PROPHECY COAL CORP.
(Formerly Prophecy Resource Corp.)

Condensed Consolidated Interim Financial Statements
Unaudited
For the six month period ended June 30, 2011

(Expressed in Canadian Dollars)

Contents

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The condensed consolidated interim financial statements of Prophecy Coal Corp. (formerly Prophecy Resource Corp. Inc.) are the responsibility of the Company's management. The consolidated financial statements are prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting and International Financial Reporting Standard ("IFRS") 1, First-time Adoption of IFRS has been applied (Note 3), and reflect management's best estimates and judgment based on information currently available.

Management has developed and maintains a system of internal control to ensure that the Company's assets are protected from loss or improper use, transactions are authorized and properly recorded, and financial records are reliable.

The Board of Directors is responsible for ensuring management fulfills its responsibilities for financial reporting and internal control through an audit committee, which is comprised primarily of non-management directors. The audit committee reviews the consolidated financial statements prior to their submission to the Board of Directors for approval.

"John Lee"	"Irina Plavutska"
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John Lee, CEO	Irina Plavutska, Interim CFO
Vancouver, British Columbia	

August 29, 2011

PROPHECY COAL CORP.
Condensed Consolidated Interim Statements of Financial Position
Unaudited
(Expressed in Canadian Dollars)

	Note		June 30 2011		December 31 2010 (note 3)
Assets					
Current assets					
Cash and cash equivalents	7	$	9,505,918	$	39,324,151
Receivables	8		1,933,212		414,926
Prepaid expenses			508,492		82,513
Investments	9		5,411,570		3,295,385
			17,359,192		43,116,975
Non-current assets					
Reclamation deposits			6,500		6,500
Equipment deposits and other	10		4,267,267		-
Property and equipment	11		40,415,297		25,301,993
Mineral properties	12		46,257,721		42,147,366
		$	108,305,977	$	110,572,834
Liabilities and Equity					
Current liabilities					
Accounts payable & accrued liabilities		$	1,002,377	$	2,221,951
Loan payable	13		-		5,083,334
			1,002,377		7,305,285
Non-current liabilities					
Asset retirement obligations			127,304		80,000
Deferred income taxes			448,686		448,686
			1,578,367		7,833,971
Equity					
Share capital	14		128,720,103		125,458,376
Contributed surplus			7,224,817		4,720,060
Accumulated other comprehensive loss	9		(146,431)		(512,616)
Deficit			(48,415,833)		(26,926,957)
Equity attributable to owners of the Company	5		87,382,656		102,738,863
Equity attributable to non-controlling interests	5		19,344,954		-
Total Equity			106,727,610		102,738,863
		$	108,305,977	$	110,572,834

Approved on behalf of the Board:

"John Lee" Director

"Greg Hall" Director

PROPHECY COAL CORP.
Condensed Consolidated Interim Statements of Operations and Comprehensive Loss
Unaudited
(Expressed in Canadian Dollars)

	Notes	Three months ended June 30, 2011	Three months ended June 30, 2010 (note 3)	Six months ended June 30, 2011	Six months ended June 30, 2010 (note 3)
General and Administrative Expenses					
Consulting and management fees		$ 359,499	$ 738,545	$ 666,256	$ 992,820
Share-based payments	15	1,054,489	-	2,394,842	-
Advertising and promotion		114,274	410,800	331,317	440,033
Professional fees		173,695	31,030	294,295	152,984
Travel and accommodation		170,830	125,828	366,342	164,684
Stock exchange and shareholder services		35,467	99,617	91,967	145,314
Salary and benefits		49,963	56,802	158,492	117,169
Office and administration		52,537	88,945	156,708	125,359
Insurance		37,572	-	49,156	483
Director fees		2,500	-	6,706	-
Amortization		26,000	379	41,005	4,727
Loss Before Other Items		(2,076,826)	(1,551,946)	(4,557,086)	(2,143,573)
Other Items					
Interest income		68,969	2,106	120,172	3,395
Interest expense		-	-	-	-
Loss on acquisition of mineral properties		(2,350,462)	-	(2,350,462)	-
Foreign exchange loss (gain)		50,158	(94,504)	(76,557)	99,226
		(2,231,335)	(92,398)	(2,306,847)	102,621
Net Loss for Period		(4,308,161)	(1,644,344)	(6,863,933)	(2,040,952)
Fair value gain (loss) on available-for-sale investments		(1,998,493)	-	(366,185)	-
Comprehensive Loss for Period		$ (6,306,654)	$ (1,644,344)	$ (7,230,118)	$ (2,040,952)
Net loss for period attributable to:					
Owners of the Company		$ (4,266,227)	$ (1,644,344)	$ (6,821,999)	$ (2,040,952)
Non-controlling interest		(41,934)	-	(41,934)	-
		$ (4,308,161)	$ (1,644,344)	$ (6,863,933)	$ (2,040,952)
Comprehensive loss for period attributable to:					
Owners of the Company		$ (6,264,720)	$ (1,644,344)	$ (7,188,184)	$ (2,040,952)
Non-controlling interest		(41,934)	-	(41,934)	-
		$ (6,306,654)	$ (1,644,344)	$ (7,230,118)	$ (2,040,952)
Loss Per Common Share, basic and diluted		$ (0.02)	$ (0.02)	$ (0.04)	$ (0.03)
Weighted Average Number of Shares Outstanding		190,228,186	95,282,588	189,676,298	76,335,115

See Notes to Condensed Consolidated Unaudited Interim Financial Statements.

PROPHECY COAL CORP.
Condensed Consolidated Interim Statements of Changes in Equity
Unaudited
(Expressed in Canadian Dollars)

	Note	Numbers of shares	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Non-controlling Interest	Total
Balance, January 1, 2010	3	48,594,034	$ 33,896,787	$ 3,000,310	$ -	$ (20,788,594)	$ -	$ 16,108,503
Private placements, net of share								-
issue costs		19,638,658	8,854,878	133,847	-	-	-	8,988,725
Shares issued upon acquisition of Prophecy Holdings Inc.		36,178,285	27,495,497	73,404	-	-	-	27,568,901
Shares issued for mineral properties		2,000,000	1,440,000	-	-	-	-	1,440,000
Options exercised		350,000	181,079	(93,579)	-	-	-	87,500
Expiry of options		-	-	(446)	-		-	(446)
Distribution to shareholders on spin off		-	-	-	-	(1,610,246)	-	(1,610,246)
Loss for the period		-	-	-	-	(2,040,952)	-	(2,040,952)
Balance, June 30, 2010	**3**	106,760,977	71,868,241	3,113,536	$ -	(24,439,792)	$ -	50,541,985
Private placements, net of share issue costs		3,831,511	1,908,079	-	-	-	-	1,908,079
Shares issued upon acquisition of Northern Platinum Ltd.		14,170,815	7,085,408	448,253	-	-	-	7,533,661
Shares issued for mineral properties		3,760,000	2,218,400	-	-	-	-	2,218,400
Shares issued as financing fees		1,000,000	490,000	-	-	-	-	490,000
Prospectus offering, net of share issue costs		49,475,000	38,426,910	573,300	-	-	-	39,000,210
Options exercised		2,260,000	1,695,204	(661,321)	-	-	-	1,033,883
Warrants exercised		3,722,896	1,766,134	-	-	-	-	1,766,134
Share-based payments		-	-	1,351,124	-	-	-	1,351,124
Loss for the period		-	-	-	-	(2,557,220)	-	(2,557,220)
Expiry of options		-	-	(104,832)	-	70,055	-	(34,777)
Unrealized loss on available-for-sale investments		-	-	-	(512,616)	-	-	(512,616)
Balance, December 31, 2010 (note 3)		184,981,199	125,458,376	4,720,060	(512,616)	(26,926,957)	-	102,738,863
Options exercised		872,400	702,892	(335,557)	-	-	-	367,335
Share-based payments		-	-	2,973,992	-	-	-	2,973,992
Warrants exercised		4,977,487	2,558,835	-	-	-	-	2,558,835
Expiry of options		-	-	(133,678)	-	133,678	-	-
Loss for the period		-	-	-	-	(6,863,933)	-	(6,863,933)
Distribution to shareholders on spin-off		-	-	-	-	(14,800,555)	-	(14,800,555)
Unrealized gain on available-for-sale investments		-	-	-	366,185	-	-	366,185
Equity attributable to shareholders, June 30, 2011		190,831,086	128,720,103	7,224,817	(146,431)	(48,457,767)	-	87,340,723
Non-controlling interest		-	-	-	-	41,934	19,344,954	19,386,888
Balance, June 30, 2011		**190,831,086**	**$ 128,720,103**	**$ 7,224,817**	**$ (146,431)**	**$ (48,415,833)**	**$ 19,344,954**	**$ 106,727,610**

See Notes to Condensed Consolidated Unaudited Interim Financial Statements.

PROPHECY COAL CORP.
Condensed Consolidated Interim Statements of Cash Flows
Unaudited
(Expressed in Canadian Dollars)

	Six months ended June 30, 2011	2010 (note 3)
Operating Activities		
Net loss for the period	$ (6,863,933)	$ (2,040,952)
Items not involving cash		
Amortization	41,005	4,727
Share-based payments	2,394,842	-
Loss on exhange transaction with Platinum	1,875,689	-
Foreign exchange	-	-
	(2,552,397)	(2,036,225)
Changes in non-cash working capital		
Receivables	(1,414,939)	135,832
Prepaid expenses	(379,169)	(112,020)
Accounts payable and accrued liabilities	(780,055)	271,999
Cash Used in Operating Activities	(5,126,560)	(1,740,414)
Investing Activities		
Cash received upon acquisition of Prophecy Holdings	-	4,213,364
Cash received upon acquistion of Prophecy Platinum	671,726	-
Reclamation deposit	-	6,850
Equipment deposits and other	(4,267,267)	-
Acquisition of property and equipment	(14,874,828)	(10,418)
Mineral property expenditures	(2,397,475)	(373,951)
Purchase of available for sale investments	(1,750,000)	(3,808,000)
Cash Produced by (Used in) Investing Activities	(22,617,844)	27,845
Financing Activities		
Repayment of loan	(5,000,000)	-
Shares issued, net of share issuance costs	2,926,170	9,115,225
Dividend distribution to shareholders on spin-off	-	(1,000,000)
Cash Provided by (Used in) Financing Activities	(2,073,830)	8,115,225
Net Increase (Decrease) in Cash	(29,818,234)	6,402,656
Cash and Cash Equivalents - Beginning of Period	39,324,151	139,312
Cash and cash equivalents - end of period	$ 9,505,918	$ 6,541,968

Supplemental cash flow information (note 20)

(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS

Prophecy Coal Corp. (formerly Prophecy Resource Corp.) ("Prophecy" or the "Company") is incorporated under the laws of the province of British Columbia, Canada, and is engaged in the acquisition, exploration, and development of energy, nickel, and platinum group metals projects. The address of the Company's head office and records is 2nd floor, 342 Water Street, Vancouver, British Columbia, V6B 1B6.

Details of the Company's subsidiaries at June 30, 2011 are as follows.

	Principal Activity	Place of incorporation and operation	Ownership interest June 30, 2011
0912603 B.C. Ltd.	Mining	Canada	100%
0912601 B.C. Ltd.	Mining	Canada	100%
Chandgana Coal LLC	Mining	Mongolia	100%
East Energy Development LLC	Mining	Mongolia	100%
Red Hill Mongolia LLC	Mining	Mongolia	100%
UGL Enterpises LLC	Inactive	Mongolia	100%
Prophecy Platinum Corp.	Mining	Canada	53.2%
Subsidiaries of Prophecy Platinum Corp.			
PCNC Holdings Corp.	Mining	Canada	100%
Pacific Coast Nickel Corp. USA	Inactive	USA	100%
Pacific Nickel Sudamerica S.A.	Mining	Uruguay	100%
0905144 B. C. Ltd.	Mining	Canada	100%

On June 13, 2011 Northern Platinum, Prophecy Holdings Inc., and Prophecy Resource Corp. were amalgamated as one company under the name Prophecy Resource Corp. On June 14, 2011 Prophecy Resource Corp changed its name to Prophecy Coal Corp. (see note 5 for more details on the ownership of Prophecy Platinum Corp.).

Subsidiaries are fully consolidated from the date on which the Company obtains control. For the non-wholly owned subsidiary and its wholly owned subsidiaries, the net assets attributable to outside equity shareholders are presented as "non-controlling interests" in the equity section of the consolidated balance sheets. Net income for the period that is attributable to the non-controlling interests is calculated based on the ownership of the non-controlling interest shareholders in the subsidiary. Balances and transactions between the Company and its subsidiaries are eliminated on consolidation. The Company is in the development phase of its energy resource projects ("coal projects") in Mongolia and is exploring nickel and platinum group metals projects in Canada. The underlying value and recoverability of the amounts shown for mineral properties, and property and equipment are dependent upon the existence of economically recoverable mineral reserves, receipt of appropriate permits, the ability of the Company to obtain the necessary financing to complete the development of its projects, and future profitable production from, or the proceeds from the disposition of its mineral properties.

1. NATURE OF OPERATIONS (Continued)

The Company has not yet generated any revenue and has incurred losses since inception. Management will need to generate additional financing in order to meet its planned business objectives. There is no assurance that the Company will be able to raise additional financing. The Company's mine operations at Ulaan Ovoo has not been fully commissioned and has not reached commercial production level. Until the Company can sustain production and sale of its minerals it will remain in the development phase.

2. BASIS OF PREPARATION

The Canadian Accounting Standards Board ("AcSB") confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises for financial periods beginning on and after January 1, 2011. The Company has adopted IFRS with an adoption date of January 1, 2011 and a transition date of January 1, 2010.

These are the Company's IFRS condensed consolidated interim financial statements for the first six months of the period covered by the first IFRS consolidated annual financial statements to be presented in accordance with IFRS for the year ending December 31, 2011 and IFRS 1, "First-time Adoption of International Financial Reporting Standards", has been applied. The impact of the transition from GAAP to IFRS is explained in Note 3.

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for financial instruments classified as available-for-sale and at fair value through profit and loss, which is stated at their fair value, and provision for closure and reclamation, which is recorded at management's best estimate. In addition these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

These condensed consolidated interim financial statements were prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". They do not include all of the information required for annual financial statements. These financial statements should be read in conjunction with the Company audited annual consolidated financial statements for the year ended December 31, 2010 prepared in Canadian GAAP.

The accounting policies set out in Note 4 have been applied consistently to all periods presented in preparing the opening balance sheet at January 1, 2010 (Note 3) for purposes of transition to IFRS. The accounting policies have been applied consistently by the Company and its subsidiaries.

3. TRANSITION TO IFRS

Under IFRS 1, the IFRSs are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under GAAP taken to deficit unless certain exemptions are applied. IFRS 1 provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

Initial elections upon adoption

Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

(i) Share-based payments

IFRS 1 permits the application of IFRS 2 "Share-Based Payment" only to equity instruments granted after November 7, 2002 that had not vested by the date of transition to IFRS. The Company has applied this exemption for equity instruments granted after November 7, 2002 that had not vested by January 1, 2010.

(ii) Business Combinations (“IFRS 3”)

The Company has elected under IFRS 1, not to apply IFRS 3 “Business Combinations” retrospectively to business combinations that occurred prior to January 1, 2010.

Adjustments to transition to IFRS

(a) Income taxes

In April 2010, the Company acquired all of the outstanding common shares of Prophecy Holdings Inc. (“Prophecy Holdings”). On acquisition of Prophecy Holdings, the Company recognized a deferred income tax liability $6,797,734 in accordance with Canadian GAAP. Under IAS 12 “Income Taxes”, the deferred tax liability would not be recognized, either on acquisition or subsequently. This accounting policy change resulted in a reversal of the deferred income tax liability and a corresponding decrease in the carrying value of mineral properties.

Similarly, in September 2010, the Company acquired all of the outstanding common shares of Northern Platinum Ltd. (“Northern Platinum”). On acquisition of Northern Platinum, the Company recognized a deferred income tax liability $1,360,236 in accordance with Canadian GAAP. Under IAS 12 the Company reversed the deferred income tax liability which resulted a corresponding decrease in the carrying value of mineral properties.

3. TRANSITION TO IFRS (Continued)

Adjustments to transition to IFRS (Continued)

(b) Income taxes

In April 2010, the Company acquired all of the outstanding common shares of Prophecy Holdings Inc. ("Prophecy Holdings"). On acquisition of Prophecy Holdings, the Company recognized a deferred income tax liability $6,797,734 in accordance with Canadian GAAP. Under IAS 12 "Income Taxes", the deferred tax liability would not be recognized, either on acquisition or subsequently. This accounting policy change resulted in a reversal of the deferred income tax liability and a corresponding decrease in the carrying value of mineral properties.

Similarly, in September 2010, the Company acquired all of the outstanding common shares of Northern Platinum Ltd. ("Northern Platinum"). On acquisition of Northern Platinum, the Company recognized a deferred income tax liability $1,360,236 in accordance with Canadian GAAP. Under IAS 12 the Company reversed the deferred income tax liability which resulted a corresponding decrease in the carrying value of mineral properties.

(c) Share-based payments

Under Canadian GAAP, forfeitures of share-based awards are recognized as they occur. However, under IFRS, forfeiture estimates are recognized in the period share-based awards are granted, and are revised for actual forfeitures in subsequent periods.

These policy changes resulted in a reduction in contributed surplus for the year ended December 31, 2010 of $35,223, from which, $29,780 reduced share-based payments expense and $5,443 reduced mineral properties. It should be noted that $1,955 related to the Company's Ulaan Ovoo property which has been reclassified to Property and Equipment and $531 and $2,957 related to Lynn Lake and Wellgreen, respectively. At June 30, 2010, this policy change resulted in a reduction in contributed surplus and Property and Equipment for $466 as it related to the Ulaan Ovoo property.

On transition to IFRS the Company changed its accounting policy for the treatment of share-based payments whereby amounts for expired unexercised stock options are transferred to deficit. Previously, the Company's Canadian GAAP policy was to leave such amounts in contributed surplus. The policy change resulted in $582,109 being transferred from contributed surplus to deficit on January 1, 2010 and $70,055 at December 31, 2010.

