



PROSPERITY

Prosperity Resources Limited

ABN 60 103 280 235

and its

Controlled Entities

Half Year Financial Statement

31 December 2009

PROSPERITY RESOURCES LIMITED AND ITS CONTROLLED ENTITIES

COMPANY DIRECTORY

DIRECTORS

Mohammed (Mo) Ibrahim Munshi
John Phillip Arbuckle
Sebastian Hempel

COMPANY SECRETARY

Garry Taylor

PRINCIPAL REGISTERED OFFICE

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SHARE REGISTRY

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AUDITORS

Stantons International
Level 1, 1 Havelock Street
West Perth, Western Australia, 6005

STOCK EXCHANGE LISTING

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

ASX Code: **PSP**

PROSPERITY RESOURCES LIMITED AND ITS CONTROLLED ENTITIES

DIRECTORS' REPORT

The Directors present their report together with the consolidated financial statement for the half-year ended 31 December 2009 and the audit review report thereon.

DIRECTORS

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

Mohammed (Mo) Ibrahim Munshi
John Phillip Arbuckle
Sebastian Hempel

RESULTS OF OPERATIONS

The total comprehensive loss of the consolidated entity for the six months to 31 December 2009 amounted to \$1,857,311 (Half year ended 31 December 2008: \$2,726,757 loss).

REVIEW OF OPERATIONS

Prosperity acquired the Pinang-Pinang Project in Aceh Province in April 2009. The Company has continued exploration which included a diamond drilling program at the Pala Prospect. Encouraging gold and copper results has been announced from the program. The Company's next phrase of action will involve generating deeper drilling targets.

During the half year, the Company reached an agreement to acquire two additional projects to the northwest of our Pinang-Pinang Project. These highly prospective licences are located within the same geological belt of island arc-related intrusive rocks between 20 to 50km from Pinang Pinang. The Company is currently conducting due diligence to determine the prospectivity of the areas.

The Company announced a share placement to key North American and Asian investors on the 26th October 2009 to support ongoing exploration activities. The placement comprised of 8.7 million shares at 15 cents each, raising \$1.3 million.

A comprehensive review of the Company's Tennant Creek project was undertaken in October 2009 with a view to selecting priority targets for testing in the second half year.

The Company continues its efforts to divest the Yalgoo and Mount Gibson projects in Western Australia which are not considered to be core assets.

It is recommended that this half-yearly statement be read in conjunction with the 30 June 2009 Annual Report and any public announcements made by the Company during the half year.

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

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act is set out on page 14.

PROSPERITY RESOURCES LIMITED AND ITS CONTROLLED ENTITIES

DIRECTORS' REPORT

Dated at Perth this 10th day of March 2010

Signed in accordance with a resolution of the Directors.



.....
M I Munshi
Acting Managing Director

PROSPERITY RESOURCES LIMITED AND ITS CONTROLLED ENTITIES
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

		31 December 2009	31 December 2008
		\$	\$
Revenue	Note		
Interest income	2	18,454	32,056
Other income	2	207,557	85,456
Total revenue		226,011	117,512
Operating costs:			
Depreciation		17,888	21,707
Employee expenses		269,684	286,799
Exploration and project expenditure		438,301	1,909,825
Occupancy expenses		27,644	89,660
Other operating costs		202,322	281,705
Borrowing costs		1,599,000	250,000
Share based payment expenses		126,500	4,573
Total expenses		2,681,339	2,844,269
Loss before income tax		(2,455,328)	(2,726,757)
Income tax refund / (expense)		604,211	-
		(1,851,117)	(2,726,757)
Loss after income tax		(1,851,117)	(2,726,757)
Other comprehensive income			
Currency translation differences		(11,742)	-
Total other comprehensive loss		(1,862,859)	(2,726,757)
Comprehensive loss for the period		(1,862,859)	(2,726,757)
Attributable to shareholders of Prosperity Resources Limited		(1,857,311)	(2,726,757)
Attributable to non-controlling interest		(5,548)	-
Earnings per share			
Basic loss per share – cents	6	(0.87)	(1.53)

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

The consolidated statement of comprehensive income should be read in conjunction with the accompanying condensed notes.

