

INTERIM FINANCIAL REPORT

31 DECEMBER 2010

CORPORATE DIRECTORY

Proto Resources & Investments Ltd

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ABN 35 108 507 517
Incorporated in NSW

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DIRECTORS' REPORT

The Directors submit their report together with the half year financial report of Proto Resources & Investments Ltd and its consolidated entity (referred to hereafter as "The Group") for the period ending 31 December 2010.

Directors

The names of Directors who held office during the period and to the date of this report are:

- Andrew K Mortimer (Chairman and Joint Managing Director)
- Lia M Darby (Joint Managing Director)
- Patricia K Philip
- Aziz G Melick
- Ian Campbell

Review of Operations

1. INTRODUCTION

The advancement of the flagship Barnes Hill nickel-cobalt project remained Proto Resources & Investments Ltd's ("Proto", "the Company") principal focus during the period. Proto maintained strong momentum at the Barnes Hill project over the second half of 2010. On the 18th of October 2010 an updated Indicated and Inferred Mineral Resource for the Barnes Hill deposit was announced 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 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). On the 23rd of November 2010 Proto built upon this updated resource statement by announcing an initial reserve statement for the Barnes Hill deposit, as determined by Snowden, of 4.0 Mt at 0.84% 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. During the second half of 2010 Proto completed most of the substantive work required for final submission of the Development Proposal and Environmental Management Plan for Barnes Hill (DPEMP) with final lodgement set to occur in early 2011. 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.

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. In the Northern Territory Proto entered upon a joint venture for the Waterloo and Lindeman's Bore projects with Peak Mining and Exploration Limited. These projects, and Proto's tenements at Wave Hill, all contain fault structures which may have acted as feeders and conduits to the Antrim Plateau Volcanics marking them as attractive "Norilsk-type" Ni-Cu-PGE targets according to the proposed geological model. Under the joint venture Proto and Peak conducted a Z Axis Tipper Electromagnetic system geophysical survey across the Lindeman's Bore and Wave Hill projects in late December 2010 with results expected in early 2011. In complement to the near-term development of Barnes Hill Proto also launched a major exploration initiative across the wider

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DIRECTORS' REPORT (CONT.)

Barnes Hill area with 551 soil samples collected with initial results (subsequent to period end) revealing a coincident Cu-Pb-Zn anomaly now being further defined through infill sampling.

On the corporate front, 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"). On the 23rd of November 2010 RB Milestone Group, LLC ("RB Milestone"), an independent equity research and corporate advisory firm based on Wall Street, New York, produced a report on Proto with a target price of \$0.26 cents per share. 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 has been received from JP Morgan Nominees Australia Limited pursuant to Section 672A of the Corporations Act which indicates that all beneficial owners of these ordinary fully paid shares are international-based investors.

2. BARNES HILL PROJECT, TASMANIA (NICKEL LATERITE, NICKEL SULPHIDE AND IRON ORE)

2.1 Project Overview

The Barnes Hill exploration licence (EL17/2006) covers 76km² and is registered 100% to Proto with the Company applying for a 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 ("Metals Finance", ASX: MFC) whereby Metals Finance will develop a working flowsheet complete a definitive feasibility study and arrange the funding of Barnes Hill in return for a 50% stake in the project. After the grant of the mining licence (expected shortly) and subject to the required mining and processing approvals from the Tasmanian authorities (expected late 2011) 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 Figure 1 below sets-out the final locations for the Barnes Hill Mine and processing facility that will be submitted for approval in early 2011.

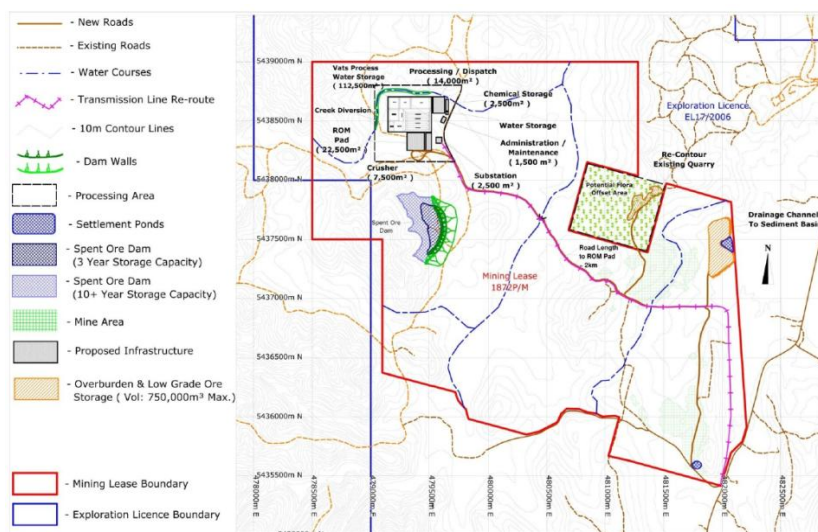


Figure 1 – Site Plan for the Proposed Barnes Hill Mine

Proto is currently fine-tuning the processing route at Barnes Hill and expects to produce saleable nickel, cobalt 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.

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DIRECTORS' REPORT (CONT.)

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 as outlined in the Notice of Intent (NOI) previously submitted to the Tasmanian authorities. Testwork to date shows potential for significant savings through acid recycling alone. In addition to producing nickel, cobalt and magnesium products from the Barnes Hill ore Proto is also investigating the potential to monetize the iron rich overburden which 'caps' the ore body given that a ready customer, BHP's TEMCO ferroalloy smelter, lies just 30 km away by road at the Bell Bay Port. 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.

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 (refer to Figure 2 below). 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 have been developed on different areas of the ultramafic complex. 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, which in turn overlies fresh serpentinite.

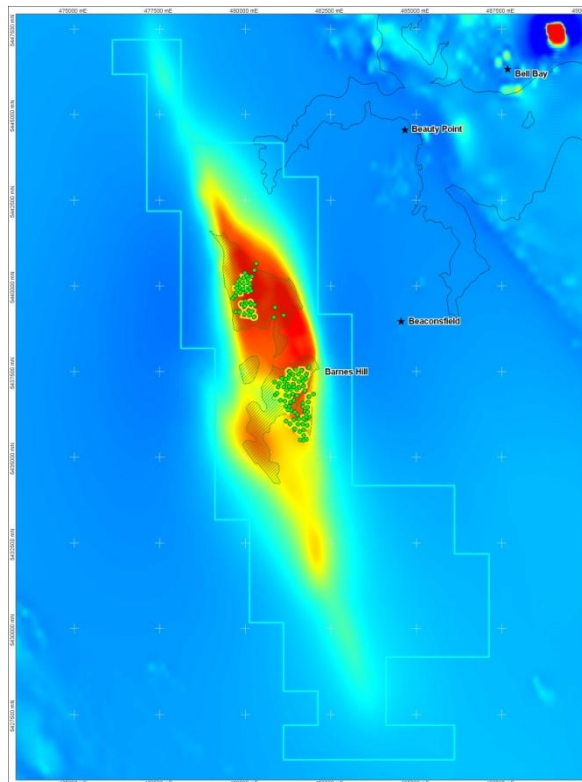


Figure 2 – Magnetic Image of the ACUC with Historical Drill-Holes shown

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DIRECTORS' REPORT (CONT.)

2.2 Activity July-December 2010

The second half of 2010 was a pivotal period for the development of the Barnes Hill project with Proto achieving major milestones on the journey to production. Major points of focus for Proto during the period included the updated mineral resource and maiden reserve statements for the Barnes Hill deposit in addition to the completion of a draft of the DPEMP which has subsequently circulated to stakeholders for integration of comment prior the final submission in early 2011.

Snowden compiled an updated Mineral Resource for the Barnes Hill deposit during the second half of 2010, resulting in the release of 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). The updated Mineral Resource does 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 includes a higher grade saprolite zone of more than 2Mt at a grade of 1.0% Ni and 0.06% Co (refer table). This higher grade zone will be targeted during the first 10 years of mining and will be the focus of the ongoing feasibility study. The Barnes Hill resource was estimated using data from the 50m by 50m spaced drilling program (641 drill holes), in addition to pre-existing historic drill hole data (73 drill holes).

Building on from the updated resource statement Proto released a maiden Reserve Statement for the Barnes Hill deposit as calculated by Snowden. 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 under the JORC Code. 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 Barnes Hill Reserve was based on metal prices for nickel of \$US9/lb (\$US19,842/t) – prices which have been significantly eclipsed in the intervening periods. The reserve estimation employed process recoveries of 75% and 70% for Ni and Co respectively with planned dilution and mining ore recoveries modelled using a minimum mining dimension of 25 m width, 25 m length and 1 m depth. Expected improvements in process recoveries are likely.

