



PROSPERITY

PROSPERITY RESOURCES LIMITED

ABN 60 103 280 235

AND ITS CONTROLLED ENTITIES

**Annual Report
For The Year Ended
30 June 2011**

CORPORATE DIRECTORY

DIRECTORS	Mohammed (Mo) Ibrahim Munshi <i>Non-Executive Chairman & Managing Director</i> John Phillip Arbuckle <i>Non-Executive Director</i> Sebastian Hempel <i>Non-Executive Director</i> Mufti Habriansyah <i>Non-Executive Director</i>
COMPANY SECRETARIES	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
AUDITOR	Stantons International Level 1, 1 Havelock Street West Perth, Western Australia, 6005
BANKERS	Bankwest 108 St George's Terrace Perth, Western Australia, 6000
SHARE REGISTRY	Computershare Investor Services Pty Limited Level 2, 45 St George's Terrace Perth, Western Australia, 6000 Telephone: (08) 9323 2000 Facsimile: (08) 9323 2033 Email: perth.services@computershare.com.au
SOLICITORS	Steinepreis Paganin Level 4, Next Building 16 Milligan Street Perth, Western Australia, 6000
STOCK EXCHANGE LISTING	Australian Securities Exchange (ASX)
ASX CODE	PSP

CHAIRMAN'S LETTER

Dear shareholders

Prosperity's focus for the past twelve months has been on its exciting gold copper project in southern Aceh, Indonesia. The Aceh Project is a 410 square kilometre land package with sixty kilometres of strike length in the highly prospective under explored mineralised belt to the west of the Sumatra fault.

During the year the Company completed a helicopter airborne magnetic survey over the Aceh licenses to guide regional exploration and to confirm the prospectivity of the existing targets. The 3D inversion modelling completed from the magnetic survey data confirmed the potential of the known targets and identified six new regional targets which are now being followed up with sampling and mapping work.

The Company strengthened its management team with the addition of Mr Mufti Habriansyah to the board of Prosperity and to an executive role as Vice President Legal and Administration. Mr Habriansyah is a lawyer with over fourteen years' experience in resources and brings valuable experience to our Company. Mr Habriansyah lives in Jakarta and is a valuable link to our local Indonesian partners.

Prosperity plans to accelerate the exploration program in Aceh in the coming twelve months to further increase the value of the Project. The recently announced Kuini diamond drilling program is the first stage of this program. Our field teams are continuing the mapping and sampling throughout the license area and further drilling programs are planned.

The enclosed full year report provides the financial results for the year ended 30 June 2011.

I would like to thank our hard working field team in Indonesia who often work in difficult conditions. I would also like thank my fellow directors, staff and consultants for their work for the Company throughout the year.

The share markets over the past twelve months have been in decline in Australia which makes conditions difficult for junior explorers however I would like to thank our shareholders for their support during the year and look forward to success in the coming years.



MO MUNSHI
Chairman

DIRECTORS' REPORT

The directors present their report together with the financial statements of Prosperity Resources Limited ("the Company") and the consolidated financial statement of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2011 and the auditor's report thereon.

Directors

The directors of the Company at any time during or since the end of the financial year are:

Mohammed (Mo) Ibrahim Munshi MBA Non Executive Chairman and Managing Director

Mr Munshi is a geologist with an extensive mining engineering background with over 20 years experience in exploration, development, production and both technical and corporate management, in the global mining industry.

Mr Munshi has worked in the Australasian and African regions, primarily in Australia, China, Mongolia, The Philippines, Indonesia, Ghana, Tanzania and South Africa, and more recently he has had exposure to South America, in Ecuador, Peru, Brazil and Argentina, and Eastern Europe in Kosovo and Turkey.

Over the last 16 years, he has had extensive experience and gained detailed knowledge of the geology and mineral resources in these countries, and the opportunities and projects in these countries, through his role as a Business Development Executive for several companies.

He has a broad exposure to large multi-national corporations and junior mining and entrepreneurial companies, having worked previously for ACM Limited, Posgold/Normandy Mining, Great Central Mines NL, Ashanti Goldfields Limited, JCI Limited and Ivanhoe Mines Limited, and was involved in project evaluation, financing, legal and administrative functions in the companies that he worked for.

Other current directorships

Paramount Mining Corporation Limited (ASX – PCP)

John Phillip Arbuckle B.Bus CPA Non Executive Director

Mr Arbuckle is an accountant with extensive experience in the resources industry in Australia and overseas. Currently, he operates a corporate advisory business that provides corporate and capital financing advice to resource industry companies. His previous positions included Chief Financial Officer and Company Secretary of Mount Gibson Iron Limited and Chief Financial Officer of Perilya Limited, where he guided both companies through difficult operational start up phases.

Prior to this he held senior financial management roles with Rio Tinto Limited, North Limited and Anaconda Nickel Limited. He has considerable experience in developing financial and risk management strategies for mining companies and the implementation of accounting controls and systems.

Other current directorships

Alchemy Resources Ltd (ASX – ALY)

Former directorships in last 3 years

Carthian Resources Limited (resigned 2008)

Sebastian Hempel ACIS, B.Sc, LL.B, Grad.Dip.AppCorpGov Non Executive Director

Mr Hempel is a well regarded and accomplished corporate lawyer based in Sydney, Australia. He has over 20 years of corporate advisory experience in listed companies, with specialities in capital raisings and in the resources sector. He has strong corporate governance expertise through company secretarial and corporate law work, and being a trusted corporate adviser to several companies and boards.

Other current directorships

European Gas Limited (ASX – EPG)

Mufti Habriansyah

Non Executive Director (appointed 1 December 2010)

Mr Habriansyah is an experienced resource and commercial lawyer. He was formerly a Partner at respected Jakarta law firm Soemadipradja & Taher. He has over 14 years experience in the area of natural resources, energy and corporate law, having advised some of the world's largest mining houses on various mining and mineral exploration projects and corporate restructuring activities.

Other current directorships

Paramount Mining Corporation Limited (ASX – PCP)

DIRECTORS' REPORT (Cont'd)

The exploration at Yalgoo, Mt Gibson, Tennant Creek and Indonesia are paid for by Prosperity Resources Limited, however these companies are the beneficial owners of the tenements.

Nature of Operations and Principal Activities

The principal activity of the consolidated entity during the course of the financial year was mineral exploration. There has been no other significant change in the nature of this activity during the year.

Number of Employees

The number of employees as at the end of the financial year was 25 (2010:33).

REVIEW OF EXPLORATION

INDONESIA

ACEH PROJECT

Prosperity's exploration for the past twelve months has been on the Aceh Project in Indonesia. Prosperity holds 410 square kilometres of contiguous land package with 60 kilometres of strike length to the west of the Sumatra fault in South Aceh. The Aceh Project has several prospective targets with eight porphyry intrusive centres identified (figure 1) and the main focus for the past year has been on Mutiara and Panton Luas together with regional mapping and sampling.

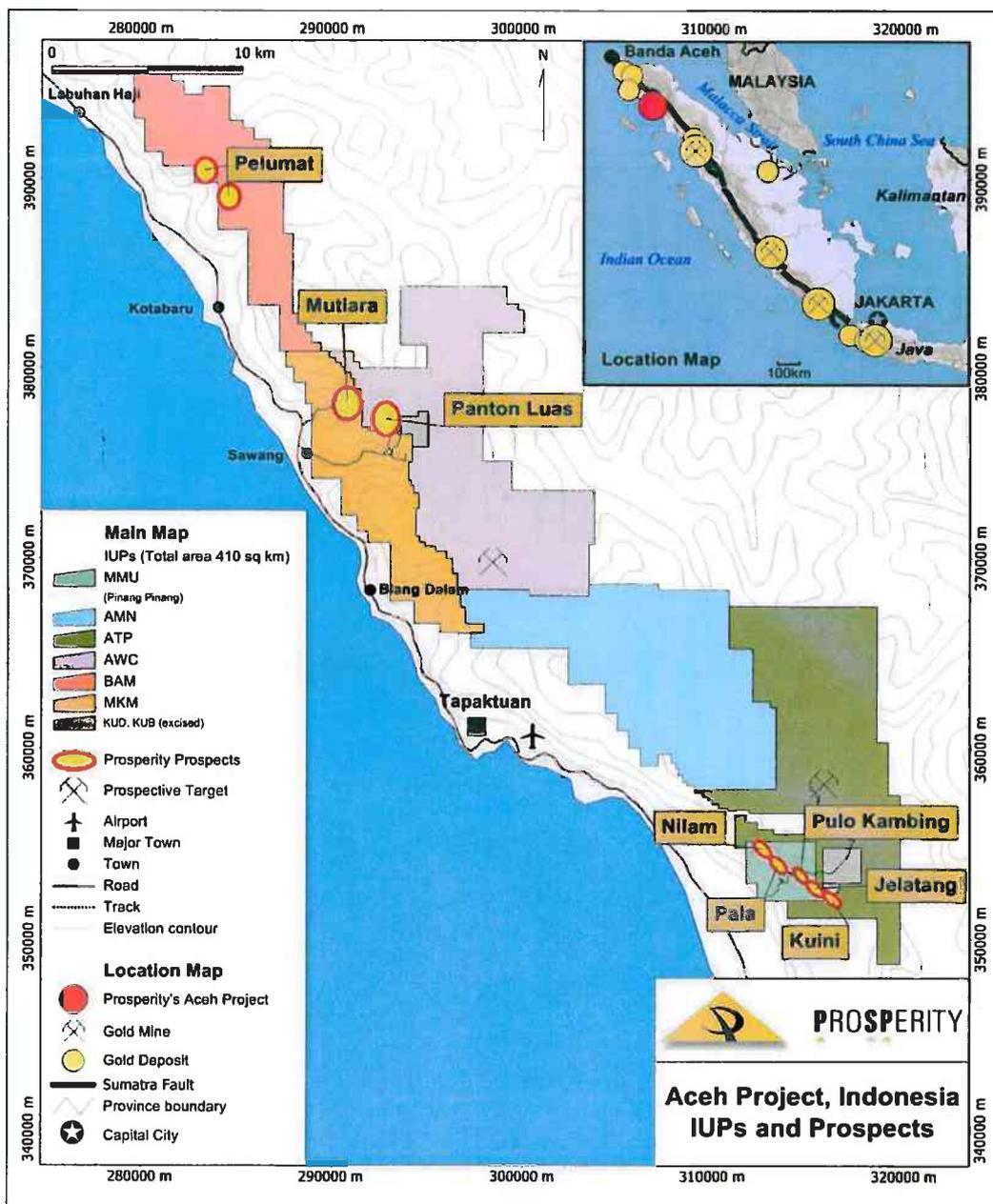


Figure 1: Location map: Prosperity's Aceh Project

DIRECTORS' REPORT (Cont'd)

Prosperity completed the first ever drilling program at the Panton Luas Prospect during 2011. The program was designed to test beneath magnetic anomalism related to hydrothermal magnetite alteration and a zone of gold bearing chlorite-sericite-silica-pyrite alteration (figure 2). The assay results from the six hole program at Panton Luas are included in the table below.

ACEH PROJECT						
DRILLING RESULTS - SIGNIFICANT INTERCEPTS						
PANTON LUAS PROSPECT						
Hole No	Prospect	Collar Easting	Collar Northing	Interval	From	Au (g/T)
PLDH001	Panton Luas	292999	377077	6	100	2.05
				4	132	0.88
PLDH002	Panton Luas	293045	377005	10	64	0.49
				2	100	2.36
				4	114	1.08
PLDH003	Panton Luas	293072	376939	1	75	8.76
				2	196	1.08
PLDH004	Panton Luas	293207	376800	4	10	3.84
PLDH005	Panton Luas	293335	376908	8	4	0.46
				10	38	1.14
				10	78	0.80
				2	134	2.56
				24	220	0.22
PLDH006	Panton Luas	293351	377047	2	6	1.88

Panton Luas is one of eight key prospect areas delineated from exploration to date. The drilling program at Panton Luas was designed to test the extent of recognised gold mineralisation being exploited by local artisanal miners to assess on the basis of alteration observed and geochemistry whether the mineralisation could be related to a mineralised intrusive porphyry body at depth. The observed gold-bearing pyrite-magnetite mineralisation occurs within fractures and other structures within microdiorite intrusive breccias in some instances spatially in close association with intrusive feldspar hornblende bearing porphyritic dykes. The intrusive breccia consists of polymictic and monomictic clasts of variously altered pyroxene and occasionally hornblende bearing microdiorite, much of which is propylitic (epidote-carbonate± (reddish) hematite) in character and occurs within an otherwise weakly to unaltered intrusive matrix. The close spatial relationship of the pyritic mineralisation with often sheared contacts of the feldspar hornblende porphyritic dykes appears to be due to occupying a common reactivated structure with the pyritic mineralisation postdating the intrusion of the dykes.

Some pervasive silicification of the intrusive breccias is observed at depth in the drill holes with this overprinting earlier alteration. In some sites this is brittle fractured and locally cut by small off set faults. These shears and fractures are filled with fine grained pyrite indicating some aspects of the paragenetic sequence of alteration and mineralisation with pyrite mineralisation being late in its introduction. These features suggest a late mineralisation event beneath Panton Luas which may relate to deeper porphyry intrusion potential.