3. TRANSITION TO IFRS (Continued)

Adjustments to transition to IFRS (Continued)

(d) Reclassification of mineral property interest

Prior to transition to IFRS, the Ulaan Ovoo mineral property, which as of the period ended June 30, 2011 is in the development stage, was classified as mineral property interests. In accordance with IFRS 6 “Exploration for and Evaluation of Mineral Resources”, a mineral property is no longer classified under this standard once technical feasibility and commercial viability are demonstrable, resulting in this asset being reclassified as Property and Equipment commencing June 30, 2010. Accordingly, during the year-ended December 31, 2010, $24,068,353 and at June 30, 2010, $14,724,181 was transferred from mineral property interests to property and equipment.

(e) Reclassification of borrowing costs

Canadian GAAP allows a choice whether or not to capitalize eligible borrowing costs, but IAS 23 “Borrowing Costs”, requires capitalization of eligible borrowing costs that are directly attributable to the acquisition, construction, or production of a long term asset. The Company previously expensed borrowing costs and, therefore, reclassified the interest on the loan of $1,143,889 incurred in 2010 to support the development of the Ulaan Ovoo mineral property to Property and Equipment.

(f) Reconciliation to previously reported financial statements

A reconciliation of the above noted changes is included in the following financial statements for the dates noted below.

- Consolidated Statement of Financial Position at June 30, 2010
- Consolidated Statement of Operations and Comprehensive Loss for the six month period ended June 30, 2010
- Consolidated Statement of Operations and Comprehensive Loss for the three month period ended June 30, 2010
- Consolidated Statement of Cash Flows for the six month period ended June 30, 2010

The reader may refer to the interim condensed consolidated financial statements for the three month period ended March 31, 2011 that included the reconciliations of the consolidated financial statements previously prepared under Canadian GAAP to those under IFRS at the transition date, December 31, 2010 and March 31, 2010.

(Expressed in Canadian Dollars)

3. TRANSITION TO IFRS (Continued)

The June 30, 2010 Canadian GAAP Consolidated Statement of Financial Position has been reconciled to IFRS as follows:

Consolidated Statement of Financial Position

	June 30, 2010		
	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets			
Current assets			
Cash and cash equivalents	$ 6,541,968	$ -	$ 6,541,968
Receivables	101,369	-	101,369
Prepaid expenses	112,020	-	112,020
Available for sale investments	3,808,000	-	3,808,000
	10,563,357	-	10,563,357
Non-current assets			
Reclamation deposits	6,500	-	6,500
Property and equipment	76,603	14,723,735	14,800,338
Mineral properties	48,263,506	(21,521,915)	26,741,591
	58,909,966	(6,798,180)	52,111,786
Liabilities and Equity			
Current liabilities			
Accounts payable & accrued liabilities	1,523,472	-	1,523,472
	1,523,472	-	1,523,472
Non-current liabilities			
Deferred income taxes	6,844,063	(6,797,734)	46,329
	8,367,535	(6,797,734)	1,569,801
Equity			
Share Capital	71,868,241		71,868,241
Contributed surplus	3,113,982	(582,555)	2,531,427
Deficit	(24,439,792)	582,109	(23,857,683)
	50,542,431	(446)	50,541,985
	$ 58,909,966	$ (6,798,180)	$ 52,111,786

(Expressed in Canadian Dollars)

3. TRANSITION TO IFRS (Continued)

The six months ended June 30, 2010 Canadian GAAP Consolidated Statement of Operations and Comprehensive Loss has been reconciled to IFRS as follows:

	Six months ended June 30, 2010		
	Canadian GAAP	**Effect of transition to IFRS**	**IFRS**
General and Administrative Expenses			
Consulting and management fees	$ 992,820	$ -	$ 992,820
Advertising and promotion	440,033	-	440,033
Professional fees	152,984	-	152,984
Travel and accommodation	164,684	-	164,684
Stock exchange and shareholder services	145,314	-	145,314
Salary and benefits	117,169	-	117,169
Office and administration	125,359	-	125,359
Insurance	483	-	483
Director fees	-	-	-
Amortization	4,727	-	4,727
Loss Before Other Items	2,143,573	-	2,143,573
Other Items			
Interest income	(3,395)	-	(3,395)
Foreign exchange gain	(99,226)	-	(99,226)
	(102,621)	-	(102,621)
Net Loss and Comprehensive Loss for Period	$ (2,040,952)	$ -	$ (2,040,952)

(Expressed in Canadian Dollars)

3. TRANSITION TO IFRS (Continued)

The three months ended June 30, 2010, the Canadian GAAP Consolidated Statement of Operations and Comprehensive Loss has been reconciled to IFRS as follows:

	Three months ended June 30, 2010		
	Canadian GAAP	**Effect of transition to IFRS**	**IFRS**
General and Administrative Expenses			
Consulting and management fees	$ 738,545	$ -	$ 738,545
Share-based payments	-	-	-
Advertising and promotion	410,800	-	410,800
Professional fees	31,030	-	31,030
Travel and accommodation	125,828	-	125,828
Stock exchange and shareholder services	99,617	-	99,617
Salary and benefits	56,802	-	56,802
Office and administration	88,945	-	88,945
Insurance	-	-	-
Director fees	-	-	-
Amortization	379	-	379
Loss Before Other Items	1,551,946	-	1,551,946
Other Items			
Interest income	(2,106)	-	(2,106)
Foreign exchange loss	94,504	-	94,504
	92,398	-	92,398
Net Loss and Comprehensive Loss for Period	$ (1,644,344)	$ -	$ (1,644,344)

(Expressed in Canadian Dollars)

3. TRANSITION TO IFRS (Continued)

The Canadian GAAP Consolidated Statement of Cash Flows for six months ended June 30, 2010 has been reconciled to IFRS as follows:

Consolidated Interim Statements of Cash Flows

	Six months ended June 30, 2010				
		Canadian GAAP	Effect of transition to IFRS		IFRS
Cash Used in Operating Activities	$	($1,740,414)	-	$	($1,740,414)
Cash Provided in Investing Activities		27,845	-		27,845
Cash Provided in Financing Activities		8,115,225	-		8,115,225
Net increase in Cash	$	6,402,656	-	$	6,402,656

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the accounts of the Company and its wholly-owned integrated subsidiaries. All material intercompany balances and transactions have been eliminated.

(a) Cash equivalents

Cash equivalents consist of bank deposits and highly liquid, short-term investments with original maturities of three months or less when purchased and are readily convertible to known amounts of cash.

(b) Property and equipment

Property and equipment ("PE") is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of PE 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. PE are carried at cost less accumulated depreciation. Depreciation of property and equipment is recorded on a declining-balance or unit of production basis at the following annual rates:

Computer equipment	45%
Computer software	100%
Furniture and equipment	20%
Vehicle	30%
Mining equipment	20%

Leasehold improvements are amortized on a straight-line basis over 5 years. Additions during the year are amortized at one-half the annual rates. Deferred exploration and mine development costs will be amortized on the unit of production basis upon commencement of commercial production.

(c) Mineral properties and mine development costs

The Company capitalizes all costs related to investments in mineral properties on a property-by-property basis. Such costs include acquisition costs and exploration expenditures, net of any recoveries received. Costs are deferred until such time as the extent of mineralization has been determined and a technical feasibility study has been completed which demonstrates the commercial viability of extracting a mineral resource in which case subsequent exploration costs and the costs incurred to develop a property are capitalized into PE.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Mineral properties and mine development costs (Continued)

During the development of a mine, prior to the commencement of production, costs incurred to remove overburden and other mine waste materials in order to access the resource body ("stripping costs") are capitalized to the related property and depleted over the productive life of the mine using the unit-of-production method. During the production phase of a mine, stripping costs are accounted for as variable production costs and included in the cost of inventory produced during the period except for stripping costs incurred to provide access to reserves that will be produced in future periods and would not otherwise have been accessible, which are capitalized to the cost of mineral property interests and depleted on a unit-of-production method over the reserves that directly benefit from the stripping activity.

From time to time the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As such options are exercisable entirely at the discretion of the optionee; the amount payable or receivable is not recorded at the time of the agreement. Option payments are recorded as property costs or recoveries when the payments are made or received. Recoveries in excess of property costs are reflected in income.

Capitalized costs will be depleted over the useful lives of the interests upon commencement of commercial production or written off if the interests are abandoned or the applicable mineral rights are allowed to lapse.

Commercial production is deemed to have commenced when management determines that the operational commissioning of major mine and plant components is complete, operating results are being achieved consistently for a period of time and that there are indicators that these operating results will continue. The Company determines commencement of commercial production based on the following factors, which indicate that planned principal operations have commenced.

These include the following:

- a significant portion of plant/mill capacity is achieved;
- all facilities are operating at steady state of production; and
- a pre-determined, reasonable period of time has passed.

(d) Impairment of assets

At each date of the statement of financial position, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Impairment of assets (Continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

The Company considers none of its assets to be impaired at June 30, 2011. Each project or group of claims or licenses is treated a cash generating unit.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

(e) Revenue recognition

The Company recognizes interest income on its cash and cash equivalents on an accrual basis at the stated rates over the term to maturity.

(f) Share-based payments

The Company accounts for share-based payments using a fair value based method with respect to all share-based payments, to directors, employees and service providers. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued. The fair value is recognized as an expense or capitalized to mineral properties or property and equipment with a corresponding increase in equity. This includes a forfeiture estimate, which is revised for actual forfeitures in subsequent periods.

Upon the exercise of the stock option, the consideration received and the related amount transferred from contributed surplus are recorded as share capital.

Upon the expiration or cancellation of unexercised stock options, the Company will transfer the value attributed to those stock options from contributed surplus to deficit.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options and warrants. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options and warrants. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(h) Foreign currency translation

The Company's reporting currency and the functional currency of all of its operations is the Canadian dollar as this is the principal currency of the economic environment in which they operate.

Transactions in foreign currencies are initially recorded at the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Exchange gains and losses are recognized in net income or other comprehensive income consistent with where the gain or loss on the underlying non-monetary asset or liability is recognized. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

(i) Income taxes

The Company uses the asset and liability method to account for income taxes. Deferred income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax basis on the balance sheet date. Deferred income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on deferred income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantively enacted. The amount of deferred income tax assets recognized is limited to the amount of the benefit that is probable of recovery.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Asset retirement obligations

The Company recognizes a legal liability for obligations relating to the reclamation of mineral interests (exploration and evaluation assets) and property, and equipment when those obligations arise from the acquisition, construction, development, or normal operation of those assets. Such asset retirement cost must be recognized at fair value, when a reliable estimate of fair value can be made, in the period in which it is incurred, added to the carrying value of the asset, and amortized into income on a systematic basis over its useful life. Fair value is measured based on management's best estimate of the enterprise's cash outflows. Present value is used where the effect of the time value of money is material. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, and the amount or timing of the underlying cash flows needed to settle the obligation.

(k) Unit offerings

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are priced, and any excess is allocated to warrants.

(l) Financial instruments

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans-and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. FVTPL has two categories: designated and held for trading. The Company's cash and short-term money market investments are classified as FVTPL.

Financial assets classified as loans-and-receivables and held-to-maturity are measured at amortized cost. The Company's trade and other receivables are classified as loans-and receivables.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. The Company's trade and other payables are classified as other-financial-liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income.

(m) Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Areas requiring the use of estimates include the rates of amortization for property and equipment, the recoverability of mineral property interests, the recoverability of accounts receivable and amounts due from related parties, the assumptions used in the determination of the fair value of financial instruments and share-based payments, and the determination of the valuation allowance for deferred income taxes and accruals. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

(n) Non-controlling interest

Under IFRS, the Company is required prospectively from the transition date to allocate comprehensive losses to non-controlling interest based on their effective interest, even if this results in a deficit non-controlling interest balance.

(Expressed in Canadian Dollars)

5. ACQUISITIONS

(a) Acquisition of Prophecy Holdings Inc.

In April 2010, the Company completed the acquisition of Prophecy Holdings Inc. through a plan of arrangement (“Arrangement”). As part of the Arrangement, the Company transferred $1,000,000 cash and its non-coal assets, principally the Red Lithium Property near Clayton Valley, Nevada, the Thor Rare Earth Property (“ThorRee”) in Nevada, and the Banbury Property in British Columbia, to Elissa Resources Ltd. (“Elissa”), in exchange for Elissa’s common shares. The Company then created a new class of shares called “Class A shares” and each common share was converted into 0.92 Class A shares and 0.25 Elissa common shares. In addition, each stock option and warrant, will entitle the holder to receive 0.92 Class A share. The Elissa common shares were further transferred, as a dividend, to the shareholders of the Company. Upon completion of the acquisition, the Class A shares were renamed as common shares. As consideration for the acquisition, a total of 36,178,285 common shares were issued to Prophecy Holdings’ shareholders, and 3,500,000 options and 11,336,109 warrants were issued to replace the old options and warrants of Prophecy Holdings on a one-to-one basis.

This transaction has been accounted for as an acquisition of assets. The excess of the consideration given over the fair value of the assets and liabilities acquired has been allocated to mineral properties. The allocation of the consideration given and net assets acquired of this transaction are summarized as follows:

Fair value of common shares issued	$27,495,497
Fair value of replacement options and warrants	73,404
Transaction costs	174,999
Purchase Price	$27,743,900
Cash and cash equivalents	$4,213,364
Receivables	24,565
Reclamation deposit	6,500
Mineral properties	24,091,294
Accounts payable and accrued liabilities	(591,823)
Net assets acquired	$27,743,900

(Expressed in Canadian Dollars)

5. ACQUISITIONS (Continued)

(b) Acquisition of Northern Platinum Ltd.

In September 2010, the Company completed the acquisition of Northern Platinum Ltd. ("Northern") through a plan of arrangement ("Arrangement"). Pursuant to the Arrangement, each common share of Northern was exchanged for 0.50 common share and 0.10 warrant of the Company, and each option and warrant of Northern was exchanged for 0.50 option and warrant of the Company, respectively. Upon closing the Arrangement, the Company issued a total of 13,874,819 common shares and 1,300,000 options and 6,007,090 warrants acquired to replace the common shares, options and warrants of Northern. The Company also issued 295,996 common shares as finder's fees for this transaction. This transaction has been accounted for as an acquisition of assets.

The allocation of the consideration given and net assets acquired of this transaction are summarized as follows:

Fair value of common shares issued	$6,937,410
Fair value of replacement options and warrants	448,253
Transaction costs	263,937
Purchase Price	$7,649,600
Cash and cash equivalents	$1,075
Receivables	112,047
Mineral properties	8,493,390
Accounts payable and accrued liabilities	(614,845)
Deferred income taxes	(342,067)
Net assets acquired	$7,649,600

(Expressed in Canadian Dollars)

5. ACQUISITIONS (Continued)

(c) Acquisition of Prophecy Platinum Ltd.

On June 13, 2011, the Company completed the sale of the Wellgreen and Lynn Lake nickel properties and $2,000,000 cash to Pacific Coast Nickel Corp. ("PCNC") (the "Transaction") through a plan of arrangement ("Arrangement"). Pursuant to the terms of the Transaction, PCNC would issue 450,000,000 of its common shares to Prophecy. Prophecy would retain 225,000,000 of these shares, would distribute 180,823,575 of these shares to Prophecy shareholders and would reserve 44,176,425 common shares for distribution to holders of Prophecy options and warrants, upon the exercise of such options and warrants.

Immediately following the completion of the Transaction, PCNC consolidated its share capital on a 10 old for one new basis (the "Consolidation") and changed its name to Prophecy Platinum Corp. ("Platinum"). PCNC issued 405,823,575 to Prophecy, however the remaining 44,176,425 common shares were not issued.

As a result of the Transaction and Consolidation, each Prophecy shareholder received 0.094758 of a post-Consolidation PCNC share for each Prophecy share held by them as at the end of June 9, 2011. Each option holder and warrant holder of Prophecy will, upon the exercise of their Prophecy options and warrants, as the case may be, receive 0.094758 of a post-Consolidation PCNC share, in addition to one common share of Prophecy for each whole option or warrant of Prophecy held.

Upon completion of the Transaction, Platinum had 46,185,700 post-Consolidation shares outstanding and Prophecy owned 22,500,000 common shares of Platinum.

As a result of the Transaction, the Company acquired an interest of 48.7% of Platinum's issued and outstanding shares and though other relationships is deemed to have control over Platinum. Accordingly, Prophecy consolidated the results of Platinum from June 14, 2011, the date of acquisition. The Company has recorded the interest in the Wellgreen and Lynn Lake properties at their carrying values as it has retained control of the properties. Platinum is considered a subsidiary of Prophecy and its financial results are consolidated into Prophecy's financial statements. Therefore, this transaction has been accounted for using the purchase method as an acquisition of assets. Additional information on Platinum, as a publicly listed company is available on the SEDAR website, www.sedar.com.

The fair value of Platinum's net assets on the date of acquisition was as follows:

Cash and cash equivalents	$	671,726
Receivbles		103,347
Available for sale investments		46,810
Property and equipment		7,726
Mineral properties		1,912,824
Accountspayable and accrued liabilities		(175,302)
Net assets	$	2,567,131

5. ACQUISITIONS (Continued)

(c) Acquisition of Prophecy Platinum Ltd. (Continued)

The amount of non-controlling interest as at June 30, 2011 is as follows:

Platinum on acquisition	$	19,386,918
Share of post-acquistion loss for the period		(41,964)
Balance at June 30, 2011	$	19,344,954

6. SEGMENTED INFORMATION

The Company operates in one operating segment, being the acquisition, exploration, and development of mineral properties. Based on the internal reporting structure and the nature of the Company's activities, projects within the same geographic area are not identified for segment reporting purposes. Corporate head office provides support to the mining and exploration activities with respect to financial and technical support and its information is included in the Canada category.

