

PROSPERITY GOLDFIELDS CORP.

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2012 AND 2011
(EXPRESSED IN CANADIAN DOLLARS)**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Prosperity Goldfields Corp.

We have audited the accompanying financial statements of Prosperity Goldfields Corp., which comprise the statements of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010, and the statements of loss and comprehensive loss, statements of cash flows and statements of changes in equity for the years ended March 31, 2012 and March 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Prosperity Goldfields Corp. as at March 31, 2012, March 31, 2011 and April 1, 2010, and its financial performance and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with International Financial Reporting Standards.

McGOVERN, HURLEY, CUNNINGHAM, LLP



Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
June 11, 2012

PROSPERITY GOLDFIELDS CORP.
STATEMENTS OF FINANCIAL POSITION
(EXPRESSED IN CANADIAN DOLLARS)
AS AT

	March 31, 2012	March 31, 2011 (Note 20)	April 1, 2010 (Note 20)
ASSETS			
Current			
Cash and cash equivalents (Note 7)	\$ 1,958,907	\$ 2,612,248	\$ -
Receivables (Note 8)	102,145	46,940	-
Prepaid expenses (Note 9)	146,323	86,887	50,785
Total current assets	2,207,375	2,746,075	50,785
Deferred transaction costs (Note 14)	-	7,490	-
Property and equipment (Note 10)	906,173	380,418	-
Mineral property interests (Note 11)	354,640	213,239	122,134
Total assets	\$ 3,468,188	\$ 3,347,222	\$ 172,919
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities (Note 13)	\$ 929,037	\$ 283,737	\$ -
Restoration, rehabilitation and environmental obligations (Note 12)	154,006	-	-
Total liabilities	1,083,043	283,737	-
Shareholders' equity			
Shares to be issued (Note 14)	-	2,001,181	-
Capital stock (Note 14)	8,381,308	2,934,703	-
Reserves (Note 14)	2,404,358	736,691	1,004,339
Deficit	(8,400,521)	(2,609,090)	(831,420)
Total shareholders' equity	2,385,145	3,063,485	172,919
Total liabilities and shareholders' equity	\$ 3,468,188	\$ 3,347,222	\$ 172,919

Nature and continuance of operations (Note 1)
Commitments and contingencies (Notes 11 and 18)
Subsequent events (Note 19)

Approved on behalf of the Board:

_____, Director

_____, Director

See accompanying notes to the financial statements.

PROSPERITY GOLDFIELDS CORP.
STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED MARCH 31

	2012	2011 (Note 20)
EXPENSES		
Exploration and evaluation expenditures (Note 11)	\$ 4,765,081	\$ 978,643
Management fees (Note 13)	195,000	21,000
Office, rent, and miscellaneous (Note 13)	47,952	17,059
Professional fees (Note 13)	184,221	162,028
Consulting fees	25,972	30,498
Share-based compensation	572,440	453,435
Shareholder communications and promotion	73,370	32,333
Transfer agent and filing fees	42,932	77,595
Travel and accommodation	<u>16,423</u>	<u>4,737</u>
Loss before other items	<u>5,923,391</u>	<u>1,777,328</u>
OTHER ITEMS		
Foreign exchange loss	768	353
Accretion expense	748	-
Interest (income)	<u>(35,811)</u>	<u>(11)</u>
	<u>(34,295)</u>	<u>342</u>
Net loss and other comprehensive loss for the year	<u>\$ 5,889,096</u>	<u>\$ 1,777,670</u>
Basic and diluted net loss per common share	<u>\$ 0.14</u>	<u>\$ 0.11</u>
Weighted average number of common shares outstanding – basic and diluted	<u>41,990,565</u>	<u>16,721,608</u>

See accompanying notes to the financial statements.