PROSPERITY RESOURCES LIMITED AND ITS CONTROLLED ENTITIES

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2009

	Note	31 December 2009 \$	30 June 2009 \$
CURRENT ASSETS			
Cash and cash equivalents	3	975,405	285,358
Trade and other receivables		1,099,248	46,018
Prepayments		64,622	27,398
TOTAL CURRENT ASSETS		2,139,275	358,774
NON-CURRENT ASSETS			
Other receivables		72,335	71,301
Property, plant and equipment		232,829	222,740
Capitalised mineral exploration and evaluation expenditure		7,797,941	6,609,220
TOTAL NON-CURRENT ASSETS		8,103,105	6,903,261
TOTAL ASSETS		10,242,380	7,262,035
CURRENT LIABILITIES			
Trade and other payables		504,427	487,530
Provisions		83,430	46,581
Borrowings	4	1,460,683	854,244
TOTAL CURRENT LIABILITIES		2,048,540	1,388,355
TOTAL LIABILITIES		2,048,540	1,388,355
NET ASSETS		8,193,840	5,873,680
EQUITY			
Issued capital	7	23,649,332	20,211,332
Reserves		1,607,341	874,841
Accumulated losses		(17,069,804)	(15,212,493)
Non-controlling Interest		6,971	-
TOTAL EQUITY		8,193,840	5,873,680

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

PROSPERITY RESOURCES LIMITED AND ITS CONTROLLED ENTITIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDED 31 DECEMBER 2009

		31 December 2009	31 December 2008
		\$	\$
	Note		
Cash flows from operating activities			
Cash payments in the course of operations		(431,545)	(635,993)
Interest received		16,369	41,867
Other income received		79,544	106,509
R&D Tax refund		604,211	-
Net cash flows used in operating activities		268,579	(487,617)
Cash flows from investing activities			
Payments for exploration and evaluation expenditure		(1,673,064)	(1,818,586)
Payments to acquire fixed assets		(6,069)	(3,970)
Proceeds from disposal of investment		130,352	-
Net cash flows used in investing activities		(1,548,781)	(1,822,556)
Cash flows from financing activities			
Proceeds from issue of shares		1,305,000	-
Proceeds from borrowings		665,249	500,000
Net cash flows from financing activities		1,970,249	500,000
Net increase / (decrease) in cash and cash equivalents		690,047	(1,810,173)
Cash and cash equivalents at beginning of period		285,358	1,939,532
Cash and cash equivalents at end of period	3	975,405	129,359

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

PROSPERITY RESOURCES LIMITED AND ITS CONTROLLED ENTITIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	Issued Capital	Accumulated Losses	Reserves	Non- controlling interest	Total
As at 1 July 2008	18,831,332	(11,589,687)	730,610	-	7,972,255
Loss for the period	-	(2,726,757)	-	-	(2,726,757)
Issue of shares / options	180,000	-	104,573	-	284,573
As at 31 December 2008	19,011,332	(14,316,444)	835,183	-	5,530,071
As at 1 July 2009	20,211,332	(15,212,493)	874,841	-	5,873,680
Total comprehensive loss for the period					
Loss for the period	-	(1,846,743)	-	(4,374)	(1,851,117)
Other comprehensive income					
Currency translation differences	-	(10,568)	-	(1,174)	(11,742)
Total other comprehensive loss	-	(10,568)	-	(1,174)	(11,742)
Total comprehensive loss for the period	-	(1,857,311)	-	(5,548)	(1,862,859)
Transactions with owner recorded directly into equity					
Issue of shares	3,438,000	-	-	12,519	3,450,519
Share based payment	-	-	732,500	-	732,500
As at 31 December 2009	23,649,332	(17,069,804)	1,607,341	6,971	8,193,840

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

PROSPERITY RESOURCES LIMITED AND ITS CONTROLLED ENTITIES

CONDENSED NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2009

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

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

It is recommended that this financial statement be read in conjunction with the annual financial report for the year ended 30 June 2009 and any public announcements made by Prosperity Resources Limited during the half year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

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

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

For the purpose of preparing the half-year financial statement, the half-year has been treated as a discrete reporting period. The accounting policies adopted are consistent with those of the previous financial year and corresponding half-year financial statement.

The same accounting policies and methods of computation have been followed in this interim financial statement as were applied in the most recent annual financial statements except for the adoption of the following new and revised Accounting Standards.