PROPHECY COAL CORP.
Notes to Condensed Consolidated Interim Financial Statements
Unaudited
For the six months ended June 30, 2011
(Expressed in Canadian Dollars)

6. SEGMENTED INFORMATION (Continued)

Financial information by geographical area is as follows:

	June 30, 2011				
	Canada	Uruguay	Argentina	Mongolia	Total
Current assets	$ 13,685,422	$ 35,431	-	$ 3,638,339	$ 17,359,192
Non-current assets	43,121,615	523,665	-	47,301,505	$ 90,946,785
Total assets	$ 56,807,037	$ 559,096	-	$ 50,939,844	$ 108,305,977
Current liabilities	332,605	14,309	-	655,463	1,002,377
Non-current liabilities	(217)	576,208	-	-	575,990
Total liabilities	$ 332,388	$ 590,516	-	$ 655,463	$ 1,578,367
	Three months ended June 30, 2011				
Expenses	$ 2,109,772	$ 140	-	$ (33,086)	$ 2,076,826
Other items	2,264,335	-	-	(33,000)	$ 2,231,335
Net loss	$ 4,374,107	$ 140	-	$ (66,086)	$ 4,308,161
	Six months ended June 30, 2011				
Expenses	$ 4,556,946	$ 140	-	$ -	$ 4,557,086
Other items	2,317,851	-	-	(11,004)	$ 2,306,847
Net loss	$ 6,874,797	$ 140	-	$ (11,004)	$ 6,863,933

	December 31, 2010 (note 3)				
	Canada			Mongolia	Total
Current assets	$ 42,874,486	-	-	$ 242,489	$ 43,116,975
Non-current assets	40,817,354	-	-	26,638,505	67,455,859
	$ 83,691,840	-	-	$ 26,880,994	$ 110,572,834
Current liabilities	6,032,654	-	-	1,272,631	7,305,285
Non-current liabilities	448,686	-	-	80,000	528,686
	$ 6,481,340	-	-	$ 1,352,631	$ 7,833,971
	Three months ended June 30, 2010 (note 3)				
Expenses	$ 1,508,600	-	-	$ 43,346	$ 1,551,946
Other items	92,398	-	-	-	92,398
Net loss	$ 1,600,998	-	-	$ 43,346	$ 1,644,344
	Six months ended June 30, 2010 (note 3)				
Expenses	$ 1,779,148	-	-	$ 364,425	$ 2,143,573
Other items	(102,621)	-	-	-	(102,621)
Net loss	$ 1,676,527	-	-	$ 364,425	$ 2,040,952

7. CASH AND CASH EQUIVALENTS

At June 30, 2011, the Company has cash and cash equivalents of $9,505,918 (December 31, 2010 - $39,324,151) at banks and on hand that earns interest at floating rates based on daily bank deposit rates.

Cash and cash equivalents of the Company are comprised of bank balances and short term money market instruments with original maturities of three months or less.

The Company's cash and cash equivalents broken down as follows:

	Amount in Canadian dollars
Canadian dollars	$ 8,700,841
Mongolian tugriks	772,527
United States dollars	2,512
Uruguayan pesos	30,038
	$ 9,505,918

8. RECEIVABLES

Amounts receivable are comprised of the following:

	June 30, 2011	December 31, 2010
Recoverable taxes, Canada	$ 229,569	$ 248,053
VAT receivable, Mongolia	1,488,980	166,873
Other receivables	214,663	-
	$ 1,933,212	$ 414,926

(Expressed in Canadian Dollars)

9. AVAILABLE FOR SALE INVESTMENTS

In May 2010, the Company and Victory Nickel Inc. ("Victory Nickel") agreed to reciprocal private placements enabling Victory Nickel to acquire approximately 9.9% equity interest in the Company in accordance with the terms of an Equity Participation Agreement dated October 20, 2009. Victory Nickel subscribed for 7,000,000 shares of the Company at a price of $0.544 per share, while the Company purchased 36,615,385 common shares in Victory Nickel, which represented approximately 9.8% equity interest in Victory Nickel, for $3,808,001. This investment is classified as an available-for-sale financial instrument.

In March 2011, the Company acquired 5,000,000 common shares of Compliance Energy Corporation ("Compliance"), representing approximately 8% of Compliance outstanding shares by means of a non-brokered private placement. Prophecy paid $1,750,000 for its interest in Compliance. These investments are classified as available for sale financial instruments.

Investments are broken down as follows:

Available for Sale Investments	Cost	Fair Value Adjustment December 31, 2010	Fair Value Adjustment June 30, 2011	Balance June 30, 2011
Victory Nickel	$ 3,808,001	$ (512,616)	$ 366,185	$ 3,661,570
Compliance Energy	1,750,000	-	-	1,750,000
Total Available for Sale Investments	$ 5,558,001	$ (512,616)	$ 366,185	$ 5,411,570

(Expressed in Canadian Dollars)

10. EQUIPMENT DEPOSITS AND OTHER

Changes to the equipment deposits and other for the six months ended June 30, 2011 are as follows:

		June 30 2011		December 31, 2010
Deposit on mining equipment, Ulaan Ovoo	$	3,516,511	$	-
Deposit on geo/exploration contract, Ulaan Ovoo		695,756		-
Deposit on drilling contract, Wellgreen		55,000		-
Total deposits	$	4,267,267	$	-

11. PROPERTY AND EQUIPMENT

There are no restrictions on title, any expenditure to construct property, and equipment during the period, any contractual commitments to acquire property and equipment and any compensation from third parties for items of property and equipment that were impaired, lost, or given up that is included in profit or loss.

(Expressed in Canadian Dollars)

	Computer Equipment	Furniture & Equipment	Vehicles	Computer Software	Leasehold Improvements	Ulaan Ovoo Mining Equipment	Deferred Exploration	Exploration Equipment	Total
Cost									
Balance, January 1, 2010	25,522	92,565	47,475	-	7,244	-	-	-	172,806
Additions									
Assets acquired	11,431	25,752	-	-	-	-	-	-	37,183
Reclassification of mine development costs							25,210,287	-	25,210,287
Disposals	(1,739)	-	-	-	-	-	-	-	(1,739)
Balance, December 31, 2010	35,214	118,317	47,475	-	7,244	-	25,210,287	-	25,418,537
Additions									
Assets acquired	50,617	5,971	416,763	107,550	65,004	8,717,951	6,015,887	24,876	15,404,617
Balance, June 30, 2011	85,831	124,288	464,237	107,550	72,248	8,717,951	31,226,174	24,876	40,823,154
Accumulated depreciation									
Balance, January 1, 2010	19,915	54,044	19,471	-	1,449	-	-	-	94,879
Depreciation for the period	3,636	9,350	7,502	-	1,177	-	-	-	21,665
Balance, December 31, 2010	23,551	63,394	26,973	-	2,626	-	-	-	116,544
Depreciation for the period	7,871	7,118	12,950	28,042	3,866	214,316	-	17,150	291,313
Balance, June 30, 2011	31,422	70,512	39,923	28,042	6,492	214,316	-	17,150	407,857
Carrying amounts									
At January 1, 2010	5,607	38,521	28,004	-	5,795	-	-	-	77,927
At December 31, 2010	11,663	54,923	20,502	-	4,618	-	25,210,287	-	25,301,993
At June 30, 2011	54,408	53,775	424,314	79,508	65,756	8,503,635	31,226,174	7,726	40,415,297

(Expressed in Canadian Dollars)

12. MINERAL PROPERTIES

	Ulaan Ovoo	Chandgana Tal	Chandgana Khavtgai	Titan	Okeover, others	Red Lithium	ThorRee	Lynn Lake	Wellgreen	Burwash	Sarandi del Yi Durazno	Las Aguilas	Total
Notes	12(a)	12(b)	12(c)	12(f)	12(e),(h)	12(h)	12(h)	12(d)	12(g)	12(i)	12(j)	12(k)	
Balance, January 1, 2010	12,950,217	1,282,244	1,172,342	-	1	339,607	189,180	-	-	-	-	-	15,933,591
Acquisition cost	1,570,000	-	-	307,274	1,246,890	-	-	23,008,230	12,811,788	-	-	-	38,944,182
Deferred exploration costs:													-
Licenses, leases, and Power Plant application	35,460	1,450	322,305	-	-	-	-	6,395	31,912	-	-	-	397,522
Geological core, engineering, and consulting	1,029,524	15,091	191,722	64,630	80,738	-	81,458	330,825	248,105	-	-	-	2,042,093
Drilling	25,129	-	267,080	-	-	-	-	419,402	49,876	-	-		761,487
Transportation and shipping	522,346	-	-	-	-	-	-	-	-	-	-	-	522,346
Road and bridge construction	2,925,587	-	-	-	-	-	-	-	-	-	-	-	2,925,587
Mine Development	4,671,075	-	-	-	-	-	-	-	-	-	-	-	4,671,075
Personnel	116,097	1,502	19,948	-	-	-	-	-	33,333	-	-	-	170,880
Camp and general	328,577	34,153	112,743	-	-	-	-	55,763	31,625	-	-	-	562,861
	9,653,795	52,196	913,798	64,630	80,738	-	81,458	812,385	394,851	-	-	-	12,053,851
Recovery	(107,614)	-	-	-	-	-	-	-	-	-	-	-	(107,614)
Disposal	-	-	-	-	(1)	(339,607)	(270,638)	-	-	-	-	-	(610,246)
Interest and financing fees	1,143,889	-	-	-	-	-	-	-	-	-	-	-	1,143,889
Reclassification to PE	(25,210,287)	-	-	-	-	-	-	-	-	-	-	-	(25,210,287)
Balance, December 31, 2010	-	1,334,440	2,086,140	371,904	1,327,628	-	-	23,820,615	13,206,639	-	-	-	42,147,366
Acquisition cost	-	-	-	335,617	-	-	-	600,000	-	940,567	792,448	179,811	2,848,443
Acquisition cost on acquistion of control in transaction with Prophecy Platinum	-	-	-	-	-								
Deferred exploration costs:													-
Licenses, leases, and Power Plant application	-	-	11,260	4,251	926	-	-	22,049	9,225	-	-	-	47,711
Geological core, engineering, and consulting	-	145,163	-	15,062	1,587	-	-	149,615	748,841	-	-	-	1,060,268
Personnel	-	33,719	23,353	-	-	-	-	-	38,102	-	-	-	95,175
Camp and general	-	1,821	(51,629)	168	890	-	-	24,336	83,178	-	-	-	58,763
		180,704	(17,016)	19,480	3,403	-	-	196,000	879,345	-	-	-	1,261,916
Balance, June 30, 2011	-	**$1,515,144**	**$2,069,124**	**$727,001**	**$1,331,031**	-	-	**$24,616,614**	**$14,085,984**	**$940,567**	**$792,448**	**$179,811**	**$46,257,721**

12. MINERAL PROPERTIES (Continued)

(a) Ulaan Ovoo property

In November 2005, the Company entered into a letter of intent with Ochir LLC that sets out the terms to acquire a 100% interest in the Ulaan Ovoo coal property. The Ulaan Ovoo property is located in Selenge province, Mongolia. It is held by the vendor under a transferable, 55-year mining license with a 45-year option for extension granted by the Government of Mongolia. The purchase price for the 100% interest, together with all equipment, buildings, and other facilities assembled and constructed at the property was US$9,600,000. Under the terms of the agreement, the Vendor retained a 2% net smelter return royalty (“NSR”).

In November 2006, the Company entered into an agreement with a private Mongolian corporation to purchase 100% title and interest in five mineral licenses including licenses that are contiguous and entirely surrounding the Ulaan Ovoo property. The aggregate purchase price for the licenses was US$400,000. Under the terms of the agreement the vendor retained a 2% NSR. A finder's fee of 58,500 shares was issued to a third party on the acquisition.

In March 2010, the Company was granted an option to purchase the 2% NSR on the Ulaan Ovoo property by cash payment of US$130,000 and issuance of 2,000,000 common shares of the Company. In April 2010, the Company exercised the option and a total of $1,570,000 was capitalized as acquisition costs of the property.

On November 9, 2010, the Company received a mine permit from the Mongolian Ministry of Mineral Resources and Energy (“MMMRE”) for the Ulaan Ovoo coal property.

During the year ended December 31, 2010, the Company had reached technical feasibility and commercial viability and was accordingly reclassified to Property and Equipment (Note 11).

Ilch Khujirt exploration license

On April 21, 2011 the Company has entered into an Option Agreement ("Agreement") with a private Mongolian company ("Seller") holding an exploration license near Prophecy’s Ulaan Ovoo mine, pursuant to which Prophecy has been granted the right to acquire 100% ownership for US $2 million within the first year, or US $4 million in the second year of the execution of the Agreement Pursuant to the Agreement, Prophecy has the right to acquire 100% of the property by making the following payments to the Seller:

- US $200,000 on agreement signing (paid); and
- US $1,800,000 before April 21, 2012, 50% payable in Prophecy shares

or

- US $200,000 on agreement signing (paid);
- US $5,000 before April 21, 2012; and
- US $300,000 before April 21, 2013, 50% payable in Prophecy shares.

12. MINERAL PROPERTIES (Continued)

(a) Ulaan Ovoo property (Continued)

A 2% net royalty on production from the Property is payable to the Seller, which can be purchased at any time at Prophecy's discretion for US$1,000,000 on or before April 21, 2013. One-half of the royalty purchase price shall be payable through the issuance of common shares of Prophecy.

(b) Chandgana Tal property

In March 2006, the Company acquired a 100% interest in the Chandgana Tal property, a coal exploration property consisting of two exploration licenses located in the northeast part of the Nyalga coal basin, approximately 290 kilometers east of Ulaan Bataar, Mongolia, by cash payment of US$400,000 and issuance of 250,000 shares of the Company valued at $1.20 per share. A total of $814,334, which included a finder's fee of 50,000 shares of the Company issued to a third party, was capitalized as acquisition costs of the Chandgana Tal property.

In March 2011, the Company obtained a mine permit from the MMMRE for the Chandgana Tal coal project.

(c) Chandgana Khavtgai property

In 2007, the Company acquired a 100% interest in the Chandgana Khavtgai property, a coal exploration property consisting of one license and located in the northeast part of the Nyalga coal basin by cash payment of US$570,000. A total of $589,053 was capitalized as acquisition costs of the Chandgana Khavtgai property.

(d) Lynn Lake property

The Company has acquired Lynn Lake property, a nickel project located in northern Manitoba, Canada, through the acquisition of Prophecy Holdings in April 2010 (see note 5). A total of $29,805,964 was capitalized as the acquisition cost of Lynn Lake.

On October 20, 2009, Prophecy Holdings entered into an option agreement with Victory Nickel. Pursuant to the option agreement, Prophecy has the right to earn a 100% interest in Lynn Lake by paying Victory Nickel an aggregate of $4,000,000 over approximately four and one-half years by incurring an aggregate of $3,000,000 exploration expenditures at Lynn Lake over a three-year period, and by issuing of 2,419,548 shares to Victory Nickel (issued). The option agreement also provided Victory Nickel with a right to participate in future financings or acquisitions on a pro-rata basis so that Victory Nickel may maintain its 10% interest in the number of outstanding shares of the Company.

12. MINERAL PROPERTIES (Continued)

(d) Lynn Lake property (Continued)

Pursuant to the option agreement, the schedule of cash payments to Victory Nickel is as follows:

(i) $300,000 within five business days after the approval from the TSX Venture Exchange (paid);
(ii) $300,000 on January 9, 2010 (paid);
(iii) $400,000 within 180 days of the option agreement (paid);
(iv) $1,000,000 on or before March 1, 2011 (paid);
(v) $1,000,000 on or before March 1, 2012; and
(vi) $1,000,000 on or before March 1, 2013.

The schedule of expenditures to be incurred at Lynn Lake is as follows:

(vii) $500,000 on or before November 1, 2010 (incurred);
(viii) an aggregate of $1,500,000 on or before November 1, 2011; and
(ix) an aggregate of $3,000,000 on or before November 1, 2012.

On June 13, 2011, the Company sold Lynn Lake assets with assumed liabilities to 0905144 B.C. Ltd., a wholly owned subsidiary of Prophecy Platinum in exchange for shares (note 5). Victory Nickel agreed to assign the option agreement with the Company to the 0905144 B.C. Ltd. Accordingly, Victory Nickel received 0.094758 (on a post-consolidation basis) shares of Prophecy Platinum on the basis of Prophecy Coal shares held on June 13, 2011, or approximately 596,000 shares.

(e) Okeover property

The Company has a 60% interest in the Okeover property, a copper-molybdenum project in the Vancouver Mining Division of southwestern British Columbia, Canada. A total of $1,222,119 was capitalized as the acquisition costs of Okeover.

(f) Titan property

The Company has a 80% interest in Titan property, a vanadium-titanium-iron project located in Ontario, Canada.

In January 2010, Prophecy Holdings entered into an option agreement with Randsburg International Gold Corp. (“Randsburg”) whereby Prophecy Holdings had the right to acquire an 80% interest in the Titan property by paying Randsburg an aggregate of $500,000 (paid), and by incurring exploration expenditures of $200,000 by December 31, 2010. Pursuant to the option agreement, Randsburg has the option to sell the remaining 20% interest in the Titan property to the Company for $150,000 cash and 400,000 shares of the Company. The Titan property is subject to a 3% NSR that may be purchased for $20,000.

12. **MINERAL PROPERTIES** (Continued)

(f) Titan property (Continued)

On June 30, 2011, the Company signed an Amended Agreement with Ransburg. Under the terms of the agreement, Prophecy will pay Ransburg the balance of unexpended amount of $114,742 within five business days of the execution of the agreement (paid on June 30th, 2011).

(g) Wellgreen property

The Wellgreen property, is a nickel-copper and platinum group metals project located in southwestern Yukon Territory, Canada.

The Wellgreen property was subject to a Back-in Assignment Agreement (“Assignment Agreement’) with Belleterre Quebec Mines (“Belleterre”), wherein Belleterre was granted a back-in right to a 50% interest in Wellgreen at any time up to and including completion of a positive feasibility study at Wellgreen by paying to the Company, at the time of backing-in, 50% of the amount of expenditures incurred by the Company at Wellgreen.

