

PROSPERITY GOLDFIELDS CORP.

**CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2011
(EXPRESSED IN CANADIAN DOLLARS)**

(UNAUDITED - PREPARED BY MANAGEMENT)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed interim financial statements of Prosperity Goldfields Corp. for the three and six months ended September 30, 2011 have been prepared by the management of the Company and approved by the Company's Audit Committee and the Company's Board of Directors. Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of the interim financial statements by an entity's auditor.

PROSPERITY GOLDFIELDS CORP.**UNAUDITED CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION**

(EXPRESSED IN CANADIAN DOLLARS)

AS AT

	September 30, 2011	March 31, 2011
ASSETS		
Current		
Cash and cash equivalents (Note 7)	\$ 3,303,443	\$ 2,612,248
Receivables (Note 8)	128,980	46,940
Prepaid expenses (Note 9)	29,476	41,887
	3,461,899	2,701,075
Deferred transaction costs (Note 14)	-	7,490
Property, plant and equipment (Note 10)	723,243	380,418
Exploration and evaluation expenditures (Note 11)	5,262,833	2,064,087
	\$ 9,447,975	\$ 5,153,070
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 13)	\$ 227,568	\$ 283,737
Restoration, rehabilitation and environmental obligations (Note 12)	\$ 153,258	\$ -
	380,826	283,737
Shareholders' equity		
Shares to be Issued (Note 11)	10,000	2,001,181
Capital stock (Note 14)	8,152,738	2,934,703
Reserves (Note 14)	2,623,697	736,691
Deficit	(1,719,286)	(803,242)
	9,067,149	4,869,333
	\$ 9,447,975	\$ 5,153,070

Nature and continuance of operations (Note 1)**Commitments and contingencies** (Notes 11 and 17)**Subsequent events** (Note 18)**On behalf of the Board:**

_____, Director

_____, Director

See accompanying notes to the unaudited condensed interim financial statements.

PROSPERITY GOLDFIELDS CORP.**UNAUDITED CONDENSED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS****(EXPRESSED IN CANADIAN DOLLARS)****FOR THE PERIODS ENDED**

	Three months ended September 30, 2011	Three months ended September 30, 2010	Six months ended September 30, 2011	Six months ended September 30, 2010
EXPENSES				
Amortization	\$ 31,803	\$ -	\$ 43,690	-
Management fees (Note 13)	36,000	-	69,000	-
Office, rent, and miscellaneous	12,022	-	21,998	-
Professional fees	10,973	-	12,358	-
Share based compensation	725,044	-	725,044	-
Shareholder communications and promotion	18,543	-	22,815	-
Transfer agent and filing fees	13,997	-	29,480	-
Travel and accommodation	<u>2,810</u>	<u>-</u>	<u>11,475</u>	<u>-</u>
Loss before other items	<u>851,192</u>	<u>-</u>	<u>935,860</u>	<u>-</u>
OTHER ITEMS				
Foreign exchange gain	1,560	-	605	-
Interest income	<u>(9,483)</u>	<u>-</u>	<u>(20,421)</u>	<u>-</u>
	<u>(7,923)</u>	<u>-</u>	<u>(19,816)</u>	<u>-</u>
Net loss and other comprehensive loss for the period	\$ 843,269	\$ -	\$ 916,044	\$ -
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Basic and diluted net loss per common share	\$ 0.02	\$ 0.00	\$ 0.02	\$ 0.00
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Weighted average number of common shares outstanding	41,826,110	-	40,596,385	-

See accompanying notes to the unaudited condensed interim financial statements.

PROSPERITY GOLDFIELDS CORP.**UNAUDITED CONDENSED INTERIM STATEMENTS OF CASH FLOWS****(EXPRESSED IN CANADIAN DOLLARS)****FOR THE SIX MONTH PERIODS ENDED**

	September 30, 2011	September 30, 2010 (Note 11)
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss for the period	\$ (916,044)	\$ -
Items not affecting cash:		
Amortization	43,690	-
Share based compensation	725,044	-
	(147,310)	-
Change in non-cash working capital items:		
(Increase) in receivables	(82,040)	-
Decrease in prepaid expenses	12,411	-
(Decrease) in accounts payable and accrued liabilities	(68,854)	-
Net cash flows from operating activities	(285,793)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from private placements	4,340,000	-
Share issue costs	(182,659)	-
Proceeds from warrant exercises	150,075	-
Amounts contributed by Evolving	-	382,820
Net cash flows from financing activities	4,307,416	382,820
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation expenditures	(3,097,171)	(382,820)
Purchase of property, plant and equipment	(233,257)	-
Net cash flows from investing activities	(3,330,428)	(382,820)
Increase in cash and cash equivalents	691,195	-
Cash and cash equivalents, beginning of period	2,612,248	-
Cash and cash equivalents, end of period	\$ 3,303,443	\$ -
Comprised of:		
Cash	588,086	-
Money market instruments	2,715,357	-
Cash paid for taxes during the period	-	-

Supplemental disclosure with respect to cash flows (Note 15)

See accompanying notes to the unaudited condensed interim financial statements.

