Prosperity Resources Limited

ABN 60 103 280 235

Half Year Report

31 December 2013

PROSPERITY RESOURCES LIMITED AND ITS CONTROLLED ENTITIES

COMPANY DIRECTORY

DIRECTORS

Mo Munshi
John Arbuckle
Sebastian Hempel
Mufti Habriansyah

COMPANY SECRETARY

Garry Taylor
Lionel Liew

PRINCIPAL REGISTERED OFFICE

100 Parry Street
Perth, Western Australia, 6000
Telephone: (08) 9322 7575
Facsimile: (08) 9322 9485
Email: info@prosperity.net.au
Internet: www.prosperity.net.au

SHARE REGISTRY

Computershare Investor Services Pty Limited
Level 2, 45 St Georges Terrace
Perth, Western Australia 6000
Telephone: (08) 9323 2000
Facsimile: (08) 9323 2033
Email: perth.services@computershare.com.au

AUDITORS

Stantons International
Level 2, 1 Walker Avenue
West Perth, Western Australia, 6005

STOCK EXCHANGE LISTING

The Company's shares are quoted on the Australian Securities Exchange (ASX)

ASX Code: **PSP**

PROSPERITY RESOURCES LIMITED AND ITS CONTROLLED ENTITIES

DIRECTORS' REPORT

The Directors present their report together with the consolidated financial statements for the half-year ended 31 December 2013 and the review report thereon.

DIRECTORS

The names and details of the Directors of Prosperity Resources Limited in office during the half year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated:

Mo Munshi
John Arbuckle
Sebastian Hempel
Mufti Habriansyah

RESULTS OF OPERATIONS

The total comprehensive loss of the consolidated entity for the six months to 31 December 2013 amounted to $323,860 (Half year ended 31 December 2012: $504,095 loss).

REVIEW OF OPERATIONS

Prosperity continues to hold the highly prospective Aceh project in Indonesia.

During the half year, the Company extended the repayment date of an existing term loan whilst continuing to seek funding to assist with the exploration of this exciting Indonesian project.

Exploration work was limited during the period to desktop petrology studies of mineralisation in previous drill holes from the Pelumat and Kuini project areas to identify key economic mineral species present and their relationships.

It is recommended that this half-yearly statement be read in conjunction with the 30 June 2013 Annual Report and any public announcements made by the Company during the half year.

In accordance with the continuous disclosure requirements, readers are referred to the announcements lodged with the Australian Securities Exchange regarding exploration and other activities of the Company.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 16.

Dated at Perth this 14th day of March 2014

Signed in accordance with a resolution of the Directors.

M.I. Munshi

Mo Munshi
Managing Director

PROSPERITY RESOURCES LIMITED AND ITS CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Note	31 December 2013 $	31 December 2012 $
Revenue	**Note**		
Interest income		145	2,342
Other income		153,675	140,455
Total revenue	2	**153,820**	**142,797**
Operating costs:			
Depreciation		15,329	18,886
Employee expenses		169,289	192,409
Exploration and project expenditure		201,183	224,638
Occupancy expenses		27,095	34,013
Other operating costs		289,006	355,619
Borrowing costs		12,000	(119,824)
Share based payment expenses		5,860	116,892
Total expenses		**719,762**	**822,633**
Loss before income tax		**(565,942)**	**(679,836)**
Income tax refund / (expense)		-	-
Loss after income tax		**(565,942)**	**(679,836)**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Currency translation differences		243,613	184,922
Change in fair value of available-for-sale investment		(1,531)	(9,181)
Comprehensive loss for the period		**(323,860)**	**(504,095)**
Loss for the period attributable to:			
Shareholders of Prosperity Resources Limited		(560,998)	(647,754)
Non-controlling interest		(4,944)	(32,082)
Loss for the period		**(565,942)**	**(679,836)**
Total Comprehensive loss for the period attributable to:			
Shareholders of Prosperity Resources Limited		(314,775)	(484,670)
Non-controlling interest		(9,085)	(19,425)
Total Comprehensive loss for the period		**(323,860)**	**(504,095)**
Earnings per share			
Basic loss per share – cents	6	**(0.14)**	**(0.17)**

Diluted earnings (loss) per share has not been included as it results in a more favourable earnings (loss) per share figure than basic earnings (loss) per share.

The consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying condensed notes.

PROSPERITY RESOURCES LIMITED AND ITS CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013

	Note	31 December 2013 $	30 June 2013 $
CURRENT ASSETS			
Cash and cash equivalents	3	13,909	17,287
Trade and other receivables		22,035	34,570
Prepayments		9,833	26,333
Available-for-sale financial assets		6,125	7,656
TOTAL CURRENT ASSETS		**51,902**	**85,846**
NON-CURRENT ASSETS			
Trade and other receivables		77,054	202,742
Property, plant and equipment		101,621	116,797
Capitalised mineral exploration and evaluation expenditure		6,539,589	6,299,999
TOTAL NON-CURRENT ASSETS		**6,718,264**	**6,619,538**
TOTAL ASSETS		**6,770,166**	**6,705,384**
CURRENT LIABILITIES			
Trade and other payables		646,113	737,680
Provisions		24,652	27,352
Borrowings	4	598,410	581,695
TOTAL CURRENT LIABILITIES		**1,269,175**	**1,346,727**
TOTAL LIABILITIES		**1,269,175**	**1,346,727**
NET ASSETS		**5,500,991**	**5,358,657**
EQUITY			
Issued capital	7	35,438,677	34,978,343
Reserves		4,695,985	4,443,902
Accumulated losses		(34,520,583)	(33,959,585)
Total equity attributed to equity holders of the Company		5,614,079	5,462,660
Non-controlling Interest		(113,088)	(104,003)
TOTAL EQUITY		**5,500,991**	**5,358,657**

The consolidated statement of financial position should be read in conjunction with the accompanying condensed notes.

PROSPERITY RESOURCES LIMITED AND ITS CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Note	31 December 2013 $	31 December 2012 $
Cash flows from operating activities			
Cash payments in the course of operations		(163,051)	(762,680)
Interest received		145	1,761
Other income received		159,528	91,171
Net cash flows used in operating activities		**(3,378)**	**(669,748)**
Cash flows from investing activities			
Payments for exploration and evaluation expenditure		-	-
Payments to acquire fixed assets		-	-
Proceeds from disposal of investment		-	-
Net cash flows used in investing activities		**-**	**-**
Cash flows from financing activities			
Proceeds from issue of shares		-	-
Capital raising costs		-	(4,308)
Proceeds from repayment of outstanding debt		-	-
Net cash flows used in financing activities		**-**	**(4,308)**
Net increase / (decrease) in cash and cash equivalents		(3,378)	(674,056)
Cash and cash equivalents at beginning of period		17,287	758,287
Cash and cash equivalents at end of period	3	**13,909**	**84,231**

The consolidated statement of cash flows should be read in conjunction with the accompanying condensed notes.

PROSPERITY RESOURCES LIMITED AND ITS CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

CONSOLIDATED

	Issued Capital	Accumulated Losses	Share Based Payment Reserve	Foreign Currency Translation Reserve	Investment Revaluation Reserve	Total	Non-controlling interest	Total Equity
	$	$	$	$	$	$	$	$
As at 1 July 2013	**34,978,343**	**(33,959,585)**	**3,368,664**	**1,082,582**	**(7,344)**	**5,462,660**	**(104,003)**	**5,358,657**
Loss for the period	-	(560,998)	-	-	-	(560,998)	(4,944)	(565,942)
Other comprehensive income								
Investment revaluation	-	-	-	-	(1,531)	(1,531)	-	(1,531)
Currency translation differences	-	-	-	247,754	-	247,754	(4,141)	243,613
Total other comprehensive (loss) / income	-	-	-	247,754	(1,531)	246,223	(4,141)	242,082
Total comprehensive loss	-	(560,998)	-	247,754	(1,531)	(314,775)	(9,085)	(323,860)
Transactions with owner recorded directly into equity								
Issue of shares	460,334	-	-	-	-	460,334	-	460,334
Issue of performance rights	-	-	5,860	-	-	5,860	-	5,860
As at 31 December 2013	**35,438,677**	**(34,520,583)**	**3,374,524**	**1,330,336**	**(8,875)**	**5,614,079**	**(113,088)**	**5,500,991**

The consolidated statement of changes in equity should be read in conjunction with the accompanying condensed notes.

