



Prosperity close at hand?

Prosperity Resources is exploring for copper and gold in Aceh, Indonesia, at the northwest end of Sumatra. The company is having outstanding exploration success and has so far discovered six mineralised intrusive centres. The company's leases are heavily mineralised and good news flow is continuous. As the old saying goes, where there is a lot of smoke there is usually fire. Big discoveries don't usually come quickly but this company certainly seems to be on the right track.

In mineral exploration geology is everything; Indonesia forms part of the "Pacific Rim of Fire" which is one of the world's most important geological settings for copper and gold exploration. Prosperity is advancing very quickly with sampling, drilling and geophysics and the results by any standards are more than satisfactory.

Prosperity has a number of geological targets to explore within its Indonesian tenements. Targets include skarn deposits, vein deposits and large stockwork copper-gold porphyry deposits. The company's tenements in Indonesia have the highest order of exploration potential. The prospectivity is supported by good exploration results.

When we consider the results to date it is not surprising that Prosperity has been approached by major miners looking for a deal. We have recently spoken with the MD, Mr Mo Munshi who is not surprisingly very upbeat about the company's prospects. Prosperity has a very capable Board and Management Team. It's worth noting that Mr Munshi worked closely with Mr Robert Friedland during the early years exploring the fabulous Oyu Tolgoi copper-gold deposit in Mongolia.

Oyu Tolgoi is perhaps the greatest copper-gold discovery because of its relatively high grade. It is certainly the best discovery since Freeport found Grasberg. The Grasberg deposit is also located in Indonesia, but it is located at the other end of the Indonesian archipelago in Irian Jaya.

Mr Munshi sees similarities between Oyu Tolgoi and Prosperity's Pinang-Pinang prospect. The following two maps taken from a company presentation show the Prosperity Aceh Projects and tenements.