By the close of 2010 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, compiled by Proto's consulting engineers, Pitt & Sherry, has now been submitted to Mineral Resources Tasmania to support the application for a mining license that Proto had lodged. 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 calculated 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 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 that the survey found in the Mining Lease area and adjacent reserves. In response, the Board of Proto voted unanimously to endorse the set of recommendations made in the environmental report. These include proposed commitments to:

- Purchase 105 ha of private land to add to reserves and provide 87 ha of native habitat;

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DIRECTORS' REPORT (CONT.)

- Active propagation of *Tetratheca gunnii* (known commonly as "Shy Susan") at five sites including the financing of independent scientific research to improve the ability to propagate such populations; and
- A "recovery plan" for the monitoring and active management of the threatened flora.

Proto is engaging further with environmental and conservation groups prior to DPEMP lodgement in early 2011. During the period Proto also finalised the locations of processing facilities and completed the last round of geotechnical testing to confirm the integrity of the proposed storage dams to support mining operations. This geotechnical program, for which the final report has now been received, involved a comprehensive set of bore holes and geotechnical excavations. Proto also recently completed its year long program of water monitoring which included the assessment of baseline surface and groundwater conditions. Results have informed Spent Ore Storage Facility design.

During the second half of 2010, Proto also shipped of the first set of bulk samples to the laboratory in Evans Head on the mainland was also conducted in the period, with additional shipments continuing into January. These bulk samples are being employed in pilot plant test work that was commenced after the end of the period in February 2011. A total of 7 tonnes of ore to be processed during the initial pilot stage. A wide gauge Reverse Circulation ("RC") drill was also undertaken in the period to collect some of this material. This program was completed in early 2011 and the material has also been shipped to the laboratory for the pilot plant leaching program. At the same time, Proto has continued testwork on the iron ore cap that lies immediately above parts of the nickel laterite ore body. This mineralogical testwork by ALS Laboratory Group in Perth is aiming to assess means of upgrading the ironstone material at Barnes Hill into exportable products (this material is already sold into Tasmanian industry). If these studies, which are initially focusing on investigation of the potential benefits of screening and washing across various grind sizes, are positive, then Proto will aim to have an iron ore resource estimated during the feasibility work on Barnes Hill.

The Company is now actively finalising the Mining Licence application, bond arrangements and DPEMP for Barnes Hill and looks forward to informing the market as these important milestone are progressed.

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DIRECTORS' REPORT (CONT.)

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 ₂ O ₃ (%)	SiO ₂ (%)
Cutoff 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
Cutoff 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
Cutoff 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
Cutoff 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
Cutoff 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.

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DIRECTORS' REPORT (CONT.)

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 ₂ O ₃ (%)	SiO ₂ (%)
Cutoff 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
Cutoff 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
Cutoff 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
Cutoff 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.

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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 ₂ O 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%

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DIRECTORS' REPORT (CONT.)

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 itself, 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 (host to the Barnes Hill, Mt Vulcan and Scott's Hill nickel-cobalt deposits), (2) the Pandora prospect centred upon the historic workings of the Pandora copper mine in addition to a northwest striking fault believed to be the controlling structure to the mine's copper endowment, and (3) the Kelly's Lookout prospect located 12km to the South of the operating Beaconsfield Gold Mine in an area with mapped small scale historical gold diggings.

3.2 Activity July-December 2010

During the period Proto conducted a geochemical program ultimately comprising 551 samples over the Barnes Hill Extension prospect, the Pandora prospect and the Kelly's Lookout prospect. Early results from this program (announced subsequent to period end) have defined a significant anomaly at the Barnes Hill Extension prospect. Subsequently after the end of the period, results were received for 145 of these soil samples that had been collected at the Barnes Hill Extension prospect. As announced on 16 January 2011, these results delineated a Cu-Pb-Zn soil anomaly coincident with a northwest trending fault identified from airborne magnetics data (refer to Figure 3 below).

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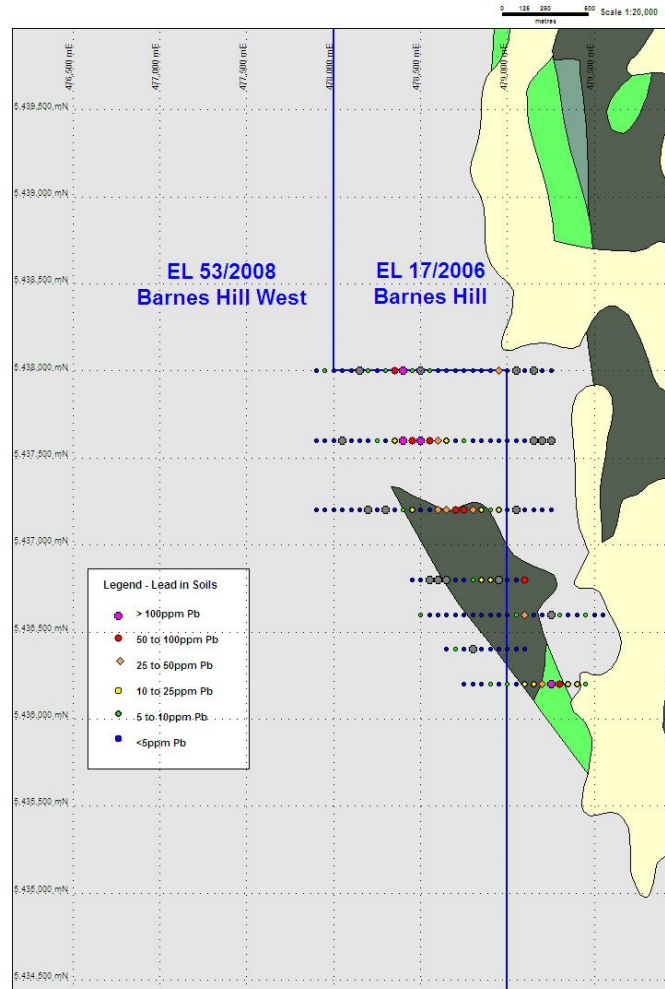


Figure 3 – Lead in soils at the Barnes Hill Extension Prospect with geology as background (light grey colour is Badger Head Block and the dark grey and green colours are the ACUC).

As reported on 16 January 2011, the soil anomaly, although moderate in intensity, is well above background levels and returned a peak zinc result of 415ppm, peak lead result of 198ppm and a peak copper result of 137ppm. The coincident Pb and Zn anomaly extends over a length of 1.4km at the +50ppm Pb and +100ppm Zn contour while the Cu anomaly extends over 400m at the +50ppm Cu contour. Results from the remaining prospects are pending.

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DIRECTORS' REPORT (CONT.)

4. LINDEMAN'S BORE, WAVE HILL & WATERLOO, NT (NICKEL SULPHIDE, COPPER AND PGEs)

4.1 Project Overview

Proto holds strategic tenure in the Antrim Plateau Volcanics of the Northern Territory considered prospective for Noril'sk style mineralisation across three projects known respectively as Waterloo, Wave Hill and Lindeman's Bore (see Figure 4 below) in joint venture with Peak Mining and Exploration Limited ("Peak"). 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. It is in the vents and feeders to these basalts that the geological concept suggests that there may be potential for the "Noril'sk-style" Ni-Cu-PGE target. This builds upon a body of accumulated research exploring such potential. Based on this model Proto has strategically expanded from the initial 350km² at the Lindeman's Bore project to now have over 8000km² of Northern Territory holdings and licence applications.

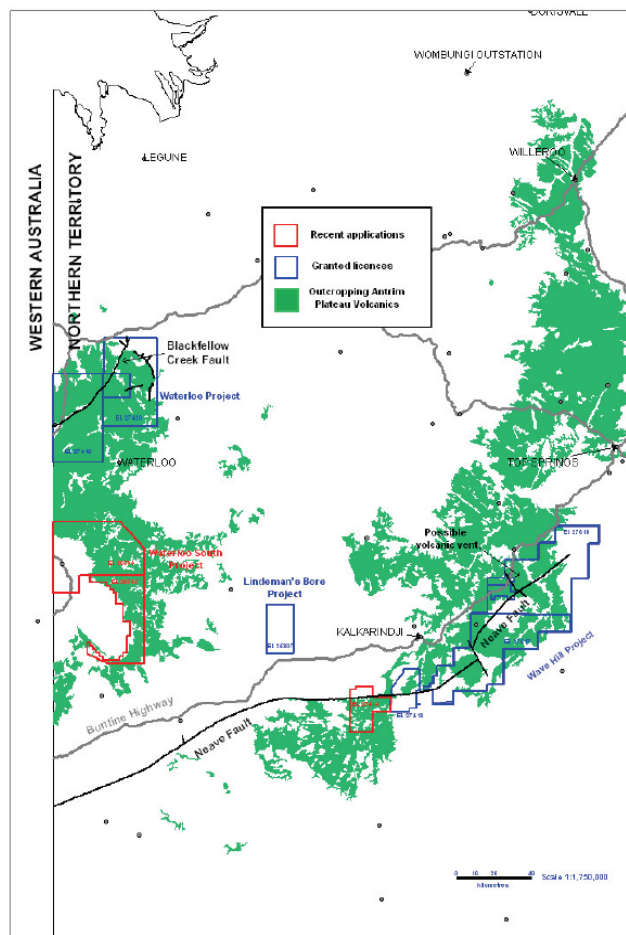


Figure 4 – Overview of Proto's NT Projects

As announced on the 3 November 2010 Proto has entered upon a Joint Venture over its Lindeman's Bore, and Waterloo tenements with Peak. Peak will be taking a 10% stake in the Lindeman's Bore project and under an earn-in arrangement will acquire a 50% interest in the Waterloo Project by spending \$1,500,000 on exploration targeting the Noril'sk-style over 5 years. The 10% interest in Lindeman's Bore

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will be earned by spending \$300,000 on exploration by the end of next year. During the half of 2010 the joint venture initiated this with a Z Axis Tipper Electromagnetic system '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. This licence covers a circular bulls-eye magnetic anomaly located at Lindeman's Bore itself (see diagram 5 below). The Lindeman's Bore project is located 380km south-west of Katherine, on the Limbunya Cattle Station 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 an identified bulls-eye magnetic anomaly. Proto also has an additional exploration licence application (ELA27414) near Lindeman's Bore. The Wave Hill project is located to the east and southeast of Lindeman's Bore and comprises three tenements (EL27413, EL27617 and EL27618) capturing regionally important areas of outcropping Antrim Plateau Volcanics.