Pursuant to the Assignment Agreement, Belleterre assigned its rights, title and interest in and to the Assignment Agreement to Prophecy for consideration of $4,200,000 payable as follows:

- $2,100,000 in cash (paid); and
- $2,100,000 payable through the issuance of 3,560,000 common shares and 712,000 warrants (issued).

As a result, the Company acquired a 100% interest in Wellgreen.

12. MINERAL PROPERTIES (Continued)

(h) Red Lithium, ThorRee and Banbury properties, Canada

Under the plan of Arrangement between the Company and Prophecy Holdings, the Red Lithium, ThorRee and Banbury properties were transferred, before the closing of the Arrangement, to Elissa in exchange for Elissa's common shares, which were distributed to the shareholders of Red Hill as dividend distribution.

(i) Burwash, Canada

On August 4, 2011, Platinum entered into a purchasing agreement with Strategic Metals Ltd. ("Strategic") to acquire a 100% working interest in the Burwash in consideration for $1,000,000 in cash payable on August 31, 2011. This purchase agreement replaces agreements dated May 14, 2008 as amended December 2, 2008, February 23, 2010, and April 1, 2011 previously entered into with Strategic.

(j) Sarandi del Yi Durazno, Uruguay

Platinum has received five prospecting licences in Uruguay and has begun an exploration program on these properties. To date Platinum has spent $725,833 on the properties and intends to continue exploration work.

(k) Las Aguilas, Argentina

On December 10, 2010, further amended March 13, 2011, Platinum entered into a letter agreement with Marifil Mines Limited ("Marifil") with an option to acquire a 70% interest in the Las Aguilas Nickel-Copper-PGM property located in San Luis Province, Argentina. The agreement with Marifil provides for payments and work commitments as follows;

To earn a 49% interest in the property:

Cash and shares

- $25,000 upon signing and 250,000 shares (paid & issued)
- $75,000 and 250,000 shares on or before April 1, 2012
- $100,000 and 250,000 shares on or before April 1, 2013
- $100,000 and 250,000 shares on or before April 1, 2014

Work Commitments

- On or before 3 months from the agreement date complete a resource estimate (completed)
- On or before April 1, 2012 incur $500,000 in exploration expenditures,
- On or before April 1, 2013 incur $500,000 in exploration expenditures,
- On or before April 1, 2014 incur $1,000,000 in exploration expenditures.

(Expressed in Canadian Dollars)

12. MINERAL PROPERTIES (Continued)

(k) Las Aguilas, Argentina (Continued)

The agreement also provides for Platinum to earn an additional 11% by preparing of a pre-feasibility study on the property and issuing an aggregate of 2,000,000 shares. A further 10% can be earned by completing a feasibility study on the property, making cash payment of $100,000 and issuing an aggregate of 1,000,000 shares.

The agreement also provides for granting of a 3% NSR to Marifil of which 0.5% can purchased for $1,000,000 and a further 0.5% of the royalty at any time upon the payment of a further $2,000,000. Platinum retains the option of buying Marifil's 30% interest for $5,000,000.

13. LOAN PAYABLE

In August 2010, the Company arranged a secured debt facility of up to $10,000,000 (the "Loan") with Waterton Global Value, L.P. ("Waterton"). Subject to certain draw-down conditions, the Loan may be drawn in three tranches as follows: (a) $2,000,000 on the closing date, which occurred as at September 1, 2010; (b) $3,000,000 upon completion of the acquisition of Northern; and (c) $5,000,000 at such time as the Company completes an off-take agreement for the Ulaan Ovoo property.

The Loan was due by August 31, 2011 and bore interest at 10% per annum payable monthly. A structuring fee of $50,000 and 1% of the third tranche (if drawn down) was payable in cash. In conjunction with the closing of the Loan, the Company issued 1,000,000 common shares to Waterton. In the event the third tranche of the Loan is drawn, the Company shall issue a further 1,000,000 common shares to Waterton at a fair value of $490,000. Macquarie Capital Markets Canada Ltd. ("Macquarie") acted as the financial advisor to the Company with respect to the loan, and a total of $300,000 finder's fee was paid to Macquarie.

As at December 31, 2010, the Company had drawn down $5,000,000 of the Loan and recorded $1,143,889 interest and financing fees. The common shares issued and finders' fees have been accounted for as interest and financing costs and capitalized to Property and Equipment during the year ended December 31, 2010.

On January 11, 2011 the Company repaid the outstanding loan balance plus early termination financing fees equal to two months' interest payment of $83,334 pursuant to the Credit Agreement.

Loan payable balance is as follows:

	June 30 2011	December 31, 2010
Loan payable	$ -	$ 5,000,000
Accrued financing fees	-	83,334
	$ -	$ 5,083,334

(Expressed in Canadian Dollars)

14. SHARE CAPITAL

Authorized

Unlimited number of common shares without par value

Equity financing

During the six months ended June 30, 2011, the Company issued 872,400 and 4,977,487 shares on the exercise of options and warrants, respectively, for the total proceeds of $2,926,170.

15. SHARE-BASED PAYMENTS

Stock options

The Company has established a stock option plan for its directors, officers, employees, and consultants under which the Company may grant options to acquire a maximum number of common shares equal to 20% of the total issued and outstanding common shares of the Company.

In December 2010 and in the period ended March 31, 2011, the Company granted 3,692,505 and 300,000 options respectively in excess of the limits of the Company's stock option plan. As these option grants were subject to receipt of regulatory and shareholder approval at the Company's next annual general meeting, they were valued in accordance with the Black-Scholes model valuation, but no share based payments were recognized. On May 31, 2011 these option grants were approved by the Company's shareholders and were valued and expense was recognized during the six month period ended June 31, 2011.

The following is a summary of the changes in options from January 1, 2010 to June 30, 2011:

	Number of Options	Weighted Average Exercise Price
Outstanding, January 1, 2010	3,661,600	$0.37
Granted	17,685,500	$0.77
Conversion as per merger with Prophecy Holdings - old (note 5)	3,500,000	$0.40
Conversion as per acquisition of Northern (note 5)	1,300,000	$0.67
Exercised	(2,610,000)	$0.40
Expeired/forfeited	(510,000)	$0.64
Outstanding, December 31, 2010	23,027,100	$0.69
Granted	2,700,000	$0.66
Exercised	(872,400)	$0.42
Expired/forfeited	(531,750)	$0.71
Outstanding, June 30, 2011	24,322,950	$0.70

(Expressed in Canadian Dollars)

15. SHARE-BASED PAYMENTS (Continued)

Stock options (Continued)

During the period ended June 30th, 2011, the Company granted a total of 2,700,000 options with a life of five years to directors, officers, consultants, and employees at exercise prices of $0.63 - $0.98 per share subject to a vesting schedule over two years with 50% options vesting every year.

The weighted average assumptions used for the calculation of share based payments expense were:

	Six months ended	June 30,
	2011	2010
Risk-free interest rate	2.40% to 2.54%	1.72%
Expected life of options in years	3 to 5 years	3 years
Expected volatility	74.7% to 76.5%	95.00%
Expected dividend yield	Nil	Nil

For the six and three month periods ended June 30, 2011 and 2010, share-based payments were recorded as follows:

Consolidated Statement of Operations

	Three months ended June 30,		Six months ended June 30,	
	2011	**2010**	**2011**	**2010**
Share based payments	$ 1,054,489	$ -	$ 2,394,842	$ -

Consolidated Statement of Financial Position

Ulaan Oovo exploration	$211,868	-	$ 224,451	-
Lynn Lake exploration	(2,913)	-	2,445	-
Wellgreen exploration	36,530	-	352,253	-
	$ 245,485	-	$ 579,149	-
Total share-based payments	$ 1,299,974	$ -	$ 2,973,991	$ -

2011 share based payments include $56,932 share based payments recorded in Prophecy Platinum.

(Expressed in Canadian Dollars)

15. SHARE-BASED PAYMENTS (Continued)

Stock options (Continued)

As of June 30, 2011, the following director, officer, employee, and consultant options were outstanding:

Exercise Price	Number of Options Outstanding	Expiry Date
$0.25	50,000	February 14, 2012
$0.25	1,225,000	October 29, 2014
$0.38	200,000	November 30, 2014
$0.40	1,159,200	January 23, 2014
$0.40	381,250	January 29, 2015
$0.54	1,000,000	September 21, 2015
$0.55	350,000	March 11, 2015
$0.60	550,000	July 17, 2014
$0.60	65,000	September 21, 2014
$0.63	2,400,000	June 13, 2016
$0.67	1,967,500	May 10, 2015
$0.67	175,000	October 15, 2015
$0.77	9,000,000	December 10, 2015
$0.77	2,050,000	December 24, 2015
$0.80	475,000	April 30, 2014
$0.80	100,000	September 21, 2015
$0.80	120,000	January 4, 2016
$0.93	50,000	January 6, 2016
$0.93	2,875,000	December 24, 2015
$0.98	130,000	February 14, 2016
$0.25 to $0.98	24,322,950	

(Expressed in Canadian Dollars)

15. SHARE-BASED PAYMENTS (Continued)

Share purchase warrants

On January 4, 2011, the Company announced accelerated expiry of approximately 3,355,585 share purchase warrants, which were issued in various private placements; 1,711,533 warrants are exercisable to purchase common shares of the Company at a price of $0.50 per share until December 31, 2011; 915,750 warrants are exercisable to purchase one common share of the Company at a price of $0.40 per share until December 31, 2011; and 728,302 warrants are exercisable to purchase one common share of the Company at a price of $0.40 per share until January 25, 2012. The accelerated expiry date was February 4, 2011.

The following is a summary of the changes in warrants from January 1, 2010 to June 30, 2011:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, January 1, 2010	6,462,154	$1.09
Issued	15,776,840	$0.69
Conversion as per acquisition of Prophecy Holdings (note 5)	11,336,109	$0.55
Conversion as per acquisition of Northern Platinum (note 5)	6,079,715	$0.69
Exercised	(3,722,897)	$0.47
Expired	(6,430,800)	$1.15
Outstanding, December 31, 2010	29,501,121	$1.25
Exercised	(4,977,487)	$0.65
Expired	(144,167)	$0.40
Outstanding, June 30, 2011	24,379,467	$0.65

(Expressed in Canadian Dollars)

15. SHARE-BASED PAYMENTS (Continued)

Share purchase warrants (Continued)

As of June 30, 2011 the following warrants were outstanding:

Exercise price	Number of Warrants	Expiry date
$0.10	3,250,000	December 31, 2011
$0.40	15,375	December 31, 2011
$0.46	62,500	September 4, 2011
$0.49	1,859,321	February 17, 2012
$0.60	187,500	August 18, 2011
$0.60	133,750	December 31, 2011
$0.60	143,750	December 21, 2011
$0.65	414,000	September 1, 2011
$0.66	3,831,511	October 28, 2012
$0.70	536,250	September 4, 2011
$0.77	5,377,932	March 31, 2012
$0.80	2,964,731	March 31, 2012
$0.80	337,750	April 21, 2012
$0.80	2,753,097	March 23, 2012
$0.80	712,000	October 8, 2011
$0.85	1,800,000	December 24, 2011
$0.10 to $0.85	24,379,467	

16. CAPITAL RISK MANAGEMENT

The Company considers its capital structure to consist of share capital, stock options and warrants. 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 and exploration of mineral properties. The Board of Directors does not establish quantitative returns on capital criteria for management.

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 development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. 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 months ended June 30, 2011. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

(Expressed in Canadian Dollars)

16. CAPITAL RISK MANAGEMENT (Continued)

The Company's investment policy is to invest its surplus cash in highly liquid short-term interest-bearing investments with maturities of 90 days or less from the original date of acquisition, all held with major Canadian financial institutions.

17. FINANCIAL INSTRUMENTS

The Company classified its cash and cash equivalents as held-for-trading; amounts receivable as loans and receivables; and accounts payable and accrued liabilities as other financial liabilities. Long-term investments are classified as available-for-sale. The carrying values of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments. The fair values of amounts due from related parties have not been disclosed, as their fair values cannot be reliably measured since the parties are not at arm's length.

The Company utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – 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), and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	$ 9,505,918	$ -	$ -	$ 9,505,918
Investments	5,411,570	-	-	5,411,570
	$ 14,917,488	**$ -**	**$ -**	**$ 14,917,488**

(a) Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its financial obligations as they fall due. The Company manages liquidity risk by preparing cash flow forecasts of upcoming cash requirements. As at June 30, 2011, the Company has cash and cash equivalents of $9,505,918 (December 31, 2010 - $39,324,151) and financial liabilities of $1,002,374 (December 31, 2010 - $7,305,285), which have contractual maturities of 90 days.

17. FINANCIAL INSTRUMENTS (Continued)

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk primarily associated to cash and cash equivalents, receivables and deposits. The Company manages credit risk, in respect of cash and cash equivalents, by purchasing highly liquid, short-term investment-grade securities held at a major Canadian financial institution. The carrying amount of assets included on the balance sheets represents the maximum credit exposure. Concentration of credit risk exists with respect to the Company's cash and cash equivalents, as substantially all amounts are held with a single Canadian financial institution.

(c) Market risk

The significant market risks to which the Company is exposed are interest rate risk, foreign currency risk and other price risk.

(i) Interest rate risk

Interest risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's cash equivalents primarily include highly liquid investments that earn interest at market rates that are fixed to maturity or at variable interest rates. The Company also drew on credit facility bearing an annual coupon rate of 10%, which was repaid in January 2011. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on the fair values of the financial instruments as of June 30, 2011. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

(ii) Foreign currency risk

The Company is exposed to foreign currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in Canadian dollars.

The Company has exploration and development projects in Mongolia and undertakes transactions in various foreign currencies. The Company is therefore exposed to foreign currency risk arising from transactions denominated in a foreign currency and the translation of financial instruments denominated in US dollars and Mongolia tugrug into its functional and reporting currency, the Canadian dollar.

17. FINANCIAL INSTRUMENTS (Continued)

(c) Market risk (Continued)

(ii) Foreign currency risk (Continued)

Based on the above, net exposures as at June 30, 2011, with other variables unchanged, a 5% (at December 31, 2010 - 4%) strengthening (weakening) of the US dollar against the Canadian dollar would not have a material impact on earnings; with other variables unchanged, a 4.5% (at December 31, 2010 - 10%) strengthening (weakening) of the Mongolia tugrug against the Canadian dollar would not have a material impact on net loss.

(iii) Other price risk

The Company holds an investment in marketable securities that fluctuates in value. Based upon the Company's investment position as at June 30, 2011, a 10% increase (decrease) in the market price of the investment held would have resulted in an increase (decrease) to net income of approximately $36,620 (at December 31, 2010 - $329,538).

(Expressed in Canadian Dollars)

18. RELATED PARTY TRANSACTIONS

The financial statements include the financial statements of Prophecy Coal Corp. and its subsidiaries listed in the following table:

	Principal Activity	Place of incorporation and operation	Ownership interest June 30, 2011
0912603 B.C. Ltd.	Mining	Canada	100%
0912601 B.C. Ltd.	Mining	Canada	100%
Chandgana Coal LLC	Mining	Mongolia	100%
East Energy Development LLC	Mining	Mongolia	100%
Red Hill Mongolia LLC	Mining	Mongolia	100%
UGL Enterpises LLC	Inactive	Mongolia	100%
Prophecy Platinum Corp.	Mining	Canada	53.2%
Subsidiaries of Prophecy Platinum Corp.			
PCNC Holdings Corp.	Mining	Canada	100%
Pacific Coast Nickel Corp. USA	Inactive	USA	100%
Pacific Nickel Sudamerica S.A.	Mining	Uruguay	100%
0905144 B. C. Ltd.	Mining	Canada	100%

Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of the transactions between the Company and other related parties are disclosed below.

The Company had related party transactions with the following companies related by way of directors and key management personnel:

a. Armada Investments Ltd. is a private Company owned by Arnold Armstrong, a former Director of the Company, and provides accounting, management services, and office rent.

b. Canrim Ventures Ltd. is a private company owned by Ranjeet Sundher, a former Director of the Company, provided consulting and management service in 2010.

c. J.P. McGoran and Associates Ltd. is a private company controlled by John McGoran, a former Director of the Company, provides geological consulting service.

d. Linx Partners Ltd. and Mau Capital Management Ltd. are private companies controlled by John Lee, Director, CEO, and Chairman of the Company, provide management and consulting services.

e. S. Paul Simpson Law Corp. is a private company owned by Paul Simpson, a former officer of the Company, provided legal service in 2010.

(Expressed in Canadian Dollars)

18. RELATED PARTY TRANSACTIONS (Continued)

f. The Energy Gateway Ltd. is a private company owned by Paul Venter, Director and Vice-President of the Company, provides consulting and management service.

g. Monnis International LLC. ("Monnis") is a private company controlled by Chuluunbaatar Baz, a Director of the Company, supplied mining equipment for Ulaan Ovoo mine.

h. David McAdam is the common CFO for the Company subsidiary Prophecy Platinum and Resinco Capital Partners ("Resinco"). Resinco provides consulting and management service.

The Company's related party expenses are broken down as follows:

	Three months ended June 30		Six months ended June 30	
Related parties	2011	2010	2011	2010
Armada Investments Ltd. (a)	$ -	$ 33,165	$ -	$ 63,330
Canrim Ventures Ltd.(b)	-	-	-	5,472
J. P. McGoran and Associates Ltd. (c)	5,000	-	12,500	-
Linx Partners Ltd. (d)	119,778	-	239,778	-
Mau Capital Management (d)	-	32,000	-	32,000
Monnis International LLC. (g)	943,001	-	943,001	-
S. Paul Simpson Law Corp. (e)	-	-	-	173,000
The Energy Gateway (f)	43,737	-	91,737	-
Resinco Capital Partners (h)	72,000	-	72,000	-
Key management personnel	244,653	21,667	315,959	21,667
	$ 1,428,169	$ 86,832	$ 1,674,975	$ 295,469

(Expressed in Canadian Dollars)

18. RELATED PARTY TRANSACTIONS (Continued)

The breakdown of the expenses among the different related parties is as follows:

Related parties	Three months ended June 30 2011	Three months ended June 30 2010	Six months ended June 30 2011	Six months ended June 30 2010
Consulting and management fees	$ 296,132	$ 59,139	$ 429,832	$ 74,139
Professional fees	-	27,693	-	212,165
Director fee	5,000	-	9,206	-
Salaries and benefits	11,700	-	23,400	-
Office and administration	-	-	-	9,165
Mineral properties and P&E				
Consulting and management fees	172,336	-	269,536	-
Property and equipment	943,001	-	943,001	-
Total related party expenses	$ 1,428,169	$ 86,832	$ 1,674,975	$ 295,469

Transactions with related parties have been measured at the fair value of services rendered.

19. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Supplementary information				
Interest paid	$ 83,334	$ -	$ 83,334	$ -
Non-Cash Financing and Investing Activities				
Mineral property expenditures included in accounts payable	$ 375,841	$ -	$ 112,849	$ 8,187.00

(Expressed in Canadian Dollars)

20. COMMITMENTS FOR EXPENDITURE

Commitments, not disclosed elsewhere in these financial statements, are as follows.

On February 4, 2011, the Company entered into a new office rental agreement expiring April 30, 2016 with total rental expense of $312,417 over the next five years as follows:

2011	$	61,712
2012		61,712
2013		61,712
2014		63,641
2015		63,640
	$	312,417

21. SUBSEQUENT EVENTS

On July 20, 2011, the Company announced that it has adopted a shareholder rights plan (the "Rights Plan") designed to encourage the fair treatment of its shareholders in the event of an unsolicited take-over bid for shares of the Company.

Pursuant to the Rights Plan, each holder of record of the outstanding common shares of the Company at 5:00 p.m. (PST) on July 20, 2011 will be issued one right per common share. The rights will trade with the common shares and be represented by the certificates representing common shares. Although the Rights Plan is effective immediately, it is subject to TSX Venture Exchange approval and must be ratified by the shareholders of the Company within six (6) months of its adoption. The Rights Plan will be submitted to the shareholders of the Company for ratification at an extraordinary meeting of shareholders which is anticipated to be held in November or December of 2011.

Subsequent to June 30, 2011, a total of 422,900 stock options were exercised for total proceeds of $217,285.

Subsequent to June 30, 2011, a total of 5,865,250 warrants were exercised for proceeds of $4,190,623

This Interim Management's Discussion and Analysis ("MD&A") provides a review of the significant developments and issues that influenced the Company during the six month period ended June 30, 2011. It should be read in conjunction with the condensed interim consolidated financial statements of Prophecy Coal Corp. (Formerly – Prophecy Resource Corp.) ("Prophecy" or the "Company") as at and for six month periods ended June 30, 2011 and 2010, and the 2010 MD&A and audited annual Consolidated Financial Statements of the Company.

This MD&A contains information up to and including August 29, 2011.

Additional information relating to Prophecy is available on SEDAR at www.sedar.com and on Prophecy's website at www.prophecycoal.com.

Certain statements contained in this Interim MD&A, including statements which may contain words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", or similar expressions, and statements related to matters which are not historical facts, are forward-looking information within the meaning of securities laws. Such forward-looking statements, which reflect management's expectations regarding Prophecy's future growth, results of operations, performance, business prospects and opportunities are based on certain factors and assumptions and involve known and unknown risks and uncertainties which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Forward-looking statements in this Interim MD&A include, without limitation, statements regarding the permitting, development and production of the Company's Chandgana Power Plant, including approval of the license to build Chandgana Power Plant from the Mongolian government and completion of a bankable feasibility study by late Q3 2011, estimated future production at the Ulan Ovoo Coal Mine and the Chandgana Coal Property, reduced haulage costs due to the purchase of new trucks for the Ulan Ovoo Coal Mine and other information concerning possible or assumed future results of operations of Prophecy.

Material risks and uncertainties which could cause actual results to differ materially from such forward-looking statements include, but are not limited to, exploration, development and production risks, risks related to the Company not having a history of mineral production, risks related to development and production of the Company's Ulaan Ovoo Property without prior completion of a feasibility study, risks related to the development of the Chandgana Power Plant, risks related to the uncertainty of mineral resource and mineral reserve estimates, the cyclical nature of the mining industry, risks related to the availability of capital and financing on acceptable terms, commodity price fluctuations, currency exchange rate and interest rate risks, risks associated with operating in foreign jurisdictions, uninsured risks, regulatory changes, defects in title, availability of personnel, materials and equipment on a timely basis, accidents or equipment breakdowns, delays in receiving government approvals, and unanticipated environmental impacts on operations and costs to remedy same.

Assumptions underlying our expectations regarding forward-looking statements or information contained in this Interim MD&A include, among others, that all required third party contractual, regulatory and governmental approvals will be obtained for the development, construction and production of the Company's properties, there being no significant disruptions affecting operations, whether due to labour disruptions, currency exchange rates being approximately consistent with current levels, certain price assumptions for coal, prices for and availability of diesel, parts and equipment and other key supplies remaining consistent with current levels, production forecasts meeting expectations, the accuracy of the Company's current mineral resource and reserve estimates, labour and materials costs increasing on a basis consistent with the Company's current expectations and that any additional required financing will be available on reasonable terms.

Although Prophecy has attempted to identify important risks and factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors and risks that cause actions, events or results not anticipated, estimated or intended. Accordingly, readers should not place any undue reliance on forward-looking statements as such information may not be appropriate for other purposes. We disclaim any intention or obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Adoption of International Financial Reporting Standards (IFRS)

Prophecy's interim condensed Consolidated Financial Statements and the financial data included in the interim MD&A have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that are expected to be effective or available for early adoption by the Company as at December 31, 2011, the date of the Company's first annual reporting under IFRS. The adoption of IFRS does not impact the underlying economics of Company's operations or its cash flows.

Note 3 to the interim condensed Consolidated Financial Statements contains a detailed description of the Company's adoption of IFRS, including a reconciliation of the Consolidated Financial Statements previously prepared under Canadian GAAP to those under IFRS for the following:

- The Consolidated Statements of Financial Position at June 30, 2010;
- The Consolidated Statements of Operations and Comprehensive loss the three and six month periods ended June 30, 2010;
- The Consolidated Statements of Cash Flows for the six month period ended June 30, 2010.

The reader may refer to the interim condensed consolidated financial statements for the three month period ended March 31, 2011 that included the reconciliations of the consolidated financial statements previously prepared under Canadian GAAP to those under IFRS at the transition date, December 31, 2010, and March 31, 2010.

The most significant impacts of the adoption of IFRS, together with details of the IFRS 1 exemptions taken, are described in the 'Transition to International Financial Reporting Standards' section of this interim MD&A. Comparative information has been restated to comply with IFRS requirements, unless otherwise indicated.

1. Six Months 2011 Highlights and Significant Events

- In January 2011, the Company and Pacific Coast Nickel Corp. ("PCNC") entered into an agreement ("Arrangement") whereby PCNC will acquire Prophecy's Nickel PGM projects by issuing common shares to the Company. Pursuant to the Agreement, PCNC will acquire the Wellgreen and Lynn Lake nickel projects by issuing up to 450 million common shares of PCNC to Prophecy.

- In January 2011, the Company repaid the $5 million debt facility. The Company is currently debt-free.

- In March 2011, the Company obtained from the Mongolian government a full mining license for its 141 million tonnes at its Chandgana Tal Coal deposit in Mongolia.

- In March 2011, the Company appointed Mr. Chuluunbaatar Baz to Prophecy's Board of Directors.

- In April 2011, the Company submitted the formal request with the Ministry of Natural Resources and Energy of Mongolia to obtain a license to build Chandgana Power Plant.

- In April 2011, the Company entered into an Option Agreement ("Agreement") with a private Mongolian company holding an exploration license near Prophecy's Ulaan Ovoo mine, pursuant to which Prophecy was granted the right to acquire 100% ownership of the license for US $2 million within the first year, or US $4 million in the second year of the execution of the Agreement.

- In May 2011, the Company appointed of Mr. David Jan as the Company's Chief Financial Officer.

1. Six Months 2011 Highlights and Significant Events (Continued)

- In June 2011, the Company completed the Arrangement whereby PCNC acquired the Lynn Lake and Wellgreen nickel properties from Prophecy. In connection with the Arrangement, Prophecy changed its name to "Prophecy Coal Corp.", PCNC changed its name to "Prophecy Platinum Corp." ("Platinum"), and the Company has obtained a 48.72% interest in Platinum.

Subsequent to period-end:

- On July 14, 2011, Platinum announced the receipt of an independent National Instrument (NI) 43-101 compliant report and mineral resource estimate for its Wellgreen PGE-Ni-Cu property. Prophecy Platinum reports 1.04 million oz PGM+Gold indicated and 10.97 million oz PGM+Gold inferred for the Wellgreen project.

- In June and July 2011 John McGoran, Director, and David Jan, CFO, resigned from the Company for personal reasons.

- On July 20, 2011, the Company announced that it has adopted a shareholder rights plan (the "Rights Plan") designed to encourage the fair treatment of its shareholders in the event of an unsolicited take-over bid for shares of the Company.

  Pursuant to the Rights Plan, each holder of record of the outstanding common shares of the Company at 5:00 p.m. (PST) on July 20, 2011 will be issued one right per common share. The rights will trade with the common shares and be represented by the certificates representing common shares. Although the Rights Plan is effective immediately, it is subject to TSX Venture Exchange approval and must be ratified by the shareholders of the Company within six (6) months of its adoption.

- On August 10, 2011, Platinum's common shares were called to trade on the premier tier of the OTC market in the United States, the OTC-QX under the ticker symbol "PNIKF".

- On August 29, 2011, the Company announced that it has signed coal sales agreements with Mongolian and Russian buyers totalling 92,000 tonnes.

2. Business Overview

Prophecy is an internationally diversified company incorporated under the laws of the province of British Columbia, Canada, with its primary activities focussed on the acquisition, exploration and development of coal properties in Mongolia. The Company is a publicly listed company and its outstanding common shares are listed for trading on the TSX Venture Exchange ("TSXV") under symbol "PCY", OTC-QX under symbol "PRPCF", and Frankfurt Stock Exchange under symbol "1P2".The address of the Company's head office and records is 2nd floor, 342 Water Street, Vancouver, British Columbia, V6B 1B6.

(Expressed in Canadian Dollars)

Arrangement

In June 2011, the Company has obtained a 48.72% of Prophecy Platinum's issued and outstanding shares (22,500,000 shares) and through other relationships is deemed to have control in Platinum.

The primary assets of Platinum include the Wellgreen (Yukon, Canada), Lynn Lake (Manitoba, Canada), Burwash (Yukon, Canada), Sarandi (Uruguay), and Las Aguilas (Argentina) nickel properties.

The Company has recorded the interest in the Wellgreen and Lynn Lake properties at their carrying values as it has retained control of the properties. Platinum is considered a subsidiary of Prophecy and its financial results are consolidated into Prophecy's financial statements. Therefore, this transaction has been accounted for using the purchase method as an acquisition of assets.

Financial information

Interim Consolidated Balance Sheet	June 30, 2010	December 31, 2010
Assts		
Current	$ 2,821,883	$ -
Non current	36,033,679	
Total Assets	38,855,562	-
Liabilities and Sharehoders' Equity		
Liabilities	175,302	-
Shareholders' Equity	38,680,260	
Total Liabilities and Shareholders' Equity	$ 38,855,562	$ -

The number of common shares outstanding at June 30, 2011 was 46,185,700
From June 14, 2011 to June 30, 2011, Platinum has incurred net loss of $81,774.

Resource Properties

As of June 30, 2011, the Company's primary resource properties include: Ulaan Ovoo coal mine (Mongolia), and the Chandgana Khavtgai and Chandgana Tal coal deposits (Mongolia), collectively known as the Chandgana Coal Properties. The other properties of the Company include Okeover copper-molybdenum (British Columbia, Canada) and Titan (Ontario, Canada).

Properties owned by Platinum include the Wellgreen nickel (Yukon, Canada), Lynn Lake nickel (Manitoba, Canada), Burwash nickel (Yukon, Canada), Sarandi nickel (Uruguay), and Las Aguilas nickel (Argentina).

(Expressed in Canadian Dollars)

2. Business Overview (Continued)

Ulaan Ovoo Coal Mine

Resources* mt	Reserves,Proven, mt	Life of Mine, years	Heating Value, kcal/kg	Ash, %	Moisture, %
209	20.7	10.7	5,040	11.3	21.71

(As per December 2010 Wardrop Pre-Feasibility Study, and indicates life-of-mine information)
**includes both measured and indicated resources*

Operation Statistics: The mine, which started operations in November 2010 through its mining contractor, Leighton Asia Limited ("Leighton") has removed and stockpiled approximately 1.5 million of bank cubic metres ("BCM") of topsoil and overburden thereby produced nearly 230,000 tonnes of thermal coal of varying qualities.

Having secured a rail siding at Sukhbaatar covering an area of 23,770 square meters, the Company has currently trucked 22,000 tonnes of coal from Ulaan Ovoo to the Sukhbaatar railway siding.

Equipment: During the six months ended June 30, 2011, the Company acquired its two fleets of mining equipment for $13 million and incurred mine development and exploration expenditures of approximately $2.7 million (2010 - $2.5 million).

During the second quarter of 2011, the Company received mining equipment, which consists of:

1 (one) CAT 390 Excavator,
3 (three) CAT 773D Dump Trucks
1 (one) CAT D8R Dozer and
1 (one) CAT 160K Grader
18 (eighteen) Scania 32m30t Tipper trucks,
2 (two) Liebherr 580 Loaders and
2 (two) by Nissan Water Trucks (for purpose of road maintenance).
4(four) 20t Nissan tipper trucks
1(one) road roller

The Company has discontinued its Ulaan Ovoo mining contract with Leighton. To reduce future mining cost, the Company will recruit and train its own employees to mine Ulaan Ovoo. During this period of recruiting and training employees, the Company expects to produce 65,000 tonnes of coal from August to December, 2011. In addition to the current stockpiles of coal, the Company will have approximately 250,000 tonnes of coal to sell for the rest of 2011. Furthermore, Prophecy is commissioning a consulting company to do the geological, mining, and scheduling modeling which will give the Company the basis for future planning of Ulaan Ovoo operations.

2. Business Overview (Continued)

Coal Off-take/Sales Agreement: Prophecy finalized off-take sales agreements with several potential Mongolian and Russian coal customers. The coal will be primarily sold either at the Ulaan Ovoo mine gate, Sukhbaatar rail station or the Naushki rail station in Russia. The coal sold will be 4,200kcal and 5,100kcal. On August 29, 2011, the Company announced that it has signed coal sales agreements with Mongolian and Russian buyers totalling 92,000 tonnes.

Wardrop Prefeasibility Study: On December 16, 2010, the Company received an updated independent National Instrument ("NI") 43-101 technical report on the prefeasibility study for Ulaan Ovoo. The report is authored by Brian Saul, P.Eng, and Steve Krajewski, Ed. D., P.G. of Wardrop Engineering Inc., a Tetra Tech Company, both independent Qualified Persons. The focus of this study was for the development of low ash coal reserves in the form of a starter pit. Considerable work has been completed on the starter pit design, identification of market opportunities and transportation costs since the first prefeasibility study was issued by Minarco Mineconsult in May 2009. The studies are filed and available on SEDAR (www.sedar.com).

2011 Outlook: During June 2011, the supply of diesel was rationed in Mongolia due to reduced supplies from Russia. Thus far, this has not had a negative impact on Ulaan Ovoo's operations. The mine has been allowed to receive an allocation of diesel because it produces coal for local Mongolian power stations. However, given the future uncertainty of diesel supplies, the Company will monitor its diesel supply closely to optimize mining production rates and coal transportation activities for the remainder of 2011. Since the mine is still in pre-commercial production status, revenue from coal sales and the related cost of production are currently being capitalized.

The Company is working with Russian partners and the Buryiat Province government in Russia to open the Zelhtura border post in order to reduce the cost of transporting the coal to Russia. On the Russian side, there is already federal permission to open the border on a temporary basis. The Company is working closely with the Selenge provincial government to get an approval from the Mongolian government to approve the opening of Zelhtura as soon as possible.

New discovery at Ulaan Ovoo Coal Mine

On August 17, 2011, the Company announced that it has intercepted a 19-meter-thickness coal seam at the newly acquired Ilch Khujirt ("Ilch) property. The 4,773-hectare property is located 17 km northeast of Prophecy's producing Ulaan Ovoo coal mine. It is contiguous to Prophecy's existing exploration license covering 7,392 hectares. This license was considered prospective for coal as is Prophecy's adjacent Khujirt license. Due to its shallow nature, the coal seam has the potential to be mineable. This new information is being reviewed and additional surface mapping will be performed to plan additional drilling.

Prophecy has the right to acquire 100% ownership of Ilch for US $2 million within the first year, or US $4 million in the second year after the agreement signing.

Chandgana Coal Property

The Chandgana Coal Property consists of the Chandgana Tal and Chandgana Khavtgai coal properties and are within nine kilometres of each other in the Nyalga coal basin in Mongolia. The Company's intention is to build the Chandgana Power Plant, a pit-mouth 600 megawatt (MW) coal fired power plant on the property. The Power Plant will receive its coal supply from the 1.2 billion tonne Chandgana coal resource.

On February 8, 2011, the Company received a full mining license from the Mineral Resources Authority of Mongolia for the Chandgana Tal Deposit which contains 141 million tonnes of measured coal.

