Prophecy
Coal Corp.

Condensed Interim Consolidated Financial Statements
Unaudited
For the three month period ended March 31, 2012
(Expressed in Canadian Dollars)

TABLE OF CONTENTS

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements have been prepared by management and approved by the Audit Committee and the Board of Directors. The Company's independent auditors have not performed a review of these condensed interim consolidated financial statements in accordance with the standards established for a review of interim financial statements by an entity's auditors.

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

	Notes	March 31 2012	December 31 2011
Assets			
Current assets			
Cash and cash equivalents	5	$ 6,876,703	$ 3,480,050
Receivables	6	977,785	1,105,429
Prepaid expenses	7	1,098,225	609,357
Available-for-sale-investments	8	4,445,744	3,839,988
		13,398,457	9,034,824
Non-current assets			
Reclamation deposits		6,500	6,500
Receivables	6	2,265,088	2,137,031
Equipment deposits and other		699,342	2,053,613
Available-for-sale-investments	8	3,813,097	3,796,175
Property and equipment	9	55,994,162	51,645,276
Mineral properties	10	66,757,634	62,169,481
		$ 142,934,280	$ 130,842,900
Liabilities and Equity			
Current liabilities			
Accounts payable & accrued liabilities	11	$ 1,634,832	$ 1,364,890
		1,634,832	1,364,890
Non-current liabilities			
Provision for closure and reclamation	12	293,818	257,355
		1,928,650	1,622,245
Equity			
Share capital	13	144,931,327	134,492,080
Reserves		17,355,704	17,138,468
Accumulated other comprehensive loss	8	(1,444,265)	(1,842,782)
Deficit		(51,390,029)	(53,375,529)
Equity attributable to owners of the Company	3	109,452,737	96,412,237
Equity attributable to non-controlling interests	3	31,552,893	32,808,418
Total Equity		141,005,630	129,220,655
		$ 142,934,280	$ 130,842,900

Approved on behalf of the Board:

"Joseph Li" Director

"Greg Hall" Director

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

	Notes		Three months ended March 31, 2012		2011
General and Administrative Expenses					
Consulting and management fees		$	293,966	$	306,757
Share-based payments	13		2,461,237		1,340,353
Advertising and promotion			719,603		217,043
Professional fees			251,725		120,600
Travel and accommodation			97,817		195,512
Stock exchange and shareholder services			108,822		56,500
Salary and benefits			133,773		108,529
Office and administration			76,572		104,171
Insurance			51,882		11,584
Director fees			69,150		4,206
Amortization			69,685		15,005
Loss Before Other Items and Deferred Income Tax Recovery			(4,334,233)		(2,480,260)
Other Items					
Interest income			19,875		51,203
Interest expense			(56,511)		-
Gain on sale of investements			82,528		-
Foreign exchange gain (loss)			(1,756,308)		(126,715)
			(1,710,416)		(75,512)
Loss Before Deferred Income Tax Recovery			(6,044,649)		(2,555,772)
Deferred income tax recovery			121,461		-
Net Loss for Period			(5,923,188)		(2,555,772)
Fair value gain on available-for-sale investments			872,987		1,632,308
Comprehensive Loss for Period		$	(5,050,201)	$	(923,464)
Net loss for period attributable to:					
Owners of the Company		$	(4,513,569)	$	(923,464)
Non-controlling interest			(1,409,619)		-
		$	(5,923,188)	$	(923,464)
Comprehensive loss for period attributable to:					
Owners of the Company		$	(4,911,616)	$	(923,464)
Non-controlling interest			(1,884,090)		-
		$	(6,795,706)	$	(923,464)
Loss Per Common Share, basic and diluted		$	(0.03)	$	(0.01)
Weighted Average Number of Shares Outstanding		#	199,587,605		188,310,157

See Accompanying Notes to Condensed Interim Consolidated Financial Statements.

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

	Numbers of shares	Share Capital	Reserves	Accumulated Other Comprehensive Loss	Deficit	Equity attributable to owners of the Company	Non-controlling Interest	Total
Balance, January 1, 2011	184,981,199	$ 125,458,376	$ 4,720,060	$ (512,616)	$ (27,579,123)	$ -	$ -	$ 102,086,697
Options exercised	736,600	619,299	(306,284)	-	-	-	-	313,015
Warrants exercised	4,205,465	2,115,367	-	-	-	-	-	2,115,367
Share-based payments	-	-	1,674,017	-	-	-	-	1,674,017
Transfer on expiry of options	-	-	(12,058)	-	-	-	-	(12,058.00)
Loss for the period	-	-	-	-	(2,555,772)	-	-	(2,555,772)
Unrealized gain on available-for-sale-invesments	-	-	-	1,632,308	-	-	-	1,632,308
Balance, March 31, 2011	189,923,264	128,193,042	$ 6,075,735	1,119,692	(30,134,895)	105,253,574	-	105,253,574
Expired escrowed shares cancelled	(187,500)	-	-	-	-	-	-	-
Options exercised	763,700	587,324	(237,641)	-	-	-	-	349,683
Warrants exercised	10,609,958	5,711,714	(156,347)	-	-	-	-	5,555,367
Share-based payments	-	-	11,456,721	-	-	11,456,721	3,659,740	15,116,461
Non-controlling interest on acquisition								-
of Prophecy Platinum Corp.	-	-	-	-	-	-	5,725,409	5,725,409
Distribution to shareholders on spin-off	-	-	-	-	(18,475,792)	(18,475,792)	18,475,792	-
Funding from non-controlling interest, net of dilution	-	-	-	-	2,888,033	2,888,033	7,668,585	10,556,618
Dilution on spin-out transaction	-	-	-	-	(3,071,334)	(3,071,334)	-	(3,071,334)
Loss for the period	-	-	-	-	(4,581,541)	(4,581,541)	(2,636,455)	(7,217,996)
Unrealized gain on available-for-sale-invesments	-	-	-	(2,962,474)	-	(2,962,474)	(84,653)	(3,047,127)
Balance, December 31, 2011	201,109,422	134,492,080	17,138,468	(1,842,782)	(53,375,529)	96,412,237	32,808,418	129,220,655
Private placement, net of share issue costs	22,363,866	9,594,618		-	-	9,594,618	-	9,594,618
Options exercised	100,000	82,000	(57,000)	-	-	25,000	-	25,000
Warrants exercised	1,479,509	762,629	(7,232)	-	-	755,397	-	755,397
Share-based payments	-	-	281,468	-	-	281,468	2,196,130	2,477,598
Funding from non-controlling interest, net of dilution	-	-	-	-	2,861,396	2,861,396	(2,516,507)	344,889
Dilution on spin-out transaction		-	-	-	3,637,674	3,637,674	-	3,637,674
Loss for the period	-	-	-	-	(4,513,569)	(4,513,569)	(1,409,619)	(5,923,188)
Unrealized gain on available-for-sale-invesments	-	-	-	398,517	-	398,517	474,470	872,987
Balance, March 31, 2012	225,052,797	$ 144,931,327	$ 17,355,704	$ (1,444,265)	$ (51,390,029)	$ 109,452,737	$ 31,552,893	$ 141,005,630

See Accompanying Notes to Condensed Interim Consolidated Financial Statements.

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

	Three months ended March 31, 2012	2011
Operating Activities		
Net loss for the period	$ (5,923,188)	$ (2,555,772)
Items not involving cash		
Accretion of provision for closure and reclamation	6,802	-
Amortization	69,685	15,005
Share-based payments	2,461,237	1,340,353
Gain on sale of investment	(82,528)	-
Future income tax recovery	(121,461)	-
	(3,589,452)	(1,200,414)
Changes in non-cash working capital		
Receivables	(413)	(199,836)
Prepaid expenses	(488,868)	(92,373)
Accounts payable and accrued liabilities	(730,808)	(409,712)
Dilution on spinout transaction	3,767,501	-
	2,547,411	(701,921)
Cash Used in Operating Activities	(1,042,041)	(1,902,335)
Investing Activities		
Acquisition of property and equipment	(3,034,638)	(12,284,907)
Mineral property expenditures	(4,498,044)	(987,345)
(Purchase)/sale of available for sale investments	1,248,465	(1,750,000)
Cash Produced by (Used in) Investing Activities	(6,284,216)	(15,022,252)
Financing Activities		
Repayment of loan	-	(5,083,334)
Platinum shares issued	344,889	-
Prophecy shares issued, net of share issuance costs	10,378,021	2,428,382
Cash Provided by (Used in) Financing Activities	10,722,910	(2,654,952)
Net Increase (Decrease) in Cash	3,396,653	(19,579,539)
Cash and Cash Equivalents - Beginning of Period	3,480,050	39,324,151
Cash and cash equivalents - end of period	$ 6,876,703	$ 19,744,612

Supplemental cash flow information (Note 19)

1. NATURE AND CONTINUANCE OF OPERATIONS

Prophecy Coal Corp. (formerly Prophecy Resource Corp.) ("Prophecy Coal" 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 Company maintains its head office at 2nd floor, 342 Water Street, Vancouver, BC, V6B 1B6.

On June 13, 2011, Northern Platinum Ltd. ("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 2 for more details on the ownership of its subsidiaries).

2. BASIS OF PRESENTATION

(a) Statement of compliance

These unaudited condensed interim consolidated financial statements for the three months ended March 31, 2012 have been prepared in accordance with IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB").

The condensed interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's audited annual financial statements as at December 31, 2011.

These condensed interim consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as available-for-sale and fair value through profit or loss ("FVTPL"), which are stated at their fair values. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The Company followed the same accounting policies and methods of computation in the condensed interim consolidated financial statements for the three months ended March 31, 2012, as per Note 3 of the annual consolidated financial statements for the year ended December 31, 2011.

(b) Approval of the financial statements

The condensed interim consolidated financial statements of Prophecy Coal for the three months ended March 31, 2012 were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on May 14, 2012.

(c) Comparative figures

Certain prior year figures have been reclassified to conform to the current year's presentation. Such reclassification is for presentation purposes only and has no effect on previously reported results.

(Unaudited) (Expressed in Canadian Dollars)

2. BASIS OF PRESENTATION (Continued)

(d) New accounting pronouncements

There has not been any change in accounting policy due to changes required by an IFRS that will be effective for the annual financial statements and changes that are proposed to be adopted for the annual financial statements, in accordance with the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* since the consolidated financial statements for the year ended December 31, 2011.