Accounting Standards not previously applied

The Group has adopted the following new and revised Australian Accounting Standards issued by the AASB which are mandatory to apply to the current interim period. Disclosures required by these Standards that are deemed material have been included in this financial statement on the basis that they represent a significant change in information from that previously made available.

Presentation of Financial Statements

AASB 101 prescribes the contents and structure of the financial statements. Changes reflected in this financial report include:

- the replacement of income statement with statement of comprehensive income. Items of income and expense not recognised in profit and loss are now disclosed as components of 'other comprehensive income'. In this regard, such items are no longer reflected as equity movements in the statement of changes in equity;
- other financial statements are renamed in accordance with the Accounting Standards;&
- presentation of a third statement of financial position as at the beginning of a comparative financial year where relevant amounts have been affected by a retrospective change in accounting policy or material reclassification of items.

PROSPERITY RESOURCES LIMITED AND ITS CONTROLLED ENTITIES

CONDENSED NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2009

Operating Segments

From 1 July 2009, operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or 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.

Going Concern Basis

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

The Group raised \$2.3 million during the current interim period. As at 31 December 2009, the Group has cash and cash equivalents of \$975k. An additional \$1 million was received subsequent to the half year end. It is considered that the Group should have sufficient funds to enable it to meet its obligation. If the Group 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.

	31 December 2009	31 December 2008
Note 2: Revenue	\$	\$
Revenue		
Interest received – other entities	18,454	32,056
Other income – consulting fees	77,206	85,456
Other income – gain from disposal of investments	130,351	-
Total Revenue	226,011	117,512
Note 3: Cash and cash equivalents		
Cash at bank	462,848	129,359
Cash deposits	512,557	-
	975,405	129,359

PROSPERITY RESOURCES LIMITED AND ITS CONTROLLED ENTITIES

CONDENSED NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

Note 4: Borrowings

In October 2008, the Group took a A\$500,000 interest free loan from a third party. The loan is secured by a fixed charge over the Group's interest in a Cooperation Agreement with a local partner to explore minerals in Indonesia. This loan was repaid in full subsequent to 31 December 2009.

In June 2009, the Group took a second US\$500,000 interest free loan to fund exploration work on the Pinang Pinang project in Indonesia and for general working capital. The loan is secured by a second fixed charge over the Group's interest in a Cooperation Agreement with a local partner. This loan is repayable in full on 30 June 2010.

Other borrowings, apart from those stated above are unsecured, non-interest bearing and repayable upon demand.

Note 5: Segment Reporting

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 overseas with particular emphasis on strategic and precious metals.

31/12/2009	Australia	Indonesia	Unallocated	Total
	\$	\$	\$	\$
Revenue	225,862	149	-	226,011
Expenses	<u>(2,637,453)</u>	<u>(43,886)</u>	<u>-</u>	<u>(2,681,339)</u>
Segment Results	<u>(2,411,591)</u>	<u>(43,737)</u>	<u>-</u>	<u>(2,455,328)</u>

31/12/2008	Australia	Indonesia	Unallocated	Total
	\$	\$	\$	\$
Revenue	117,512	-	-	117,512
Expenses	<u>(2,597,872)</u>	<u>(246,397)</u>	<u>-</u>	<u>(2,844,269)</u>
Segment Results	<u>(2,480,360)</u>	<u>(246,397)</u>	<u>-</u>	<u>(2,726,757)</u>

Note 6: Earnings per share

	2009	2008
	Number	Number
Weighted average number of ordinary shares used in the calculation of basic earnings per share	212,587,601	178,242,764

PROSPERITY RESOURCES LIMITED AND ITS CONTROLLED ENTITIES

CONDENSED NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

Note 7: Issued Capital	Number	\$
Ordinary shares at 1 July 2009	205,075,373	20,211,332
Shares issued at \$0.062 each (3 August 2009)	2,000,000	124,000
Shares issued at \$0.15 each (26 October 2009)	8,700,000	1,305,000
Shares issued at \$0.03 each (24 November 2009)	4,650,000	140,000
Shares issued at \$0.11 each (3 December 2009)	12,000,000	869,000
Shares issued at \$0.10 each (31 December 2009) *	10,000,000	1,000,000
Ordinary shares at 31 December 2009	<u>242,425,373</u>	<u>23,649,332</u>

* - Funds was classified as receivables at half year end and subsequently received.