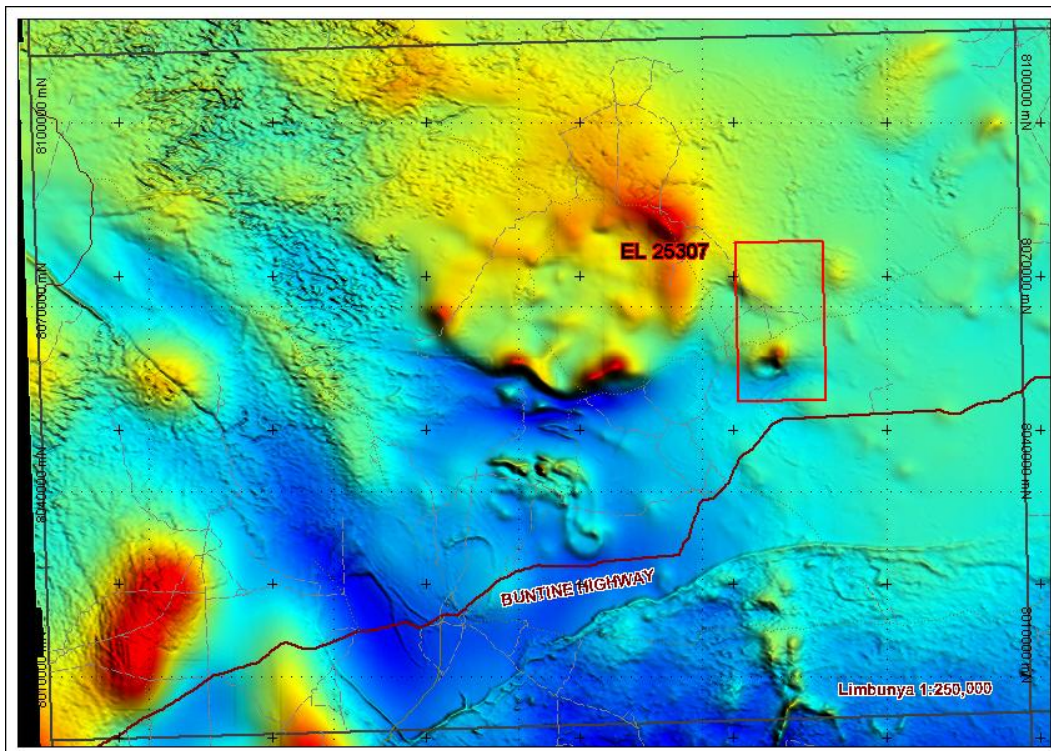


Figure 5 – Location of the Lindeman's Bore Project and the Magnetic Anomaly

The initial target identified at Lindeman's Bore was a circular bulls-eye magnetic anomaly located near the centre of an antiform (see Figure 5). 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. The results of the gravity surveys and previous magnetic data were interpreted by Dr Martin Gole, a consulting geologist specialising in magmatic nickel sulphide deposits, to support a drilling programme to intersect the conceptual mineralisation based on the airborne magnetic and ground gravity model. 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.

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DIRECTORS' REPORT (CONT.)

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). The Waterloo project tenements are located adjacent to the Northern Territory's border with Western Australia approximately 350km southwest of Katherine, NT and 75km southeast of Kununurra, WA. 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 is largely covered by basalts of the Cambrian-aged Antrim Plateau Volcanics with lesser occurrences of sediments of the Proterozoic Limbunya, Wattie, Bullita, Auvergne and Duerdin Groups mapped. The Blackfellow Creek Fault is believed to be a long lived structure that may possibly have acted as a vent for Cambrian aged basalt magmatism or may have intrusions along it.

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 75 km west of the project area in Western Australia) and the Bow River diamond mining area (located 40 km west of the project area also in Western Australia). 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 several areas of anomalous copper. In addition, work completed by Australian Kimberley Diamonds in 1997 identified a circular feature in Blackfellow Creek along an eastern extension of the Blackfellow Creek Fault which sampling indicated was unlikely to be a kimberlite but did contain large amounts of magnetite unlike the Antrim Basalt flows.

4.2 Activity July-December 2010

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. It is interpreted that these copper occurrences may be due to structural remobilisation of copper from within the Antrim Plateau Volcanics. 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. The Company's exploration programme will now jointly target copper mineralisation in cave-style deposit mineralisation as well as Norilsk-style mineralisation (Ni-Cu-PGE).

In the second half of 2010, Proto also continued to advance its relationship with the Queensland University of Technology (QUT). The research work undertaken in the half year included a mapping phase that will assist Proto in pursuing its Ni-Cu-PGE Norilsk style mineralisation concept and complement the important geological information derived from the two deep diamond drill holes at Lindeman's Bore (LBD-1 and LBD-2). Following the recently completed field work undertaken by the QUT, two new applications (EL28504 and EL 28505 together covering a total area of 2,041.3km²) were made during the period, south of the existing project area. 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. Any such fault

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DIRECTORS' REPORT (CONT.)

could have acted as the high-level dyke conduits which fed the surface lava flows that, under Proto's Noril'sk Style geological concept, could contain Ni-Cu-PGE deposits. QUT also identified copper mineralisation in the Headley Limestone that can be observed lying directly upon the Antrim Plateau Basalts at Waterloo.

Also in the half year, major geophysical operations were undertaken across the NT portfolio. This followed the joint venture with Peak and utilized 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. ZTEM is capable of seeing down to a depth of two kilometres in resistive environments and Proto believes that it is the ideal tool for finding potential deposits of Ni-Cu-PGE as a result of concentrations formed by the Antrim Plateau Volcanics. The ZTEM survey was conducted at Lindeman's Bore (EL25307) and Wave Hill (EL27413, EL27617 & 27618) and covered approximately 918 line kms. Under the terms of the joint venture agreement Peak funded the ZTEM program at Lindeman's Bore in prelude to a drilling campaign. Preliminary results have been received with detailed inversion and analysis now underway with results expected in March 2011.

5. CLARA HILL, WA

5.1 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 (granted) and E04/2026 (under application) in the West Kimberley of Western Australia (see Figure 6 below). In the final quarter of 2010, Proto also lodged a new exploration licence application, E04/2060, covering an area of 69km² at Clara Hill adjacent to the other tenements. The new application brought the total size of the project area to 98km². The new application E04/2060 is held 100% by Proto and the Company is of the opinion that the new application contains areas with similar geological characteristics to the existing Clara Hill Project area that contains an advanced nickel, copper, platinum and palladium ("Ni-Cu-PGE") prospect.

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DIRECTORS' REPORT (CONT.)