DIRECTORS' REPORT (Cont'd)

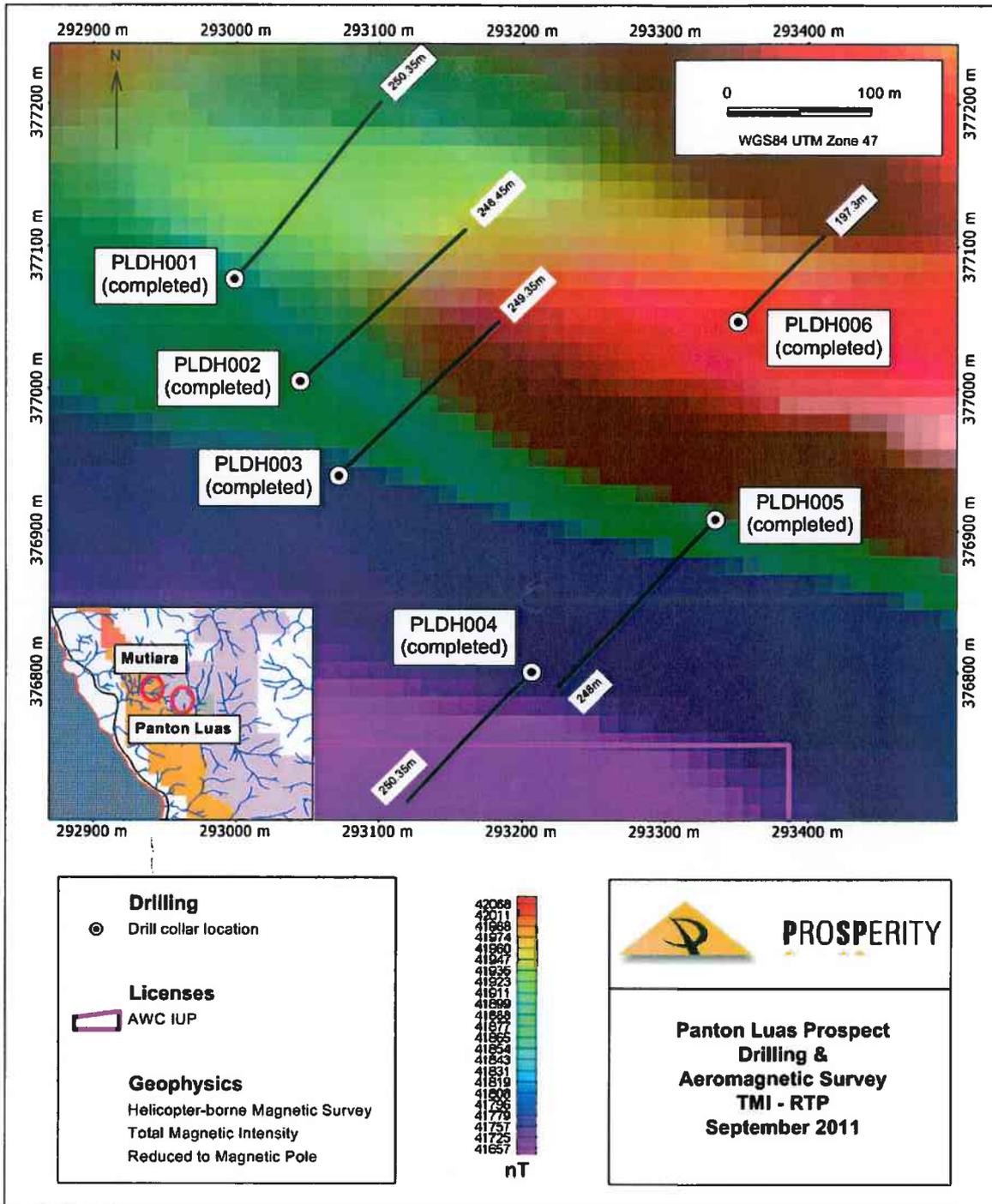


Figure 2: Pantan Luas Drill Hole locations

Prosperity completed a helicopter airborne magnetic survey of its Aceh licences in the later part of 2010 to guide its regional exploration. The Company has undertaken 3D inversion modelling of the magnetic data to further assist in interpretation and to focus field geological reconnaissance mapping and sampling activities. The integration of the magnetic and field data has aided both geological and magnetic interpretation and refined understanding of the mineralisation controls and its setting.

A selection of the results of this modelling is shown below. The information is shown as slices through block models to illustrate the depth characteristics of the anomalies at the locations of the prospects.

DIRECTORS' REPORT (Cont'd)

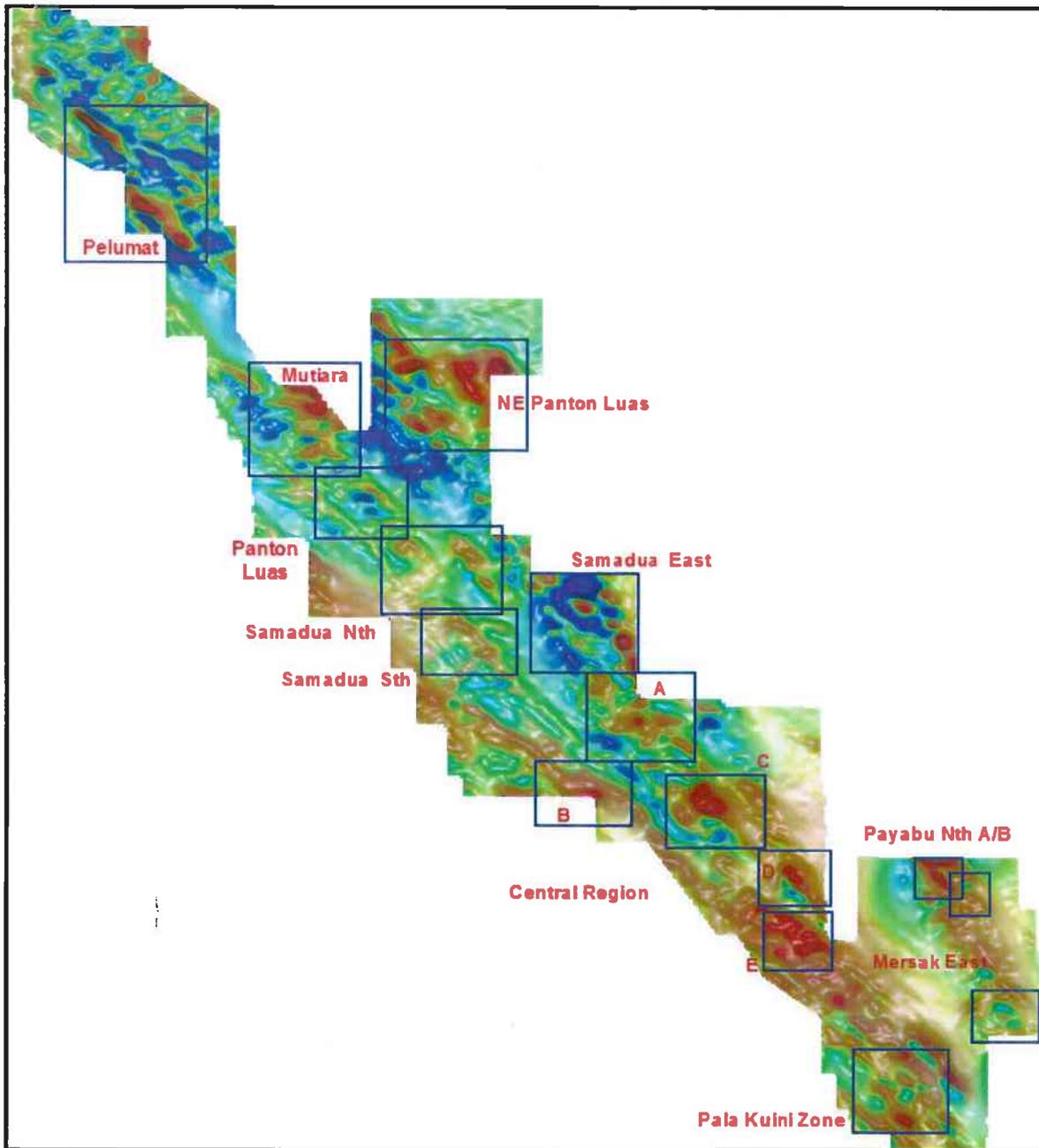


Figure 3: Relation of areas for 3D magnetic inversion processing

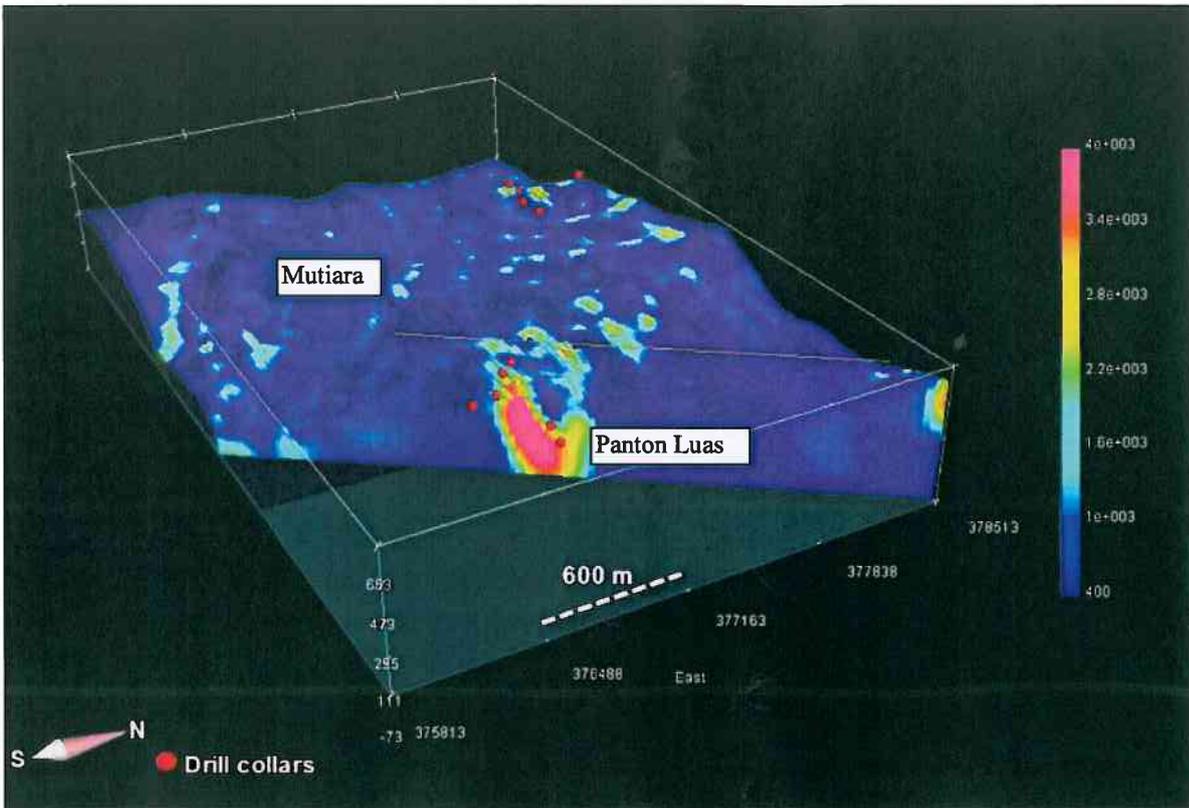
The block modelling was undertaken specifically to resolve the distribution characteristics of variations in magnetic susceptibilities of rock in the top 300-400 metres below surface as this is the initial depth range proposed for early stage drilling. By limiting the depth processed in the inversion, smaller model blocks can be used enabling better resolution of susceptibility distribution in the shallower material (University of British Columbia inversion software was used).

For deeper assessment, the models can be re-run with different block start parameters to define magnetic continuation characteristics at greater depths. In some cases the figures illustrate the relationship between adjacent prospects or highlight areas that have not had specific ground studies undertaken yet in proximity to those to be drill tested over the next few months. As drilling progresses and understanding of the regional geology advances new strategies for prospect assessment will be developed and applied in ongoing programs.

The regional reduced to pole (RTP) magnetics showing the first pass targets selected for 3D inversion modelling of magnetic data is shown in Figure 3. A selection of the images generated from the 3D modelling is shown in the following figures.

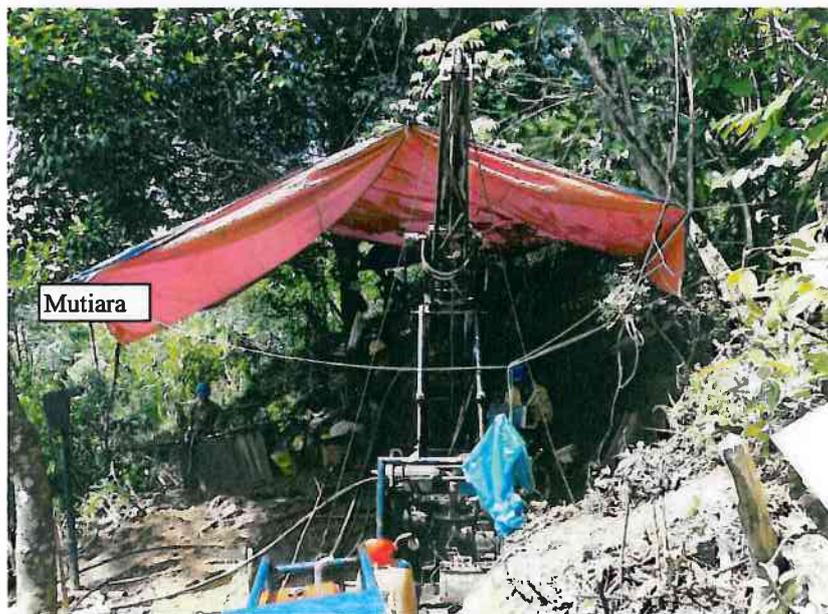
DIRECTORS' REPORT (Cont'd)

Panton Luas

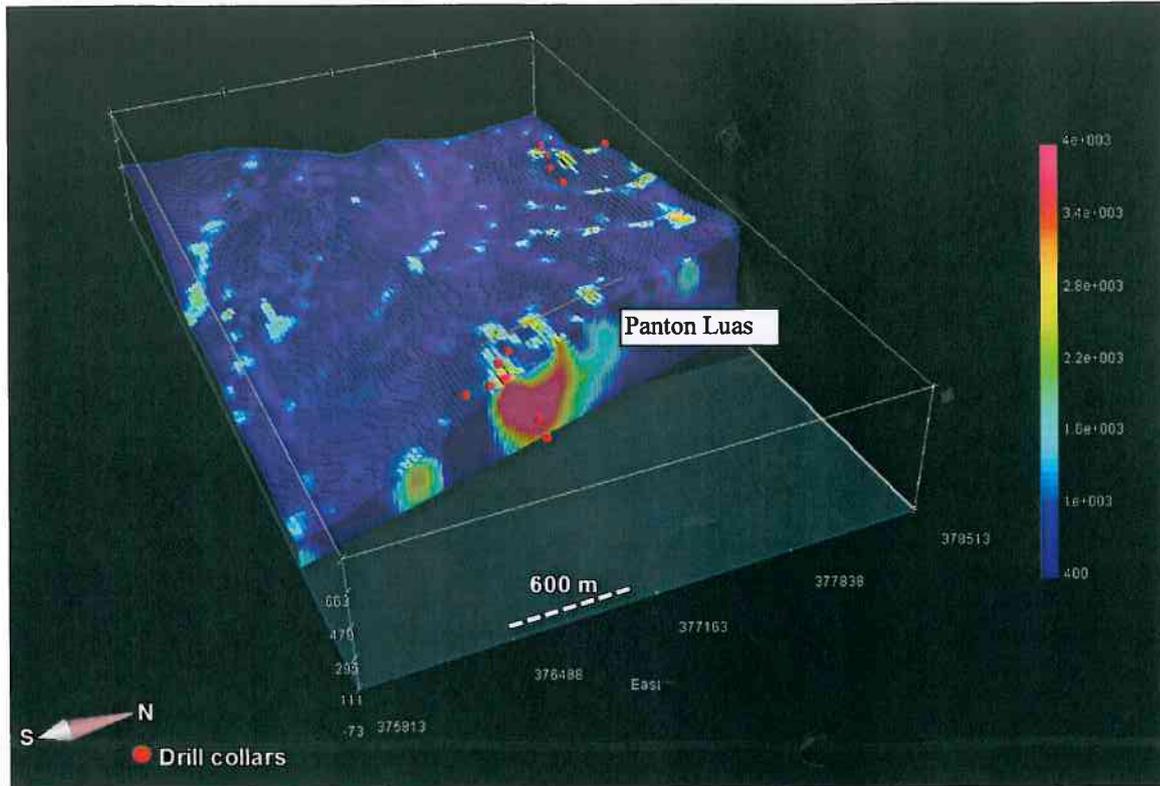


NE-SW Slice through 3D block model of Panton Luas showing distribution of hydrothermal magnetite alteration hosted in altered microdiorite intrusive. Red dots are proposed drill collars at topographic surface, (4 holes drilled to NE, 2 holes to SW). Block model shows drill hole locations proposed at Mutiara Prospect to WNW. (Note: scale bar is for guidance only and is only true at position of line on figure as model is not planar as it is shown in perspective, that is, line shortens as you move back in the figure for same meterage).