PROSPERITY GOLDFIELDS CORP.
UNAUDITED CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY
(EXPRESSED IN CANADIAN DOLLARS)

					<i>Reserves</i>				
	Number of Shares	Capital Stock	Shares to be Issued	Equity settled share- based payments reserve	Warrant reserve	Deficit	Total		
Balance, April 1, 2010	-	\$ -	\$ -	\$ 1,004,339	\$ -	\$ -	\$ 1,004,339		
Exploration and evaluation expenditures funded by Evolving (Note 11)	-	-	-	413,620	-	-	413,620		
Net loss and comprehensive loss for the six month period	-	-	-	-	-	-	-		
Balance, September 30, 2010	-	-	-	1,417,959	-	-	1,417,959		
Issued pursuant to incorporation	1	-	-	-	-	-	-		
Issued pursuant to private placements	10,000,000	1,216,744	-	-	283,256	-	1,500,000		
Subscription funds received	-	-	2,001,181	-	-	-	2,001,181		
Share based compensation	-	-	-	453,435	-	-	453,435		
Issuance of shares for purchase of Kiyuk (Note 11)	12,766,395	1,417,959	-	(1,417,959)	-	-	-		
Issued pursuant to funding agreement	2,000,000	300,000	-	-	-	-	300,000		
Net loss and comprehensive loss for the six month period	-	-	-	-	-	(803,242)	(803,242)		
Balance, March 31, 2011	24,766,396	2,934,703	2,001,181	453,435	283,256	(803,242)	4,869,333		
Issued pursuant to private placement	17,970,604	5,099,870	(2,001,181)	-	1,241,311	-	4,340,000		
Issued as finder's fees on private placement	145,800	80,190	-	-	-	-	80,190		
Issued pursuant to acquisition of mineral properties	60,000	71,400	10,000	-	-	-	81,400		
Issued pursuant to exercise of warrants	333,500	150,075	-	-	-	-	150,075		
Fair value of warrants exercised	-	32,683	-	-	(32,683)	-	-		
Share issue costs-cash	-	(149,840)	-	-	(32,819)	-	(182,659)		
Share issue costs-non cash	-	(66,343)	-	-	(13,847)	-	(80,190)		
Share based compensation	-	-	-	725,044	-	-	725,044		
Net loss and comprehensive loss for the six month period	-	-	-	-	-	(916,044)	(916,044)		
Balance, September 30, 2011	43,276,300	\$ 8,152,738	\$ 10,000	\$ 1,178,479	\$ 1,445,218	\$ (1,719,286)	\$ 9,067,149		

PROSPERITY GOLDFIELDS CORP.**NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS****(EXPRESSED IN CANADIAN DOLLARS)****FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2011**

1. NATURE AND CONTINUANCE OF OPERATIONS

Prosperity Goldfields Corp. (hereafter the "Company") was incorporated on September 10, 2010 under the Canada Business Corporations Act. At the time of incorporation, the Company was a wholly owned subsidiary of Evolving Gold Corp. ("Evolving"). The Company's principal business is the acquisition and exploration of mineral properties for the mining of precious and base metals. The Company is at the early stages of development on its projects and as such, to date, has not generated significant revenues from its operations.

The Company's head office is located at 1166 Alberni Street, Suite 605, Vancouver, British Columbia, V6E 3Z3.

The unaudited condensed interim financial statements were approved by the Board of Directors on November 16, 2011.

The Company is in the process of exploring its mineral properties and has not yet determined whether the properties contain reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation expenditures are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves, the achievement of profitable production, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

The Company's exploration activities are subject to various federal and provincial laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

The Company and Evolving entered into a series of transactions by which the assets of Evolving relating to a property known as the "Kiyuk Property" near Nueltin Lake in Nunavut were transferred to Prosperity in consideration for common shares of Prosperity, and such common shares were distributed to eligible shareholders of Evolving by way of a dividend in kind. This series of transactions is referred to as the "Spin Out Transaction". The Company filed a long form prospectus with the Securities Commissions to qualify the stock dividend to be issued pursuant to the Spin Out Transaction. On February 2, 2011, the Company filed its final Prospectus and became a reporting issuer in all provinces and territories of Canada. On March 3, 2011, the Spin Out Transaction was complete and the Company became publically traded on the TSXV under the symbol PPG.

As Prosperity acquired the Kiyuk property from its parent at the time, these financial statements have been prepared on a continuity of interest basis.

These unaudited condensed interim financial statements have been prepared with the assumption that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. As at September 30, 2011, the Company had working capital of \$3,234,331 and an accumulated deficit of \$1,719,286 compared to working capital of \$2,417,338 and an accumulated deficit of \$803,242 as at March 31, 2011. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. Management believes it will be successful in raising the necessary funding to continue operations in the normal course of operations. These condensed interim financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

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PROSPERITY GOLDFIELDS CORP.**NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**

(EXPRESSED IN CANADIAN DOLLARS)

FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2011

2. STATEMENT OF COMPLIANCE

These condensed interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"), and its interpretations. Accordingly, these condensed interim financial statements do not include all of the information and footnotes required by International Financial Reporting Standards ("IFRS") for complete financial statements for year-end reporting purposes.