(e) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its controlled subsidiaries. All material intercompany balances and transactions have been eliminated. For a partially owned subsidiary, the interest attributable to non-controlling shareholders is reflected in non-controlling interest. Details of the Company's subsidiaries at March 31, 2012 are as follows:

	Principal Activity	Place of incorporation and operation	Ownership interest March 31, 2012
0912603 B.C. Ltd.	Exploration	Canada	100%
0912601 B.C. Ltd.	Exploration	Canada	100%
Chandgana Coal LLC	Exploration	Mongolia	100%
East Energy Development LLC	Mining	Mongolia	100%
Red Hill Mongolia LLC	Exploration	Mongolia	100%
UGL Enterprises LLC	Inactive	Mongolia	100%
Prophecy Platinum Corp.	Exploration	Canada	48.6%
Subsidiaries of Prophecy Platinum Corp.			
PCNC Holdings Corp.	Exploration	Canada	48.6%
Pacific Coast Nickel Corp. USA	Inactive	USA	48.6%
Pacific Nickel Sudamerica S.A.	Exploration	Uruguay	48.6%
0905144 B. C. Ltd.	Exploration	Canada	48.6%

(Unaudited) (Expressed in Canadian Dollars)

3. ACQUISITIONS

Acquisition of Prophecy Platinum Corp.

On June 13, 2011, the Company completed the transfer of the Wellgreen and Lynn Lake properties to Pacific Coast Nickel Corp. ("PCNC") through an Arrangement. Pursuant to the terms of the Arrangement, PCNC would issue 450,000,000 of its common shares to Prophecy Coal. The Company retained 269,176,425 of these shares, distributed 180,823,575 of these shares to Prophecy Coal shareholders. Of the 269,176,425, the Company has reserved 44,176,425 common shares for distribution to holders of Prophecy Coal options and warrants, upon the exercise of such options and warrants.

Immediately following the completion of the Arrangement, PCNC consolidated its share capital on a 10 old for one new basis (the "Consolidation") and changed its name to Prophecy Platinum Corp. ("Platinum"). Platinum issued 450,000,000 to Prophecy.

As a result of the Arrangement and Consolidation, each Prophecy shareholder received 0.094758 of a post-Consolidation Platinum share for each Prophecy Coal share held by them as at the end of June 9, 2011. Each option holder and warrant holder of Prophecy Coal will, upon the exercise of their Prophecy Coal options and warrants, as the case may be, receive 0.094758 of a post-Consolidation Platinum share, in addition to one common share of Prophecy Coal for each whole option or warrant of Prophecy Coal held. Upon completion of the Transaction, Platinum had 50,657,321 post-Consolidation shares outstanding and Prophecy owned 26,971,621 common shares of Platinum.

As a result of the Arrangement, the Company acquired an interest of 53.24% of Platinum's issued and outstanding shares and through 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 Company's ownership interest in Platinum was reduced to 48.6% as at March 31, 2012, which resulted in a dilution impact recorded to deficit. However as there are common directors and officers, the Company is deemed to continue to have control over Platinum.

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

Cash and cash equivalents	$	778,676
Receivables		17,421
Prepaids		4,810
Property and equipment		7,726
Mineral properties		1,928,300
Accounts payable and accrued liabilities		(82,820)
Net assets acquired	$	2,654,113

(Unaudited) (Expressed in Canadian Dollars)

4. SEGMENTED INFORMATION

The Company operates in one operating segment, being the acquisition, exploration and development of mineral properties. Geographic segmentation of the Company's assets is as follows:

	March 31, 2012				
	Canada	Uruguay	Argentina	Mongolia	Total
Reclamation deposits	$ 6,500	$ -	$ -	$ -	$ 6,500
Equipment deposits and other	-	-	-	699,342	699,342
Long-term receivables	-	-	-	$ 2,265,088	2,265,088
Property and equipment	696,214	-	-	$ 55,297,948	55,994,162
Mineral properties	56,895,038	717,546	431,650	8,713,400	66,757,634
	$ 57,597,752	$ 717,546	$ 431,650	$ 66,975,778	$ 125,722,725

	December 31, 2011				
	Canada	Uruguay	Argentina	Mongolia	Total
Reclamation deposits	$ 6,500	$ -	-	$ -	$ 6,500
Equipment deposits and other	-	-	-	2,053,613	$ 2,053,613
Long-term receivables	-	-	-	$ 2,137,031	$ 2,137,031
Property and equipment	1,172,979	-	-	50,472,297	$ 51,645,276
Mineral properties	55,861,685	707,450	232,000	5,368,346	$ 62,169,481
	$ 57,041,164	$ 707,450	$ 232,000	$ 60,031,287	$ 118,011,901

5. CASH AND CASH EQUIVALENTS

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 are denominated in the following currencies:

		March 31, 2012		December 31, 2011
Cash				
Denominated in Canadian dollars	$	562,624	$	2,316,433
Denominated in US dollars		854,443		68,419
Denominated in Mongolian tugriks		44,158		86,530
Denominated in Uruguayan pesos		15,233		6,770
Cash equivalents				
Denominated in Canadian dollars		5,400,245		1,001,898
	$	6,876,703	$	3,480,050

6. RECEIVABLES

		March 31, 2012		December 31, 2011
Current assets				
HST receivable	$	391,343	$	338,436
Trade receivable		571,012		730,373
Other receivables		15,430		36,620
	$	977,785	$	1,105,429
Non-current assets				
VAT receivable	$	2,265,088	$	2,137,031

7. PREPAID EXPENSES

		March 31, 2012		December 31, 2011
Prepaid insurance	$	145,674	$	29,360
Other prepaid expenses		952,551		579,997
	$	1,098,225	$	609,357

(Unaudited) (Expressed in Canadian Dollars)

8. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments are broken down as follows:

Available-for-sale investments		March 31, 2011		December 31, 2011
Current assets				
Platinum investments				
ETFS PALL	$	1,267,820	$	2,024,878
ETFS PPLT		1,343,841		1,815,110
Ursa Major		1,834,083		-
	$	4,445,744	$	3,839,988
Non-current assets				
Prophecy investments				
Victory Nickel	$	2,563,097	$	2,746,175
Compliance Energy		1,250,000		1,050,000
	$	3,813,097	$	3,796,175

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.

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.

In December 2011, Platinum purchased 30,840 at $65 ETFS Physical Palladium and 12,950 at $155 ETFS Physical Platinum exchange traded funds.

On March 9, 2012 Platinum acquired 16,666,667 common shares of Ursa Major Minerals Inc. ("Ursa") at a price of $0.06 per common share for aggregate proceeds of $1,000,000 representing approximately 17.3% of Ursa outstanding shares by means of non-brokered private placement.

9. 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.

(Unaudited) (Expressed in Canadian Dollars)

9. PROPERTY AND EQUIPMENT (Continued)

	Computer Equipment	Furniture & Equipment	Vehicles	Computer Software	Leasehold Improvements	Ulaan Ovoo Mining Equipment	Ulaan Ovoo Deferred Exploration	Exploration Equipment	Total
Cost									
Balance, December 31, 2011	144,445	224,564	772,111	234,068	172,818	14,248,586	38,338,876	28,299	54,163,767
Additions									
Assets acquired	4,110	5,189	334	(35,349)	-	262,745	5,930,338	330,593	6,497,959
Sale of coal	-	-	-	-	-	-	(1,186,191)	-	(1,186,191)
Disposals	-	-	-	-	-	-	-	-	-
Balance, March 31, 2012	148,555	229,753	772,445	198,719	172,818	14,511,331	44,269,214	358,892	59,475,535
Accumulated depreciation									
Balance, December 31, 2011	49,226	82,448	137,315	82,456	23,582	2,125,913	-	17,551	2,518,491
Depreciation for the period	7,958	7,138	43,923	32,579	8,641	851,135	-	11,508	962,882
Balance, March 31, 2012	57,184	89,586	181,238	115,035	32,223	2,977,048	-	29,059	3,481,373
Carrying amounts									
At December 31, 2011	95,219	142,116	634,796	151,612	149,236	12,122,673	38,338,876	10,748	51,645,276
At March 31, 2012	91,371	140,167	591,207	83,684	140,595	11,534,283	44,269,214	329,833	55,994,162

(Unaudited) (Expressed in Canadian Dollars)

10. MINERAL PROPERTIES

	Chandgana Tal	Chandgana Khavtgai	Titan	Okeover, others	Lynn Lake	Wellgreen	Burwash	Sarandi del Yi Durazno	Las Aguilas	Total
Notes	10(b)	10(c)	10(f)	10(e)	10(d)	10(g)	10(h)	10(i)	10(j)	
Balance, December 31, 2011	4,752,701	2,124,768	738,649	1,366,912	32,760,807	17,603,145	1,883,050	707,450	231,999	62,169,481
										-
Acquisition cost	-	-	-	-	1,000,000	-	-	-	198,255	1,198,255
Deferred exploration costs:										-
Licenses, leases, and Power Plant application	929,165	-	3,339	861	(9,866)	-	-	-	-	923,500
Geological core, engineering, and consulting	361,647	431,728	-	1,070	-	449,936	-	9,969	-	1,254,350
Drilling	-	-	-	-	-	609,328	-	-	-	609,328
Personnel	50,604	-	-	-	-	134,079	-	-	-	184,683
Camp and general	62,785	-	-	-	4,718	348,995	15.00	127	1,396	418,036
	1,404,201	431,728	3,339	1,932	(5,148)	1,542,337	15	10,096	1,396	3,389,897
Balance, March 31, 2012	**$6,156,902**	**$2,556,496**	**$741,988**	**$1,368,844**	**$33,755,659**	**$19,145,482**	**$1,883,065**	**$717,546**	**$431,650**	**$66,757,634**

10. 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 has, accordingly, reclassified mineral property costs to Property and Equipment (Note 10).

Ilch Khujirt exploration license

On April 21, 2011, (further amended April 21, 2012) the Company entered into an Option Agreement ("the Agreement") with a private Mongolian company ("the Seller") holding an exploration license near Prophecy's Ulaan Ovoo coal property, pursuant to which Prophecy has been granted the right to acquire 100% ownership for US$2,000,000 within the first year, or US$4,000,000 in the second year of 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 31, 2012, 50% payable in Prophecy shares

or

- US$200,000 on agreement signing (paid);
- US$200,000 before April 21,2012; and
- US$3,300,000 before April 21, 2013, 50% payable in Prophecy shares.

