Proto Resources & Investments Ltd

ABN 35 108 507 517

And Controlled Entity

Annual Report 2011

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CHAIRMAN'S LETTER

Financial Year 2010/2011 was a big year for Proto as it moves closer to production on its flagship project, Barnes Hill, continues to explore its exciting ground in the Northern Territory and further advances its game-changing processing technology.

The biggest milestone achieved on the Company's nickel-cobalt-iron-magnesium deposit near Beaconsfield in northern Tasmania was the granting of its Mining Lease by the Tasmanian Government. The Mining Lease gives the Company the complete rights to mine and process the valuable minerals in the ore body at Barnes Hill. This milestone came after over four years of work by the Company on the project and comes at a crucial time as the Company is now extremely well positioned to move through the approvals process for the mine. Production at Barnes Hill is a key goal for Proto as it is determined to deliver earnings per share to the shareholders once the project is fully operational.

Exploration on the Company's Northern Territory ground pioneered the first commercial use of Z-Axis Tipper Electromagnetic ("ZTEM") airborne geophysical surveying on the Wave Hill and Lindeman's Bore tenements in conjunction with Proto's joint venture partner Peak Mining and Exploration Ltd identifying several attractive anomalies for follow-up drilling. The Company also pegged ground in the Doolgunna area of Western Australia which Proto believes is prospective for copper-gold mineralisation similar to copper discoveries in the area.

The technology has continued to show promise over the past 12 months with the testing now well underway on the 10-tonne ore sample taken from Barnes Hill. The full technical report was received from Australian BioRefining Pty Ltd showing the process has tested extremely well to date and revealed the potential application of the technology to not only nickel laterite, but to copper, zinc and rare earths potentially as well.

Financial Year 2011/2012 is shaping up to be the Company's most promising and I very much look forward to updating the market further on all of Proto's exciting project developments.

Ian Campbell
Chairman

CORPORATE GOVERNANCE STATEMENT

The Group is committed to implementing the highest standards of corporate governance. In determining what those high standards should involve the Group has turned to the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Recommendations*.

The Group is pleased to advise that the Group's practices are largely consistent with those ASX guidelines. As consistency with the guidelines has been a gradual process, where the Group did not have certain policies or committees recommended by the ASX Corporate Governance Council (the Council) in place during the reporting period, we have identified such policies or committees.

Where the Group's corporate governance practices do not correlate with the practices recommended by the Council, the Group is working towards compliance however it does not consider that all the practices are appropriate for the Group due to the size and scale of Group operations.

To illustrate where the Group has addressed each of the Council's recommendations, the following table cross-references each recommendation with sections of this report. The table does not provide the full text of each recommendation but rather the topic covered. Details of all of the recommendations can be found on the ASX Corporate Governance Council's website at asx.com.au/about/corporate_governance/index.htm.

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CORPORATE GOVERNANCE STATEMENT (CONT'D)

1. Board of Directors

1.1 Role of the Board

The Board's role is to govern the Group rather than to manage it. In governing the Group, the Directors must act in the best interests of the Group as a whole. It is the role of senior management to manage the Group in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

In carrying out its governance role, the main task of the Board is to drive the performance of the Group. The Board must also ensure that the Group complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body. The Board has the final responsibility for the successful operations of the Group.

To assist the Board to carry out its functions, it has developed a Code of Conduct to guide the Directors, the Chairman and other key executives in the performance of their roles.

1.2.1 Composition of the Board

To add value to the Group the Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties given its current size and scale of operations. The names of the Directors and their qualifications and experience are stated in the Directors' Report along with the term of office held by each of the Directors. Directors are appointed based on the specific skills required by the Group and on their decision-making and judgment skills.

The Group recognises the importance of Non-Executive Directors and the external perspective and advice that Non-Executive Directors can offer. Ms Kay Philip and Mr Ian Campbell are Non-Executive Directors and independent directors as they meet the following criteria for independence adopted by the Group. The Board recognises that the following criteria are not exhaustive in determining the independence of directors.

An Independent Director is a Non-Executive Director and:

- is not a substantial shareholder of the Group or an officer of, or otherwise associated directly with, a substantial shareholder of the Group;
- has not been employed in an executive capacity by the Group or another group member since incorporation;
- within the last three years has not been a principal of a material professional adviser or a material consultant to the Group or another group member, or an employee materially associated with the service provided;
- is not a material supplier or customer of the Group or another group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the Group or other group member other than as a Director of the Group.
- their role is to advise the Group on matters pertaining to their expertise and provide governance in the best interests of the Group. Independent Directors do not participate in day to day operations or management of the Group and its affairs.
- are remunerated based on a set scale relating to the risks undertaken within their roles as Non-Executive Directors. Additional work engagements may be undertaken by independent Directors at commercial rates, however the Group and the Independent Directors must ensure that materiality thresholds are not breached.

Mr Andrew Mortimer and Ms Lia Darby are joint Managing Directors and Mr Greg Melick is an Executive Director of the Group and do not meet the Group's criteria for independence. However, their experience and knowledge of the Group makes their contribution to the Board such that it is appropriate for them to remain on the Board. Mr Melick was previously a Non-Executive Director of the Company. The Board identified Mr Melick's experience as invaluable to the current development of the Company and consequently appointed him as an Executive of the Company in the short term. Mr Melick intends to return to his Non-Executive Director role once operations at the Company's Barnes Hill project are established.

1.2.2 Role of the Chairman and CEO

Recommendation 2.3 has been complied with as the Group currently does not have a CEO in place and appointed management is separate from the Chairman's position.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

1.3 Responsibilities of the Board

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Group. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Group.

Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following.

- Leadership of the Organisation: overseeing the Group and establishing codes that reflect the values of the Group and guide the conduct of the Board.
- Strategy Formulation: to set and review the overall strategy and goals for the Group and ensuring that there are policies in place to govern the operation of the Group.
- Overseeing Planning Activities: the development of the Group's strategic plan.
- Shareholder Liaison: ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings of the Group.
- Monitoring, Compliance and Risk Management: the development of the Group's risk management, compliance, control and accountability systems and monitoring and directing the financial and operational performance of the Group.
- Group Finances: approving expenses and approving and monitoring acquisitions, divestitures and financial and other reporting.
- Ensuring the Health, Safety and Well-Being of Employees: in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Group's occupational health and safety systems to ensure the well-being of all employees.
- Delegation of Authority: delegating appropriate powers to the CEO to ensure the effective day-to-day management of the Group and establishing and determining the powers and functions of the Committees of the Board.

Full details of the Board's role and responsibilities are contained in the Board Charter, a copy of which is available for inspection at the Group's registered office.

1.4 Board Policies

1.4.1 Conflicts of Interest

Directors must:

- disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the Director and the interests of any other parties in carrying out the activities of the Group; and
- if requested by the Board, within seven days or such further period as may be permitted, take such necessary and reasonable steps to remove any conflict of interest.

If a Director cannot or is unwilling to remove a conflict of interest then the Director must, as per the *Corporations Act*, absent himself or herself from the room when discussion and/or voting occurs on matters about which the conflict relates.

1.4.2 Commitments

Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a Director of the Group.

1.4.3 Confidentiality

In accordance with legal requirements and agreed ethical standards, Directors and key executives of the Group have agreed to keep confidential, information received in the course of the exercise of their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

1.4.4 Continuous Disclosure

The Board has adopted a continuous disclosure policy to ensure that the Group complies with the disclosure requirements of the ASX Listing Rules which is available on the 's website. The Board has designated the Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the *ASX Listing Rules* the Company immediately notifies the ASX of information:

CORPORATE GOVERNANCE STATEMENT (CONT'D)

- concerning the, that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

1.4.5 Education and Induction

It is the policy of the Group that new Directors undergo an induction process in which they are given a full briefing on the Group. Where possible this includes meetings with key executives, tours of the premises, an induction package and presentations. Information conveyed to new Directors include:

- details of the roles and responsibilities of a Director;
- formal policies on Director appointment as well as conduct and contribution expectations;
- access to a copy of the Board Charter;
- guidelines on how the Board processes function;
- details of past, recent and likely future developments relating to the Board;
- background information on and contact information for key people in the organisation;
- an analysis of the Group;
- a synopsis of the current strategic direction of the Group; and
- a copy of the Constitution of the Group.

In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continual professional development. Specifically, Directors are provided with the resources and training to address skills gaps where they are identified.

1.4.6 Independent Professional Advice

The Board collectively and each Director has the right to seek independent professional advice at the Group's expense, up to specified limits, to assist them to carry out their responsibilities.

1.4.7 Related Party Transactions

Related party transactions include any financial transaction between a Director and the Group. Unless there is an exemption under the *Corporations Act* from the requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction.

1.4.8 Shareholder Communication

The Group respects the rights of its shareholders and to facilitate the effective exercise of those rights the Group is committed to:

- communicating effectively with shareholders through releases to the market via ASX, information mailed to shareholders, the Group website and the general meetings of the Group;
- giving shareholders ready access to balanced and understandable information about the Group and corporate proposals;
- making it easy for shareholders to participate in general meetings of the Group; and
- requesting the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Group also makes available a telephone number and email address for shareholders to make enquiries of the Group and encourages shareholders to visit the Group's website for information.

The Group's policy for shareholder communication is available on the Group's website.

1.4.9 Trading in Company Shares

On 18 April 2011 the Board reviewed and adopted a revised Share Trading Policy to comply with ASX Listing Rule requirements. The Board periodically reminds directors, officers and employees of the prohibition in the Corporations Act 2001 concerning trading in the Company's securities when in possession of "inside information". The Board also periodically reminds directors of their obligations to notify the Company Secretary of any trade in securities to ensure that ASX Listing Rule requirements are met. The Group's policy for trading in Company securities is available on the Group's website.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

1.4.10 Performance Review/Evaluation

It is the policy of the Board to conduct regular evaluation of its performance against appropriate measures. The evaluation process was introduced via the Board Charter adopted 1 February 2007 and was implemented for the financial period ended 30 June 2010. A performance evaluation of senior executives was undertaken during the financial period ended 30 June 2010 in accordance with the Board Charter. The objective of this evaluation is to provide ongoing best practice corporate governance to the Group.

1.4.11 Attestations by CEO and CFO

It is the Board's policy, that the CEO and the CFO make the attestations recommended by the ASX Corporate Governance Council as to the Group's financial condition prior to the Board signing the Annual Report. However, as at the date of this report the Group does not have a designated CEO or CFO. Due to the size and scale of operations of the Group these roles are performed by the Board as a whole.

2. Board Committees

2.1 Audit Committee

Due to the size and scale of operations of the Group the full Board undertakes the role of the Audit Committee. In the absence of a formal audit committee the board considers the issues that would otherwise be considered by the audit committee. A copy of the Audit Committee Charter is available on the Group's website.

Below is a summary of the role and responsibilities of an Audit Committee.

2.1.1 Role

The Audit Committee is responsible for reviewing the integrity of the Group's financial reporting and overseeing the independence of the external auditors.

As the whole Board only consists of five (5) members, the Group does not have an audit committee because it would not be a more efficient mechanism than the full Board for focusing the Group on specific issues and an audit committee cannot be justified based on a cost-benefit analysis. In the absence of an audit committee, the Board sets aside time to deal with issues and responsibilities usually delegated to the audit committee to ensure the integrity of the financial statements of the Group and the independence of the external auditor.

2.1.2 Audit Committee Charter

The Board has adopted an Audit Committee Charter which sets of the roles and responsibilities, composition, structure and membership requirements. The Board refers to the Audit Committee Charter to ensure they are meeting all the requirements otherwise delegated to an audit committee. A copy of the Audit Committee Charter is available on the Group's website.

2.1.3 Responsibilities

The Audit Committee or as at the date of this report the full Board of the Group reviews the audited annual and half-yearly financial statements and any reports which accompany published financial statements and recommends their approval to the members.

The Audit Committee or as at the date of this report the full Board of the Group each year reviews the appointment of the external auditor, their independence, the audit fee, and any questions of resignation or dismissal.

The Audit Committee or as at the date of this report the full Board of the Group is also responsible for establishing policies on risk oversight and management.

2.1.4 Risk Management Policies

The Board's Charter clearly establishes that it is responsible for ensuring there is a good sound system for overseeing and managing risk. Due to the size and scale of operations, risk management issues are considered by the Board as a whole. On 28 September 2011 Mr Andrew Mortimer and Ms Lia Darby (Joint Managing Directors) provided the Board with written assurance that the financial statements are founded on a sound system of risk management and internal compliance. Their statement assured the Board that the risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

2.1.5 External Auditor

The Board has adopted a policy setting out criteria for the selection and appointment of an external auditor. A copy of this policy is available on the Group's website.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

2.2 Remuneration Committee

2.2.1 Role

The role of a Remuneration Committee is to assist the Board in fulfilling its responsibilities in respect of establishing appropriate remuneration levels and incentive policies for employees.

As the whole Board only consists of five (5) members, the Group does not have a remuneration committee because it would not be a more efficient mechanism than the full Board for focusing the Group on specific issues.

2.2.2 Responsibilities

The responsibilities of a Remuneration Committee, or the full Board include setting policies for senior officers' remuneration, setting the terms and conditions of employment for the executive officers, reviewing and making recommendations to the Board on the Group's incentive schemes and superannuation arrangements, reviewing the remuneration of both Executive and Non-Executive Directors, recommendations for remuneration, and making recommendations on any proposed changes and undertaking reviews of the executive officers' performance, including, setting with the Chief Executive Officer goals and reviewing progress in achieving those goals.

2.2.3 Remuneration Policy

Directors' Remuneration was approved at the Board meeting held on 3 August 2011. The Board further resolved to address the current remuneration strategy as and when appropriate.

2.2.3.1 Senior Executive Remuneration Policy

The Group is committed to remunerating its senior executives in a manner that is market-competitive and consistent with best practice as well as supporting the interests of shareholders. Consequently, under the Senior Executive Remuneration Policy the remuneration of senior executive may be comprised of the following:

- fixed salary that is determined from a review of the market and reflects core performance requirements and expectations;
- long term incentives in the form of shares or options in the Company;
- participation in any share/option scheme with thresholds approved by shareholders;
- statutory superannuation.

By remunerating senior executives through performance and long-term incentive plans in addition to their fixed remuneration the Group aims to align the interests of senior executives with those of shareholders and increase Group performance. During the year the Non-Director Executives of the Group were Mr Ian Campbell and Ms Kay Philip.

Where shares and options are granted to senior executives the value would be calculated using the Black and Scholes method.

The objective behind using this remuneration structure is to drive improved Group performance and thereby increase shareholder value as well as aligning the interests of executives and shareholders.

The Board may use its discretion with respect to the payment of bonuses, stock options and other incentive payments.

2.2.3.2 Non-Executive Director Remuneration Policy

Non-Executive Directors are to be paid their fees out of the maximum aggregate amount approved by shareholders for the remuneration of Non-Executive Directors.

Non-Executive Directors are entitled to but not necessarily paid statutory superannuation.

2.2.4 Current Director Remuneration

Full details regarding the remuneration of Directors, is included in the Directors' Report.

2.3 Nomination Committee

2.3.1 Role

The role of a Nomination Committee is to help achieve a structured Board that adds value to the Group by ensuring an appropriate mix of skills are present in Directors on the Board at all times.

As the whole Board only consists of five (5) members, the Group does not have a nomination committee because it would not be a more efficient mechanism than the full Board for focusing the Group on specific issues.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

2.3.2 Responsibilities

The responsibilities of a Nomination Committee, as performed by the full Board, include devising criteria for Board membership, regularly reviewing the need for various skills and experience on the Board and identifying specific individuals for nomination as Directors for review by the Board. The Nomination Committee also oversees management succession plans including the CEO and his/her direct reports and evaluates the Board's performance and make recommendations for the appointment and removal of Directors. Currently the Board as a whole performs this role.

2.3.3 Criteria for selection of Directors

Directors are appointed based on the specific governance skills required by the Group. Given the size of the Group and the business that it operates, the Group aims at all times to have at least one Director with experience appropriate to the Group's target market. In addition, Directors should have the relevant blend of personal experience in accounting and financial management and Director-level business experience.

3. Risk Management

3.1 Risk Management Policies

The Group's risk management strategy policy states that the Board as a whole is responsible for the oversight of the Group's risk management and control framework. The objectives of the Group's risk management strategy are to:

- identify risks to the Group,
- balance risk to reward,
- ensure regulatory compliance is achieved; and
- ensure senior management, the Board and investors understand the risk profile of the Group.

The Board monitors risk through various arrangements including:

- regular board meetings;
- share price monitoring;
- market monitoring; and
- regular review of financial position and operations.

The Board requires that each major transaction proposed to the Board for decision is accompanied by a risk assessment.

The Group's risk management strategy was formally reviewed by the Board on 26 May 2010 and was considered the Group's risk management strategy sound for addressing and managing risk. A copy of the strategy is available on the Group's website.

4. Diversity

The Company recognises and respects the value of diversity at all levels of the organisation.

The Company is committed to setting measurable objectives for attracting and engaging women at the Board level, in senior management and across the whole organisation.

As at the date of this report, the Company has the Company has the following proportion of women appointed:

- to the Board – 40%
- to senior management – 21%
- to the organisation as a whole – 15%

The Company's objective is to promote a culture which embraces diversity through ongoing education, succession planning, director and employee selection and recognising skills are not gender specific.

5. Code of Conduct

The Board adheres to and is responsible for enforcing the Code of Conduct set out in this Corporate Governance Statement.

The Group is committed to:

- applying the Group's funds efficiently to provide above average and sustainable return to shareholders through capital appreciation; and
- adopting high standards of occupational health and safety, environmental management and ethics.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

The Board through the Managing Director monitors the Group's compliance with the Code of Conduct periodically. The Code of Conduct was reviewed by the Board on 29 August 2010 to ensure it reflects the standards of behaviour and practices necessary to maintain confidence in the Group's integrity.

The Code of Conduct applies to all the directors and employees of the Group who must comply with all legal obligations and the Group policies.

The Board and the executives are obligated to avoid situations of real or apparent conflict of interest between them as individuals and as Directors or employees of the Group. If a situation where a conflict of interest arises the Managing Director is to be notified; the matter will then be considered and the appropriate steps taken to avoid a repetition.

Any breach of Corporate Governance is to be reported directly to the Managing Director.

Corporate Responsibility

The Group complies with all legislative and common law requirements that affect its business, particularly environmental regulations, native title and cultural heritage laws.

A copy of the Company's Code of Conduct is available on the Group's website.

DIRECTORS' REPORT

Your directors present the following report on Proto Resources & Investments Limited and its controlled entity (referred to hereafter as "the Group") for the financial year ended 30 June 2011.

DIRECTORS

The names of directors in office at any time during or since the end of the year are:

- Andrew Kenneth Bruce Mortimer (Joint Managing Director)
- Lia Melissa Darby (Joint Managing Director)
- Ian Campbell (Chairman)
- Patricia Kay Philip (Non-Executive Director)
- Aziz (Greg) Melick (Executive Director)

Unless noted above, all directors have been in office since the start of the financial year to the date of this report.

COMPANY SECRETARY

The following person held the position of company secretary at the end of the financial year:

- Kent Hunter

Details of Mr Hunter's experience are set out below under 'Information on Directors'.

PRINCIPAL ACTIVITIES

The principal activities of the Group during the financial year were exploring for precious and base metals.

During the year the company raised a further $5,373,581 by means of issue of ordinary shares and options allowing it to continue to undertake its explorations activities as announced in several releases to the ASX.

There were no other significant changes in the nature of the Group's principal activities during the financial year.

OPERATING RESULTS

The consolidated loss of the Group after providing for income tax amounted to $3,918,266 (2010: $3,766,704).

FINANCIAL POSITION

The net assets of the Group from 30 June 2010 to 30 June 2011 have increased by $1,370,386. This increase resulted from increases in financial assets (the value of shares held in other companies) and capitalised exploration expenditure.

The directors believe the Group has sufficient cash or near cash resources to carry out its near term exploration activities as previously advised to shareholders.

DIVIDENDS PAID OR RECOMMENDED

No dividends have been paid, and the directors do not recommend the payment of a dividend for the financial year ended 30 June 2011.

DIRECTORS' REPORT (CONT'D)

REVIEW OF OPERATIONS

1. Introduction

The year from July 2010 to June 2011 was a critical period for Proto Resources & Investments Ltd ("Proto", "the Company"). During this time Proto successfully passed major milestones at its flagship nickel-cobalt-iron-magnesium project at Barnes Hill near Beaconsfield in Tasmania. In particular, the Mining Lease ("ML") 1872P/M was finally granted over the area of the Barnes Hill project by the Tasmanian Government. The ML gives Proto the right to mine and sell the minerals located at Barnes Hill. The Company also completed the Development Proposal and Environmental Management Plan ("DPEMP") that would include the mining of nickel, cobalt, iron and magnesium at Barnes Hill to provide polymetallic revenue streams. Lodgement awaits finalisation of an agreement that would provide a package of strong environmental offsets. Essential components to the DPEMP received during the reported period included the Mine Plan, and Terrestrial Botanical Survey and Fauna Habitat Assessment for Barnes Hill that identified the suite of environmental offsets that would allow the project to increase habitat and high value populations in the area.

These achievements maintained strong momentum following on from the 18th of October 2010 release of an updated Indicated and Inferred Mineral Resource for the Barnes Hill deposit of 6.6Mt at 0.81% Ni and 0.05% Co at a 0.5% Ni cut-off grade of which more than 5.6Mt was classified within the Indicated category (refer Table 1 at end of Barnes Hill section). It is important to note that this resource statement is isolated to the Barnes Hill deposit and excludes the Mt Vulcan and Scotts Hill deposits which also comprise the Barnes Hill Project. The updated resource was estimated by Snowden Mining Industry Consultants ("Snowden") and includes a higher grade portion of 2.8Mt at 1.01% Ni and 0.06% Co using a 0.8% nickel cut-off grade (refer Table 2). On the 23rd of November 2010 Proto built upon this updated resource statement by announcing an initial Probable Reserve statement for the Barnes Hill deposit, as estimated by Snowden, of 4.0 Mt at 0.84% Ni and 0.06% Co, estimated at a cut-off grade of 0.70% Ni equivalent (refer Table 3 below) which, at a proposed mining rate of 250,000 t per annum (tpa), establishes a minimum mine life for the project of 16 years. Both the resource and reserve statements have reinforced the strong economics of the project with a firm resource/reserve foundation now established for the project's continued development towards mine status.

The final shipment of bulk ore samples from Barnes Hill arrived at the Australian BioRefining Pty Ltd laboratory at Evans Head NSW in early 2011. This material was collected in late 2010 through a program of Reverse Circulation ("RC") drilling to meet the needs of the pilot plant test work. Full pilot plant processing of the bulk ore samples commenced in February with the leaching of the ore now well advanced. The Barnes Hill ore has proven to be quite reactive with results of the leach testwork remaining positive. Joint venture partner Metals Finance Limited ("Metals Finance" ASX: MFC) has advised Proto that the Barnes Hill Feasibility and Detailed Engineering Study for the Barnes Hill Project is on schedule for completion early in Q3 2011.

Barrier Bay Pty Ltd ("Barrier Bay") the technology company 50% owned by Proto, continued to build upon its innovative technology, which is now believed to hold potential beyond nickel laterite, with potential application to other metals including copper, zinc and rare earths. This new development is believed to hold considerable potential to further enhance the commercial value of the Barrier Bay process and Proto's equity in it.

Proto also made advances across its exploration portfolio during the year, with a major Z-Axis Tipper Electromagnetic System ("ZTEM") airborne geophysical survey completed with joint venture partner Peak Mining and Exploration Limited across the Lindeman's Bore and Wave Hill projects in the Northern Territory. Interpretation of the results of this airborne geophysical survey was completed in early 2011. This identified several promising anomalies, including the "A-trend" target at Wave Hill that will be the main target of upcoming exploration efforts in the Northern Territory.

Proto and Peak Mining and Exploration Limited also completed a semi-regional gravity programme at the Waterloo Project, NT. The survey consisted of approximately 900 gravity stations that were surveyed at between 500-1000m spacing. Following this, a final set of ground geophysical surveys are planned for late in 2011 prior to drilling of targets. Proto also follow-up ground gravity surveys at Waterloo in the Northern Territory, with detailed geochemical assessment for follow-up fieldwork commenced in July 2011.

DIRECTORS' REPORT (CONT'D)

The second half of 2010 also marked an active period on the exploration front with Proto acquiring the Clara Hill project in the Kimberly region of Western Australia and applying for five exploration licenses in the Doolgunna Region, northeast of Meekatharra. Early field work at Clara Hill has been very promising with rock chips from the Jack's Hill Prospect including peak results of 22.7% copper, 2.05% nickel, 1.15g/t platinum, 0.8g/t palladium, 89g/t silver and 0.3g/t gold.

There were also a number of positive corporate and commercial events during the year. Proto received significant attention over the latter half of 2010 from the international investing community with the Company being listed on the Frankfurt stock exchange and undertaking a significant placement to Swiss-German investment group AXINO Capital AG ("AXINO Capital"). RB Milestone Group, LLC ("RB Milestone"), an independent equity research and corporate advisory firm based on Wall Street, New York, also produced a report on Proto with a target price of A$0.36 cents. The increased international attention Proto attracted over the period was evidenced by the on-market accumulation in Proto shares by JP Morgan Nominees Australia Limited resulting in Proto's 'notification of substantial shareholder' announcement on the 10th of December 2010. A tracing notice indicated that the beneficial owners of these ordinary fully paid shares were international-based investors. Proto also increased its strategic equity investment holdings in Metals Finance during the period. Proto now holds more than 10% of the issued capital in Metals Finance. Proto successfully engaged Macquarie Bank as a financier to the Company. Macquarie Bank has purchased options which, if fully exercised, will result in an additional capital injection of up to A$4 million.

2. Barnes Hill Project, Tasmania (Nickel Laterite, Nickel Sulphide and Iron Ore)

2.1 Project Overview

The Barnes Hill exploration licence (EL17/2006) covers 76km^2 and is registered 100% to Proto with the Company having recently been granted Mining Lease (1872P/M) over the central portion of EL17/2006.Located in northern Tasmania, the Barnes Hill project contains three related laterite deposits known as Barnes Hill, Mt Vulcan and Scott's Hill. Barnes Hill is under a joint venture agreement with Metals Finance Limited, whereby Metals Finance will develop a working flowsheet and complete a definitive feasibility study and detailed engineering plan in return for a 50% stake in the project. After the grant of the mining licence, and subject to the required mining and processing approvals from the Tasmanian authorities, Proto is on track for first product to be mined at Barnes Hill by late 2012/early 2013. The site lay-out and basic engineering and geotechnical work has already been completed and Figure1 below sets-out the site plan.