PROSPERITY GOLDFIELDS CORP.
STATEMENTS OF CASH FLOWS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED MARCH 31

	2012	2011 (Note 20)
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss for the year	\$ (5,889,096)	\$ (1,777,670)
Items not affecting cash:		
Accretion expense	748	-
Amortization expense	150,435	4,215
Issuance of shares for settlement of spin out costs	-	300,000
Share based compensation	709,440	453,435
	<u>(5,028,473)</u>	<u>(1,020,020)</u>
Change in non-cash working capital items:		
Increase in receivables	(55,206)	(46,940)
Increase in prepaid expenses	(59,436)	(36,102)
Increase in accounts payable and accrued liabilities	652,790	276,248
	<u>(4,490,325)</u>	<u>(826,814)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from private placements	4,340,000	3,501,181
Share issue costs	(182,659)	-
Proceeds from warrant and option exercises	262,575	-
Amounts contributed by Evolving Gold Corp.	-	382,820
	<u>4,419,916</u>	<u>3,884,001</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Mineral property acquisition costs	(60,000)	(60,305)
Purchase of property and equipment	(522,932)	(384,633)
	<u>(582,932)</u>	<u>(444,939)</u>
(Decrease) increase in cash and cash equivalents	(653,341)	2,612,248
Cash and cash equivalents, beginning of year	2,612,248	-
	<u>2,612,248</u>	<u>-</u>
Cash and cash equivalents, end of year	\$ 1,958,907	\$ 2,612,248

Supplemental disclosure with respect to cash flows (Note 15)

See accompanying notes to the financial statements.

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

	Number of Shares	Capital Stock	Shares to be Issued	Equity settled share-based payments reserve	Reserves Warrant reserve	Deficit	Total
Balance, April 1, 2010	-	\$ -	\$ -	\$ 1,004,339	\$ -	\$ (831,420)	\$ 172,919
Exploration and evaluation expenditures funded by Evolving (Note 11)	-	-	-	413,620	-	-	413,620
Issued pursuant to incorporation	1	-	-	-	-	-	-
Issued pursuant to private placements	10,000,000	1,216,744	-	-	283,256	-	1,500,000
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
Subscription funds received	-	-	2,001,181	-	-	-	2,001,181
Share-based compensation	-	-	-	453,435	-	-	453,435
Net loss and comprehensive loss for the year	-	-	-	-	-	(1,777,670)	(1,777,670)
Balance, March 31, 2011	24,766,396	2,934,703	2,001,181	453,435	283,256	(2,609,090)	3,063,485
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	36,170	-	-	-	-	36,170
Issued pursuant to acquisition of mineral properties	68,403	81,400	-	-	-	-	81,400
Issued pursuant to exercise of warrants	333,500	150,075	-	-	-	-	150,075
Value of warrants exercised	-	33,017	-	-	(33,017)	-	-
Issued pursuant to exercise of options	450,000	112,500	-	-	-	-	112,500
Value of options exercised	-	113,355	-	(113,355)	-	-	-
Expiry of options	-	-	-	(97,665)	-	97,665	-
Share-based compensation	-	-	-	709,440	-	-	709,440
Share issue costs-cash	-	(149,840)	-	-	(32,819)	-	(182,659)
Share issue costs-non cash	-	(29,942)	-	-	(6,228)	-	(36,170)
Net loss and comprehensive loss for the year	-	-	-	-	-	(5,889,096)	(5,889,096)
Balance, March 31, 2012	43,734,703	\$ 8,381,308	\$ -	\$ 951,855	\$ 1,452,503	\$ (8,400,521)	\$ 2,385,145

See accompanying notes to the financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

Prosperity Goldfields Corp. (hereafter, the "Company" or "Prosperity") 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 properties for the mining of precious and base metals. The Company is in the exploration and evaluation stage for its projects and as such, to date, has not generated significant revenues from its operations.

The Company's head office is located at 789 West Pender Street, Suite 800, Vancouver, British Columbia, V6C 1H2.

The financial statements were approved by the Board of Directors on June 11, 2012.

The Company is in the process of exploring its exploration and evaluation properties and has not yet determined whether the properties contain reserves that are economically recoverable. The recoverability of the capitalized mineral property interests 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 government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, political uncertainty and currency exchange fluctuations and restrictions.