Negotiations of an amended agreement are in progress.

10. MINERAL PROPERTIES (Continued)

(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 4). A total of $31,802,069 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, Platinum 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 and 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.

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

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

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

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

10. MINERAL PROPERTIES (Continued)

(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 $1,246,890 was capitalized as the acquisition costs of Okeover.

(f) Titan property

The Company has an 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 or 400,000 shares of the Company. The Titan property is subject to a 3% NSR that may be purchased for $20,000.

On June 30, 2011, the Company paid Ransburg the balance of unexpended amount of $114,742 according to the terms of an Amended Agreement with Ransburg signed on June 30, 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 (“the 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.

10. MINERAL PROPERTIES (Continued)

(h) Burwash, Canada

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

(i) Sarandi del Yi Durazno, Uruguay

Platinum has purchased 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.

(j) Las Aguilas, Argentina

On December 10, 2010, further amended March 21, 2012 the Company entered into a letter agreement with Marifil Mines Limited ("Marifil") with an option to acquire up to 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 to earn a 49% interest in the property as follows:

Cash and shares

- $25,000 upon signing and 250,000 shares (paid and issued)
- $125,000 and 250,000 shares on or before April 1, 2012 (paid and issued)
- $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 November 1, 2012 incur $500,000 in exploration expenditures,
- On or before October 1, 2013 incur $500,000 in exploration expenditures,
- On or before July 1, 2014 incur $1,000,000 in exploration expenditures,

The agreement also provides for the Company to earn an additional 11% by preparing a pre-feasibility study on the property and issuing an aggregate of 2,000,000 shares from April 1, 2014 to April 1, 2015. 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 from April 1, 2015 to April 1, 2016.

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. The Company retains the option of buying Marifil's 30% interest for $5,000,000.

(Unaudited) (Expressed in Canadian Dollars)

10. MINERAL PROPERTIES (Continued)

(k) Title to mineral properties

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

(l) Realization of assets

The investment in and expenditures on mineral property interests comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from properties or from the proceeds of their disposal. Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore. The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values.

(m) Environmental

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2012	December 31, 2011
Trade accounts payable	$ 1,433,517	$ 1,108,310
Accrued liabilities	201,315	256,580
	$ 1,634,832	$ 1,364,890

(Unaudited) (Expressed in Canadian Dollars)

12. PROVISION FOR CLOSURE AND RECLAMATION

	March 31, 2011	December 31, 2011
Balance, December 31	$257,355	$80,000
Additions	29,660	54,469
Accretion	6,803	122,886
	$293,818	$257,355

The Company's closure and reclamation costs consists of costs accrued based on the current best estimate of mine closure and reclamation activities that will be required at the Ulaan Ovoo site upon completion of mining activity. These activities include costs for earthworks, including land re-contouring and re-vegetation, water treatment and demolition. The Company's provision for future site closure and reclamation costs is based on the level of known disturbance at the reporting date, known legal requirements and estimates prepared by a third party specialist. It is not currently possible to estimate the impact on operating results, if any, of future legislative or regulatory developments.

Management used a risk-free interest rate of 3.35% and an inflation factor of 2.10% in preparing the Company's provision for closure and reclamation. Although the ultimate amount of reclamation costs to be incurred cannot be predicted with certainty, the total undiscounted amount of estimated cash flows required to settle the Company's estimated obligations is $2,000,000 over the next 9 years. The cash expenditures are expected to occur over a period of time extending several years after the mine's projected closure.

13. SHARE CAPITAL

(a) Authorized

The authorized capital of Prophecy consists of an unlimited number of Prophecy shares without par value. The holders of the Company shares are entitled to vote at all meetings of shareholders of Prophecy shares, to receive dividends if, as and when declared by the directors and to participate rateably in any distribution of property or assets upon the liquidation, winding-up or other dissolution of Prophecy. The Company shares carry no pre-emptive rights, conversion or exchange rights, redemption, retraction, repurchase, sinking fund or purchase fund provisions. There are no provisions requiring the holder of Prophecy shares to contribute additional capital and no restrictions on the issuance of additional securities by Prophecy. There are no restrictions on the repurchase or redemption of Prophecy shares by Prophecy, except to the extent that any such repurchase or redemption would render Prophecy insolvent pursuant to the British Columbia *Business Corporations Act.*

(b) Equity issuances

During the three months ended March 31, 2012, the Company had the following share capital transactions:

(i) During the three months ended March 31, 2012, the Company issued 100,000 and 1,479,509 shares on the exercise of options and warrants, respectively, for total proceeds of $ 844,629.

(Unaudited) (Expressed in Canadian Dollars)

13. SHARE CAPITAL

(ii) On March 8, 2012, the Company closed a non-brokered private placement of 22,363,866 shares at a price of $0.45 per share for gross proceeds of $10,063,740. Finder's fees of 6% of the gross proceeds were paid on certain portions of the placement totalling $469,122. All shares issued are subject to a hold period expiring on July 9, 2012.

During the year ended December 31, 2011, the Company had the following share capital transactions:

(iii) During the year ended December 31, 2011, the Company issued 1,500,300 and 14,815,423 shares on the exercise of options and warrants, respectively, for total proceeds of $8,333,432.

(iv) The Company cancelled and returned 187,500 common shares without par value to treasury as they have been cancelled.

(c) Stock options

On May 31, 2011, the Company adopted a new 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 38,165,342.

The following is a summary of the changes in the Company's options from December 31, 2011 to March 31, 2012:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2011	24,493,050	$0.70
Granted	3,320,000	$0.48
Exercised	(100,000)	$0.25
Forfeited	(970,000)	$0.59
Outstanding, March 31, 2012	26,743,050	$0.68

During the three months ended March 31, 2012, a total of 3,320,000 options with a term of five years were granted to directors, officers, employees and consultants at exercise prices ranging from $0.425 to $0.485; the options vest over a two-year period.

During the year ended December 31, 2011, the Company granted a total of 3,510,000 options with a life of five years to directors, officers, consultants, and employees at exercise prices of $0.63 to $0.98 per share subject to a vesting schedule over two years with 50% options vesting every year.

(Unaudited) (Expressed in Canadian Dollars)

13. SHARE CAPITAL (Continued)

(c) Stock options (continued)

On September 16, 2011, the Company amended the vesting terms of 4,715,000 stock options granted to directors with exercise prices ranging from $0.54 to $0.93 per share to vest immediately. Share-based payments related to these modified options were expensed immediately.

Platinum's stock option plan authorizes directors of Platinum to grant options to officers, directors, employees and consultants under which Platinum may grant options to acquire up to 10,120,695 common shares of Platinum. The options can be granted for a maximum term of five years and vest at the discretion of the Board of Directors.

During the three months year ended March 31, 2011, Platinum granted a total of 330,000 options with a life of five years to directors, consultants, and employees at exercise prices of $2.40 to $3.68 per share subject to a vesting schedule over two years with 50% options vesting every year.

The following is a summary of the changes in Platinum's options from December 31, 2011 to March 31, 2012:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2011	6,976,250	1.34
Granted	330,000	3.33
Exercised	(150,000)	0.90
Expired/Cancelled	(400,000)	5.22
Forfeited	(50,000)	2.25
Outstanding, March 31, 2011	6,706,250	1.21

On September 11, 2011, Platinum amended the vesting period on 5,670,000 stock options granted to its directors, exercisable at $0.90 per share, to vest immediately. Share-based payments related to these modified options were expensed immediately.

The Company and Platinum recorded the fair value of all options granted using the Black-Scholes model. Share-based payment costs are amortized over vesting periods. During 2011 share-based payment costs were calculated using the following weighted average assumptions:

(Unaudited) (Expressed in Canadian Dollars)

13. SHARE CAPITAL (Continued)

(c) Stock options (continued)

Prophecy	Three month ended March 31,	
Consolidated Statement of Operations	2012	2011
Share based payments	$ 265,966	$ 1,340,352
	265,966	1,340,352
Consolidated Statement of Financial Position		
Ulaan Ovoo exploration	15,502	12,583
	15,502	12,583
Total share-based payments	$ 281,468	$ 1,352,936

The forfeiture rates: Prophecy - 2%, Platinum - %Nil.

For the three months ended March 31, 2012 and 2011, share-based payments were recorded as follows:

Platinum	Three month ended March 31,	
Consolidated Statement of Operations	2012	2011
Share based payments	$ 2,195,271	$ -
	2,195,271	-
Consolidated Statement of Financial Position		
Wellgreen exploration	859	-
	859	-
Total share-based payments	2,196,130	-
Grand total	$ 2,477,598	$ -

(Unaudited) (Expressed in Canadian Dollars)

13. SHARE CAPITAL (Continued)

(c) Stock options (continued)

Prophecy

As of March 31, 2012 and December 31, 2011, the following Prophecy options were outstanding:

Exercise Price	March 31, 2012	December 31, 2011	Expiry Date
$0.25	1,062,500	1,162,500	October 29, 2014
$0.25	-	50,000	February 14, 2012
$0.38	200,000	200,000	November 30, 2014
$0.40	1,056,800	1,056,800	January 23, 2014
$0.40	381,250	381,250	January 29, 2015
$0.43	180,000	-	January 9, 2017
$0.46	140,000	-	February 3, 2017
$0.49	3,000,000	-	March 22, 2017
$0.54	850,000	1,000,000	September 21, 2015
$0.55	350,000	350,000	March 11, 2015
$0.60	175,000	175,000	July 17, 2014
$0.60	65,000	65,000	September 21, 2014
$0.63	1,975,000	2,400,000	June 13, 2016
$0.67	1,722,500	1,967,500	May 10, 2015
$0.67	175,000	175,000	October 15, 2015
$0.77	9,000,000	9,000,000	December 10, 2015
$0.77	2,050,000	2,050,000	December 24, 2015
$0.77	610,000	710,000	August 30, 2016
$0.80	475,000	475,000	April 30, 2014
$0.80	100,000	100,000	September 23, 2015
$0.80	120,000	120,000	January 4, 2016
$0.93	50,000	50,000	January 6, 2016
$0.93	2,875,000	2,875,000	December 24, 2015
$0.98	130,000	130,000	February 14, 2016
	26,743,050	24,493,050	

At March 31, 2012, the Company had 15,573,050 exercisable stock options outstanding (2011 – 15,538,050).