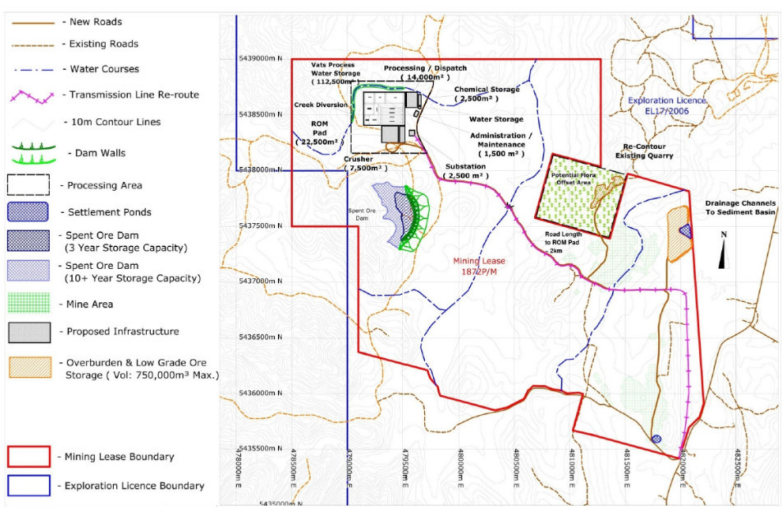


Figure1 – Site Plan for the Proposed Barnes Hill Mine

DIRECTORS' REPORT (CONT'D)

Proto is currently fine-tuning the processing route at Barnes Hill and expects to produce saleable nickel, cobalt, iron and magnesium products. Proto is applying an innovative processing technology to Barnes Hill which is being developed by Barrier Bay Pty Ltd – a company in which Proto is the major shareholder. The technology, which was a runner-up in the 2009 Australian Mining Prospect Awards, will reduce the expected vehicle movements, reagent usage and spent ore dam footprint. Testwork to date shows potential for significant savings through acid recycling alone. In addition to producing nickel, cobalt, iron and magnesium products from the Barnes Hill lateritic ore, Proto is also investigating the potential to monetise the iron rich overburden which 'caps' the limonite and saprolite ore. Iron results achieved at Barnes Hill include 16 m @ 43.1 % Fe (from surface) and 10 m @ 42.1 % Fe (from surface). These results compare favourably with Tasmania's two existing magnetite mines (Savage River and Kara) which operate at grades of 30-35% Fe and beneficiation assessment is already underway.

The magnetic data of the licence areas is dominated by the response of the Andersons Creek Ultramafic Complex ("ACUC") being a NNW trending body approximately 20km long and up to 3km wide. Gravity is also dominated by the considerable differences in density between the Precambrian, Cambrian and later Devonian and Permian units. The ACUC is a layered wedge of Cambrian mafic and ultramafic stratigraphy consisting of mainly serpentinite, pyroxenite and gabbro. Variable weathering profiles with differing mineral assemblages and metal concentrations are present, and in the Barnes Hill area the weathering profile consists of an upper zone of secondary iron oxides (goethite, hematite, limonite) overlying a clay rich zone dominated by smectite, weathered serpentinite and chlorite.

2.2 Activity July 2010 - June 2011

The 2011 Financial Year was a pivotal period for the development of the Barnes Hill project with Proto achieving major milestones on the journey to production. Major achievements during the period included the updated mineral resource and maiden reserve statements for the Barnes Hill deposit, the granting of the Mining Lease by the Tasmanian Government, delivery of the Mine Plan, and Terrestrial Botanical Survey and Fauna Habitat Assessment to support the DPEMP, and the commencement in February of pilot plant processing of bulk ore limonite samples.

In June 2011, the Tasmanian Government granted Proto Mining Lease 1872P/M over the Barnes Hill project. The 955ha ML area includes the drilled-out area of the Barnes Hill nickel deposit as well as the planned processing area and haulage routes. The grant of the ML followed lodgement of the A$250,000 security deposit required to allow the execution of work necessary for delivery of the detailed feasibility and engineering study. The security deposit levels in the ML have been staged to increase prior to the intensification of activities at Barnes Hill. The ML area is shown in Figure 2. The initial term of the ML will allow for mining over 15 years, which is well matched to the longer mine life established under the Barnes Hill Reserve Statement released by Proto on 23 November 2010. The Probable Reserve estimated is presented in Table 3 at the end of the Barnes Hill section of this report. The ML gives Proto authority to carry out mining operations on the area of land covered for the minerals, subject to receipt of environmental and planning clearances for the mine.

DIRECTORS' REPORT (CONT'D)

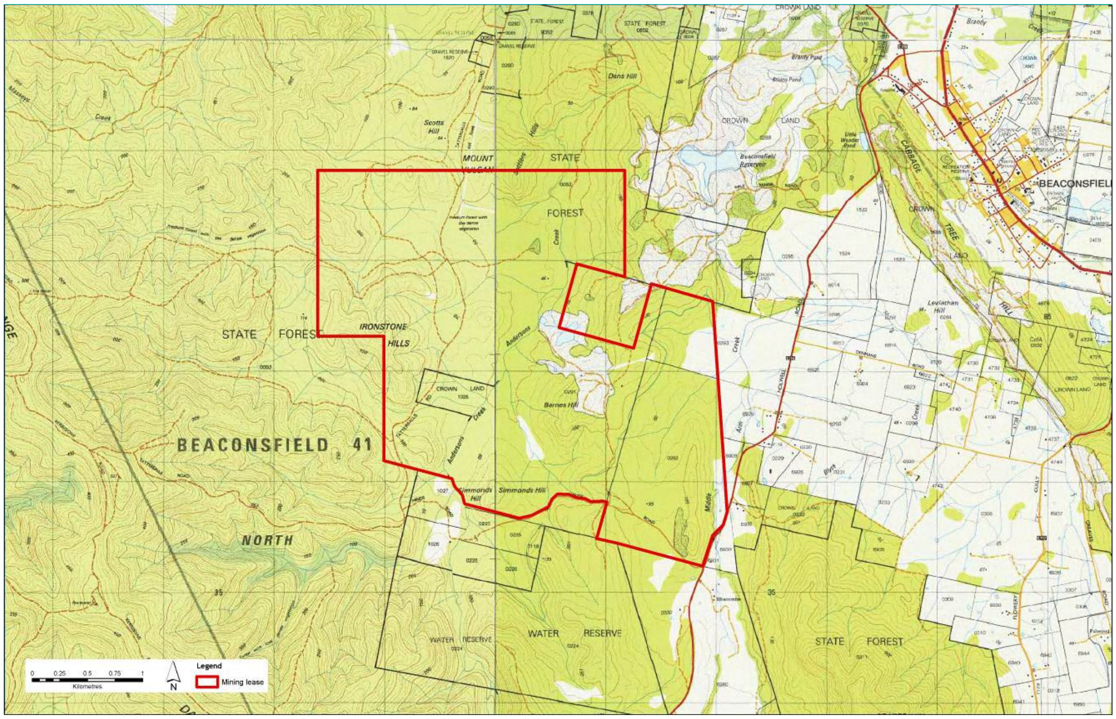


Figure 2 – The Barnes Hill Mining Lease.

Earlier In October 2010, Snowden delivered an updated Mineral Resource for the Barnes Hill deposit of 6.6Mt at 0.81% Ni and 0.05% Co at a 0.5% Ni cut-off (refer Table 1). The updated Mineral Resource was based on a 50m by 50m spaced drilling program (641 drill holes), in addition to earlier drill hole data (73 drill holes), but did not include the historic resource of 3.6Mt at 0.71% Ni and 0.09% Co at a 0.6% nickel equivalent cut-off reported by Jervois Mining NL at the Scott's Hill and Mt Vulcan deposits. The updated Mineral Resource for the Barnes Hill deposit represents a potential mine life of 26 years at a proposed mining rate of 250,000t per annum. The resource also defined a higher grade saprolite zone of more than 2Mt at a grade of 1.0% Ni and 0.06% Co at a 0.8% Ni cut-off (refer Table 2). This higher grade zone will be targeted during the first 10 years of mining and will be the focus of the current feasibility study.

Proto's joint venture partner Metals Finance is to deliver a detailed feasibility study based on its low-pH recovery system in 2011. This includes detailed engineering, sourcing of reagents, and verification of processing recoveries and product characteristics. An extension of the detailed feasibility study applying the new Barrier Bay technology (that will recycle acid and produced saleable iron and magnesium products) will be delivered subsequently. The financing of the project was also an important element raised during the year. This led to the announcement just after the end of the year of an agreement with Caterpillar Inc. (NYSE: CAT) for it to provide equipment and for its specialised financing arms, Zurich-based Caterpillar Financial SARL, to arrange the financing of the project. This would see Caterpillar act as global arranger and senior lender to the project in a debt facility of up to A$36m.

The updated resource statement was followed by a maiden Reserve Statement, also estimated by Snowden following the 2004 JORC guidelines. A Total Reserve of 4.0 Mt @ 0.84% Ni and 0.06% Co was estimated at a 0.70% nickel equivalent ("NiEq") cut-off. The Reserve estimate supports the project's economics providing for a minimum mine life of 16 years at a proposed mining rate of 250,000 tpa. The reserve estimation was also appropriately conservative, as it employed process recoveries of 75% and 70% for Ni and Co respectively. This provides further economic upside.

DIRECTORS' REPORT (CONT'D)

By the close of the financial year Proto was in possession of the comprehensive draft DPEMP for the Barnes Hill nickel-cobalt deposit which included the finalised Mine Plan and Terrestrial Botanical Survey and Fauna Habitat Assessment. The Mine Plan presents the approach to mining at Barnes Hill and details the progressive operations to be undertaken based on the pit-shells and other modelling used in the Reserve Statement as estimated by Snowden. The Terrestrial Botanical Survey and Fauna Habitat Assessment focuses on the potential impact on flora and fauna of mining and processing activities proposed for Barnes Hill. The report concluded that the mining and processing layout, facilitated by the Barrier Bay reagent recycling technology, have successfully avoided the highest conservation value plant populations and further minimised the environmental impact. The extensive botanical surveys conducted by Proto's environmental consultants confirmed that the proposed mining pits and revised plant layout will have no direct impact on existing populations of the threatened Tetratheca gunnii or Spyridium obcordatum. Moreover, the impact on Epacris virgata under the revised layout has also been vastly reduced and is estimated to be just 2% of the approximately 3,200,000 individual plants in the Mining Lease area. The DPEMP will also present a strong environmental package that rigorously protects and enhances local biodiversity over the long-term. As part of this initiative Proto also paid for the installation of an enclosure to protect Tetratheca gunnii present in the area around the proposed Barnes Hill operations. Proto considers that the protection of species regionally should be considered a part of good sustainable corporate citizenship.

During the quarter Proto completed a program of RC drilling at the Barnes Hill Project (see Figure 3). This programme collected the necessary tonnage of bulk material to conduct commercial scale pilot plant testwork. The RC drilling was conducted at both the northern and southern sections of the proposed mine area with the nickel ore transported to the Australian BioRefining Pty Ltd ("ABR") laboratory at Evans Head NSW where Barrier Bay Pty Ltd and Metals Finance Limited are undertaking testwork in concert with ABR staff. On arrival, the material was processed and blended to ensure a representative sample.

Figure 3 – Reverse Circulation Drilling at the Barnes Hill Project, Tasmania

The first batches of this nickel ore are currently being leached within the pilot plant to establish the optimal circuit for the project. A total of 10t of ore will be processed during this pilot stage. Early results from this leach work show that the ore is quite reactive with results from the leaching phase expected shortly. This testwork is being conducted by Barrier Bay Pty Ltd, the technology company part owned by Proto. This nickel processing technology combines two separate technologies into a complete processing circuit for nickel laterite ore. The front end technology is a low pH nickel system developed by Metals Finance. Metals Finance operated the system for two and a half years at the Palabora mine in South Africa before their joint venture partner, a subsidiary of Rio Tinto, bought out the remaining share of the plant. The back end system is an innovative technology being developed by

DIRECTORS' REPORT (CONT'D)

Barrier Bay. This technology provides major costs savings over traditional technologies by converting iron and magnesium sulphates into saleable products while recycling much of the sulphuric acid and water inputs.

The next few quarters will see more major milestones passed in shifting to production status at Barnes Hill with the results of the full pilot plant testwork, submission of the DPEMP, and completion of the feasibility and detailed engineering studies all slated to occur. As also announced, Proto is also currently undertaking work on the beneficiation of ironstone that overlies the lateritic nickel bearing zones. The ML will also now allow a final program of close definition drilling of the mine area for production planning. The data generated will also be used to support financing of the mine under the definitive feasibility study.

Reference Table 1– Barnes Hill Deposit Mineral Resource by Geological Domains at a 0.50% Nickel Cut-off Grade

Resource Classification	Volume ('000 m^3)	Tonnage (kT)	Ni (%)	Co (%)	MgO (%)	Fe_2O_3 (%)	SiO_2 (%)
Cut-off grade of 0.5% Ni - Limonite Domain							
Measured	-	-					
Indicated	70	105	0.56	0.16	1.4	57.4	13.7
Inferred	36	54	0.56	0.11	2.0	57.2	18.7
Total	106	159	0.56	0.14	1.6	56.4	15.4
Cut-off grade of 0.5% Ni - Transitional Domain							
Measured	-	-					
Indicated	177	247	0.65	0.09	3.5	42.8	25.0
Inferred	5	7	0.81	0.15	3.7	49.8	24.5
Total	182	254	0.65	0.09	3.5	42.9	25.0
Cut-off grade of 0.5% Ni - Saprolite Domain							
Measured	-	-					
Indicated	3,042	3,955	0.87	0.06	11.4	28.5	36.8
Inferred	369	480	0.87	0.06	11.4	28.6	36.8
Total	3,411	4,435	0.87	0.06	11.4	28.6	36.8
Cut-off grade of 0.5% Ni - Saprock Domain							
Measured	-	-					
Indicated	621.0	1,366.0	0.73	0.03	25.6	14.4	41.6
Inferred	178.0	392.0	0.68	0.02	25.1	15.0	43.1
Total	799.0	1,758.0	0.72	0.03	25.5	14.5	42.0
Cut-off grade of 0.5% Ni - All Domains							
Measured	-	-					
Indicated	3,910	5,674	0.82	0.06	14.3	26.3	37.0
Inferred	588	933	0.77	0.05	16.5	24.7	38.4
Total	4,498	6,606	0.81	0.05	14.6	26.1	37.2

Note: Significant figures may cause summation differences.

DIRECTORS' REPORT (CONT'D)

Reference Table 2– Barnes Hill Deposit Mineral Resource by Geological Domains at a 0.80% Nickel Cut-off Grade

Resource Classification	Volume ('000 m^3)	Tonnage (kT)	Ni (%)	Co (%)	MgO (%)	Fe_2O_3 (%)	SiO_2 (%)
Cut-off grade of 0.8% Ni - Transitional Domain							
Measured	-	-					
Indicated	12	16	0.88	0.10	3.4	38.0	28.9
Inferred	3	4	0.97	0.12	3.9	50.6	25.6
Total	15	21	0.90	0.11	3.5	40.5	28.2
Cut-off grade of 0.8% Ni - Saprolite Domain							
Measured	-	-					
Indicated	1,620	2,106	1.03	0.07	10.2	30.9	35.4
Inferred	155	201	0.93	0.09	9.4	35.3	34.0
Total	1,775	2,307	1.02	0.07	10.2	31.3	35.3
Cut-off grade of 0.8% Ni - Saprock Domain							
Measured	-	-					
Indicated	188	414	0.92	0.03	24.1	16.0	41.4
Inferred	42	93	0.94	0.03	24.9	16.3	41.9
Total	231	508	0.93	0.03	24.3	16.0	41.5
Cut-off grade of 0.8% Ni - All Domains							
Measured	-	-					
Indicated	1,820	2,537	1.01	0.06	12.5	28.5	36.4
Inferred	200	299	0.93	0.07	14.1	29.6	36.3
Total	2,020	2,836	1.01	0.06	12.6	28.6	36.4

Note: Significant figures may cause summation differences.

DIRECTORS' REPORT (CONT'D)

Reference Table 3 – Barnes Hill Deposit Ore Reserve* by Geological Domains at a 0.70% Nickel Equivalent Cut-off Grade**

Reserve Classification	Volume (`000m^3)	Tonnage (kT)	Ni (%)	Co (%)	MgO (%)	Fe_2O_3 (%)	SiO_2 (%)	NiEq* (%)
Cut-off grade of 0.70% NiEq - Transitional Domain								
Proved								
Probable	872	1,180	0.80	0.07	9.0	34.1	32.5	0.95
Total	872	1,180	0.80	0.07	9.0	34.1	32.5	0.95
Cut-off grade of 0.70% NiEq- Saprolite Domain								
Proved								
Probable	1,571	2,355	0.86	0.05	14.8	25.3	38.2	0.97
Total	1,571	2,355	0.86	0.05	14.8	25.3	38.2	0.97
Cut-off grade of 0.70% NiEq - Saprock Domain								
Proved								
Probable	195	421	0.78	0.03	25.4	15.1	41.1	0.84
Total	195	421	0.78	0.03	25.4	15.1	41.1	0.84
Cut-off grade of 0.70% NiEq - Total Reserve								
Proved								
Probable	2,638	3,956	0.84	0.06	14.2	26.8	36.8	0.95
Total	2,638	3,956	0.84	0.06	14.2	26.8	36.8	0.95

Note: Significant figures may cause summation differences.

* Ore Reserve estimate figures are based on metal prices for Ni and Co of $US 9 /lb ($US19,842 /t compared to a current London Metals Exchange spot price of $US21,495 on 18 November 2010) and $US 19 /lb respectively, and an Australian currency exchange rate of 0.9 $US:$A. Forecast Ni and Co price assumptions have been obtained using the Australian Bureau of Agricultural and Resource Economics (ABARE) "Australian commodities – March quarter 2010". Process recoveries of 75% and 70% were used for Ni and Co respectively.

** Nickel equivalent (NiEq) calculation = Ni% + 1.97*Co%

DIRECTORS' REPORT (CONT'D)

3. Barnes Hill West Project, Tasmania (Copper and Gold)

3.1 Project Overview

The Barnes Hill West Project, tenement EL53/2008, is situated immediately adjacent to the Barnes Hill project, and provides additional coverage of the ACUC. Previous rock chip sampling undertaken by Proto at the Barnes Hill West Project returned encouraging copper mineralisation of up to 1.7% Cu from the historic Pandora copper mine. Following-up on these results Proto identified three areas warranting further investigation, namely: (1) the Barnes Hill Extension prospect located west of the Barnes Hill deposit covering geologically mapped extensions of the ACUC, (2) the Pandora prospect centred upon the historic workings of the Pandora copper mine, and (3) the Kelly's Lookout prospect located 12km to the South of the operating Beaconsfield Gold Mine in an area with mapped historical gold diggings.

3.2 Activity July 2010 - June 2011

In early 2011 Proto received the results of extensive soil sampling that comprised 551 samples taken across the prospects areas. This program delineated a coincident area of raised Cu-Pb-Zn that was anomalous compared to background (see Figure 4) at the Barnes Hill Extension Prospect.

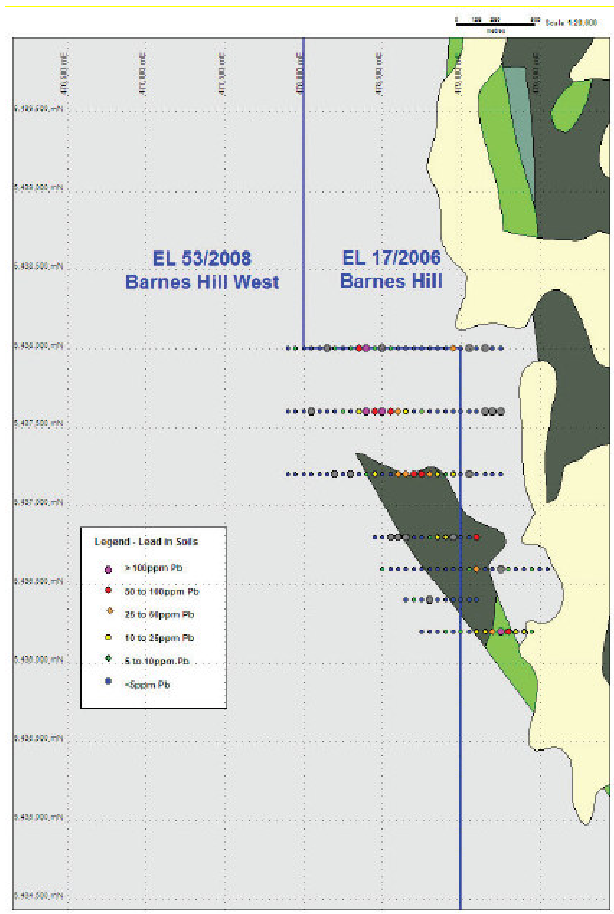


Figure 4 – Lead in soils at the Barnes Hill Extension Prospect with geology (light grey is the Badger Head Block and the dark grey and green colours are the Andersons Creek Ultramafic Complex)

DIRECTORS' REPORT (CONT'D)

This area of elevated Cu-Pb-Zn coincided with a northwest trending fault identified from aeromagnetic data and is in close proximity to the contact between sedimentary rocks of the Proterozoic Badger Head Block and the Cambrian Andersons Creek Ultramafic Complex. As reported on 16 January 2011, the soil anomaly, although moderate in intensity, returned a peak zinc result of 415ppm, peak lead result of 198ppm and a peak copper result of 137ppm.

4. Lindeman's Bore, NT (Nickel Sulphide, Gold and PGEs)

4.1 Project Overview

Proto holds strategic tenure in the Antrim Plateau Volcanics of the Northern Territory. This area is considered prospective for Norilk'sk style mineralisation. The Noril'sk-Talnakh deposits, hosted within the intrusive structures which make-up the Continental Flood Basalts of the Siberian Traps Igneous Province of Russia, are the largest nickel-copper-palladium deposits in the world. Proto believes that the Continental Flood Basalts in the Antrim Plateau Volcanics of the Northern Territory of Australia may be an analogue to the Siberian Igneous Province of Russia and hence also prospective for a nickel-copper-palladium super system. Proto has engaged in research joint ventures with leading vulcanologists from the Queensland University of Technology and The Open University, UK in advancing the geological understanding of this underexplored province. This work is building on accumulated research suggesting such potential. Based on this model, Proto has strategically expanded from the initial 350km^2 at the Lindeman's Bore project to now have over 8000km^2 of Northern Territory holdings and licence applications that it is scouring for the highest priority indicators.

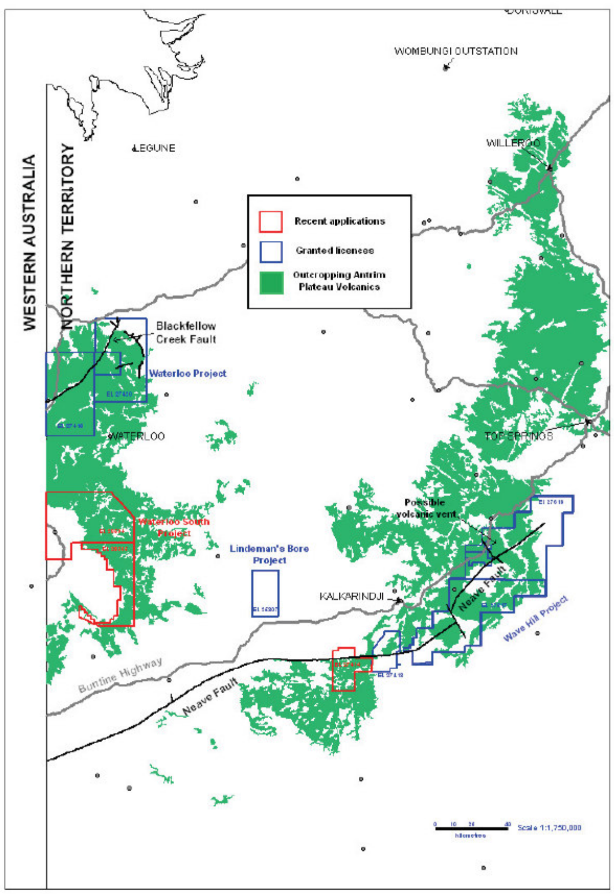


Figure 5 – Overview of Proto's NT Projects

DIRECTORS' REPORT (CONT'D)

On 3 November 2010, Proto announced that it had entered upon a Joint Venture over its Lindeman's Bore, and Waterloo tenements with Peak Mining and Exploration Limited. Peak will earn a 10% stake in the Lindeman's Bore project and will acquire a 50% interest in the Waterloo Project under earn-in arrangements. The 10% interest in Lindeman's Bore will be earned by spending $300,000 on exploration by the end of next year, and the Waterloo interest by spending $1,500,000 over 5 years. During the period this was initiated with the ZTEM airborne geophysical survey over the Wave Hill and Lindeman's Bore projects that was flown in December 2010.

The Lindeman's Bore project is on granted exploration licence EL25307 that covers a circular bulls-eye magnetic anomaly located at Lindeman's Bore itself (see Figure 6 below). The Lindeman's Bore project is located 380km south-west of Katherine, near the community of Kalkarindji. Proto holds 80% of EL25307, with 20% held by private prospectors. Proto earned its interest through the completion of two deep diamond drill holes in the vicinity of the bulls-eye magnetic anomaly. Proto also has an additional exploration licence application (ELA27414) adding to the ground at Lindeman's Bore.

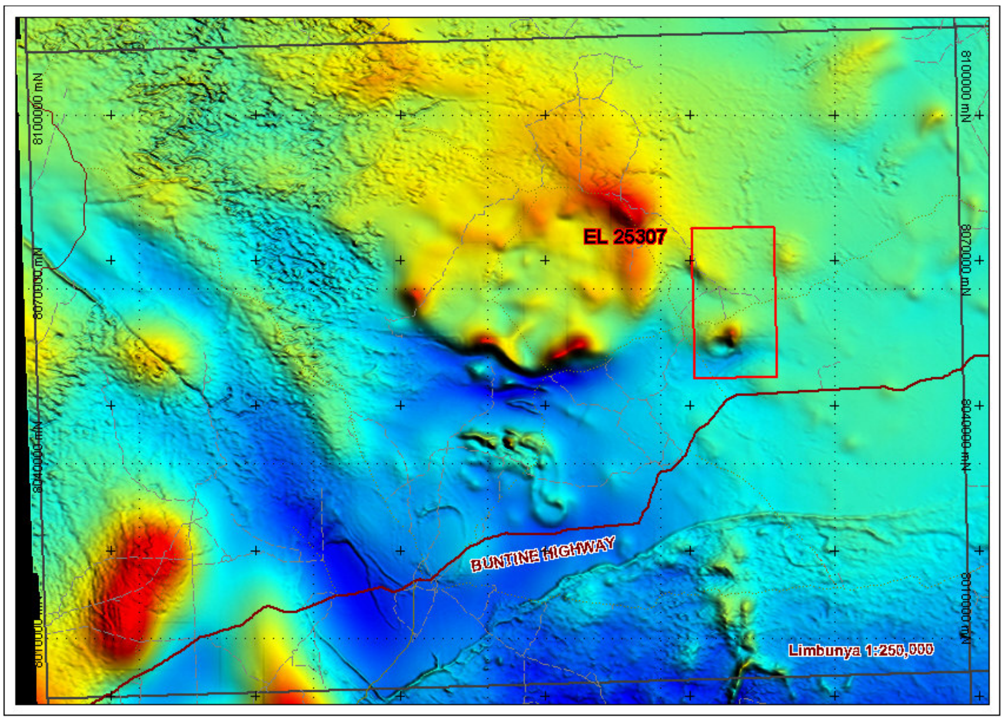


Figure 6 – Location of the Lindeman's Bore Project and the Magnetic Anomaly

The initial target identified at Lindeman's Bore was a circular bulls-eye magnetic anomaly located near the centre of an antiform (see Figure 6). Modelling of the airborne geophysics and 2008 gravity data by Southern Geoscience Consultants concluded that drilling was needed to advance understanding of the anomaly further. Subsequently, in June 2009 Proto drilled a first diamond hole at Lindeman's Bore, LBD-1, to a depth of 751 metres. Drill-hole LBD-1 provided new geological insight by intersecting the Inverway Metamorphics and identified mineralisation of 24m @ 4.92g/t Ag from 32m including 4m @ 16.15g/t Ag, 5m @ 0.13g/t Au from 380m and 6m @ 0.03% Co & 0.05% Cu. This was followed by LBD-2 that intersected elevated levels of base metals, but did not identify a zone of mineralisation.