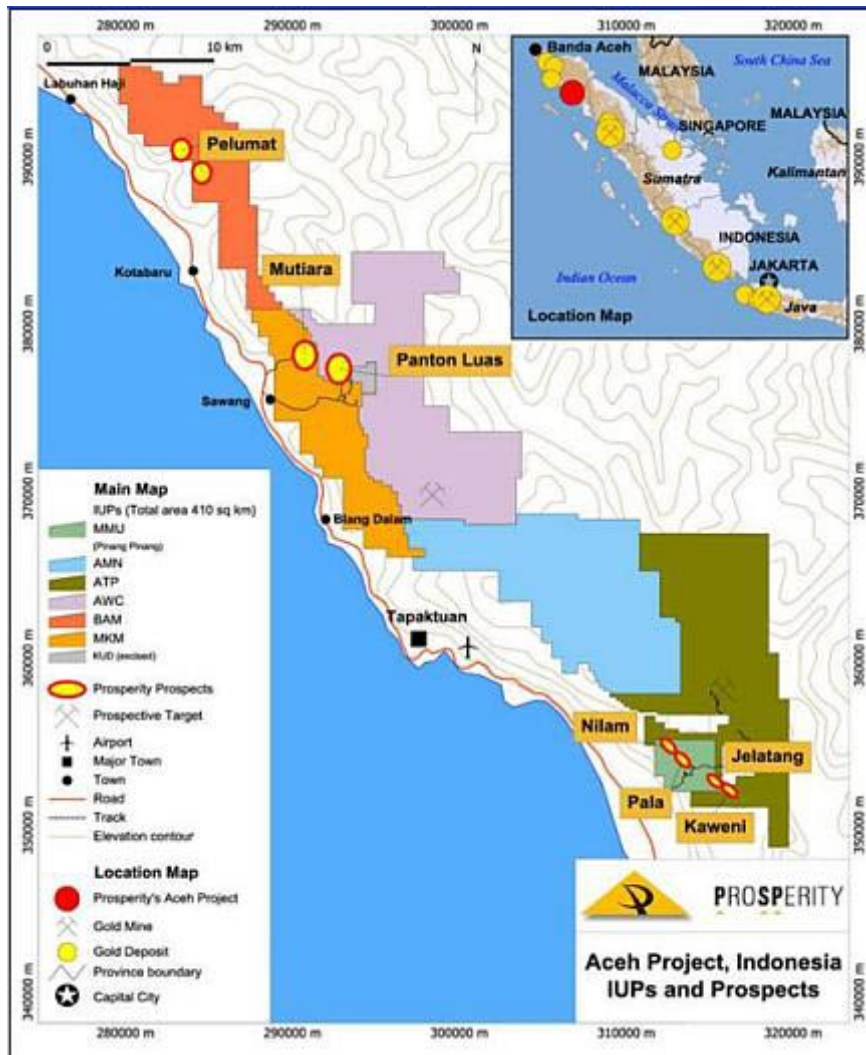


The June Quarter report for 2010 contained a bevy of good exploration results including the drill results from two diamond holes at the newly discovered Jelatang intrusive centre.

Hole PNGD017 intercepted 17 metres at 1.27 g/t gold and 0.7% copper and PNGD019 intercepted 14 metres at 0.55 g/t gold and 0.5% copper. These are much higher than average grades for this style of mineralisation. Many porphyry copper deposits carry grades of less than 0.4% copper and lack or have only a small gold credit.

Under the current ownership structure Prosperity holds 83.7% of the three new IUPs (PT AMN, PT ATP and PT AWC) see location map in the following figure which has been provided the company.

Prosperity has the right to earn 72.9% on the three joint venture IUPs (PT MMU, PT MKM and PT BAM). There are no buyback rights or no provision for Prosperity to be scaled back at any stage.



High grade rock samples were obtained from the Mutiara prospect and from the newly defined Panton Luas Prospect (Prosperity 75%). Samples from Mutiara (right to acquire a 73% interest), assayed up to 29.2 g/t gold and 18.3% copper. The best surface samples from Panton Luas assayed higher than 40 g/t gold.