In fiscal 2012, 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 completed 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 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 March 31, 2012, the Company had working capital of \$1,278,338 and an accumulated deficit of \$8,400,521 compared to working capital of \$2,462,338 and an accumulated deficit of \$2,609,090 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 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.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and its interpretations. The Company's financial statements for the year ended March 31, 2012 represent the Company's initial presentations of its results and financial position under IFRS. They were prepared in accordance with International Accounting Standard ("IAS") 1, Presentation of Financial Statement and by IFRS 1, First-time Adoption of IFRS.

The Company's financial statements were previously prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Canadian GAAP differs in some areas from IFRS. Reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, comprehensive loss, and the statements of financial position and cash flows are provided in Note 20 to facilitate the reader's understanding of the financial statements.

3. BASIS OF PRESENTATION

These 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. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

In the preparation of these 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.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied in preparing the financial statements for the year ended March 31, 2012, the comparative information presented in these financial statements for the year ended March 31, 2011 and in the preparation of an opening IFRS statement of financial position at April 1, 2010 (the "Transition Date").

Cash and cash equivalents

Cash and cash equivalents include balances with banks and short-term investments with original maturities of 90 days or less or which are readily convertible into a known amount of cash at any time without penalty. 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.

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 March 31, 2012, 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 or April 1, 2010.

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.

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 and equipment

Property 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:

Buildings and other structures	2-3 years
Machinery and other equipment	2-3 years
Vehicles	2-3 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 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 statement of financial position 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 statement of financial position 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.

Mineral property interests

All of the Company's mineral property interests are in the exploration and evaluation phase. The Company records its interests in properties and areas of geological interest at cost.

Staking costs, property option payments and other costs associated with acquiring mineral property interests are capitalized and classified as intangible assets. Acquisition costs include 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 acquisition costs of mineral property interests are deferred until the properties are placed into production, sold or abandoned. These costs are amortized on a unit-of-production basis over the estimated useful life of the related property following the commencement of production, or written off if the properties are sold, allowed to lapse or abandoned or when impairment has been determined to have occurred.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mineral property interests (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.

Exploration and evaluation expenditures are expensed as incurred.

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 pre-tax 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 with a corresponding charge to the statement of loss and comprehensive loss.

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 had no material provisions at March 31, 2012, March 31, 2011 or April 1, 2010.

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 statement of 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.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions (Continued)

The value of unexercised expired stock options and warrants is transferred to deficit.

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.

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 the statement of loss and comprehensive 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. The Company indemnifies subscribers for any related tax amounts that become payable by the subscribers as a result of the Company not meeting its expenditures commitments.

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 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 deferred tax asset will be recovered, it is not recognized.

Loss per share

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. For the diluted loss per share calculation, the assumed proceeds upon the exercise of the options and warrants are used to purchase common shares at the average market price during the period. During the years ended March 31, 2012 and March 31, 2011, all the outstanding stock options and warrants were anti-dilutive.

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 statement of changes in equity. As at March 31, 2012, March 31, 2011 and April 1, 2010, the Company had no financial instruments classified as available for sale.

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates

The preparation of these 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 mineral property acquisition costs, 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.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

Assets' carrying values and impairment charges

In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

Capitalization of mineral property acquisition costs

Management has determined that mineral property acquisition costs incurred during the year have future economic benefits and are economically recoverable. In making this judgment, management has assessed various sources of information including but not limited to the geologic and metallurgic information, proximity of operating facilities, operating management expertise and existing permits.

Impairment of mineral property acquisition costs

While assessing whether any indications of impairment exist for mineral property acquisition costs, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of mineral property assets. Internal sources of information include the manner in which mineral property assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mineral properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's mineral property acquisition costs

Estimation of decommissioning and restoration costs and the timing of expenditure

The cost estimates are updated annually to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

Continued...