4.2 Activity July 2010 - June 2011

In order to provide greater guidance on the deep targets at Lindeman's Bore, Peak and Proto decided to utilize a breakthrough innovative new method known as ZTEM – an airborne electromagnetic system which uses the natural or passive fields of the Earth as the source for the transmitted energy. This aimed to push beyond earlier targeting by providing data on the geophysics down to a depth of two kilometres. This resulted in a ZTEM survey at Lindeman's Bore (EL25307) and Wave Hill (EL27413, EL27617 & 27618) and covered a total of 918 line kms. This was funded by Peak under the terms of the joint venture agreement.

Following detailed inversion and analysis in March 2011, the ZTEM survey results outlined a number of small anomalies and deeper resistivity breaks. These were identified primarily in the low frequency ranges that are associated with the main magnetic anomaly where previous deeper drilling efforts had been focussed (i.e., LBD-1 and LBD-2). The ZTEM data was evaluated in concert with geological information from surface work as well as the two exploratory drill holes and has suggested several areas for priority ground EM follow-up. These targets are being surveyed in September 2011 with a view to generating potential drill targets for later in 2011. Data generated from exploration at Lindeman's Bore continues to raise promising directions and Proto will continue to build on these.

5. Waterloo, NT (Nickel Sulphide, Copper and PGEs)

5.1 Project Overview

Proto's Waterloo project is located in the NT approximately 350km Southwest of Katherine, NT and 75km Southeast of Kununurra, WA and comprises two granted exploration licenses (EL27416 and EL27420) and two applications (EL 28504 and EL 28505). Proto's exploration target at Waterloo is for Noril'sk style Ni-Cu-PGE mineralisation within mafic feeders to the Antrim Plateau Volcanics. Proto believes that the Continental Flood Basalts in the APV of the Northern Territory of Australia are similar to those of Russia and hence also prospective for such systems.

The Blackfellow Creek Fault runs northeast through the Waterloo project and is considered a long lived structure that may possibly have acted as a vent for Cambrian aged basalt magmatism and consequently the structure may host intrusions. Historical data shows copper mineral occurrences along or close to this structure and these copper occurrences may be due to structural remobilisation of copper from within the Antrim Plateau Basalts.

The Waterloo project area has been the subject of various exploration programmes since the 1960's. The majority of this exploration has been for diamonds due to the areas close proximity to the Argyle Diamond Mine (located 75km west of the project) and the Bow River diamond mining area (located 40 km west of the project area). Historic exploration work completed by Metals Exploration NL & Freeport Australia Inc. between 1968 and 1970 included stream sediment samples were taken across the western part of the Waterloo project area that identified \areas of anomalous copper. In addition, work completed by Australian Kimberley Diamonds in 1997 identified a circular feature that sampling indicated was unlikely to be a kimberlite but did contain large amounts of magnetite that distinguished it from the Antrim Basalt flows.

5.2 Activity July 2010 - June 2011

On the 6th of July 2010 the Company announced receipt of the rock chips from a preliminary field visit to assess the presence of copper mineralisation at Waterloo. Samples were taken along a limestone ridge which overlies basalt of the Antrim Plateau Volcanics. Geochemical analysis returned copper assays of 8.8%, 1.02% and 1%. The copper in one sample also had coincident silver anomalism returning a value of 13g/t coincident with the 8.8% Cu assay. These rock chip assays confirm the historical data that showed copper mineral occurrences along or close to the Blackfellow Creek Fault structure. Proto is now investigating the possibility of the copper occurrence sampled in the rock chips being associated with cave style deposits of copper that occur as a result of remobilised Antrim Plateau Volcanics mineralisation.

In the second half of 2010, Proto also continued to advance its relationship with the Queensland University of Technology (QUT), with QUT undertaking a detailed mapping and geochemical field program. The two new applications (EL28504 and EL 28505 together covering a total area of 2,041.3km^2) were made during the period, south of the existing project area based on positive indicator observed. The field work involved detailed stratigraphic mapping of the Kalkarindji basalts and identified significant variations in the thickness of preserved basalts from north to south. Conceptually, such variations suggest the presence of a large-scale fault, or faults, between the presently recognised Black Fellow Creek Fault and the Baines Fault.

DIRECTORS' REPORT (CONT'D)

Following this, Proto also commenced a semi-regional ground gravity survey programme over Waterloo. Gravity results received in July 2011 were encouraging and are clearly mapped the Blackfellow Creek Fault as a major structural suture/conduit present at Waterloo. Several discrete gravity anomalies of potential interest were identified along this major structure and are to be investigated further (Figure 7).

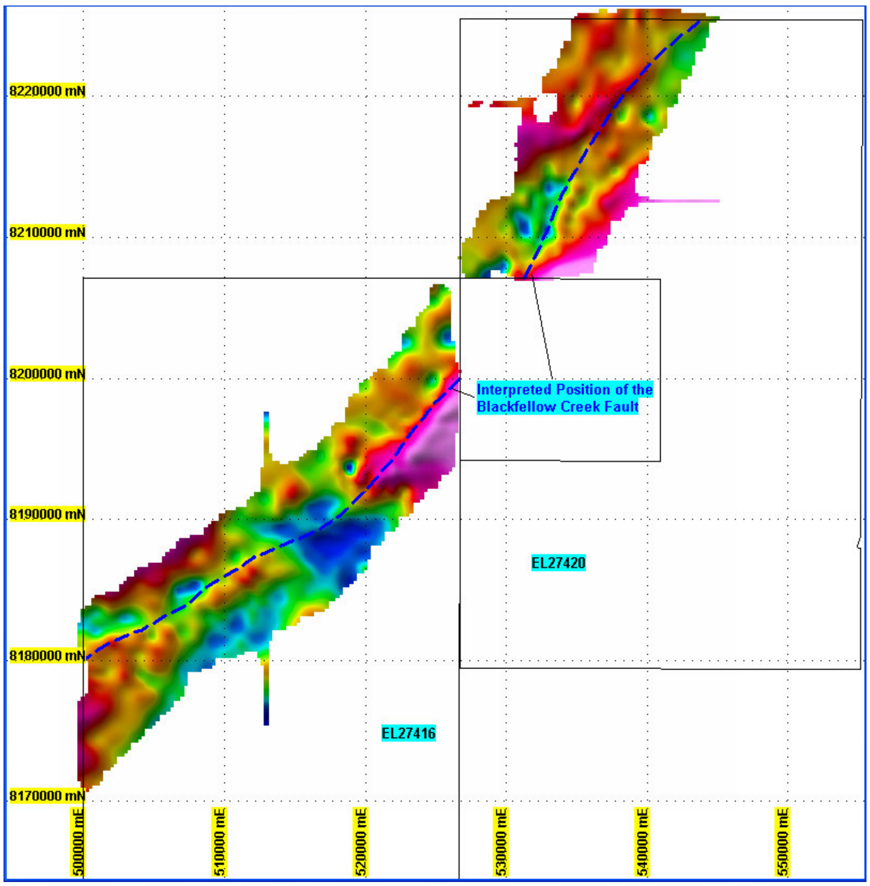


Figure 7 - Gravity Survey Results from Waterloo

Following these results, Proto has now also commenced the next exploration program planned at Waterloo. The research team from the Queensland University of Technology has undertaken a field trip to conduct a series of stratigraphic traverses to the south of Riedel shears that have been identified to the east and west of the Blackfellow Creek Fault. Petrological sample have been collected to better link to the stratigraphy of two stratigraphic holes drilled by the Bureau of Mineral Resources, Geology and Geophysics in 1969. This will provide new insight into the geology in order to inform future exploration. The Open University, UK has agreed to second a senior researcher to Proto in the second half of 2011 to further this work. In concert with this, Proto has also commenced ground EM surveys across the most promising anomalies to provide potential drill hole targets later in the year.

DIRECTORS' REPORT (CONT'D)

6. Wave Hill, NT (Nickel Sulphide and PGEs)

6.1 Project Overview

The Wave Hill project is located to the east and southeast of Lindeman's Bore and comprises three tenements (EL27413, EL27617 and EL27618) located 380km south-west of Katherine in the Northern Territory that capture regionally important areas of outcropping Antrim Plateau Volcanics.

6.2 Activity July 2010 - June 2011

As noted above, shortly before the end of the period, Proto and joint venture partner Peak Mining and Exploration Limited announced the results of a ZTEM airborne geophysical survey at Wave Hill (EL27413, EL27617 & EL27618). The ZTEM survey was the first large scale commercial use of this new system in Australia. 918 line kilometres of ZTEM were flown over the project areas at line spacings of 1km with this program representing the first large scale commercial use of ZTEM in Australia.

At Wave Hill the results have outlined several anomaly trends sub parallel and perpendicular to the flight lines. The most prominent anomaly (A-trend) correlates well with an elongated magnetic anomaly that is believed to be at relatively shallow depth (<200m) (Figure 8). 2D inversion relating to this A-trend showed weakly conductive features below this magnetic anomaly that could be responding to structural controls.

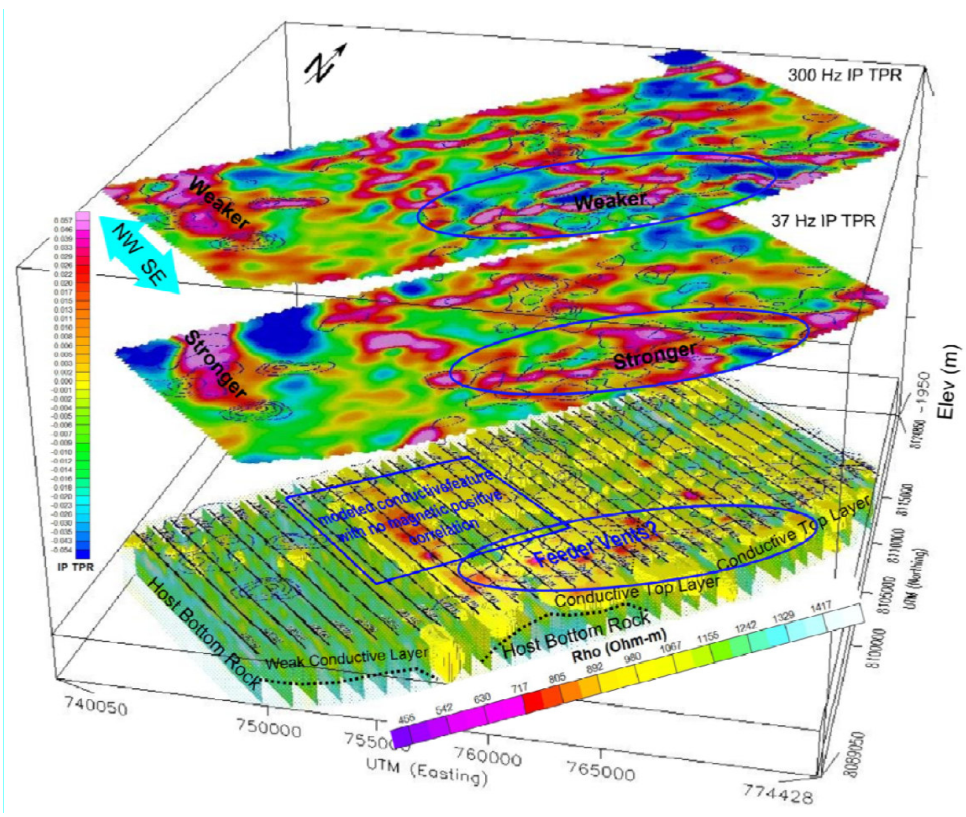


Figure 8 – Wave Hill 2D Resistivity Inversions in 3D View

The A-trend has characteristics making it Proto's primary target in the Northern Territory. Ground EM is underway to better define the target and Proto plans to drill this as a priority pending approval of the program for the latter half of 2011.

DIRECTORS' REPORT (CONT'D)

7. Clara Hill, WA

7.1 Project Overview

On 22 September 2010, Proto announced the acquisition of the Clara Hill Project. Clara Hill contains an advanced nickel, copper, platinum and palladium ("Ni-Cu-PGE") prospect. Under the acquisition agreement, Proto can earn an 80% interest in the Clara Hill Project mining tenements E04/1533 and E04/2026 in the West Kimberley of Western Australia (see Figure 9 below). In the final quarter of 2010, Proto also lodged new exploration licence applications, E04/2060 and E04/2142 at Clara Hill adjacent to the other tenements. The new applications are held 100% by Proto and the Company is of the opinion that these areas contain similar geological characteristics to the existing Clara Hill Project tenements.

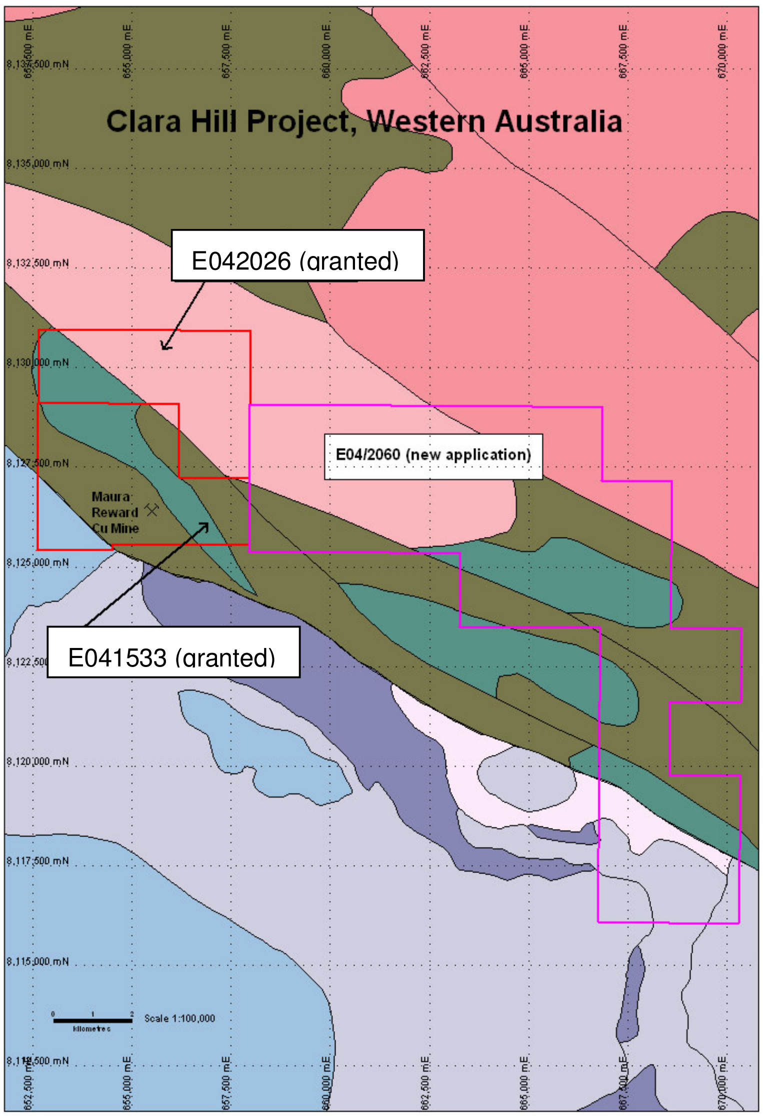


Figure 9 – Tenement location map showing new exploration licence application (pink) and existing tenements (red) at Clara Hill with geology as background

DIRECTORS' REPORT (CONT'D)

The primary gossan at Clara Hill is located at or about the hanging wall contact between mafic intrusive rocks and a footwall of mica schist at Jack's Hill. Field inspection identified that the rocks carrying the gossan are highly weathered and mineralised. In addition, partially oxidised remnants of pyrite, chalcopyrite and chalcocite were identified within the main gossan. The gossan at Jack's Hill primarily represents a copper prospect which was discovered in 1902 and subsequently mined as the Maura Reward Copper Mine. Petrographic analysis of samples taken from Jack's Hill confirmed it as a limonite/goethite boxwork gossan with chalcopyrite and secondary pyrite after pyrrhotite. An historical programme of RC drilling at Clara Hill intersected mineralisation with sample assays returning results up to 3.7% Cu, 0.8% Ni, 29ppm Ag and 1.14ppm Au. In addition, 13 samples from the gossan have also separately confirmed the presence of mineralisation returning results varying from nickel 0.06% to 2.80%; copper 0.24% to 14.6%; gold 0.02g/t to 0.52g/t; platinum 0.01g/t to 0.54g/t; palladium 0.02g/t to 1.37g/t; and silver up to 54.9g/t.

7.2 Activity July 2010 - June 2011

Field work in late 2010 located two additional gossa that lie proximal and northwest of the principal gossan. Following this, Proto has spent the first half of 2011 undertaking further ground mapping exercises. This follows earlier work in 2010 that produced high grade rock chip samples and suggested the need for careful ground mapping to better understand the relationship between observed gossans and the underlying lithology. On 12th October 2010 Proto announced that it had completed an aerial magnetometer and radiometric survey of the Ni-Cu-PGE prospect at its Clara Hill project. This survey was flown at 100m line spacing. The results from interpretation of data from the magnetometer and radiometric survey indicated significant structural features in proximity to the known Clara Hill copper/nickel mineralisation.

The geological setting and outcropping mineralisation, together with results from a previously completed electromagnetic survey, strongly indicate that the project area is prospective for massive sulphides containing nickel, copper and precious metals. Following the initial geophysics, a program of field work was undertaken and on 25th November 2010, Proto announced the results of this initial field visit to Clara Hill. Sample results included up to 22.7% copper, 2.05% nickel, 1.15 g/t platinum, 0.8 g/t palladium, 89 g/t silver and 0.3 g/t gold. This field visit confirmed the existence of two additional copper bearing gossans and geochemical sampling confirmed mineralisation in related rocks. Samples containing oxidised and remnant sulphide copper and nickel mineralisation were collected from these gossan locations for chemical analysis. Related rock formations were also sampled for petrological study.

Assay Element	Maximum	Minimum
Copper	22.7%	0.052%
Nickel	2.05%	0.014%
Palladium	0.79ppm	0.02ppm
Platinum	1.16ppm	0.006ppm
Gold	0.27ppm	0.007ppm
Silver	82.9ppm	<0.05

Following these results, Proto commenced a follow-up field trip to the gossan at Jack's Hill (the site of the historical mine) and the two newly identified gossans discovered in the project area. Ground geophysical surveys and drilling are now being planned to follow-up these strong results.

DIRECTORS' REPORT (CONT'D)

8. Doolgunna Project, WA

8.1 Project Overview

The Doolgunna Projects consist of four exploration licence applications, E51/1455, E51/1457, E53/1580, E53/1581 announced on 11 October 2010 and exploration licence application, E69/2872, that was lodged later in 2010 (refer to Figure 10 below). Proto's exploration holdings in the Doolgunna region cover a combined area of 409km^2. All five applications are within the Palaeoproterozoic-aged Yerrida Basin, which is known to host significant resources including Sandfire Resources NL's DeGrussa Deposit and Ivernia Inc's Magellan Lead Mine. The Company considers that the new application areas may contain rock units analogous to those that host known Cu-Au and Pb mineral deposits within the Yerrida Basin.

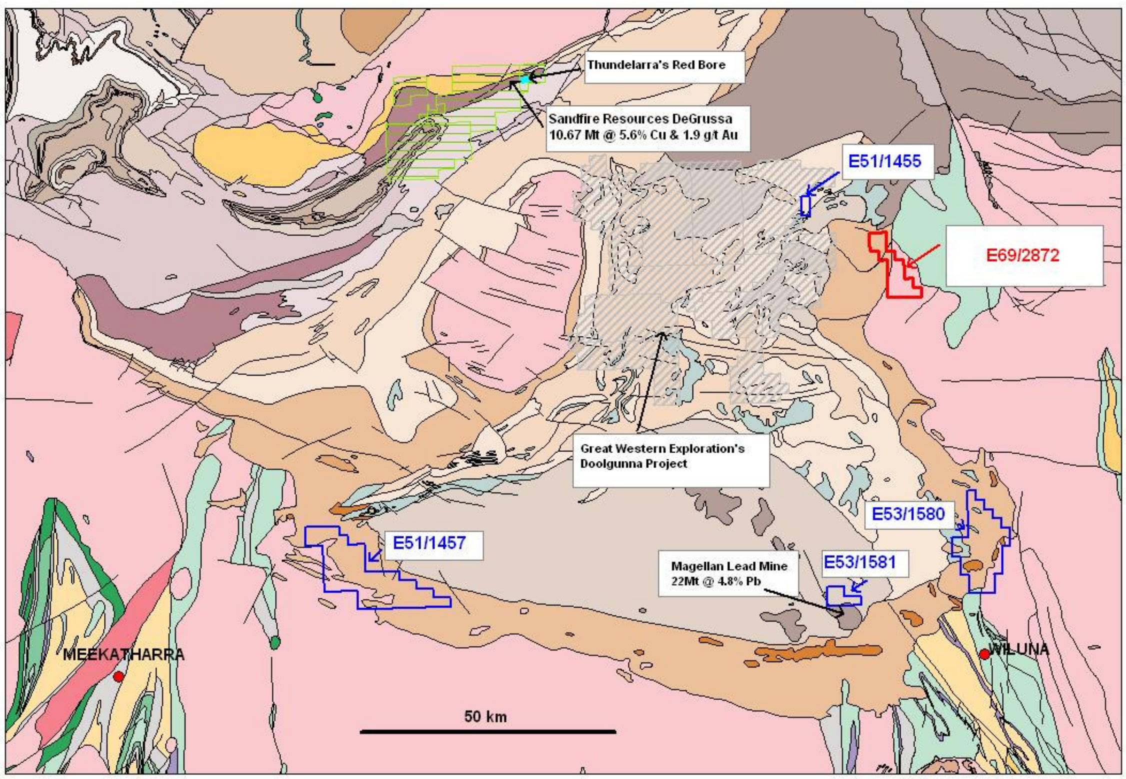


Figure 10– Proto's most recent exploration licence application E69/2872 (shown in red) and earlier new licence applications (shown in blue) in the Doolgunna Region of Western Australia with geology as background.

8.2 Activity July 2010 - June 2011

While awaiting grant, Proto has commenced compilation of historic exploration work in the new application areas. Of the five application areas, work is focusing on the Great Doolgunna Project [E51/1455] that lies 60km southeast of Sandfire's DeGrussa Cu-Au Deposit and adjoins Great Western Exploration Limited's Doolgunna Project. Exploration immediately east of the application area by the Geological Survey of Western Australia and Great Western Exploration Limited has defined a broad polymetallic geochemical soil anomaly along with several VTEM conductors. Proto has also identified potential at the Killara Project [E53/1580] and the Magellan North Project (E53/1581] that are situated immediately to the north of the Magellan Lead Mine.

DIRECTORS' REPORT (CONT'D)

9. Waite Kauri North Nickel Laterite Project, WA

9.1 Project Overview

Proto holds a 100% interest over the Waite Kauri North project north of Kalgoorlie that is situated on granted mining lease (M37/1189). Waite Kauri North is located immediately to the north of GME Resources' Waite Kauri lateritic nickel-cobalt project (see Figure 11 below) and approximately 20km from Minara's Murrin Murrin nickel operation near Leonora in Western Australia. It is also adjacent to Poseidon Nickel Ltd's Waite Kauri lateritic nickel-cobalt project.

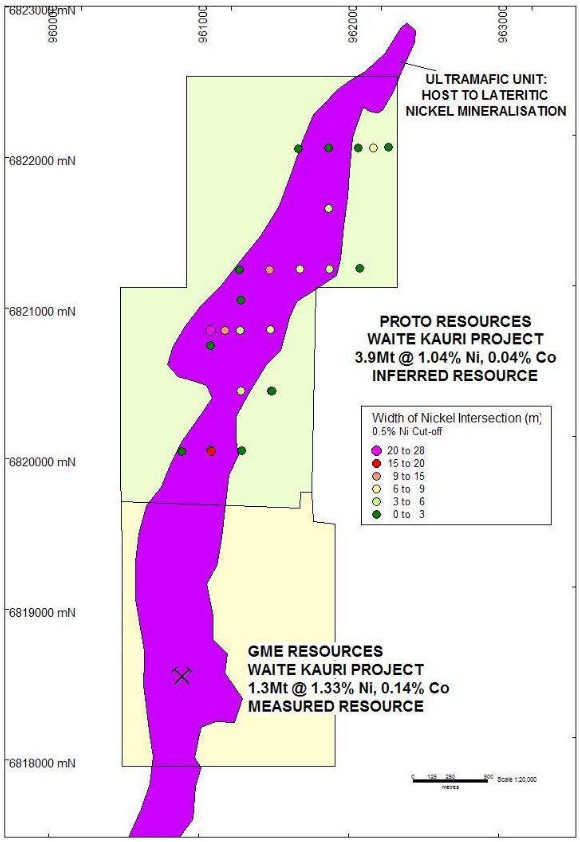


Figure 11– Waite Kauri Inferred JORC Resource and Nickel Intersections

The Waite Kauri North project was previously owned by NiWest Ltd, who completed a reverse circulation ("RC") drilling programme over the project area in 2001 which included 24 drill holes. Based on its exploration, NiWest identified the mineralisation as siliceous and limonitic. Erosion has resulted in local discontinuities, but mineralisation does extend across the 3km strike length of the host unit. A JORC compliant Inferred Mineral Resource of 3.9Mt at 1.04% Ni and 0.04% Co, (representing 40,541 tonnes of contained nickel and 1,448 tonnes of contained cobalt) has previously been estimated for the project using a 0.7% Ni cut-off grade. Waite Kauri complements Proto's position in the nickel laterite space as established by the flagship Barnes Hill project.

9.2 Activity July 2010 - June 2011

The company is currently determining the most appropriate development pathways for this JORC-compliant Inferred Mineral Resource. This assessment is currently suspended pending updated results from the pilot trials of the process being conducted on the Barnes Hill ore. The characteristics of the Waite Kauri ore are promising in relation to the Barrier Bay Pty Ltd processing technology, and will be tested in the future.

DIRECTORS' REPORT (CONT'D)

10. Metal Rocks Project, WA (Uranium and Gold)

10.1 Project Overview

The Metal Rocks project covers an area of 321.9km^{2}and is located 250km northeast of Kalgoorlie in Western Australia. The project (EL39/1559) is located on the edge of the Yilgarn Craton in the vicinity of known uranium and gold mineral deposits and is called the Metal Rocks project as shown in Figure 12. Nearby deposits include the Ambassador Uranium Deposit (Inferred Mineral Resource of 16.53Mt @ 630ppm U_3O_8) owned by Energy and Minerals Australia Limited located 10km southwest of the Metal Rocks project area while the Tropicana Gold Deposit (Measured, Indicated and Inferred Mineral Resource of 75Mt @ 2.07g/t Au) owned by AngloGold Ashanti Limited is located 65km to the northeast.