During 2Q10 the company invested A\$0.83 million in exploration and evaluation, taking the total for 12 months to A\$3.1 million. The exploration effort is whittling down the cash and at the end of the quarter the company had A\$0.52 million and will raise new equity soon. This is not an urgent matter because of the likely exercise of unlisted options.

At the end of 2Q10 the company had around 60.8 million unlisted options; with exercise prices range from 2 cents to 40 cents and expiry dates extend to February 2013.

Given the quality of the exploration results the company is expected to raise new equity with ease.

The market is catching on to the story quickly and the company's share price has soared. However, we feel this might just be the start and that it is not too late to build an exposure to the company.

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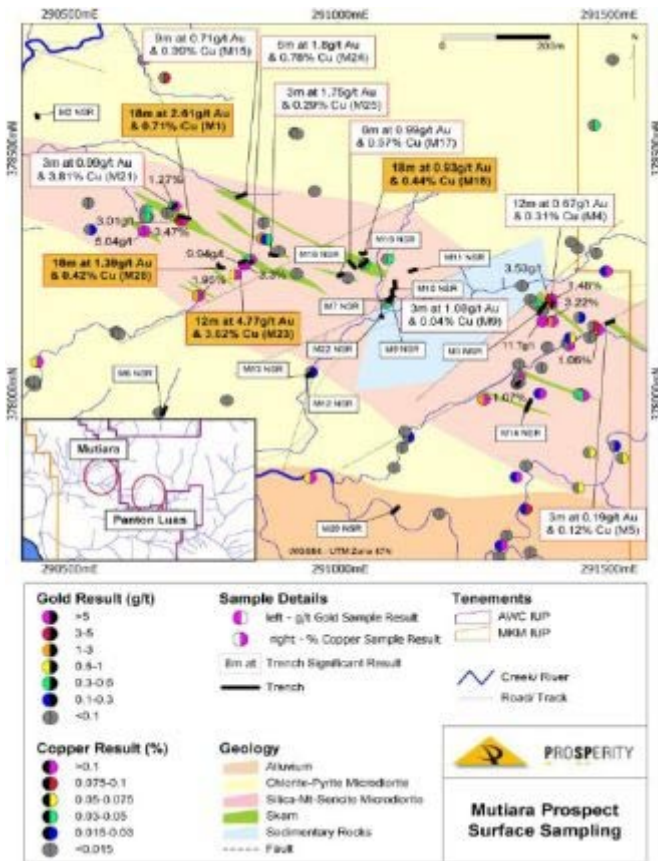
Since breaking out from a pennant formation in mid August, a strong boost of upward momentum saw Prosperity reach a recent high of 22 cents. The speed of the increase in price has seen a surge of the RSI to reach overbought levels. We would expect a period of short term consolidation in the near term. Once this is complete, a continued advance in line with the broader term uptrend could potentially see the all time high in 2003 at 28.5 cents tested over the longer term.