PROSPERITY RESOURCES LIMITED AND ITS CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2012

CONSOLIDATED

	Issued Capital	Accumulated Losses	Share Based Payment Reserve	Foreign Currency Translation Reserve	Investment Revaluation Reserve	Total	Non-controlling interest	Total Equity
	$	$	$	$	$	$	$	$
As at 1 July 2012	**34,196,651**	**(29,737,871)**	**3,341,596**	**(73,228)**	**-**	**7,727,148**	**(43,412)**	**7,683,736**
Total comprehensive loss for the period								
Loss for the period	-	(647,754)	-	-	-	(647,754)	(32,082)	(679,836)
Other comprehensive income								
Investment revaluation	-	-	-	-	(9,181)	(9,181)	-	(9,181)
Currency translation differences	-	-	-	172,265	-	172,265	12,657	184,922
Total other comprehensive (loss) / income	-	-	-	172,265	(9,181)	163,084	12,657	175,741
Total comprehensive loss	-	(647,754)	-	172,265	(9,181)	(484,670)	(19,425)	(504,095)
Transactions with owner recorded directly into equity								
Issue of shares	781,692	-	-	-	-	781,692	-	781,692
Share based payment	-	-	27,068	-	-	27,068	-	27,068
As at 31 December 2012	**34,978,343**	**(30,385,625)**	**3,368,664**	**99,037**	**(9,181)**	**8,051,238**	**(62,837)**	**7,988,401**

The consolidated statement of changes in equity should be read in conjunction with the accompanying condensed notes.

Note 1: Basis of Preparation of the Half Year Financial Statements

The half-year financial statements are a general purpose financial statement, which has been prepared in accordance with the requirements of the *Corporations Act 2001,* Accounting Standard AASB 134: Interim Financial Reporting, and other mandatory professional requirements.

It is recommended that these financial statements be read in conjunction with the annual financial report for the year ended 30 June 2013 and any public announcements made by Prosperity Resources Limited during the half year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001.*

The half year financial statements do not include full disclosures of the type normally included in the annual financial statements and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial statements.

The half-year financial statements have been prepared on a historical cost basis, except for financial assets classified as held for available-for-sale, that have been measured at fair value.

For the purpose of preparing the half-year financial statements, the half-year has been treated as a discrete reporting period. The same accounting policies and methods of computation have been followed in this interim financial statement as were applied in the most recent annual financial statements except for the adoption of the following new and revised Accounting Standards.

New and Revised Accounting Requirements Applicable to the Current Half-Year Reporting Period

Consolidated financial statements, joint arrangements and disclosure of interests in other entities

The Group has adopted the following new and revised Australian Accounting Standards from 1 July 2013 together with consequential amendments to other Standards:

- AASB 10: Consolidated Financial Statements;
- AASB 127: Separate Financial Statements (August 2011);
- AASB 12: Disclosure of Interests in Other Entities;
- AASB 2011-7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards; and
- AASB 2012-10: Amendments to Australian Accounting Standards — Transition Guidance and Other Amendments.

These Standards became mandatorily applicable from 1 January 2013 and became applicable to the Group for the first time in the current half-year reporting period 1 July 2013 to 31 December 2013. The Group has applied these Accounting Standards retrospectively in accordance with AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors and the specific transition requirements in AASB 10 and AASB 11. The effects of initial application of these Standards in the current half-year reporting period are as follows:

- Consolidated financial statements:

AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees. Revised AASB 127 facilitates the application of AASB 10 and prescribes requirements for separate financial statements of the parent entity.

On adoption of AASB 10, the assets, liabilities and non-controlling interests related to investments in businesses that are now assessed as being controlled by the Group, and were therefore not previously consolidated, are measured as if the investee had been consolidated (and therefore applied acquisition accounting in accordance with AASB 3: Business Combinations) from the date when the Group obtained control of that investee on the basis of the requirements in AASB 10.

Upon the initial application of AASB 10, retrospective restatement of financial statement amounts of the year that immediately precedes the date of initial application (ie 2012-2013) is necessary. When control is considered to have been obtained earlier than the beginning of the immediately preceding year (ie pre-1 July 2012), any difference between the amount of assets, liabilities and non-controlling interests recognised and the previous carrying amount of the investment in that investee is recognised as an adjustment to equity as at 1 July 2012.