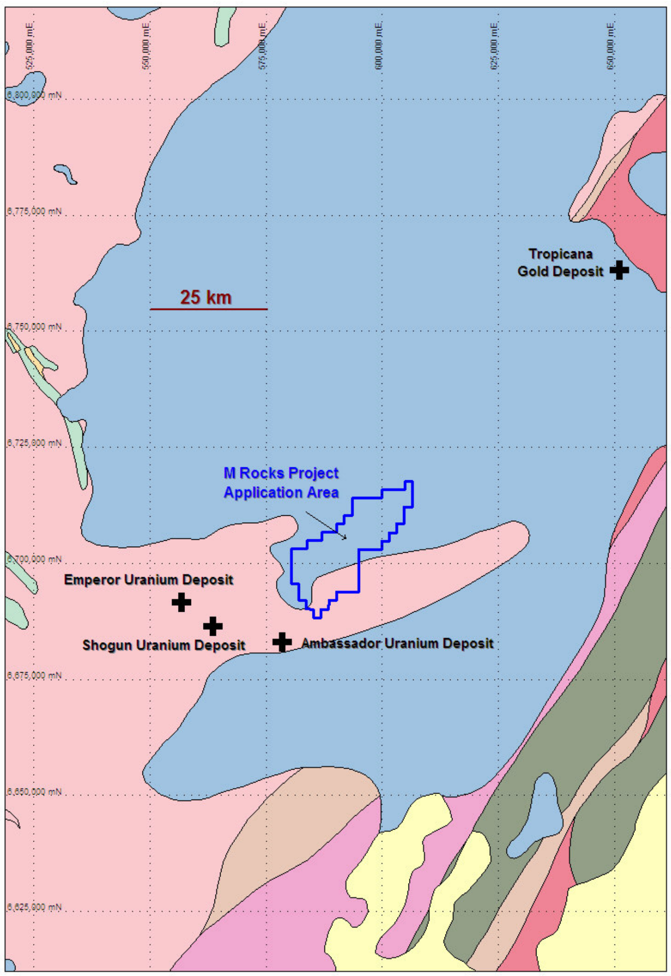


Figure 12– Location of the Metal Rocks Project Northeast of Kalgoorlie in WA

10.2 Activity July 2010 - June 2011

Proto received grant of the Metal Rocks project during the second half of 2010 and set to work designing an initial exploration program. This program was undertaken after the end of the period in February 2011and included general reconnaissance and geological mapping. This identified structures across the tenement and geophysics will be undertaken to better define these.

DIRECTORS' REPORT (CONT'D)

11. Mt Vetters Project, WA (Nickel, Gold and Uranium)

11.1 Project Overview

The Mt Vetters project is located 30km north east of Kalgoorlie in the Yilgarn Craton of Western Australia and consists of the granted exploration licence E27/0358. The Mt Vetters project is owned under a joint venture between Proto private explorer Mt Vetters Pty Ltd.

Preliminary exploration work was carried out by Discovery Nickel, who, in 2003 collected ground EM (Smartem) over the entire nine kilometre strike length of the magnetic anomaly interpreted to be the extension of the Black Swan Komatiite Complex. In the southern half of the EM survey area a 200m long conductor was identified. An RC drill hole tested this conductor in late 2004. No anomalous results were returned and in the second half of 2009, Proto undertook drilling at Mt Vetters to investigate targets drawn from the geophysical data. Three RC drill holes were completed at Mt Vetters for a total of 438m. A peak gold assay result of 1m @ 0.256g/t Au was returned from within a 4m composite sample assaying 4m @ 0.011g/t Au.

11.2 Activity July 2010 - June 2011

In the second half of 2010 Proto designed a final programme of RC drilling to determine remaining potential on the exploration license. A single drill hole was drilled in December 2010. However, this drill hole failed to intersect mineralisation. Proto and Mt Vetters Pty Ltd have agreed to discontinue the project, and Proto will now relinquish the tenement with no further work is planned for Mt Vetters.

12. Tibooburra Project, NSW (Gold)

12.1 Project Overview

Proto retains right to alluvial gold exploration and mining in the surface 5m at the Company's formerly wholly-owned Tibooburra project. The Tibooburra project comprises two contiguous exploration licences (E6286 and E6663) and is situated within the historic Milparinka-Tibooburra goldfield. Tibooburra hosts gold mineralisation as both alluvial gold and primary 'mesothermal lode-gold'. Gold has been mined within the district for more than 110 years and exploration is supported by strong interest in gold due to attractive global prices.

Gold bearing structures have been defined in the Precambrian basement of the contiguous Warratta, Mt Poole and Tibooburra Inliers close to Tibooburra township. The basement rocks are overlain by Jurassic sediments of which the basal conglomerate is known to host alluvial gold mineralisation. This mineralisation is interpreted to represent colluvial and alluvial accumulations of vein quartz derived from auriferous veins eroded from the Precambrian basement.

Previous work on the project area by Proto involved Mobile Metal Ion ("MMI") sampling along the Phoenix-Pioneer and Warratta reef systems. This produced a number of broadly coincident gold-arsenic-silver anomalies which were later drill tested. In total, 22 RC holes were drilled for 2,125m. Drilling confirmed the interpreted narrow nature of the mesothermal mineralisation with economic gold values limited to narrow, sub-vertical quartz veins within the Precambrian slates.

In 2009, exploration licences E6286 and E6663 were sold to Awati Resources Pty Ltd ("Awati") in order to allow them to pursue the primary targets. Under the terms of the agreement as announced to market on 28 January 2010, Proto retained the rights to alluvial mineralisation within the top 5 metres of the licences. Proto received 1,500,000 Awati shares, representing a 12% ownership stake in that private company.

DIRECTORS' REPORT (CONT'D)

12.2 Activity July 2010 - June 2011

During 2010, Awati subsequently entered into a joint venture with Meteoric Resources NL (ASX: MEI) over the Tibooburra tenements. On 15 November 2010, Meteoric Resources announced the results of 1,818 soil samples and 733 stream sediment samples it had collected and analysed. This identified several areas with elevated levels of gold-arsenic-antimony responses. Meteoric Resources has announced plans to undertake further soil sampling and RAB drilling. Proto will consider further work at Tibooburra once those results are released.

13. Other Project Activities

13.1 Granulite Mountains License, Germany

On 9 June 2011, Proto announced that it had executed an agreement with Deutsche Rohstoff AG that gave it the right to acquire the Granulite Mountains licence (No: 32-4741.1/649). This licence is located in Saxony, Germany approximately 50km west of Dresden. The licence covers over 600km^2 and encompassed known nickel-cobalt mineralisation where over 1200 drill holes have been completed with 0.5m assaying on a tight drill spacing of less than 30x30m. At the end of the quarter, the project to compile all historical geochemical results into a digital database was well advanced. Proto is continuing discussion with Deutsche Rohstoff AG in relation to the license and has completed the background work needed to commence exploration that would bring the historical exploration into compliance with JORC.

The information in this report that relates to the estimation of the Barnes Hill Mineral Resource was compiled by Mr Justin Watson. Mr Watson is a full time employee of Snowden Mining Industry Consultants. Mr Watson is a registered chartered professional (CP) and Member of the Australasian Institute of Mining and Metallurgy. Mr Watson has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the Joint Ore Reserves Committee (JORC) Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Watson consents to the inclusion of this information in the form and context in which it appears in this announcement.

The information in this report that relates to the estimation of the Barnes Hill Mineral Reserve was reviewed by Mr Peter Myers. Mr Myers is a full time employee of Snowden Mining Industry Consultants. Mr Myers is a Registered Chartered Professional (CP) and Member of the Australasian Institute of Mining and Metallurgy. Mr Myers has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the Joint Ore Reserves Committee (JORC) Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Myers consents to the inclusion of this information in the form and context in which it appears in this announcement. The information in this report that relates to the estimation of the Barnes Hill Mineral Reserve was compiled by Mr Hamish Guthrie. Mr Guthrie was a full time employee of Snowden Mining Industry Consultants at the time the information was compiled, and was a Member of the Australasian Institute of Mining and Metallurgy. Mr Guthrie has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the Joint Ore Reserves Committee (JORC) Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.

The information in this report that relates to exploration results at the Clara Hill project, together with any related assessments and interpretations, is based on information approved for release by Mr Giles Rodney Dale of G R Dale & Associates,. Mr Dale is a Fellow of the Australasian Institute of Mining and Metallurgy and has sufficient experience which is relevant to the style of mineralisation under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves". Mr Dale consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.

DIRECTORS' REPORT (CONT'D)

The information in this report that relates to exploration results, together with any related assessments and interpretations, is based on information reviewed by Mr Peter Peebles of Darlington Geological Services Pty Ltd. Mr Peebles is a Member of the Australasian Institute of Mining and Metallurgy and has sufficient experience which is relevant to the style of mineralisation under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves". Mr Peebles consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.

DIRECTORS' REPORT (CONT'D)

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the consolidated group in future financial years.

EVENTS AFTER THE REPORTING PERIOD

1. On 22 July 2011, the Company announced the cancellation of moving strike options held by Macquarie. At the date of the announcement, Macquarie held 74,085,294 unexercised options over ordinary shares, of which 7,750,000 were subsequently converted in accordance with the option deed. The cancellation was effected 23 August 2011 at which time the remaining 66,335,294 options held by Macquarie were cancelled.
2. On 25 July 2011, the Company announced it had been awarded Mining Lease 1872 P/M for the Barnes Hill Project by the Hon. Bryan Green who is Tasmania's Deputy Premier and Minister for Energy and Resources. The Mining Lease is an important milestone in the Company's project development.
3. On 26 July 2011, the Company announced the issue of 1,200,000 ordinary shares as consideration for corporate and investor relations services to be received by the Company in the USA during the months of July – December 2011.
4. On 26 July 2011, the Company announced the issue of 750,000 ordinary shares upon conversion of options held by Macquarie.
5. On 28 July 2011, the Company announced the issue of 750,000 ordinary shares upon conversion of options held by Macquarie.
6. On 4 August 2011, the Company announced the issue of 3,000,000 ordinary shares upon conversion of options held by Macquarie.
7. On 10 August 2011, the Company applied for additional shares in associate company Barrier Bay Pty Ltd. The result of this transaction was to move the Company's shareholding in Barrier Bay from 49% to 51%, effectively securing a controlling interest in Barrier Bay.
8. On 16 August 2011, the Company announced that it had concluded and signed an arrangement for Caterpillar to become the equipment supplier and debt financer of the Barnes Hill nickel-cobalt-iron-magnesium joint venture. Caterpillar has entered into an agreement to deliver a fully underwritten financing package by 31 April 2012. The commitment letter is to deliver a debt finance facility consisting of a Senior Secured Project Loan along with a Subordinated Loan, which will together deliver up to USD $36M in financing.
9. On 16 August 2011, the Company announced that Andrew Mortimer would hand over the Chairman's position to Ian Campbell to allow the Managing Director to focus on achieving production at Barnes Hill.
10. On 17 August 2011, the Company announced the issue of 750,000 ordinary shares upon conversion of options held by Macquarie.
11. On 18 August 2011, the Company announced the issue of 1,750,000 ordinary shares upon conversion of options held by Macquarie.
12. On 22 August 2011, the Company announced the issue of 500,000 ordinary shares upon conversion of options held by Macquarie.
13. On 23 August 2011, the Company announced the issue of 1,000,000 ordinary shares upon conversion of options held by Macquarie.
14. On 30 August 2011, the Company announced the issue of 14,285,714 ordinary shares with 7,142,857 attaching options exercisable at $0.05 on or before 1 September 2014 via a private placement to raise $500,000.
15. On 1 September 2011, the Company announced the expiry of 23,650,555 options with an exercise price of $0.20.
16. On 6 September 2011, the Company announced the issue of 199,624 ordinary fully paid shares to Mr Ashley Hood in lieu of wages.

DIRECTORS' REPORT (CONT'D)

EVENTS AFTER THE REPORTING PERIOD (CONT'D)

17. On 6 September 2011, the Company's option over the Granulitgebirge exploration project in Germany lapsed unexercised.
18. On 14 September 2011, the Company announced the issue of 1,428,571 shares with 714,826 attaching options exercisable at $0.05 on or before 1 September 2014 and 1,428,571 attaching options exercisable at $0.035 on or before 12 September 2018.
19. On 23 September 2011, the Company announced the issue of 21,000,000 ordinary shares with a one-for-two attaching option to raise $700,000 before costs. A total of 10,500,000 attaching options were issued, exercisable at $0.05 on or before 1 September 2014.

Except for the above, no other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

Further information, other than as disclosed this report, about likely developments in the operations of the Group and the expected results of those operations in future years has not been included in this report as disclosure of this information would be likely to result in unreasonable prejudice to the Group.

ENVIRONMENTAL ISSUES

The Group's operations are subject to significant environmental regulation under the law of the Commonwealth and State in relation to discharge of hazardous waste and materials arising from any mining activities and development conducted by the Group on any of its tenements. To date the Group has only carried out exploration activities and there have been no known breaches of any environmental obligations.

The directors have considered the National Greenhouse and Energy Reporting Act 2007 (the NGER Act) which introduces a single national reporting framework for the reporting and dissemination of information about the greenhouse gas emissions, greenhouse gas projects, and energy use and production of corporations. At the current stage of development, the directors have determined that the NGER Act will have no effect on the Group for the current or subsequent financial year. The directors will reassess this position as and when the need arises.

DIRECTORS' REPORT (CONT'D)

INFORMATION ON DIRECTORS

Andrew Mortimer, BA LLB (Sydney) MAUSIMM	Joint Managing Director	
	Andrew Mortimer has a legal and mining background but moved full-time to the mining and mining finance industries in 2003, after being involved part-time for over a decade. Through his work as head of corporate advisory firm Superstructure International Pty Ltd, Chief Corporate Officer for the Mallee Gold Corporation and a director of SA Capital Funds Management Limited. Mr Mortimer has forged relationships with many of Australia's resource companies. He has also assisted with the ASX listing of several exploration companies of Proto Resource's size. Mr Mortimer was instrumental in founding Proto Resources & Investments Ltd and in sourcing its projects and management. Mr Mortimer holds a BA and LLB from Sydney University and is a Member of the Australian Society for Mining and Metallurgy.	
Interest in Shares and Options	23,116,133 Ordinary Shares 1,150,000 $0.20 share options 2,765,002 $0.25 share options 3,016,379 $0.05 share options	
Directorships held in other listed entities	Global Nickel Investments NL	26 February 2007 to present
Lia Darby BA(Hons) LLB (Hons)	Joint Managing Director	
	Lia Darby is admitted to practice law in the Supreme Court of NSW but now works full-time as a mining company executive. Ms Darby also has a marketing and publishing background from her work in a legal publishing house and on other publications. Since 2003 Ms Darby has worked with Mr Mortimer in a corporate advisory role listing mining securities and assisting listed companies on both the ASX and London's Alternative Investment Market. Ms Darby was instrumental along with Mr Mortimer in founding Proto and developing its projects and operations. Ms Darby holds a BA and LLB from Sydney University and is the Chairperson of Global Nickel Investments NL, an ASX listed company.	
Interest in Shares and Options	4,888,828 Ordinary Shares 920,000 $0.20 share options 2,621,667 $0.25 share options 4,653,828 $0.05 share options	
Directorships held in other listed entities	Global Nickel Investments NL Condor Blanco Mines Limited	26 February 2007 to present 10 June 2010 to present

DIRECTORS' REPORT (CONT'D)

INFORMATION ON DIRECTORS (CONT'D)

Aziz Gregory Melick, AM,RFD, S.C.	Executive Director Mr Melick is a graduate of the University of Sydney (BA LLB) and is a barrister with chambers in Hobart and Sydney, whose experience includes mining investigation, occupational health and safety and corporate law. He has considerable experience in advising and working with governments. Mr Melick has extensive human resources and financial management experience with 44 years in the Army Reserve and currently serving as Major General at the Australian Defence Force Headquarters. He is a director and former Chairman of the Australian Wine Consumers' Co-Operative and Chairman of St.John Ambulance (Tas) Inc. Mr Melick is actively involved with assistance provided to the Barnes Hill project in Tasmania.
Interest in Shares and Options	1,910,630 Ordinary Shares 1,000,000 $0.25 share options 1,969,168 $0.05 share options
Directorships held in other listed entities	None
Ian Campbell	Chairman Ian Campbell brings a deep knowledge of the Australian regulatory environment with a particular focus on industry and the environment. Mr Campbell has worked at the highest levels of government both nationally and internationally. In 2007 Mr Campbell retired from Federal politics after a distinguished career spanning 17 years in the Australian Senate. He was a member of the Cabinet and the Expenditure Review Committee from 2004. During his time as Parliamentary Secretary to the Treasurer Mr Campbell initiated the Corporate Law Economic Reform Program (CLERP) which heralded sweeping pro-market changes to business law. These reforms covered Takeovers (including the new Takeovers Panel provisions), Fundraising, Accounting (including the introduction of IFRS and the Financial Reporting Council), and Financial Markets. Mr Campbell represented Australia at the Annual meetings of the IMF and at the Board of Governors of the World Bank in 2002-3. Mr Campbell is a member of the Boards of Austal Limited, ASG Group, and Solco, a solar energy Company. He is Chairman of the Princess Margaret Hospital Foundation and Enerji Ltd (a waste heat recovery company) and on the Advisory Board of Australian-based international geothermal developer Green Rock Energy Limited.
Interest in Shares and Options	1,000,000 $0.25c share options
Directorships held in other listed entities	ASG Group Limited — 12 June 2007 to present Austal Limited — 1 August 2007 to present Enerji Limited — 19 November 2009 to present

DIRECTORS' REPORT (CONT'D)

INFORMATION ON DIRECTORS (CONT'D)

Patricia Kay Philip, ONM; BSc; Grad Dip App Geophys; Grad Dip App Finance, SF Fin	Non-Executive Director
	Ms Philip is a Geophysicist whose background embraces project acquisition, financial analysis of resource projects and companies, and mining exploration and management. Ms Philip has worked in the securities industry, conducting courses in Australia and SE Asia. She also has experience in the financial markets, involving capital raisings. Ms Philip is an Honorary Associate in the School of Physics at the University of Sydney, and has been a Director of a number of listed and unlisted companies in the financial and oil and gas sectors. Ms Philip is a Member of the Australian Institute of Physics (AIP), Member Australian Society of Explorations Geophysicists (ASEG), Senior Fellow of the Financial Services Institute of Australia (SF FINSIA), Member of Association of International Petroleum Negotiators (AIPN) and Secretary of the Australian-French Association for Science and Technology (AFAS). Ms Philip was decorated by the French Government in 2005 with the award of Chevalier de L'Ordre National du Merite for facilitating collaboration between French and Australian scientists. Ms Philip is a non-executive director providing Geophysical advice and project assistance to the Company.
Interest in Shares and Options	2,842,919 Ordinary Shares 375,000 $0.20 share options 1,250,000 $0.25 share options 1,321,490 $0.05 share options
Directorships held in other listed entities	Austex Oil Limited 1 March 2006 to present (Chair remuneration committee) Stirling Resources Limited (formerly Alexanders Securities Ltd) 23 May 1988 to 11 February 2009 Longreach Oil Ltd 25 November 1986 to 19 December 2008

Company Secretary

Mr Kent Hunter is a Chartered Accountant with over 16 years' corporate and company secretarial experience. He has been involved in the listing of over 20 companies on ASX in the past 9 years. He has experience in capital raisings, ASX compliance and regulatory requirements and is currently a director of Cazaly Resources Limited, Western Manganese Limited and Carbon Conscious Limited and is company secretary of two other ASX listed entities.

REMUNERATION REPORT (AUDITED)

This report details the nature and amount of remuneration for each director of Proto Resources & Investments Ltd, and controlled entities and for the executives receiving the highest remuneration.

1. Employment Agreements

Mr Mortimer and Ms Darby currently work for the Group in an executive capacity as Joint Managing Directors. Revised executive director contracts were approved by the Board of Directors on 23 June 2010.

Mr Mortimer's contract is for a term of 3 years from the commencement date with the option to negotiate a further term. Under the terms of the agreement, Mr Mortimer's annual salary is $282,000 plus superannuation. Subject to shareholder approval, Mr Mortimer can elect to receive up to 50% of his annual gross salary by way of shares, the number of which to be calculated in accordance with the VWAP rate.

Mr Mortimer is required to devote a minimum of 15 days per month to the business of the Group and where time spent substantially exceeds this amount, Mr Mortimer is entitled to receive an overtime amount of $1,500 per day.

The contract between Mr Mortimer and the Group can be terminated on one month written notice given by either the director or the Group.

Ms Darby's contract is for a term of 3 years from the commencement date with the option to negotiate a further term. Under the terms of the agreement, Ms Darby's annual salary is $180,000 plus superannuation.

Subject to shareholder approval, Ms Darby can elect to receive up to 50% of her annual gross salary by way of shares, the number of which to be calculated in accordance with the VWAP rate.

Ms Darby is required to devote a minimum of 10 days per month to the business of the Group and where time spent substantially exceeds this amount, Ms Darby is entitled to receive an overtime amount of $1,500 per day.

The contract between Ms Darby and the Group can be terminated on one month written notice given by either the director or the Group.

The terms and conditions of Greg Melick's engagement as an executive director are formalised in an engagement letter dated 23 June 2010. His engagement has no fixed term but ceases on his resignation or removal as a director in accordance with the Corporations Act. Greg is entitled to receive directors' fees of $50,000 per annum plus 9% superannuation. Greg is also entitled to receive consultancy fees each month based on the time he has dedicated to the Company for that month.

The terms and conditions of Patricia Kay Philip and Ian Campbell's engagements as non-executive directors are formalised in engagement letters dated 23 June 2010. Their engagements have no fixed term but cease on their resignation or removal as a director in accordance with the Corporations Act. They are entitled to receive directors' fees of $50,000 per annum plus 9% superannuation.

2. Remuneration policy

The Group's remuneration policy has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Group's financial results. Currently those long-term incentives include shares and options acquired by the executives prior to the Stock Exchange listing of the Company. The board believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Group, as well as create goal congruence between directors, executives and shareholders.

DIRECTORS' REPORT (CONT'D)

REMUNERATION REPORT (CONT'D)

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the Group is as follows:

- The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the board
- All executives receive a base salary (which is based on factors such as length of service and experience), superannuation and are entitled to the issue of share options. The remuneration committee reviews executive packages annually by reference to the consolidated Group's performance, executive performance and comparable information from industry sectors.

The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the Group's shareholders' value. The board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Executives are also entitled to participate in the employee share and option arrangements.

The executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits.

All remuneration paid to directors and executives is valued at the cost to the Group and expensed, or capitalised to exploration expenditure if appropriate. Options, if given to directors and executives in lieu of remuneration, are valued using the Black-Scholes methodology.

The board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the consolidated group. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company and are able to participate in the employee share option plan.

3. Performance-based remuneration

There is currently no performance-based remuneration policy in place.

DIRECTORS' REPORT (CONT'D)

REMUNERATION REPORT (CONT'D)

4. Details of remuneration:

The remuneration for each key management personnel of the Group during the year was as follows:

2011

Key Management Person	Short-term Benefits				Post-employment Benefits	Other Long-term Benefits	Share based Payment		Total	Total Remuneration Represented by Share based Payment	Performance Related
	Cash, salary & commissions	Cash profit share	Non-cash benefit	Other	Super-annuation	Other	Equity	Options			
	$	$	$	$	$	$	$	$	$	%	%
Directors											
Andrew Mortimer	215,670	-	-	-	19,035	-	-	-	234,705	-	-
Lia Darby	139,170	-	-	-	12,150	-	-	-	151,320	-	-
Kay Philip	20,835	-	-	-	1,875	-	-	-	22,710	-	-
Greg Melick (i)	25,000	-	-	32,500	-	-	-	-	57,500	-	-
Ian Campbell	50,000	-	-	-	4,500	-	-	-	54,500	-	-
Executives											
Kent Hunter (ii)	-	-	-	121,635	-	-	-	-	121,635	-	-
Ashley Hood (iii)	-	-	-	57,327	-	-	4,088	-	61,415	6.7	-
Pierre Richard (iv)	94,654	-	-	55,000	8,474	-	55,000	-	213,128	27.2	-
	545,329	-	-	266,462	46,034	-	59,088	-	916,913	-	-

(i) During the year, $32,500 was paid or due to be paid to Greg Melick for consultancy services provided to the Group (2010: Nil).

(ii) During the year, $121,635 was paid or due to be paid to Mining Corporate Pty Ltd for corporate consultancy services provided to the Group by Mr. Kent Hunter

(iii) During the year, $57,327 was paid or due to be paid to 26 One 73 Minerals Pty Ltd for consultancy services provided to the Group by Ashley Hood (2010: $111,552).

(iv) During the year, $55,000 was paid or due to be paid to Monclar Pty Ltd for consultancy services provided to the Group by Mr Pierre Richard (2010: $16,000).