Note 8: Share based payments

During the half year, 15 million unlisted options were approved and issued. These options were valued under a Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted.

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

Fair Value Per Option		
Grant date	1 Aug 09	31 Dec 09
Number of options	10,000,000	5,000,000
Vesting date	3 Dec 09	27 Jan 10
Expiry date	30 Sep 10	30 Sep 10
Exercise price	2 cents	2 cents
Price of shares on grant date	\$0.062	\$0.115
Estimated volatility	70%	70%
Risk-free interest rate	3.75%	3.75%
Divided yield	-	-
Non listed status discount	20%	20%
Fair value	\$0.035	\$0.076

PROSPERITY RESOURCES LIMITED AND ITS CONTROLLED ENTITIES

CONDENSED NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

Note 9: Options

During the half year, the following options were granted to Resource Global Finance Limited (RGF):

- 10,000,000 unlisted options exercisable at \$0.02 on or before 30 September 2010 with a fair value of \$0.062 per share for extension of repayment period; &
- 5,000,000 unlisted options exercisable at \$0.02 on or before 30 September 2010 with a fair value of \$0.115 per share as a fee for a US\$500,000 interest free loan.

These options vest upon issue and were fully expensed during the period. Upon exercise, these options will be settled in ordinary shares of Prosperity Resources.

The fair values of the options are estimated at grant date using the Black-Scholes option pricing model.

Note 10: Contingent Liabilities and Contingent Assets

The Company may need to issue additional shares and options to a third party if the loan is not repaid by 30 June 2010 as disclosed in Note 4 of the Notes to Financial Statements.

Note 11: Dividends

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

Note 12: Events Subsequent to Reporting Date

Subsequent to period end, the Company received \$1 million from the exercise of options from a strategic investor. In addition, 10,000,000 fully paid ordinary shares were issued at \$0.05 each from the exercise of options, raising \$500,000.

PROSPERITY RESOURCES LIMITED AND ITS CONTROLLED ENTITIES

DIRECTORS' DECLARATION

In the opinion of the Directors of Prosperity Resources Limited:

1. the financial statements and notes set out on pages 4 to 12
 - (a) give a true and fair view of the financial position of the economic entity as at 31 December 2009 and of its performance, as represented by the results of its operations and cash flows for the half year ended on that date; and
 - (b) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations; and
2. there are reasonable grounds to believe that the economic entity will be able to pay its debts as and when they become due and payable.

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

Dated at Perth this 10th day of March 2010.



.....
M I Munshi
Acting Managing Director

Stantons International

ABN 41 103 088 697

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WEST PERTH WA 6005, AUSTRALIA
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10 March 2010

Board of Directors
Prosperity Resources Ltd
100 Parry Street
PERTH WA 6000

Dear Sirs

RE: PROSPERITY RESOURCES LTD

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 Ltd.

As Audit Director for the review of the financial statements of Prosperity Resources Ltd for the half year ended 31 December 2009, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely
STANTONS INTERNATIONAL
(Authorised Audit Company)



Keith Lingard
Director

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Prosperity Resources Limited, which comprises the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flow for the half-year ended on that date, a condensed statement of accounting policies, other selected explanatory notes and the directors' declaration. The consolidated entity comprises both Prosperity Resources Ltd ("the Company") and the entities it controlled during that half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim And Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Prosperity Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to

obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, has been provided to the directors of Prosperity Resources Limited on 10 March 2010.

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

Emphasis of matter regarding Going Concern and carrying value of capitalised exploration costs

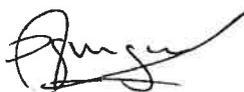
Without qualification to the review conclusion expressed above, attention is drawn to the following matters:

As referred to in Note 1 to the financial statements, the financial statements have been prepared on the going concern basis. At 31 December 2009 the consolidated entity had working capital of \$90,735 and had incurred a loss for the half year of \$1,857,311. The ability of the consolidated entity to continue as a going concern is subject to the successful recapitalisation of the Group. In the event that the Board is not successful in recapitalising the Group and in 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 \$7,797,941 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.

STANTONS INTERNATIONAL (Authorised Audit Company)

Stantons International



Keith Lingard
Director
West Perth, Western Australia
10 March 2010