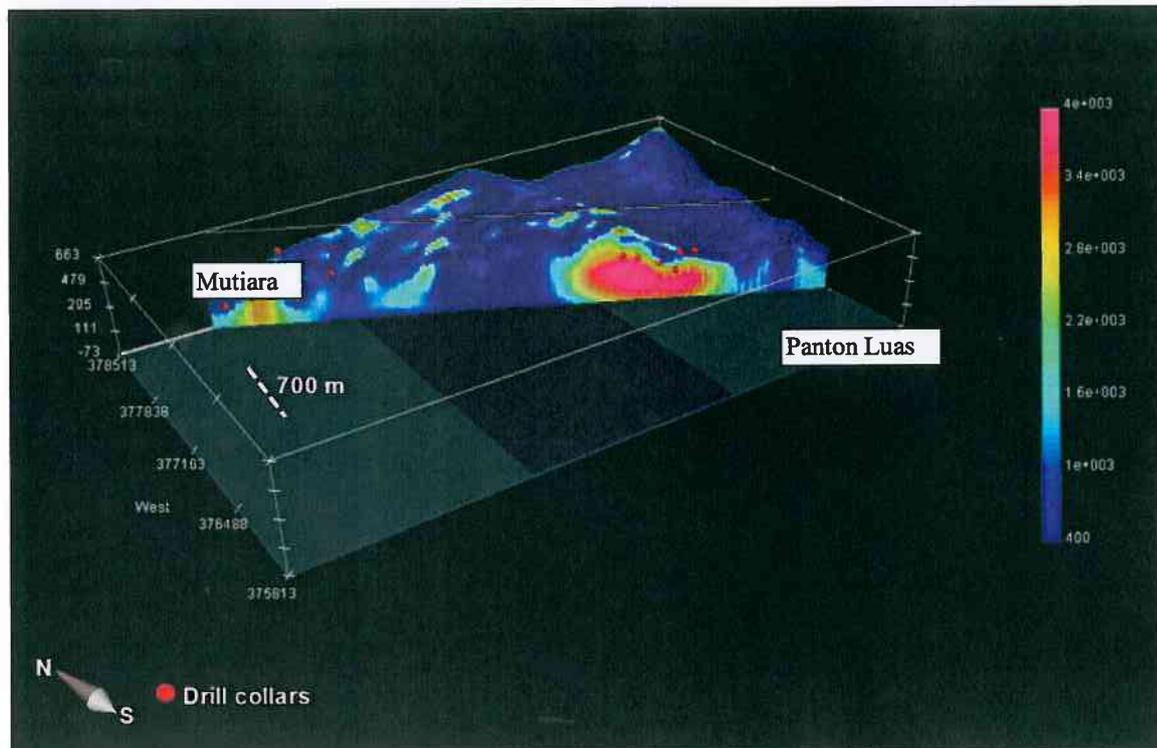
Drilling at Panton Luas



DIRECTORS' REPORT (Cont'd)



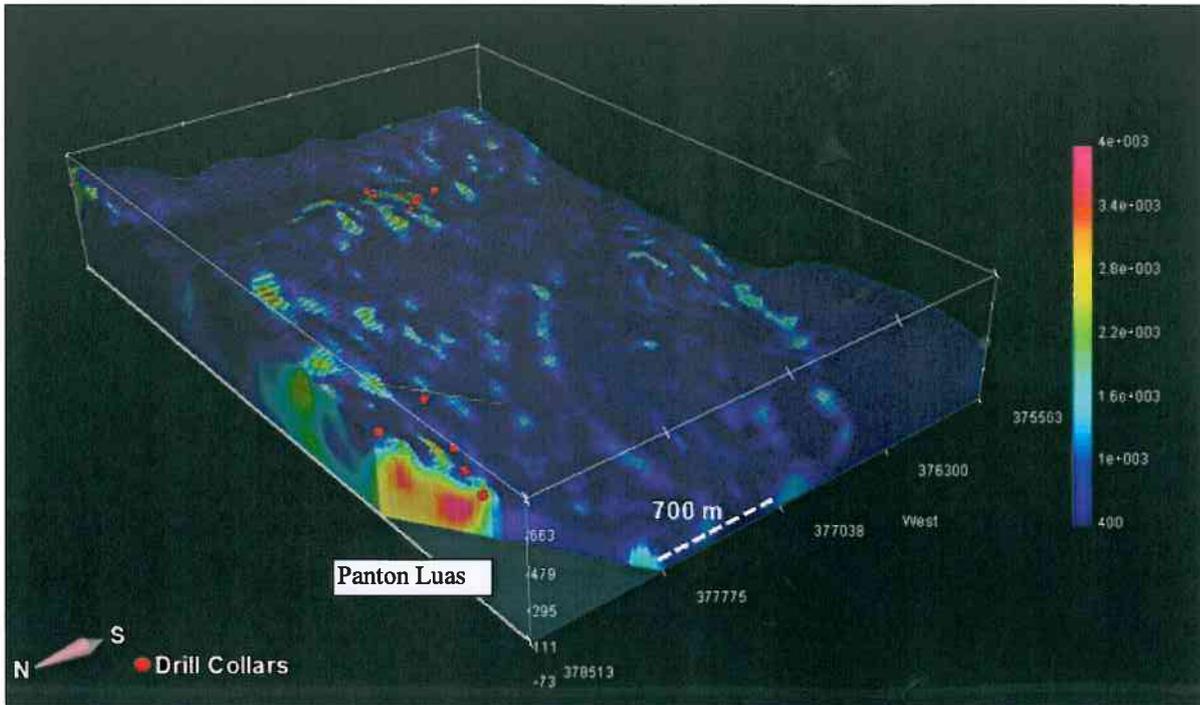
NNW slice through Pantan Luas illustrating extent of magnetite alteration which will be tested by the drilling.



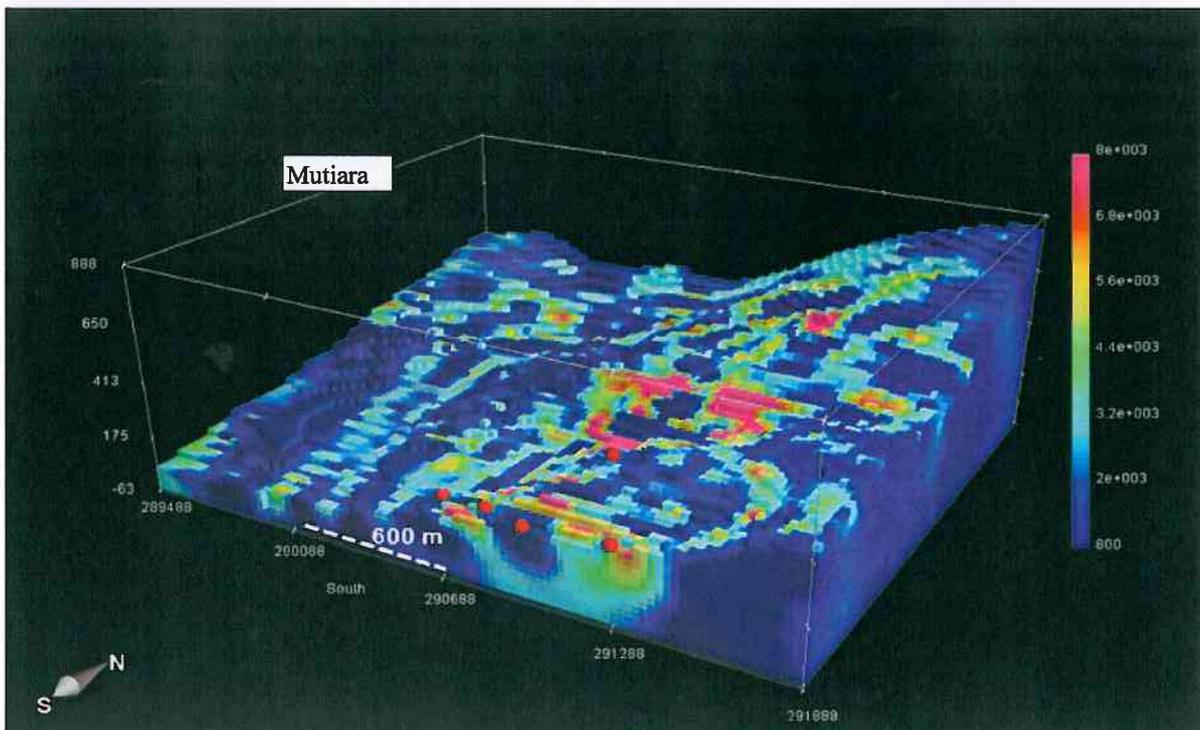
NW-SE slice from Mutiara to Pantan Luas showing lack of magnetic continuity between the two prospects. Geological mapping indicates that the dark blue zone between the two prospects is occupied by a structurally bound block of sediments.

DIRECTORS' REPORT (Cont'd)

Mutiara and Mutiara North



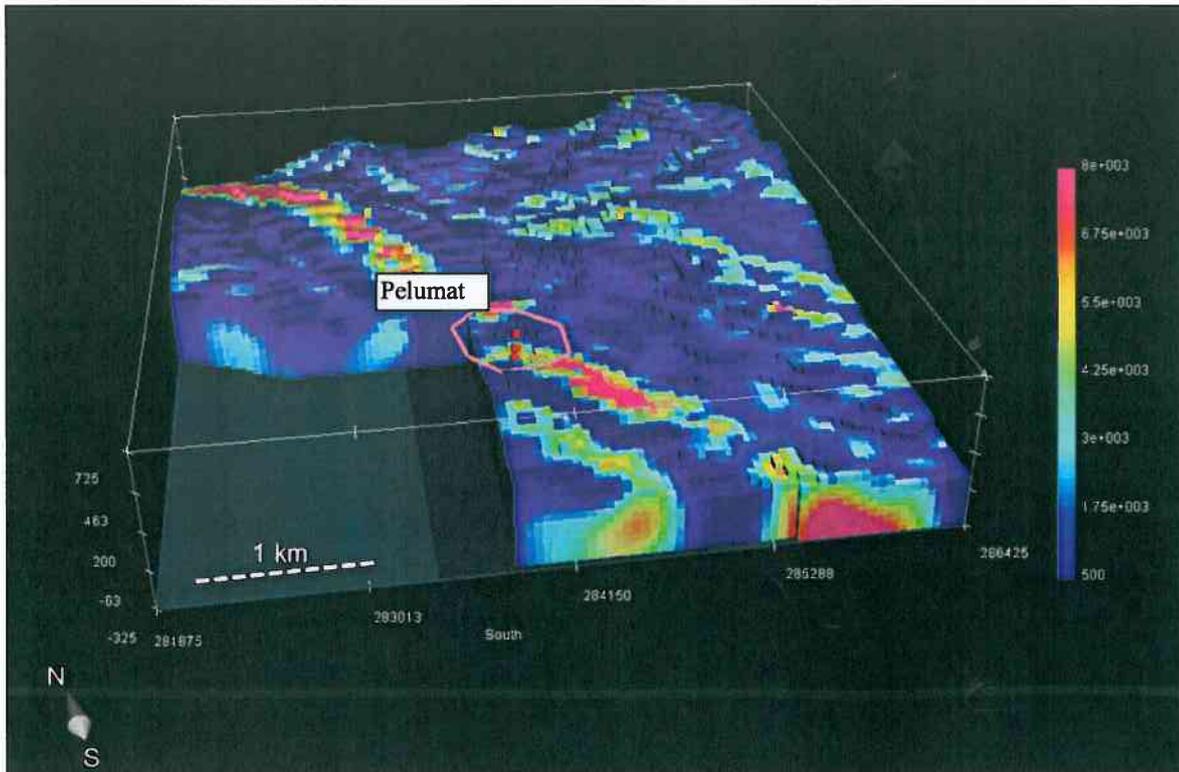
NE-SW slice through Mutiara magnetic anomaly showing proposed drill collars and depth continuity of elevated magnetic susceptibility. Five holes collars shown as red dots are proposed on basis of geological mapping, magnetics and geochemistry. The site is characterised by local high grade Cu-Au skarn and altered microdiorite.



Block model showing magnetic section at Mutiara and relationship to drill holes and Mutiara North Prospect. The circular feature in the magnetics between Mutiara and Mutiara North is not accounted for at this time but may relate to an intrusive phase.

DIRECTORS' REPORT (Cont'd)

Pelumat



Oblique view of full Pelumat area. Three drill holes are planned with locations shown as red dots in pink coloured polygon. The polygon incorporates an intrusive body and includes most of the highly anomalous geochemistry collected in rock chip sampling. The linear anomalism coincides with well developed skarn at the contact of limestone and altered microdiorite. Skarn mineralogy includes wollastonite-garnet assemblages.

The helicopter borne magnet survey and associated 3D inversion modelling was successful in identifying several new targets throughout the project area. The new target areas identified include north east Panton Luas, Samadua East, Serotan, Damar Buwi, Mersak East and Payabu. The geology and geochemistry information known about these areas is very poor at this stage. These areas will be targeted for mapping and sampling in the coming twelve months.

The Company's focus will continue to be on exploration in the Aceh Project in Indonesia over the next year. The project area is considered to be highly prospective and significantly underexplored.

DIRECTORS' REPORT (Cont'd)

Review of Financial Condition

The Group has cash and cash equivalent of \$1,371,615 as at 30 June 2011.

The Group has a cash position adequate to meet its current commitments.

Capital Structure

During the year, 83,113,806 shares were issued taking the issued capital to 344,539,179 fully paid shares.

Risk Management

The Group takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the Board.

The Group believes that it is crucial for all Board members to be part of this process, and as such the Board has not established a separate risk management committee and the whole Board acts in that role.

The Board has a number of mechanisms in place to ensure that the management's objectives and activities are aligned with the risks identified by the Board.

Significant Changes in State of Affairs

No significant changes in the state of affairs of the Group occurred during the financial year, other than those disclosed elsewhere in this report.

Subsequent Events

Details of subsequent events are set out in note 28.

Likely Developments

The consolidated entity will focus on the exploration of its portfolio of mining tenements and the acquisition of new projects and/or assets.

Further information about likely developments in the operations of the consolidated entity and the expected results of those operations on future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental Regulation and Performance

The consolidated entity's operations were subject to environmental regulations under both Commonwealth and State legislation in relation to its exploration activities.

The directors are not aware of any breaches during the period covered by this report.

Listed Options

As at the date of this report there were no listed options on issue.