The Company's first quarter 2011 financial statements were its first IFRS condensed interim statements and accordingly included reconciliations of the impact of the transition from Canadian Generally Accepted Accounting Principles (GAAP) to IFRS on April 1, 2010, June 30, 2010 and March 31, 2011 previously reported results. The Company's current accounting policies and IFRS 1 exemptions are consistent with those provided in the Company's first quarter 2011 condensed interim statements. The impact of the transition from GAAP to IFRS for the three and six months ended September 30, 2011 is explained in Note 19.

3. BASIS OF PRESENTATION

These condensed interim financial statements have been prepared on a historical cost basis except for financial instruments classified as held-for-trading, which are stated at their fair value, and restoration, rehabilitation and environmental obligations, which is recorded at management's best estimate. In addition these condensed interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

In the preparation of these unaudited condensed interim financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the period. Actual results could differ from these estimates. Results for the period ended September 30, 2011, are not necessarily indicative of results that may be expected for the full year ending March 31, 2012.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these unaudited condensed interim financial statements.

Cash and cash equivalents

Cash and equivalents include balances with banks and short-term investments with original maturities of 90 days or less which are readily convertible into a known amount of cash. The Company's cash and cash equivalents are invested with major financial institutions in business accounts and guaranteed investment certificates that are available on demand by the Company.

Financial instruments

Financial assets and financial liabilities that are purchased and incurred with the intention of generating profits in the near term are classified as held-for-trading. These instruments are measured at fair value with subsequent changes in fair value recognized in the statement of loss and comprehensive loss. Currently, the Company's cash equivalents are classified as held-for-trading.

Financial assets that have a fixed maturity date and fixed or determinable payments, where the Company intends and has the ability to hold the financial asset to maturity are classified as held-to-maturity and are measured at amortized cost using the effective interest rate method. Any gains and losses arising from the sale of held to maturity financial assets are recognized in the statement of loss and comprehensive loss. Currently, the Company has no held-to-maturity financial assets.

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PROSPERITY GOLDFIELDS CORP.**NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS****(EXPRESSED IN CANADIAN DOLLARS)****FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2011**

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**Financial instruments (Continued)**

Items classified as loans and receivables are measured at amortized cost using the effective interest method. Any gains or losses on the realization of loans and receivables are recognized in the statement of loss and comprehensive loss. The Company's cash and receivables are classified as loans and receivables. The estimated fair values of these financial instruments approximate their carrying values because of the limited terms of these instruments.

Available-for-sale assets are those financial assets that are not classified as held-for-trading, held-to-maturity or loans or receivables, and are carried at fair value. Any gains or losses arising from the change in fair value are recorded as other comprehensive income. Available-for-sale investments are written down to fair value through operations whenever it is necessary to reflect other than temporary impairment. Cumulative gains and losses arising upon the sale of the instrument are included in operations. Currently, the Company has no available-for-sale financial assets. Regular way purchases and sales of financial assets are accounted for at the trade date.

Financial liabilities that are not classified as held-to-maturity are classified as other financial liabilities, and are carried at amortized cost using the effective interest method. Any gains or losses arising from the realization of other financial liabilities are recognized in the statement of loss and comprehensive loss. The Company has classified accounts payable and accrued liabilities as other financial liabilities, which are carried at amortized cost. Due to their short-term natures, the fair values of these financial instruments approximate their carrying values, and are not subject to significant credit or interest rate risk.

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). At September 30, 2011, the Company's financial instruments that were carried at fair value, consisted of cash equivalents which have been classified as Level 2 within the fair value hierarchy. There were no financial instruments carried at fair value as of March 31, 2011.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that the estimated future cash flows of the assets have been negatively impacted. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the amount of the impairment and the loss is recognized in the statement of loss and comprehensive loss.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in the statement of loss and comprehensive loss.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairments previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the statement of loss and comprehensive loss.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non financial assets

At each date of the statement of financial position, the Company reviews the carrying amounts of its non-financial assets to determine whether there is an indication that those assets have suffered an impairment loss. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of the fair value less costs to sell and the value in use. If the recoverable amount is less than the carrying amount of the asset, the carrying amount is reduced to the recoverable amount and the impairment loss is recognized in the statement of loss and comprehensive loss.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated amortization and accumulated impairment losses. The cost of an item consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Company amortizes the cost less estimated residual values on a straight-line method over the estimated useful life of the asset. The estimated useful lives of the assets are as follows:

Building and other structures	2 years
Machinery and other equipment	2 years
Vehicles	2 years

An asset is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the statement of loss and comprehensive loss.

The Company conducts an annual assessment of the residual balances, useful lives and amortization methods being used for property, plant and equipment and any changes arising from the assessment are applied by the Company prospectively.