DIRECTORS' REPORT (CONT'D)

REMUNERATION REPORT (CONT'D)

4. Details of remuneration (cont'd)

2010

Key Management Person	Short-term Benefits				Post-employment Benefits	Other Long-term Benefits	Share based Payment		Total	Total Remuneration Represented by Share based Payment	Performance Related
	Cash, salary & commissions	Cash profit share	Non-cash benefit	Other	Super-annuation	Other	Equity	Options			
	$	$	$	$	$	$	$	$	$	%	%
Directors											
Andrew Mortimer	380,139*	-	-	-	24,300	-	4,212	-	408,651	1.03	-
Lia Darby	261,781*	-	-	-	24,300	-	37,115	-	323,196	11.5	-
Kay Philip	75,575*	-	-	-	5,625	-	34,664	-	115,864	29.9	-
Greg Melick	62,500*	-	-	-	-	-	40,865	-	103,365	39.5	-
Ian Campbell	50,000	-	-	-	4,500	-	-	-	54,500	-	-
Executives											
Kent Hunter	-	-	-	20,000	-	-	15,180	-	35,180	-	-
Ashley Hood	13,977	-	-	111,552	1,258	-	95,200	-	221,987	42.9	-
Pierre Richard	62,275	-	-	16,000	5,605	-	63,000	-	146,880	42.9	-
	906,247	-	-	147,552	65,588	-	290,236	-	1,409,623	-	-

* The salary of these directors include cash prepayments as per note 30(i)(j) of the financial report

5. Shareholdings

Number of Shares held by Key Management Personnel

Key Management Person	Balance 1.7.2010	Received as Compensation No.	Net Change Other	Balance 30.6.2011	Vested
	No.		No.	No.	%
Directors					
Andrew Mortimer	22,821,133	-	(1,005,000)	21,816,133	100%
Lia Darby	6,688,828	-	(2,000,000)	4,688,828	100%
Kay Philip	2,842,919	-	-	2,842,919	100%
Greg Melick	3,610,630	-	(1,700,000)	1,910,630	100%
Ian Campbell	-	-	-	-	-
Executive					
Ashley Hood	396,016	65,000	(396,016)	65,000	100%
Pierre Richard	1,200,000	1,000,000	(600,000)	1,600,000	100%
Kent Hunter	-	-	-	-	-
Total	**37,559,526**	**1,065,000**	**(5,701,016)**	**32,923,510**	**100%**

DIRECTORS' REPORT (CONT'D)

REMUNERATION REPORT (CONT'D)

6. Options

Number of Options held by Key Management Personnel - $0.20 Options Expiring 31 August 2011

Key Management Person	Balance 1.7.2010	Received as Compensation	Net Change Other	Balance 30.6.2011	Vested
	No.	No.	No.	No.	%
Andrew Mortimer	1,275,000	-	(125,000)	1,150,000	100%
Lia Darby	920,000	-	-	920,000	100%
Kay Philip	375,000	-	-	375,000	100%
Greg Melick	-	-	-	-	-
Ian Campbell	-	-	-	-	-
Executive					
Ashley Hood	375,000	-	-	375,000	100%
Pierre Richard	-	-	-	-	-
Kent Hunter	-	-	-	-	-
Total	**2,945,000**	**-**	**(125,000)**	**2,820,000**	**100%**

Number of Options held by Key Management Personnel - $0.25 Options Expiring 31 December 2013

Key Management Person	Balance 1.7.2010	Received as Compensation	Net Change Other	Balance 30.6.2011	Vested
	No.	No.	No.	No.	%
Andrew Mortimer	2,415,002	-	350,000	2,765,002	100%
Lia Darby	2,621,667	-	-	2,621,667	100%
Kay Philip	1,250,000	-	-	1,250,000	100%
Greg Melick	1,033,334	-	(33,334)	1,000,000	100%
Ian Campbell	1,000,000	-	-	1,000,000	100%
Executive					
Ashley Hood	-	-	-	-	-
Pierre Richard	83,334	-	(83,334)	-	100%
Kent Hunter	-	-	-	-	-
Total	**8,403,337**	**-**	**233,332**	**8,636,669**	**100%**

DIRECTORS' REPORT (CONT'D)

REMUNERATION REPORT (CONT'D)

6. Options (cont'd)

Number of Options held by Key Management Personnel - $0.05 Options Expiring 31 December 2011

Key Management Person	Balance 1.7.2010	Received as Compensation	Net Change Other	Balance 30.6.2011	Vested
	No.	No.	No.	No.	%
Andrew Mortimer	5,703,865	-	(2,687,486)	3,016,379	100%
Lia Darby	4,653,828	-	-	4,653,828	100%
Kay Philip	2,221,490	-	(900,000)	1,321, 490	100%
Greg Melick	1,969,168	-	-	1,969,168	100%
Ian Campbell	-	-	-	-	-
Executive					
Ashley Hood	1,550,016	-	(1,550,016)	-	100%
Pierre Richard	1,283,334	-	(1,270,000)	13,334	100%
Kent Hunter	510,000	-	-	510,000	100%
Total	**17,891,701**	**-**	**(6,407,502)**	**11,484,199**	**100%**

7. Options issued as part of remuneration for the year ended 30 June 2011

The Group has established an employee share option plan. During the year no new options were issued to employees as part of their remuneration.

This is the end of the audited remuneration report.

DIRECTORS' REPORT (CONT'D)

MEETINGS OF DIRECTORS

During the financial year, 6 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

	Committee Meetings					
	Directors' Meetings		Audit Committee		Remuneration/ Nomination Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Andrew Mortimer	5	5	-	-	1	1
Lia Darby	5	4	-	-	1	-
Kay Philip	5	5	-	-	1	1
Greg Melick	5	3	-	-	1	1
Ian Campbell	5	3	-	-	1	1

INDEMNIFYING AND INSURANCE OF OFFICERS

The Group has entered into deeds of indemnity with each director whereby, to the extent permitted by the Corporations Act 2001, the Group agreed to indemnify each director against all loss and liability incurred as an officer of the Group, including all liability in defending any relevant proceedings.

The Group has paid premiums to insure each of the directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the Group, other than conduct involving a wilful breach of duty in relation to the Group. The disclosure of the amount of the premium is prohibited by the insurance policy.

OPTIONS

At the date of this report, the unissued ordinary shares of Proto Resources & Investments Ltd under option are as follows:

Date of Expiry	Exercise Price	Number under Option
31 December 2013	$0.25	51,727,808
31 December 2011	$0.05	141,430,650
28 February 2013	$0.08	5,000,000
28 February 2013	$0.10	3,500,000
28 February 2013	$0.125	2,000,000
1 September 2014	$0.05	18,357,683
12 September 2014	$0.35	1,428,571

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

DIRECTORS' REPORT (CONT'D)

OPTIONS (CONT'D)

During the year ended 30 June 2011, the following ordinary shares of Proto Resources & Investments Ltd were issued on the exercise of options:

Exercise Date	Exercise Price	Number of Shares Issued
13/10/2010	$0.050	11
25/1/2011	$0.050	1,700,000
28/1/2011	$0.050	2,000,080
3/2/2011	$0.050	9,834
7/2/2011	$0.050	221,668
24/2/2011	$0.050	2,000
3/3/2011	$0.053	1,000,000
3/3/2011	$0.056	1,250,000
17/3/2011	$0.045	250,000
18/3/2011	$0.042	250,000
22/3/2011	$0.040	750,000
23/3/2011	$0.045	500,000
23/3/2011	$0.045	500,000
24/3/2011	$0.050	1,000,000
24/3/2011	$0.050	1,000,000
24/3/2011	$0.050	500,000
28/3/2011	$0.051	250,000
29/3/2011	$0.050	15,734
6/4/2011	$0.047	500,000
11/4/2011	$0.045	2,000,000
13/4/2011	$0.049	300,000
14/4/2011	$0.051	300,000
18/4/2011	$0.047	300,000
15/4/2011	$0.050	4,134
5/5/2011	$0.047	2,500,000
6/5/2011	$0.250	1
8/6/2011	$0.046	500,000
14/6/2011	$0.050	500,000
	Total	**18,103,462**

DIRECTORS' REPORT (CONT'D)

OPTIONS (CONT'D)

Since the year ended 30 June 2011 and the date of this report, the following ordinary shares of Proto Resources &Investments Ltd were issued on the exercise of options:

Exercise Date	Exercise Price	Number of Shares Issued
16/7/2011	$0.040	750,000
28/7/2011	$0.038	750,000
4/8/2011	$0.034	1,000,000
4/8/2011	$0.034	1,000,000
04/8/2011	$0.034	1,000,000
17/8/2011	$0.035	750,000
18/8/2011	$0.036	1,000,000
22/8/2011	$0.037	500,000
23/8/2011	$0.036	1,000,000
		7,750,000

PROCEEDINGS ON BEHALF OF THE GROUP

No person has applied for leave of Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

The Group was not a party to any such proceedings during the year.

NON-AUDIT SERVICES

No non-audit services were provided by the external auditors during the year ended 30 June 2011.

GOING CONCERN

The accounts have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

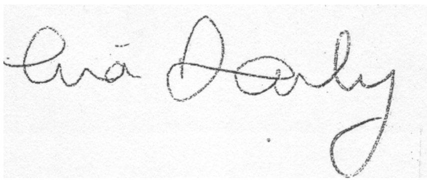
The ability of the Group to continue to pay its debts as and when they fall due is dependent upon the Group successfully raising additional share capital and ultimately developing one of its mineral properties and from the continued support of directors. Refer to Note 1(a) for details of going concern.

DIRECTORS' REPORT (CONT'D)

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2011 has been received and can be found on the next page of the directors' report.

Signed in accordance with a resolution of the Board of Directors.



Lia Darby
Joint Managing Director
Dated this 28th day of September 2011

Bentleys
THINKING AHEAD

Bentleys Audit & Corporate (WA) Pty Ltd

Level 1, 12 Kings Park Road
West Perth WA 6005
Australia

PO Box 44
West Perth WA 6872
Australia

ABN 33 121 222 802

T +61 8 9226 4500
F +61 8 9226 4300

bentleys.com.au

To The Board of Directors

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

This declaration is made in connection with our audit of the financial report of Proto Resources and Investments Limited and Controlled Entities for the year ended 30 June 2011 and in accordance with the provisions of the *Corporations Act 2001*.

We declare that, to the best of our knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit;
- no contraventions of the *Code of Professional Conduct* of the Institute of Chartered Accountants in Australia in relation to the audit.

Yours faithfully

Bentleys

BENTLEYS
Chartered Accountants

CHRIS WATTS CA
Director

DATED at PERTH this 28th day of September 2011

Bentleys
THINKING AHEAD

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Independent Auditor's Report

To the Members of Proto Resources and Investments Limited

We have audited the accompanying financial report of Proto Resources and Investments Limited ("the Company") and Controlled Entities ("the Consolidated Entity"), which comprises the consolidated statement of financial position as at 30 June 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 Company and 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 and fair presentation of the financial report 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 Standards 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 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 judgment, 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 opinion.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Auditor's Opinion

In our opinion:

a. The financial report of Proto Resources and Investments 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 2011 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*;

b. The financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Emphasis of Matter

Without qualifying our opinion, attention is drawn to the following matter. As a result of matters described in Note 1(a): Going Concern to the financial report, uncertainty exists whether Proto Resources and Investments Limited and Controlled Entities will be able to continue as a going concern and therefore whether it will be able to pay its debts as and when they fall due and realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Consolidated Entity not continue as a going concern.

Report on the Remuneration Report

We have audited the Remuneration Report included in directors' report of the year ended 30 June 2011. 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.

Auditor's Opinion

In our opinion, the Remuneration Report of Proto Resources and Investments Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

Bentleys

BENTLEYS
Chartered Accountants

CHRIS WATTS CA
Director

DATED at PERTH this 28th day of September 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 $	2010 $
Revenue and other income	2	240,302	338,168
Compliance and regulatory expense		(134,131)	(260,586)
Consultancy and brokers fees		(593,412)	(166,459)
Directors fees		(322,017)	(101,066)
Employee benefit expense		(309,924)	(220,182)
Share based payments	23	(204,273)	(472,621)
Occupancy expense		(102,830)	(108,033)
Travel and accommodation		(237,101)	(194,401)
Finance costs		(9,401)	(4,164)
Realised loss on financial assets		(22,253)	-
Unrealised loss on financial assets		(51,692)	(434,231)
Impairment of property, plant and equipment		-	(450,000)
Exploration costs written off	15	(982,339)	(1,075,554)
Exploration costs		(66,818)	(101,937)
Computer expense		(75,365)	(104,803)
Audit fees		(53,200)	(49,555)
Marketing and public relations		(413,837)	(73,930)
Other costs		(301,879)	(287,350)
Provision for doubtful debts		(151,575)	-
Share of net loss of associate accounted for using the equity method	28	(126,521)	-
Loss before income tax expense	3	(3,918,266)	(3,766,704)
Income tax expense	4	-	-
Loss for the year		(3,918,266)	(3,766,704)
Other comprehensive income/(loss)			
Net loss on revaluation of available for sale financial assets		(3,321)	(12,713)
Total other comprehensive income/(loss) for the year, net of tax		**(3,321)**	**(12,713)**
Total comprehensive income/(loss) for the year, attributable to members of the parent entity		(3,921,587)	(3,779,417)
Loss Per Share			
Basic loss per share (cents per share)	7	1.14	2.05

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

	Note	2011 $	2010 $
ASSETS			
CURRENT ASSETS			
Cash	8	688,537	1,421,664
Trade and other receivables	9	314,357	276,019
Financial assets at fair value through profit or loss	10	1,754,519	1,271,740
Available for sale financial assets	11	57,331	-
Other assets	13	202,513	341,420
TOTAL CURRENT ASSETS		**3,017,257**	**3,310,843**
NON-CURRENT ASSETS			
Trade and other receivables	9	45,000	-
Available for sale financial assets	11	447,667	-
Investments accounted for using the equity method	12	8,044	-
Exploration assets	15	6,149,847	5,025,847
Plant and equipment	16	62,759	15,472
Other assets	13	89,632	84,920
TOTAL NON-CURRENT ASSETS		**6,802,949**	**5,126,239**
TOTAL ASSETS		**9,820,206**	**8,437,082**
CURRENT LIABILITIES			
Trade and other payables	17	677,531	659,697
Provisions	18	3,289	2,145
Financial liabilities	19	-	6,240
TOTAL CURRENT LIABILITIES		**680,820**	**668,082**
TOTAL LIABILITIES		**680,820**	**668,082**
NET ASSETS		**9,139,386**	**7,769,000**
EQUITY			
Issued capital	21	24,761,149	19,626,475
Reserves	22	4,826,035	4,672,056
Accumulated losses		(20,447,798)	(16,529,531)
TOTAL EQUITY		**9,139,386**	**7,769,000**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011

	Note	Issued Capital	Option reserve	Share based payment reserve	Financial Asset Reserve	Accumulated losses	Total
		$	$	$	$	$	$
Balance at 1 July 2009		**12,873,977**	**-**	**4,283,235**	-	**(12,762,827)**	**4,394,385**
Loss for the year		-	-	-	-	(3,766,704)	(3,766,704)
Other Comprehensive Income/(Loss)		-	-	-	(12,713)	-	(12,713)
Total Comprehensive Income/(Loss)		-	-	-	(12,713)	(3,766,704)	(3,779,417)
Transactions with owners directly recorded in equity							
Shares issued during the year		7,093,695	-	-	**-**	**-**	7,093,695
Less: Transaction costs arising from issue of shares		(341,197)	-	-	**-**	**-**	(341,197)
Options issued during the year		-	-	401,534	-	-	401,534
Balance at 30 June 2010		**19,626,475**	**-**	**4,684,769**	**(12,713)**	**(16,529,531)**	**7,769,000**
Balance at 1 July 2010		**19,626,475**	**-**	**4,684,769**	**(12,713)**	**(16,529,531)**	**7,769,000**
Loss for the year		-	-	-	-	(3,918,266)	(3,918,266)
Other Comprehensive Income/(Loss)		-	-	-	(3,321)	-	(3,321)
Total Comprehensive Income/(Loss)		-	-	-	(3,321)	(3,918,266)	(3,921,587)
Transactions with owners directly recorded in equity							
Shares issued during the year		5,443,669	-	-	**-**	**-**	5,443,669
Less: Transaction costs arising from issue of shares		(308,996)	-	-	**-**	**-**	(308,996)
Options issued during the year		-	15,000	142,300	-	-	157,300
Balance at 30 June 2011		**24,761,148**	**15,000**	**4,827,069**	**(16,034)**	**(20,447,797)**	**9,139,386**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 $	2010 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(2,324,459)	(2,141,523)
Payments for exploration and evaluation expenditure		(2,116,789)	(1,879,238)
Interest received		47,464	43,758
Dividends received		3,747	3,531
Other revenue		4,713	97,841
Research and development rebate		88,013	76,717
Net cash used in operating activities	26	(4,297,311)	(3,798,914)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments		(1,541,241)	(1,932,125)
Proceeds from sale of investments		778,724	1,072,990
Payment for options over exploration projects		(117,331)	-
Loan to other entities		(345,195)	(58,368)
Loan repaid by other entities		31,000	-
Payments for equity accounted investment		(245,000)	-
Purchase of plant and equipment		(76,359)	-
Net cash used in investing activities		(1,515,402)	(917,503)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		5,373,581	6,271,411
Payment of transaction costs associated with capital raising		(308,995)	(346,874)
Loan repaid to related entity		-	(50,000)
Proceeds from issue of options		15,000	-
Net cash provided by financing activities		5,079,586	5,874,537
Net increase/ (decrease) in cash held		(733,127)	1,158,120
Cash at beginning of financial year	8	1,421,664	263,544
Cash at end of financial year	8	**688,537**	**1,421,664**

The accompanying notes form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers Proto Resources and Investments Ltd and controlled entities ("Proto Resources" "Consolidated Group" or "Group"). Proto Resources 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 a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The following is a summary of the material accounting policies adopted by the consolidated group in the preparation of the financial report.

Basis of Preparation

The accounting policies set out below have been consistently applied to all years presented, unless otherwise stated.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected financial assets for which the fair value basis of accounting has been applied.

Accounting Policies

a) **Going Concern**

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The loss of the Group for the period amounted to $3,918,266 and net cash outflows from operations for the year to 30 June 2011 were $4,297,311.

These conditions indicate a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

In considering whether the going concern basis is appropriate for preparing this financial report, the directors recognise that current levels of working capital may be insufficient to meet the required level of funding in relation to the Group's commitments. However, in the informed opinion of the directors, it has been concluded that the going concern basis is the appropriate as the Group is expected to raise capital through financial year 2012.

Should the capital not be raised, the Group may be unable to continue as a going concern. It may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements.

These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities and appropriate disclosures that may be necessary should the entity be unable to continue as a going concern.

The Directors acknowledge that the Group will need to adopt further strategies to ensure that funding is maintained. This includes, but is not limited to further costs reduction strategies and further capital raisings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

b) **Principles of Consolidation**

Subsidiaries

A controlled entity is any entity Proto Resources has the power to control the financial and operating policies of so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 14 to the financial statements. All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

No controlled entities have entered or left the consolidated group during the year.

Associates

Associates are all entities over which the group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the parent company using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost.

The Group's share of its associate's post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in reserves is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

c) **Income Tax**

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Proto Resources has not formed an income tax consolidated group under the tax consolidation regime. Each entity in the group recognises its own current and deferred tax liabilities.

d) **Plant and Equipment**

Each class of plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are 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 that will be received from the asset's employment and subsequent disposal.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable

Depreciation

The depreciable amount of all fixed assets and capitalised lease assets is depreciated on a straight-line basis over their useful lives to the consolidated group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	**Depreciation Rate**
Office equipment	33%
Leased fixtures and fittings	33%
Field equipment	33% - 40%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's 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. When re-valued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

e) **Exploration and Evaluation Expenditure**

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

f) **Leases**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, that is transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

g) **Financial Instruments**

Initial recognition and measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transaction costs where the instrument is not classified as 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

a) the amount at which the financial asset or financial liability is measured at initial recognition;

b) less principal repayments;

c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and

d) less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly 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 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.

- Financial assets at fair value through profit and 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, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance valuation 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 the carrying value being included in profit or loss.

- 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, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non-current assets).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

- Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other investments are classified as current assets).

If during the period the Group sold or reclassified more than an insignificant amount of the held-to-maturity investments before maturity, the entire held-to-maturity investments category would be tainted and reclassified as available-for-sale.

- Available for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be 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.

Available-for-sale financial assets are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other financial assets are classified as current assets). They are subsequently measured at fair value with changes in fair value (ie gains and losses) recognised in other comprehensive income.

- Financial Liabilities

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

Derivative Instruments

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the statement of comprehensive income unless they are designated as hedges. The Group currently has no derivate instruments.

Fair Value

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

Impairment

At each reporting date the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

De-recognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity is 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 either discharged, cancelled or expire. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial Guarantees

Where material, financial guarantees issued, which require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as a financial liability at fair value on initial recognition.

The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.The Group has not currently provided any guarantees.

h) **Impairment of Assets**

At the end of each reporting date, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

Impairment testing is performed annually for intangible assets with indefinite lives.

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.

i) **Employee Benefits**

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within 12 months year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than 12 months have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Equity-settled compensation

The Group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black –Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

j) **Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

k) **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of 3 months or less.

l) **Revenue**

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

All revenue is stated net of the amount of goods and services tax (GST).

m) **Borrowing Costs**

All borrowing costs are recognised as expense in the period in which they are incurred.

n) **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 Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

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 cash flows.

o) **Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

p) **Critical Accounting Estimates and Judgments**

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Environmental Issues

Balances disclosed in the financial statements and notes thereto are not adjusted for any pending or enacted environmental legislation, and the directors understanding thereof. At the current stage of the Group's development and its current environmental impact the directors believe such treatment is reasonable and appropriate.

Taxation

Balances disclosed in the financial statements and the notes thereto, related to taxation, are based on the best estimates of directors. These estimates take into account both the financial performance and position of the Group as they pertain to current income taxation legislation, and the directors understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents that directors' best estimate, pending an assessment by the Australian Taxation Office.

Exploration and Evaluation Expenditure

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current. These costs are carried forward in respect of an area that has not at balance sheet date reached a stage that permits reasonable assessment of the existence of economically recoverable reserves, refer to the accounting policy stated in note 1(e).

Share based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model, using the assumptions detailed in note 23.

For equity transactions with consultants and other employees, the fair value reflects the value attributable to services where applicable. Where there is no quantifiable value of services the value of options is calculated using the Black and Scholes option pricing model.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

q) **Adoption of New and Revised Accounting Standards**

New accounting standards for application in future period

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods and which the Consolidated Entity has decided not to early adopt. A discussion of those future requirements and their impact on the Consolidated Entity is as follows:

- AASB 9: Financial Instruments (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2013).

  This Standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments. The Consolidated Entity has not yet determined any potential impact on the financial statements.

- AASB 1053: Application of Tiers of Australian Accounting Standards and AASB 2010–2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052] (applicable for annual reporting periods commencing on or after 1 July 2013).

  AASB 1053 establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements:

  - Tier 1: Australian Accounting Standards; and
  - Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

  Tier 2 of the framework comprises the recognition, measurement and presentation requirements of Tier 1, but contains significantly fewer disclosure requirements.

  The following entities are required to apply Tier 1 reporting requirements (ie full IFRS):

  - for-profit private sector entities that have public accountability; and
  - the Australian Government and state, territory and local governments.

  Since the Consolidated Entity is a for-profit private sector entity that has public accountability, it does not qualify for the reduced disclosure requirements for Tier 2 entities.

- AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

  This Standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. The Standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The amendments are not expected to impact the Consolidated Entity.

- AASB 2010–4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] (applicable for annual reporting periods commencing on or after 1 January 2011).

  This Standard details numerous non-urgent but necessary changes to Accounting Standards arising from the IASB's annual improvements project. Key changes include:

  - clarifying the application of AASB 108 prior to an entity's first Australian-Accounting-Standards financial statements;

- adding an explicit statement to AASB 7 that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments;
- amending AASB 101 to the effect that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is required to be presented, but is permitted to be presented in the statement of changes in equity or in the notes;
- adding a number of examples to the list of events or transactions that require disclosure under AASB 134; and
- making sundry editorial amendments to various Standards and Interpretations.

This Standard is not expected to impact the Consolidated Entity.

- AASB 2010–5: Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042] (applicable for annual reporting periods beginning on or after 1 January 2011).

  This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. However, these editorial amendments have no major impact on the requirements of the respective amended pronouncements.

- AASB 2010–6: Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7] (applicable for annual reporting periods beginning on or after 1 July 2011).

  This Standard adds and amends disclosure requirements about transfers of financial assets, especially those in respect of the nature of the financial assets involved and the risks associated with them. Accordingly, this Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards, and AASB 7: Financial Instruments: Disclosures, establishing additional disclosure requirements in relation to transfers of financial assets.

  This Standard is not expected to impact the Consolidated Entity.

- AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applies to periods beginning on or after 1 January 2013).

  This Standard makes amendments to a range of Australian Accounting Standards and Interpretations as a consequence of the issuance of AASB 9: Financial Instruments in December 2010. Accordingly, these amendments will only apply when the entity adopts AASB 9.

  As noted above, the Consolidated Entity has not yet determined any potential impact on the financial statements from adopting AASB 9.

- AASB 2010–8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112] (applies to periods beginning on or after 1 January 2012).

  This Standard makes amendments to AASB 112: Income Taxes.

  The amendments brought in by this Standard introduce a more practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model under AASB 140: Investment Property.

  The amendments are not expected to impact the Consolidated Entity.

The Group does not anticipate the early adoption of any of the above Australian Accounting Standards.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

	2011 $	2010 $
NOTE 2: REVENUE AND OTHER INCOME		
Other Revenue		
- Interest revenue	52,176	47,707
	52,176	**47,707**
Other Income		
- Gain on share trading	-	114,401
- Office reimbursement	87,500	70,000
- Research & Development rebate	88,013	76,717
- Other	12,613	29,343
	188,126	**290,461**
Total revenue and other income	**240,302**	**338,168**

NOTE 3: LOSS FOR THE YEAR

The loss from ordinary activities before income tax has been determined after:

	2011 $	2010 $
Expenses		
Finance costs:		
- lease interest	-	216
- other	9,401	3,948
Total finance costs	**9,401**	**4,164**
Rental expense on operating leases		
- minimum lease payments	78,317	4,672
Depreciation of plant and equipment	29,072	25,807
Salaries (administration)	252,684	155,298
Superannuation	54,885	58,794
Other losses		
Unrealised loss on financial assets	(51,692)	(434,231)
Realised loss on financial assets	(22,253)	-
	(73,945)	**(434,231)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

	2011 $	2010 $
NOTE 4: INCOME TAX EXPENSE		
a. The components of tax expense comprise:		
Current tax	-	-
Deferred tax	-	-
Income tax as reported in the statement of comprehensive income	-	-
b. Reconciliation of income tax expense to prima facie tax payable:		
Loss from ordinary activities before income tax expense	(3,918,266)	(3,766,704)
Prima facie tax benefit on loss from ordinary activities before income tax at 30% (2010: 30%)	(1,175,480)	(1,130,011)
Increase in income tax due to:		
- Non-deductible expenses	63,149	235,218
- Current year tax losses not recognised	1,124,630	983,873
- Temporary difference on investment in associate not recognised	95,837	-
Decrease in income tax expense due to		
- Non-assessable income	(26,404)	(23,015)
- Revaluation of investment through equity	(996)	(3,814)
- Excess franking credits converted to tax losses	-	(54)
- Deductible equity raising costs	(80,736)	(62,197)
Income tax attributable to operating loss	-	-
c. Recognised deferred tax assets:		
Tax losses	1,868,471	1,213,911
Other investments	204,355	142,068
Accruals	30,437	7,951
Plant and equipment	1,747	-
Employee provisions	987	644
Previously expensed capital raising costs	412	1,184
Total deferred tax asset	2,106,409	1,365,758
Less: set off of deferred tax liabilities	(2,106,409)	(1,365,758)
Net deferred tax asset	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 4: INCOME TAX EXPENSE (CONT'D)

	2011 $	2010 $
d. Recognised deferred tax liabilities:		
Capitalised exploration expenditure	(2,106,409)	(1,365,758)
Less: set off of deferred tax assets	2,106,409	1,365,758
Total deferred tax liabilities	**-**	**-**

Deferred tax assets have not been recognised in respect of the following:

	2011	2010
Deductible temporary differences	251,117	143,318
Tax revenue losses	3,513,985	2,691,171
Tax capital losses	128,288	-
	3,893,390	**2,834,489**

Potential deferred tax assets attributable to tax losses and exploration expenditure carried forward have not been brought to account at 30 June 2011 because the directors do not believe it is appropriate to regard realisation of the deferred tax assets as probable at this point in time. These benefits will only be obtained if:

- the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss and exploration expenditure to be realised;
- the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss and exploration expenditure to be realised;

  no changes in tax legislation adversely affect the Group in realising the benefit from the deductions for the loss and exploration expenditure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION

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 2011.