Unlisted Options

As at the date of this report there were a total of 19,950,000 unlisted options with details as follows:

<i>Number of Options Granted</i>	<i>Exercise Price (cents)</i>	<i>Expiry Date</i>
250,000	15	31 Dec 11
250,000	20	31 Dec 11
250,000	35	31 Dec 11
250,000	50	31 Dec 11
1,500,000	15	28 Feb 12
2,000,000	12	31 Mar 12
1,000,000	20	31 Mar 12
1,000,000	30	31 Mar 12
1,000,000	40	31 Mar 12
500,000	12	31 Oct 12
500,000	15	31 Oct 12
3,000,000	20	30 Nov 12
100,000	15	31 Dec 12
600,000	5	28 Feb 13
1,000,000	10	28 Feb 13
1,250,000	20	31 Mar 13
2,500,000	25	30 Jun 13
500,000	30	30 Jun 13
1,000,000	30	30 Nov 13
1,500,000	30	30 Nov 14

DIRECTORS' REPORT (Cont'd)

Included in these unlisted options are Directors' options as follows:

<i>Directors</i>	<i>Number of Options Granted</i>	<i>Exercise Price (cents)</i>	<i>Expiry Date</i>
M I Munshi	1,000,000	15	28 Feb 12
	2,000,000	12	31 Mar 12
	1,000,000	20	31 Mar 12
	1,000,000	30	31 Mar 12
	1,000,000	40	31 Mar 12
	1,500,000	20	30 Nov 12
J P Arbuckle	1,500,000	25	30 Jun 13
	1,500,000	30	30 Nov 14
	250,000	50	31 Dec 11
	500,000	15	28 Feb 12
J S Hempel	500,000	20	30 Nov 12
	500,000	25	30 Jun 13
	500,000	20	30 Nov 12
M Habriansyah	500,000	20	30 Nov 12
	500,000	30	30 Jun 13

These options do not entitle the holders to participate in any share issue of the Company or any other body corporate.

Indemnification of Officers

The Company has agreed to indemnify and keep indemnified the following officers, Mr M I Munshi, Mr J P Arbuckle, Mr J S Hempel, Mr M Habriansyah, Mr S Delaney, Mr G Taylor and Mr L Liew against all liabilities incurred by the officers as an Executive Officer of the Company (and subsidiaries) and all legal expenses incurred by the officers as an Executive Officer of the Company (and subsidiaries).

The indemnity only applies to the extent and in the amount that the directors are not indemnified under any other indemnity, including an indemnity contained in any insurance policy taken out by the Company (or subsidiary), under the general law or otherwise.

The indemnity does not extend to any liability:

- to the Company or a related body corporate of the Company; or
- arising out of conduct of the directors involving a lack of good faith; or
- which was incurred prior to 15 April 1994 and which is in respect of any negligence, default, breach of duty or breach of trust of which the directors may be guilty in relation to the Company or related body corporate.

Insurance of Officers

Since the end of the previous financial year the Company has paid insurance premiums of \$13,970 in respect of directors and officers liability and corporate reimbursement, for directors and officers of the Company. The insurance premiums relate to:

- any loss for which the directors and officers may not be legally indemnified by the Company arising out of any claim, by reason of any wrongful act committed by them in their capacity as a director or officer, first made against them jointly or severally during the period of insurance; and
- indemnifying the Company against any payment which it has made and was legally permitted to make arising out of any claim, by reason of any wrongful act, committed by any director or officer in their capacity as a director or officer, first made against the director or officer during the period of insurance.

The insurance policy outlined above does not allocate the premium paid to each individual officer of the Company.

Remuneration Report (Audited)

This report outlines the remuneration arrangements in place for directors and executives of the Company and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Details of key management personnel (including the five highest paid executives of the Company and the Group)

- (i) Directors
- | | |
|---------------|---|
| M I Munshi | Non-Executive Chairman and Acting Managing Director |
| J P Arbuckle | Non-Executive Director |
| J S Hempel | Non-Executive Director |
| M Habriansyah | Non-Executive Director |
- (ii) Executives
- | | |
|-----------|-------------------------|
| S Delaney | Chief Financial Officer |
|-----------|-------------------------|

DIRECTORS' REPORT (Cont'd)

Remuneration Committee

The remuneration committee of the board of directors of the Company is responsible for determining the reviewing remuneration arrangements for the directors and executives.

The remuneration committee assesses the appropriateness of the nature and amount of remuneration of executives on a periodic basis by reference to relevant employment market conditions with the overall objectives of ensuring maximum stakeholder benefit from the retention of a high quality, high performing director and executive team.

Remuneration Philosophy

The Company's broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

The Company bases its remuneration of employees and consultants on industry standards and the Australasian Institute of Mining and Metallurgy Remuneration and Membership Survey. Whilst in the exploration and acquisition phase, the Company targets the lowest quartile of remuneration levels.

Remuneration Structure

In accordance with best practice corporate governance, the structure of non-executive directors and executive remuneration is separate and distinct.

Managing Director / Non - Executive Chairman

The Company will pay Mr Munshi director's fees of \$35,000 per annum (exclusive of statutory superannuation) during such period as he serves as a Non-Executive Chairman of the Company.

The Company has entered into a Consultancy Agreement with Mr Munshi pursuant to which Mr Munshi is engaged by the Company as Managing Director with effect from 1 January 2011 for 3 years. The Company will pay Mr Munshi a consulting fee of \$25,000 per month in a combination of cash and shares and each party can terminate the agreement by giving three months' notice.

Non - Executive Directors

Each director receives a fee of \$30,000 per annum for being a director of the Company with effect from 1 October 2007. No contracts were drafted.

Executive

The Company has entered into an Employment Contract with Mr S Delaney pursuant to which Mr Delaney is engaged by the Company as Chief Financial Officer with effect from 8 October 2007, and revised in January 2011.

Under the Contract, the Company is to pay Mr Delaney a salary of \$250,000 per annum (exclusive of statutory superannuation). The Contract may be terminated by giving either party two months' notice. Mr S Delaney provides consultancy services to a Group of Companies related to Mr M I Munshi, and back charges the time spent.

Details of the nature and amount of each element of the emoluments of each director and executive of the Company and the consolidated entity are:

Compensation of Directors and Executives for the Year Ended 30 June 2011 and 2010

Directors	Short-Term			Post Employment	Termination Benefits	Share-based Payments		Total	Value of share based payments as portion of remuneration %
	Salary & Fees \$	Cash Bonus \$	Non Monetary \$	Super-annuation \$	\$	\$ Shares issued	\$ Options issued	\$	
M I Munshi									
2011	95,000	-	^242,395*	-	-	-	463,758	801,153	57.89
2010	95,000	-	^242,740*	-	-	-	-	337,740	-
J P Arbuckle									
2011	30,000	-	2,395*	-	-	-	121,672	154,067	78.97
2010	30,000	-	2,740*	-	-	-	352	33,092	1.06
J S Hempel									
2011	30,000	-	2,395*	2,700	-	-	121,500	156,595	77.59
2010	30,000	-	2,740*	2,700	-	-	-	35,440	-
M Habriansyah (appointed 1 December 10)									
2011	156,190	-	1,397*	-	-	-	110,500	268,087	41.22
2010	-	-	-	-	-	-	-	-	-
Executives									
S Delaney									
2011	252,027	-	2,395*	22,590	-	107,500	-	384,512	27.96
2010	251,183	-	2,740*	21,060	-	-	683	275,666	0.25

DIRECTORS' REPORT (Cont'd)

Totals								
2011	563,217	-	250,977	25,290	-	107,500	817,430	1,764,414
2010	406,183	-	250,960	23,760	-	-	1,035	681,938

^ This amount includes \$180,000 (2010 - \$180,000) due to Mr Munshi as at 30 June 2011 to be paid through the issue of shares, subject to approval at the next annual general meeting.

* These amounts include a pro-rata allocation of \$2,794 (2010 - \$2,740) of the cost of Directors and Officer's Insurance (\$13,970 (2010 - \$13,700) in total) as is now required to be disclosed under the Australian Accounting Standards.

Options Granted and Vested During the Year Ended 30 June 2011 and 2010

Year ended 30 June 11	Granted No.	Granted Date	Fair Value per option at grant date \$	Exercise price per option \$	Expiry date	Vested	
						No.	%
Name							
DIRECTORS							
M I Munshi	1,500,000	11 Nov 10	0.133	0.20	30 Nov 12	1,500,000	100
	1,500,000	11 Nov 10	0.11	0.25	30 Jun 13	1,500,000	100
	1,500,000	11 Nov 10	0.11	0.30	30 Nov 14	-	0
J P Arbuckle	500,000	11 Nov 10	0.133	0.20	30 Nov 12	500,000	100
	500,000	11 Nov 10	0.11	0.25	30 Jun 13	500,000	100
J S Hempel	500,000	11 Nov 10	0.133	0.20	30 Nov 12	500,000	100
	500,000	11 Nov 10	0.11	0.25	30 Jun 13	500,000	100
M Habriansyah	500,000	22 Oct 10	0.124	0.20	30 Nov 12	500,000	100
	500,000	22 Oct 10	0.097	0.30	30 Jun 13	500,000	100
	7,500,000					6,000,000	
Year ended 30 June 10	Granted No.	Granted Date	Fair Value per option at grant date \$	Exercise price per option \$	Expiry date	No.	%
Name							
DIRECTOR							
J P Arbuckle	250,000*	27 Nov 08	0.001	0.40	31 Dec 10	250,000	100
EXECUTIVE							
S Delaney	500,000	31 Mar 09	0.003	0.10	28 Feb 13	500,000	100
Total	750,000					750,000	

* Options expired as at 30 June 2011.

Options Granted as Part of Remuneration

Name	Value of options granted during the year \$	Value of options exercised during the year \$	Value of options lapsed during the year \$	Remuneration consisting of options for the year %
30 June 2011				
M I Munshi	529,500	200,000	-	57.89
J P Arbuckle	121,500	50,000	-	78.97
J S Hempel	121,500	25,000	-	77.59
M Habriansyah	110,500	-	-	41.22
30 June 2010				
M I Munshi	-	200,000	-	-
J P Arbuckle	352	100,000	-	1.06
J S Hempel	-	50,000	-	-
S Delaney	683	-	-	0.25

DIRECTORS' REPORT (Cont'd)

Assumptions used to value the options are disclosed in Note 16.

Shares issued on exercise of options

Date of exercise	Shares issued	Paid per share	Unpaid per share
	No.	\$	\$
4 Nov 2010	850,000	0.10	-
4 Mar 2011	2,750,000	0.10	-

Performance Income as a Proportion of Total Compensation

No performance based bonuses have been paid to key management personnel during the financial year. It is the intent of the board to include performance bonuses as part of remuneration packages when mine production commences.

Since the end of the previous financial year, no Director has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the accounts of the Company) because of a contract made by the Company or a related body corporate with the Director or with a firm of which the Director has a substantial financial interest.

Directors' Meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

Director	Director		Meetings whilst Director	
	<i>Appointed</i>	<i>Resigned</i>	<i>Held</i>	<i>Attended</i>
M I Munshi	6 Mar 07		2	2
J P Arbuckle	9 Sept 06		2	2
J S Hempel	21 Jul 08		2	1
M Habriansyah	1 Dec 10		-	-

Results

The total comprehensive loss of the consolidated entity for the financial year was \$5,870,938 (2010: \$5,279,667).

Auditor's Independence and Non Audit Services

There have been no non audit services provided during this year.

A copy of the auditor's independence declaration as required by Section 307C of the Corporations Act 2001 is set out on page 53.

Signed in accordance with a resolution of the directors.



M I Munshi
Managing Director

Dated at Perth this 30th day of September 2011

CORPORATE GOVERNANCE STATEMENT

The Company acknowledges the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (2nd Edition) (the "Recommendations"). This Corporate Governance Statement provides details of the Company's compliance with those Recommendations, or where appropriate, indicates a departure from the Recommendations with an explanation. A checklist summarising the Company's compliance with the Recommendations is also set out at the end of this statement.

Unless disclosed below, all the Recommendations of the ASX Corporate Governance Council have been applied for the entire financial year ended 30 June 2011.

Principle 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Board Roles and Responsibilities

The board is first and foremost accountable to provide value to its shareholders through delivery of timely and balanced disclosures.

The Company's Board Charter has been made publicly available on the Company's website. This document details the adopted practices and processes in relation to matters reserved for the board's consideration and decision-making and specifies the level of authorisation provided to other key management personnel. The board is ultimately responsible for ensuring its actions are in accordance with key corporate governance principles.

Performance Evaluation

There is no formal process for evaluating the performance of senior executives. Senior executive performance is evaluated by the board on an ongoing basis, including within this reporting period, having regard to Company objectives, and executives' roles and responsibilities.

There is no formal process for evaluating the performance of the board and individual directors. Board performance is evaluated on an ongoing basis, including within this reporting period, having regard to Company objectives and each director's contribution to board deliberations.

Principle 2: STRUCTURE THE BOARD TO ADD VALUE

Board Composition

The board considers the mix of skills and the diversity of board members when assessing the composition of the board. The board assesses existing and potential directors' skills to ensure they have appropriate industry experience in the Group's operating segments.

The board considers the diversity of existing and potential directors to ensure they are in line with the geographical and operational segments of the Group. The board's policy is to seek a diverse range of directors who have a range of ages, genders and ethnicity which mirrors the environment in which the group operates.

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed in the directors' report.

The names of independent directors of the company are:

- Mr John Arbuckle
- Mr Sebastian Hempel

When determining whether a non-executive director is independent the director must not fail any of the following materiality thresholds;

- less than 10% of company shares are held by the director and any entity or individual directly or indirectly associated with the director;
- no sales are made to or purchases made from any entity or individual directly or indirectly associated with the director; and
- none of the directors' income or the income of an individual or entity directly or indirectly associated with the director is derived from a contract with any member of the economic entity other than income derived as a director of the company.

Independent directors have the right to seek independent professional advice in the furtherance of their duties as directors at the company's expense. Written approval must be obtained from the chair prior to incurring any expense on behalf of the company.

Nomination Committee

The board has not established a nomination committee. Processes are in place for the full board to consider issues that would otherwise be considered by a nomination committee.

Principle 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Ethical Standards

The board acknowledges and emphasises the importance of all directors and employees maintaining the highest standards of corporate governance practice and ethical conduct.

A Corporate Governance Charter has been established requiring directors and employees to:

- act honestly and in good faith;
- exercise due care and diligence in fulfilling the functions of office;
- avoid conflicts and make full disclosure of any possible conflict of interest;

CORPORATE GOVERNANCE STATEMENT (Continued)

- comply with the law;
- encourage the reporting and investigating of unlawful and unethical behaviour; and
- comply with the share trading policy outlined in the Corporate Governance Charter.

Directors are obliged to be independent in judgment and ensure that all reasonable steps are taken to ensure due care is taken by the board in making sound decisions.

Trading Policy

The company's policy regarding directors and employees trading in its securities is set by the board. The policy restricts directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the securities' prices.

Principle 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Audit Committee

The board has not established an audit committee. Processes are in place for the full board to consider issues that would otherwise be considered by an audit committee.

Principle 5: MAKE TIMELY AND BALANCED DISCLOSURE

The Continuous Disclosure Policy, which is available on the Company's website, sets out the key obligations of the directors and employees in relation to continuous disclosure as well as the Company's obligations under the Listing Rules and the Corporations Act. The Policy also provides procedures for internal notification and external disclosure, as well as procedures for promoting understanding of compliance with the disclosure requirements for monitoring compliance.