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates (Continued)

Income taxes and recoverability of potential deferred tax assets

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

Share-based payments

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value 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 April 1, 2012 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 ("IFRS 9"), 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 April 1, 2015, 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 April 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 10 on its financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future accounting changes (Continued)

IFRS 12 Disclosure of Interests in Other Entities ("IFRS 12") sets out the disclosure requirements for entities reporting under IFRS 10 and IFRS 11, and effective for the Company's fiscal year beginning on April 1, 2013, replaces the disclosure requirements currently found in IAS 28 Investments in Associates ("IAS 28"). The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate: (a) the nature of, and risks associated with, its interests in other entities; and (b) the effects of those interests on its financial position, financial performance and cash flows. The Company is currently evaluating the impact the introduction of IFRS 12 will have on its financial statements.

IFRS 13 Fair Value Measurement ("IFRS 13") 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 IFRS 13 on its financial statements.

In December 2010, the IASB issued an amendment to IAS 12 Income Taxes ("IAS 12") that provides a practical solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company has chosen not to early adopt and does not anticipate this amendment to have a significant impact on its financial statements.

IAS 1 Presentation of Financial Statements ("IAS 1") was amended by the IASB in June 2011 in order to align the presentation of items in other comprehensive income with US GAAP standards. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The Company has not yet determined the impact of the amendment 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 shareholders' equity.

The property in which the Company currently has an interest is 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 years ended March 31, 2012 and 2011. The Company is not subject to externally imposed capital requirements.

Continued...

6. FINANCIAL RISK FACTORS

There have been no changes in the risks, objectives, policies and procedures during the years ended March 31, 2012 and 2011. 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 consist of 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 funds to meet its medium term requirements, however, it will require additional funds for its 2013 work programs. The Company believes it will be able to raise funds from equity markets.

Market risk

(a) Interest rate risk

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

(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 March 31, 2012 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.

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7. CASH AND CASH EQUIVALENTS

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

	March 31, 2012	March 31, 2011	April 1, 2010
Cash balances	\$ 137,854	\$ 611,067	\$ -
Private placement proceeds in trust	-	2,001,181	-
Short term money market instruments	1,821,053	-	-
Total	\$ 1,958,907	\$ 2,612,248	\$ -

The Company's short term money market instruments accrue interest at prime minus 1.8% per annum and are redeemable at any time without penalty.

8. RECEIVABLES

The receivables balance is comprised of the following items:

	March 31, 2012	March 31, 2011	April 1, 2010
Sales tax due from Federal Government	\$ 102,145	\$ 46,940	\$ -
Total	\$ 102,145	\$ 46,940	\$ -

9. PREPAID EXPENSES

The prepaid expense balance is comprised of the following items:

	March 31, 2012	March 31, 2011	April 1, 2010
Insurance	\$ 13,887	\$ 23,675	\$ -
Shareholder communication	-	12,000	-
Advances	131,210	51,212	50,785
Professional fees	1,226	-	-
Total	\$ 146,323	\$ 86,887	\$ 50,785

Continued...

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10. PROPERTY 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	336,796	227,418	111,976	676,190
Balance, March 31, 2012	\$ 513,010	\$ 261,086	\$ 286,727	\$ 1,060,823
Accumulated amortization				
Balance, April 1, 2010	\$ -	\$ -	\$ -	\$ -
Amortization	-	303	3,912	4,215
Balance, March 31, 2011	-	303	3,912	4,215
Amortization	66,879	31,412	52,144	150,435
Balance, March 31, 2012	\$ 66,879	\$ 31,715	\$ 56,056	\$ 154,650
Carrying Value				
At April 1, 2010	\$ -	\$ -	\$ -	\$ -
At March 31, 2011	\$ 176,214	\$ 33,365	\$ 170,839	\$ 380,418
At March 31, 2012	\$ 446,131	\$ 229,371	\$ 230,671	\$ 906,173

11. MINERAL PROPERTY INTERESTS

Kiyuk Lake Property

On October 26, 2010, the Company entered into an agreement with its then 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.

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 to the statement of loss on the basis that Evolving acquired the Kiyuk Property in August 2009 and based on 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.