(Unaudited) (Expressed in Canadian Dollars)

13. SHARE CAPITAL (Continued)

(c) Stock options (continued)

Platinum

As of March 31, 2012, the following Platinum options were outstanding:

Exercise Price	Number of Options	Expiry Date
$1.60	3,750	January 7, 2013
$1.00	12,500	November 6, 2014
$1.40	175,000	December 13, 2015
$0.90	5,395,000	June 20, 2016
$2.25	790,000	December 12, 2016
$2.40	90,000	January 9, 2017
$3.68	240,000	February 3, 2017
$0.9 to $3.68	6,706,250	

At March 31, 2012, Platinum had 3,841,250 exercisable stock options outstanding.

(d) Share purchase warrants

On January 4, 2011, the Company accelerated the expiry of 3,355,585 share purchase warrants, which were issued in various private placements at a weighted average exercise price of $0.45 to February 4, 2011.

On January 4, 2011, the Company extended the expiry day for one year of 6,606,544 share purchase warrants, which were issued in 2010 in a transaction with Northern Platinum at a weighted average exercise price of $0.074.

The following is a summary of the changes in the Company's warrants from December 31, 2011 to March 31, 2012:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2011	11,834,769	$0.72
Exercised	(1,479,509)	$0.51
Expired	(15,333)	$0.49
Outstanding, March 31, 2012	10,339,927	$0.75

(Unaudited) (Expressed in Canadian Dollars)

13. SHARE CAPITAL (Continued)

(d) Share purchase warrants (continued)

The following is a summary of the changes in Platinum's warrants from December 31, 2011 to March 31, 2012:

	Number of Warrants	Weighted Avg Exercise Price
Outstanding, December 31, 2011	1,217,000	1.00
Exercised	(75,000)	1.00
Outstanding, March 31, 2012	1,142,000	1.00

As of March 31, 2012 and at December 31, 2011 the following Prophecy warrants were outstanding:

	At March 31, 2012	At December 31, 2011	
Exercise price	Number of Warrants		Expiry date
$0.49		1,396,714	February 17, 2012
$0.66	3,831,511	3,831,511	October 28, 2012
$0.77	551,968	551,968	March 31, 2012
$0.80	2,964,730	2,964,730	March 31, 2012
$0.80	337,750	337,750	April 21, 2012
$0.80	2,653,968	2,752,097	March 23, 2012
$0.49 to $0.80	10,339,927	11,834,769	

As of March 31, 2012 and December 31, 2011 the following Platinum warrants were outstanding:

	At March 31, 2012	At December 31, 2011	
Exercise Price	Number of Warrants		Expiry Date
$ 1.00	252,000	327,000	August 3, 2012
$ 1.00	890,000	890,000	January 6, 2013
	1,142,000	1,217,000	

(Unaudited) (Expressed in Canadian Dollars)

14. 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 quarter ended March 31, 2012. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

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.

15. FINANCIAL INSTRUMENTS

The Company's financial assets and financial liabilities are categorized as follows:

	As at March 31, 2012	As at December 31, 2011
Fair value through profit or loss		
Cash and cash equivalents	$ 6,876,703	$ 3,480,050
Loans and receivables		
Trade receivable	571,012	730,373
Other receivable	15,430	36,620
Available-for-sale investments		
Investment in Victory Nickel	2,563,097	2,746,175
Investment in Compliance Energy	1,250,000	1,050,000
ETFS Palladium	1,267,820	2,024,878
ETFS Platinum	1,343,841	1,815,110
Ursa Major Minerals	1,834,083	-
	$ 15,721,987	$ 11,883,206
Other financial liabilities		
Accounts payable and accrued liabilities	$ 1,634,833	$ 1,364,890
	$ 1,634,833	$ 1,364,890

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and loans payable approximate their fair values due to the short-term maturity of these financial instruments.

(Unaudited) (Expressed in Canadian Dollars)

15. FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy

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:

As at March 31, 2012	Level 1	Level 2	Level 3	Total
Financial assets				
Fair value through profit or loss	$ 6,876,703	$ -	$ -	$ 6,876,703
Available-for-sale investments	8,268,563	-	-	8,268,563
	$ 15,145,266	$ -	$ -	$ 15,145,266

As at December 31, 2011	Level 1	Level 2	Level 3	Total
Financial assets				
Fair value through profit or loss	$ 3,480,050	$ -	$ -	$ 3,480,050
Available-for-sale investments	7,636,163	-	-	7,636,163
	$ 11,116,213	$ -	$ -	$ 11,116,213

16. FINANCIAL RISK MANAGEMENT DISCLOSURES

(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 March 31, 2012, the Company has cash and cash equivalents of $6,876,703 (December 31, 2011 - $3,480,050) and financial liabilities of $1,634,832 (December 31, 2011 - $1,364,890), which have contractual maturities of 90 days or less.

16. FINANCIAL RISK MANAGEMENT DISCLOSURES (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 statements of financial position 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 commodity and equity price risk.

(i) Interest rate risk

Interest rate 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. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on the fair values or future cash flows of the financial instruments as of March 31, 2012. 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.

Based on the above, net exposures as at March 31, 2012; with other variables unchanged, a 1% strengthening (weakening) of the Canadian dollar against the Mongolian tugrug would not have a material impact on earnings with other variables unchanged. A 1% strengthening (weakening) of the US dollar against the Canadian dollar would not have a material impact on net loss. The Company currently does not use any foreign exchange contracts to hedge this currency risk.

16. FINANCIAL RISK MANAGEMENT DISCLOSURES (Continued)

(c) Market risk (continued)

(iii) Commodity and equity price risk

The Company holds investments in available-for-sale that fluctuate in value based on market prices. Based upon the Company's investment position as at March 31, 2012, a 10% increase (decrease) in the market price of the investments held would have resulted in an increase (decrease) to comprehensive income (loss) of approximately $381,310. The Company also holds investments in exchange traded funds. Based on Platinum investment position at March 31, 2012, a 10% increase (decrease), net of tax the market price of the investments held would have resulted in an increase (decrease) to comprehensive income (loss) of approximately $389,788. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in value may be significant.

17. RELATED PARTY DISCLOSURES

Details of 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) Energy Investment Capital, a private company owned by Jivko Savov, Director of the Company and provides consulting service.

(b) J. P. McGoran and Associates Ltd., a private company controlled by John McGoran, a former director of the Company and provides geological consulting services.

(c) JWL Investment Corp., a private company owned by Joseph Li, a General Manager, Corporate Secretary and Director of the Company and Platinum and provides management services.

(d) Linx Partners Ltd., a private company controlled by John Lee, Director, CEO and Chairman of the Company, and Chairman and Director of Platinum, and provides management and consulting services for the Company and Platinum. The Company entered into a rental contract with Linx Partners Ltd. on April 1, 2011 to rent an apartment in Ulaanbaatar for $2,000 per month.

(e) MaKevCo Consulting Inc., a private company controlled by Greg Hall, Director of the Company and Platinum, and provides consulting and management services.

(Unaudited) (Expressed in Canadian Dollars)

17. RELATED PARTY DISCLOSURES (Continued)

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

(g) The Elysian Enterprises Inc., a private company owned by David Patterson, Director of the Platinum and provides consulting and management services.

(h) The Cantech Capital Corporation, a private company owned by Donald Gee, Director of the Platinum and provides consulting and management services.

The Company's related party general and administrative expense is as follows:

	Three months ended March 31,			
Related parties		2012		2011
Energy Investment Capital (a)		26,239		-
J. P. McGoran and Associates Ltd. (b)		-		7,500
JWL Investment Corp. (c)		42,000		-
Linx Partners Ltd. (d)		150,000		120,000
MaKevCo Consulting Inc. (e)		44,500		-
The Energy Gateway (f)		32,202		48,000
Elysian Enterprises Inc. (g)		3,000		-
Cantech Capital Corp. (h)		2,500		-
Key management personnel		78,333		71,306
	$	378,774	$	246,806

A summary of the expenses by nature among the related parties is as follows:

	Three months ended March 31,			
Related parties		2012		2011
Consulting and management fees	$	269,922	$	230,900
Director fee		69,150		4,206
Salaries and benefits		7,500		11,700
Mineral properties and P&E		32,202		-
	$	378,774	$	246,806

Prophecy shares management, administrative assistance, and office space with Platinum pursuant to a Service Agreement signed January 1, 2012 for fixed monthly fees of $40,000. Prophecy Coal recovers costs for services rendered to Platinum and expenses incurred on behalf of Platinum. The terms of the Service Agreement will remain in effect until 30 days following written notice of termination.

At March 31, 2012, accounts payable includes $25,521 (December 31, 2011 - $92,362) owing for reimbursable expenses to companies with common officers and directors, and $15,000 (December 31, 2011 - $3,560) due to directors of Platinum for director fees.

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

(Unaudited) (Expressed in Canadian Dollars)

18. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management of the Company comprises executive and non-executive directors, senior management and the corporate secretary. The remuneration of directors and other members of key management were as follows:

		March 31, 2012		March 31 2011
Salaries and short-term employee benefits	$	296,828	$	259,061
Share-based payments		85,759		61,000
Total key management personnel compensation	$	382,587	$	320,061

19. SUPPLEMENTAL CASH FLOW INFORMATION

		Three months ended March 31, 2012		2011
Supplementary information				
Interest paid	$	56,511	$	83,334
Non-Cash Financing and Investing Activities				
Capitalized amortization for fixed assets		893,197		-
Property and equipment expenditures included in accounts payable		45,364		-
Mineral property expenditures included in accounts payable		271,504		488,690
Share-based payments capitalized in property and equipment		11,434		60,322
Share-based payments capitalized in mineral properties		85,772		333,664

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. At March 31, 2012, the Company has the following annual contracted commitments:

2012	$	61,172
2013		61,172
2014		63,641
2015		63,641
2016		21,214
	$	270,840

Commitments related to mineral properties are disclosed in the Note 10.

21. EVENTS AFTER THE REPORTING DATE

The following events occurred subsequent to March 31, 2012:

(a) 230,000 stock options were granted to employees of Platinum and vest 50% at the end of each year for two years.