STATE OF PLAY

Since the release of the June Quarter Report the company has made two important announcements. In an announcement made on August 16th, 2010 the company reported on assays from its first trenching program at its Mutiara Prospect; located 1.5 kilometres from the recently discovered Panton Luas Prospect.

The trenching results were very positive. High grade sections were obtained from 5 trenches which included 12 metres at 4.77 g/t gold and 3.62% copper. Trenching and surface sampling shows mineralisation is continuous over a strike length of around 1,000 metres as depicted in the next figure. Members are encouraged to visit the company's web site to view the maps and diagrams in better detail than can be reproduced here.



Mutiara

- Widespread and continuous mineralisation defined from latest trenching
- Best trench results include:
 - Trench M1: 18m @ 2.61 g/t Au and 0.71% Cu
 - Trench M18: 18m @ 0.93 g/t Au and 0.44% Cu
 - Trench M23: 12m @ 4.77 g/t Au and 3.62% Cu
 - Trench M26: 18m @ 1.39 g/t Au and 0.42% Cu



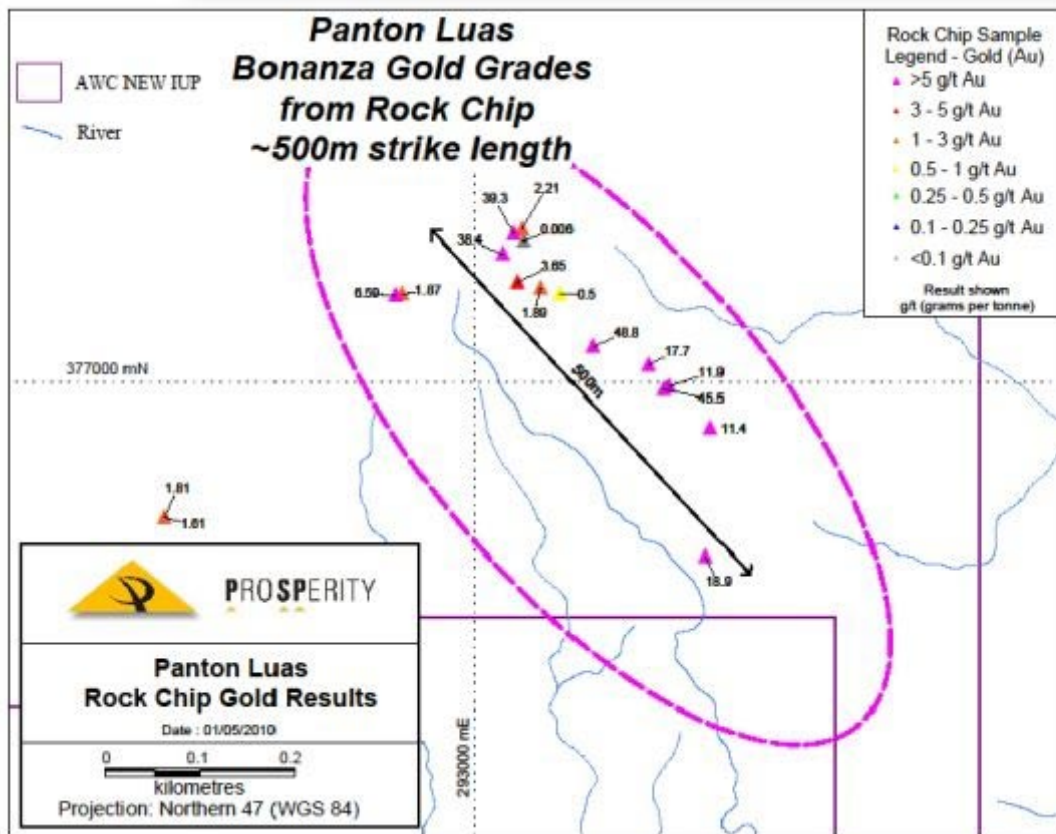
Mutiara secondary Cu in contact skarn

The mineralisation at Mutiara is hosted in zones from 1 metre to tens of metres in width, steeply dipping and with strong structural controls. Host microdiorite intrusive rocks are strongly altered and along with the presence of skarn mineralisation is suggestive that a major porphyry copper deposit might be close by.

A preliminary ground magnetic survey identified very strong targets but this work is being refined with a detailed helicopter-borne magnetic survey. This survey will provide high resolution data from which to better define a drilling program.

At the Panton Luas Prospect the company followed up initial trench sampling and confirmed previous high grade gold mineralisation at surface. The highest grade samples collected at surface assayed up to 83 g/t gold. One of the first trenches returned 6.71 g/t over 15 metres. These sampling sites are shown in the next figure.

Gold mineralisation is widespread at Panton Luas just as it is at Mutiara. The first pass ground magnetic survey indicated Mutiara and Panton Luas might form one large porphyry system with a strike length of 4 kilometres by 1.5 kilometres wide. Although, it is still early days, if mineralisation is continuous as well as being widespread, the project area has the potential for resource of disseminated gold.



We have left the best till last, not that the other projects are not first class in their own right. It is now time to take a closer look at Pinang-Pinang. During the June quarter the company renegotiated terms with its JV partner PT Dana Mitra Utama. PT Dana was issued with 5 million fully paid Prosperity Shares and 10 million unlisted options at an exercise price of A\$0.10. In return, PT Dana cancelled its buy back rights on the Pinang-Pinang Project. Dana has recently exercised its 10 million options.

The Pinang-Pinang Project is located 20 kilometres south-southeast of the town of Tapaktuan, and 5 kilometres from the Indian Ocean. Several companies, including CRA Limited, explored Pinang-Pinang in the 1990s. Exploration was abandoned at the height of the Asian Financial crisis and low gold price in the late 1990s.