Foreign currency translation

The Canadian dollar is the functional and reporting currency of the Company. Under this method, all monetary assets and liabilities are translated at the rate of exchange at the balance sheet date and non-monetary assets and liabilities are translated at historical exchange rates, unless such items are carried at market, in which case they are translated at the exchange rates in effect on the balance sheet date. Income and expenses are translated at the rates approximating those at the transaction dates. Gains and losses arising from translation of foreign currency monetary assets and liabilities are recognized in the statement of loss and comprehensive loss.

Exploration and evaluation expenditures

All of the Company's mineral property interests are in the exploration and evaluation phase. The Company records its interests in mineral properties and areas of geological interest at cost. Expenditures incurred prior to obtaining the legal right to explore are expensed. All direct and indirect costs relating to the acquisition and exploration of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be impairment. These costs will be amortized on the basis of units produced in relation to the proven reserves available on the related property following commencement of production. The Company classifies the costs between intangibles and property, plant and equipment based on the nature of the costs incurred.

The cost of mineral property interests includes any cash consideration paid and the fair market value of shares issued, if any, on the acquisition of property interests. Acquisition costs of properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made. The recorded amounts of property claim acquisition costs and their related exploration and evaluation costs represent actual expenditures incurred and are not intended to reflect present or future values.

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PROSPERITY GOLDFIELDS CORP.**NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS****(EXPRESSED IN CANADIAN DOLLARS)****FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2011**

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**Exploration and evaluation expenditures (Continued)**

The Company reviews capitalized costs on its mineral properties on a periodic basis and when events or changes in circumstances indicate that its carrying amount may not be recoverable. The Company will recognize an impairment in value based upon current exploration results and upon management's assessment of the future probability of revenues from the property or from the sale of the property.

Restoration, rehabilitation and environmental obligations

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pretax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using the unit-of-production method. Changes to the current market based discount rate, amount or timing of the underlying cash flows needed to settle the obligation impact the carrying value of the asset and liability. The related liability is adjusted each period for the unwinding of the discount rate.

Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

The Company has no material provisions at September 30, 2011 or March 31, 2011.

Share based payment transactions

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

The fair value of share options granted to employees is recognized as an expense over the vesting period with a corresponding increase in the equity settled share-based payments reserve account. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value is measured at the grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Unexercised expired stock options and warrants are transferred to deficit.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Flow-through shares

The Company has financed a portion of its exploration activities through the issue of flow-through shares, which offer a tax incentive to Canadian investors by transferring the tax deductibility of exploration expenditures from the Company to the investor.

Flow-through shares are subject to specific guidance under US GAAP, but there is no equivalent guidance under IFRS. The Company has adopted a policy whereby flow-through proceeds are allocated between the offering of the common shares and the sale of tax benefits when the common shares are offered. The allocation is made based on the difference between the quoted price of the common shares and the amount the investor pays for the flow-through shares. A liability is recognized for the premium paid by the investors. Upon renunciation of the flow through expenditures for Canadian income tax purposes, the liability component is derecognized and a deferred income tax liability is recognized for the taxable temporary difference created at the Company's applicable tax rate which is expected to apply in the year the deferred income tax liability will be settled. Any difference between the amount of the liability component derecognized and deferred income tax liability recognized is recorded in profit and loss.

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation.

Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and to the extent that the Company does not consider it probable that a future tax asset will be recovered, it is not recognized.

Loss per share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the period, if dilutive. The "treasury stock method" is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the period. During the six months ended September 30, 2011 all the outstanding stock options and warrants were anti-dilutive. There were no outstanding options or warrants during the six months ended September 30, 2010.

Comprehensive loss

Other comprehensive loss represents the change in net equity for the period that arises from unrealized gains and losses on available-for-sale financial instruments. Amounts included in other comprehensive loss are shown net of tax. Cumulative changes in other comprehensive loss are presented separately in the condensed interim statement of changes in Equity. As at September 30, 2011 and March 31, 2011, the Company had no financial instruments classified as available for sale.

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PROSPERITY GOLDFIELDS CORP.**NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS****(EXPRESSED IN CANADIAN DOLLARS)****FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2011**

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**Use of estimates**

The preparation of these unaudited interim financial statements requires management to make estimates and assumptions that affect the reported amount of the assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. The impact of these estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. Estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Significant estimates made by the Company include factors affecting the recoverability of exploration and evaluation expenditures, valuation of restoration, rehabilitation and environmental obligations, inputs used for share based payment transactions, inputs used for valuation of warrants and deferred tax assets and liabilities. Actual results could differ from those estimates.

Future accounting changes

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or IFRIC that are mandatory for accounting periods beginning after January 1, 2011 or later periods.

IFRS 7 Financial instruments - Disclosures ("IFRS 7") was amended by the IASB in October 2010 and provides guidance on identifying transfers of financial assets and continuing involvement in transferred assets for disclosure purposes. The amendments introduce new disclosure requirements for transfers of financial assets including disclosures for financial assets that are not derecognized in their entirety, and for financial assets that are derecognized in their entirety but for which continuing involvement is retained. The amendments to IFRS 7 are effective for annual periods beginning on or after July 1, 2011. The Company has not yet determined the impact of the amendments to IFRS 7 on its financial statements.