Principle 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Shareholder Rights

Shareholders are entitled to vote on significant matters impacting on the business, which include the election and remuneration of directors, changes to the constitution and receipt of annual financial statements. Shareholders are strongly encouraged to attend and participate in the Annual General Meetings of Prosperity Resources Limited, to lodge questions to be responded by the board, the MD or the Auditors, and are able to appoint proxies.

Principle 7: RECOGNISE AND MANAGE RISK

Risk Management

The board considers identification and management of key risks associated with the business as vital to maximise shareholder wealth. A yearly assessment of the business's risk profile is undertaken and reviewed by the board, covering all aspects of the business from the operational level through to strategic level risks. The MD has been delegated the task of implementing internal controls to identify and manage risks for which the board provides oversight. The effectiveness of these controls is monitored and reviewed regularly. The worsening economic environment has emphasised the importance of managing and reassessing its key business risks.

The board has received assurance from the Managing Director and the Chief Financial Officer that the declaration provided in accordance with 295A of the Corporations Act is founded on a sound system of risk management and internal control and the system is operating effectively in all material respects in relation to financial reporting risks.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Remuneration Policies

All executives receive a base salary and superannuation.

The amount of remuneration for all key management personnel for the company and the five highest paid executives, including all monetary and non-monetary components, are detailed in the directors' report under the heading key management personnel compensation. All remuneration paid to executives is valued at the cost to the company and expensed. Shares given to executives and are valued as the difference between the market price of those shares and the amount paid by the executive. Options are valued using the Black-Scholes methodology.

Non-executive directors are remunerated by way of fees in the form of cash and options. Non-executive directors do not receive bonus payments, nor are they provided with retirement benefits.

Remuneration Committee

The remuneration committee is chaired by an independent director. It has two members and does not consist of a majority of independent directors. This structure is considered appropriate having regard for the size of the board and the Company.

The committee did not meet during the year.

Other Information

The following checklist summarises the Company's compliance with the Recommendations, explanations regarding compliance with the Principles and Recommendations is disclosed in this Corporate Governance Statement and further information is available on the company's website at www.prosperity.net.au.

	Requirement	Comply Yes/No
Principle 1	Lay solid foundations for management and oversight	
Rec 1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	Yes

CORPORATE GOVERNANCE STATEMENT (Continued)

Rec 1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes
Rec 1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.	Yes
Principle 2	Structure the board to add value	
Rec 2.1	A majority of the board should be independent directors.	Yes
Rec 2.2	The chair should be an independent director.	No
Rec 2.3	The roles of chair and Managing Director should not be exercised by the same individual.	No
Rec 2.4	The board should establish a nomination committee.	No
Rec 2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Yes
Rec 2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	Yes
Principle 3	Promote ethical and responsible decision-making	
Rec 3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> • the practices necessary to maintain confidence in the company's integrity; • the practices necessary to take into account their legal obligations and the reasonable expectations of their shareholders; • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. 	Yes
Rec 3.2	Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.	Yes
Rec 3.3	Companies should provide the information indicated in the Guide to reporting on Principle 3.	Yes
Principle 4	Safeguard integrity in financial reporting	
Rec 4.1	The board should establish an audit committee.	No
Rec 4.2	The audit committee should be structured so that it: <ul style="list-style-type: none"> • consists only of non-executive directors; • consists of a majority of independent directors; • is chaired by an independent chair; who is not chair of the board; • has at least three members. 	No
Rec 4.3	The audit committee should have a formal charter.	No
Rec 4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	Yes
Principle 5	Make timely and balanced disclosure	
Rec 5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes
Rec 5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	Yes
Principle 6	Respect the rights of shareholders	
Rec 6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes
Rec 6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	Yes
Principle 7	Recognise and manage risk	
Rec 7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes
Rec 7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Yes
Rec 7.3	The board should disclose whether it has received assurance from the Managing Director (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes
Rec 7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Yes
Principle 8	Remunerate fairly and responsibly	
Rec 8.1	The board should establish a remuneration committee	Yes
Rec 8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Yes
Rec 8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Yes

PROSPERITY RESOURCES LIMITED & ITS CONTROLLED ENTITIES

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

	NOTE	Consolidated 2011 \$	Consolidated 2010 \$
Revenue	3	271,780	312,134
Total revenue		271,780	312,134
Expenses			
Occupancy expenses		(62,702)	(62,540)
Administrative expenses		(1,868,263)	(874,234)
Share based payment expenses	16	(1,995,155)	(1,129,332)
Borrowing costs	4	(275,000)	(1,599,000)
Depreciation	4	(40,154)	(39,123)
Exploration expenditure written off	4	(2,013,936)	(2,475,576)
Loss before income tax		(5,983,430)	(5,867,671)
Income tax refund / (expense)	5	-	604,210
Loss after income tax		(5,983,430)	(5,263,461)
Other Comprehensive Income			
Currency translation differences		112,492	(16,206)
Income tax on items of other comprehensive income		-	-
Comprehensive loss for the year		(5,870,938)	(5,279,667)
Loss for the year attributable to:			
Shareholders of Prosperity Resources Ltd	15	(5,944,794)	(5,235,970)
Non-controlling interest		(38,636)	(27,491)
Loss for the year		(5,983,430)	(5,263,461)
Total Comprehensive loss for the year attributable to:			
Shareholders of Prosperity Resources Ltd		(5,862,148)	(5,250,565)
Non-controlling interest		(8,790)	(29,102)
Total Comprehensive loss for the year		(5,870,938)	(5,279,667)
Basic loss per share (cents)	24	(1.93)	(2.26)

The above statement of comprehensive income is to be read in conjunction with the notes to the financial statements.

PROSPERITY RESOURCES LIMITED & ITS CONTROLLED ENTITIES

STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	NOTE	Consolidated 2011 \$	Consolidated 2010 \$
CURRENT ASSETS			
Cash and cash equivalents	26(a)	1,371,615	537,315
Trade and other receivables	6	928,308	57,134
Prepayments		48,372	25,270
TOTAL CURRENT ASSETS		2,348,295	619,719
NON-CURRENT ASSETS			
Trade and other receivables	6	95,316	190,612
Property, plant and equipment	8	188,552	217,362
Capitalised mineral exploration and evaluation expenditure	9	7,439,929	7,147,565
TOTAL NON-CURRENT ASSETS		7,723,797	7,555,539
TOTAL ASSETS		10,072,092	8,175,258
CURRENT LIABILITIES			
Trade and other payables	10	603,305	609,229
Provisions	11	123,525	79,350
Borrowings	12	526,540	1,001,540
TOTAL CURRENT LIABILITIES		1,253,370	1,690,119
TOTAL LIABILITIES		1,253,370	1,690,119
NET ASSETS		8,818,722	6,485,139
EQUITY			
Issued capital	13	31,656,803	24,923,577
Reserves	14	3,282,629	1,995,578
Accumulated losses	15	(26,393,257)	(20,448,463)
Total equity attributed to equity holders of the Company		8,546,175	6,470,692
Non-controlling interest		272,547	14,447
TOTAL EQUITY		8,818,722	6,485,139

The above statement of financial position is to be read in conjunction with the notes to the financial statements.

PROSPERITY RESOURCES LIMITED & ITS CONTROLLED ENTITIES

STATEMENT OF CASH FLOW

For the year ended 30 June 2011

	NOTE	Consolidated 2011 \$	Consolidated 2010 \$
Cash flows from operating activities			
Interest received		66,332	37,424
Other income received		145,757	886,338
Cash payments in the course of operations		(1,713,231)	(918,023)
Net cash used in operating activities	25(b)	<u>(1,501,142)</u>	<u>5,739</u>
Cash flows from investing activities			
Payments for exploration and evaluation		(2,054,190)	(2,873,921)
Payments for property, plant & equipment		(14,652)	(33,846)
Net cash used in investing activities		<u>(2,068,842)</u>	<u>(2,907,767)</u>
Cash flows from financing activities			
Proceeds from the issue of shares		4,959,571	3,005,000
Proceeds from borrowings		-	602,113
Repayment of borrowings		(309,048)	(500,000)
Cost of issue of shares		(83,595)	(25,755)
Net cash provided by financing activities		<u>4,566,928</u>	<u>3,081,358</u>
Net increase/(decrease) in cash and cash equivalents		996,944	179,330
Net foreign exchange differences		(162,644)	72,627
Cash and cash equivalents at the beginning of the year		537,315	285,358
Cash and cash equivalents at the end of the year	25(a)	<u>1,371,615</u>	<u>537,315</u>

The above statement of cash flow is to be read in conjunction with the notes to the financial statements.

PROSPERITY RESOURCES LIMITED & ITS CONTROLLED ENTITIES

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2011

CONSOLIDATED	Issued Capital	Accumulated Losses	Share Option Reserves	Foreign Currency Translation Reserve	Total	Non- Controlling Interest	Total Equity
	\$	\$	\$	\$	\$	\$	\$
As at 1 July 2009	20,211,332	(15,212,493)	874,841	-	5,873,680	-	5,873,680
Loss for the year	-	(5,235,970)	-	-	(5,235,970)	(27,491)	(5,263,461)
Other comprehensive income							
Currency translation differences	-	-	-	(14,595)	(14,595)	(1,611)	(16,206)
Total other comprehensive loss	-	-	-	(14,595)	(14,595)	(1,611)	(16,206)
Total comprehensive loss for the year	-	(5,235,970)	-	(14,595)	(5,250,565)	(29,102)	(5,279,667)
Transactions with owner recorded directly into equity							
Issue of shares	4,712,245	-	-	-	4,712,245	-	4,712,245
Share based payment	-	-	1,135,332	-	1,135,332	-	1,135,332
Equity investment – Non-controlling interest	-	-	-	-	-	43,549	43,549
As at 30 June 2010	24,923,577	(20,448,463)	2,010,173	(14,595)	6,470,692	14,447	6,485,139
As at 1 July 2010	24,923,577	(20,448,463)	2,010,173	(14,595)	6,470,692	14,447	6,485,139
Total comprehensive loss for the year							
Loss for the year	-	(5,944,794)	-	-	(5,944,794)	(38,636)	(5,983,430)
Other comprehensive income							
Currency translation differences	-	-	-	84,146	84,146	11,249	95,395
Total other comprehensive loss	-	-	-	84,146	84,146	11,249	95,395
Total comprehensive loss for the year	-	(5,944,794)	-	84,146	(5,860,648)	(27,387)	(5,888,035)
Transactions with owner recorded directly into equity							
Issue of shares	6,733,226	-	-	-	6,733,226	-	6,733,226
Share based payment	-	-	1,202,905	-	1,202,905	-	1,202,905
Equity investment- Non-controlling interest	-	-	-	-	-	285,487	285,487
As at 30 June 2011	31,656,803	(26,393,257)	3,213,078	69,551	8,546,175	272,547	8,818,722

The statement of changes in equity should be read in conjunction with the notes to the financial statements.

PROSPERITY RESOURCES LIMITED & ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statement includes the financial statements of Prosperity Resources Limited as a consolidated entity of Prosperity Resources Limited and its subsidiaries (The Group). Separate financial statements for Prosperity Resources Limited as an individual entity are no longer presented as the consequence of a change to the Corporations Act 2001, however, required financial information for Prosperity Resources Limited as an individual entity is included in Note 29. Prosperity Resources Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on Australian Securities Exchange Limited.

(a) Basis of Preparation

This general purpose financial statement has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Australian Interpretations and the Corporations Act 2001. It has been prepared on the basis of accrual accounting and historical costs and except where stated, does not take into account changing money values of fair values of non-current assets.

These accounting policies have been consistently applied and, except where there is a change in accounting policy, are consistent with those of the previous year.

The financial report is presented in Australian dollars.

Compliance with IFRSs

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (IFRSs). Compliance with AIFRSs ensures that the financial statement of the Company and the Group complies with the IFRSs and interpretations adopted by the International Accounting Standards Board.

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.

The Company plans to raise capital in the near future to enable it to continue its exploration activities. It is considered that the Company should achieve sufficient funds from capital raising and sale of non-core investments to enable it to meet its obligation. If the Company is unable to continue as going concern then it may be required to realise its assets and extinguish its liabilities, other than in the normal course of business and at amounts different from those stated in the financial statements.

(b) New Accounting Standards and Interpretations that are not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard is not expected to impact on the Group's accounting for financial assets as it does not have any available for sale assets. There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The Group has decided not to early adopt AASB 9.

(ii) Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party. The Group will apply the amended standard from 1 July 2011. When the amendments are applied, the Group will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the financial statements.

(iii) AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective from 1 July 2013)

PROSPERITY RESOURCES LIMITED & ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2011

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Prosperity Resources Limited is listed on the ASX and is not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the entity.

(c) Basis of Consolidation

Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries) (referred to as 'The Group' in these financial statements). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. In the separate financial statements of the Company, intra-group transactions ('common control transactions') are generally accounted for by reference to the existing (consolidated) book value of the items.

Where the transaction value of common control transactions differ from their consolidated book value, the difference is recognised as a contribution by or distribution to equity participants by the transacting entities.

Non-controlling interest in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interest consists of the amount of those interests at the date of the original business combination and the non-controlling's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the non-controlling's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Joint Ventures

Interests in joint ventures are brought to account by including the appropriate share of the relevant assets, liabilities and costs of the joint ventures in their relevant categories in the financial statements. Details of these interests are shown in Note 17.

(d) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

(e) Trade and Other Receivables

Receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

(f) Investment and Other Financial Assets

Classification

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term, or if so designated by management and within the requirement of AASB 139: Recognition and Measurement of Financial Instruments. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the statement of comprehensive income in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

PROSPERITY RESOURCES LIMITED & ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2011

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Held-to-maturity investments

These investments have fixed maturities, and it is the Company's intention to hold these investments to maturity. Any held-to-maturity investments held by the Company are stated at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial liabilities

Non-derivative financial liabilities, including borrowings are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Fair value

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

Impairment

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

(g) Exploration and Evaluation Costs

Mineral exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which:

- such costs are expected to be recouped through the successful development and exploitation of the area of interest or alternatively by its sale; or
- exploration and/or evaluation activities in the area have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active or significant operations in/or in relation to the area of interest continuing.

In the event that an area of interest is abandoned or if the Directors consider the expenditure to be of reduced value, accumulated costs carried forward are written off in the year in which that assessment is made. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest

(h) Property, plant and equipment

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

Land and building

Land and buildings are shown at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Plant and equipment

Plant and equipment are measured on the cost basis less accumulated depreciation and impairment losses. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation

Land is not depreciated. Depreciation on other assets is calculated on a straight line basis so as to write off the net costs of each asset over the expected useful life. The rates vary between 10% and 33% per annum. The assets' residual values and

PROSPERITY RESOURCES LIMITED & ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts. These are included in the income statement. When revalued assets are sold, it is company policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(i) Leases

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

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

Leased assets are depreciated on a straight-line basis over their estimated useful lives. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(j) Acquisition of Assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognized directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of comprehensive income, but only after reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(k) Impairment of Assets

At each reporting date, the Company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

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

Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(l) Trade and Other Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

PROSPERITY RESOURCES LIMITED & ITS CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Employee Benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Share-based payments

The Company provides benefits to employees (including directors) of the Company in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:

- (i) the extent to which the vesting period has expired and
- (ii) the number of awards that, in the opinion of the directors of the Company, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

(n) Issued Capital

Ordinary shares are classified as equity. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(o) Revenue Recognition

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial assets.