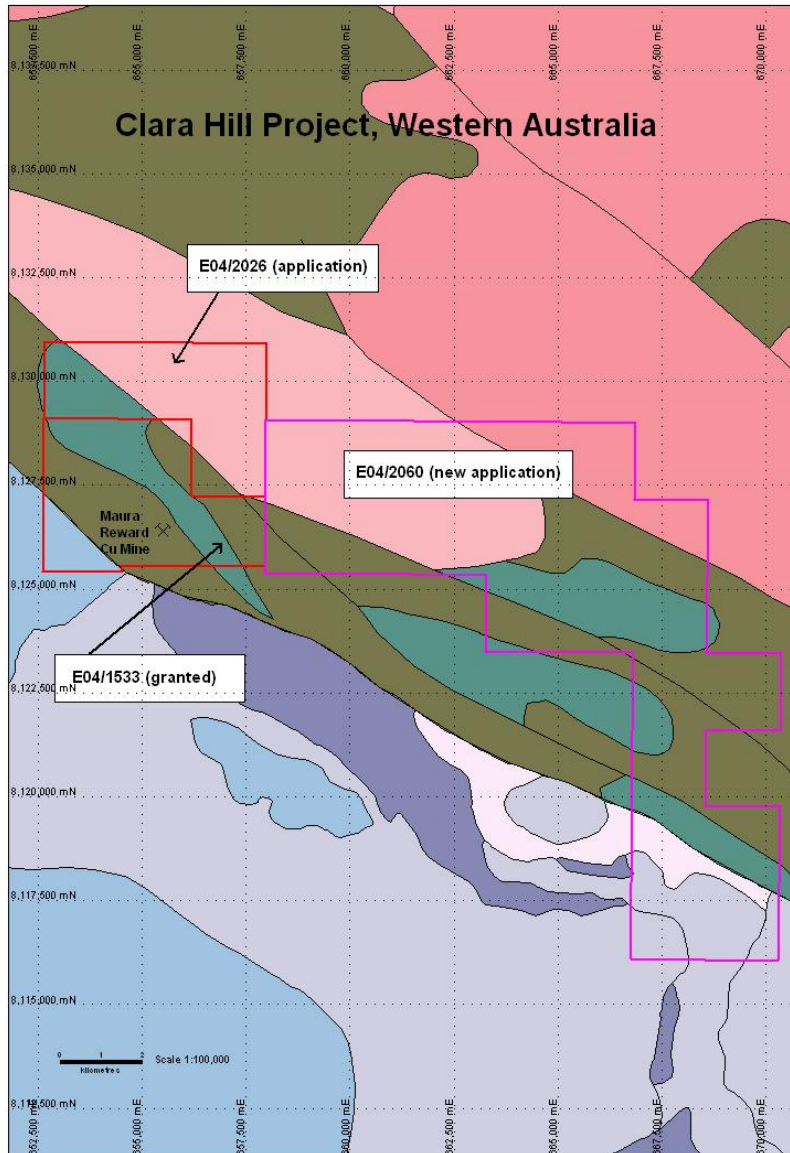


Figure 6 – Tenement location map showing new exploration licence application (pink) and existing tenements of the Clara Hill Project (red) with geology as background

Proto believes that the Clara Hill prospect warrants further exploration to uncover the potential source of the Ni-Cu-PGE identified in assay results. The primary gossan 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. Field work in late 2010 also located two additional gossan locations that lie proximal and northwest of the principal gossan. The gossan at Jack's Hill is primarily a copper prospect having been discovered in 1902 and subsequently mined as the Maura Reward Copper Mine. Petrographic analysis of gossan samples taken from Jack's Hill that identifies it as a limonite/goethite boxwork gossan after chalcopyrite with secondary pyrite after pyrrhotite. A historical programme of RC drilling at Clara Hill sub-surface 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

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DIRECTORS' REPORT (CONT.)

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. On the 25th of November 2010 Proto announced the results of its own maiden geochemical program at Clara Hill, which confirmed the high-grade tenure of the surficial material with results including 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.

5.2 Activity July-December 2010

On the 12th of October 2010 Proto announced that it had completed an aerial magnetometer and radiometric survey of the advanced Ni-Cu-PGE prospect at its Clara Hill project. This survey was flown at a 100m line spacing with a sensor at 50m ground clearance. 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. Following this a program of field work was undertaken. As noted above, on the 25th of November 2010, Proto announced the results of this initial field visit to Clara Hill. This field visit was very successful in that it resulted in the identification of two additional copper bearing gossans and geochemical sampling identified copper mineralisation in related rocks. Samples containing oxidised and remnant sulphide copper and nickel mineralisation were collected from all 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

The geological setting and outcropping mineralisation, together with results from a completed electromagnetic survey, strongly indicate that the project area is prospective for massive sulphide nickel, copper and precious metals. Following these results, a more comprehensive exploration programme, including detailed geological mapping, geochemical and additional geophysical surveys and drilling will commence in 2011. Proto is currently planning 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.

6. DOOLGUNNA PROJECT, WA

6.1 Project Overview

The Doolgunna Projects consist of four earlier exploration licence applications, E51/1455, E51/1457, E53/1580, E53/1581 announced on 11 October 2010 and the new exploration licence application, E69/2872, that was lodged later in the final half of 2010 following a detailed review of historical regional exploration (refer to Figure 7 below). As announced on 22 November 2010, this new application capturing over 52km² increased Proto's exploration holdings in the region to a combined area of 409km². All five applications are within the Palaeoproterozoic-aged Yerrida Basin. The Doolgunna Region, situated northeast of Meekatharra and north and northwest of Wiluna in Western Australia, 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 Palaeoproterozoic-aged Yerrida Basin.

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DIRECTORS' REPORT (CONT.)

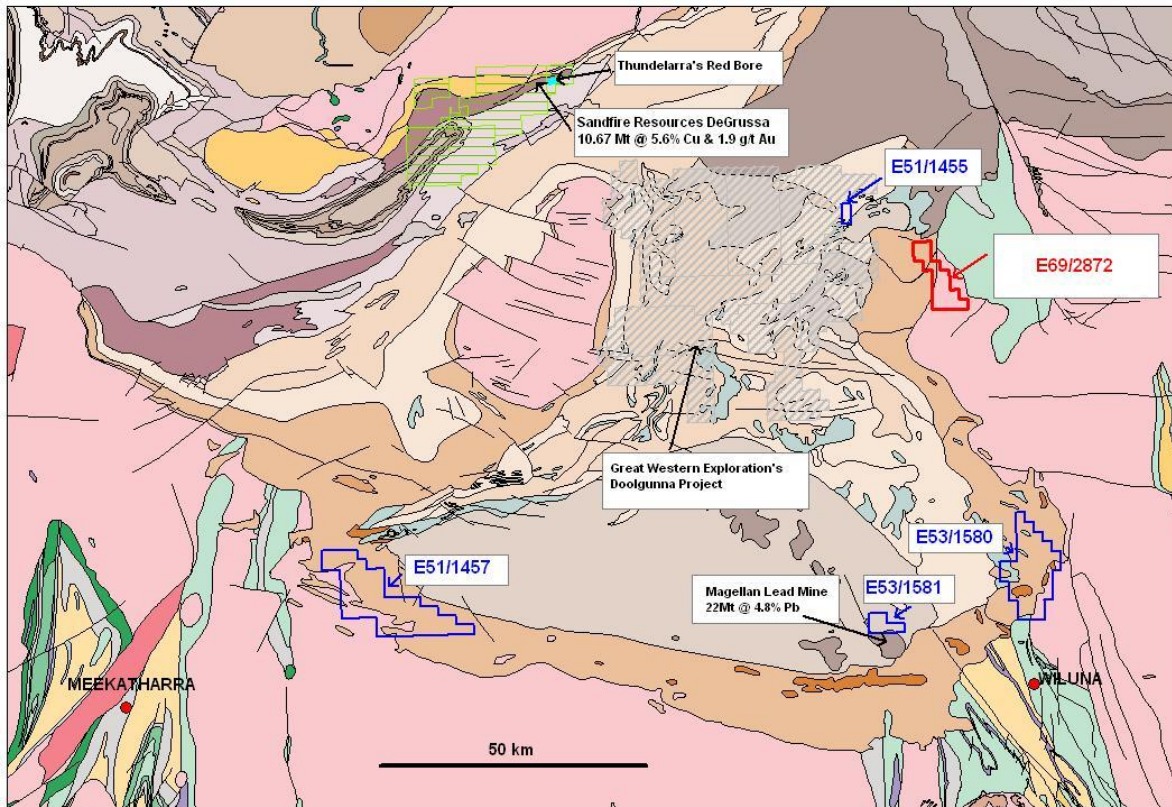


Figure 7 – Proto's most recent exploration licence application E69/2872 (shown in red) and earlier new licence applications (shown in blue) in the Doolgunna Region of Western Australia with geology as background.

6.2 Activity July-December 2010

During the period, Proto commenced compilation of historic exploration work undertaken in the new application areas. Of the five application areas that form Proto's Doolgunna Projects, 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 very broad polymetallic geochemical soil anomaly along with several VTEM conductors. Proto is also gathering background information on the Killara Project [E53/1580] and the Magellan North Project (E53/1581) that is situated immediately to the north of the Magellan Lead Mine. On grant, Proto will commence exploration on its most attractive Great Doolgunna Project [E51/1455].

7. WAITE KAURI NORTH NICKEL LATERITE PROJECT, WA

7.1 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 8 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.

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DIRECTORS' REPORT (CONT.)