IFRS 9, Financial Instruments: Classification and Measurement, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning January 1, 2013, and has not yet considered the potential impact of the adoption of IFRS 9.

IFRS 10 Consolidated Financial Statements ("IFRS 10") provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 Consolidated and Separate Financial Statements. The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on January 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 10 on its financial statements.

IFRS 11 Joint Arrangements ("IFRS 11") replaces the guidance in IAS 31 *Interests in Joint Ventures*. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 *Investments in Associates* and IAS 36 *Impairment of Assets*. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented. The Company intends to adopt IFRS 11 in its financial statements for the annual period beginning

Continued...

PROSPERITY GOLDFIELDS CORP.

NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2011

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future accounting changes (Continued)

on January 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 11 on its financial statements.

IFRS 13 Fair Value Measurement converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet determined the impact of the amendments to IFRS 13 on its financial statements.

5. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. Management considers the Company's capital structure to primarily consist of the components of shareholder's equity.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the six month period ended September 30, 2011. The Company is not subject to externally imposed capital requirements.

6. FINANCIAL RISK FACTORS

There have been no changes in the risks, objectives, policies and procedures from the previous period. The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

The Company's credit risk is primarily attributable to receivables. The receivables primarily relate to sales tax due from the Federal Government of Canada. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to its receivables is remote.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company has sufficient cash to meet its current short term requirements and believes it will be able to raise funds in the equity markets to fund its future work programs.

Market risk

(a) Interest rate risk

The Company has cash balances and no interest-bearing debt therefore, interest rate risk is minimal.

Continued...

PROSPERITY GOLDFIELDS CORP.**NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**

(EXPRESSED IN CANADIAN DOLLARS)

FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2011

6. FINANCIAL RISK FACTORS (Continued)**(b) Foreign currency risk**

The majority of the Company's administrative expenditures are transacted in Canadian dollars. The Company funds certain expenses in the United States on a cash call basis using US dollar currency converted from its Canadian dollar bank accounts held in Canada. Management does not hedge its foreign exchange risk. A 1% change in foreign exchange rates between the Canadian and US dollar at September 30, 2011 would not have a material impact on the Company's financial statements.

(c) Price risk

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

(d) Title risk

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company does not expect material movements in the underlying market risk variables over the next three-month period.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents of the Company are comprised of the following items:

	September 30, 2011	March 31, 2011
Cash balances	\$ 588,086	\$ 611,067
Private placement proceeds in trust	-	2,001,181
Short term money market instruments	2,715,357	-
Total	\$ 3,303,443	\$ 2,612,248

The Company's short term money market instruments accrue interest at 1.2% per annum and are redeemable at any time without penalty.

8. RECEIVABLES

The receivables balance is comprised of the following items:

	September 30, 2011	March 31, 2011
Sales tax due from Federal Government	\$ 128,411	\$ 46,940
Other	569	-
Total	\$ 128,980	\$ 46,940

9. PREPAID EXPENSES

Continued...

PROSPERITY GOLDFIELDS CORP.**NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**

(EXPRESSED IN CANADIAN DOLLARS)

FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2011

The prepaid expense balance is comprised of the following items:

	September 30, 2011	March 31, 2011
Insurance	11,008	23,675
Shareholder Communication	10,000	12,000
Advances	4,271	6,212
Professional fees and consultants	4,197	-
Total	\$ 29,476	\$ 41,887

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings and other structures	Machinery and other equipment	Vehicles	Total
Cost				
Balance, April 1, 2010	\$ -	\$ -	\$ -	\$ -
Acquisitions	176,214	33,668	174,751	384,633
Balance, March 31, 2011	176,214	33,668	174,751	384,633
Acquisitions	172,000	118,617	95,898	386,515
Balance, September 30, 2011	348,214	152,285	270,649	771,148
Accumulated depreciation				
Balance, April 1, 2010	-	-	-	-
Amortization	-	303	3,912	4,215
Balance, March 31, 2011	-	303	3,912	4,215
Amortization	15,920	7,651	20,119	43,690
Balance, September 30, 2011	15,920	7,954	24,031	47,905
Carrying Value				
At April 1, 2010	\$ -	\$ -	\$ -	\$ -
At March 31, 2011	\$ 176,214	\$ 33,365	\$ 170,839	\$ 380,418
At September 30, 2011	\$ 332,294	\$ 144,331	\$ 246,618	\$ 723,243

11. EXPLORATION AND EVALUATION EXPENDITURES**Kiyuk Lake Property**

On October 26, 2010, the Company entered into an agreement with its parent Evolving to acquire 100% of Evolving's interest in the Option Agreement dated August 1, 2009, on the Kiyuk Property near Nueltin Lake in Nunavut. As a result of the transfer, the Company assumed all the obligations and commitments under the Option Agreement. The purchase price of the acquired asset was \$1,417,959, which represented the carrying value of the property reflected in Evolving's financial statements. As consideration for the asset, on November 2, 2010, the Company issued 12,766,395 of its common shares to Evolving.