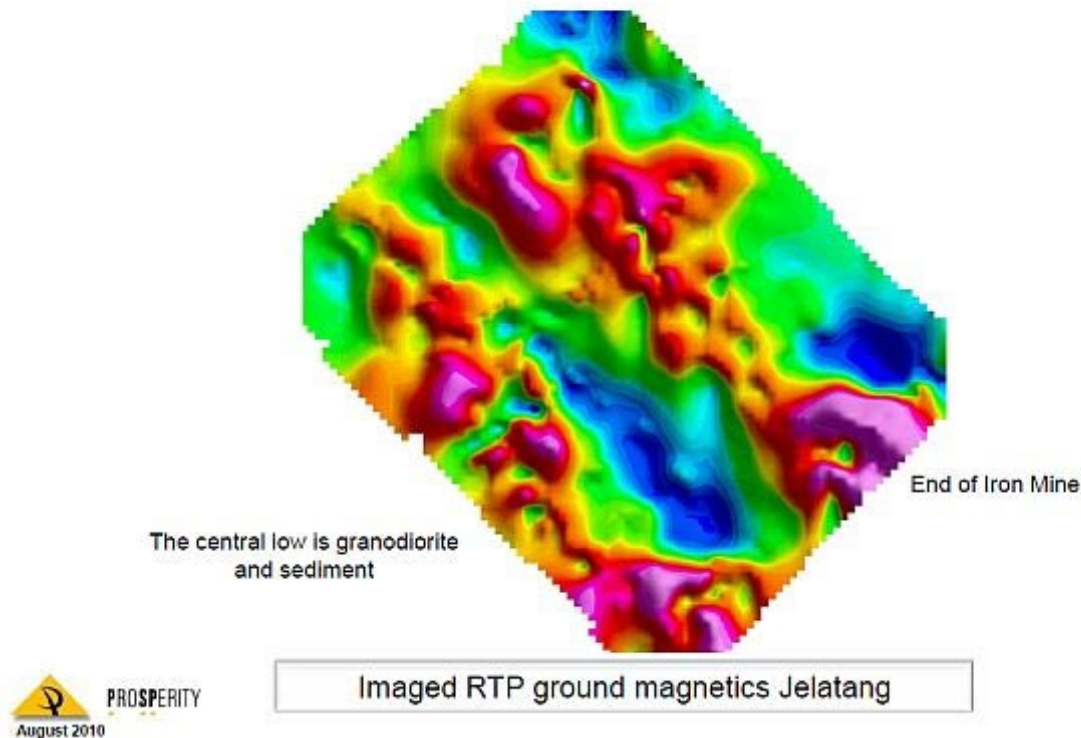
Prosperity started to explore Pinang-Pinang in April 2009 starting with a ground magnetics and soil sampling and mapping. The area that contained the historical trenches was called the Pala Prospect and a new prospect 800 metres to the northwest was called Nilam.

When all the data was assembled it was found that copper, gold and molybdenum soil anomalies were coincident with a magnetic anomaly, defining a "bulls-eye" target. A

second anomaly was identified and both are situated in a clearly defined structural corridor. The ground magnetics for Pinang-Pinang are shown in the next figure.

Soil sampling at the Nilam prospect has delivered some very high grade gold assays up to 5.18 g/t. Nilam has strong coincident copper and molybdenum anomalies.

Pinang Pinang – Jelatang Prospect Ground Magnetics



Earlier in the year the company completed a scout drilling program at Pinang-Pinang. The program was very successful; 16 drill holes intercepted over 100 metres of veinlet hosted copper-gold mineralisation, and 5 of the 16 drill holes intersected shorter intervals of higher grade mineralisation in breccia.

The best results included 22 metres at 1.12 g/t gold and 0.4% copper which was contained in broader zone of 66 metres at 0.52 g/t gold and 0.18% copper. The better gold grades were over 1 g/t and the better copper grades ranged from 0.06% to 0.54%. This first phase of drilling was only shallow and the next step will be to drill deeper. High resolution magnetics in conjunction with geochemistry and trench sampling will define drill targets.

Rather than just a large single volume of material typical of low grade porphyry deposit, Pinang-Pinang looks more like several near vertical higher grade zones, which is not dissimilar to aspects of Oyu Tolgoi. One of the zones is shown in the next figure.

Prosperity has exciting projects on its hands that will require a high exploration budget to do justice for further feasibility work. The exploration targets are of the highest order. As the projects progress, the continuation of good exploration results will bring the company into play as a takeover target. It would be appropriate for the company to bring in a major miner as a JV partner to share the risk and fund a large exploration budget.

The company needs to raise funds; an identifiable risk is the company does not have a rights issue but places stock with institutions at a share price significantly below the share price prevailing at the time of the announcement.

We believe there will be positive news flow from the company's activities in Indonesia. At this point in time we are recommending the company as a SPECULATIVE BUY for all Members.

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