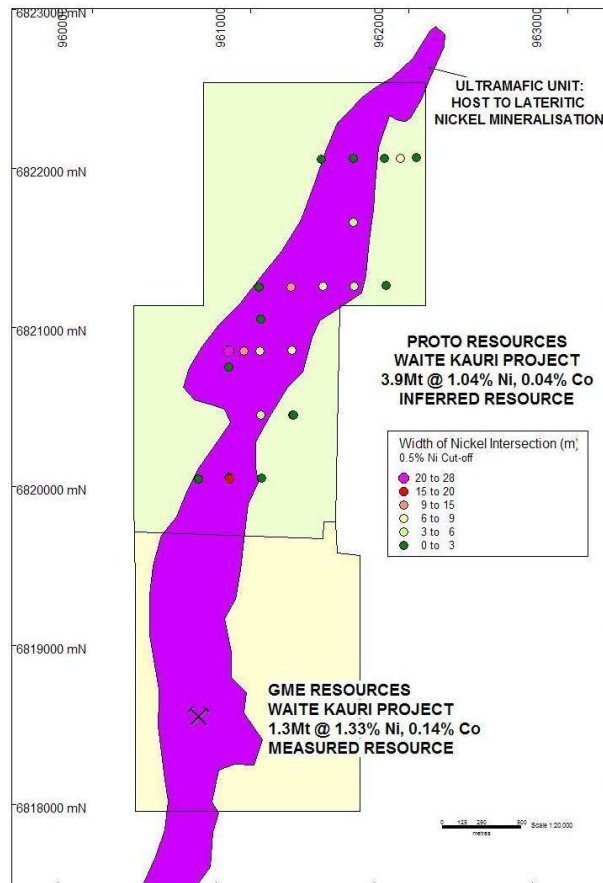


Figure 8 – Waite Kauri Inferred JORC Resource and Nickel Intersections

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.

7.2 Activity July-December 2010

The company is currently determining the most appropriate development pathways for this JORC-compliant Inferred Mineral Resource. This has involved consideration of the characteristics of the Waite Kauri ore in relation to the Barrier bay Pty Ltd processing technology.

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DIRECTORS' REPORT (CONT.)

8. METAL ROCKS PROJECT, WA (URANIUM AND GOLD)

8.1 Project Overview

The Metal Rocks project covers an area of 321.9km² 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 9. Nearby deposits include the Ambassador Uranium Deposit (Inferred Mineral Resource of 16.53Mt @ 630ppm U₃O₈) 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..

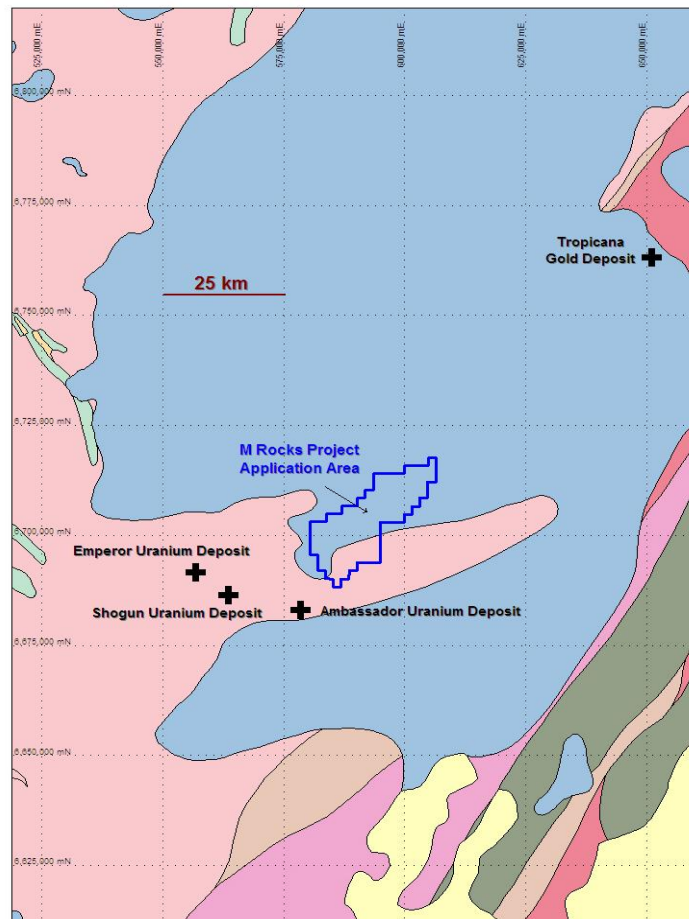


Figure 9 – Location of the Metal Rocks Project Northeast of Kalgoorlie in WA

8.2 Activity July-December 2010

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 2011. Proto is strongly of the belief that the Metal Rocks project complements the Company's existing exploration portfolio and fits well into Proto's two-pronged approach of seeking production earnings from Barnes Hill, while exploring prospective regions for polymetallic mineralisation. The initial field visit completed after the end of the half year in February 2011 included general reconnaissance and geological mapping.

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DIRECTORS' REPORT (CONT.)

9. MT VETTERS PROJECT, WA (NICKEL, GOLD AND URANIUM)

9.1 Project Overview

The Mt Vettters 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 Vettters project is owned under a joint venture between Proto private explorer Mt Vettters 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 from the hole and the conductor was interpreted to be a channel at the base of the overburden containing saline water. In the second half of 2009, Proto undertook drilling at Mt Vettters to investigate targets drawn from the geophysical data. Three RC drill holes were completed at Mt Vettters for a total of 438m. The holes were drilled by Ranger Drilling Services of Perth using a truck mounted Hydco 350 drill rig with auxiliary compressor and booster. Assay results received failed to return significant levels of gold, nickel or other base metal anomalism. 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.

9.2 Activity July-December 2010

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 Vettters Pty Ltd have agreed to discontinue the project, and Proto will now relinquish the tenement with no further work is planned for Mt Vettters.

10. TIBOOBURRA PROJECT, NSW (GOLD)

10.1 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.

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DIRECTORS' REPORT (CONT.)

In the second half of 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, enabling continued alluvial exploration while benefiting from Awati's primary gold focus. Under the sale agreement, Proto received 1,500,000 Awati shares, representing a 12% ownership stake in that private company.

10.2 Activity July-December 2010

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.

The information in this report that relates to the estimation of the Barnes Hill Mineral Resource and Reserve 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 Exploration Results other than the Clara Hill project is based on information compiled by Mr Andrew Jones. Mr Jones is a full time employee of TasEx Geological Services who provide geological consulting services to Proto Resources & Investments Ltd and is a member of the Australian Institute of Geoscientists (AIG) and the Australasian Institute of Mining and Metallurgy (AusIMM). Mr Jones has sufficient experience of relevance to the styles of mineralisation and the types of deposits under consideration, and to the activities undertaken, 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.

Results

The consolidated loss of the Group for the half year to 31 December 2010 was \$641,503 (2009 – loss of \$996,549).

Corporate

On 13 July 2010 the Company issued 796,016 ordinary shares, at an issue price of 2.5 cents per share, with attaching option exercisable at 5 cents on or before 31 December 2011 on the basis of one option for every share subscribed for, as the final shortfall pursuant to the non renounceable entitlement issue detailed in the prospectus dated 16 April 2010.

On 13 July 2010 the Company issued 2 ordinary shares, at an issue price of 25 cents on the conversion of options.

On 13 October 2010 the Company issued 11 ordinary shares, at an issue price of 5 cents on the conversion of options.

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DIRECTORS' REPORT (CONT.)

On 14 October 2010 the Company issued 75,000,000 ordinary shares, at an issue price of 2.3 cents through a private placement.

On 19 October 2010 the Company issued 4,617,639 ordinary shares, at an issue price of 2.3 cents through a private placement.

On 21 December 2010 the company issued 4,500,000 options exercisable at 5 cents on or before 31 December 2011 to consultants in lieu of cash consideration. The issue of these options was approved by shareholders at the AGM held on 29 November 2010.

On 23 December 2010 the Company issued 1,400,000 ordinary shares, at an issue price of 5.3 cents to consultants in lieu of cash consideration.

Subsequent events

On 18 January 2011 the Company issued 15,500,000 ordinary shares, at an issue price of 6 cents through a private placement.

On 21 January 2011 the Company issued 15,500,000 ordinary shares, at an issue price of 6 cents through a private placement.

On 25 January 2011 the Company issued 2,000,000 ordinary shares, at an issue price of 6 cents through a private placement.

On 25 January 2011 the Company issued 1,700,000 ordinary shares, at an issue price of 5 cents on the conversion of options.

On 28 January 2011 the Company issued 2,000,080 ordinary shares, at an issue price of 5 cents on the conversion of options.

On 3 February 2011 the Company issued 9,834 ordinary shares, at an issue price of 5 cents on the conversion of options.

On 7 February 2011 the Company issued 221,668 ordinary shares, at an issue price of 5 cents on the conversion of options.

On 14 February 2011 the Company lodged an application to voluntarily deregister its wholly owned subsidiary Matilda Resources Pty Ltd.

On 28 February 2011, the Company issued 2,000 ordinary shares, at an issue price of 5 cents on the conversion of options.

On 28 February 2011, the Company issued 10,000,000 ordinary shares, at an issue price of 6 cents through a private placement.

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DIRECTORS' REPORT (CONT.)