Although the first-time application of AASB 10 (together with the associated Standards) caused certain changes to the Group's accounting policy for consolidation and determining control, it did not result in any changes to the amounts reported in the Group's financial statements as the "controlled" status of the existing subsidiaries did not change, nor did it result in any new subsidiaries being included in the Group as a consequence of the revised definition. However, the revised wording of accounting policy for consolidation is set out below.

Principles of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent and all of the subsidiaries (including any structured entities). Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between Group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as “non controlling interests". The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary's net assets on liquidation at either fair value or at the non-controlling interests' proportionate share of the subsidiary's net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income.

Fair value measurements and disclosures

The Group has adopted AASB 13: *Fair Value Measurement* and AASB 2011-8: *Amendments to Australian Accounting Standards arising from AASB* 13 from 1 July 2013 together with consequential amendments to other Standards. These Standards became mandatorily applicable from 1 January 2013 and became applicable to the Group for the first time in the current half-year reporting period 1 July 2013 to 31 December 2013. AASB 13 sets out a comprehensive framework for measuring the fair value of assets and liabilities and prescribes enhanced disclosures regarding all assets and liabilities measured at fair value. Although these Standards do not significantly impact the fair value amounts reported in the Group's financial statements, the directors have determined that additional accounting policies providing a general description of fair value measurement and each level of the fair value hierarchy, as, set out in the next paragraph, should be incorporated in these financial statements.

Fair Value of Assets and Liabilities

The Group measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard.

Fair value is the price the Group would receive to sell an asset or would have to pay to transfer a liability in an orderly (ie unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (ie the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (ie the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The fair value of liabilities and the entity's own equity instruments (excluding those related to share-based payment arrangements) may be valued, where there is no observable market price in relation to the transfer of such financial instruments, by reference to observable market information where such instruments are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed in the respective note to the financial statements.

Valuation techniques

In the absence of an active market for an identical asset or liability, the Group selects and uses one or more valuation techniques to measure the fair value of the asset or liability. The Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Group are consistent with one or more of the following valuation approaches:

- Market approach: valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.
- Income approach: valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.
- Cost approach: valuation techniques that reflect the current replacement cost of an asset at its current service capacity.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Group gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

Other

Other new and amending Standards that became applicable to the Group for the first time during this half-year reporting period are as follows:

AASB 2012-2: Amendments to Australian Accounting Standards — Disclosures — Offsetting Financial Assets and Financial Liabilities and AASB 2012-5: Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle.

These Standards make changes to presentation and disclosure requirements, but did not affect the Group's accounting policies or the amounts reported in the financial statements.

AASB 119: Employee Benefits (September 2011) and AASB 2011-10: Amendments to Australian Accounting Standards arising from AASB 119 (September 2011).

These Standards did not affect the Group's accounting policies or the amounts reported in the financial statements, mainly because the Group does not have defined benefit plan assets or obligations.

Going Concern Basis

The financial statements of the Company and the Group have been prepared on a going concern basis which anticipates the ability of the Company to meet its obligations in the normal course of the business.

As at 31 December 2013, the Group has total liabilities of $1,269,175, and has incurred a total comprehensive loss of $323,860 for the period ended, with a cash and cash equivalents balance of $13,909 and a working capital deficiency of $1,217,273. In the absence of future capital raising noted below, current cash resources are not expected to be sufficient to meet forecast outgoings for a period of at least 12 months from the date of this report.

These conditions indicate a material uncertainty that may cast significant doubt about the consolidated entity’s and parent entity’s ability to continue as a going concern.

The current liabilities also include financial liabilities of $598,410 from lenders. One of the loans was due for repayment as at 26 February 2014 and negotiations are ongoing for an extension. The lender has agreed to support the Group’s activities in Indonesia by extending the loan repayment due dates on such terms as may be negotiated from time to time.

The directors have prepared cash flow budgets that indicate that the Company and the Group will have cash surpluses for a period of at least 12 months from the date of this report. This budget is dependent on the raising of funds by way of equity raisings and or obtaining further loan funds in order for the Group to meet its exploration commitments and other costs.