(p) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the statement of financial position date.

Deferred tax is accounted for using the statement of financial position liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

PROSPERITY RESOURCES LIMITED & ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transactions. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange differences is recognised in the statement of comprehensive income.

Group companies

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

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

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

(r) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(s) Earnings Per Share (EPS)

Basic earnings per share

Basic EPS is calculated as the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, divided by the weighted average number of ordinary shares outstanding during the financial year, adjusted for any bonus elements in ordinary shares issued during the year.

Diluted earnings per share

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

(t) Segment Reporting

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision maker) in assessing performance and determining the allocation of resources. The Group's primary and only segment is exploration and evaluation of mineral resources.

During the year ended 30 June 2011, the consolidated entity operated in the following Geographical Segments: Australia and Indonesia (2010: Australia and Indonesia).

PROSPERITY RESOURCES LIMITED & ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Borrowing Costs

Borrowing costs may be either expensed in the period they are incurred, or where the borrowing costs incurred are directly associated with the construction, purchase or acquisition of a qualifying asset, the borrowing costs may be capitalised as part of the cost of the asset.

(v) Comparative Figures

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

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in the following notes:

- Note 5 - Income Tax
- Note 9 - Mineral Exploration and Evaluation Expenditure
- Note 11 - Provisions
- Note 26 - Financial Instruments

PROSPERITY RESOURCES LIMITED & ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2011

Consolidated 2011 \$	Consolidated 2010 \$
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3. REVENUE FROM NON-OPERATING ACTIVITIES

Interest received	71,023	37,424
Net gain from held for sale investments	-	130,352
Other income - consultancy	200,757	144,358
	<u>271,780</u>	<u>312,134</u>

4. EXPENSES

The loss from operating activities before income tax has been determined after charging the following items:

Auditor's remuneration	32,104	31,126
Wages and salaries	464,655	480,356
Contributions to employee superannuation plans	37,890	38,153
Provision for employee entitlements	46,770	32,769
Depreciation	40,154	39,123
Mineral exploration and evaluation expenditure written off	2,013,936	2,475,579
Borrowing cost	<u>275,000</u>	<u>1,599,000</u>

PROSPERITY RESOURCES LIMITED & ITS CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

Consolidated 2011 \$	Consolidated 2010 \$
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5. INCOME TAX

(a) Reconciliation

The aggregate amount of income tax attributable to the financial year differs by more than 15% from the prima facie tax benefit on the operation loss.

The differences are reconciled as follows:

Operating loss	5,983,430	5,235,970
Prima facie tax benefit at 30%	(1,795,029)	(1,570,791)
Tax effect of differences:		
Income	(871)	(332)
Legal and entertainment costs	-	(153)
Capitalised exploration costs	87,709	161,504
Investment impairment	-	165,990
Provisions	(12,503)	(3,982)
Capital Raising Costs	10,679	11,336
Share Based Payment	(598,547)	(338,800)
Foreign Exchange Differences	(202,614)	21,490
Borrowing Expenses	-	(288,241)
Future income tax benefits not brought to account	2,511,176	1,841,979
Income tax expense attributable to ordinary activities	-	-

(b) Unrecognised temporary differences Deferred tax asset (at 30%)

On income tax account		
Capital Raising Costs	24,845	10,323
Provisions	91,862	79,359
Carry forward tax losses	8,573,681	7,253,755
	8,690,388	7,343,437
On capital account		
Carry forward tax losses	125,895	125,895
	8,816,283	7,469,332
Deferred tax liabilities (at 30%)		
Capital exploration costs	(2,231,979)	(2,144,270)

PROSPERITY RESOURCES LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2011

6. TRADE AND OTHER RECEIVABLES

Current

	Consolidated 2011 \$	Consolidated 2010 \$
GST Recoverable	16,877	10,692
Other Debtors	911,431	46,442
	928,308	57,134

Past Due but Not Impaired

As at 30 June 2011, trade receivable of nil (2010 – nil) were past due but not impaired.

Other debtors include \$550,000 receivable from shareholders against options exercised in March 2011, of which \$400,000 is receivable from a Director. It also includes \$241,000 receivable from non-controlling interest in Indonesian subsidiaries.

Non Current

Deposit Paid	27,256	151,830
Other Receivables	68,060	38,782
	95,316	190,612

7. CONSOLIDATED ENTITIES

	Country of Incorporation	Direct Equity Interest %		Investment A\$	
		2011	2010	2011	2010
Prosperity Resources (Yalgoo) Pty Ltd	Australia	100	100	-	-
Prosperity Resources (Mt Gibson) Pty Ltd	Australia	100	100	-	-
Prosperity Resources (Tennant Creek) Pty Ltd	Australia	100	100	4,500,000	4,500,000
Prosperity Resources (Indonesia) Pty Ltd	Australia	100	100	1	1
Prosperity Resources Indonesia (Energy) Pty Ltd	Australia	100	-	1	-
Prospindo Singapore Pte Ltd – (1)	Singapore	90	100	7	1
Prospindo Energi Singapore Pte Ltd – (2)	Singapore	90	-	7	-
PT Prospindo – (3)	Indonesia	90	90	112,671	112,671
PT Prosperity Surya Persada – (4)	Indonesia	81	81	105,102	105,102
PT Aspirasi Widya Chandra – (5)	Indonesia	83.7	83.7	117,032	117,032
PT Arus Tirta Power – (5)	Indonesia	83.7	83.7	69,337	69,337
PT Aneka Mining Nasional – (5)	Indonesia	83.7	83.7	70,584	70,584
PT Multi Mineral Utama – (6)	Indonesia	64.8	41.31	1,290,455	27,766
PT Mulia Kencana Makmur – (7)	Indonesia	41.31	-	602,025	-
PT Bintang Agung Mining – (8)	Indonesia	41.31	-	504,250	-

(1) Prospindo Singapore Pte Ltd was incorporated on 19 April 2010. During the year, an additional 9 shares were issued at S\$1 each with Prosperity Resources (Indonesia) Pty Ltd holding 90% of the equity.

(2) Prospindo Energi Singapore Pte Ltd was incorporated on 23 September 2010 and 90% owned by Prosperity Resources Indonesia (Energy) Pty Ltd. Prospindo Energi Singapore Pte Ltd has 10 shares on issue at S\$1 each.

(3) PT Prospindo was incorporated on 20 August 2009 to act as our holding company for our interest in metal projects in Indonesia. PT Prospindo is 95% and 5% owned by Prospindo Singapore Pte Ltd and Prospindo Energi Singapore Pte Ltd respectively.

PROSPERITY RESOURCES AND ITS CONTROLLED ENTITIES

NOTES FOR THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

7. CONSOLIDATED ENTITIES (Continued)

(4) PT Prosperity Surya Persada (PT PSP) was incorporated on the 9 October 2009 with our joint venture partners in Indonesia. PT PSP has 100,000 shares on issue at US\$1 each, with PT Prospindo holding 90% of PT PSP.

(5) We acquired a 93% equity stake in each of PT Aspirasi Widya Chandra, PT Arus Tirta Power and PT Aneka Mining Nasional through PT Prospindo.

(6) We increased our equity interest from 51% to 80% in PT Multi Mineral Utama (PT MMU) through the expenditure of an additional USD750,000 through PT PSP.

(7) We acquired a 51% equity interest in PT Mulia Kencana Makmur (PT MKM) through the expenditure of USD500,000 through PT PSP.

(8) We acquired a 51% equity interest in PT Bintang Agung Mining (PT BAM) through the expenditure of USD500,000 through PT PSP.

Prosperity Resources Limited is the ultimate Australian parent entity.

Consolidated 2011 \$	Consolidated 2010 \$
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8. PROPERTY, PLANT AND EQUIPMENT

Plant and equipment		
At cost	110,878	96,486
Accumulated depreciation	(79,308)	(63,456)
	31,570	33,030
Building		
At cost	75,825	75,825
Accumulated depreciation	(27,775)	(20,192)
	48,050	55,633
Land		
At cost	62,680	62,680
Accumulated depreciation	-	-
	62,680	62,680
Motor Vehicles		
At cost	132,523	132,523
Accumulated depreciation	(101,126)	(89,126)
	31,397	43,397
Furniture and fixtures		
At cost	22,181	26,015
Accumulated depreciation	(7,326)	(3,393)
	14,855	22,622
Total net book value	188,552	217,362

PROSPERITY RESOURCES AND ITS CONTROLLED ENTITIES
NOTES FOR THE FINANCIAL STATEMENTS
For the year ended 30 June 2011

	Consolidated 2011 \$	Consolidated 2010 \$
Reconciliation		
Reconciliation of the carrying amount for property, plant and equipment is set out below		
Carrying amount at beginning of year	217,362	222,740
Additions	14,652	33,846
Disposals	-	-
Depreciation	(40,154)	(39,123)
Foreign currency translation	(3,308)	(101)
Carrying amount at end of year	188,552	217,362
9. CAPITALISED MINERAL EXPLORATION AND EVALUATION EXPENDITURE		
In the exploration and evaluation phase		
Balance at start of year	7,147,565	6,609,220
Add: Expenditure incurred during the year	2,306,300	3,013,921
Less: Expenditure written off during the year	(2,013,936)	(2,475,576)
Total amount capitalised at end of year	7,439,929	7,147,565
10. TRADE AND OTHER PAYABLES		
Current		
<i>Unsecured</i>		
Trade creditors	68,012	97,597
Amounts owed to Directors and/or Director-related entities	187,917	187,917
<i>Accruals</i>		
Audit fee	20,000	15,000
General	199,917	215,008
<i>Other Creditors</i>		
Other Taxes	127,459	93,707
	603,305	609,229
11. PROVISIONS		
Current		
Employee entitlements	123,525	79,350
Number of employees at year end	25	33
12. BORROWINGS		
Related parties*	-	350,196
Third parties^	526,540	651,344
	526,540	1,001,540

* Loans from related parties are unsecured, non-interest bearing and repayable upon demand.

^ Loans from third parties are secured by a fixed charge over the Group's interest in a cooperation agreement with a partner to explore minerals in Indonesia, non-interest bearing and was repayable by 31 March 2011. However the Company is in the process of negotiating the repayment date with the lender.

PROSPERITY RESOURCES LIMITED & ITS CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

13. CONTRIBUTED EQUITY

Consolidated 2011 \$	Consolidated 2010 \$
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(a) Ordinary Shares 344,539,179
(2010: 261,425,373)

31,656,803 24,923,577

(b) Share Movements during the year

	Number of Shares 2011	Number of Shares 2010	Total 2011 \$	Total 2010 \$
Balance at the beginning of the year	261,425,373	205,075,373	24,923,577	20,211,332
Issue Aug 09 at 6.2 cents		2,000,000		124,000
Issue Oct 09 at 15 cents		8,700,000		1,305,000
Issue Nov 09 at 3 cents		4,650,000		140,000
Issue Dec 09 at 7.2 cents		12,000,000		869,000
Issue Dec 09 at 10 cents		10,000,000		1,000,000
Issue Jan 10 at 10 cents		10,000,000		500,000
Issue Feb 10 at 5 cents		4,000,000		200,000
Issue Jun 10 at 12 cents		5,000,000		600,000
Issue Aug 10 at 2 cents	15,000,000	-	300,000	-
Issue Sep 10 at 15 cents	14,863,806	-	2,229,571	-
Issue Sep 10 at 10 cents	10,000,000	-	1,000,000	-
Issue Sep 10 at 5 cents	600,000	-	30,000	-
Issue Nov 10 at 10 cents	250,000	-	25,000	-
Issue Nov 10 at 12 cents (non-cash)	2,000,000	-	240,000	-
Issue Nov 10 at 17.5 cents (non-cash)	1,000,000	-	175,000	-
Issue Nov 10 at 21.5 cents (non-cash)	4,150,000	-	892,250	-
Issue Mar 11 at 5 cents	32,000,000	-	1,600,000	-
Issue Mar 11 at 10 cents	3,250,000	-	325,000	-
Less:				
Capital Raising Costs		-	(83,595)	(25,755)
	344,539,179	261,425,373	31,656,803	24,923,577

(c) Options

There were no listed options on issue. The unlisted options as at 30 June 2011 are as follows:

Number of Options	Exercise Price (cents)	Expiry Date
250,000*	15	31 Dec 11
250,000*	20	31 Dec 11
250,000*	35	31 Dec 11
250,000	50	31 Dec 11
1,500,000	15	28 Feb 12
2,000,000	12	31 Mar 12
1,000,000	20	31 Mar 12
1,000,000	30	31 Mar 12
1,000,000	40	31 Mar 12
500,000	12	31 Oct 12
500,000	15	31 Oct 12
3,000,000	20	30 Nov 12
100,000	15	31 Dec 12
600,000	5	28 Feb 13
500,000	10	28 Feb 13
500,000	10	28 Feb 13
1,250,000	20	31 Mar 13
2,500,000	25	30 Jun 13
500,000	30	30 Jun 13
1,000,000*	30	30 Nov 13
1,500,000*	30	30 Nov 14
19,950,000		

* Vesting condition to be met

PROSPERITY RESOURCES LIMITED & ITS CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June 2011

13. CONTRIBUTED EQUITY (Continued)

(c) Unlisted Option Movements during the year

	Options Number	Total \$
Balance at the beginning of the year	70,800,000	2,010,173
Issued Nov 10, exercisable at 10-35 cents before 30 Nov 14	10,750,000	1,092,058
Issued Dec 10, exercisable at 20-30 cents before 30 Jun 13	1,000,000	110,500
Exercised during the year	(61,100,000)	-
Expired during the year	(1,500,000)	-
Prior year issues now recognised as share based payment	-	347
	<hr/>	<hr/>
Balance at the end of the year	19,950,000	3,213,078

(d) Terms and Conditions of Contributed Equity

Ordinary Shares

Ordinary shares have the right to receive dividends as declared and, in the event of a winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

14. RESERVES

(a) Option Reserves

Movements during the year:

	Consolidated 2011 \$	Consolidated 2010 \$
Opening balance	2,010,173	874,841
Share based payments	1,202,905	1,135,332
	<hr/>	<hr/>
Closing balance	3,213,078	2,010,173

Option reserve recognises the fair value of options issued to directors, employees and consultants not exercised.

(b) Foreign Exchange Translation Reserve

Movement during the year:

	Consolidated 2011 \$	Consolidated 2010 \$
Opening balance	(14,595)	-
Translation movement during the year	84,146	(14,595)
	<hr/>	<hr/>
Closing balance	69,551	(14,595)

Foreign exchange translation differences arising from the translation of assets, liabilities, income and expenses from a subsidiary's functional currency to presentation currency are recognised in equity in a foreign currency translation reserve.