On 1 March 2011, the Company announced that Macquarie Bank has agreed to purchase from Proto several series of privately placed moving strike and fixed strike options. Under the arrangement, Proto will issue moving strike options to Macquarie Bank, which if fully exercised, would result in a capital injection of up to \$3 million. The exercise price of the moving strike options will be 85% of the closing price of Proto shares immediately prior to any exercise. The moving strike options contain a floor price, whereby the options may not be exercised where Proto's closing price is below 4 cents per share. Proto may request the moving strike options be exercised at any time subject to certain liquidity conditions and providing each exercise direction is at least 10 business days apart. The dollar amount of an exercise notice from Proto shall not exceed 50% of the average daily trading volume of Proto shares traded on ASX during the 20 business days or 60 business days prior to the date of the exercise direction, whichever is lower, multiplied by the relevant exercise price. Macquarie may choose to exercise at any time, subject to the stock closing above the floor price.

Meanwhile 10,500,000 fixed price options will be issued, Series 1 (5,000,000) at an exercise price of \$0.08, Series 2 (3,500,000) at an exercise price of \$0.10 and Series 3 (2,000,000) at an exercise price of \$0.125. Full exercise of all options would result in a further capital injection of \$1 million. Proto is able to issue all of the fixed price options immediately under its 15% capacity to issue shares pursuant to Listing Rule 7.1, with 29,500,000 moving strike options also being able to be issued immediately, with the balance to be issued pursuant to shareholder approval being received at a General Meeting to be held shortly. The maximum number of moving strike options to be issued is 88,235,294.

Under the terms of the arrangement Proto can cancel any number of the moving strike options at any time by providing Macquarie with 20 business days notice of the intended cancellation. This option issuance enhances Proto's ability to pursue its current projects as world metal prices continue to move higher, with the global economy recovering. Macquarie Bank is purchasing the options as principal rather than for any of its institutional or retail clients.

On 3 March 2011, the Company issued the following:

- (i) 29,500,000 Moving Strike Price Options of which 1,000,000 have been exercised simultaneously at a strike price of \$0.053 on the 3 of March 2011. As such 1,000,000 ordinary fully paid shares have also been issued on 3 March 2011.
- (ii) 5,000,000 \$0.08 call options exercisable before 28 February 2013 on 3 March 2011
- (iii) 3,500,000 \$0.10 call options exercisable before 28 February 2013 on 3 March 2011
- (iv) 2,000,000 \$0.125 call options exercisable before 28 February 2013 on 3 March 2011

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

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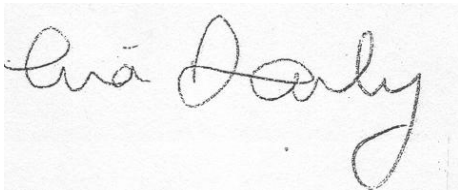
DIRECTORS' REPORT (CONT.)

Auditor's Declaration

The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 26 for the half year ended 31 December 2010.

Signed in accordance with a resolution of the Board of Directors

Dated at Perth this 14th day of March 2011.

A handwritten signature in cursive script, reading "Lia Darby". The signature is written in dark ink on a light-colored background.

Lia Darby, Director

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 review of the financial report of Proto Resources & Investments Limited and Controlled Entities for the half year ended 31 December 2010 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 review;
- no contraventions of the Code of Professional Conduct of the Institute of Chartered Accountants in Australia in relation to the review.

Yours faithfully



BENTLEYS
Chartered Accountants



CHRIS WATTS
Director

DATED at PERTH this 14th day of March 2011

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CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the half-year ended 31 December 2010

	31 Dec 2010	31 Dec 2009
		\$
Revenues from continuing activities	121,980	31,163
Net fair value gain on financial assets	430,073	560,903
Interest received	24,084	35,981
Profit on sale of financial assets	17,637	56,843
	593,774	684,890
Expenses from ordinary activities		
Travel and accommodation	(75,473)	(124,076)
Director and employee benefits expenses	(227,702)	(124,342)
Brokers and consulting fees	(290,204)	(205,089)
Finance costs	(6,585)	(1,584)
Exploration expenditure written off	(148,875)	(586,845)
Occupancy expense	(48,789)	(65,646)
Compliance and regulatory expenses	(91,792)	(174,062)
Administration expenses	(345,857)	(399,795)
	(641,503)	(996,549)
Net Loss before income tax expense		
Income tax expense	-	-
	(641,503)	(996,549)
Net Loss from continuing operations		
Other comprehensive income	-	-
	(641,503)	(996,549)
Total comprehensive income attributable to members of the parent entity	(641,503)	(996,549)
Loss Per Share (cents per share)	(0.22)	(0.58)

The accompanying notes form part of this financial report.

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 ABN 35 108 507 517

CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
As at 31 December 2010

	31 Dec 2010	30 June 2010
	\$	\$
CURRENT ASSETS		
Cash and cash equivalents	729,411	1,421,664
Trade and other receivables	312,279	276,019
Financial assets	2,255,437	1,355,451
Other current assets	268,001	342,629
TOTAL CURRENT ASSETS	3,565,128	3,395,763
NON-CURRENT ASSETS		
Exploration assets	6,010,443	5,025,847
Property, plant and equipment	67,505	15,472
TOTAL NON-CURRENT ASSETS	6,077,948	5,041,319
TOTAL ASSETS	9,643,076	8,437,082
CURRENT LIABILITIES		
Trade and other payables	645,978	659,697
Provisions	3,989	2,145
Financial liabilities	-	6,240
TOTAL CURRENT LIABILITIES	649,967	668,082
TOTAL LIABILITIES	649,967	668,082
NET ASSETS	8,993,109	7,769,000
EQUITY		
Issued capital	21,415,587	19,626,475
Option valuation reserve	4,761,269	4,684,769
Financial asset reserve	(12,713)	(12,713)
Accumulated losses	(17,171,034)	(16,529,531)
TOTAL EQUITY	8,993,109	7,769,000

The accompanying notes form part of this financial report.

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CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
For the half-year ended 31 December 2010

	Issued Capital	Option Valuation Reserve	Financial Asset Reserve	Accumulated Losses	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2009	12,873,977	4,283,235	-	(12,762,827)	4,394,385
Shares issued during the half year	5,135,054	-	-	-	5,135,054
Less transaction costs arising from issue of shares net of tax	(210,000)	-	-	-	(210,000)
Options issued during the half year	-	514,534	-	-	514,534
Total comprehensive income	-	-	-	(996,549)	(996,549)
Balance at 31 December 2009	17,799,031	4,797,769		(13,759,376)	8,837,424
Balance at 1 July 2010	19,626,475	4,684,769	(12,713)	(16,529,531)	7,769,000
Shares issued during the half year	1,925,307	-	-	-	1,925,307
Less transaction costs arising from issue of shares net of tax	(136,195)	-	-	-	(136,195)
Options issued during the half year	-	76,500	-	-	76,500
Total comprehensive income	-	-	-	(641,503)	(641,503)
Balance at 31 December 2010	21,415,587	4,761,269	(12,713)	(17,171,034)	8,993,109

The accompanying notes form part of this financial report.

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CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2010

	31 Dec 2010	31 Dec 2009
CASH FLOWS FROM OPERATING ACTIVITIES	\$	\$
Interest received	21,614	33,430
Other income from operating activities	93,639	31,663
Finance costs	(6,585)	(4,670)
Payments for exploration expenditure	(869,015)	(683,410)
Exploration joint venture funds received	-	70,000
Payments to suppliers and employees	(1,076,249)	(1,181,989)
NET CASH USED IN OPERATING ACTIVITIES	(1,836,596)	(1,734,976)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for the acquisition of areas of interest for exploration and evaluation	(60,000)	-
Payments for purchase of shares held for investment	(744,183)	(1,098,131)
Proceeds from sale of investments	288,137	265,404
Loans repaid to other entities	(44,613)	(46,424)
Loan repaid to related entity	-	(50,000)
NET CASH USED IN INVESTING ACTIVITIES	(560,659)	(929,151)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issue of ordinary shares	1,841,196	3,912,103
Payments for transaction costs associated with capital raisings	(136,195)	(203,676)
Proceeds from the conversion of options to ordinary shares	1	454,733
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,705,002	4,163,160
Net (decrease)/ increase in cash held	(692,253)	1,499,033
Cash at 1 July	1,421,664	263,544
Cash at 31 December	729,411	1,762,577

The accompanying notes form part of this financial report.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2010

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial report of Proto Resources and Investments Limited and its controlled entity (the Group) for the half-year ended 31 December 2010 was authorised for issue in accordance with a resolution of the directors on 14 March 2011. Proto Resources and Investments Limited is a company incorporated in Australia and limited by shares.

The half-year financial report is a general purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001* and Accounting Standards AASB 134: *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standards IAS 34 *Interim Financial Reporting*.

This half-year financial report is intended to provide users with an update on the latest annual financial statements of the Group. As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this half-year financial report be read in conjunction with the annual financial report of the Group for the year ended 30 June 2010, together with any public announcements made during the half-year.