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PROSPERITY GOLDFIELDS CORP.
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11. MINERAL PROPERTY INTERESTS (Continued)

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, 20,000 Evolving common shares and 60,000 Prosperity common shares each year for the remaining three 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 second year anniversary payment was made. In October 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.

As at March 31, 2012 and 2011, expenditures incurred on the Kiyuk Property were as follows:

Acquisition costs:	2012	2011
	\$	\$
Balance, beginning of the year	213,239	122,134
Additions during the year	141,401	91,105
Balance, end of year	354,640	213,239
Exploration and evaluation expenditures:	2012	2011
	\$	\$
Balance, beginning of year	1,810,063	831,420
Amortization	150,435	4,215
Assays	77,295	3,784
Community consultation	31,665	-
Air strip construction	6,310	-
Geological consulting and other labour	1,043,404	262,242
Surveys and other studies	3,730	126,943
Field equipment and supplies	222,416	69,086
Fuel, propane and oil	248,278	-
Travel, meals and accommodation	1,208,028	216,876
Permitting, license, maintenance fees	34,294	124,637
Insurance	34,290	7,691
Transportation, expediting and freight	1,127,620	121,658
Drilling	541,141	19,690
Administration, office and other	36,175	21,821
Balance, end of year	6,575,144	1,810,063

12. RESTORATION, REHABILITATION AND ENVIRONMENTAL OBLIGATIONS

The Company has recorded an obligation of \$154,006 (March 31, 2011 and April 1, 2010: \$Nil) 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 1.04% with the assumption that the obligation will be settled in mid-2014 upon completion of the Company's current planned drill programs.

Continued...

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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:

The Company entered into the following transactions with related parties:				
	Nature of transactions	Notes	Year ended March 31, 2012	March 31, 2011
West Oak Capital	Management fees	a	\$114,000	\$ 14,000
Olga Nikitovic	Management fees	b	\$ 81,000	\$ 7,000
Aird & Berlis LLP	Legal fees	c	\$ 93,250	-
Evolving Gold Corp.	Consulting & Administration	d	\$ 81,503	\$ 30,530

a) West Oak Capital is owned by R. B. Duncan, the Company's CEO as at March 31, 2012. The fees paid to West Oak Capital relate to management fees.

b) Olga Nikitovic was the CFO and Corporate Secretary for the Company as at March 31, 2012. The fees paid relate to financial management and accounting services which are charged to management fees. At March 31, 2012, \$4,498 (2011: \$Nil) is included in accounts payable and accrued liabilities. This amount is unsecured, non-interest bearing with no fixed terms of repayment.

c) Tom Fenton of Aird & Berlis LLP was a director as at March 31, 2012. Fees paid to Aird & Berlis LLP relate to legal fees and are included in professional fees. At March 31, 2012, \$13,286 (2011: \$Nil) payable to Aird & Berlis LLP is included in accounts payable and accrued liabilities. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

d) During fiscal 2011, the Company entered into a number of transactions with Evolving regarding the transfer of the Kiyuk Option Agreement to Prosperity, and the terms for reimbursement for future Evolving shares to be issued to the Kiyuk Optionor in settlement of annual share issuance requirements (Note 11).

On October 26, 2010, the Company entered into a funding agreement with Evolving in which Evolving agreed to fund all expenditures related to the Spin Out Transaction up to a maximum of \$300,000. As consideration, Prosperity would issue one common share for every \$0.15 of transaction costs funded by Evolving. In March 2011, the Company issued 2,000,000 shares to Evolving valued at \$300,000.

On November 5, 2010, Evolving was the sole placee in the Company's \$1,500,000 private placement (Note 14).

At March 31, 2012, Evolving held 13.6% of the outstanding common shares of Prosperity and had two common directors. Fees of \$68,503 (2011: \$30,530) relate to geologists and other labour were charged to exploration and evaluation expenditures. Fees of \$13,000 (2011: \$Nil) relate to administrative support which has been charged to the Company by Evolving as office, rent and miscellaneous expense. As at March 31, 2012, \$2,086 (2011: \$34,269) is payable to Evolving. This amount is unsecured, non-interest bearing, with no fixed terms of repayment.