Based on the cash flow budgets and possible equity and/or debt funding described above, the directors are satisfied that the going concern basis of preparation is appropriate. The financial report has therefore been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

Should the consolidated entity and the parent be unable to continue as going concerns, they may be required to realise assets and extinguish liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements.

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

The Directors acknowledge that the Company will need to adopt further strategies to ensure that funding is maintained. This includes, but is not limited further capital or debt funding, the sale, relinquishment or introduction of joint venture contributions on areas of interest held, and seeking other prospective projects.

The financial statements of the Group have been prepared on a going concern basis which anticipates the ability of the Group to meet its obligations in the normal course of the business.

Note 2: Revenue

	31 December 2013 $	31 December 2012 $
Revenue		
Interest received – other entities	145	2,342
Other income – consulting fees	145,875	115,355
Other income – gain from disposal of investments	-	25,100
Other income – rent	7,800	-
	153,820	**142,797**

Note 3: Cash and cash equivalents

	31 December 2013 $	30 June 2013 $
Cash at bank and on hand	13,909	17,287
	13,909	**17,287**

Note 4: Borrowings

The Group has an existing USD1,000,000 credit facility which is unsecured and interest free. To date, USD 500,000 has been drawn down. This amount was due for repayment on the 26 February 2014. The Company is currently negotiating for an extension of the repayment date.

Note 5: Segment Reporting

The Group operates only in the exploration industry, both in Australia and Indonesia with particular emphasis on strategic and precious metals.

31/12/2013	Australia	Indonesia	Unallocated	Total
	$	$	$	$
Revenue	153,818	2	-	153,820
Expenses	(615,835)	(101,465)	(2,462)	(719,762)
Segment Results	(462,017)	(101,463)	(2,462)	(565,942)
Assets	442,012	6,323,212	4,942	6,770,166
Liabilities	(1,308,891)	56,096	(16,380)	1,269,175

31/12/2012	Australia	Indonesia	Unallocated	Total
	$	$	$	$
Revenue	142,786	11	-	142,797
Expenses	(722,055)	(98,161)	(2,417)	(822,633)
Segment Results	(579,269)	(98,150)	(2,417)	(679,836)
30/6/2013				
Assets	234,617	6,460,498	10,269	6,705,384
Liabilities	(1,104,144)	(237,761)	(4,822)	(1,346,727)

Note 6: Earnings per share	2013 Number	2012 Number
Weighted average number of ordinary shares used in the calculation of basic earnings per share	414,425,814	387,111,658

Note 7: Issued Capital	Number	$
Ordinary shares at 1 July 2013	408,104,180	34,978,343
Shares approved at AGM (28 November 2013): Issued to lender in lieu of extension of loan at $0.006	2,000,000	12,000
Issued to directors in lieu of their services provided using monthly VWAP	33,247,900	448,334
Ordinary shares at 31 December 2013	443,352,080	35,438,677

Note 8: Share based payments

During the half year, 11,500,000 performance rights were approved and issued. These performance rights were valued taking into account the terms and conditions upon which the performance rights were granted.

The following table gives the assumptions made in determining the fair value of performance rights at grant date:

Fair Value	Performance rights
Grant date	28 Nov 13
Number of performance rights	11,500,000
Vesting date	Achievement of hurdle below
Expiry date	30 Jun 14 / 31 Dec 14 / 30 Jun 15
Exercise price (cents)	NA
Price of shares on grant date (cents)	0.4
Divided yield (%)	-
Non transferability and market based vesting discount (%)	88
Fair value (cents)	0.048

In addition, the performance rights are subject to a market capitalisation hurdle as follows:

Number of Performance rights	Expiry date	Market cap hurdle
5,250,000	30 Jun 14	A$5m
5,250,000	31 Dec 14	A$10m
1,000,000	30 Jun 15	A$20m

Each performance rights will convert to one fully paid ordinary share at no cost once the market capitalisation hurdle is met for 20 consecutive trading days.

Note 9: Contingent Liabilities and Contingent Assets

Subject to completion of a JORC Code compliant resource report for the first thirty metres of material located in the Aceh project in Indonesia, the Company will pay USD1,250,000 in cash and issue USD250,000 worth in PSP shares to individual shareholders of PT MMU.