Continued...

PROSPERITY GOLDFIELDS CORP.**NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**

(EXPRESSED IN CANADIAN DOLLARS)

FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2011

11. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

As the shareholders of Evolving ultimately continued to hold their respective interests in the Kiyuk Property, there was no resulting change of control. Consequently, the acquisition was accounted for using continuity-of-interest accounting. No fair value adjustments were made for the assets acquired by Prosperity. Prior to the date of acquisition, the Kiyuk Property is reflected in the Company's records at Evolving's carrying value with a corresponding credit to equity settled share-based payments reserve. The carrying value of the Kiyuk Property is reclassified from equity settled share-based payments reserve to share capital on the date that Prosperity issued shares to Evolving for the acquisition. In preparing the continuity of interests financial statements, the Company has not allocated any operating costs from Evolving on the basis that Evolving acquired the Kiyuk Property in August 2009 and given the limited time and focus given to the property, allocations of operating costs were considered immaterial.

The original Option Agreement dated August 1, 2009, had a five year term of which four years were remaining at the time of the transfer. Under the terms of the Option Agreement, \$60,000 was to be paid and 40,000 Evolving shares were to be issued in each of the four remaining years. The Optionor retains a 2% NSR on the property which can be reduced by the payment of US\$2,000,000 for each 1% reduction in the NSR.

On October 28, 2010, the Company entered into an Amending Letter Agreement which revised the August 1, 2009 Option Agreement to reflect the transfer of the interest in the Kiyuk Property to Prosperity and to revise certain financial terms. Under the terms of the Amending Letter Agreement, the Optionor will receive \$60,000 cash and 20,000 Evolving common shares and 60,000 Prosperity common shares each year for the remaining four years of the Option Agreement. The Company will issue to Evolving, that number of common shares with an equivalent market value to the market value of the Evolving shares issued. In September 2011, the Company paid \$60,000 and issued 60,000 shares valued at \$71,400 and Evolving issued 20,000 shares for the second anniversary payment pursuant to the Amending Letter Agreement. Subsequent to September 30, 2011 the Company issued 8,403 shares valued at \$10,000 to Evolving as reimbursement for the 20,000 shares of Evolving issued to the Kiyuk Optionor. The Company reflected the obligation to issue the shares as Shares to be Issued in the statement of financial position.

As at September 30, 2011 and March 31, 2011, expenditures incurred on the Kiyuk Property were as follows:

	Six months ended September 30, 2011 \$	Year ended March 31, 2011 \$
Acquisition Costs:		
Balance, beginning of the period	213,239	122,134
Additions during the period	141,400	91,105
Balance, end of period	354,639	213,239
Deferred Exploration Costs:		
Balance, beginning of period	1,850,848	882,205
Advances	45,000	(5,785)
Assays	42,329	3,784
Geological consulting and other labour	567,729	262,242
Surveys and other studies	-	126,943
Field expenses	100,893	69,086
Travel, meals and accommodation	1,000,004	216,876
Permitting, license, maintenance fees	21,423	124,637
Insurance	5,418	7,691
Transportation and drilling	1,253,385	141,348
Administration and other	21,165	21,821
Balance, end of period	4,908,194	1,850,848
Total	5,262,833	2,064,087

Continued...

PROSPERITY GOLDFIELDS CORP.**NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**

(EXPRESSED IN CANADIAN DOLLARS)

FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2011

12. RESTORATION, REHABILITATION AND ENVIRONMENTAL OBLIGATIONS

The Company has recorded an obligation of \$153,258 related to the dismantling and removal of its camp. The obligation was calculated using an inflation rate of 2% and a discount rate of approximately 0.91% with the assumption that the obligation will be incurred in two years upon the expiry of the existing permits.

13. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, Executive Officers and any companies owned or controlled by them.

Trading Transactions

The Company entered into the following transactions with related parties

		Six months ended		
	Nature of transactions	Notes	September 30, 2011	September 30, 2010
West Oak Capital	Management fees	a	\$42,000	\$ -
Olga Nikitovic	Management fees	b	\$27,000	\$ -
Evolving Gold	Consulting & Administration	c	\$61,129	\$ -

a) West Oak Capital is owned by R. B. Duncan, the Company's CEO. The fees paid to West Oak Capital relate to management fees.

b) Olga Nikitovic is the CFO and Corporate Secretary for the Company. The fees paid relate to financial management and accounting services which are charged to management fees.

c) At September 30, 2011, Evolving held 27.6% of the outstanding common shares of Prosperity and had three common directors. Fees of \$54,129 relate to geologists and other labour which have been charged to exploration and evaluation expenditures. Fees of \$7,000 relate to administrative support which has been charged to office, rent and miscellaneous expense. As at September 30, 2011, \$16,895 is payable to Evolving. This amount is unsecured, non-interest bearing, with no fixed terms of repayment.