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PROSPERITY GOLDFIELDS CORP.
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13. RELATED PARTY TRANSACTIONS (Continued)

Compensation of key management personnel

	Notes	Year ended	
		March 31, 2012	March 31, 2011
Salaries	a	\$ 195,000	\$ 21,000
Share-based payments	b	468,791	377,862

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 grant date fair value of options granted to key management (CEO and CFO) and directors.

14. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS

Capital Stock

The Company has authorized an unlimited number of common shares without par value. As at March 31, 2012, the Company had 43,734,703 common shares outstanding (March 31, 2011: 24,766,396).

The weighted average share price during the year ended March 31, 2012 was \$0.76. The Company became publically traded on March 3, 2011. The weighted average share price from March 3, 2011 to March 31, 2011 was \$0.33.

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 \$36,170. 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 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 was allocated to warrants.

In September 2011, pursuant to the amending letter agreement for the Kiyuk Property dated October 28, 2010, the Company paid \$60,000 and issued 60,000 common shares valued at \$71,400 to the optionor. In addition, Evolving issued 20,000 common shares to the optionor. The Company issued 8,403 shares valued at \$10,000 to Evolving as reimbursement. The value of the common shares was based on the market price of the shares at the time of issuance.

In fiscal 2012, 450,000 options were exercised for gross proceeds of \$112,500.

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14. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (Continued)

On September 10, 2010, the Company was incorporated as a wholly owned subsidiary of Evolving. On incorporation, the Company issued one common share to Evolving for gross proceeds of \$0.05.

On November 2, 2010, the Company issued 12,766,395 shares valued at \$1,417,959 for the acquisition of 100% of the Kiyuk Property Option Agreement from its parent Evolving.

On November 5, 2010, the Company completed a non-brokered private placement in which it issued 10,000,000 units at a price of \$0.15 for gross proceeds of \$1,500,000 of which \$283,256 was allocated to warrants. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant is exercisable at \$0.25 for two years. No commissions or finder's fees were payable on the transaction. Evolving was the sole placee for the private placement.

In March 2011, pursuant to the funding agreement dated October 26, 2010, the Company issued 2,000,000 shares valued at \$300,000 to Evolving (see Note 13(d)).

Share purchase warrants

At March 31, 2012, 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	0.60	5,000,000	0.60
April 6, 2013	0.45	7,401,802	1.02	7,401,802	1.02
August 15, 2013	0.85	2,500,000	1.37	2,500,000	1.37
		14,901,802	0.94	14,901,802	0.94

The following is a summary of the warrant transactions for years ended March 31, 2012 and 2011.

	2012		2011	
	Number Of Warrants	Weighted Average Exercise Price \$	Number Of Warrants	Weighted Average Exercise Price \$
Balance, beginning of the year	5,000,000	0.25	-	-
Warrants issued pursuant to private placements	10,235,302	0.55	5,000,000	0.25
Warrants exercised	(333,500)	0.45	-	-
Balance, end of the year	14,901,802	0.45	5,000,000	0.25

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14. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (Continued)

Share purchase warrants (Continued)

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of warrants issued in years ended March 31, 2012 and 2011:

	2012	2011
Risk-free interest rate	1.67%	1.40%
Expected life of warrants	2.0 years	2.0 years
Expected annualized volatility	103%	121%
Expected dividend rate	0%	0%

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.