Names and positions held of Group's key management personnel in office at any time during the year are :

Andrew Mortimer	Joint Managing Director
Lia Darby	Joint Managing Director
Patricia Kay Philip	Non-Executive Director
Aziz Greg Melick	Executive Director
Ian Campbell	Chairman

a) **Remuneration of Key Management Personnel**

The totals of remuneration paid to KMP of the Group during the year are as follows:

	2011	2010
	$	$
Short-term employee benefits	811,791	1,053,799*
Post-employment benefits	46,034	65,588
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	59,088	290,236
	916,913	**1,409,623**

*This includes the cash portion of prepayments to directors as disclosed in note 30(i)(j)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (CONT'D)

b. **Options and Rights Holdings**

Number of Options 20c Expiring 31 August 2011 Held by Key Management Personnel

	Balance 1.7.2010 No.	Granted as Compen-sation No.	Options Exercised No.	Net Change Other No.	Balance 30.6.2011 No.	Total Vested and exercisable 30.6.2011 No.
Directors						
Andrew Mortimer	1,275,000	-	-	(125,000)	1,150,000	1,150,000
Lia Darby	920,000	-	-	-	920,000	920,000
Kay Philip	375,000	-	-	-	375,000	375,000
Greg Melick	-	-	-	-	-	-
Ian Campbell	-	-	-	-	-	-
Executive						
Ashley Hood	375,000	-	-	-	375,000	375,000
Pierre Richard	-	-	-	-	-	-
Kent Hunter	-	-	-	-	-	-
Total	**2,945,000**	**-**	**-**	**(125,000)**	**2,820,000**	**2,820,000**

	Balance 1.7.2009 No.	Granted as Compen-sation No.	Options Exercised No.	Net Change Other No.	Balance 30.6.2010 No.	Total Vested and exercisable 30.6.2010 No.
Directors						
Andrew Mortimer	1,275,000	-	-	-	1,275,000	1,275,000
Lia Darby	920,000	-	-	-	920,000	920,000
Kay Philip	375,000	-	-	-	375,000	375,000
Greg Melick	-	-	-	-	-	-
Ian Campbell	-	-	-	-	-	-
Executive						
Ashley Hood	375,000	-	-	-	375,000	375,000
Pierre Richard	-	-	-	-	-	-
Kent Hunter	-	-	-	-	-	-
Total	**2,945,000**	**-**	**-**	**-**	**2,945,000**	**2,945,000**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (CONT'D)

b. **Options and Rights Holdings (cont'd)**

Number of 25c Options Expiring 31st December 2013 Options Held by Key Management Personnel

	Balance 1.7.2010 No.	Granted as Compen-sation No.	Options Exercised No.	Net Change Other No.	Balance 30.6.2011 No.	Total Vested and exercisable 30.6.2011 No.
Directors						
Andrew Mortimer	2,415,002	-	-	350,000	2,765,002	2,765,002
Lia Darby	2,621,667	-	-	-	2,621,667	2,621,667
Kay Philip	1,250,000	-	-	-	1,250,000	1,250,000
Greg Melick	1,033,334	-	-	(33,334)	1,000,000	1,000,000
Ian Campbell	1,000,000	-	-	-	1,000,000	1,000,000
Executive						
Ashley Hood	-	-	-	-	-	-
Pierre Richard	83,334	-	-	(83,334)	-	-
Kent Hunter	-	-	-	-	-	-
Total	**8,403,337**	**-**	**-**	**233,332**	**8,636,669**	**8,636,669**

	Balance 1.7.2009 No.	Granted as Compen-sation No.	Options Exercised No.	Net Change Other No.	Balance 30.6.2010 No.	Total Vested and exercisable 30.6.2010 No.
Directors						
Andrew Mortimer	2,415,002	-	-	-	2,415,002	2,415,002
Lia Darby	2,621,667	-	-	-	2,621,667	2,621,667
Kay Philip	1,250,000	-	-	-	1,250,000	1,250,000
Greg Melick	1,033,334	-	-	-	1,033,334	1,033,334
Ian Campbell	1,000,000	-	-	-	1,000,000	1,000,000
Executive						
Ashley Hood	425,000	-	-	(425,000)	-	-
Pierre Richard	460,418	-	-	(377,084)	83,334	83,334
Kent Hunter	-	-	-	-	-	-
Total	**9,205,421**	**-**	**-**	**(802,084)**	**8,403,337**	**8,403,337**

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (CONT'D)

b. **Options and Rights Holdings (cont'd)**

Number of 5c Options Expiring 31 December 2011 Options Held by Key Management Personnel

	Balance 1.7.2010 No.	Granted as Compen-sation No.	Options Exercised No.	Net Change Other No.	Balance 30.6.2011 No.	Total Vested and exercisable 30.6.2011 No.
Directors						
Andrew Mortimer	5,703,865	-	-	(2,687,486)	3,016,379	3,016,379
Lia Darby	4,653,828	-	-	-	4,653,828	4,653,828
Kay Philip	2,221,490	-	-	(900,000)	1,321,490	1,321,490
Greg Melick	1,969,168	-	-	-	1,969,168	1,969,168
Ian Campbell	-	-	-	-	-	-
Executive						
Ashley Hood	1,550,016	-	-	(1,550,016)	-	-
Pierre Richard	1,283,334	-	-	(1,270,000)	13,334	13,334
Kent Hunter	510,000	-	-	-	510,000	510,000
Total	**17,891,701**	**-**	**-**	**(6,407,502)**	**11,484,199**	**11,484,199**

	Balance 1.7.2009 No.	Granted as Compen-sation No.	Options Exercised No.	Net Change Other No.	Balance 30.6.2010 No.	Total Vested and exercisable 30.6.2010 No.
Directors						
Andrew Mortimer	-	3,619,167	-	2,084,698	5,703,865	5,703,865
Lia Darby	-	2,064,400	-	2,589,428	4,653,828	4,653,828
Kay Philip	-	1,135,417	-	1,086,073	2,221,490	2,221,490
Greg Melick	-	1,362,500	-	606,668	1,969,168	1,969,168
Ian Campbell	-	-	-	-	-	-
Executive						
Ashley Hood	-	-	-	1,550,016	1,550,016	1,550,016
Pierre Richard	-	-	-	1,283,334	1,283,334	1,283,334
Kent Hunter	-	510,000	-	-	510,000-	510,000
Total	**-**	**8,691,484**	**-**	**9,200,217**	**17,891,701**	**17,891,701**

* Other refers to options attaching to shares subscribed for in the non-renounceable entitlement offers to shareholders during the year and on-market transactions

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (CONT'D)

c. **Shareholdings**

Number of Shares held by Key Management Personnel

	Balance 1.7.2010 No.	Received as Compen-sation No.	Options Exercised No.	Net Change Other No.	Balance 30.6.2011 No.	Total held in escrow 30.6.2011 No.
Directors						
Andrew Mortimer	22,821,133	-	-	(1,005,000)	21,816,133	-
Lia Darby	6,688,828	-	-	(2,000,000)	4,688,828	-
Kay Philip	2,842,919	-	-	-	2,842,919	-
Greg Melick	3,610,630	-	-	(1,700,000)	1,910,630	-
Ian Campbell	-	-	-	-	-	-
Executive						
Ashley Hood	396,016	65,000	-	(396,016)	65,000	-
Pierre Richard	1,200,000	1,000,000	-	(600,000)	1,600,000	-
Kent Hunter	-	-	-	-	-	-
Total	**37,559,526**	**1,065,000**	**-**	**(5,701,016)**	**32,923,510**	**-**

	Balance 1.7.2009 No.	Received as Compen-sation No.	Options Exercised No.	Net Change Other No.	Balance 30.6.2010 No.	Total held in escrow 30.6.2010 No.
Directors						
Andrew Mortimer	5,799,086	1,952,500	-	15,069,547	22,821,133	-
Lia Darby	2,035,000	2,064,400	-	2,589,428	6,688,828	-
Kay Philip	821,429	1,135,417	-	886,073	2,842,919	-
Greg Melick	800,000	1,362,500	-	1,448,130	3,610,630	-
Ian Campbell	-	-	-	-	-	-
Executive						
Ashley Hood	200,000	2,089,167	-	(1,893,151)	396,016	-
Pierre Richard	-	1,750,000	-	(550,000)	1,200,000	
Kent Hunter	-	-	-	-	-	-
Total	**9,655,515**	**10,353,984**	**-**	**17,550,027**	**37,559,526**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 6: AUDITORS' REMUNERATION

	2011 $	2010 $
Remuneration of the auditor of the Group for:		
— auditing or reviewing the financial report	53,200	49,555
	53,200	**49,555**

NOTE 7: LOSS PER SHARE

a. Loss used to calculate basic EPS	3,918,266	3,766,704
	No.	**No.**
b. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	344,097,635	183,482,238

NOTE 8: CASH AND CASH EQUIVALENTS

	2011 $	2010 $
Cash at bank	688,537	1,421,664
	688,537	**1,421,664**

NOTE 9: TRADE AND OTHER RECEIVABLES

CURRENT		
Sundry (a)	19,608	10,198
GST receivable (a)	159,522	163,153
Deferred Expenditure (a)	-	20,464
Related party receivables	84,246	22,970
Unsecured loan to:		
- Related parties (b)	21,281	18,895
- Unrelated entity - gross(c)	181,147	40,339
- Unrelated entity – provision for impairment (c)	(151,447)	-
Total current trade and other receivables	**314,357**	**276,019**
NON-CURRENT		
Unsecured loan to unrelated entity(b)	45,000	-
Total non-current trade and other receivables	**45,000**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 9: TRADE AND OTHER RECEIVABLES (CONT'D)

(a) Expected to be settled within 30 days;

(b) Non-interest bearing with no set term of repayment, expected to be settled within 12 months if current and in excess of 12 months if non-current;

(c) This amount is bearing interest at 10% per annum and was due to be repaid on 31 March 2011

NOTE 10: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss are all held for trading and include the following:

	2011	2010
	$	$
Australian listed shares	1,642,854	1,053,054
Australian listed options	111,665	96,839
Unlisted investments, at cost	-	121,847
	1,754,519	**1,271,740**

NOTE 11: AVAILABLE FOR SALE FINANCIAL ASSETS

Available for sale financial assets include the following classes of financial assets:

	2011	2010
	$	$
CURRENT		
Option to acquire exploration project (a)	57,331	-
	57,331	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 11: AVAILABLE FOR SALE FINANCIAL ASSETS (CONT'D)

	2011	2010
	$	$
NON-CURRENT		
Option to acquire exploration project (a)	60,000	
Receivable balance denominated in shares (b)	130,667	-
Unlisted investments, at cost (c)	257,000	-
	447,667	**-**

(a) In 2011, the Group acquired options over the Granulitgebirge exploration project in Germany and 80% of the Clara Hill exploration project in Western Australia. Both options are carried at cost at 30 June 2011 and are non-refundable.

The Clara Hill option expires in September 2013 and the German option expires in September 2011.

Additional information in relation to these option arrangements is included at note 24 and note 29.

(b) The receivable balance denominated in shares relates to a loan that was made to a non-related party during the year. As the balance was advanced and is receivable in a certain number of listed company's shares, the Group's receivable balance is exposed to fluctuations in the listed company's share price. The value of the receivable recorded is based on the closing bid price of the listed company's shares at 30 June 2011.

Movements in the fair value of the receivable balance have been taken to the financial asset reserve within equity, because the Group does not have control over the shares and is therefore unable to realise any gains or losses in relation to the shares. When the receivable is settled and the shares are transferred back to the Group, the balance in the financial asset reserve, representing net gain or loss between advancement and settlement date, will be transferred to unrealised losses in the statement of comprehensive income.

(c) The fair value of unlisted financial assets cannot be reliably measured. As a result, all unlisted investments are reflected at cost, and assessed for impairment when such indicators arise. Refer to note 31 for risks associated with financial assets.

NOTE 12: INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost less impairment losses by the parent entity.

Refer to note 28 for information on the Group's investment in associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 13: OTHER ASSETS

	Note	2011	2010
CURRENT		**$**	**$**
Prepayments to directors	30 (i)(j)	130,920	326,420
Prepayments to consultants		71,593	15,000
		202,513	**341,420**
NON CURRENT			
Security deposits – lease		88,423	83,711
Security deposits - tenements		1,209	1,209
		89,632	**84,920**

NOTE 14: CONTROLLED ENTITIES

a. **Controlled Entities**

	Country of Incorporation	Percentage Owned	
Parent Entity:		**2011**	**2010**
Proto Resources and Investments Ltd	Australia	100%	100%
Subsidiary of Proto Resources and Investments Ltd:			
Matilda Resources Pty Ltd	Australia	-*	100%

*Matilda Resources Pty Ltd is a dormant company and was de-registered during the year ended 30 June 2011.

	2011	2010
	$	**$**
NOTE 15: EXPLORATION ASSETS		
Exploration expenditure capitalised		
- Exploration and evaluation phase	**6,149,847**	**5,025,847**
A reconciliation of the carrying amount of exploration and evaluation expenditure is set out below;		
- Carrying amount at the beginning of the year	5,025,847	3,535,094
- Additional costs capitalised during the year	2,106,339	2,446,307
- Costs written off during the year	(982,339)	(1,075,554)
- Shares/options issued to acquire exploration rights	-	120,000
Carrying amount at the end of the year	**6,149,847**	**5,025,847**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 15: EXPLORATION ASSETS (CONT'D)

The value of the Group's interest in exploration expenditure is dependent upon:

- the continuance of the Group's rights to tenure of the areas of interest;
- the results of future exploration; and
- the recoupment of costs through successful development and exploitation of the areas of interest, or alternatively, by their sale.

The Group's exploration properties may be subjected to claim(s) under native title, or contain sacred sites, or sites of significance to Aboriginal people. As a result, exploration properties or areas within the tenements may be subject to exploration restrictions, mining restrictions and/or claims for compensation. At this time, it is not possible to quantify whether such claims exist, or the quantum of such claims.

Capitalised costs amounting to $2,116,789 (2010: $1,879,238) have been included in cash flows from operating activities in the Statement of Cash Flows.

	2011	2010
	$	$
NOTE 16: PROPERTY, PLANT AND EQUIPMENT		
At cost	187,545	661,186
Accumulated depreciation	(124,786)	(95,714)
Impairment	-	(550,000)
Total Property, Plant and Equipment	**62,759**	**15,472**

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year

	Office Equipment	Leased Fixtures and Fittings	Under Construction	Camp	Field Equipment	Total
	$	$	$	$	$	$
Balance at 1 July 2009	**53,963**	**24,150**	**490,000**	**60,000**	**-**	**628,113**
Additions	**-**	**-**	**-**	**-**	**-**	**-**
Disposals	(19,523)	(17,311)	-	-	-	(36,834)
Depreciation	(22,402)	(3,405)	-	-	-	(25,807)
Impairment	-	-	(490,000)	(60,000)	-	(550,000)
Balance at 30 June 2010	**12,038**	**3,434**	**-**	**-**	**-**	**15,472**
Additions	6,214	-	-	-	70,145	76,359
Disposals	-	-	-	-	-	-
Depreciation	(12,570)	(1,713)	-	-	(14,789)	(29,072)
Impairment	-	-	-	-	-	
Balance at June 2011	**5,682**	**1,721**	**-**	**-**	**55,356**	**62,759**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 17: TRADE AND OTHER PAYABLES

	2011	2010
	$	$
CURRENT		
Trade and other payables	677,531	659,697
	677,531	**659,697**

Trade creditors are expected to be paid on 30 day terms.

NOTE 18: PROVISION

	2011	2010
	$	$
Provision for Annual Leave	3,289	2,145

A provision has been recognised for employee benefits relating to annual leave for employees.

NOTE 19: FINANCIAL LIABILITIES

	2011	2010
	$	$
CURRENT		
Settlement of purchase of shares	-	6,240
	-	6,240

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 20: PARENT ENTITY DISCLOSURES

	2011 $	2010 $
Financial Position		
Assets		
Current assets	3,017,257	1,956,155
Non-current assets	6,802,949	6,480,924
Total assets	**9,820,206**	**8,437,079**
Liabilities		
Current liabilities	680,820	668,082
Non-current liabilities	-	-
Total liabilities	**680,820**	**668,082**
Equity		
Issued capital	24,761,149	19,626,475
Reserves	4,826,035	4,672,057
Accumulated losses	(20,447,798)	(16,529,534)
Total Equity	**9,139,386**	**7,768,998**
Financial Performance		
Loss for the year	(3,918,266)	(3,763,881)
Other comprehensive income / (loss)	(3,321)	(12,713)
Total comprehensive income / (loss)	**(3,921,587)**	**(3,776,594)**

Commitments for expenditure

Parent entity commitments are identical to the consolidated entity's commitments as disclosed at note 24.

Guarantees

The parent entity has not entered into any guarantees in the current or previous financial year.

Contingencies

Parent entity contingencies are identical to the consolidated entity's contingencies as disclosed at note 24.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 21: ISSUED CAPITAL

	2011 No.	2010 No.	2011 $	2010 $
Fully paid ordinary shares with no par value	**407,337,026**	**263,321,574**	**24,761,149**	**19,626,475**
Ordinary shares				
At the beginning of reporting period	263,321,574	94,094,995	19,626,475	12,873,977
Shares issued during the year				
796,016 shares issued at $0.025 each to Entitlement issue shortfall	796,016	-	19,900	-
2 shares issued at $0.25 each pursuant to exercise of options	2	-	-	-
11 shares issued at $0.05 each pursuant to exercise of options	11	-	1	-
75,000,000 shares issued at $0.023 to placement AXINO	75,000,000	-	1,725,000	-
4,617,639 shares issued at $0.023 to placement subscribers	4,617,639	-	106,206	-
1,400,000 shares issued at $0.05 to MWPR	1,400,000	-	74,199	-
15,500,000 shares issued at $0.06 to placement subscribers	15,500,000	-	930,000	-
15,500,000 shares issued at $0.06 to placement subscribers	15,500,000	-	930,000	-
1,700,000 shares issued at $0.05 each pursuant to exercise of options	1,700,000	-	85,000	-
2,000,000 shares issued at $0.06 to placement subscribers	2,000,000	-	120,000	-
2,000,080 shares issued at $0.05 pursuant to the exercise of options	2,000,080	-	100,004	-
9,834 shares issued at $0.05 pursuant to the exercise of options	9,834	-	492	-
221,668 shares issued at $0.05 pursuant to the exercise of options	221,668	-	11,083	-
2,000 shares issued at $0.05 pursuant to the exercise of options	2,000	-	100	-
10,000,000 shares issued at $0.06 to placement subscribers	10,000,000	-	600,000	-
1,000,000 shares issued at $0.053 pursuant to the exercise of options-Macquarie Tranche 1	1,000,000	-	53,000	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 21: ISSUED CAPITAL

	2011 No.	2010 No.	2011 $	2010 $
1,250,000 shares issued at $0.056 pursuant to the exercise of options- Macquarie Tranche 2	1,250,000	-	70,000	-
250,000 shares issued at $0.045 pursuant to the exercise of options- Macquarie Tranche 3	250,000	-	11,250	-
250,000 shares issued at $0.042 pursuant to the exercise of options- Macquarie Tranche 4	250,000	-	10,500	-
750,000 shares issued at $0.040 pursuant to the exercise of options- Macquarie Tranche 5	750,000	-	30,000	-
1,000,000 shares issued at $0.045 pursuant to the exercise of options- Macquarie Tranche 6 & 8	1,000,000	-	45,000	-
2,500,000 shares issued at $0.05 pursuant to the exercise of options- Macquarie Tranche 9, 10 & 11	2,500,000	-	125,000	-
250,000 shares issued at $0.051 pursuant to the exercise of options- Macquarie Tranche 12	250,000	-	12,750	-
15,734 shares issued at $0.05 pursuant to the exercise of options	15,734	-	787	-
500,000 shares issued at $0.047 pursuant to the exercise of options- Macquarie Tranche 13 & 14	500,000	-	23,500	-
2,000,000 shares issued at $0.045 pursuant to the exercise of options- Macquarie Tranche 15, 16 & 17	2,000,000	-	90,000	-
300,000 shares issued at $0.049 pursuant to the exercise of options- Macquarie Tranche 18	300,000	-	14,700	-
300,000 shares issued at $0.051 pursuant to the exercise of options- Macquarie Tranche 19	300,000	-	15,300	-
300,000 shares issued at $0.047 pursuant to the exercise of options- Macquarie Tranche 20	300,000	-	14,100	-
4,134 shares issued at $0.05 pursuant to the exercise of options	4,134	-	207	-
2,500,000 shares issued at $0.047 pursuant to the exercise of options- Macquarie Tranche 21	2,500,000	-	117,500	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 21: ISSUED CAPITAL

	2011 No.	2010 No.	2011 $	2010 $
1 share issued at $0.25 pursuant to the exercise of options	1	-	-	-
500,000 shares issued at $0.046 pursuant to the exercise of options- Macquarie Tranche 22	500,000	-	23,000	-
500,000 shares issued at $0.05 pursuant to the exercise of options- Macquarie Tranche 23	500,000	-	25,000	-
1,000,000 shares issued at $0.055 to Pierre Richard as per employment contract	1,000,000	-	55,000	-
33,333 shares issued in lieu of cash consulting fees	33,333	-	1,000	-
65,000 shares issued to Ashley Hood in lieu of cash consulting fees	65,000	-	4,088	-
31,233,165 shares issued pursuant to the non-renounceable entitlement issue prospectus dated 14 May 2009	-	31,233,165	-	936,995
74,665,105 shares issued pursuant to the non-renounceable entitlement issue prospectus dated 16 April 2010	-	74,665,105	-	1,866,628
9,098,326 shares issued at $0.05 pursuant to the exercise of options	-	9,098,326	-	454,916
6,514,817 shares issued to directors in lieu of cash directors fees	-	6,514,817	-	220,500
30,000,000 shares issued at $0.10 to placement subscribers	-	30,000,000	-	3,000,000
1,666,667 shares issued at $0.03 as a placement to Managing Director, Andrew Mortimer	-	1,666,667	-	50,000
6,105,833 shares issued to consultants at a fair value of $0.03	-	6,105,833	-	182,724
1,750,000 shares issued to consultants at a fair value of $0.036	-	1,750,000	-	63,000
1,650,000 shares issued to consultants at a fair value of $0.04	-	1,650,000	-	66,000
2,166,666 shares issued to consultants at a fair value of $0.049	-	2,166,666	-	105,332
276,000 shares issued to consultants at a fair value of $0.10	-	276,000	-	27,600
4,000,000 shares issued as part purchase consideration for the Waite Kauri tenement	-	4,000,000	-	120,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 21: ISSUED CAPITAL

	2011 No.	2010 No.	2011 $	2010 $
100,000 shares issued for nil consideration representing the re-pricing of the $0.14 placement to $0.07	-	100,000	-	-
Less Transaction costs arising from issue of shares net of tax	-	-	(308,995)	(341,197)
At reporting date	**407,337,026**	**263,321,574**	**24,761,149**	**19,626,475**

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Options

At 30 June 2011 the following options over unissued ordinary shares were outstanding:

1. 23,650,555 (30 June 2010: 23,650,555) options exercisable at $0.20 each by 31st August 2011;
2. 51,727,808 (30 June 2010: 51,727,811) options exercisable at $0.25 each by 31st December 2013;
3. 5,000,000 (30 June 2010: Nil) options exercisable at $0.08 each by 28 February 2013;
4. 3,500,000 (30 June 2010: Nil) options exercisable at $0.10 each by 28 February 2013;
5. 2,000,000 (30 June 2010: Nil) options exercisable at $0.125 each by 28 February 2013;
6. 141,430,650 (30 June 2010: 135,388,097) options exercisable at $0.05 each by 31st December 2011; and
7. 74,085,294 (30 June 2010: Nil) options exercisable at a floating rate with a minimum exercise price of $0.034 by 28 February 2013.

For further details regarding options issued, exercised, lapsed and outstanding at year end, refer to note 23 for share based payments.

Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that it may continue to provide returns for shareholders and benefits for other stakeholders.

The Group's capital includes ordinary share capital and financial liabilities, supported by financial assets.

Due to the nature of the Group's activities, being mineral exploration, it does not have ready access to credit facilities, with the primary source of funding being equity raisings. Accordingly, the objective of the Group's capital risk management is to balance the current working capital position against the requirements of the Group to meet exploration programmes and corporate overheads. This is achieved by maintaining appropriate liquidity to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 21: ISSUED CAPITAL (CONT'D)	2011	2010
	$	$
Cash and cash equivalents	688,537	1,421,664
Current trade and other receivables	314,357	276,019
Trade and other payables	(677,530)	(659,697)
Working capital position	**325,364**	**1,037,986**

NOTE 22: RESERVES

Share Based Payment Reserve

The share based payment reserve records items recognised as expenses on valuation of share options issued in consideration for the acquisition of tenements, consulting and other services.

Financial Asset Reserve

The financial asset reserve records revaluation of financial assets.

Option Reserve

The option reserve records cash proceeds received for options over ordinary shares.

NOTE 23: SHARE BASED PAYMENTS

Share based payments made during the 2011 financial year were as follows:

(i) On 21 December 2010 the Company issued 4,500,000 options exercisable at $0.05 on or before 31 December 2011 to consultants in exchange for consulting services. The value of these options is $76,500 and of this amount $19,282 is recorded as a prepayment at 30 June 2011;

(ii) On 23 December 2010 the Company issued 1,400,000 shares to consultants in exchange for consulting services provided. The value of these shares is $74,200;

(iii) On 27 June 2011 the Company issued 1,000,000 shares to Pierre Richard in accordance with his employment contract. The value of these shares is $55,000;

(iv) On 27 June 2011, the Company issued 65,000 shares to Ashley Hood as consideration for consulting services provided to the Company. The value of these shares is $4,088 and this amount is recorded within capitalised exploration expenditure at 30 June 2011; and

(v) On 27 June 2011, the Company issued 33,333 shares and 4,700,000 options to consultants in exchange for consulting services. The values are $1,000 and $65,800, respectively. $16,823 of the value of the 4,700,000 options issued is recorded as a prepayment at 30 June 2011.

The total value of share based payments made during the year is $276,580. Share based payment expense recorded at 30 June 2011 is $204,273. The value of share based payments issued during the year does not agree to share based expense recorded during the year due to the timing of the services received from the vendors to which the share based payments were issued and the capitalisation of a portion of the values of share based payment expense as set out above.

Share based payments made during the 2010 financial year were as follows:

(vi) On 30 July 2009 the Company issued 6,514,817 shares and 6,514,817 options exercisable at $0.05 on or before 31 December 2011 to directors as part remuneration in lieu of cash directors fees as approved by shareholders at the general meeting held 24 July 2009. The combined value of these shares and options is $294,934;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 23: SHARE BASED PAYMENTS (CONT'D)

(vii) On 30 July 2009 the Company issued 6,099,999 ordinary shares and 5,266,666 options exercisable at $0.05 on or before 31 December 2011 to consultants in exchange for consulting services. The combined value of these shares and options is $501,415;

(viii) On 30 July 2009 the Company issued 4,000,000 ordinary shares, valued at $120,000, were issued as part consideration for the acquisition of the Waite Kauri tenement;

(ix) On 30 July 2009, the Company issued 1,666,667 shares at $50,000 and attachment of free option exercisable at $0.05 on or before 31 December 2011 to Andrew Mortimer in lieu of cash directors fees as approved by shareholders at the general meeting held 24 July 2009;

(x) On 13 August 2009 the Company issued 500,000 options exercisable at $0.25 on or before 31 December 2013, at a deemed value of $12,750, to employees pursuant to an employment contract;

(xi) On 17 September 2009 the Company issued 276,000 ordinary shares to consultants in exchange for consulting services to the value of $27,600;

(xii) On 19 October 2009 the Company issued 500,000 ordinary shares and 700,000 options exercisable at $0.05 on or before 31 December 2011 to consultants in exchange for consulting services to the value of $15,000;

(xiii) On 4 December 2009 the Company issued 1,800,000 options exercisable at $0.05 on or before 31 December 2011 to consultants in exchange for consulting services to the value of $35,820;

(xiv) On 8 December 2009 the Company issued 500,000 ordinary shares to consultants in exchange for consulting services to the value of $20,000;

(xv) On 19 January 2010 the Company issued 2,250,000 ordinary shares and 500,000 options exercisable at $0.05 on or before 31 December 2011 to consultants in exchange for consulting services to the value of $83,000;

(xvi) On 8 February 2010 the Company issued 150,000 ordinary shares to consultants in exchange for consulting services valued at $6,000;

(xvii) On 15 February 2010 the Company issued 500,000 ordinary shares and 500,000 options exercisable at $0.05 on or before 31 December 2011 to consultants in exchange for consulting services valued at $20,000; and

(xviii) On 6 April 2010 the Company issued 1,672,500 ordinary shares to consultants in exchange for consulting services to the combined value of $50,175.