(b) The amendment to the expiry dates of the 6,606,544 warrants held by arm's length parties became effective on April 5, 2012. 223,650 of these warrants are held by insiders and will be amended with the approval of the disinterested shareholders of the Company at the annual shareholders meeting scheduled on June 11, 2012.

(c) Platinum sold 1,600 units of platinum ETFs and 3,800 units of palladium ETFs with an average cost of $243,324 USD and $242,642 USD respectively for total proceeds of $497,188 USD for a realized gain of $11,222.

(d) Platinum and Ursa have signed a definitive agreement (the "Arrangement Agreement") in connection with the business combination (the "Transaction") announced in their joint news release dated March 1, 2012. Platinum has agreed to issue one common share for each 25 common shares of Ursa held.

As a result of the Transaction, the Ursa securityholders will become Prophecy securityholders, Ursa will become a wholly owned subsidiary of Prophecy and Ursa will apply for voluntary delisting of its common shares from the Toronto Stock Exchange. Following the Transaction, Prophecy will have a total of approximately 58.7 million shares issued and outstanding, as well as options and warrants entitling holders to purchase approximately 8.2 million common shares. The Transaction is subject to customary conditions, including receipt of regulatory, shareholder and court approvals.

Prophecy
Coal Corp.

Interim Management's Discussion and Analysis of Financial Condition and Results of Operations

For the three months ended March 31, 2012
(Expressed in Canadian Dollars)

CONTENTS

This Interim Management's Discussion and Analysis ("MD&A") provides a review of the significant developments and issues that influenced Prophecy Coal Corp. ("Prophecy" or the "Company") during the three months ended March 31, 2012. This MD&A should be read in conjunction with the condensed interim consolidated financial statements of the Company for the three months ended March 31, 2012 (prepared in accordance with International Financial Reporting Standards or "IFRS") and the audited annual consolidated financial statements of the Company for the year ended December 31, 2011 (prepared in accordance with IFRS). This MD&A also incorporates certain disclosure about the Company's 48.6% owned affiliate Prophecy Platinum Corp., ("Platinum").

This MD&A was reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on May 11, 2012. The information contained within this MD&A is current to May 14, 2012.

Forward-looking statements

Certain statements contained in this 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 MD&A include, without limitation, statements regarding the permitting, feasibility, plans for development and production of the Company's Chandgana Power Plant, including finalizing of any power purchase agreement, the likelihood of securing project financing, estimated future coal production at the Ulaan Ovoo coal mine and the Chandgana Coal properties, 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 profitable mineral production, risks related to development and production of the Company's Ulaan Ovoo coal mine without the benefit of having completed a feasibility study, risks related to the feasibility 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 a developing nations such as Mongolia, 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, unexpected changes in laws, and unanticipated environmental impacts on operations and costs to remedy same.

Assumptions underlying our expectations regarding forward-looking statements or information contained in this 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 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.

(Expressed in Canadian Dollars)

2. Introduction

Prophecy is 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.

General Corporate Information

At March 31, 2012 and May 15 2012, the Company had: (i) 225,052,797 and 225,062,297 common shares issued and outstanding, respectively; (ii) 26,743,050 and 26,730,550 stock options for common shares outstanding, respectively; and (iii) 10,339,927 warrants outstanding common shares.

Head office
2nd floor, 342 Water Street, Vancouver, BC, V6B 1B6
+1-604-569-3661

Registered office
1500 Royal Centre, 1055 West Georgia Street, P.O. Box 11117, Vancouver, BC V6E 4N7

Share Information
Common shares of Prophecy Coal Corp. are listed for trading under the symbol "PCY", OTC-QX under symbol "PRPCF", and Frankfurt Stock Exchange under symbol "1P2".

Transfer Agents and Registrars
Computershare Investor Services Inc.
3rd Floor, 510 Burrard Street
Vancouver, BC Canada
V6C 3B9
Tel: +1-604-661-9400

Investor Information
All financial reports, news releases and corporate information can be accessed on our web site at www.prophecycoal.com

Contact Information
Investors: Chris Ackerman
Media requests and queries:
+1.604.569. 3690 ext. 110
(Vancouver, Canada)
info@prophecycoal.com

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
Jivko Savov	Irina Plavutska, Interim CFO
Michael J Deats	Paul Venter, VP Energy Operations
Chuluunbaatar Baz	Christiaan Van Eeden, VP Mining Operations and Country Manager
Paul Venter	Patrick Langlois, VP Corporate Development
Greg Hall	Joseph Li, General Manager & Corporate Secretary
Paul McKenzie	
Joseph Li	

Audit Committee	***Compensation Committee***	***Corporate Governance Committee***
Greg Hall	John Lee	John Lee
Paul Venter	Greg Hall	Greg Hall
Paul McKenzie	Paul McKenzie	Paul McKenzie

Qualified Person

Mr. Christopher Kravits, LPG, CPG, a qualified person for the purposes of National Instrument (NI) 43-101. Mr. Kravits is not considered independent of the Company given the large extent that his professional time is dedicated solely to the Company.

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

3. Adoption of International Financial Reporting Standards (IFRS)

Prophecy's unaudited condensed interim consolidated financial statements and the financial data included in this 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"). The Company adopted IFRS with a transition date of January 1, 2010. The first audited annual consolidated financial statements have been prepared in accordance with IFRS standards and interpretations effective as of December 31, 2011, which significant accounting policies are described in Note 3 to the annual consolidated financial statements. The adoption of IFRS does not impact the underlying economics of Company's operations or its cash flows. Note 25 to the annual consolidated financial statements contains a detailed description of the Company's adoption of IFRS.

4. Q1 2012 Highlights and Significant Events

- The Company closed a non-brokered private placement of 22,363,866 shares at a price of $0.45 per share to raise aggregate gross proceeds of $10,063,740.

- The Company cancelled a proposed dealer debt facility of $5 million announced on December 30, 2011.The Company repaid the $800,000 loan due to Platinum, pursuant to a $2 million inter-company loan facility announced on December 30, 2011 plus $15,189 in interest income, and subsequently cancelled the inter-company loan facility agreement.

- The Company granted 3,000,000 stock options to directors, consultants, and employees of the Company with an exercise price of $0.49 per share for a period of five years. Platinum granted 330,000 stock options to a director, consultants, and employees of Platinum and vest 50% at the end of each year for two years, and vest 50% fifteen months from grant date, and the remaining 50% vest twenty-seven months from the grant date. The Company granted 320,000 stock options to consultants and employees of the Company with exercise prices ranging $0.46 and $0.43 per share for a period of five years.

- Platinum paid $1,000,000 to Victory Nickel Corp. pursuant to the terms of the mineral property option agreement. Platinum and Ursa Major Minerals Incorporated ("Ursa") (TSX: UML) entered into a letter of agreement ("Letter of Agreement") whereby Platinum will acquire all of the issued and outstanding shares of Ursa in exchange for shares of Platinum on the basis of 25 shares of Ursa for 1 share of Platinum. In connection with the Letter of Agreement, Platinum subscribed for 16,666,667 common shares of Ursa at gross proceeds $0.06 per share for gross proceeds of $1,000,000. The use of the proceeds shall be confined to payment of current accounts payable, general working capital purposes and expenditures on the mineral properties of Ursa for the purposes of developing such properties. The acquisition of Ursa has not yet closed and is subject to the approval of the TSX Venture exchange, Ursa's shareholders and the Ontario Superior Court of Justice. Additional information on Ursa as a publicly listed company is available on the SEDAR website, www.sedar.com.

- The Company extended the expiry dates of certain outstanding warrants. The subject warrants were originally issued during March 2010, April 2010 and September 2010, with original expiry dates of eighteen months and two years from issuance date. The new expiry dates will provide a one year extension.

4. Q1 2012 Highlights and Significant Events (Continued)

Subsequent to March 31, 2012:

- 230,000 stock options were granted to employees of Platinum and vest 50% at the end of each year for two years.
- Platinum and Ursa have signed a definitive agreement ("Arrangement Agreement") on April 16, 2012 in connection with the business combination ("Transaction") to issue one common share for each 25 common share of Ursa held. As a result of the Transaction, the Ursa securityholders will become Platinum securityholders, Ursa will become a wholly owned subsidiary of Platinum and Ursa will apply for voluntary delisting of its common shares from the Toronto Stock Exchange. Following the Transaction, Platinum will have a total of approximately 58.7 million shares issued and outstanding, as well as options and warrants entitling holders to purchase approximately 8.2 million common shares.

5. Business Overview

Prophecy in its current form is primarily the product of an April 2010 business combination between Red Hill Energy Ltd. (at the time TSX.V ‐ RH) and a company formed in 2006, Prophecy Resource Corp. ("Old Prophecy"). Under that merger Red Hill was the successor legal entity which is herein referred to as the "Corporation". Under that 2010 business combination Old Prophecy was merged with a subsidiary of Red Hill and then Red Hill's name was changed to Prophecy Resource Corp. and, in 2011, to Prophecy Coal Corp. Red Hill was incorporated on November 6, 1978 under the Company Act (British Columbia) under the name "Banbury Gold Mines Ltd." Banbury changed its name to "Enerwaste Minerals Corp. "on December 17, 1993, Enerwaste changed its name to "Universal Gun-Loc Industries Ltd.". On April 24, 2002, Universal Gun-Loc changed its name to "UGL Enterprises Ltd." and to Red Hill Energy Inc on April 16, 2006. On May 10, 2005, the Corporation, as UGL, transitioned under the new (2004) Business Corporations Act (British Columbia) ("BCBCA") which is the corporate law statute which continues to govern the Corporation. On April 16, 2010, the Corporation (then Red Hill) changed its name to "Prophecy Resource Corp." in conjunction with the Red Hill merger. On June 13, 2011, the Corporation changed its name to "Prophecy Coal Corp." in connection with an asset spin-off to capitalize our controlled affiliate (initially approximately 53.2% controlled, now 48.6%), publicly traded Prophecy Platinum Corp. further described herein.

Prophecy is a reporting issuer in the provinces of British Columbia, Alberta, and Ontario. The Corporation's common shares (the "Shares" or "Prophecy Shares") are listed for trading on the Toronto Stock Exchange ("TSX" or the "Exchange") under the symbol "PCY". The common shares of Platinum trade on the TSX Venture Exchange under the symbol "NKL". Prophecy currently has six wholly-owned subsidiaries (the "Subsidiaries") and one 48.6% controlled publicly-traded affiliate, Platinum.