(Expressed in Canadian Dollars)

2. Business Overview (Continued)

An updated NI 43-101 technical report on the Chandgana Khavtgai property dated September 28, 2010 was completed by Christopher Kravits, LPG, CPG of Kravits Geological Services LLC. (the "Khavtgai Report"), and is filed on SEDAR. The Khavtgai Report updates the previous independent technical report on the Chandgana Khavtgai property prepared by Mr. Kravits dated January 9, 2008, which was also filed on the SEDAR system. Details of the Chandgana Coal Properties, as noted in the September 2010 NI-43-101 report, are summarized in the following table:

	Measured, mt	Indicated, mt	Total MI, mt	Heating Value, kcal/kg	Ash, %	Sulfur, %	Strip Ratio	Thickness, m	License Status
Khavtgai	509.3	545.7	1055	4,354	12.66	0.72	1.9 : 1	37.7	Exploration
Tal	141.3		141.3	4,238	12.49	0.68	0.53 : 1	45.4	Mining
Total	650.6	545.7	1196.3						

During the six month period ended June 30, 2011, the Company incurred a total of $163,688 (2010 - $970,000) exploration and development expenditures at the Chandgana Coal Property.

On November 15, 2010, the Company reported that a Detailed Environmental Impact Assessment (DEIA) pertaining to the construction of the Power Plant Project has been approved by the Mongolian Ministry of Nature and the Environment.

Tal will be the starter pit to supply an estimated 2.4 to 2.8 million tonnes per year of coal to the Power Plant Project. Khavtgai will supplement mine production in later years. The Power Plant Project is next to the Baganuur to Undurkhaan road and within 160 km of the Central Mongolian Railroad, which can facilitate transport of construction equipment. The Project is adjacent to a 345 kilovolts ("kv") electrical distribution line and within 150km from a 2 x 220kv electric transmission line.

During the first quarter 2011, a Power Plant Project feasibility study was completed. On April 21, 2011, the Company submitted the formal application to the Ministry of Natural Resources and Energy of Mongolia to obtain a license to build Chandgana Power Plant. The Company expects to receive approval of the license from the Mongolian government by late Q3 2011.

During the second quarter 2011, the Company commissioned Steag/Evonik Energy Services GmbH to produce a Bankable Feasibility Study ("BFS") on the Power Plant Project. The Company expects the BFS to be completed late Q3 2011.

2011 Outlook: Upon receipt of the Power Plant construction license and completion of the BFS, both in late Q3 2011, the Company will commence negotiations with the Government of Mongolia for a power purchase agreement and a transmission line construction licence. Meanwhile, the Company has commenced discussions with various international banks for project financing.

Okeover Property

The 60% interest of Okeover, a copper-molybdenum project in the Vancouver Mining Division of south-western British Columbia, Canada, 25 kilometres north of Powell River and 145 kilometres northwest of Vancouver, was acquired through the amalgamation between Red Hill and Prophecy Holdings Inc. in April 2010.

(Expressed in Canadian Dollars)

2. Business Overview (Continued)

Titan Vanadium Iron Property

The Company is earning an 80% interest in the Titan property ("Titan"). Prophecy has commenced an exploration program that comprises 22 line kilometres of line cutting covering over 2.7 square km in 100 m intervals that will extend the current surveyed grid west and southwest of the Titan property. A ground magnetometer survey was completed during the summer of 2010, the results of which expanded the extant of the magnetic anomaly associated with Titan deposit, successfully demonstrating exploration potential outside

Wellgreen Nickel Property

The Wellgreen property is located approximately 35 km northwest of Burwash Landing in the Yukon, and about 400 Km from Alaska's deep sea port at Haines. The Wellgreen property is a platinum group metal (PGM)-rich, nickel (Ni)-copper (Cu) project located in the south-western Yukon Territory.

May 2011, the Company commenced of an expansion drilling program that will comprise of 8,000 meters of solid-core diamond drilling from May to September 2011 with 2 drills to test minimum 17 infill and exploration targets. This program is still underway.

On July 14, 2011 the Company received an independent NI 43-101 compliant resource calculation from Wardrop Engineering, a Tetra Tech Company. The report is authored by Todd McCracken, P. Geo. of Wardrop Engineering Inc., a Tetra Tech Company, who is an independent Qualified Person under NI 43-101.

The independent study incorporated drill data from 701 diamond drill holes (182 surface and 519 underground) totalling over 53,222 metres. Using a 0.4% NiEq (nickel equivalent) cut-off grade, the Wellgreen deposit now contains a total inferred resource of 289.2 million tonnes at an average grade of 0.53 g/t platinum, 0.42 g/t palladium, 0.23 g/t gold (1.18g/t PGM+Gold), 0.38% nickel, and 0.35% copper. Separately, the deposit also contains an indicated resource of 14.3 million tonnes at an average grade of 0.99 g/t platinum, 0.74 g/t palladium, 0.52 g/t gold (2.25 g/t PGM+Gold), 0.69% nickel, and 0.69% copper. The resource includes both the East Zone and the West Zone of the Wellgreen project, which are tabulated in Table 1 showing respective metal grades which are also expressed as nickel equivalent (NiEq) values:

Wellgreen indicated and inferred resource summary:

NiEq% cutoff	Category	Zone	Tonnes	NiEq%	Pt (g/t)	Pd (g/t)	Au (g/t)	PGM+Au (g/t)	Ni (%)	Cu (%)	Co (%)
0.400	Indicated	East	14,308,000	1.36	0.99	0.74	0.52	2.25	0.69	0.62	0.05
NiEq% cutoff	**Category**	**Zone**	**Tonnes**	**NiEq%**	**Pt (g/t)**	**Pd (g/t)**	**Au (g/t)**	**PGM+Au (g/t) (g/t)**	**Ni (%)**	**Cu (%)**	**Co (%)**
0.400	Inferred	East	219,327,000	0.76	0.54	0.45	0.26	1.25	0.39	0.34	0.03
0.400	Inferred	West	69,919,000	0.67	0.50	0.34	0.12	0.96	0.34	0.38	0.02
Total inferred			**289,246,000**	**0.74**	**0.53**	**0.42**	**0.23**	**1.18**	**0.38**	**0.35**	**0.03**

(Expressed in Canadian Dollars)

2. Business Overview (Continued)

Several parameters were used in calculating the reported resource:

- NiEq =((Ni%*$Ni*22.0462)+(Cu%*$Cu*22.0462)+(Co%*$Co*22.0462)+(Au grade*$Au*0.029167)+(Pt grade*$Pt*0.029167)+(Pd grade*$Pd*0.029167))/($Ni*22.0462);
- Long term average metal prices in $USD of $9.52/lb nickel (NiEq prices based on this amount), $2.96/lb copper, $15.78/lb cobalt, $1085/troy ounce gold, $1776/troy ounce platinum, $689/troy ounce palladium;
- Visual comparison of colour-coded block model grades with composite grades on section and plan;
- Comparison of the global mean block grades for ordinary kriging (OK), inverse distance squared (ID2), nearest neighbour (NN) and composites;
- Swath Plots comparing NN estimates and OK estimates;
- 701 drillhole database used compiling over 12,000 assays.

Contained Metals at Wellgreen*

Metal	Indicated Resource	Inferred Resource
Nickel (Ni)	0.22 Billion lbs.	2.42 Billion lbs.
Copper (Cu)	0.20 Billioin lbs.	2.23 Billion lbs.
Cobalt (Co)	15.77 Million lbs.	191.30 Million lbs.
Platinum (Pt)	0.46 Million oz.	4.93 Million oz.
Palladium (Pd)	0.34 Million oz.	3.91 Million oz.
Gold (Au)	0.24 Million oz.	2.14 Million oz.
PGM+Gold	**1.04 Million oz.**	**10.97 Million oz.**

* Based on resource estimated at 0.4% Neq cut-off, and 100% metals recoveries.

Prophecy Platinum has adopted a 0.4% nickel equivalent cut-off pending further work on the economics regarding the deposit. The Company believes that this represents a conservative cut-off value with a demonstrated NiEq value 0.74% for the inferred resource and 1.36% NiEq for the indicated resource. Additional payable metals such as rhodium, iridium, osmium and ruthenium are not figured into the current resource estimate. Resource numbers at their various cut-off values are tabulated on a zone-by-zone basis (i.e. East Zone and West Zone) the reader can find on the Prophecy Platinum website at http://www.prophecyplat.com.

The ongoing 2011 diamond drill program announced in the Company's June 2, 2011 press release has been designed to augment this reported resource in recognition of the significant tonnage that was overlooked by previous operators on the property. There are two diamond rigs operating on the property since May 2011, with drill results expected in the late summer.

On August 22, 2011, Platinum announced it drills 49.5 meters grading 1.27 g/t PGM+Au, 0.71% Ni, 0.45% Cu within 472 meters grading 0.43% NiEq. Currently, approximately 2,000 meters of drilling has been completed on the property in the 2011 exploration season. Prophecy Platinum is continuing with its drilling program and intends to release more results as assays are completed.

During six months ended June 30, 2011, the Company incurred a total of $472,499 exploration costs (2010 - $394,851).

(Expressed in Canadian Dollars)

2. Business Overview (Continued)

Lynn Lake Nickel Property

From an updated resource estimate released in February 2010, Lynn Lake has 22.9 million tons of measured and indicated resources grading 0.57% nickel or 263 million pounds of in-situ nickel as well as 8.1 million tons inferred resources grading 0.51% nickel which contains an additional 81.6 million pounds of in-situ nickel. In addition, it announced the resource contained measured and indicated resources grading 0.30% copper or 138 million pounds of in-situ copper plus inferred resources grading 0.28% copper or 45.6 million pounds of in-situ copper.

Measured and indicated resources at Lynn Lake are categorized in the following table:

Zone	Category	NiEq Cutoff	Tones	Nickel%	Copper%	NiEq%	Ni (lbs)	Cu (lbs)
N	Measured	>= 0.4	461,496	0.84	0.41	1.05	7,753,133	3,784,267
O	Measured	>= 0.4	556,062	0.7	0.32	0.87	7,784,868	3,558,797
Total	*Measured*	*>= 0.4*	*1,017,558*	*0.76*	*0.36*	*0.95*	*15,538,001*	*7,343,064*
N	Indicated	>= 0.4	12,680,895	0.56	0.31	0.71	142,026,024	78,621,549
O	Indicated	>= 0.4	9,203,226	0.57	0.28	0.71	104,916,776	51,538,066
Total	*Indicated*	*>= 0.4*	*21,884,121*	*0.56*	*0.3*	*0.71*	*246,942,800*	*130,159,615*
Totals	**Measured +Indicated**	**>= 0.4**	**22,901,679**	**0.57**	**0.3**	**0.72**	**262,480,801**	**137,502,679**

During six months ended June 30, 2011, the Company incurred a total of flow through expenditures of $196,000 at Lynn Lake (2010 - $812,385).

In 2010, the Company completed a 3,300 metre drilling program at Lynn Lake. The drilling program was designed to test newly discovered targets from its recently completed Induced Polarization (IP) survey. Five new target areas were delineated using a proprietary deep-seeking IP-method that penetrates to depths that were previously unexplored through VTEM.

Results from the program led to the discovery of a new mineralized zone called "Tango". Three holes in the Tango intercepted 17.3meters of 0.60% nickel and 0.30% copper (PCY10-02), four meters of 0.40 nickel and 0.20% copper (PCY10-03), and 10 meters of 0.40% nickel and 0.20% copper (PCY10-05). Three of the five target areas remain untested.

In February 2011, the Company received preliminary results from its ongoing metallurgical study on the amenability of its Lynn Lake resource to the bioleach process conducted by Mintek in South Africa and overseen by Andy Carter, Manager of Metallurgical Engineering for Wardrop Engineering Inc., a Tetra Tech Company. Key findings of the results to date show that nickel recoveries in excess of 95% can be achieved using only a moderate grind and leach temperature, whereas high copper recoveries generally require finer grinding and higher temperatures. This study is expected to conclude in August 2011.

2. Business Overview (Continued)

Burwash Property

The Burwash property is located immediately east of Prophecy Coal Corp's Wellgreen project, known to host extensive nickel-copper-platinum group metal (PGM) mineralization.

On August 4, 2011, Platinum entered into a purchasing agreement with Strategic Metals Ltd. ("Strategic") to acquire a 100% working interest in the Burwash in consideration for $1,000,000 in cash payable on August 31, 2011. This purchase agreement replaces agreements dated May 14, 2008 as amended December 2, 2008, February 23, 2010, and April 1, 2011 previously entered into with Strategic.

At June 30, 2011, $940,567 had been spent on the Burwash property including a detailed geophysical survey completed during the summer of 2010.

Platinum will conduct future exploration work on the property in conjunction with the Wellgreen property which adjoins the Burwash property. Assay results are available on the Platinum's website.

Sarandi Property

The Platinum's wholly-owned incorporated subsidiary in Uruguay, Pacific Nickel Sudamerica SA, is conducting a review of several properties with demonstrated nickel potential within Uruguay. During fiscal 2009 Platinum applied for and acquired 5 prospecting licences for properties it had reviewed. As of June 30, 2011, $792,448 had been spent on the properties. The expenditures have consisted of reviews of existing data and site visits by our geological consultants based in the area. During the period Platinum paid property fees to the Uruguay government to secure the five properties for a two year period. Platinum has no future obligations or expenditures requirements related to the Uruguayan properties. Platinum is currently reviewing a number of future plans for the property and will disclose such plans once they have been determined.

Las Aguilas Property

On December 10, 2010, further amended March 13, 2011, Platinum entered into a letter agreement with Marifil Mines Limited ("Marifil") with an option to acquire a 70% interest in the Las Aguilas Nickel-Copper-PGM property located in San Luis Province, Argentina. The Las Aguilas Property is located in San Luis Province, Central Argentina, approximately 730 km WNW of Buenos Aires, and 50 km NE of San Luis, the province capital.

On May 12, 2011, Platinum released an updated NI 43-101 compliant Indicated and Inferred resources for the Las Aguilas property, which is summarized categorically in the table below, as documented in report by Wardrop Engineering Inc., a TetraTech company, dated April 29, 2011 entitled NI 43-101 Technical Report and Resource Estimate of the Las Aguilas Project, San Luis Province, Argentina.

(Expressed in Canadian Dollars)

2. Business Overview (Continued)

Las Aguilas NI 43-101 resource calculation summary as follows:

Zone	Category	NiEq Cutoff	Tons	Nickel %	Copper %	Cobalt %	Au (ppm)	Ag (ppm)	Pt (ppm)	Pd (ppm)	NiEq %
East	Indicated	>= 0.4	1,036,800	0.52	0.35	0.03	0.09	0.53	0.19	0.19	0.77
West	Indicated	>= 0.4	2,227,000	0.36	0.45	0.03	0.03	0.29	0.15	0.19	0.62
Total	**Indicated**	**>= 0.4**	**3,263,800**	**0.41**	**0.42**	**0.03**	**0.05**	**0.37**	**0.16**	**0.19**	**0.67**
East	Inferred	>= 0.4	650,000	0.48	0.33	0.03	0.03	0.31	0.05	0.04	0.65
West	Inferred	>= 0.4	689,000	0.35	0.43	0.03	0.01	0.01	0.01	0.01	0.53
Total	**Inferred**	**>= 0.4**	**1,339,000**	**0.41**	**0.38**	**0.03**	**0.02**	**0.16**	**0.03**	**0.03**	**0.59**

Notes: Nickel price = US$9.02/lb and copper = US$2.66/lb, platinum = US$1842/oz, palladium = US$681/oz, gold = US$1058/oz, silver = US$16.57/oz. The following formulas were used in Datamine to calculate Nickel Equivalence: NiEQ=([Ni grade x $Ni)+(Cu grade x $Cu)+(Co grade x $Co)] x 20+[(Au grade x $Au)+(Ag grade X $Ag)+(Pt grade x $Pt)+(Pd grade x $Pd) x 0.0291667)]/($Nix20). A total of 79 drill holes comprising 1,815 assays were used for resource model validation. Specific gravities of 3.5 were used in this resource calculation. Block sizes of 8x8x4 meters for mineralized lodes with two minor lodes on eastern zone given 1x1x1 meter block. The interpolation of the East and West zones was completed using the estimation methods: nearest neighbour (NN), inverse distance squared (ID2) and ordinary kriging (OK). Validation was carried out by visual comparison of colour-coded block model grades with composite grades on section and plan, comparison of the global mean block grades for OK, ID2, NN and composites, and Swath Plots comparing NN estimates and OK estimates. Danniel Oosterman, P. Geo., a consultant of Platinum, is the Qualified Person under National Instrument 43-101 who has approved the technical content of this news release.

The letter agreement with Marifil provided for an initial 6 month earn-in and due diligence period to allow the Company to update this resource estimate, study the economics of the resulting deposit and review other environmental and socio-economic issues that pertain to this area of Argentina.

The agreement with Marifil provides for payments and work commitments as follows:

To earn a 49% interest in the property:

Cash and Shares

1) $25,000 upon signing (paid) and 250,000 shares (issued) and
2) $75,000 and 250,000 shares on or before April 1, 2012;
3) $100,000 and 250,000 shares on or before April 1, 2013
4) $100,000 and 250,000 shares on or before April 1, 2014

2. Business Overview (Continued)

Work Commitments

1) On or before 3 months from the agreement date complete a resource estimate (completed),
2) On or before April 1, 2012 incur $500,000 in exploration expenditures,
3) On or before April 1, 2013 incur $500,000 in exploration expenditures,
4) On or before April 1, 2014 incur $1,000,000 in exploration expenditures.

The agreement provides for Platinum to earn an additional 11% by preparing a pre-feasibility study on the property and issuing an aggregate of 2,000,000 shares. A further 10% can be earned by completing a feasibility study on the property, making cash payment of $100,000 and issuing an aggregate of 1,000,000 shares. The agreement also provides for granting of a 3% NSR to Marifil of which 0.5% can purchased for $1,000,000 and a further 0.5% of the royalty at anytime upon the payment of a further $2,000,000. Platinum retains the option of buying Marifil's 30% interest for $5,000,000.