Proto Resources & Investments Ltd has an employee share option plan. During the year the Company issued no options to employees pursuant to this plan.

The value of shares and options reflects the value attributed to services where applicable. Where there is no quantifiable value for services received, shares and options are assigned a value based on their market prices. All shares and options issued during 2011 or 2010 had available market prices and therefore the use of the Black-Scholes valuation method was not required.

All options granted are options to acquire ordinary shares in the Company, which confer a right of one ordinary share for every option held.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 23: SHARE BASED PAYMENTS (CONT'D)

	Number	Weighted Average Exercise Price $
Options outstanding as at 1 July 2009	74,778,366	0.24
Granted	145,086,423	0.05
Forfeited	-	-
Exercised	(9,098,326)	-
Expired	-	-
Options outstanding as at 30 June 2010	**210,766,463**	**0.16**
Options outstanding as at 1 July 2010	210,766,463	0.16
Granted	108,731,310	0.03
Forfeited	-	-
Exercised	(18,103,466)	0.05
Expired	-	-
Options outstanding as at 30 June 2011	**301,394,307**	**0.08**

The options outstanding at 30 June 2011 had a weighted average exercise price of $0.08 (2010: $0.16) and a weighted average remaining contractual life of 1.15 years (2010: 3.14 years).

The weighted average fair value of the options granted during the year was $0.05 (2010: $0.16). This was calculated by dividing the weighted average number of options issued during the year by the weighted average issue price of options issued during the year.

The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

Included within share based payments expense in the statement of comprehensive income is $133,195 (2010: $472,621) which relates to remuneration of directors and key management personnel.

NOTE 24: CAPITAL AND LEASING COMMITMENTS

	2011 $	2010 $
Non-cancellable operating lease expense commitments		
Future operating lease commitments not provided for in the financial statements and payable:		
Not longer than one year	67,227	-
One to five years	-	-
Greater than five years	-	-
	67,227	**-**

The Group leases an office in Sydney under a non-cancellable property lease, expiring in April 2012. The lease allows for subletting of all lease areas.

As at 30 June 2011 the Group had two bank guarantees in place relating to lease rentals for the Sydney offices totalling $37,544 (2010: $37,544).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 24: CAPITAL AND LEASING COMMITMENTS (CONT'D)

Commitments for directors' fees

Future operating lease commitments not provided for in the financial statements and payable:	**2011** **$**	**2010** **$**
Not longer than one year	503,580	-
Longer than one year, but no longer than five years	493,922	-
	997,502	**-**

Commitments for directors' fees arise under the employment contracts in place with Joint Managing Directors Andrew Mortimer and Lia Darby. Fifty per cent of the annual commitment is eligible for settlement in share. Both contracts may be cancelled by giving one month's written notice.

Other commitments

Research mandate

At 30 June 2010, the Group had an agreement with Wise-Owl.com Pty Ltd to provide a series of research reports on the Company. On completion of the reports, Wise-Owl.com Pty Ltd was due to receive a cash payment of $26,500 plus fully paid ordinary shares in the Company to the value of $8,000, calculated at the prevailing weighted average price at the time of issue.

At 30 June 2011, the agreement is still in place and the remaining amount due under the agreement is cash payments totalling $9,050 and shares to the value of $7,000.

As the timing of these payments is not fixed, the value of these amounts is not reflected in the accounts.

Clara Hill option agreement

In September 2010, the Group entered into a 3 year option agreement over 80% of the Clara Hill exploration project. Under the terms of this agreement, there is a $100,000 milestone payment due in September 2011 and the Group must also fund all expenditure necessary to complete a mining licence application during the 3 year agreement term.

The Group may purchase the remaining 20% of the Clara Hill exploration project by remitting a $3,000,000 cash payment at any point during the option period, which may be reduced by the amount of option fees paid.

The Group may extend the option period for an additional 3 years through the payment of $250,000.

The Group may terminate the option agreement by providing 30 days' written notice.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 24: CAPITAL AND LEASING COMMITMENTS (CONT'D)

Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Group is required to perform minimum exploration work to meet the minimum expenditure requirements specified by the relevant authorities. These obligations are subject to re-negotiation when application for a mining lease is made and at other times. These obligations are not provided for in the financial report. The actual expenditures to date on tenements have exceeded the minimum expenditure requirements specified by the relevant authorities during the current tenement grant periods.

	2011	2010
	$	$
Not longer than one year	371,535	839,070
Longer than one year, but no longer than five years	1,180,988	1,977,458
Longer than five years	494,461	-
	2,046,984	**2,816,528**

If the Group decides to relinquish certain leases and/or does not meet these obligations, assets recognised in the Statement of Financial Position may require review to determine the appropriateness of carrying values. The sale, transfer or farm-out of exploration rights to third parties will reduce or extinguish these obligations.

The ultimate recoupment of costs carried forward for exploration and evaluation is dependent on the successful development and commercial exploitation or sale of the respective mining areas.

NOTE 25: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As announced on 16 August 2011, the Company has entered into a facility agreement with Caterpillar Financial SARL in relation to the funding of the Barnes Hill nickel project in Tasmania. The total finance amount to be provided to the Company under the facility is USD $36,000,000. Should all conditions precedent be met, including securing equity funding of USD $24,000,000 and drawdowns of the loan commence; the Company is obligated to pay the following fees:

- An upfront fee of 2.5%, or $750,000, in relation to the total Project Loan of which 50% is payable on the execution of the facility agreement and 50% is payable upon the earlier of the first drawdown of the loan; the decision not to proceed; arrangement of alternate financing with another party; or 6 months from the execution of the facility agreement.
- A commitment fee of 1.5% per annum of the un-drawn down Project Loan. The maximum amount payable per annum assuming the full balance of the Project Loan is not drawn down is $450,000.
- An upfront fee of 2.5%, or $400,000, in relation to the total Subordinated Loan of which 50% is payable on the execution of the facility agreement and 50% is payable upon the earlier of the first drawdown of the loan; the decision not to proceed; arrangement of alternate financing with another party; or 6 months from the execution of the facility agreement.
- A commitment fee at an amount yet to be negotiated in relation to the Subordinated Loan.
- The Company must pay the finance provider a monthly fee of USD $10,000 in arrears commencing upon signing of the Mandate Letter in August 2011 and ceasing upon signature of Project and Subordinated Loan documents or termination of the agreement with the financier. Of the amount payable, a maximum aggregate amount of USD $100,000 will be deducted from the upfront fees payable on signature date.
- The Company must issue the financier 4,000,000 warrants at a strike price of AUD $0.075. The expiry date of these warrants has not yet been set.
- In September 2011, the Company must pay the financier USD $15,000 in relation to travel expenses incurred by the financier in August 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 25: CONTINGENT LIABILITIES AND CONTINGENT ASSETS (CONT'D)

- Any legal or other expenses incurred in relation to the negotiation and finalisation of the agreement are to be paid by the borrower.

In the opinion of the directors there were no other contingent liabilities at 30 June 2011 (2010: none), and the interval between 30 June 2011 and the date of this report.

NOTE 26: CASH FLOW INFORMATION

		2011	2010
		$	**$**
a.	**Reconciliation of Cash Flow from Operations with Loss after Income Tax**		
	Loss after income tax	(3,918,266)	(3,779,417)
	Cash flows excluded from loss attributable to operating activities		
	Non-cash flows in loss		
	Depreciation	29,072	25,807
	Unrealised loss on investments	51,692	434,231
	Realised (gain)/loss on sale of investments	22,253	(114,401)
	Write off - exploration expenditure	982,339	1,075,554
	Impairment of property, plant and equipment	-	450,000
	Write off - plant & equipment	-	36,834
	Write off - other	6,403	12,262
	Share based payments	251,394	472,621
	Provision for doubtful debts	151,447	-
	Share of loss of associate	126,521	-
	Exploration expenditure	(2,049,971)	(1,879,238)
	Changes in assets and liabilities;		
	(Increase)/decrease in trade and other receivables	(12,706)	(334,604)
	(Increase)/decrease in prepayments	175,012	(341,420)
	Increase/(decrease) in trade payables and accruals	(112,501)	141,287
	Increase/(decrease) in financial liabilities	-	1,570
	Cashflow from operations	**(4,297,311)**	**(3,798,914)**

b. **Non-cash Financing and Investing Activities**

2011 and 2010 share and option issues

Refer to note 23 for details of share based payments made during the years ending 30 June 2011 and 30 June 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 26: CASH FLOW INFORMATION (CONT'D)

2011 other non-cash transactions

(i) In April 2011, 5,444,444 shares in Global Nickel Investments NL were loaned to HSBC. The value of the shares at the time of advancement was $161,700 and the value of the shares receivable at year end is $130,667.

(ii) In June 2011, a $41,000 loan balance receivable from an unrelated entity was settled through the receipt of shares to the value of the loan balance; and

(iii) In June 2011, a $60,000 loan balance receivable from an unrelated entity was settled through the receipt of a convertible note to the value of the loan balance.

There were no other non-cash transactions during the 2010 year.

None of the above transactions are recorded in the statement of cash flows.

c. **Credit Standby Arrangements with Banks**

	2011	2010
	$	$
Credit facility	100,000	100,000
Amount utilised	-	-
	100,000	**100,000**

The credit facility relates to an undrawn down lease facility.

NOTE 27: OPERATING SEGMENTS

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 is managed primarily on the basis of one geographical segment being Australia, and four business segments being treasury, Barnes Hill, Lindeman's Bore and Other tenements..

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Inter-segment transactions

Inter-segment loans payable and receivable are initially recognised at the consideration received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 27: OPERATING SEGMENTS (CONT'D)

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Unless indicated otherwise in the segment assets note, investments in financial assets, deferred tax assets and intangible assets have not been allocated to operating segments.

Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

*Unallocated item*s

The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- impairment of assets and other non-recurring items of revenue or expense
- administrative expenses
- minor receivable and payables

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 27: OPERATING SEGMENTS (CONT'D)

(a) Segment performance

Year Ended 30 June 2011	**Exploration – Barnes Hill**	**Exploration – Lindeman's Bore**	**Exploration – Other**	**Treasury**	**Total Operations**
	$	**$**	**$**	**$**	**$**
Revenue					
Interest revenue	-	-	-	52,176	52,176
Research and development rebate	-	-	-	88,013	88,013
Other	-	-	-	3,747	3,747
Total segment revenue	**-**	**-**	**-**	**143,936**	**143,936**
Reconciliation of segment revenue to group revenue					
Office Reimbursement					87,500
Unallocated revenue					8,866
Total group revenue					**240,302**
Segment net profit before tax	**-**	**-**	**-**	**143,936**	**240,302**
Reconciliation of segment result to net profit (loss) before tax					
Amounts not included in segment result but reviewed by the board:					
- loss on share trading	-	-	-	(22,253)	(22,253)
- net fair value loss financial assets	-	-	-	(21,257)	(21,257)
- exploration expenditure written off	(104,454)	-	(877,885)	-	(982,339)
- directors fees	-	-	-	-	(322,017)
- consulting fees	-	-	-	-	(593,412)
Unallocated items:					
- Employee expense					(309,923)
- Share based payments					(204,273)
- Computer expense					(75,365)
- Travel expense					(237,101)
- Share registry expense					(42,148)
- Rent expense					(102,830)
- Exploration cost					(66,818)
- Audit fees					(53,200)
- Marketing & public relations					(413,837)
- Other					(809,488)
Net loss before tax from continuing operations					**(3,918,266)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 27: OPERATING SEGMENTS (CONT'D)

(a) Segment performance (cont'd)

Year Ended 30 June 2010	Exploration – Barnes Hill	Exploration – Lindeman's Bore	Exploration – Other	Treasury	Total Operations
	$	$	$	$	$
Revenue					
Interest revenue	-	-	-	47,707	47,707
Research and development rebate	-	-	-	76,717	76,717
Other	-	-	-	26,502	26,502
Total segment revenue	**-**	**-**	**-**	**150,926**	**150,926**
Reconciliation of segment revenue to group revenue					
Office Reimbursement					70,000
Unallocated revenue					2,841
Total group revenue					**223,767**
Segment net profit before tax	-	-	-	150,926	**223,767**
Reconciliation of segment result to net profit (loss) before tax					
Amounts not included in segment result but reviewed by the board:					
- gain on share trading	-	-	-	114,401	114,401
- net fair value gain/(loss) on financial assets	-	-	-	(434,231)	(434,231)
- exploration expenditure written off	20,390	-	(1,095,944)	-	(1,075,554)
- impairment of property, plant and equipment	-	-	-	-	(450,000)
- directors fees	-	-	-	-	(101,066)
- consulting fees	-	-	-	-	(166,459)
Unallocated items:					
- Employee expense					(220,182)
- Share based payments					(472,621)
- Computer expense					(104,803)
- Travel expense					(194,401)
- Share Registry expense					(211,031)
- Rent expense					(108,033)
- Exploration Cost					(101,937)
- Audit fees					(49,555)
- Other					(414,999)
Net loss before tax from continuing operations					**(3,766,704)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 27: OPERATING SEGMENTS (CONT'D)

(b) Segment assets

As at 30 June 2011	Exploration – Barnes Hill	Exploration – Lindeman's Bore	Exploration – Other	Treasury	Total Operations
	$	$	$	$	$
Segment assets	4,301,913	917,944	929,990	2,956,098	9,105,945
Segment asset increases/(decreases) for the period:					
- capital expenditure	1,359,533	70,179	446,965	-	1,876,677
- financial assets at fair value through profit and loss	-	-	-	482,779	482,779
- available for sale financial assets	-	-	-	504,998	504,998
	1,359,533	70,179	565,803	978,777	2,864,454
Reconciliation of segment assets to total assets					
Other assets					714,261
Total group assets					**9,820,206**

As at 30 June 2010	Exploration – Barnes Hill	Exploration – Lindeman's Bore	Exploration - Other	Treasury	Total Operations
	$	$	$	$	$
Segment assets	2,942,380	847,764	1,235,703	2,693,401	7,719,248
Segment asset increases/(decreases) for the period:					
- capital expenditure	1,392,998	431,459	(333,704)	-	1,490,753
- financial assets at fair value through profit and loss	-	-	-	457,832	457,832
	1,392,998	431,459	(333,704)	457,832	1,948,585
Reconciliation of segment assets to total assets					
Other assets					717,834
Total group assets					**8,437,082**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 27: OPERATING SEGMENTS (CONT'D)

(c) Segment liabilities

As at 30 June 2011	Exploration – Barnes Hill	Exploration – Lindeman's Bore	Exploration – Other	Treasury	Total Operations
	$	$	$	$	$
Segment liabilities	**156,477**	**5,183**	**45,650**	**-**	**207,310**
Reconciliation of segment liabilities to total liabilities					
Other liabilities	-	-	-	-	473,510
Total liabilities from continuing operations					**680,820**

As at 30 June 2010	Exploration – Barnes Hill	Exploration – Lindeman's Bore	Exploration – Other	Treasury	Total Operations
	$	$	$	$	$
Segment liabilities	**102,256**	**4,142**	**23,813**	**6,240**	**136,451**
Reconciliation of segment liabilities to group liabilities					
Other liabilities					531,631
Total liabilities from continuing operations					**668,082**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 28: INVESTMENT IN ASSOCIATE

	2011	2010
(a) Movements in carrying amounts	**$**	**$**
Carrying amount at the beginning of the financial year	-	-
Shares in associate acquired during the year	245,000	-
Share of loss after income tax	(126,521)	-
Impairment of investment	(110,435)	-
Carrying amount at the end of the financial year	8,044	-

Summarised financial information of associate

The group's share of the assets, liabilities, revenues, and losses of its associate are as follows:

As at 30 June 2011	Ownership interest	Assets $	Liabilities $	Revenues $	Loss $
Barrier Bay Pty Ltd	49%	8,044	-	-	126,521

Barrier Bay Pty Ltd is an Australian company whose principal activity is the development of a technology that turns the cost items of nickel laterite processing into revenue streams.

NOTE 29: EVENTS AFTER THE REPORTING PERIOD

1. On 22 July 2011, the Company announced the cancellation of moving strike options held by Macquarie. At the date of the announcement, Macquarie held 74,085,294 unexercised options over ordinary shares, of which 7,750,000 were subsequently converted in accordance with the option deed. The cancellation was effected 23 August 2011 at which time the remaining 66,335,294 options held by Macquarie were cancelled.
2. On 25 July 2011, the Company announced it had been awarded Mining Lease 1872 P/M for the Barnes Hill Project by the Hon. Bryan Green who is Tasmania's Deputy Premier and Minister for Energy and Resources. The Mining Lease is an important milestone in the Company's project development.
3. On 26 July 2011, the Company announced the issue of 1,200,000 ordinary shares as consideration for corporate and investor relations services to be received by the Company in the USA during the months of July – December 2011.
4. On 26 July 2011, the Company announced the issue of 750,000 ordinary shares upon conversion of options held by Macquarie.
5. On 28 July 2011, the Company announced the issue of 750,000 ordinary shares upon conversion of options held by Macquarie.
6. On 4 August 2011, the Company announced the issue of 3,000,000 ordinary shares upon conversion of options held by Macquarie.
7. On 10 August 2011, the Company applied for additional shares in associate company Barrier Bay Pty Ltd. The result of this transaction was to move the Company's shareholding in Barrier Bay from 49% to 51%, effectively securing a controlling interest in Barrier Bay.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 29: EVENTS AFTER THE REPORTING PERIOD (CONT'D)

8. On 16 August 2011, the Company announced that it had concluded and signed an arrangement for Caterpillar to become the equipment supplier and debt financer of the Barnes Hill nickel-cobalt-iron-magnesium joint venture. Caterpillar has entered into an agreement to deliver a fully underwritten financing package by 31 April 2012. The commitment letter is to deliver a debt finance facility consisting of a Senior Secured Project Loan along with a Subordinated Loan, which will together deliver up to USD $36M in financing.
9. On 16 August 2011, the Company announced that Andrew Mortimer would hand over the Chairman's position to Ian Campbell to allow the Managing Director to focus on achieving production at Barnes Hill.
10. On 17 August 2011, the Company announced the issue of 750,000 ordinary shares upon conversion of options held by Macquarie.
11. On 18 August 2011, the Company announced the issue of 1,750,000 ordinary shares upon conversion of options held by Macquarie.
12. On 22 August 2011, the Company announced the issue of 500,000 ordinary shares upon conversion of options held by Macquarie.
13. On 23 August 2011, the Company announced the issue of 1,000,000 ordinary shares upon conversion of options held by Macquarie.
14. On 30 August 2011, the Company announced the issue of 14,285,714 ordinary shares with 7,142,857 attaching options exercisable at $0.05 on or before 1 September 2014 via a private placement to raise $500,000.
15. On 1 September 2011, the Company announced the expiry of 23,650,555 options with an exercise price of $0.20.
16. On 6 September 2011, the Company announced the issue of 199,624 ordinary fully paid shares to Mr Ashley Hood in lieu of wages.
17. On 6 September 2011, the Company's option over the Granulitgebirge exploration project in Germany lapsed unexercised.
18. On 14 September 2011, the Company announced the issue of 1,428,571 shares with 714,826 attaching options exercisable at $0.05 on or before 1 September 2014 and 1,428,571 attaching options exercisable at $0.035 on or before 12 September 2018.
19. On 23 September 2011, the Company announced the issue of 21,000,000 ordinary shares with a one-for-two attaching option to raise $700,000 before costs. A total of 10,500,000 attaching options were issued, exercisable at $0.05 on or before 1 September 2014.

Except for the above, no other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 30: RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transactions with related parties:

a. During the year, the Group has purchased shares in Global Nickel Investments NL (a company for which Mr Mortimer and Ms Darby are directors) amounting to $109,915 (2010: $463,091). The total value of the Group's investment in Global Nickel Investments NL at 30 June 2011 is $246,475 (2010: $596,837).

b. During the year, the Group has purchased shares in SA Capital Funds (a company for which Mr Mortimer is a director) amounting to $Nil (2010: $25,000). The total value of the Group's investment in SA Capital Funds at 30 June 2011 is $90,000 (2010: $62,288).

c. During the year, the Group has purchased shares in Enerji Limited (a company for which Mr Campbell is a director) amounting to $36,000 (2010: $Nil). The total value of the Group's investment in Enerji Limited at 30 June 2011 is $28,000 (2010: $Nil).

d. During the year, the Group has purchased shares in Condor Blanco Mines Limited (a company of which Ms Darby and Dr Richard are directors) amounting to $50,000 (2010 $100,000 plus $10,000 worth of shares received in lieu of cash payments for rent). The total value of the Group's investment in Condor Blanco Mines Limited at 30 June 2011 is $231,000 (2010: $32,560).

e. During the year, the Group has purchased shares in Ridley Resources Limited (a company of which Mr Hood is a director) amounting to $42,000 (2010: $10,000). The total value of the Group's investment in Ridley Resources Limited at 30 June 2011 is $21,000 (2010: $Nil).

f. During the year, the Group charged Global Nickel Investments NL (a company for which Mr Mortimer and Ms Darby are directors) for use of company office and administration services amounting to $60,000 (2010: $60,000). At 30 June 2011, the Group has a balance of $38,500 included within trade and other receivables in relation to these charges.

g. During the year, the Group charged Condor Blanco Mines Limited (a company for which Ms Darby and Dr Richard are directors) for use of company office and administration services amounting to $20,000 (2010: $10,000). At 30 June 2011, the Group has a balance of $22,000 included within trade and other receivables in relation to these charges.

h. During the financial year ASIC fees totalling $775 (2010: $3,316) were paid on behalf of entities of which Mr Mortimer and/or Ms Darby are directors. Of the $775 paid in 2011, $490 was written off and $285 was transferred to Mr Andrew Mortimer's loan account. In 2010, the total amount was not recoverable and was consequently written off.

i. Prepayment of directors fees to Andrew Mortimer at year end amounted to $55,139 (2010: $180,369).

   Of the 30 June 2010 prepayment balance, $70,500 relates to fees for the September 2010 quarter which were offset against Mr Mortimer's entitlement in the non-renounceable pro rata offer pursuant to the prospectus dated 16 April 2010. The balance of $110,139 represents the overpayment of PAYG withholding tax which Mr Mortimer has elected to both repay to the Company and offset against future directors payments.

   Of the 30 June 2011 balance, $30,139 was repaid to the Group post year end and the remaining $25,000 was settled via the transfer of $25,000 worth of shares in an unlisted entity from Mr Mortimer to the Group.

j. Prepayment of directors fees to Lia Darby at year end amounted to $75,781 (2010: $120,781).

   Of the 30 June 2010 prepayment balance, $45,000 relates to directors fees for the September 2010 quarter which were offset against Ms Darby's entitlement in the non-renounceable pro rata offer pursuant to the prospectus dated 16 April 2010. The balance of $75,781 represents the overpayment of PAYG withholding tax which Ms Darby has elected to both repay to the Company and offset against future directors payments.

   The 30 June 2011 prepayment amount was repaid to the Group post year end.

NOTE 30: RELATED PARTY TRANSACTIONS

k. During the 2011 year the Group advanced a total of $12,544 to Global Nickel Investments NL (a company of which Mr Mortimer and Ms Darby as directors). Of this amount, $12,088 was repaid during the year leaving a balance due to the Group of $2,970 at 30 June 2011.

l. During the 2011 year the Group advanced a total of $64,117 to Condor Blanco Mines Limited (a company of which Ms Darby and Dr Richard are directors). Of this amount, $62,251was repaid during the year leaving a balance due to the Group of $2,970 at 30 June 2011.

m. Included within trade and other receivables at 30 June 2011 are amounts due from Ms Darby and Mr Mortimer in the amounts of $7,794 and $285, respectively.

n. During the 2011 year the Group paid a total of $65,660 to SA Capital Funds (a company of which Mr Mortimer is a director) as consideration for services received.

o. During the 2011 year the Group advanced a total of $40,339 to Mt Vetter Pty Ltd (a company of which Ms Darby's father is a director). This amount was settled in June 2011 through the receipt of shares in Mt Vetter Pty Ltd to the value of $41,000.

p. During the year the Group advanced a total of $134 to Clev-a-Gardens (a company of which Ms Darby's father is a director). The total amount is not recoverable and was consequently written off.

q. During the 2011 year the Group charged Superstructure International Pty Ltd (a company of which Mr Mortimer and Ms Darby as directors) for use of company office and administration services amounting to $7,500. There were no balances outstanding from Superstructure International Pty Ltd at year end.

r. During the 2011 year the Group advanced a total of $7,262 (2010: $237) to Superstructure International Pty Ltd (a company of which Mr Mortimer and Ms Darby as directors). Of this amount, $237 was repaid during the year leaving a balance due to the Group of $7,262 at 30 June 2011.

s. At 30 June 2011, the Group held 3,250,000 options over ordinary shares in Global Nickel Investments NL (a company of which Mr Mortimer and Ms Darby are directors). The total value of these options at 30 June 2011 is $18,000.

t. During the 2011 year the Group paid Superstructure International Pty Ltd (a company of which Ms Darby's father is a director) $33,000 for consultancy services provided to the Group.

u. Receipt of loan of $50,000 from Global Nickel Investments NL (a company of which Mr Mortimer and Ms Darby as directors). There was no interest payable on this loan which was subsequently repaid on 11 August 2010.

v. On 27 March 2010 the Company made a loan of $50,000 to Global Nickel investments NL (a company of which Mr Mortimer and Ms Darby are directors). There was no interest payable on this loan which was repaid on 18 June 2010.

w. During the 2010 year $25,000 was paid to Mr Melick for September and December 2010 quarter directors fees which were offset against Mr Melick's entitlement in the non-renounceable pro rata offer pursuant to the prospectus dated 16 April 2010.

x. During the 2010 year $25,000 was paid to Ms Philip for September and December 2010 quarter directors fees which were offset against Ms Philips's entitlement in the non-renounceable pro rata offer pursuant to the prospectus dated 16 April 2010.

y. During the financial year ASIC, annual report and audit fees totalling $Nil (2010: $4,331) were paid on behalf of Corsair Pty Ltd, a company of which Mr Mortimer and Ms Darby are directors. The total amount is not recoverable and was consequently written off.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 31: FINANCIAL RISK MANAGEMENT

The Group's financial instruments consist mainly of deposits with banks, listed and unlisted investments, and accounts receivable and payable.