As at March 31, 2012, 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	1,350,000	3.93	1,350,000	3.93
July 25, 2016	0.50	1,300,000	4.32	1,300,000	4.32
August 12, 2016	0.85	<u>150,000</u>	4.37	<u>75,000</u>	4.37
		2,800,000	4.13	2,725,000	4.13

The following is a summary of the stock option transactions for the years ended March 31, 2012 and 2011:

	2012		2011	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Balance, beginning of the year	1,800,000	0.25	-	-
Options granted	1,700,000	0.53	1,800,000	0.25
Options expired	(250,000)	0.50	-	-
Options exercised	<u>(450,000)</u>	0.25	<u>-</u>	-
Balance end of the year	2,800,000	0.40	1,800,000	0.25

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14. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (Continued)

Stock options (Continued)

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of options granted for years ended March 31, 2012 and 2011:

	2012	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%	0%

Share based compensation

The Company granted 1,700,000 options (2011: 1,800,000) for the year ended March 31, 2012. 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. The options vested immediately. In August 2011, the Company granted 150,000 options exercisable at \$0.85 per share for a period of five years to an investor relations company. The options vest quarterly over a twelve month period. Accordingly, share-based compensation expense for the year ended March 31, 2012 was \$709,440 (2011: \$453,435) of which \$137,000 (2011: \$Nil) has been classified as an exploration and evaluation expenditure.

15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash investing and financing transactions for the year ended March 31, 2012 consisted of:

- a) A decrease in accrued share issue costs of \$7,490.
- b) Issued 145,800 shares valued at \$36,170 as finder's fees for the April 2011 private placement.
- c) Issued 68,403 shares valued at \$81,400 pursuant to the amending letter agreement for the Kiyuk Property.
- d) Accrual of restoration, rehabilitation and environmental obligations of \$153,258, capitalized to property and equipment.
- e) Share-based compensation of \$137,000 included in exploration and evaluation expenditures.

Significant non-cash investing and financing transactions for the year ended March 31, 2011 consisted of:

- a) Issued 12,766,395 shares valued at \$1,417,959 for the acquisition of mineral properties.
- b) Parent (Evolving) issued 40,000 shares valued at \$30,800 for the acquisition of mineral properties.
- c) Issued 2,000,000 shares valued at \$300,000 pursuant to the funding agreement with Evolving for the Spin Out Transaction costs.
- d) An increase of \$7,490 in accrued share issue costs.

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16. INCOME TAXES

A reconciliation of income taxes at the statutory rate of 26% (2011: 28%) with the reported taxes is as follows:

	2012 \$	2011 \$
Loss for the year from operations before income taxes	(5,889,096)	(1,777,670)
Expected income tax (recovery)	(1,531,200)	(497,700)
Stock-based compensation	184,500	127,000
Non-deductible amounts	30,000	1,200
Benefit of tax losses not recognized	1,316,700	369,500
Deferred income tax	-	-

The significant components of the Company's deferred income tax assets and liabilities are as follows:

	2012 \$	2011 \$
Deferred income tax assets at 25%		
Mineral properties and exploration expenditures	1,458,800	454,000
Share issue costs	36,500	-
Non capital loss carryforwards	300	-
Benefits not recognized	(1,495,600)	(454,000)
	-	-

As at March 31, 2012, the Company had approximately \$1,772,600 of Canadian development expenditures and \$5,169,400 of Canadian exploration expenditures which, under certain circumstances, may be used to reduce taxable income of future years. The Company has non-capital losses of approximately \$1,100 available for deduction against future taxable income until the year 2032.

17. 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 financial statements also represent segment amounts.

18. COMMITMENTS AND CONTINGENCIES

The Company's exploration and evaluation 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.

On January 1, 2012, the Company entered into consulting agreements with its CEO and CFO for a two year period ending December 31, 2014. These consulting agreements contain certain clauses requiring additional payments of up to \$252,000 be made upon termination without cause or as a result of the occurrence of certain events such as a change of control. Subsequent to year end, the amalgamation of the Company with Smash Minerals Corp. resulted in a change of control and a payment of \$252,000 was made. (Note 19)

Continued...