15. ACCUMULATED LOSSES

Accumulated losses at the beginning	(20,448,463)	(15,212,493)
Of the year		
Net loss attributable to members of the parent Company	(5,944,794)	(5,235,970)
	<hr/>	<hr/>
Accumulated losses at the end of the year	(26,393,257)	(20,448,463)

PROSPERITY RESOURCES LIMITED & ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2011

16. SHARE BASED PAYMENTS

Prosperity Resources Limited 2004 Employee Option Incentive Plan ("the Plan") was first established and approved on 30 June 2004. This plan has since been extended on the same terms in a Directors' meeting held on 18 Oct 07 and approved in the Annual General Meeting dated 23 Nov 07. All eligible employees of Prosperity Resources Limited who have been continuously employed by the Company are eligible to participate in the Plan.

The Plan allows the Company to issue free options to eligible employees and consultants capped by a number equal to 5% of the issued capital. The options can be granted free of charge and are exercisable at a fixed price calculated in accordance with the Plan over a period of five years.

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of and movements in share options granted to directors and employees under the Plan during the year:

	2011 No	2011 WAEP	2010 No	2010 WAEP
Outstanding at the beginning of the year	12,300,000		16,050,000	
Granted during the year	7,500,000	0.24	-	
Expired during the year	(250,000)	0.40	(250,000)	0.30
Exercised during the year	(3,600,000)	0.09	(3,500,000)	0.05
Lapsed during the year	-		-	
Outstanding at the end of the year	15,950,000	0.22	12,300,000	0.17
Exercisable at the end of the year	14,450,000	0.21	12,050,000	0.17

The weighted average remaining contractual life for the share options outstanding as at 30 June 2011 is between 0.5 and 3.42 years.

The range of exercise prices for options outstanding at the end of the year was \$0.05 - \$0.50.

The weighted average fair value of options granted during the year was \$0.24 (2010 - nil).

The following table gives the assumptions made in determining the fair value of all the options issued during the year at grant date:

Fair Value Per Option			
Grant date	11 Nov 10	11 Nov 10	22 Oct 10
Number of options	6,500,000	2,250,000	1,000,000
Expiry date	30 Nov 12 to 30 Nov 14	31 Mar 13 to 30 Nov 13	30 Nov 12 to 30 Jun 13
Exercise price	0.20 to 0.30	0.20 to 0.30	0.20 to 0.30
Price of shares on grant date	0.215	0.215	0.20
Estimated volatility	113%	113%	113%
Risk-free interest rate	4.75%	4.75%	4.75%
Divided yield	-	-	-
Non listed status discount	20% to 30%	20%	20%

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

Total expense recognised as share based payment expense in the year was \$1,995,155 (2010 - \$1,129,332).

PROSPERITY RESOURCES LIMITED & ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2011

17.	Joint Venture	Joint Venture Partner	Location	Consolidated Interest
	Paynes Find	Mawson West Limited	Mt Gibson	80%
	In respect of Paynes Find Joint Venture, Prosperity Resources Limited has earned a 80% interest through sole expenditure pursuant to a Joint Venture Agreement. The carrying value of exploration as at 30 June 2011 was \$1,331,956 (2010 - \$1,267,471). This amount has been fully provided for.			
	Melville	Platinum Australia Ltd	Yalgoo	75%
	In respect of the Melville Joint Venture, Prosperity Resources has a 75% interest and Platinum Australia has a 25% carried interest through to completion of a feasibility study that forms the basis of a decision by the parties to commit to the development of a mine. Platinum Australia will repay the costs paid by Prosperity Resources Limited on Platinum Australia's behalf out of 50% of Platinum Australia's cash flow from the mining project after repayment of JV contributions. The carrying value of exploration as at 30 June 2011 was \$153,205 (2010 - \$153,205). This amount has been fully provided for.			
	PT MMU	Indonesian JV Partners	Aceh, Indonesia	80%
	Prosperity has earned in a 80% equity interest through sole expenditure of USD1,250,000 pursuant to the joint venture agreement. The Group's effective interest in PT MMU is 64.8%.			
	PT BAM / PT MKM	Indonesian JV Partners	Aceh, Indonesia	51%
	Prosperity has earned in a 51% equity interest in both PT BAM and PT MKM by spending USD500,000 each. The Company has the right to earn a further 29% by spending an additional USD750,000 on each project. The Group's effective interest in PT BAM and MKM are 41.31% respectively.			

18. KEY MANAGEMENT PERSONNEL DISCLOSURES

Directors

Managing Director

M I Munshi

Non - Executive Directors

J P Arbuckle

J S Hempel

M Habriansyah

Other Key Management Personnel

Prosperity Resources Limited appointed following persons with authorities and responsibilities for planning, directing and controlling the activities of the Company, directly or indirectly:

Name	Position
S Delaney	Chief Financial Officer

Remuneration Philosophy

The Company's broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

The Company bases its remuneration of employees and consultants on industry standards and the Australasian Institute of Mining and Metallurgy Remuneration and Membership Survey. Whilst in the exploration and acquisition phase, the Company targets the lowest quartile of remuneration levels.

PROSPERITY RESOURCES LIMITED & ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2011

18. KEY MANAGEMENT PERSONNEL DISCLOSURES (Continued)

Compensation for Key Management

	Consolidated 2011	Consolidated 2010
Short term benefits	814,194	657,143
Post employment benefits	25,290	23,760
Long term benefits	-	-
Termination benefits	-	-
Share-based payment	924,930	1,035
Total Compensation	1,764,414	681,938

Equity Instruments Disclosures Relating to Key Management Personnel

Share Holdings

The numbers of shares in the Company held during the financial year by each key management personnel of Prosperity Resources Limited, including their personally-related entities, are set out below.

Year ended 30 June 2011					
Directors	Balance at the start of the year	Received during the year on the exercise of options	Balance at date of resignation	Other net changes during the year	Balance at the end of the year
M I Munshi	11,650,000	2,000,000	-	6,000,000	19,650,000
J P Arbuckle	1,000,000	500,000	-	-	1,500,000
J S Hempel	740,000	500,000	-	(200,000)	1,040,000
M Habriansyah	-	-	-	-	-
Other Key Management Personnel					
S Delaney	-	500,000	-	160,000	660,000

Year ended 30 June 2010					
Directors	Balance at the start of the year	Received during the year on the exercise of options	Balance at date of resignation	Other net changes during the year	Balance at the end of the year
M I Munshi	5,000,000	2,000,000	-	4,650,000	11,650,000
J P Arbuckle	-	1,000,000	-	-	1,000,000
J S Hempel	240,000	500,000	-	-	740,000
Other Key Management Personnel					
S Delaney	-	-	-	-	-
G Taylor	-	-	-	50,000	50,000

PROSPERITY RESOURCES LIMITED & ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2010

18. KEY MANAGEMENT PERSONNEL DISCLOSURES (Continued)

Option Holdings

The number of options over ordinary shares in the Company held during the financial year by each director and executive of Prosperity Resources Limited, including their personally-related entities, is set out below.

Year ended 30 June 11							
Name	Balance at the start of the year	Granted during the year as remuneration	Options exercised during the year	Balance at date of resignation	Other net changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
M I Munshi	8,000,000	4,500,000	(2,000,000)	-	-	10,500,000	9,000,000
J P Arbuckle	1,500,000	1,000,000	(500,000)	-	(250,000)	1,750,000	1,750,000
J S Hempel	500,000	1,000,000	(500,000)	-	-	1,000,000	1,000,000
M Habriansyah	-	1,000,000	-	-	-	1,000,000	1,000,000
Other Key Management Personnel							
S Delaney	2,000,000	-	(500,000)	-	-	1,500,000	1,500,000

Year ended 30 June 10							
Name	Balance at the start of the year	Granted during the year as remuneration	Options exercised during the year	Balance at date of resignation	Other net changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
M I Munshi	10,000,000	-	(2,000,000)	-	-	8,000,000	8,000,000
J P Arbuckle	2,750,000	-	(1,000,000)	-	(250,000)	1,500,000	1,250,000
J S Hempel	1,000,000	-	(500,000)	-	-	500,000	500,000
Other Key Management Personnel							
S Delaney	2,000,000	-	-	-	-	2,000,000	2,000,000
G Taylor	-	-	-	-	-	-	-

19. AUDITOR'S REMUNERATION

Audit services – parent entity	32,104	31,126
- subsidiaries	25,057	-
	57,151	31,126

20. RELATED PARTY TRANSACTIONS

The consolidated financial statements include financial statements of Prosperity Resources Limited and the subsidiaries listed in the following table.

Related Party	Amount Owed by Related Parties		Amount Owed to Related Parties	
	2011	2010	2011	2010
<i>Consolidated Subsidiaries</i>				
Prosperity Resource (Yalgoo) Pty Ltd	5,844,594	5,505,744	-	-
Prosperity Resources (Mt Gibson) Pty Ltd	2,112,344	2,043,724	-	-
Prosperity Resources (Tennant Creek) Pty Ltd	2,623,879	2,498,730	-	-
Prosperity Resources (Indonesia) Pty Ltd	11,597	-	-	-
PT Prospindo	4,800,380	3,039,701	-	-
Prospindo Singapore Pte Ltd	86,418	1,629	-	-
Prospindo Energi Singapore Pte Ltd	1,489	-	-	-
PT Prosperity Surya Persada	-	-	-	-
PT Aspirasi Widya Chandra	-	-	-	-
PT Arus Tirta Power	-	-	-	-
PT Aneka Mining Nasional	-	-	-	-
PT Multi Mineral Utama	-	-	-	-
PT Mulia Kencana Makmur	-	-	-	-
PT Bintang Agung Mining	-	-	-	-

PROSPERITY RESOURCES LIMITED & ITS CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

20. RELATED PARTY TRANSACTIONS (Continued)

The following transactions have occurred with related parties:

	Consolidated 2011 \$	Consolidated 2010 \$
Sales from consultancy services provided to:		
Gobi Coal and Energy Limited – common director	82,036	90,952
Omega Gold Investment Limited – common director	-	11,200
Zaraiya Holdings Limited – common director	80,121	2,800
Iliria Mining Corporation – common director	-	15,335
Ottoman Resources Ltd – common director	-	24,213
Bumbat Consolidated Ltd – common director	12,600	5,000
Consultancy and other services provided by:		
Greenwich Legal – common director	-	2,945
R & K Global Finance Ltd – common director	340,000	335,000
DNA Capital – common director	-	10,000
Maybach Consulting Pty Ltd – common director	33,000	20,000
Paramount Mining Corporation Ltd – common director	23,192	27,334

The following transactions are balances outstanding with related parties:

Trade receivables:		
Gobi Coal and Energy Limited	21,400	7,000
Zaraiya Holdings Limited	45,600	-
Bumbat Consolidated Ltd	-	5,000
PT Paramindo Energi	-	27,105
Paramount Mining Corporation Ltd	83,717	-
Trade payables:		
R & K Global Finance Ltd	187,917	187,917
Maybach Consulting Pty Ltd	-	2,750
Paramount Mining Corporation Ltd	14,037	4,532
Loan payables:		
Suri Management LLC	-	350,196

21. EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS

Employee Entitlements

The aggregate employee entitlement liability is disclosed in Note 11.

Employee Option Incentive Plan

Details of the Company's Employee Option Incentive Plan are disclosed in Note 16.

Superannuation Commitments

The Company contributes to individual employee accumulation superannuation plans at the statutory rate of the employee's wages and salaries, in accordance with statutory requirements, to provide benefits to employees on retirement, death or disability.

22. EXPENDITURE COMMITMENTS

Exploration

The Company and consolidated entity have certain obligations to perform minimum exploration work on mineral leases held. These obligations may vary over time, depending on the Company's and the consolidated entity's exploration programmes and priorities. As at balance date, total exploration expenditure commitments on tenements held by the Company and the consolidated entity which have not been provided for in the financial statements and which cover the following twelve month period amount to \$1,306,257 (2010: \$2,004,311). These obligations are also subject to variations by farm-out arrangements or sale of the relevant tenements.

Leased Premises

The Company does not have any rental commitments on the current leased premises.

PROSPERITY RESOURCES LIMITED & ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2011

23. SEGMENT INFORMATION

From 1 July 2009, operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to and reviewed by the Board of Directors. In this regard, such information is provided using similar measures to those used in preparing the statement of comprehensive income and statement of financial position. The Group operates only in the exploration industry, both in Australia and Indonesia with particular emphasis on strategic and precious metals.

30 June 2011	Australia	Indonesia	Unallocated	Total
	\$	\$	\$	\$
Revenue	271,706	74	-	271,780
Expenses	<u>(6,132,157)</u>	<u>(120,783)</u>	<u>(2,270)</u>	<u>(6,255,210)</u>
Segment Results	<u>(5,860,451)</u>	<u>(120,709)</u>	<u>(2,270)</u>	<u>(5,983,430)</u>
Assets	5,215,574	4,856,518	-	10,072,092
Liabilities	<u>(1,095,758)</u>	<u>(153,792)</u>	<u>(3,820)</u>	<u>(1,253,370)</u>
30 June 2010	Australia	Indonesia	Unallocated	Total
	\$	\$	\$	\$
Revenue	311,942	192	-	312,134
Expenses	<u>(5,296,023)</u>	<u>(279,572)</u>	<u>-</u>	<u>(5,575,595)</u>
Segment Results	<u>(4,984,081)</u>	<u>(279,380)</u>	<u>-</u>	<u>(5,263,461)</u>
Assets	5,251,179	2,924,079	-	8,175,258
Liabilities	<u>(1,561,370)</u>	<u>(128,749)</u>	<u>-</u>	<u>(1,690,119)</u>

24. EARNINGS / (LOSS) PER SHARE

Consolidated 2011 \$	Consolidated 2010 \$
-------------------------------------	-------------------------------------

The following reflects the loss and share data used in the calculations of basic and diluted earnings/(loss) per share:

Earnings/(loss) used in calculating basic and diluted earnings/(loss) per share	(5,983,430)	(5,263,461)
---	-------------	-------------

Number of Shares	Number of Shares
-------------------------	-------------------------

Weighted average number of ordinary shares used in calculating basic earnings/(loss) per share:	310,277,088	232,940,031
---	-------------	-------------

A diluted earnings per share has not been disclosed, as it results in a more favorable result per share than the basic loss per share

Consolidated 2011 \$	Consolidated 2010 \$
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25. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of Cash and Cash equivalents

Cash at bank	198,640	234,265
Cash on hand	7,552	536
Deposits at call	<u>1,165,423</u>	<u>302,514</u>
	1,371,615	537,315

PROSPERITY RESOURCES LIMITED & ITS CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

25. NOTES TO THE CASH FLOW STATEMENT (Continued)

(b) Reconciliation of the loss after income tax to the net cash flows used in operating activities:

Loss from operating activities after income tax	(5,983,430)	(5,263,461)
Adjustments for:		
Depreciation	40,154	39,123
Exploration expenditure written off	2,013,936	2,475,576
Provision for employee entitlements	27,150	32,769
Share based payment expenses	1,995,155	1,129,332
Borrowing costs	275,000	1,599,000
Provision for doubtful debts	172,467	-
Change in operating assets and liabilities		
(Decrease) / increase in creditors	(5,924)	121,698
(Increase) / decrease in prepayments	(23,102)	2,129
(Increase) / decrease in receivables	(12,548)	(130,427)
Net cash outflows used in Operating Activities	<u>(1,501,142)</u>	<u>5,739</u>

(c) Non-cash Investing and Financing Activities

The Company issued 2,000,000 shares at a deemed price of \$0.12 each for the services rendered by Mr Munshi for his role as the managing director of the Company.