The number of Platinum's common shares outstanding at March 31, 2012 was 55,453,543. For the three months ended March 31, 2011 Platinum has incurred net loss of $2,742,450. The loss was mainly due to non-cash share-based payment expense of $2,195,271. (Note 13 in the condensed consolidated interim financial statements). Additional information on Platinum is available on the SEDAR website, www.sedar.com or at Platinum's website at http://prophecyplat.com.

5. Business Overview (Continued)

5.1 Resource Properties

As of March 31, 2012, 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).

Ulaan Ovoo Coal Mine

Prophecy (Red Hill at the time) entered into a letter of intent, dated November 24, 2005, as amended February 19, 2006, with Ochir LLC and a wholly owned subsidiary of Ochir LLC, both privately owned Mongolian companies, that set out the terms to acquire a 100% interest in the Ulaan Ovoo Property. The purchase price for the 100% interest, together with all equipment, buildings and other facilities, assembled and constructed at the Ulaan Ovoo Property was US$9,600,000. The purchase price has been paid in full by Prophecy. Ochir LLC retained a 2% royalty on production from licenses, which was subsequently assigned to a third party.

On November 15, 2006, Prophecy entered into an agreement with a private Mongolian company to purchase 100% of the 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% net smelter return royalty on the five newly acquired licenses. On April 29, 2009, Prophecy announced positive pre-feasibility study results for the Ulaan Ovoo Property.

On March 11, 2010, Prophecy entered into a royalty purchase agreement, dated for reference March 5, 2010, with Dunview Services Limited, a private British Virgin Islands company holding a 2% royalty on production from the licenses of the Ulaan Ovoo Property, to acquire such royalty in full in exchange for US$130,000 and the issuance of 2,000,000 Prophecy Shares. This transaction was completed on April 30, 2010.

Ulaan Ovoo site establishment commenced on July 13, 2010. In October 2010, Prophecy provided 10,000 tonnes of coal as a trial run to power stations in Darkhan and Erdenet, Mongolia's second and third largest cities, respectively, behind its capital Ulaanbaatar. At the request of the Mongolian Ministry of Mineral Resources and Energy, Prophecy commenced mining and trucked the first coal shipment to Sukhbaatar rail station, ready to be transported to Darkhan power plant by rail.

On November 9, 2010, Prophecy received the final permit to commence mining operations at the Ulaan Ovoo. On December 16, 2010, Prophecy received the Ulaan Ovoo PFS, an updated prefeasibility study on the Ulaan Ovoo Property. The focus of the Ulaan Ovoo PFS was for the development of low ash coal reserves in the form of a starter pit.

(Expressed in Canadian Dollars)

5. Business Overview (Continued)

5.1 Resource Properties

The estimated resources, reserves, coal quality, and other mine characteristics of the Ulaan Ovoo coal mine are as follows:
Table 1

Resources mt	Reserves mt	Life of Mine years	Heating Value kcal/kg	Ash wt, %	Moisture wt, %	Strip Ratio BCM/t
209	20.7	10.7	5,040	11.3	21.7	1.8

Resources are from the 2006 Behre Delbear NI 43-101 report. All resources are in the measured and indicated reliability categories. Reserves, life of mine, coal quality, and strip ratio are from the 2010 Wardrop pre-feasibility report. This study was prepared for a starter pit and only considered the resource area north of the Zelter River. Coal reserves and qualities given in the above table are stated on a Run-of-Mine (ROM) basis and take into account mining loss and rock dilution at coal/rock interfaces. Coal quality is stated on the as-received basis. Proven reserves are of Low Ash (high grade) coal.

The Behre Dolbear and Wardrop studies for the Ulaan Ovoo coal mine are filed and available on www.sedar.com.

Operation Statistics: The mine, which started operations in November 2010 through its mining contractor, Leighton Asia Limited ("Leighton") and later, under its own management, has removed and stockpiled approximately 2.44 million bank cubic metres ("BCM") of topsoil and overburden (waste), and produced nearly 472,000 tonnes of coal of different grades of which 396,000 tonnes is saleable coal. The Company discontinued its mining contract with Leighton in August 2011 to reduce mining costs. The Company then recruited and trained its own employees to mine at the Ulaan Ovoo mine.

The Company secured a rail siding at Sukhbaatar with capacity of 40,000 tonnes. During 2011, the Company has trucked 126,359 tonnes of coal from the mine to the rail siding. During the three months ended March 31, 2012, the Company has trucked 59,208 tonnes of coal.

Since June 2011, the supply of diesel fuel was rationed in Mongolia due to reduced supplies from Russia. 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. The Company closely monitored its diesel supply to optimize mining production rates and coal transportation activities for the remainder of 2011. Since the mine was still in pre-commercial production status, revenue from coal sales and the related cost of production were being charged against and capitalized to property and equipment, respectively.

Prophecy has completed a geologic model of the two Ulaan Ovoo licenses. This model was used to develop mine plans and schedules for use in near and long term mine management and coal marketing.

In August 2011, the Company signed coal sales agreements with Mongolian and Russian power plants for total sales of 92,000 tonnes. During 2011, the Company sold 133 632 tonnes of coal of two grades - 4,200 GCV and 5,100 GCV (arb.) to both Mongolian and Russian companies. The Company has contracts to deliver an additional 228,388 tonnes in 2012, the majority of which is to be delivered to the Darhan and Erdenet power plants in Mongolia. For the three months ended March 31, 2012, the Company sold 68,465 tonnes of coal.

5. Business Overview (Continued)

5.1 Resource Properties (Continued)

Equipment: During the year ended December 31, 2011, the Company acquired its two fleets of mining equipment for $14.3 million and made equipment deposits for $2.1 million. During three months ended March 31, 2012, the Company acquired the remaining equipment. During the year ended December 31, 2011 and three months ended March 31, 2012 the Company received the following mining equipment:

One CAT 390 Excavator, one CAT 385C Excavator, six CAT 773D Dump Trucks, two CAT D8R Dozers, one CAT 160K Grader, one CAT 160H Grader, one CAT 928G Loader, two Liebherr 580 Loaders, eighteen Scania 32m30t Tipper trucks, two Nissan Water Trucks (for purpose of road maintenance), four 20t Nissan tipper trucks, one road roller, diesel generating and lighting plants and other equipment.

2012 Outlook: The Company is trying to increase sales to Russia which are at higher selling prices. If the Company succeeds then it will increase its production accordingly.

The Company is working with Russian partners and the Buryiat Province government in Russia to open the Zheltura border post (approximately 15 km from the mine) 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 also working closely with the Selenge provincial government of Mongolia to obtain approval from the Mongolian government to open Zheltura. While selling coal through the Russian eastern seaports proved to be complex and difficult in 2011, we will further pursue this option in the latter part of 2012.

On the strategic front, the Company has received interest from potential joint venture partners to assist in the development of Ulaan Ovoo, which speaks to the merit of the project.

New Discovery near Ulaan Ovoo Coal Mine

On August 17, 2011, the Company announced that it has intercepted an aggregate of 19-meters of coal during drilling 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 depth and significant thickness, the coal seam has the potential to be mineable by surface methods. The lack of nearby rivers and forests increase the attractiveness of these licenses. This new information is being reviewed and additional surface mapping and other work will be performed to plan additional exploration.

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.

(Expressed in Canadian Dollars)

5. Business Overview (Continued)

5.1 Resource Properties (Continued)

Chandgana Coal Properties

The Chandgana properties consist of the Chandgana Tal ("Tal") and Khavtgai Uul ("Khavtgai") (formerly named Chandgana Khavtgai) properties which are within nine kilometres of each other in the Nyalga Coal Basin in east central Mongolia. On November 22, 2006 Prophecy (then Red Hill) entered into a letter agreement with a private Mongolian company that set out the terms to acquire a 100% interest in the Tal property. On August 7, 2007, Prophecy (then Red Hill) entered into a letter agreement with another private Mongolian company that set out the terms to acquire a 100% interest in the Khavtgai property. The Chandgana properties consist of exploration and mining licenses, located in the Nyalga coal basin, approximately 280 km east of Ulaan Bataar, and are nine kilometres apart. Under the terms of the Chandgana Khavtgai agreement, Prophecy paid a total of US$570,000.

In June, 2010, Prophecy completed a 13 drill hole, 2,373 metre resource expansion drilling program on the Khavtgai property, including 1,070 metres of core drilling, and five lines of seismic geophysical survey for a total of 7.4 line km.

An NI 43-101 technical report dated September 11, 2007 was prepared for the Chandgana Tal property by Behre Dolbear (the "Behre Dolbear Report"), and is filed on SEDAR. On February 8, 2011, the Company received a full mining license from the Mineral Resources Authority of Mongolia for the Tal property. The Company engaged Leighton Asia LLC to prepare a scoping level mine study for the Tal property which was completed in December 2011. The Company is positioned to apply for a mining permit which may be received as early as 90 days from submittal of the application.

An updated NI 43-101 technical report on the 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 Khavtgai property prepared by Mr. Kravits dated January 9, 2008, which was also filed on the SEDAR system. Details of the Chandgana Coal Properties are summarized in the following table:

Table 2. Details of the Chandgana Properties

	Resources Measured, mt	Resources Indicated, mt	Total mt	Gross Heating Value, kcal/kg	Ash, %	Sulfur, %	Strip Ratio, BCM/t	Average Gross Coal Seam Thickness, m	License Status
Khavtgai	509.3	538.8	1,048.1	4,379	12.18	0.72	2.2 : 1	37.5	Exploration
Tal	141.3		141.3	4,238	12.49	0.68	0.53 : 1	53.9	Mining
Total	650.6	538.8	1,189.4						

Coal quality is for the in-place coal and is given on the air-dried basis.

The Khavtgai coal resource area contains a significant coal resource. The coal seams are thick and the strip ratio is low such that surface mining methods appear best suited to recover the coal. The coal is of moderate grade and low rank and appears suitable for use as a thermal coal but the large size of the resource and moderate grade suggest the resource may also be suitable for use as a conversion feedstock.

During the three months ended March 31, 2011, the Company incurred a total of $1,835,929 (same period last year 2011 - $88,730) exploration expenditures at the Chandgana Coal Properties.