The Board of Directors has overall responsibility for the oversight and management of the Group's exposure to a variety of financial risks (including market risk, credit risk and liquidity risk).

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group does not speculate in the trading of derivative instruments.

Aggregate net fair values and carrying amounts of financial assets and financial liabilities at balance date:

	2011	2010
	$	$
Financial Assets		
Cash and cash equivalents	688,537	1,421,664
Loans and receivables	359,357	617,439
Financial assets at fair value through profit or loss	1,754,519	1,271,740
Available for sale financial assets	504,998	-
Total Financial Assets	**3,307,411**	**3,310,843**
Financial Liabilities		
Trade and other payables	677,530	659,697
Total Financial Liabilities	**677,530**	**659,697**

MARKET RISK

i. **Interest rate risk**

The Group's exposure to market interest rates relates to cash deposits held at variable rates. The Board constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions.

Interest rate sensitivity analysis

The following table illustrates sensitivities to the Group's exposures to changes in interest rates and equity prices. The tables indicates the impact of how profit and equity values reports at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 31: FINANCIAL RISK MANAGEMENT (CONT'D)

At 30 June 2011, the effect on loss and equity as a result of changes in the interest rate, with all other variable remaining constant would be as follows:

CHANGE IN LOSS	**Change $**	**2011 $**
Increase in interest rate by 200 basis points	+13,371	(3,904,895)
Decrease in interest rate by 200 basis points	-13,371	(3,931,637)

CHANGE IN EQUITY	**Change $**	**2011 $**
Increase in interest rate by 200 basis points	+13,371	9,152,757
Decrease in interest rate by 200 basis points	-13,371	9,126,015

Year ended 30 June 2010

CHANGE IN LOSS	**Change $**	**2010 $**
Increase in interest rate by 200 basis points	+28,433	(3,738,271)
Decrease in interest rate by 200 basis points	-28,433	(3,795,137)

CHANGE IN EQUITY	**Change $**	**2010 $**
Increase in interest rate by 200 basis points	+28,433	7,797,433
Decrease in interest rate by 200 basis points	-28,433	7,740,567

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 31: FINANCIAL RISK MANAGEMENT (CONT'D)

Financial instruments held by the Group bear interest at the following rates:

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate		Non-Interest Bearing	
	2011	2010	2011	2010	2011	2010	2011	2010
	%	%	$	$	$	$	$	$
Financial Assets								
Cash and cash equivalents	4.2	3.0	516,495	1,421,664	-	-	172,039	-
Loans and receivables	-	-	-	-	29,700	-	329,657	617,439
Other Assets	4.2	3.0	89,632	-	-	-	-	-
Investments	-	-	-	-	-	-	2,259,517	1,271,740
Total Financial Assets	**-**	**-**	**606,127**	**1,421,664**	**29,700**	**-**	**2,761,213**	**1,889,179**
Financial Liabilities								
Trade and other payables	-	-	-	-	-	-	677,531	659,697
Total Financial Liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**677,531**	**659,697**

ii. Price Risk

The Group's is exposed to equity securities price risk. This arises from investments held by the Group and classified on the statement of financial position as current financial assets at fair value through profit and loss. The Group is not exposed to commodity price risk.

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio which is done in accordance with the limits set by the Group.

The majority of the Group's equity investments are publicly traded and are included on the ASX 200 Index.

The table below summarises the impact of increases/decreases of the index on the Group's post tax profit for the year and on equity. The analysis is based on the assumption that the equity indexes had increased/decreased by 10% (2010 – 10%) with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the index.

	Impact on Post-Tax Profit/(Loss)		Impact on Equity	
Index	**2011 $**	**2010 $**	**2011 $**	**2010 $**
ASX 200	179,519	114,989	179,519	114,989

The price risk for the unlisted securities is immaterial in terms of possible impact on profit or loss or total equity. It has therefore not been included in the sensitivity analysis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 31: FINANCIAL RISK MANAGEMENT (CONT'D)

Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Statement of Financial Position and notes to the financial statements.

The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread amongst approved counterparties.

Credit risk related to balances with banks and other financial institutions is managed by the board. The board's policy requires that surplus funds are only invested with counterparties with a Standard & Poor's rating of at least AA-. All of the Group's surplus funds are invested with AA Rated financial institutions.

The credit risk for counterparties included in cash and cash equivalents is detailed below:

	2011 $	2010 $
Financial assets:		
Cash and cash equivalents		
- AA rated counterparties	606,127	1,421,664

The Group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the Group.

The above interest rate sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

LIQUIDITY RISK

The responsibility with liquidity risk management rests with the Board of Directors. The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained. The Group's policy is to ensure that it has sufficient cash reserves to carry out its planned exploration activities over the next 12 months.

Financial instrument composition and maturity analysis:

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such, the amounts may not reconcile to the Statement of Financial Position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 31: FINANCIAL RISK MANAGEMENT (CONT'D)

30 June 2011	Less than 6 months	6 – 12 months	1 – 2 years	2 – 5 years	Total contractual cashflow	Carrying amount
Financial Assets						
Loans and receivables	465,804	-	45,000	-	510,804	359,357
Total Financial Assets	**465,804**	**-**	**45,000**	**-**	**510,804**	**359,357**
Financial Liabilities						
Trade and other payables	677,531	-	-	-	677,531	677,531
Total Financial Liabilities	**677,531**	**-**	**-**	**-**	**677,531**	**677,531**

30 June 2010	Less than 6 months	6 – 12 months	1 – 2 years	2 – 5 years	Total contractual cashflow	Carrying amount
Financial Assets						
Loans and receivables	276,019	-	-	-	276,019	276,019
Total Financial Assets	**276,019**	**-**	**-**	**-**	**276,019**	**276,019**
Financial Liabilities						
Trade and other payables	659,697	-	-	-	659,697	659,697
Total Financial Liabilities	**659,697**	**-**	**-**	**-**	**659,697**	**659,697**

Financial Instruments Measured at Fair Value

The financial instruments recognised at fair value in the statement of financial position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- quoted prices in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3)

i. Net Fair Values

The net fair values of:

- Listed investments have been valued at the quoted market bid price at balance date, adjusted for transaction costs expected to be incurred. For unlisted investments where there is no organised financial market, the net fair value has been based on a reasonable estimation of the underlying net assets or discounted cash flows of the investment.
- Other assets and other liabilities approximate their carrying value.

No financial assets and financial liabilities are readily traded on organised markets in standardised form other than listed investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONT'D)

NOTE 31: FINANCIAL RISK MANAGEMENT (CONT'D)

	2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Financial Assets				
Financial assets at fair value through profit or loss:				
Listed equity securities - shares	1,642,618	-	-	1,642,618
Listed equity securities – options	111,666	-	-	111,666
Receivable denominated in listed equity securities	130,667	-	-	130,667
Available for sale financial assets:				
Unlisted equity securities – shares	-	66,000	-	66,000
Unlisted equity securities – SA Capital	-	-	90,000	90,000
Options to acquire exploration projects	-	-	117,331	117,331
Unlisted equity securities – convertible note	-	60,000	-	60,000
Total	**1,884,951**	**126,000**	**207,331**	**2,218,282**

	2010			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Financial Assets				
Financial assets at fair value through profit or loss:				
Equity securities - shares	1,053,054	62,287	59,560	1,174,901
Equity securities – options	96,839	-	-	96,839
Total	**1,149,893**	**62,287**	**59,560**	**1,271,740**

The Group intends to hold the investments in unlisted entities over the medium or long term with at least 12 months horizon, unless a liquidation event is required.

Corporate Directory

PRINCIPAL REGISTERED OFFICE
Proto Resources & Investments Ltd
Suite 1901, 109 Pitt St,
Sydney, NSW 2000
Tel: 02 9225 4000 Fax: 02 9232 5359
Email: info@protoresources.com.au
Web: www.protoresources.com.au

DIRECTORS AND SENIOR MANAGEMENT
Andrew Mortimer –Joint Managing Director
Lia Darby – Joint Managing Director
Ian Campbell – Chairman
Aziz (Greg) Melick – Executive Director
Patricia Kay Philip – Non-Executive Director
Ashley Hood – Operations Manager
Pierre Richard – Chief Development Officer

SHARE REGISTRAR
Advanced Share Registry
150 Stirling Hwy, Nedlands WA 6009
Tel: 08 9389 8033 Fax: 08 9389 7871
Web: www.advancedshare.com.au

AUDITORS
Bentleys
Level 1, 12 Kings Park Road, West Perth WA 6005

LAWYERS
Price Sierakowski
Level 24, St Martins Tower,
44 St Georges Terrace, Perth WA 6000

STOCK EXCHANGE CODES – PRW/PRWOA/PRWOB

Glossary of abbreviations and technical terms

Abbreviations

ASIC means Australian Securities and Investments Commission.
ASX means ASX Limited (the Australian Securities Exchange) (ACN 008 624 691).
Company means Proto Resources & Investments Ltd (ACN 108 507 517).
Proto means Proto Resources & Investments Ltd (ACN 108 507 517).
Tenement means an Exploration Licence, Prospecting Licence, Mining Lease or any other form of mineral licence or title held or applied for by the Company

Technical Terms

Adelaidean Old term for rocks aged 580 to 1400 Ma.
aeromagnetic Airborne survey of the Earth's magnetic field.
alluvial Derived from river deposition (for example, river sands)
altered/alteration Change of composition by reaction with hydrothermal solutions.
amphibolite Igneous rock consisting of the minerals amphibole and plagioclase with little or no quartz.
anomaly Value or feature higher, lower or different to that expected or to the norm.
Archaean Oldest division of the Precambrian Era. Older than 2500 Ma.
Au Chemical symbol for the element gold.
basement Generally refers to Precambrian igneous and metamorphic rocks. Oldest rocks in an area.
base metal A metal commonly used in industry by itself rather than in alloys e.g. copper, lead, zinc.
basic An igneous rock which is low in silica, generally less than 55% e.g. basalt.
bed A layer of strata in sedimentary rocks often formed in a horizontal orientation.
bedrock Hard layer of igneous or metamorphic rocks beneath a near-surface layer of generally younger unconsolidated sediment.
Biotite common rock forming mineral in most igneous rocks.
breccia A rock fragmented into angular fragments within a finer grained matrix.
bullseye Description of a roughly circular high intensity magnetic anomaly.
Calc-silicate A rock containing mainly calcium-bearing silicate minerals such as diopside and wollastonite.
Cainozoic The geological Era that follows the Mesozoic (sometimes called Tertiary).
Cambrian Major division of the geological time scale from approx. 542ma to 488ma.
Co Chemical symbol for the element cobalt.
colluvial Deposits derived from deep soil formation on the land surface.
conglomerate A rock containing many rounded pebbles or cobbles, often formed by rivers.
core Cylindrical rock sample generally produced by diamond drilling.
cover Generally a near surface blanket of sediments that 'cover up' basement.
craton A large, stable and generally old part of the Earth's crust.
Cretaceous The last period of the Mesozoic Era, when much of the globe was under water.
crust Outer layer of the surface of the Earth.
Cu Chemical symbol for the element copper.
Devonian The geological period before the Carboniferous.
diamond drilling Drilling method using a diamond bit to cut a cylindrical hole; core is taken.
E East.
EL Exploration Licence.
EM Electromagnetic geophysical survey method.
fault Fracture in a rock sequence where one side has moved relative to the other.
Fe Chemical symbol for the element iron.
Felsic Descriptive of light coloured rocks containing an abundance of feldspars and quartz.
fold A bend in strata or in any planar structure.
Gabbro A group of dark-coloured, basic intrusive igneous rocks composed principally of basic plagioclase and clinopyroxene with or without olivine and orthopyroxene.
geochemistry Study of chemical properties of rocks and applications to mineral exploration.
geophysics Study of physical properties of rocks, the Earth and exploration activities.
geosyncline A large linear trough in which a thick succession of sediments accumulated.
Geotherm/GEOTHERM US Geological survey computerised information system.
Gneiss A foliated rock formed by regional metamorphism.

goldfield A large discrete area containing multiple clusters of gold mines.
gossan Weathered near-surface portion of a sulphide-rich deposit consisting essentially of a mass of hydrated iron oxides from which ore minerals have been removed.
grade A measurement or estimate of the quantity of an element in a sample.
granite A plutonic felsic igneous rock composed of quartz, feldspar and mica.
Granulite A medium to coarse-grained metamorphic rock that has experienced high temperature metamorphism, and is composed mainly of feldspars.
Gravity Measurement of the earth's gravitational attraction, reflecting density of underlying rocks.
g/t Abbreviation for grams per tonne, equivalent to parts per million.
high-resolution Describes the detail apparent in a processed magnetic image when it is flown with close-spaced lines; enables a more reliable sub-surface view.
hydrothermal A process when hot water-rich solutions transfer materials or alter rocks.
igneous Descriptor for a rock formed by solidification from a molten rock or magma.
inlier An area of older rocks surrounded by younger rocks.
intrusion An igneous body formed when magma invades other rocks e.g. sills and dykes.
IP Induced polarisation - geophysical survey.
Joint Venture Arrangement between two or more parties to explore or develop a project.
Km(s) Kilometre(s).
Km^2 Square kilometre
Komatiite An ultramafic mantle-derived volcanic rock that typically display low silicon, potassium and aluminium, and high magnesium content.
laterite An iron-rich rock that typically forms at the surface due to intense weathering and leaching of underlying bedrock.
Limonite A mixture of hydrated iron oxides and hydroxides of varying composition. Limonite typically forms the upper portion of a lateritic profile.
lineament Straight or gently curved linear feature on the Earth's surface or on a map.
lithology Rock type - can include chemical composition, texture, colour etc.
lithostratigraphy study and correlation of strata to elucidate earth history on the basis of rock type.
lode A mineral deposit consisting of veins, disseminations or pods.
m metre.
M million.
Ma millions of years before the present.
mafic Descriptive term for a dark coloured igneous rock; low in silica.
magnetic survey A survey of the Earth's magnetic field either from the ground or the air.
magma Naturally occurring molten rock e.g. a lava flow or fountain.
meta- Prefix to a recognisable rock type to denote affected by metamorphism.
Metalliferous Bearing quantities of metal.
metamorphism The process by which pre-existing rocks are changed by heat and pressure.
metasediment A metamorphosed sediment.
mineralisation An anomalous concentration of metals of economic interest. Not ore unless it can be mined at a profit.
ML Mining Lease.
Mt million tonnes.
N North.
Ni/NiS Nickel/Nickel Sulphide.
Ordovician Geological time from approx 488ma to 443ma.
ore A rock containing minerals of economic interest, extractable at a profit.
orebody A solid and fairly continuous mass of ore.
Orogeny A process where part of the earth's crust is deformed over a specific period of time.
outcrop Similar to exposure, where rocks can be seen naturally at the Earth's surface.
Oz Ounce.
Palaeo- A prefix indicate of relatively great age, ancient conditions or fossil forms.
Palaeozoic The first Era of fossil-bearing rocks (before the Mesozoic).
Palaeoproterozoic The oldest portion of the Proterozoic Era (Palaeo = old).
Pb Chemical symbol for the element lead.
Pegmatites descriptive of an exceptionally coarse grained rock.
Pelites An aluminous metamorphosed sedimentary rock.

phyllites Mud stone that has been altered by the formation of platy minerals (e.g. mica).
pluton A large igneous intrusion formed at great depth in the crust.
ppb parts per billion.
ppm parts per million.
Precambrian Era of geological time before the Cambrian, from about 4600 to 545 Ma.
prospect A mining property in which potential for ore discovery is demonstrated.
prospective Said of a region or prospect thought to have a high chance of ore discovery.
Proterozoic Era of geological time between the Archaean and Cambrian from 2500 to 545 Ma.
province A large area or region unified in some way and able to be conceptualised.
Pyrite an iron sulphide material.
Pyrrhotite an iron sulphide material**.**
Quaternary The Fourth Era, latest of the geological eras following the Cainozoic or Tertiary.
quartz Silicon dioxide, the commonest mineral in the Earth's crust.
RC Reverse Circulation; form of percussion drilling; drill cuttings are recovered through the drill rods.
REE Rare Earth Elements.
resources A well-defined estimate of mineralisation, not necessarily economic.
RM Radiometric geophysical survey method.
S South.
sampling Collection of a representative part of material, often for analysis or reference.
Saprolite A chemically weathered rock. Saprolites form in the lower zones of soil profiles and represent deep weathering of the bedrock surface.
Saprock The first stage of weathering. It consists of partially weathered and as yet unweathered minerals and so retains the fabric and structural features of the fresh rock.
Schist A strongly foliated crystalline rock.
sedimentary Variety of rocks formed at the Earth's surface, by deposition of sediment.
shear (zone) Fracture (or zone of fracturing) along which movement has taken place.
Sphalerite a sulphide mineral of zinc and iron.
stratigraphic The study of rock strata, especially of their distribution and age.
structural corridor Large scale linear zone or belt recognised by geological feature alignment.
structure Total description of orientation and relative position of an area's rock units.
sulphides Minerals containing sulphur and metallic elements, often ore minerals.
supergene Process involving water, with or without dissolved material, percolating down from surface.
targets Exploration targets consist of a location that can be tested by drilling; generally represent an anomaly from a survey or a geological concept.
tectonic Term used to relate a particular phenomenon to a structural or orogenic concept.
tectonic corridor A zone subjected to forces involved in the structural modification of rocks.
tenement Exploration or mining land title allowing various actions e.g. an EL.
Tertiary geological time from approximately 65 to 1 million years ago.
Turbidite Describes the sediments deposited by submarine mass flow.
Ultramafic rock Igneous rocks with no free quartz and generally very little feldspar.
underground In relation to mining where the ore is broken beneath the surface.
vein Thin sheet-like infill of a fissure or crack, commonly with quartz and sulphides.
volcanism/volcanic All natural processes and/or products resulting from volcanic activity.
weathered Decomposed by action of external agencies.
Zn Chemical symbol for the element zinc.

DIRECTORS' DECLARATION

The directors of the Consolidated Group declare that:

1. the financial statements and notes, as set out on pages 54 to 108 are in accordance with the *Corporations Act 2001* and:

    a) comply with Accounting Standards and the Corporations Regulations 2001; and

    b) give a true and fair view of the financial position as at 30 June 2011 and the performance for the year ended on that date of the company and Consolidated Group; and

    c) are in accordance with International Financial Reporting Standards, as stated in note 1 to the financial statements; and

2. the Chief Executive Officer and Chief Financial Officer have each declared that:

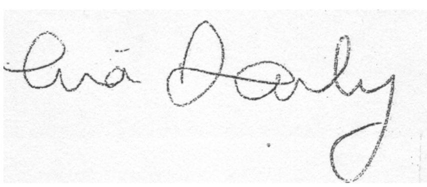
    a) the financial records of the Group for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;

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

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

3. in the directors' opinion there are reasonable grounds to believe that the Consolidated Group 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.



Lia Darby
Joint Managing Director
Dated this 28th day of September 2011

SHAREHOLDER INFORMATION

The following additional information is required by the ASX Limited in respect of listed public companies and was applicable at 22 September 2011.

Shareholding

Distribution of Shareholders	Number (as at 22 September 2011)
Category (size of holding)	**Ordinary Shares**
1 – 1,000	159
1,001 – 5,000	137
5,001 – 10,000	205
10,001 – 100,000	882
100,001 – and over	356
	1,739

The number of shareholdings held in less than marketable parcels is 633.

The name of the substantial shareholder listed in the holding company's register as at 22 September 2011 is:

Shareholder	Ordinary Shares
Andrew Kenneth Bruce Mortimer	23,116,133
(representing 8.8% of the issued share capital)	

a. Voting Rights

The voting rights attached to each class of equity security are as follows:

Ordinary shares

- Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

b. 20 Largest Shareholders as at 22 September 2011 — Ordinary Shares

Name		Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1.	JP Morgan Nominees Australia Limited <Cash Income A/C>	178,149,904	39.309
2.	Merrill Lynch (Australia) Nominees Pty Limited <Berndale A/C>	26,989,879	5.955
3.	Kingsbrook Opportunities Master Fund LP	14,285,714	3.152
4.	SA Capital Funds Management Limited <SACFM No. 1 Fund A/C>	12,848,660	2.835
5.	Mr Andrew Kenneth Bruce Mortimer	10,117,129	2.232
6.	Mr Andrew Kenneth Bruce Mortimer	5,690,668	1.256
7.	Mr Andrew Kenneth Bruce Mortimer	3,701,668	0.817
8.	Ms Lia Melissa Darby	3,481,334	0.768
9.	Mr Stuart Charles Sands-Hicks & Mr Jim Donald Hicks	3,461,813	0.764
10.	Mr Andrew Kenneth Bruce Mortimer	3,173,334	0.700
11.	Webfire Pty Ltd <MFS Super Fund A/C>	3,160,000	0.697
12.	Mrs Patricia Kay Philip	2,842,919	0.627
13.	Mr Mark John Michael Ditchfield	2,370,000	0.523
14.	Mr Kenneth Allan Reynolds	2,360,000	0.521
15.	Mr Mahender Rao Aechoor Munuswamy	2,242,700	0.495
16.	A B Overell Shoes Pty Ltd <AB Overell SH PL NO2 A/C>	2,225,168	0.491
17.	Evans Super Pty Ltd <Evans Super Fund A/C>	2,040,000	0.450
18.	Mr Stuart Charles Sands-Hicks	2,030,000	0.448
19.	Prestige Super Pty Ltd <Prestige Homes Staff S/F A/C>	2,000,000	0.441
20.	Mr David Winton Julius Dare	2,000,000	0.441
		285,170,890	**62.924**

1. The name of the company secretary is Kent Hunter.

2. The address of the principal registered office in Australia is Suite 1901, 109 Pitt St, Sydney, NSW 2000. Telephone 02 9225 4000.

3. Registers of securities are held at the following address;

Advanced Share Registry, 150 Stirling Hwy, Nedlands, WA 6009

4. Stock Exchange Listing

Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the ASX Limited.

5. Unquoted Securities

The Company has no classes of unquoted securities.

c. Options over Unissued Shares ($0.05 options – expiry 31st December 2011)

A total of 141,430,652 $0.05 options are on issue. Each option can be exercised upon the payment of $0.05 and will receive one ordinary share. The expiry date for the options is 31st December 2011.

Listed below are the 20 largest $0.05 option holders as at 22 September 2011.

Name		**Number of Options Held**	**% Held of total options on issue**
1.	SA Capital Funds Management Limited <SACFM No 1 Fund A/C>	10,464,006	7.399
2.	Mr Matthew David Burford	7,617,444	5.386
3.	JP Morgan Nominees Australia Limited <Cash Income A/C>	5,420,000	3.832
4.	Leuchter Enterprises Pty Ltd <Leuchter Family Super FD A/C>	4,500,000	3.182
5.	Mr Scott Raymond Sheard	4,270,117	3.019
6.	Mr Brian Boyd Bradford	3,180,000	2.248
7.	Ms Lia Melissa Darby	3,037,494	2.148
8.	Tornado Nominees Pty Ltd <AJLM A/C>	3,000,000	2.121
9.	Rescon Resource Consultants	3,000,000	2.121
10.	Comsec Nominees Pty Ltd	3,000,000	2.121
11.	Mr Neil Scriven & Ms Robyn McDonald	2,666,667	1.885
12.	Petard Pty Ltd	2,435,334	1.722
13.	Mr Andrew Kenneth Bruce Mortimer	2,033,043	1.437
14.	Mr Gillian Joseph Darby	2,015,000	1.425
15.	Mr Peter Gebhardt & Mrs Carlen Gebhardt <Petard Super Fund A/C>	2,000,000	1.414
16.	Mr Mark John Michael Ditchfield	2,000,000	1.414
17.	Wirkus Developments Pty Ltd	1,999,000	1.413
18.	Mr Ulrich Muco	1,950,000	1.379
19.	Mr Chen De Zhong	1,848,000	1.307
20.	Jannarn Pty Ltd <Prabhakar Super Fund A/C>	1,666,000	1.178
		68,102,105	**48.152**

7. (c) **Options over Unissued Shares ($0.25 options – expiry 31st December 2013)**

A total of 51,727,808 $0.25 options are on issue. Each option can be exercised upon the payment of $0.25 and will receive one ordinary share. The expiry date for the options is 31st December 2013.

Listed below are the 20 largest $0.25 option holders as at 22 September 2011.

Name		**Number of Options Held**	**% Held of total options on issue**
1.	Mr Robert Gemelli	3,980,668	7.695
2.	Ms Lia Melissa Darby	2,621,667	5.068
3.	Mr Andrew Kenneth Bruce Mortimer	2,516,667	4.865
4.	Mr Peter George McFee and Ms Brenda Ann McFee	2,480,334	4.795
5.	Mr Charles William Quin	2,200,000	4.253
6.	Jannarn Pty Ltd <Prabhakar Super Fund A/C>	1,598,798	3.091
7.	Mr Peter Gebhardt & Mrs Carlene Gebhardt <Petard Super Fund A/C>	1,518,433	2.935
8.	Ms Patricia Kay Philip	1,250,000	2.416
9.	Petard Pty Ltd	1,115,600	2.157
10.	Mr Matthew Gilbert Cooper & Mrs Kim Cooper	1,053,852	2.037
11.	LJR Constructions Pty Ltd	1,000,000	1.933
12.	Mr Aziz Gregory Melick	1,000,000	1.933
13.	Mr Ian Campbell <Ian Campbell Family A/C>	1,000,000	1.933
14.	Vigcorp (SA) Pty Ltd	1,000,000	1.933
15.	Mr Peter Neugebauer	1,000,000	1.933
16.	Mr George Phillip Kay	986,655	1.907
17.	Salvatente Pty Ltd <GRB Superannuation Fund A/C>	917,314	1.773
18.	Mr Thomas Koutsoupias & Mrs Justine Leah Koutsoupias <Googli's S/F A/C>	903,438	1.747
19.	Mr Peter Lancelot Gebhardt	800,000	1.547
20.	Berne No 132 Nominees Pty Ltd <399632 A/C>	700,000	1.353
		29,643,426	**57.307**

SCHEDULE OF MINERAL TENEMENTS

AS AT 22 SEPTEMBER 2011

Project	***Tenement***	***Interest held by Proto Resources & Investments Limited***
Barnes Hill	EL 17/2006	100% Renewal Pending
Barnes Hill West	EL 53/2008	100%
Barnes Hill	1872P/M	Application only
Lindeman's Bore	EL 25307	80%
Lindeman's Bore South	ELA 27414	Application only
Wave Hill	ELA 27413	100%
Wave Hill	ELA 27617	100%
Wave Hill	ELA 27618	100%
Waterloo	ELA 27420	100%
Waterloo	ELA 27416	100%
Waterloo North	ELA 28504	100%
Waterloo South	ELA 28505	100%
Waite Kauri	M37/1189	100%
Mt Vetters	E27/0358	75% gold and uranium; 100% all other metals
Clara Hill	E04/2060	Application only
Ned's Creek	E51/1455	Application only
Killara	E51/1457	Application only
Mt Alice West	E53/1580	Application only
Magellen	E53/1581	Application only
Station Hill	E69/2872	Application only
Metal Rocks	E39/1559	100%

P Prospecting Licence
E Exploration Licence
M Mining Licence