The same accounting policies and methods of computation have been followed in this half-year financial report as were applied in the most recent annual financial report, except for the adoption of amending standards mandatory for annual periods beginning on or after 1 July 2010, as noted below.

Reporting Basis and Conventions

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

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 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 Group incurred a loss from ordinary activities of \$641,503 for the half year ended 31 December 2010 (half year ended 31 December 2009: \$996,549 loss). The net working capital position of the Group at 31 December 2010 is \$2,915,161 (30 June 2010: \$2,727,681). The net decrease in cash held during the half year was \$692,253(half year to 31 December 2009: an increase of \$1,499,033).

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2010

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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 potential expenditure commitments required to maintain title to the exploration tenements. However, in the informed opinion of the directors, it has been concluded that the going concern basis is the appropriate basis for preparing the financial statements based on the following key considerations:

- The Company has raised \$2,829,679 through private placements and conversion of options subsequent to reporting date, as disclosed in note 5;
- The Company announced subsequent to reporting date that Macquarie Bank has agreed to purchase from Proto several series of privately placed moving strike and fixed strike options, as disclosed in note 5;
- Included in the Statement of financial position at 31 December 2010 were financial assets of \$1,705,203 being the fair value of shares and options held in ASX listed entities. The directors are of the opinion that these investments can be liquidated as required to fund ongoing operations.

Although the Directors believe that they will be successful in these measures, if they are not, the Company may be unable to continue as a going concern and therefore may be unable to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Comparative Figures

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

Changes in Accounting Policies and Disclosures

In the half-year ended 31 December 2010, the Group has reviewed all of the new and revised standards and interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2010. The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to their operations and are effective for the current financial reporting period. It has been determined by the Group that there is no impact, material or otherwise, of the new and revised standards and interpretations on its business and, therefore no change is necessary to the Group's accounting policies.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2009

NOTE 2 – SHARE CAPITAL

	31 December 2010	30 June 2010
	\$	
(a) Issued and paid up capital		
Fully paid ordinary shares	21,415,587	19,626,475
	2010	2010
	Number	\$
(b) Movement in fully paid ordinary shares on issue		
Balance at 1 July 2010	263,321,574	19,626,475
Issued for cash on 13 July 2010	2	-
Issued for cash on 13 July 2010	796,016	19,900
Issued for cash on 13 October 2010	11	1
Issued for cash on 14 October 10	75,000,000	1,725,000
Issued for cash on 19 October 10	4,617,639	106,206
Share based payment on 23 December 2010 (i)	1,400,000	74,200
Transaction costs relating to share issues		(136,195)
Balance at 31 December 2010	345,135,242	21,415,587

(c) Share options

At the end of the period, the following options over unissued ordinary shares were outstanding:

- 23,650,555 listed options expiring 31 August 2011 and exercisable at \$0.20 each.
- 140,684,102 listed options expiring 31 December 2011 and exercisable at \$0.05 each.
- 51,727,807 listed options expiring 31 December 2013 and exercisable at \$0.25 each.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2009

NOTE 3 – SHARE BASED PAYMENTS

(a) The following share-based payments arrangements were issued during the period:

Share series	Number	Grant Date	Fair value at grant date \$	
Issued 23 December 2010	1,400,000	23/12/10	0.053	
Options series	Number	Grant Date	Exercise Price \$	Fair value at grant date \$
Issued 21 December 2010	4,500,000	29/11/10	0.05	0.017

The options have an expiry date of 31 December 2011. The fair value was determined by reference to market price.

The aggregate value of share based payments for the financial period was \$150,700.

NOTE 4 – OPERATING SEGMENTS

The Company 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.

Reportable segments disclosed are based on aggregating operation segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- (i) Geographic area of exploration
 - a. Barnes Hill
 - b. Lindeman's Bore
 - c. Other
- (ii) Investing activities

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.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2010

NOTE 4 – OPERATING SEGMENTS

Inter-segment transactions

An internally determined transfer price is set for all inter-entity sales. This price is re-set quarterly and is based on what would be realised in the event the sale was made to an external party at arm's-length. All such transactions are eliminated on consolidation for the Group's financial statements.

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.

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 Company as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

Unallocated items

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:

- Head office and administration costs

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2010

NOTE 4 – OPERATING SEGMENTS

(a) Segment performance

Half Year Ended 31 December 2010	Exploration – Barnes Hill	Exploration – Lindeman’s Bore	Exploration - Other	Treasury	Total Operations
	\$	\$	\$	\$	\$
Revenue					
Interest revenue	-	-	-	24,084	24,084
Realised gain on sale of financial assets	-	-	-	17,637	17,637
Total segment revenue	-	-	-	41,721	41,721
<i>Reconciliation of segment result to net profit before tax</i>					
Unallocated revenue	-	-	-	-	121,980
Total group revenue	-	-	-	-	121,980
Segment net profit before tax	-	-	-	41,721	163,701
<i>Reconciliation of segment result to net loss before tax</i>					
Amounts not included in segment result but reviewed by the board:					
- net fair value gain/(loss) on financial assets	-	-	-	430,073	430,073
- exploration expenditure written off	-	-	(148,875)	-	(148,475)
Unallocated items:					
- other	-	-	-	-	(1,086,802)
Net loss before tax from continuing operations					(641,503)

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2009

NOTE 4 – OPERATING SEGMENTS

Half Year Ended 31 December 2009	Exploration – Barnes Hill	Exploration – Lindeman’s Bore	Exploration - Other	Treasury	Total Operations
	\$	\$	\$	\$	\$
Revenue					
Interest revenue	-	-	-	35,981	35,981
Realised gain on sale of financial assets	-	-	-	56,843	56,843
Total segment revenue	-	-	-	92,824	92,824
<i>Reconciliation of segment result to net profit before tax</i>					
Unallocated revenue	-	-	-	-	31,163
Total group revenue	-	-	-	-	31,163
Segment net profit before tax	-	-	-	92,824	123,987
<i>Reconciliation of segment result to net loss before tax</i>					
Amounts not included in segment result but reviewed by the board:					
- net fair value gain/(loss) on financial assets	-	-	-	560,903	560,903
- exploration expenditure written off	-	-	(586,845)	-	(586,845)
Unallocated items:					
- other	-	-	-	-	(1,094,594)
Net loss before tax from continuing operations					(996,549)

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2010

NOTE 4 – OPERATING SEGMENTS

(b) Segment assets

	Exploration – Barnes Hill	Exploration – Lindeman’s Bore	Exploration - Other	Treasury	Total Operations
As at 31 December 2010	\$	\$	\$	\$	\$
Segment assets	3,650,646	888,615	1,471,182	2,984,848	8,995,291
Segment asset increases/(decreases) for the half year:					
- capital expenditure	708,266	40,850	235,480	-	984,596
- financial assets	-	-	-	897,517	897,517
- held to maturity investments	-	-	-	2,469	2,469
	<u>708,266</u>	<u>40,850</u>	<u>235,480</u>	<u>899,986</u>	<u>1,884,582</u>
<i>Reconciliation of segment assets to total assets</i>					
Other assets					<u>647,785</u>
Total asset from continuing operations					<u><u>9,643,076</u></u>

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2010

NOTE 4 – OPERATING SEGMENTS

	Exploration – Barnes Hill	Exploration – Lindeman’s Bore	Exploration - Other	Treasury	Total Operations
As at 30 June 2010	\$	\$	\$	\$	\$
Segment assets	2,942,380	847,764	1,235,703	2,697,350	7,723,197
Segment asset increases/(decreases) for the year:					
- capital expenditure	1,392,998	431,459	(333,704)	-	1,490,753
- financial assets	-	-	-	457,832	457,832
- held to maturity investments	-	-	-	3,949	3,949
	<u>1,392,998</u>	<u>431,459</u>	<u>(333,704)</u>	<u>461,781</u>	<u>1,952,534</u>
<i>Reconciliation of segment assets to total assets</i>					
Other assets					<u>713,885</u>
Total asset from continuing operations					<u>8,437,082</u>

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2010

NOTE 4 – OPERATING SEGMENTS

(c) Segment liabilities

	Exploration – Barnes Hill	Exploration – Lindeman’s Bore	Exploration - Other	Treasury	Total Operations
As at 31 December 2010	\$	\$	\$	\$	\$
Segment liabilities	373,542	-	-	-	373,542
<i>Reconciliation of segment liabilities to total liabilities</i>					
Other liabilities					276,425
Total liabilities from continuing operations					<u><u>649,967</u></u>
	Exploration – Barnes Hill	Exploration – Lindeman’s Bore	Exploration - Other	Treasury	Total Operations
As at 30 June 2010	\$	\$	\$	\$	\$
Segment liabilities	102,256	4,142	23,813	6,240	136,451
<i>Reconciliation of segment liabilities to total liabilities</i>					
Other liabilities					531,631
Total liabilities from continuing operations					<u><u>668,082</u></u>

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the half-year ended 31 December 2010

NOTE 5 – SUBSEQUENT EVENTS

On 18 January 2011 the Company issued 15,500,000 ordinary shares, at an issue price of 6 cents through a private placement.