5. Business Overview (Continued)

5.1 Resource Properties (Continued)

Chandgana Power Plant Project

The Power Plant Project is next to the Baganuur to Undurkhaan paved road and within 150 km of the Central Mongolian Railroad, which can facilitate transport of construction equipment. The Project is within 150km of the Bagaanuur interconnect to the central electricity transmission grid and 50 km to the Undurhaan interconnect to the eastern electricity transmission grid.

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. The DEIA was prepared by an independent Mongolian environmental consulting firm which considered social and labour issues, climate and environmental circumstances specific to the proposed power plant. According to the study, there are no major impediments to the project.

On November 15, 2011, the Company received the license certificate from the Mongolian Energy Regulatory Authority to construct the 600 MW (150 MW x 4) Chandgana power plant. This is the largest thermal power plant license ever issued by the Mongolian government and the first to an independent power producer. To ensure strict compliance with Mongolian laws and regulations in obtaining this license, Prophecy retained a number of Mongolian and international consultants over the past 18 months. Considerable efforts were also spent on community relations. An English translation of the license is filed at www.sedar.com on December 14, 2011.

2012 Outlook: The Company has been in discussion with a number of potential engineering, procurement and construction ("EPC") contractors with the goal of finalizing EPC selection as soon as possible. The Company's goal is to sign an EPC contract and power purchase agreement ("PPA") by mid-year 2012, and conclude project financing by the end of 2012. There can be no assurances given that these events will occur when targeted or at all.

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.

Titan Vanadium Iron Property

The Company has 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

(Expressed in Canadian Dollars)

5. Business Overview (Continued)

5.1 Resource Properties (Continued)

Platinum (48.6% owned) Projects

Wellgreen Nickel Property

The Wellgreen property is located approximately 35 km northwest of Burwash Landing in the Yukon, 320 km from Whitehorse, 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.

From a July 2011 independent NI 43-101 compliant resource calculation completed by Wardrop Engineering, a Tetra Tech Company, the Wellgreen deposit is estimated to contain 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. A 0.4% nickel equivalent cutoff grade was adopted for reporting. The resource estimate incorporated drill data from 701 diamond drill holes (182 surface and 519 underground) totalling over 53,222 metres. 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. 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:

Table 3: Summary Wellgreen indicated and inferred resource

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**

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 neighbor (NN) and composites;
- Swath Plots comparing NN estimates and OK estimates;
- 701 drill hole database used compiling over 12,000 assays.

(Expressed in Canadian Dollars)

5. Business Overview (Continued)

5.1 Resource Properties (Continued)

Table 4
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.

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 Platinum website at http://www.prophecyplat.com

Platinum continues to test a 150 kg metallurgical sample announced in September 2011. Results of its preliminary tests are published on the Platinum website on May 10, 2012.

The conclusion of a Preliminary Economic Assessment ("PEA") that was announced in early September 2011 is expected in Q2 2012 The PEA will examine the Wellgreen deposit in the context of an open pit project and determine preliminary economics for the project.

An underground drilling program that commenced in January 2012 continues, with a total of 3,000 meters of a planned 9,000 meters completed to date. This program is designed as an infill program to move material from the Inferred category to the Measured and Indicated categories as standardized by NI43-101. First results of this program will be released in May 2012. A supplemental surface program of 7,000 meters of drilling is also planned and is slated to commence in Q2 of 2012.

Danniel Oosterman, P. Geo., a consultant of the Company, is the Qualified Person under National Instrument 43-101 who has approved the technical content above.

During the three months ended March 31, 2011, the Company and Platinum incurred a total of $1,542,337 exploration costs (Q1 2011 - $1,536,662).

(Expressed in Canadian Dollars)

5. Business Overview (Continued)

5.1 Resource Properties (Continued)

Burwash Property

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

On August 4, 2011, the Company entered into a purchase 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 (paid). 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.

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.

Lynn Lake Nickel Property

From an updated resource estimate released in April 2011, 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, the updated resource estimated stated that 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 Table 5:

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**

Platinum received final results for its metallurgical study on the amenability Lynn Lake mineralization to the bioleach process, achieving nickel extractions in excess of 95% using a moderate grind and leach temperature, whereas high copper recoveries generally require finer grinding and higher temperatures. The study was completed by Mintek in South Africa and overseen by Andy Carter, Manager of Metallurgical Engineering for Tetra Tech Inc.

Danniel Oosterman, P. Geo., a consultant of the Company, is the Qualified Person under NI 43-101 who has approved the technical content above.

(Expressed in Canadian Dollars)

5. Business Overview (Continued)

5.1 Resource Properties (Continued)

Uruguay 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 December 31, 2011, $707,450 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 year 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.

Table 6. 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.

5. Business Overview (Continued)

5.1 Resource Properties (Continued)

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.

The letter agreement with Marifil was amended in April 2012, with Platinum requesting an extension to incur exploration expenditures in lieu of shares.

Danniel Oosterman, P. Geo., a consultant of Platinum, is the Qualified Person under National Instrument 43-101 who has approved the technical content above.

(Expressed in Canadian Dollars)

6. Summary of Quarterly Results

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

	2012-IFRS	2011 - IFRS		
	Mar-31	Dec-31	Sep-30	Jun-30
Operating expense	$ (4,334,233)	$ (3,206,240)	$ (5,196,343)	$ (2,076,826)
Loss Before Other Items and Deferred Income Tax Recovery	(4,334,233)	(3,206,240)	(5,196,343)	(2,076,826)
Other items	(1,710,416)	2,199,362	494,235	119,127
Loss Before Deferred Income Tax Recovery	(6,044,649)	(1,006,878)	(4,702,107)	(1,957,699)
Future income tax recovery	121,461	448,687	-	-
Net Loss for Period	(5,923,188)	(558,191)	(4,702,107)	(1,957,699)
Fair value gain (loss) on available-for-sale investments	872,988	(240,610)	(808,025)	(1,998,493)
Comprehensive Loss for Period	(5,050,200)	(798,801)	(5,510,132)	(3,956,192)
Net Income Loss for Period Attributable to:				
Owners of the parent	(4,513,569)	567,571	(3,233,347)	(1,915,765)
Non-controlling interest	(1,409,619)	(1,125,761)	(1,468,760)	(41,934)
	(5,923,188)	(558,191)	(4,702,107)	(1,957,699)
Comprehensive Loss for Period Attibutable to:				
Owners of the parent	(4,911,616)	425,073	(4,041,372)	(3,914,258)
Non-controlling interest	(1,884,090)	(1,223,872)	(1,468,760)	(41,934)
	$ (5,050,200)	$ (798,801)	$ (5,510,132)	$ (3,956,192)
Share Information				
Net Loss per share, basic and diluted attributable to owners of the Company				
Owners of the parent	$ (0.02)	$ 0.00	$ (0.02)	$ (0.01)
Non-controlling interest	(0.01)	(0.01)	(0.01)	(0.00)
Comprehensive Loss per share, basic and diluted attributable to owners of the Company				
Owners of the parent	(0.02)	0.00	(0.02)	(0.02)
Non-controlling interest	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.00)
Average number of common shares outstanding for the period, basic and diluted	199,587,605	195,035,960	195,008,886	190,228,186

	2011-IFRS	2010 - IFRS		
	Mar-31	Dec-31	Sep-30	Jun-30
Operating expense	$ (2,480,260)	$ (432,436)	$ (2,132,058)	$ (1,646,450)
Loss Before Other Items and Future Income Tax Recovery	(2,480,260)	(432,436)	(2,132,058)	(1,646,450)
Other items	(75,512)	76,872	(43,302)	2,106
Loss Before Future Income Tax Recovery	(2,555,772)	(355,564)	(2,175,360)	(1,644,344)
Future income tax recovery	-	-	-	-
Net Loss for Period Attributable to Owners	(2,555,772)	(355,564)	(2,175,360)	(1,644,344)
Fair value gain (loss) on available-for-sale investments	1,632,308	(732,308)	-	-
Comprehensive Income (Loss) for Period	(923,464)	(1,087,872)	(2,175,360)	(1,644,344)
Net Income (Loss) for Period Attributable to:				
Owners of the parent	(2,555,772)	(1,087,872)	(2,175,360)	(1,644,344)
Non-controlling interest	-	-	-	-
	(2,555,772)	(1,087,872)	(2,175,360)	(1,644,344)
Comprehensive Loss for Period Attibutable to:				
Owners of the parent	(923,464)	(1,087,872)	(2,175,360)	(1,644,344)
Non-controlling interest	-	-	-	-
	(923,464)	(1,087,872)	(2,175,360)	(1,644,344)
Share Information				
Net Loss per share, basic and diluted attributable to owners of the Company	$ (0.01)	$ (0.00)	$ (0.02)	$ (0.02)
Comprehensive Loss per share, basic and diluted attributable to owners of the Company	$ 0.00	$ (0.01)	$ (0.02)	$ (0.02)
Average number of common shares outstanding for the period, basic and diluted	188,310,157	131,277,270	108,738,115	95,282,588

6. Summary of Quarterly Results (Continued)

Prior year foreign exchange loss/gain figures have been reclassified from Expenses to the Other Items category to conform to the current year's presentation. Such reclassification is for presentation purposes only and has no effect on previously-reported results.

In Q2 2010, the Company completed the acquisition of Prophecy Holdings Inc., and the increase in net loss attributable to shareholders of the Company to $1,644,344 or $0.02 per share for this quarter, compared to $422,904 or $0.01 per share for Q1 2010 was primarily due to increase in consulting and management fees as the Company accelerated plans to develop the Ulaan Ovoo mine and the Chandgana coal projects.

In Q3 2010, the Company completed the acquisition of Northern Platinum Ltd. Net loss attributable to shareholders of the Company increased to $2,175,360 or $0.02 per share. The increase in net loss in Q3 2010 was primarily due to share-based payments and increase in professional fees.

In Q4 2010, net loss attributable to shareholders of the Company decreased to $355,564 or $nil per share due to the absence of share-based payments and a credit adjustment related to charges made in the third quarter. The comprehensive loss in Q4 2010 includes loss on available-for-sale investments of $732,308.

The increase in net loss attributable to shareholders of the Company to $2,555,772 or $0.01 per share in Q1 2011, compared to Q4 2010, was primarily due to non cash share-based payments that arose from stock options granted in December 2010 and some increases in salaries and office administration.

The decrease in net loss attributable to shareholders of the Company to $1,915,765 or $0.01 per share in Q2 2011, from $2,555,772 or $0.01 per share in Q1 2011, was due to decrease in share-based payments and office administration expenses.