3. Transition to International Financial Reporting Standards

On January 1, 2011, the Canadian Accounting Standards Board replaced Canadian GAAP with IFRS for publicly accountable enterprises, with a transition date of January 1, 2010. IFRS represents standards and interpretations approved by the IASB and are comprised of IFRSs, IASs, and interpretations issued by the IFRICs or the former SICs. As previously discussed in the Company's MD&A for the year ended December 31, 2010, the Company's IFRS conversion plan addressed matters including changes in accounting policies, IT and data systems, restatement of comparative periods, organizational and internal controls and any required changes to business processes. To facilitate this process and ensure the full impact of the conversion was understood and managed reasonably, the Company retained an IFRS conversion project manager. The accounting staff also attended several training courses on the adoption and implementation of IFRS. Through in-depth training and detailed analysis of IFRS standards, the Company's accounting personnel obtained a thorough understanding of IFRS and possesses sufficient financial reporting expertise to support the Company's future needs. The Company also reviewed its internal and disclosure control processes and no significant modification were needed as a result of the conversion to IFRS. Further, the Company assessed the impact on IT and data systems and concluded there was no significant impact to applications arising from the transition to IFRS.

The Company's unaudited condensed interim consolidated financial statements as at and for the six months ended June 30, 2011 have been prepared in accordance with existing IFRS standards with restatements of comparative balance sheets as at June 30, 2010 and statements of earnings and comprehensive income for the six and three months ended June 30, 2010 as previously reported and prepared in accordance with Canadian GAAP. In the preparation of these financial statements, the Company utilized certain elections provided under IFRS 1 for first time IFRS adopters. Set forth below are the IFRS 1 applicable exemptions applied in the Company's conversion from Canadian GAAP to IFRS.

3.1 IFRS Exemption Options

(a) Share-based payments

IFRS 1 permits the application of IFRS 2 Share Based Payments only to equity instruments granted after November 7, 2002 that had not vested by the date of transition to IFRS. The Company has applied this exemption and will apply IFRS 2 for equity instruments granted after November 7, 2002 that had not vested by January 1, 2010.

3. Transition to International Financial Reporting Standards (Continued)

3.1 IFRS Exemption Options *(Continued)*

(b) Business Combinations ("IFRS 3")

The Company has elected under IFRS 1, not to apply IFRS 3 "Business Combinations" retrospectively to business combinations that occurred prior to January 1, 2010.

The most significant areas of impact of IFRS on the Company's consolidated financial statements are as follows:

3.2 Income Taxes

In April 2010, the Company acquired all of the outstanding common shares of Prophecy Resource Corp. On acquisition of Prophecy Resource Corp, the Company recognized a future income tax liability $6,797,734 in accordance with Canadian GAAP. Under IAS 12 Income Taxes, the deferred tax liability would not be recognized, either on acquisition or subsequently. This accounting policy change resulted in a write-off of the future income tax liability and a corresponding decrease in the carrying value of resource properties.

Similarly, in September 2010, the Company acquired all of the outstanding common shares of Northern Platinum Ltd. On acquisition of Northern Platinum Ltd, the Company recognized a future income tax liability $1,360,236 in accordance with Canadian GAAP. Under IAS 12 Income Taxes, the deferred tax liability would not be recognized, either on acquisition or subsequently. This accounting policy change resulted in a write-off of the future income tax liability and a corresponding decrease in the carrying value of resource properties.

3.3 Share-Based Payments

Under Canadian GAAP, forfeitures of awards are recognized as they occur. However, under IFRS, forfeiture estimates are recognized in the period they are estimated, and are revised for actual forfeitures in subsequent periods.

IFRS has a broader definition of an employee than Canadian GAAP, whereby consultants providing employee-like services would also be classified as employees for the purposes of share based payment valuation.

These policy changes resulted in a reduction in stock based compensation expenses for the year ended December 31, 2010.

3.4 *Reclassification of Mineral Property Interest*

Prior to transition to IFRS, the Ulaan Ovoo asset, which as of the period ended June 30, 2010 is in the development stage, was classified as mineral properties interests. In accordance with IFRS 6 Exploration and Evaluation, which states that a mineral property is no longer classified under this standard once technical feasibility and commercial viability are demonstrable, this asset was reclassified as property and equipment commencing in period ended June 30, 2010.

(Expressed in Canadian Dollars)

3. Transition to International Financial Reporting Standards (Continued)

The IASB continues to amend and add to current IFRS standards and interpretations with several projects underway. Accordingly, the accounting policies adopted by the Company for the Company's first IFRS annual consolidated financial statements for the year ending December 31, 2011 may differ from the significant accounting policies used in the preparation of the Company's unaudited condensed interim consolidated financial statements as at and for the six months ended June 30, 2011. As of the date of this document, the Company does not expect any of the IFRS standard developments to have a significant impact on its 2011 consolidated financial statements.

4. Summary of Quarterly Results

The following table summarizes selected financial information for the eight most recently completed quarters.

	2011		2010	
	IFRS	IFRS	IFRS	IFRS
	Jun-30	Mar-31	Dec-31	Sep-30
Expenses	$ (2,076,826)	$ (2,480,260)	$ (432,436)	$ (2,132,058)
Other income and expenses	(2,231,335)	(75,512)	76,872	(43,302)
Loss for the period	$ (4,308,161)	$ (2,555,772)	$ (355,564)	$ (2,175,360)
Loss per share	$ (0.02)	$ (0.01)	$ (0.01)	$ (0.02)

	2010		2009	
	IFRS	IFRS	CGAAP	CGAAP
	Jun-30	Mar-31	Dec-31	Sep-30
Expenses	$ (1,646,450)	$ (418,614)	$ (340,801)	$ 181,571
Other income and expenses	2,106	(4,290)	(11,215)	(60,676)
Loss for the period	$ (1,644,344)	$ (422,904)	$ (352,016)	$ 120,895
Loss per share	$ (0.02)	$ (0.01)	$ (0.01)	$ -

Quarterly expenses for the last two quarters of 2009 and the first quarter of 2010 represent a fairly consistent level of corporate overhead prior to the acquisition of Prophecy Holdings that resulted in full ownership of our Mongolian properties.

In Q2 2010, the Company completed the acquisition of Prophecy Holdings, and the increase in loss for this quarter was primarily due to consulting fees as the Company accelerated plans to develop the Ulaan Ovoo mine and the Chandgana coal projects.

The increase in loss for the 3rd quarter of 2010 was primarily due to share based payments offset by reduced consulting fees. The decrease in the loss for the 4th quarter of 2010 was primarily due to the absence of share based payments and a credit adjustment related to charges made in the third quarter.

(Expressed in Canadian Dollars)

4. Summary of Quarterly Results (Continued)

The increase in loss for the first quarter of 2011 was primarily due to share based payments that arose from stock options granted in December 2010 and some increases in salaries and office administration.

In the three month period ended June 30, 2011, the increase in loss was due to a loss of $2,350,462 incurred on the exchange of mineral properties for shares in Platinum.

5. Results of Operations

All of the information described below is accounted for in accordance with IFRS. The reader is encouraged to refer to Note 3 and 4 of the Company's Condensed Consolidated Interim Financial Statements for the Company's IFRS accounting policies and a complete analysis and reconciliation of the Company's accounting under pre-transition Canadian GAAP and IFRS.

5.1 Three Months Ended June 30, 2011 ("Q2 2011").

Company incurred an operating loss for the three months ended June 30, 2011 of $2,432,472 compared to a $1,644,344 loss incurred in the same quarter last year. The increase in operating loss is due to the factors discussed below.

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010
General and administrative Expenses	$ 204,038	$ 245,743
Consulting and management fees	359,499	738,545
Share based payments	1,054,489	-
Advertising	114,274	410,800
Professional fees	173,695	31,030
Travel and accommodation	170,830	125,828
Interest (income)	(68,969)	(2,106)
Foreign exchange loss (gain)	(50,158)	94,504
Loss on acquisiion of mineral properties	2,350,462	-
	$ 4,308,161	$ 1,644,344

The increase in loss was primarily due to the two factors:

i) The Company incurred a loss on the exchange of the Wellgreen and Lynn Lake properties for shares in Platinum of $2,350,462. The loss represents professional fees related to the exchange and the difference between the Company's share of assets acquired from Platinum and the Company's share of assets spun off to Platinum.

ii) For the three months ended June 30, 2011, share-based payments expense was $1,054,489 compared to $nil during the year ago period. The charge in 2011 reflects the fair value of options granted in 2010 that vested in the current quarter.

5. Results of Operations (Continued)

Other factors

General and administrative

For the three months ended June 30, 2011, general and administrative expense was $204,038 compared to $245,743 during the year ago period. The non-significant decrease in 2011 was due primarily to the classification of general and administrative expense in Mongolian subsidiaries as well as in Northern Platinum to deferred exploration costs.

Consulting and management fees

For the three months ended June 30, 2011, consulting and management fees expense was $359,499 compared to $738,545 during the year ago period. The decrease in 2011 was due primarily to the classification of independent consultants' fees for services required for the management of the Ulaan Ovoo mine development and Chandgana Coal projects to deferred exploration expense.

Advertising

For the three months ended June 30, 2011, advertising expense was $114,274 compared to $410,800 during the year ago period. The decrease in 2011 was due primarily to reduced conference and trade show attendance.

Professional fees

For the three months ended June 30, 2011, professional fees expense was $173,695 compared to $31,030 during the year ago period. The increase in 2011 was due primarily to the following factors:

i) increase in audit fees ($106,850 compared to $30,690 in 2010) for the audit of the annual financial statements, income tax filing, and for the review of the current financial statements;

ii) increase in general corporate legal fees ($66,845 compared to $340 in 2010) for various matters arising from the affairs of a larger company and consulting fees in connection with the conversion from CGAAP to IFRS.

Travel and accommodation

For the three months ended June 30, 2011, travel and accommodation expense was $170,830 compared to $125,828 during the year ago period. The insignificant increase in 2011 was due to increased travel by Vancouver staff to the Ulaan Bataar office to oversee the administration of the Ulaan Ovoo mine and the Chandgana coal projects.

Interest income

For the three months ended June 30, 2011, interest income was $68,969 compared to $2,106 during the year ago period. Interest income for the current quarter was earned on funds raised in late December 2010 and invested in short-term interest bearing accounts. Interest income in the year ago quarter represents miscellaneous interest earned on bank balances.

(Expressed in Canadian Dollars)

5. Results of Operations (Continued)

Foreign exchange loss

For the three months ended June 30, 2011, foreign exchange gain was $50,158 compared to $94,504 loss during the year ago period. The decrease in loss in Q2 2011 arose from fluctuations in the value of the Canadian dollar compared with the Mongolian tugrik and the United States dollar.

5.2 Six Months Ended June 30, 2011 ("Reporting period")

Company incurred an operating loss for the six months ended June 30, 2011 of $4,988,244 compared to a $2,040,952 loss incurred in the same reporting period last year. The increase in operating loss is due to the factors discussed below.

		Six Months Ended June 30, 2011		Six Months Ended June 30, 2010
General and administrative Expenses	$	504,034	$	393,052
Consulting and management fees		666,256		992,820
Share based payments		2,394,842		-
Advertising		331,317		440,033
Professional fees		294,295		152,984
Travel and accommodation		366,342		164,684
Interest (income)		(120,172)		3,395
Foreign exchange loss (gain)		76,557		99,226
Loss on sale of mineral properties		2,350,462		-
	$	6,863,933		2,246,194

The increase in loss was primarily due to the two factors:

i) For the six months ended June 30, 2011, share-based payments expense was $2,394,842 compared to $nil during the year ago period. The charge in 2011 reflects the fair value of options granted in 2010 and 2011 that vested in the current reporting period.

ii) The Company incurred a loss on the exchange of the Wellgreen and Lynn Lake properties for shares in Platinum of $2,350,462. The loss represents professional fees related to the exchange and the difference between the Company's share of assets acquired from Platinum and the Company's share of assets spun off to Platinum.

Other factors

General and administrative

For the six months ended June 30, 2011, general and administrative expense was $504,034 compared to $393,052 during the year ago period. The increase in 2011 was due primarily to increased salaries, office rent, and insurance costs substantially driven by greater administrative efforts necessary for the management of the Ulaan Ovoo mine development and management of the exploration programs for the Lynn Lake and Wellgreen projects acquired in September 2010.

5. Results of Operations (Continued)

Consulting and management fees

For the six months ended June 30, 2011, consulting and management fees expense was $666,256 compared to $992,820 during the year ago period. The decrease in 2011 was due primarily to a reclassification of independent consultants' fees for services required for the management of the Ulaan Ovoo mine development and Chandgana Coal projects to deferred exploration expense.

Advertising

For the six months ended June 30, 2011, advertising expense was $331,317 compared to $440,033 during the year ago period. The decrease in 2011 was due primarily to reduced conference and trade show attendance in Q2, 2011.

Professional fees

For the six months ended June 30, 2011, professional fees expense was $294,295 compared to $152,984 during the year ago period.

The increase in 2011 was due primarily to the following factors:

iii) increase in audit fees ($131,850 compared to $60,690 in 2010) for the audit of the annual financial statements, income tax filing, and for the review of the current financial statements;

i) increase in general corporate legal fees ($162,445 compared to $92,294 in 2010) for various matters arising from the affairs of a larger company and consulting fees in connection with the conversion from CGAAP to IFRS.

Travel and accommodation

For the six months ended June 30, 2011, travel and accommodation expense was $366,342 compared to $164,684 during the year ago period. The increase in 2011 was due to increased travel by Vancouver staff to the Ulaan Bataar office to oversee the administration of the Ulaan Ovoo mine and the Chandgana coal projects. The higher travel and accommodation expense was also due to an expended investor relations program.

Interest income

For the six months ended June 30, 2011, interest income was $120,172 compared to $3,395 during the year ago period. Interest income for the current reporting period was earned on funds raised in late December 2010 and invested in short-term interest bearing accounts. Interest income in the year ago quarter represents miscellaneous interest earned on bank balances.

Foreign exchange loss

For the six months ended June 30, 2011, foreign exchange loss expense was $76,557 compared to gain of $99,226 during the year ago period. The loss in 2011 was arose arose from fluctuations in the value of the Canadian dollar compared with the Mongolian tugrik and the United States dollar

(Expressed in Canadian Dollars)

5. Results of Operations (Continued)

5.3 Use of funds raised in December 2010

In December, 2010, the Company issued 49,475,000 common shares for gross proceeds of $42,053,750. Funds used to June 30, 2011 are compared to the estimated use of proceeds in the short form prospectus as set out below:

	Six Months Ended June 30, 2011	Actual Net Proceeds From Offering
Use of Proceeds		
Repayment of the loan	$ 5,000,000	$ 5,000,000
Ulaan Ovoo Property:	-	-
Mining equipment	11,838,256	15,000,000
Road Improvement	804,332	8,000,000
Trucks and transport costs	1,108,789	6,000,000
Feasibility report	-	2,706,000
General working capital	3,202,632	2,824,525
Mine development	4,498,972	-
Reduction in net proceeds		(530,315)
Purchase of available for sale investments	1,750,000	-
Expenditures on other properties and corporate		-
administration in excess of additional funds	-	
Raised in 2011	1,291,313	
	$ 29,494,293	$ 39,000,210

Projected expenditures on the Ulaan Ovoo mine were incurred during six month period ended June 30, 2011 as set out above. Further expenditures were made subsequent to June 30, 2011.

Ulaan Ovoo mine development costs comprise all activities excluding road construction incurred to bring the mine towards commercial production. The reduction in net proceeds represent the fact that gross proceeds of the funding were $600,000 less than projected offset by lesser share issuance costs. The purchase of available for sale investments represents the purchase of 5,000,000 shares of Compliance Energy Corporation.

During the six months ended June 30 2011, the Company raised $2,926,170 from the exercise of warrants and options. Other expenditures on fixed assets, exploration, and corporate overhead exceeded the funds raised by $1,291,313.

6. Liquidity and Capital Resources

The Company will require additional sources of liquidity to continue to develop the Ulaan Ovoo mine and develop the Chandgana Power Plant Project. Sources of potential liquidity may include cash on hand, coal sales from off-take agreements, dispositions of investments in energy resource, nickel and platinum companies, and additional financing. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that

6. Liquidity and Capital Resources (Continued)

the terms of such financing will be favourable. The timing and ability to fulfill this objective will depend on the liquidity of the financial markets as well as the willingness of investors to finance exploration companies in the mining industry.

6.1 Working Capital

The Company ended six months of 2011 with $9.5 million (December 31, 2010 - $39.3 million) in cash and cash equivalents and net working capital of over $16.4 million (December 31, 2010 - $35.8 million).

As at the date of this report, the Company's working capital is approximately $13.5 million.

6.2 Cash Flows six month ended June 30, 2011 and 2010

Operating activities:

During six months ended June 30, 2011, cash used in operating activities was $5.1 million compared to cash used of $1.7 million in the same period of 2010. The increase in cash used in operating activities was mainly due to increase in current assets and a decrease in current liabilities.

Investing activities:

During six months ended June 30, 2011, $22.6million (2010 - $0.03 million) was used in investing activities, of which $14.9 million (2010 - $0.01 million) was related to the acquisition of mining and other equipment, $4.6 million (2010 - $nil) was used for equipment deposits, $2.4 million (2010 - $0.4 million) was used for exploration expenditures incurred at the Company's mineral properties, $0.7 million was received upon sale of mineral properties to Platinum (4.2 million was received on acquisition of Prophecy Holdings in 2010, and $1.75 million (2010 - $3.8 million) was used for purchase of investments.

Financing activities:

During six months ended June 30, 2011, a total of $2.2 million cash was used in financing activities compared to $8.1 million provided in 2010). Cash was generated from issuance of shares on the exercise of options ($367,335) and warrants ($2,558,835) offset by repayment of a loan ($5 million). In 2010, cash provided from financing activities was comprised of share issuance ($ 9.1 million) offset by $1 million dividend distribution to shareholders as part of the spin-off assets of to Elissa.

6.3 Secured Credit Facility

On January 11, 2011 the Company fully repaid the $5 million secured debt facility incurred in September and October 2010. The repayment included the outstanding loan plus applicable fees pursuant to the Credit Agreement and has been provided with a release/discharge of securities.

6.4 General Contractual Commitments

As of date of these MD&A, the Company's commitments related to mineral properties are disclosed in the Notes to Condensed Consolidated Interim Financial Statements, note 12.

