Daehwa Project in South Korea is located.

	Consolidated	
	2013	2012
	$	$
Exploration commitments contracted from arising from interest in Joint Ventures		
Within 1 to 5 years	-	270,723
Total	-	270,723

The details of the joint ventures are detailed in Note 21 below.

Consultancy Agreements
In the event that the group 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 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 group would be $82,576 (2012: $130,492).

NOTE 21 – INTEREST IN JOINT VENTURES

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

Joint Venture	**Activity**	**Other Party**
Camel Hills Joint Venture	Mineral Exploration	Aurora Minerals Limited

During the 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 is now proceeding on a Desert 51% /Aurora Minerals 49% contributing basis with Desert maintaining its role as manager of the Joint Venture.

NOTE 22: PARENT ENTITY DISCLOSURES

(a) Financial Position

	2013 $	2012 $
Assets		
Current assets	1,492,160	1,870,763
Non-current assets	103,212	60,700
Total assets	1,595,372	1,931,463
Liabilities		
Current liabilities	247,682	91,913
Total liabilities	247,682	91,913
Equity		
Issued capital	14,140,598	13,061,977
Reserves	3,905,019	3,908,761
Retained earnings	(16,697,927)	(15,131,188)
Total equity	1,347,690	1,839,550
Financial Performance		
Loss for the year	(1,566,739)	(1,568,677)
Other comprehensive income	-	-
Total comprehensive loss for the year	(1,566,739)	(1,568,677)

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

Desert Mines and Metals 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 2013 (30 June 2012: nil).

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

As at 30 June 2013 (30 June 2012: nil), the parent entity did not have any contractual commitments for the acquisition of property, plant or equipment.

NOTE 23: RELATED PARTIES

(a) Controlled Entity

As at 30 June 2013, the group is a 37.09% controlled entity of Aurora Minerals Limited, which is the ultimate parent entity.

(b) Remuneration and retirement benefits

Information on remuneration of Directors during the financial period is disclosed in Note 17.

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

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

(d) Transactions of Directors and Director-related entities concerning shares and share options

Details of transactions of Directors and Director-related entities concerning shares and share options are set out in Note 16.

NOTE 24: EVENTS OCCURRING AFTER REPORTING DATE

On 1 July 2013, Mr Sang Hong was appointed to the board of directors of the Company.

On 22 August 2013 the following options were issued:

- 300,000 options expiring on 22 August 2014 were issued to consultants.
- 8,100,000 options expiring 22 August 2015 were issued to Directors and consultants.
- 8,100,000 options expiring on 22 August 2016 were issued to Directors and consultants.

Other than the above, there were no other known significant events from the end of the financial year to the date of this report.

NOTE 25: NUMBER OF EMPLOYEES

The group has two employees at balance date.

NOTE 26: 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 in mineral exploration and evaluation.

The group is domiciled in Australia. All revenue from external customers is generated from Australia only.

No operating revenue was derived during the year (2012: nil).

NOTE 27: STATEMENT OF CASH FLOWS

	Consolidated	
	2013	**2012**
	$	**$**
(a) Reconciliation of loss after income tax to net cash flow from operating activities		
Operating loss after income tax	(1,569,365)	(1,548,225)
Non cash flow in loss:		
Loss on disposal of asset	-	613
Share based payment	(3,742)	140,436
Depreciation expense	33,387	50,405
Exploration asset acquired upon acquisition of subsidiary	574,587	-
Gain on foreign exchange	920	-
Movement in assets and liabilities:		
Receivables	101,732	(23,031)
Payables	167,697	(338,945)
Net cash outflow from operating activities	(694,784)	(1,718,747)

(b) Credit standby arrangements

The Company has no credit standby arrangements.

(c) Non-cash investing and financing activities

During the financial year the company issued 20,700,000 shares to the vendor of Korean Resources Pty Ltd as consideration for the acquisition of 100% interest in Korean Resources Pty Ltd. The fair value of the shares was $517,500.

NOTE 28: EARNINGS PER SHARE

	Consolidated	
	2013	**2012**
	$	**$**
Reconciliation of loss		
Loss used in calculating earnings per share – basic and diluted	(1,569,365)	(1,548,225)
Net loss for the reporting period	(1,569,365)	(1,548,225)
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic and diluted earnings per share	132,534,048	119,660,641

NOTE 29: ACQUISITION OF SUBSIDIARY – KOREAN RESOURCES PTY LTD AND CONTROLLED ENTITY

During the financial year, the group acquired 100% of the voting shares of Korean Resources Pty Ltd.

The total consideration for the acquisition was $617,500 and comprised an issue of equity instruments and forgiveness of debt. The group issued shares as described in note 16 (e) with a share issue price based on the quoted price of ordinary shares at the date the transaction.

The acquisition does not constitute a business combination but rather an acquisition of assets and liabilities.

The fair value of the identifiable assets and liabilities as at the date of acquisition are:

	Recognised on acquisition $
Cash and cash equivalents	256
Trade and other receivables	58,786
Plant and equipment	2,933
Exploration and expenditure	574,587
Trade and other payables	(13,395)
Borrowings	(5,667)
Fair value of identifiable net assets	617,500
Cost of the acquisition:	
Securities issued, at fair value	517,500
Loan forgiven as part of the consideration	100,000
Total cost of the acquisition	617,500

DIRECTORS' DECLARATION

The directors of the company declare that the financial statements and notes are in accordance with the *Corporations Act 2001* and:

a. comply with Australian Accounting Standards, which, as stated in accounting policy note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards; and

b. give a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date;

The directors have declared that:

a. the financial records of the company for the financial year have been properly maintained in accordance with s286 of the *Corporations Act 2001*;

b. the financial statements and notes for the financial year comply with Australian Accounting Standards; and

c. the financial statements and notes for the financial year give a true and fair view; and

In the directors' opinion 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 made in accordance with a resolution of the Board of Directors.

DIRECTOR
Perth, 26 September 2013

RSM Bird Cameron Partners

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

Report on the Financial Report

We have audited the accompanying financial report of Desert Mines and Metals Limited, which comprises the statement of financial position as at 30 June 2013, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, 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 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 of the 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 financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply 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 about 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.

RSM Bird Cameron Partners

Independence

In conducting our audit, 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 report.

Opinion

In our opinion:

(a) the financial report of Desert Mines and Metals 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 2013 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards 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 contained within the directors' report for the year ended 30 June 2013. 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.

Opinion

In our opinion the Remuneration Report of Desert Mines and Metals Limited for the year ended 30 June 2013 complies with section 300A of the *Corporations Act 2001*.

Rsm Bird Cameron Partners

RSM BIRD CAMERON PARTNERS

TUTU PHONG
Partner

Perth, WA
Dated: 26 September 2013

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Desert Mines and Metals Limited for the year ended 30 June 2013, 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

Perth, WA
Dated: 26 September 2013

TUTU PHONG
Partner