On 21 January 2011 the Company issued 15,500,000 ordinary shares, at an issue price of 6 cents through a private placement.

On 25 January 2011 the Company issued 2,000,000 ordinary shares, at an issue price of 6 cents through a private placement.

On 25 January 2011 the Company issued 1,700,000 ordinary shares, at an issue price of 5 cents on the conversion of options.

On 28 January 2011 the Company issued 2,000,080 ordinary shares, at an issue price of 5 cents on the conversion of options.

On 3 February 2011 the Company issued 9,834 ordinary shares, at an issue price of 5 cents on the conversion of options.

On 7 February 2011 the Company issued 221,668 ordinary shares, at an issue price of 5 cents on the conversion of options.

On 14 February 2011 the Company lodged an application to voluntarily deregister its wholly owned subsidiary Matilda Resources Pty Ltd.

On 28 February 2011, the Company issued 2,000 ordinary shares, at an issue price of 5 cents on the conversion of options.

On 28 February 2011, the Company issued 10,000,000 ordinary shares, at an issue price of 6 cents through a private placement.

On 1 March 2011, the Company announced that Macquarie Bank has agreed to purchase from Proto several series of privately placed moving strike and fixed strike options. Under the arrangement, Proto will issue moving strike options to Macquarie Bank, which if fully exercised, would result in a capital injection of up to \$3 million. The exercise price of the moving strike options will be 85% of the closing price of Proto shares immediately prior to any exercise. The moving strike options contain a floor price, whereby the options may not be exercised where Proto's closing price is below 4 cents per share. Proto may request the moving strike options be exercised at any time subject to certain liquidity conditions and providing each exercise direction is at least 10 business days apart. The dollar amount of an exercise notice from Proto shall not exceed 50% of the average daily trading volume of Proto shares traded on ASX during the 20 business days or 60 business days prior to the date of the exercise direction, whichever

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NOTE 5 – SUBSEQUENT EVENTS (CONT.)

is lower, multiplied by the relevant exercise price. Macquarie may choose to exercise at any time, subject to the stock closing above the floor price.

Meanwhile 10,500,000 fixed price options will be issued, Series 1 (5,000,000) at an exercise price of \$0.08, Series 2 (3,500,000) at an exercise price of \$0.10 and Series 3 (2,000,000) at an exercise price of \$0.125. Full exercise of all options would result in a further capital injection of \$1 million. Proto is able to issue all of the fixed price options immediately under its 15% capacity to issue shares pursuant to Listing Rule 7.1, with 29,500,000 moving strike options also being able to be issued immediately, with the balance to be issued pursuant to shareholder approval being received at a General Meeting to be held shortly. The maximum number of moving strike options to be issued is 88,235,294.

Under the terms of the arrangement Proto can cancel any number of the moving strike options at any time by providing Macquarie with 20 business days notice of the intended cancellation. This option issuance enhances Proto's ability to pursue its current projects as world metal prices continue to move higher, with the global economy recovering. Macquarie Bank is purchasing the options as principal rather than for any of its institutional or retail clients.

On 3 March 2011, the Company issued the following:

- (i) 29,500,000 Moving Strike Price Options of which 1,000,000 have been exercised simultaneously at a strike price of \$0.053 on the 3 of March 2011. As such 1,000,000 ordinary fully paid shares have also been issued on 3 March 2011.
- (ii) 5,000,000 \$0.08 call options exercisable before 28 February 2013 on 3 March 2011
- (iii) 3,500,000 \$0.10 call options exercisable before 28 February 2013 on 3 March 2011
- (iv) 2,000,000 \$0.125 call options exercisable before 28 February 2013 on 3 March 2011

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

NOTE 6 – CONTINGENT ASSETS AND CONTINGENT LIABILITIES

On 18 October 2010, the Group entered into a Promoter Services Agreement with Trenchstones Pty Ltd for the provision of corporate advisory and capital raising services. As part of the consideration, the promoter is due to receive 2,000,000 listed options (ASX code: PRWOB), subject to shareholder approval.

On 22 September 2010 the Company announced it had entered into an agreement to acquire an 80% interest in the Clara Hill Project, located in the West Kimberley area in Western Australia. The Company may purchase the remaining 20% interest in the Project on payment of AU\$3,000,000 at any time within the option period ending 15 September 2013.

The Group currently has no other contingent assets or contingent liabilities.

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NOTE 7 – RELATED PARTY TRANSACTIONS

Transactions with related parties:

Prepayment of directors fees to Andrew Mortimer at 31 December 2010 amounted to \$95,139 (30 June 2010: \$180,639). The prepayment of directors fees to Mr Mortimer comprise:

(i) \$nil (30 June 2010: \$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.

(ii) \$95,139 (30 June 2010: \$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.

Prepayment of directors fees to Lia Darby at 31 December 2010 amounted to \$75,781 (30 June 2010: \$120,781). The prepayment of directors fees to Ms Darby comprise:

(i) \$nil (30 June 2010: \$45,000) relates to 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.

(ii) \$75,781 (30 June 2010: \$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.

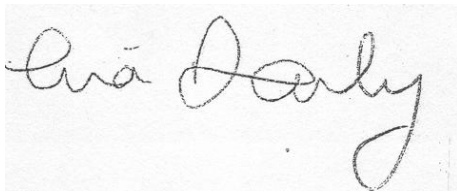
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DIRECTORS' DECLARATION

In the opinion of the Directors:

1. The Financial Statements and Notes as set out from pages 24 to 44:
 - a) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Act 2001; and
 - b) give a true and fair view of the Consolidated entities' financial position as at 31 December 2010 and of its performance for the half year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Lia Darby, Director

Perth

Dated this 14th day of March 2011

Independent Auditor's Review Report

To the Members of Proto Resources & Investments Limited

We have reviewed the accompanying half-year financial report of Proto Resources & Investments Limited ("the Company") and Controlled Entities ("the Consolidated Entity") which comprises the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

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Directors Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

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

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

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

Independent Auditor's Review Report

To the Members of Proto Resources & Investments Limited (Continued)



Basis for Qualified Conclusion

Payments made to Directors

During our 30 June 2010 audit, it was brought to our attention that the Directors had prepaid directors' fees totalling \$351,420 of which directly related to additional cash payments. As at 31 December 2010, the balance of this prepayment is \$170,920 and it comprises of amounts detailed in Note 7. This amount is currently recorded in Other Assets.

The details surrounding these payments are disclosed in Note 7 of the financial report and cover directors fees paid in advance, amounts paid to enable the Directors to take up their entitlement in the non-renounceable pro rata offer of partly paid shares pursuant to the prospectus dated 23 April 2010 and overpayment of directors fees due to the Company not withholding and remitting PAYG withholding tax. It appears that in all three circumstances, that the Directors have obtained a benefit from the Company.

Section 11.6 of the Constitution of the Company requires that remuneration of the Directors should be approved by shareholders. There is no evidence of such approval being obtained by the Company. We remain unable to determine whether such approval was required for the payments to Directors referred to above.

Section 208 of the Corporations Act 2001 ("the Act") requires a public company to obtain approval of the company's shareholders to give a financial benefit to a related party of the public company in this case being the Directors. Section 211 of the Act indicates that shareholder approval is not needed to give a financial benefit if the benefit is remuneration to a related party as an officer of the Company and would be reasonable given the circumstances of the Company and the related party's circumstances. We remain unable to determine whether the payments are reasonable and if approval was required, there is no evidence of such approval being obtained by the Company.

Section 260A of the Act requires a public company to obtain approval of a Company's shareholders where a Company financially assists a person to acquire shares in the Company, unless giving the assistance does not materially prejudice the interests of the Company or its shareholders or the Company's ability to pay its creditors. We remain unable to determine whether the prepayments to the Directors materially prejudice the interests of the Company or its shareholders or the Company's ability to pay its creditors and if approval was required, there is no evidence of such approval being obtained by the Company.

As a result of the above, we remain unable to determine whether the prepayments are compliant with the Company's Constitution and the Act. Furthermore, the classification of this balance is contingent on the approval of the shareholders which we are not able to ascertain and therefore we cannot form a view about the classification of these transactions.

Independent Auditor's Review Report

To the Members of Proto Resources & Investments Limited (Continued)



Qualified Conclusion

Based on our review, which is not an audit, with the exception of the matters described in the preceding paragraph, we have not become aware of any matter that makes us believe that the half-year financial report of Proto Resources & Investments Limited and Controlled Entities is not in accordance with the Corporations Act 2001 including:

- a. Giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- b. Complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

A handwritten signature in blue ink that reads "Bentleys".

BENTLEYS
Chartered Accountants

A handwritten signature in blue ink, appearing to be "Chris Watts".

CHRIS WATTS
Director

DATED at PERTH this 14th day of March 2011