(Expressed in Canadian Dollars)

7. Related Party Transactions

The Company had related party transactions with the following companies related by way of directors and key management personnel:

a. Armada Investments Ltd. is a private Company owned by Arnold Armstrong, a former Director of the Company, and provides accounting, management services, and office rent.

b. Canrim Ventures Ltd. a private company owned by Ranjeet Sundher, a former Director of the Company, provided consulting and management services in 2010.

c. J.P. McGoran and Associates Ltd. a private company controlled by John McGoran, a former Director of the Company, provides geological consulting services.

d. Linx Partners Ltd. and Mau Capital Management Ltd. private companies controlled by John Lee, Director, CEO, and Chairman of the Company, provide management and consulting services.

e. S. Paul Simpson Law Corp. a private company owned by Paul Simpson, a former officer of the Company, provided legal services in 2010.

f. The Energy Gateway Ltd. a private company owned by Paul Venter, Director and Vice-President of the Company, provides consulting and management services.

g. Monnis International LLC. ("Monnis") a private company controlled by Chuluunbaatar Baz, a Director of the Company, supplied mining and other equipment for Ulaan Ovoo mine.

h. David McAdam is the common CFO for the Company subsidiary Prophecy Platinum and Resinco Capital Partners ("Resinco"). Resinco provides consulting and management service.

The Company's related party expenses are broken down as follows:

	Three months ended June 30		Six months ended June 30	
Related parties	2011	2010	2011	2010
Armada Investments Ltd. (a)	$ -	$ 33,165	$ -	$ 63,330
Canrim Ventures Ltd.(b)	-	-	-	5,472
J. P. McGoran and Associates Ltd. (c)	5,000	-	12,500	-
Linx Partners Ltd. (d)	119,778	-	239,778	-
Mau Capital Management (d)	-	32,000	-	32,000
Monnis International LLC. (g)	943,001	-	943,001	-
S. Paul Simpson Law Corp. (e)	-	-	-	173,000
The Energy Gateway (f)	43,737	-	91,737	-
Resinco Capital Partners (h)	72,000	-	72,000	-
Key management personnel	244,653	21,667	315,959	21,667
	$ 1,428,169	$ 86,832	$ 1,674,975	$ 295,469

(Expressed in Canadian Dollars)

7. Related Party Transactions (Continued)

The breakdown of the expenses among the different related parties is as follows:

	Three months ended June 30		Six months ended June 30	
Related parties	2011	2010	2011	2010
Consulting and management fees	$ 296,132	$ 59,139	$ 429,832	$ 74,139
Professional fees	-	27,693	-	212,165
Director fee	5,000	-	9,206	-
Salaries and benefits	11,700	-	23,400	-
Office and administration	-	-	-	9,165
Mineral properties and P&E				
Consulting and management fees	172,336	-	269,536	-
Property and equipment	943,001	-	943,001	-
Total related party expenses	$ 1,428,169	$ 86,832	$ 1,674,975	$ 295,469

Transactions with related parties have been measured at the fair value of services rendered.

8. Critical Accounting Estimates

Critical accounting estimates used in the preparation of the financial statements include determining the carrying value of investments and exploration and evaluation projects, assessing the impairment of long-lived assets, determining deferred income taxes, and the valuation of share-based payments. These estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control.

Readers are encouraged to read the significant accounting policies and estimates as described in the Company's audited consolidated financial statements and Management's Discussion and Analysis for the year ended December 31, 2010 (note 2), however, readers are cautioned that these were prepared under pre-transition Canadian Generally Accepted Accounting Principles ("GAAP") and are not longer directly comparable to the present basis of accounting under IFRS. Note 3 to the Unaudited Condensed Consolidated Interim Financial Statements does provide readers with information, analyses and reconciliations of historic information from pre-transition Canadian GAAP to IFRS. The Company's financial statements have been prepared using the going concern assumption; reference should be made to Note 1 to the Company's 2010 Audited Consolidated Financial Statements as well as note 1 to the Company's Unaudited Interim Financial Statements.

The recorded value of the Company's exploration and evaluation projects is based on historic costs that are expected to be recovered in the future. The Company's recoverability evaluation is based on market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale. The Company is in an industry that is exposed to a number of risks and there is always the potential for a material adjustment to the value assigned to these assets.

8. Critical Accounting Estimates (Continued)

The fair value of the stock options and share purchase warrants is calculated using an option-pricing model that takes into account the exercise price, expected life of the option/warrant, expected volatility of the underlying shares, expected dividend yield, and the risk free interest rate for the term of the option/warrant.

9. Changes in Accounting Policies including Initial Adoption of IFRS

9.1 Adoption of Accounting Policy

Business Combinations and related sections: In January 2009, the Canadian Institute of Chartered Accountants ("CICA") issued Section 1582, "Business Combinations" to replace Section 1581. The new standard effectively harmonized the business combinations standard under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new standard revised guidance on the determination of the carrying amounts of the assets acquired and liabilities assumed, goodwill, and accounting for non-controlling interests at the time of a business combination.

The CICA concurrently issued Section 1601, "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interest", which replace Section 1600, "Consolidated Financial Statements". Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interest in consolidated financial statements subsequent to a business combination.

Effective January 1, 2010, the Company early adopted these standards and the adoption of these standards did not have any material impact on the interim consolidated financial statements for three months ended March 31, 2011.

9.2 IFRS Conversion

The Company's IFRS conversion plan addressed matters including changes in accounting policies, IT and data systems, restatement of comparative periods, organizational and internal controls and any required changes to business processes. To facilitate this process and ensure the full impact of the conversion is understood and managed reasonably, the Company retained an IFRS conversion project manager. The accounting staff has also attended several training courses on the adoption and implementation of IFRS. Through in-depth training and detailed analysis of IFRS standards, the Company's accounting personnel has obtained a thorough understanding of IFRS and possesses sufficient financial reporting expertise to support the Company's future needs. The Company has also reviewed its internal and disclosure control processes and believes they will not need significant modification as a result of the conversion to IFRS. Further, the Company has assessed the impact on IT and data systems and has concluded there will be no significant impact to applications arising from the transition to IFRS.

9.3 IFRS 1 First-Time Adoption of International Financial Reporting Standards

Under IFRS 1 'First-time Adoption of International Financial Reporting Standards', the IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under GAAP taken to retained earnings unless certain exemptions are applied. IFRS provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters. Set forth below is the applicable IFRS 1 mandatory and optional exemption applied in the conversion from Canadian GAAP to IFRS.

9. Changes in Accounting Policies including Initial Adoption of IFRS (Continued)

i. Share-based payments

IFRS 1 permits the application of IFRS 2 *Share Based Payments* only to equity instruments granted after November 7, 2002 that had not vested by the date of transition to IFRS. The Company has applied this exemption and will apply IFRS 2 for equity instruments granted after November 7, 2002 that had not vested by January 1, 2010.

ii. Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of January 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

iii. Assets and liabilities of subsidiaries and associates

In accordance with IFRS 1, if a parent company adopts IFRS subsequent to its subsidiary or associate adopting IFRS, the assets and the liabilities of the subsidiary or associate are to be included in the consolidated financial statements at the same carrying amounts as in the financial statements of the subsidiary or associate. The Company's Mongolian subsidiaries, adopted IFRS in 1997.

9.4 Financial Statement Impact on Transition to IFRS

IFRS employs a conceptual framework that is similar to Canadian GAAP; however significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption of IFRS will not change the cash flows of the Company, the adoption will result in changes to the reported financial position and results of operations of the Company. A summary of the significant accounting policy changes on transition to IFRS and the impact of those changes on the Company's financial statements is provided below.

i. Share-based payments

The Company has modified its accounting for stock-based compensation in two significant respects to conform with the guidance in IFRS 2 *Share-Based Payments*.

Under Canadian GAAP, the fair value of stock-based awards with graded vesting are calculated as one grant and the resulting fair value is recognized on a straight-line basis over the vesting period. Forfeitures of awards are recognized as they occur.

Under IFRS, a fair value measurement is required for each vesting instalment within the option grant. Each instalment must be valued separately, based on assumptions determined from historical data, and recognized as compensation expense over each instalment's individual tranche vesting period. Forfeiture estimates are recognized in the period they are estimated, and are revised for actual forfeitures in subsequent periods.

The adoption of IFRS 2 *Share-Based Payments* will result in an adjustment in the amount of stock-based compensation recognized during the year ended December 31, 2010.

9. Changes in Accounting Policies including Initial Adoption of IFRS (Continued)

ii *Income taxes*

The treatment of the tax effect of flow-through shares differs under Canadian GAAP and IFRS.
Under Canadian GAAP, share capital is recorded at net proceeds less the deferred tax liability related to the renounced expenditures.

Under IFRS, the increase to share capital when flow-through shares are issued is measured based on the current market price of common shares. The incremental proceeds, or "premium", are recorded as a deferred charge. When expenditures are renounced, a deferred tax liability is recognized and the deferred charge is reversed. The net amount is recognized as a future (or "deferred") income tax recovery. This accounting policy change will result in an adjustment upon conversion to IFRS.

In 2010, the Company acquired Prophecy Resource Corp. ("Prophecy") and Northern Platinum Ltd. ("Northern"). Upon acquisition of Prophecy, the Company recognized a future income tax liability \$6,797,734 in accordance with Canadian GAAP. Upon acquisition of Northern, the Company recognized a future income tax liability \$1,360,236 in accordance with Canadian GAAP. Under IAS 12 *Income Taxes*, the deferred tax liability would not be recognized, either on acquisition or subsequently. This accounting policy change will result in a write-off of the future income tax liability and a corresponding decrease in the carrying value of resource properties (known as "exploration and evaluation assets" under IFRS).

iii *Exploration and Evaluation Accounting*

On transition to IFRS, the Company may follow the same policies established under Canadian GAAP for accounting for its resource properties (known as exploration and evaluation assets under IFRS). The Canadian GAAP policy is to capitalize all mineral property expenditures directly attributable to the exploration or evaluation of each property. The Company will continue to employ this policy under IFRS. Therefore, there will be no impact to the carrying value of resource properties as reported under Canadian GAAP as at December 31, 2010, with the exception of the adjustment arising from the adoption of IAS 12 *Income Taxes* (discussed under "Income taxes" above).

iv *Impairment of assets*

Under Canadian GAAP, if there is an indication that an asset may be impaired, an impairment test must be performed. This is a two-step impairment test in which (1) undiscounted future cash flows are compared to the carrying value; and (2) if those undiscounted cash flows are less than the carrying value, the asset is written down to the fair value.

Under IFRS, an entity is required to assess, at the end of each reporting period, whether there is any indication that an asset may be impaired. If such an indication exists, the entity shall estimate the recoverable amount of the asset by performing a one-step impairment test, which requires a comparison of the carrying value of the asset to the higher of value in use and fair value less costs to sell. Value in use is defined as the present value of future cash flows expected to be derived from the asset in its current state.

9. Changes in Accounting Policies including Initial Adoption of IFRS (Continued)

Additionally, another difference exists as IAS 36, *Impairment of Assets* allows for the reversal of any previous impairment losses where circumstances have changed such that the impairments have been reduced. Canadian GAAP prohibits reversal of impairment losses.

The Company has concluded that the adoption of these standards will not result in a change to the carrying value of its assets on transition to IFRS.

10. Financial Instruments and Related Risks

The Company manages its exposure to financial risks, including liquidity risk, foreign exchange rate risk, interest rate risk, and credit risk in accordance with its risk management framework. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

10.1 Financial Instruments (see note 17 to the Condensed Consolidated Interim Financial Statements)

The following table sets forth the Company's financial assets and liabilities that are measured at fair value on a recurring basis by level within the fair value hierarchy. As at June 30, 2011, those financial assets and liabilities are classified in their entirety based on the level of input that is significant to the fair value measurement.

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	$ 9,505,918	$ -	$ -	$ 9,505,918
Investments	5,411,568	-	-	5,411,568
	$ 14,917,486	**$ -**	**$ -**	**$ 14,917,486**

10.2 Risks and Uncertainties (see note 17 to the Condensed Consolidated Interim Financial Statements)

The Company is exposed to many risks in conducting its business, including but not limited to: a) product price risk as any fluctuations in the prices of the products that the Company purchases and the prices of the products that the Company sells have a significant effect on the Company's business, results of operations, financial conditions and cash flows; b) credit risk in the normal course of dealing with other companies and financial institutions; c) foreign exchange risk as the Company reports its financial statements in Canadian dollars while the Company has significant operations and assets in Mongolia; d) interest rate risk as the Company raises funds through debt financing and e) other risk factors, including inherent risk of the mineral exploration, political risks, and environmental risk. These and other risks are described in the Company's audited consolidated financial statements, management's discussion and analysis for the year ended December 31, 2010. Readers are encouraged to refer to this document for a more detailed description of some of the risks and uncertainties inherent in the Company's business. Management and the Board of Directors continuously assess risks that the Company is exposed to, and attempt to mitigate these risks where practical through a range of risk management strategies.

11. Internal Control over Financial Reporting

The adoption of IFRS impacts the Company's presentation of financial results and accompanying disclosures. The Company has evaluated the impact of IFRS on its processes, controls and financial reporting systems and has made modifications to its control environment accordingly. There have been no significant changes in Prophecy's internal control over financial reporting during the six month period ended June 30, 2011 that have materially affected, or are reasonably likely to materially effect, the Company's internal control over financial reporting.

The management of the Company has filed the Venture Issuer Basic Certificate with the Interim Filings on SEDAR at www.sedar.com.

In contrast to the certificate required under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the venture issuer certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the certifying officers filing certificates for venture issuers are not making any representations relating to the establishment and maintenance of:

- controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and

- a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's generally accepted accounting principles.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in their certificate(s).

Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency, and timeliness of interim and annual filings and other reports provided under securities legislation.

12. Additional Disclosure for Venture Issuers without Significant Revenue

Directors and Officers

As at the date of this report, the Company's Directors and Officers are as follows:

Directors	**Officers**
John Lee, Chairman	John Lee, CEO
Michael J Deats	Irina Plavutska, Interim CFO
Paul Venter	Paul Venter,VP Energy Operations
Greg Hall	Christiaan Van Eeden, VP Mining Operations
Paul McKenzie	Enkbaatar Ochirbal, VP Mongolia Country Manager
Chuluunbaatar	Scott Parsons, VP of Corporate Development
Jivko Savov	Joseph Li, General Manager & Corporate Secretary

Audit Committee

Greg Hall
Paul Venter
Paul McKenzie

Qualified Person

Mr. Christopher Kravits, LPG, CPG, a qualified person for the purposes of NI 43-101

Investor Relations

John Lee, CEO coordinates investor relations' activities for the Company.

13. Off-Balance Sheet Arrangement

The Company does not have any off-balance sheet arrangements.

(Expressed in Canadian Dollars)

14. Disclosure of Outstanding Share Data

As at the date of this MD&A, the following securities are outstanding:

14.1 *Share Capital*

Authorized – unlimited number of common shares without par value.

Issued and outstanding – common shares outstanding 196,181,338 with recorded value of $132,421,468.

Summary of securities issued during the period

	Common Shars		Value
Outstanding, December 31, 2010	184,981,198	$	125,458,376
Shares issued on exercise of options	1,295,300		920,177
Shares issued on exercise of warrants	9,904,840		6,042,915
Oustanding, August 26, 2011	196,181,338	$	132,421,468

14.2 *Stock Options*

Summary of options granted during the period:

Exercise Price	Number of Options Granted	Expiry Date
$0.80	120,000	January 4, 2016
$0.93	50,000	January 6, 2016
$0.98	130,000	February 14, 2016
$0.63	2,400,000	June 13, 2016
	2,700,000	

On June 20, 2011 the Company subsidiary, Prophecy Platinum granted 5,670,000 options to directors, officers, employees, and consultants at exercise price $0.90 per share subject to a vesting schedule over two years with 50% options vesting every year.

(Expressed in Canadian Dollars)

14. Disclosure of Outstanding Share Data (Continued)

14.2 *Stock Options*

As at the date of this report, the outstanding options are comprised of the following:

Exercise Price	Number of Options Outstanding	Expiry Date
$0.25	50,000	February 14, 2012
$0.25	1,212,500	October 29, 2014
$0.38	200,000	November 30, 2014
$0.40	998,800	January 23, 2014
$0.40	381,250	January 29, 2015
$0.54	1,000,000	September 21, 2015
$0.55	350,000	March 11, 2015
$0.60	300,000	July 17, 2014
$0.60	65,000	September 21, 2014
$0.63	2,400,000	June 13, 2016
$0.67	1,967,500	May 10, 2015
$0.67	175,000	October 15, 2015
$0.77	9,000,000	December 10, 2015
$0.77	2,050,000	December 24, 2015
$0.80	475,000	April 30, 2014
$0.80	100,000	September 21, 2015
$0.80	120,000	January 4, 2016
$0.93	50,000	January 6, 2016
$0.93	2,875,000	December 24, 2015
$0.98	130,000	February 14, 2016
$0.25 to $0.98	23,900,050	

(Expressed in Canadian Dollars)

14. Disclosure of Outstanding Share Data (Continued)

14.3 *Share Purchase Warrants*

The Company has not issued any warrants in the reported period.

The following tables summarize the number of warrants outstanding as of the date of this MD&A:

Exercise price	Number of Warrants	Expiry date
$0.10	3,050,000	December 31, 2011
$0.40	15,375	December 31, 2011
$0.46	12,500	September 4, 2011
$0.49	1,396,714	February 17, 2012
$0.60	133,750	December 31, 2011
$0.60	143,750	December 21, 2011
$0.65	276,000	September 1, 2011
$0.66	3,831,511	October 28, 2012
$0.70	536,250	September 4, 2011
$0.77	551,969	March 31, 2012
$0.80	2,966,731	March 31, 2012
$0.80	337,750	April 21, 2012
$0.80	2,750,097	March 23, 2012
$0.80	712,000	October 8, 2011
$0.85	1,800,000	December 24, 2011
$0.10 to $0.85	18,514,397	