26. FINANCIAL INSTRUMENTS

The Group's activities expose it to a variety of financial risks; market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and aging analysis for credit risk.

The Group and the parent entity hold the following financial instruments:

	Consolidated 2011 \$	Consolidated 2010 \$
Financial assets		
Cash and cash equivalents	1,371,615	537,315
Trade and other receivables (current and non-current)	955,564	247,746
	<u>2,327,179</u>	<u>785,061</u>
Financial liabilities		
Trade and other payables	603,305	609,229
Borrowings	526,540	1,001,540
	<u>1,129,845</u>	<u>1,610,769</u>

(a) Market Risk

Foreign Exchange Risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investment in foreign operation.

The Group has no foreign asset other than a US denominated bank account and a loan denominated in US dollars. All foreign exploration costs have been fully written off. Exploration expenditure commitments for all tenements are disclosed in note 22.

The Group has not formalised a foreign currency risk management policy, however it monitors its foreign currency expenditure in light of exchange rate movements.

PROSPERITY RESOURCES LIMITED & ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2011

26. FINANCIAL INSTRUMENTS (Continued)

The Group's exposure to foreign currency risk at the reporting date was as follow:

	30 June 2011 \$	30 June 2010 \$
Cash and Cash equivalents		
- US Dollars	105,685	115,109
- Indonesian Rupiah	262,128,582	-
Loan payable		
- US Dollars	557,983	800,000

Group Sensitivity

At present, the Group and parent entity are not exposed to any material foreign exchange risk or commodity price risk. The Group and parent entity does not have any material exposure to equity securities price risk.

Interest Rate Risk

The Group's main interest rate risk arises from cash and short – term deposits.

As at the reporting date, the Group had the following variable rate cash and cash equivalents outstanding:

	30 June 2011 <i>Weighted Average Interest Rate %</i>	Balance \$	30 June 2010 <i>Weighted Average Interest Rate %</i>	Balance \$
Financial Assets				
Cash at Bank	0.625	198,640	0.86	234,265
Cash in Hand	-	7,552	-	536
Term Deposits	5.30	1,165,423	4.66	302,514
Deposit paid	4.25	27,256	4.40	72,069
		1,398,871		609,384

Group Sensitivity

At 30 June 2011, if the interest rate had changed by 1% pa from the year end rates with all other variables held constant, post-tax losses for the year would have been \$139,888 lower/higher (2010 – \$6,094 lower/higher), mainly as a result of higher/lower interest income from cash and cash equivalents.

(b) Credit Risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of "B" are accepted. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

The maximum exposure to credit risk at the reporting date is the carrying of the financial assets which are summarised as follow:

	Consolidated 2011 \$	Consolidated 2010 \$
Trade Receivables		
<i>Counterparties without external credit rating</i>		
Group 1 *	-	-
Group 2 **	26,657	46,442
Group 3 ***	-	-
Total Trade Receivables	26,657	46,442
Cash at Bank & Short-Term Deposits		
<i>Counterparties with external credit rating (Moody's) B</i>	1,371,615	536,779
<i>Counterparties without external credit rating</i>	-	-
	1,371,615	536,779

PROSPERITY RESOURCES LIMITED & ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2011

26. FINANCIAL INSTRUMENTS (Continued)

* Group 1 -New Customers (less than 6 months)

** Group 2 -Existing customers (more than 6 months) with no defaults in the past

*** Group 3 -Existing customers (more than 6 months) with some defaults in the past.

All defaults were fully recovered.

27. CONTINGENT LIABILITIES

Subject to obtaining from the tenements indicated resources of 300,000oz of gold equivalent, the Company will issue 20,000,000 options at an exercise price of \$0.15 each to Bungarra Resources Limited on or before 31 July 2012. The Company will issue an additional 10,000,000 options at an exercise price of \$0.20 each to Bungarra Resources Limited on or before 31 July 2012 should a decision to mine any of the tenements be made by management. At the end of 30 June 2011, the Company has not issued any options and does not consider the issue of options to be highly probable.

On 16 June 2009, the Company entered into a Loan Agreement with Resource Global Finance Limited for USD500,000. This loan is secured by a charge on the Group's interest in a Cooperation Agreement with a partner to explore minerals in Indonesia. The loan was repayable on 31 March 2011, however the Group is in the process of negotiating an extension of period to repay the loan.

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

The Company has to issue 20,000,000 PSP shares to its joint venture partner in Indonesia for the assignment of interest in the joint venture agreements with PT BAM and PT MKM. These shares will be issued when the results of the preliminary survey and legal due diligence are complete and satisfactory.

Subject to completion of a JORC code compliance resource of between 500,000 to 1,000,000 ounces of content 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 MKM separately on a pro rata basis.

Other than the above, there were no other known material contingent liabilities.

28. SUBSEQUENT EVENTS

Subsequent to the year end, funds from the exercise of March 2011 options have been received.

Other than the above, there has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors' of the Company, to effect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in future periods.

29. PARENT ENTITY

(a) Financial Position as at 30 June 2011

	Parent 2011 \$	Parent 2010 \$
Total current assets	2,019,517	485,744
Total non-current assets	9,104,302	7,414,627
Total Assets	11,123,819	7,900,371
Total current liabilities	1,095,759	1,561,366
Total non-current liabilities	-	-
Total Liabilities	1,095,759	1,561,366
Net Assets	10,028,060	6,339,005
Equity		
Issued capital	31,656,803	24,923,577
Reserves	3,213,078	2,010,173
Accumulated losses	(24,841,821)	(20,594,745)
Total Equity	10,028,060	6,339,005

PROSPERITY RESOURCES LIMITED & ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2011

29. PARENT ENTITY (Continued)

Loss for the year	4,247,076	5,382,252
Other comprehensive income	-	-
	<hr/>	<hr/>
Total Comprehensive Loss for the year	4,247,076	5,382,252
	<hr/>	<hr/>

(b) Contingent Liabilities of the Parent

The Parent's contingent liabilities are consistent with those disclosed in Note 27.

(c) Capital Commitments

The Parent has no capital commitments, except exploration obligation disclosed in Note 22.

PROSPERITY RESOURCES LIMITED & ITS CONTROLLED ENTITIES

DIRECTORS' DECLARATION

In the opinion of the Directors of Prosperity Resources Limited ("the Company"):

- (a) the financial statements and notes as set out on pages 22 to 49 and the disclosures in the remuneration report which are included in the Directors' Report, are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards in Australia and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the financial position of the consolidated entity as at 30 June 2011 and of their performance as represented by the results of their operations and their cash flows for the year ended on that date.
- (b) the Acting Managing Director and Chief Financial Officer have each declared that:
 - (i) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - (ii) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (iii) the financial statements and notes for the financial year give a true and fair view.
- (c) 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.
- (d) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

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

Signed at Perth this 30th day of September 2011



M I Munshi
Managing Director

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Stantons International Audit and Consulting Pty Ltd
(ABN 84 144 581 519) trading as

Stantons International

Chartered Accountants and Consultants

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

Report on the Financial Report

We have audited the accompanying financial report of Prosperity Resources Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Prosperity Resources Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the consolidated financial report also complies with International Financial Reporting Standards as disclosed in note 1.

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

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

As referred to in Note 1 to the financial statements, the financial statements have been prepared on the going concern basis. At 30 June 2011, the consolidated entity had working capital surplus of \$1,094,925, Cash and cash equivalents of \$1,371,615 and had incurred a loss for the year amounting to \$5,983,430. The ability of the consolidated entity to continue as a going concern is subject to successful recapitalisation of the Group. In the event that the Board is not successful in recapitalising the Group and raising further funds, the consolidated entity may not be able to continue as a going concern.

The recoverability of the Group's carrying value of capitalised exploration costs \$7,439,929 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 Group 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.

Report on the Remuneration Report

We have audited the remuneration report included in pages 15 to 18 of the directors' report for the year ended 30 June 2011. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards

Auditor's opinion

In our opinion the remuneration report of Prosperity Resources Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

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

Stantons International Audit and Consulting Pty Ltd



J P Van Dieren
Director

West Perth, Western Australia
30 September 2011

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(ABN 84 144 581 519) trading as

Stantons International
Chartered Accountants and Consultants

30 September 2011

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

Dear Sirs

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 audit of the financial statements of Prosperity Resources Limited for the half year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

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



John Van Dieren
Director

PROSPERITY RESOURCES LIMITED & ITS CONTROLLED ENTITIES

ASX ADDITIONAL INFORMATION

Pursuant to the Listing Requirements of the Australian Securities Exchange Limited, the shareholder information set out below was applicable as at 13 September 2011.

Number of Shares

344,539,179 Ordinary Shares (PSP)

Distribution of Equity Securities

Analysis of numbers of shareholders by size of holding:

Distribution	Number of Shareholders
1 – 1,000	18
1,001 – 5,000	73
5,001 – 10,000	156
10,001 – 100,000	557
More than 100,000	176
Totals	980

Holders of Non Marketable Parcels

There were 14 holders of less than a marketable parcel of ordinary shares.

Substantial Shareholders

The following shareholders are recorded in the register of Substantial Shareholders

	Number	Percentage
DER LA NOBLE CORPORATION LIMITED	49,506,948	14.37
PRUFROCK PARTNERS LIMITED	41,199,000	11.96
INNER MONGOLIA TAI XI MEI GROUP CO LTD	20,000,000	5.80

Voting Rights

In accordance with the Company's Constitution, voting rights in respect of ordinary shares are on a show of hands whereby each member present in person or by proxy shall have one vote and upon a poll each share shall have one vote.

On-market buy back

There is currently no on-market buy back of the Company's securities.

Use of cash and assets

From the period of ASX Listing (24 November 2003) until the date of this report, the Company has used the cash and assets as declared on admission to the ASX, in a form consistent with the Company's business objectives.

PROSPERITY RESOURCES LIMITED & ITS CONTROLLED ENTITIES

ASX ADDITIONAL INFORMATION

Twenty Largest Shareholders

The names of the twenty largest holders of shares are listed below:

Rank	Name	Units	% of Issued Capital
1	JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	83,192,126	24.15
2	DER LA NOBLE CORPORATION LIMITED	49,506,948	14.37
3	PRUFROCK PARTNERS LIMITED	41,199,000	11.96
4	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	20,400,000	5.92
5	INNER MONGOLIA TAI XI MEI GROUP CO LTD	20,000,000	5.80
6	GRAVITY LIMITED	10,055,000	2.92
7	UBS NOMINEES PTY LTD	7,598,932	2.21
8	BOOM SECURITIES (HK) LTD <CLIENTS ACCOUNT>	7,467,000	2.17
9	R & K GLOBAL FINANCE LTD	6,000,000	1.74
10	MR PETER ROBERT OTTON + MRS CAROLE ANNE OTTON <OTTON SUPER FUND A/C>	3,900,000	1.13
11	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,024,164	0.88
12	ZAFUM HOLDINGS LTD	3,000,000	0.87
13	CITICORP NOMINEES PTY LIMITED	2,645,215	0.77
14	BASE ASIA PACIFIC LIMITED	2,400,000	0.70
15	ASHABIA PTY LTD (SUPERANNUATION FUND A/C>	2,100,000	0.61
16	MR HUGH KNOWLAND BABBAGE	2,000,000	0.58
17	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C>	1,980,276	0.57
18	NATIONAL NOMINEES LIMITED	1,838,577	0.53
19	MR JOHN PHILLIP ARBUCKLE	1,500,000	0.44
20	MIDWAY SECURITIES PTY LTD	1,500,000	0.44

PROSPERITY RESOURCES LIMITED & ITS CONTROLLED ENTITIES

SUMMARY OF TENEMENTS

(as at 13 September 2011)

Project	Lease	Equity	Joint Venture	Operator
Located in Australia:				
Mt Gibson	E 59/0878	75%	Mawson West Ltd	Prosperity Resources
Mt Gibson	E 59/0903	75%	Mawson West Ltd	Prosperity Resources
Mt Gibson	E 59/1102	75%	Mawson West Ltd	Prosperity Resources
Paynes Find	E 59/0853	75%	Mawson West Ltd	Prosperity Resources
Tennant Creek	E 23738	100%	-	Prosperity Resources
Tennant Creek	E 23818	100%	-	Prosperity Resources
Tennant Creek	E 23819	100%	-	Prosperity Resources
Tennant Creek	E 23828	100%	-	Prosperity Resources
Tennant Creek	E 23846	100%	-	Prosperity Resources
Tennant Creek	E 23873	100%	-	Prosperity Resources
Tennant Creek	E 23890	100%	-	Prosperity Resources
Tennant Creek	E 23895	100%	-	Prosperity Resources
Tennant Creek	E 23918	100%	-	Prosperity Resources
Tennant Creek	E 24158	100%	-	Prosperity Resources
Tennant Creek	E 26756	100%	-	Prosperity Resources
Tennant Creek	E 26757	100%	-	Prosperity Resources
Yalgoo East	M 59/0525	*	*	Ferrowest
Yalgoo East	M 59/0634	*	*	Ferrowest
Yalgoo East	M 59/0635	*	*	Ferrowest
Yalgoo East	M 59/0636	*	*	Ferrowest
Yalgoo East	M 59/0637	*	*	Ferrowest
Yalgoo North	M 59/0428	75%	Platinum Australia	Prosperity Resources
Yalgoo North	M 59/0429	75%	Platinum Australia	Prosperity Resources
Yalgoo North	M 59/0282	75%	Platinum Australia	Prosperity Resources
Yalgoo North	M 59/0283	75%	Platinum Australia	Prosperity Resources
Yalgoo North	M 59/0284	75%	Platinum Australia	Prosperity Resources
Yalgoo North	M 59/0285	75%	Platinum Australia	Prosperity Resources
Yalgoo North	M 59/0322	75%	Platinum Australia	Prosperity Resources
Yalgoo North	M 59/0323	75%	Platinum Australia	Prosperity Resources
Yalgoo North	M 59/0324	75%	Platinum Australia	Prosperity Resources
Yalgoo North	M 59/0329	75%	Platinum Australia	Prosperity Resources
Yalgoo North	M 59/0407	100%	-	Prosperity Resources
Yalgoo North	M 59/0408	75%	Platinum Australia	Prosperity Resources
Yalgoo North	P 59/1677	100%	-	Prosperity Resources
Yalgoo North	P 59/1678	100%	-	Prosperity Resources
Yalgoo West	M 59/057	100%	-	Prosperity Resources
Yalgoo West	E 59/1339	100%	-	Prosperity Resources
Yalgoo West	E 59/1341	100%	-	Prosperity Resources
Yalgoo West	P 59/1818	100%	-	Prosperity Resources
Located in Aceh, Indonesia				
PT MMU	-	80%	-	Prosperity Resources
PT AWC	-	93%	-	Prosperity Resources
PT ATP	-	93%	-	Prosperity Resources
PT AMN	-	93%	-	Prosperity Resources
PT MKM	-	51%	-	Prosperity Resources
PT BAM	-	51%	-	Prosperity Resources

E - Exploration Licence
M - Mining Lease
P - Prospecting

* Prosperity retains certain mineral rights to portions of these tenements.