Subject to completion of a JORC Code compliant resource of between 500,000 to 1,000,000 ounces of gold resource, the Company will issue 2,500,000 to a maximum of 5,000,000 PSP shares to the individual shareholders of PT BAM and PT MKM separately on a pro rata basis.

Other than the above, there are no other known material contingent liabilities or assets.

Note 10: Dividends

There were no dividends paid or payable during the half year.

Note 11: Events Subsequent to Reporting Date

As at the date of this report there is no matter or circumstance has arisen since 31 December 2013, which has significantly affected, or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.

PROSPERITY RESOURCES LIMITED AND ITS CONTROLLED ENTITIES

DIRECTORS' DECLARATION

In the opinion of the Directors of Prosperity Resources Limited:

1. the financial statements and notes set out on pages 3 to 14

   (a) give a true and fair view of the financial position of the consolidated entity as at 31 December 2013 and of its performance, as represented by the results of its operations and cash flows for the half year ended on that date; and

   (b) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations; and

2. there are reasonable grounds to believe that Prosperity Resources Limited will be able to pay its debts as and when they become due and payable.

3. the financial report also complies with International Financial Reporting Standards.

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

Dated at Perth this 14th day of March 2014.

Mo Munshi
Managing Director

Stantons International Audit and Consulting Pty Ltd
trading as
Stantons International
Chartered Accountants and Consultants

PO Box 1908
West Perth WA 6872
Australia

Level 2, 1 Walker Avenue
West Perth WA 6005
Australia

Tel: +61 8 9481 3188
Fax: +61 8 9321 1204

ABN: 84 144 581 519
www.stantons.com.au

14 March 2014

Board of Directors
Prosperity Resources Limited
100 Parry Street,
PERTH, WA, 6000

Dear Directors

RE: PROSPERITY RESOURCES LIMITED

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Prosperity Resources Limited.

As Audit Director for the review of the financial statements of Prosperity Resources Limited for the half year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely
STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD
(Trading as Stantons International)
(An Authorised Audit Company)

Samir Tirodkar
Director

Stantons International Audit and Consulting Pty Ltd
trading as
Stantons International
Chartered Accountants and Consultants

PO Box 1908
West Perth WA 6872
Australia

Level 2, 1 Walker Avenue
West Perth WA 6005
Australia

Tel: +61 8 9481 3188
Fax: +61 8 9321 1204

ABN: 84 144 581 519
www.stantons.com.au

**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF
PROSPERITY RESOURCES LIMITED**

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Prosperity Resources Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2013, the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity, and condensed consolidated statement of cash flows for the half-year ended on that date, condensed notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for Prosperity Resources Limited (the consolidated entity). The consolidated entity comprises both Prosperity Resources Limited (the Company) and the entities it controlled during the half year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 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 Prosperity Resources 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.

Whilst we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by the directors or management.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, has been provided to the directors of Prosperity Resources Limited on 14 March 2014.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Prosperity Resources Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 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.

Material Uncertainty Regarding Going Concern and Carrying Values of Non-current Assets

Without qualification to the conclusion expressed above, attention is drawn to the following matters:

As referred to in Note 1 to the half year financial report, the financial statements have been prepared on the going concern basis. As at 31 December 2013, the consolidated entity had cash and cash equivalents of $13,909, working capital deficiency of $1,217,273 and had incurred a loss of $565,942 for the half year ended then. In the event that the consolidated entity is unable to raise additional funding from the sources as described in note 1 to the financial report, and based on the current exploration commitments and planned expenditure, there is material uncertainty whether the consolidated entity will continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to recoverability and classification of recorded assets amounts, or to the amounts and classification of liabilities, that might be necessary should the consolidated entity not continue as a going concern.

The recoverability of the consolidated entity's carrying value of capitalised exploration costs of $6,539,589 as at 31 December 2013 is dependent on the successful commercial exploitation of the assets and/or sale of the assets to generate profits at amounts in excess of the book values. In the event that the consolidated entity is not successful in commercial exploitation and/or sale of the assets, the consolidated entity may not be able to continue as a going concern and the realisable value of the consolidated entity's assets may be significantly less than their current carrying values.

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West Perth, Western Australia
14 March 2014