These transactions were in the normal course of operations and were measured at the transaction amount which is the amount established and agreed to by the related parties. The repayment terms are the same as those for arms length transactions.

Compensation of key management personnel

	Notes	Six months ended	
		September 30, 2011	September 30, 2010
Salaries	a	\$ 69,000	\$ -
Share-based payments	b	\$ 468,868	-

a) The Company does not pay any directors' fees nor does the Company pay any health or post employment benefits. The salaries include the fees for the CEO and CFO included in trading transactions above.

b) Share-based payments are the fair value of options granted to key management (CEO and CFO) and directors.

Continued...

PROSPERITY GOLDFIELDS CORP.**NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**

(EXPRESSED IN CANADIAN DOLLARS)

FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2011

14. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS**Capital Stock**

The Company has authorized an unlimited number of common shares without par value. As at September 30, 2011, the Company had 43,276,300 common shares outstanding (2010: 1). The common shares outstanding at March 31, 2011 were 24,766,396.

The weighted average share price during the six months ended September 30, 2011 was \$0.82 (2010: \$Nil).

In April 2011, the Company completed a non-brokered private placement in which it issued 4,000,000 flow-through units and 11,470,604 non-flow-through units at \$0.30 per unit for gross proceeds of \$4,641,181 of which \$801,450 was allocated to warrants. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the subscriber to acquire one additional common share for a period of two years at a price of \$0.45 per common share. Finders' fees consisted of \$123,431 cash and 145,800 common shares valued at \$80,190. Total cash issue costs were \$167,824 of which \$28,980 were allocated to warrants. At March 31, 2011, the Company had received \$2,001,181 in subscription proceeds which was classified as Shares to be Issued and incurred \$7,490 in issue costs related to the financing which were classified as deferred transaction costs.

In August, 2011, 333,500 warrants were exercised for gross proceeds of \$150,075.

In July 2011, the Company granted 1,550,000 options exercisable at \$0.50 per share for a period of five years to directors and consultants.

In August 2011, the Company granted 150,000 options exercisable at \$0.85 per share for a period of five years to a consultant.

In August 2011, the Company completed a non-brokered private placement in which it issued 2,500,000 units for gross proceeds of \$1,700,000 of which \$439,861 was allocated to warrants. Each unit consisted of one common share and one warrant exercisable at \$0.85 for a period of two years. There were no finder's fees payable on the transaction. Total issue costs were 14,835 of which \$3,839 were allocated to warrants.

In September 2011, the Company issued 60,000 common shares valued at \$71,400 pursuant to the Amending Letter Agreement for Kiyuk dated October 28, 2010.

Share purchase warrants

At September 30, 2011, warrants were outstanding enabling holders to acquire shares as follows:

Expiry Date	Exercise Price	Number of warrants	Remaining contractual life (years)	Currently exercisable	Remaining contractual life (years)
November 5, 2012	0.25	5,000,000	1.10	5,000,000	1.10
April 6, 2013	0.45	7,401,802	1.52	7,401,802	1.52
August 15, 2013	0.85	2,500,000	1.87	-	-
		14,901,802		12,401,802	

PROSPERITY GOLDFIELDS CORP.**NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**

(EXPRESSED IN CANADIAN DOLLARS)

FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2011

14. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (Continued)**Share purchase warrants (Continued)**

The following is a summary of the warrant transactions for the six months ended September 30, 2011 and the year ended March 31, 2011.

	Six months ended September 30, 2011		Year ended March 31, 2011	
	Number Of Warrants	Weighted Average Exercise Price	Number Of Warrants	Weighted Average Exercise Price
Balance, beginning of the period	5,000,000	0.25	-	-
Warrants issued pursuant to private placements	10,235,302	0.55	5,000,000	0.25
Warrants exercised	<u>(333,500)</u>	0.45	<u>-</u>	-
	7,735,302			
Balance, end of period	14,901,802	0.45	5,000,000	0.25

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of warrants issued in the six month period ended September 30, 2011 and the year ended March 31, 2011:

	Six months ended September 30 2011	Year ended March 31, 2011
Risk-free interest rate	1.67%	1.4%
Expected life of warrants	2.0 years	2.0 years
Expected annualized volatility	102.6%	121%
Expected dividend rate	0.00%	0.00%

Stock options

The Company may grant stock options pursuant to a stock option plan which was established in accordance with the policies of the TSX Venture Exchange. The Board of Directors administers the Plan, pursuant to which the Board of Directors may grant from time to time incentive stock options up to an aggregate maximum of 10% of the issued and outstanding shares of the Company to directors, officers, employees, consultants and advisors. The options can be granted for a maximum of ten years.