19. SUBSEQUENT EVENTS

On February 1, 2012, the Company signed an amalgamation agreement with Smash Minerals Corp. ("Smash"). The amalgamation was approved by the shareholders of both companies on March 30, 2012. The amalgamation was completed on April 24, 2012. Pursuant to the amalgamation agreement, both companies amalgamated to form a new company ("Amalco") to be known as Prosperity Goldfields Corp. The amalgamation was completed on the basis of one common share of Prosperity for each one common share of Amalco and 1.6 common shares of Smash for one common share of Amalco. All warrants and options of Prosperity and Smash outstanding on the closing date of the amalgamation were converted to warrants and options of Amalco on the same ratios.

In connection with the amalgamation, finders' fees of 200,000 Amalco common shares and US\$50,000 in cash were paid at closing. In addition \$252,000 was paid to the former CEO and CFO of Prosperity pursuant to the change in control provisions in their consulting contracts.

Upon completion of the amalgamation, 15,172,739 Amalco common shares and 1,887,239 Amalco stock options were issued in exchange for the Smash common shares and stock options resulting in former Smash shareholders holding approximately a 26% interest of Amalco.

On April 24, 2012, Amalco granted 1,110,000 stock options to its directors, officers, employees and consultants. These options are exercisable at \$0.51 per common share for a period of five years. 1,035,000 stock options vest 25% on the date of grant and 25% every six months thereafter and 75,000 options granted to the investor relations representative vest quarterly over a 12 month period.

20. 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.

IFRS Exemption Options

Business combinations - IFRS 1 provides the option to apply IFRS 3, Business Combinations, retrospectively or prospectively from the Transition Date. The Company elected to apply IFRS 3 prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company did not apply IFRS 3 retrospectively to business combinations that occurred prior to its Transition Date and such business combinations have not been restated.

Share-based payments - IFRS 2, Share-based Payments, encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by its Transition Date.

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. IFRS provides companies with an option to either capitalize or expense exploration and evaluation expenditures. Under Canadian GAAP, the Company capitalized exploration and evaluation expenditures. Under IFRS, the Company has chosen to capitalize only the acquisition costs related to mineral property interests and to expense all other exploration and evaluation expenditures. The Company has adopted this accounting policy in order to be consistent with the accounting policy of Smash being the accounting policy followed by Amalco.

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PROSPERITY GOLDFIELDS CORP.
NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED MARCH 31, 2012 AND 2011

20. TRANSITION TO IFRS (Continued)

Presented below are reconciliations prepared by the Company to reconcile the impact of the conversion from Canadian GAAP to IFRS as a result of the change in policy with respect to the expensing of exploration and evaluation expenditures.

Total Assets

	March 31, 2011	April 1, 2010
Total assets under Canadian GAAP	\$5,153,070	\$1,004,339
Adjustments for expensing exploration and evaluation expenditures	(1,805,848)	(831,420)
Total assets under IFRS	\$3,347,222	\$ 172,919

Total Liabilities

	March 31, 2011	April 1, 2010
Total liabilities under Canadian GAAP	\$283,737	\$ -
Adjustments for expensing exploration and evaluation expenditures	-	-
Total liabilities under IFRS	\$283,737	\$ -

Total Equity

	March 31, 2011	April 1, 2010
Total equity under Canadian GAAP	\$4,869,333	\$1,004,339
Adjustments for expensing exploration and evaluation expenditures	(1,805,848)	(831,420)
Total equity under IFRS	\$3,063,485	\$ 172,919

Comprehensive Loss

	Year Ended March 31, 2011
Comprehensive loss for the period under Canadian GAAP	\$803,242
Adjustments for expensing exploration and evaluation expenditures	974,428
Comprehensive loss for the period under IFRS	\$1,777,670

Cash flows from operating activities

	Year Ended March 31, 2011
Net cash flows from operating activities under Canadian GAAP	\$ (36,884)
Adjustments for expensing exploration and evaluation expenditures	(789,930)
Net cash flows from operating activities under IFRS	\$(826,814)

Cash flows from investing activities

	Year Ended March 31, 2011
Net cash flows from investing activities under Canadian GAAP	\$(1,234,869)
Adjustments for expensing exploration and evaluation expenditures	789,930
Net cash flows from investing activities under IFRS	\$(444,939)