PROSPERITY GOLDFIELDS CORP.**NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**

(EXPRESSED IN CANADIAN DOLLARS)

FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2011

14. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (Continued)**Stock options (Continued)**

As at September 30, 2011, the following incentive stock options were outstanding:

Expiry Date	Exercise Price	Options Outstanding		Options Exercisable	
		Number of Options Outstanding	Weighted average remaining contractual life (years)	Number of Options Vested	Weighted average remaining contractual life (years)
March 4, 2016	0.25	1,800,000	4.43	1,800,000	4.43
July 25, 2016	0.50	1,550,000	4.82	1,550,000	4.82
August 12, 2016	0.85	<u>150,000</u>	4.87	<u>150,000</u>	4.87
		3,500,000	4.62	3,500,000	4.62

The following is a summary of the stock option transactions for the six months ended September 30, 2011 and the year ended March 31, 2011:

	Six months ended September 30, 2011		Year ended March 31, 2011	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of the period	1,800,000	0.25	-	-
Options granted	<u>1,700,000</u>	0.53	<u>1,800,000</u>	0.25
Balance end of period	3,500,000	0.39	1,800,000	0.25

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of options granted for the six month period ended September 30, 2011 and the year ended March 31, 2011:

	Six month period ended September 30, 2011	Year ended March 31, 2011
Risk-free interest rate	2.14	2.76%
Expected life of options	5.0 years	5.0 years
Expected annualized volatility	107%	109%
Expected dividend rate	0.00%	0.00%

PROSPERITY GOLDFIELDS CORP.**NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS****(EXPRESSED IN CANADIAN DOLLARS)****FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2011**

14. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (Continued)**Share based compensation**

The Company granted 1,700,000 options (2010: Nil) for the six month period ending September 30, 2011 accordingly, share-based compensation expense for the six month ended September 30, 2011 was \$725,044 (2010: \$Nil).

15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the six months ended September 30, 2011 consisted of:

- a) An increase in accrued exploration and evaluation expenditures of \$20,175.
- b) A decrease in accrued share issue costs of \$7,490.
- c) Issued 145,800 shares valued at \$80,190 as finder's fees for the April 2011 private placement.
- d) Issued 60,000 shares valued at \$71,400 pursuant to the Amending Letter Agreement for the Kiyuk property.

Significant non-cash transactions for the six months ended September 30, 2010 consisted of:

- a) Evolving issued shares worth \$30,800 for acquisition of mineral properties.

16. SEGMENTED INFORMATION

The Company primarily operates in one reportable operating segment, being the acquisition and exploration of mineral properties in Canada. As the operations comprise a single reporting segment, amounts disclosed in the unaudited condensed interim financial statements also represent segment amounts.

17. COMMITMENTS AND CONTINGENCIES

The Company is obligated to spend \$1,200,000 by December 31, 2012 as part of the flow through funding agreement for shares issued in April 2011. The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's mineral properties to flow through participants. The Company has indemnified the subscribers for any related tax amounts that become payable by the subscribers as a result of the Company not meeting its expenditure commitments. As at September 30, 2011, the Company has met its flow through spending requirements.

The Company's mining and exploration activities are subject to various federal and provincial laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

18. SUBSEQUENT EVENTS

- a) 100,000 options were exercised for gross proceeds of \$25,000
- b) The Company issued 8,403 shares valued at \$10,000 to Evolving as reimbursement for Evolving shares issued to the Kiyuk optionor pursuant to the Amending Letter Agreement dated October 28, 2010.

PROSPERITY GOLDFIELDS CORP.**NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**

(EXPRESSED IN CANADIAN DOLLARS)

FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2011

19. TRANSITION TO IFRS

The adoption of IFRS requires the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that first-time adopters retrospectively apply all effective standards and interpretations in effect as at the reporting date. IFRS 1 also provides certain optional exemptions and certain mandatory exceptions to this retrospective treatment. The Company has not made any IFRS 1 elections.

IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company's opening IFRS statement of financial position as at the Transition Date are consistent with those that were made under Canadian GAAP.

Adjustments on transition to IFRS

IFRS employs a conceptual framework that is similar to Canadian GAAP. The adoption of IFRS has not resulted in changes to the reported Statement of financial position, Statement of loss and comprehensive loss Statement of changes in equity or Statement of cash flows. Presented below are reconciliations prepared by the Company to reconcile the impact of the conversion from GAAP to IFRS.

Total Assets

	September 30, 2010
Total assets under Canadian GAAP	\$1,417,959
Adjustments for differing accounting treatments	-
Total assets under IFRS	\$1,417,959

Total Liabilities

	September 30, 2010
Total liabilities under Canadian GAAP	\$Nil
Adjustments for differing accounting treatments	-
Total liabilities under IFRS	\$Nil

Total Equity

	September 30, 2010
Total equity under Canadian GAAP	\$1,417,959
Adjustments for differing accounting treatments	-
Total equity under IFRS	\$1,417,959

PROSPERITY GOLDFIELDS CORP.**NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS****(EXPRESSED IN CANADIAN DOLLARS)****FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2011**

18. TRANSITION TO IFRS**Comprehensive Loss**

	Three months Ended September 30, 2010	Six month period ended September 30, 2010
Comprehensive loss for the period under Canadian GAAP	\$Nil	\$Nil
Adjustments for differing accounting treatments	-	-
Comprehensive loss for the period under IFRS	\$Nil	\$Nil

Cash flows

The adoption of IFRS has had no impact on the cash flows of the Company.