In Q3 2011 the increase in net loss attributable to shareholders of the Company to $3,233,347 or $0.02 per share in Q3 2011, from $1,916,765 or $0.01 per share in Q2 2011 was mainly due to increase in non-cash share-based payment expense due to the accelerated vesting of directors' options. Additional increases related to increases to office administration expenses.

In Q4 2011 the net income attributable to shareholders of the Company increased from a loss $3,233,347 or $0.02 per share to a gain of $567,571 or $0.00 per share was mainly due to foreign exchange gains related to the translation of the foreign Mongolian subsidiaries, gains related to deferred income tax and the reduction in share-based payments expense.

In Q1 2012 the net loss attributable to shareholders of the Company changed from a gain of $567,571 or $0.00 per share to a loss of $4,513,569 or $0.02 per share was mainly due to foreign exchange losses related to the translation of the foreign subsidiaries operations and share based payments.

(Expressed in Canadian Dollars)

7. Discussion of Operations

All of the information described below is accounted for in accordance with IFRS. The reader is encouraged to refer to Notes 3 and 25 of the Company's annual consolidated financial statements for the year ended December 31, 2011 for the Company's IFRS accounting policies and a complete analysis and reconciliation of the Company's accounting under pre-transition Canadian GAAP to IFRS. Certain prior year figures have been reclassified to conform to the current year's presentation. Such reclassification is for presentation purposes only and has no effect on previously reported results. For discussion on each project, the reader is encouraged to refer to Business Overview section of this MD&A.

The following table summarizes the Company's consolidated results for three months ended March 31, 2012 and 2011:

		Three Months Ended March 31, 2012		Three Months Ended March 31, 2011
General and administrative expenses	$	509,884	$	299,995
Consulting and management fees		293,966		306,757
Share-based payments		2,461,237		1,340,353
Advertising and promotion		719,603		217,043
Professional fees		251,725		120,600
Travel and accommodation		97,817		195,512
Interest (income)		(19,875)		(51,203)
Interest expense		56,511		-
Foreign exchange loss		1,756,308		126,715
Future income tax recovery		(121,461)		-
Gain on sale of investments		(82,528)		-
	$	5,923,188	$	2,555,772

The Company incurred net loss for Q1 2012 of $ 5,923,188 compared to a $2,555,772 net loss incurred in the same quarter last year. The increase in operating loss is due to the factors discussed below.

General and administrative

For Q1 2012, general and administrative expense was $509,884 compared to $299,995 during the same reporting period last year. The increase in Q1 2012 was due primarily to increased salaries, director fees, stock exchange and shareholder services expenses, and new insurance coverage, substantially driven by greater administrative efforts necessary for the management of the Ulaan Ovoo mine development and management of Wellgreen project.

Consulting and management fees

For Q1 2012, consulting and management fees expense was approximately the same as during the same reporting period last year ($293,966 compared to $306,757 in 2011). Consulting and management fees include fees charged by officers of the Company.

7. Discussion of Operations (Continued)

Share-based Payments

For Q1 2012, share-based payment expense was $2,461,237 compared to $1,340,353 during the same quarter last year. The increase in share-based payment expense for the year is attributable to the inclusion of expenses from Platinum during Q1 2012. Platinum incurred $2,195,270 and the Company incurred $265,966 in stock compensation expenses during Q1 2012. The increase in expenses is because of the increased number of options granted by Platinum during 2011 and 2012. The stock compensation expenses of Platinum include the expenses of 6,915,000 options granted between Q2 2011 to Q1 2012, which are being subject to graded vesting under IFRS.

Advertising and promotion

For Q1 2012, advertising expense was $719,603 compared to $217,043 during the same reporting period last year. The increase in 2012 was due primarily to increased business development activities, such as conference, trade show attendance, publications, German advertising, Europe marketing, radio/TV interviews and other with ongoing affairs of the both public companies (Prophecy and Platinum), and to hiring of new investor relations individuals to accommodate the increased business operations of Platinum.

Professional fees

For Q1 2012, professional fees expense was $251,725 compared to $120,600 during the same reporting period last year. The increase in 2012 was due primarily to increase in audit and accounting fees ($169,570 compared to $25,100 in 2011) for the audit of the Company annual and review of the Platinum interim financial statements offset by decrease of legal fees of $13,853.

Travel and accommodation

For Q1 2012, travel and accommodation expense was $97,817 compared to $195,512 during the same reporting period last year. Travel and accommodation expense include travel by Vancouver staff to the Ulaan Baatar office to oversee the administration of the Ulaan Ovoo mine and the Chandgana coal projects. The decrease in 2012 was due to decrease in travel expenses by Vancouver staff.

Interest income

For Q1 2012, interest income was $ 19,875 compared to $51,203 during the same reporting period last year. Lower interest was reported due to lower investable funds and the amounts from private placement were in early March 2012. Interest income for the previous 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.

Interest Expense

Interest Expense includes structuring fees paid for a proposed dealer debt facility of $5 million announced on December 30, 2011 and then cancelled in Q1 2012.

Foreign exchange loss

For Q1 2012, foreign exchange loss was $1,756,308 compared to $126,715 loss during the same reporting period last year. The higher loss in 2012 arose from fluctuations in the value of the Canadian dollar compared with the Mongolian tugrik and the United States dollar. Foreign exchange loss was mainly the effect on translation of the operational results of foreign subsidiaries.

(Expressed in Canadian Dollars)

8. 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 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 industry.

8.1 Working Capital

The Company ended Q1 2011 with $ 6.9 million (December 31, 2011 - $3.5 million) in cash and cash equivalents and net working capital of $11.8 million (December 31, 2011 - $7.7 million).

As at the date of this report, the Company's working capital is approximately $6.7 million.

On March 8, 2012, the Company closed off the non-brokered private placement previously announced on March 1, 2012 of 22,363,866 shares at a price of $0.45 per share for net proceeds of $9,594,618. Finder's fees of 6% of the proceeds places, payable in cash, were paid on certain arm-length portions of the placement. All shares issued are subject to a hold period expiring on July 9, 2012. Proceeds of the placement will be applied to technical work at the Chandgana Thermal Coal Power Project, operations at the Ulaan Ovoo mine and general corporate purposes. From March 9 to March 31, 2012, the Company spent $0.8 million for Ulaan Ovoo mining operations and coal transportation.

8.2 Cash Flow Highlights

	Three month ended March 31, 2012	2011
Cash used in operating activities	$ (1,042,041)	$ (1,902,335)
Cash used in investing activities	(6,284,216)	(15,022,252)
Cash produced by (used in) financing activities	10,722,910	(2,654,952)
Decrease in cash for the period	3,396,653	(19,579,539)
Cash balance, beginning of the period	3,480,050	39,324,151
Cash balance, end of the period	$ 6,876,703	$ 19,744,612

8. Liquidity and Capital Resources (Continued)

8.3 Cash Flows for the quarters ended March 31, 2012 and 2011

Operating activities

During the period ended March 31, 2012, cash used in operating activities was $1.04 million compared to cash used of $1.9 million in the same period of 2011.

Investing activities

During the period March 31, 2012, $6.28 million (same period last year - $15.02 million) was used in investing activities, of which $3.03 million (same period last year - $12.28 million) was related to the acquisition of property and equipment, $4.50 million (same period last year - $0.98 million) was used for exploration expenditures incurred at the Company's mineral properties, $1.25 (same period last year – ($1.75)million) million was received/(paid) upon for investments transactions.

Financing activities

During the period ended March 31, 2012, a total of $10.72 million cash was received by financing activities compared to $2.65 million used in 2010). A total of $10.72 million was received from issuance of shares on the exercise of options and warrants, and cash was received from private placement. During the same period last year a total of $5 million was used to repay the loan which was offset by $2.4 million cash generated from issuance of shares on options).

Prophecy holds for investment purposes 36,615,385 common shares of Victory Nickel Inc. (TSX:NI) acquired in a reciprocal private placement, 5,000,000 common shares of Compliance Energy Corporation (US OTCBB CPYCF) acquired in a private placement and 26,971,621 common shares of its controlled affiliate Platinum (TSXV:NKL) acquired in connection with the Platinum Arrangement. The aggregate market value of the Company's marketable securities (including shares in Platinum) is approximately $48.4 million. The market value of such shares may go up and down.

Platinum investments:

After the period end certain EFTS were sold to meet working capital requirements. As of May 14, 2012 and the remaining EFTS and shares in Ursa Major are worth $ 1,434,010 and $ 1,333,333 respectively.

The Company does not currently have any material long term liabilities.

As at March 31, 2012, the Company had options exercisable and warrants outstanding, which could bring in additional cash funds of approximately $25 million although none all of these instruments are presently "in-the-money" (except at $0.25) and exercise is not certain.

On January 11, 2011 the Company fully repaid the $5 million secured debt facility incurred in September 2010 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.

(Expressed in Canadian Dollars)

8. Liquidity and Capital Resources (Continued)

8.4 Contractual Commitments

Prophecy commitments

On February 4, 2011, the Company entered into a new office rental agreement expiring April 30, 2016. At March 31, 2012, the Company has the following annual contracted commitments:

2012	$ 61,172
2013	61,172
2014	63,641
2015	63,641
2016	21,214
	$ 270,840

The Company's commitments related to mineral properties are as follows and disclosed in Note 10 to the condensed interim consolidated financial statements.

Ulaan Ovoo Property

On April 21, 2011, the Company entered into an Option Agreement ("the Agreement") with a private Mongolian company ("the Seller") holding an exploration license near Prophecy's Ulaan Ovoo coal property, pursuant to which Prophecy has been granted the right to acquire 100% ownership for US$2,000,000 within the first year, or US$4,000,000 in the second year of 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$500,000 before April 21, 2012; and
- US$3,300,000 before April 21, 2013, 50% payable in Prophecy shares.

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.

Platinum commitments

Lynn Lake Property

On October 20, 2009, Prophecy Holdings entered into an option agreement with Victory Nickel. Pursuant to the option agreement, Platinum 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 and 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.

8. Liquidity and Capital Resources (Continued)

8.4 Contractual Commitments (Continued)

Platinum commitments (Continued)

Lynn Lake Property (continued)

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

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

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

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

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 and issued);
- $75,000 and 250,000 shares on or before April 1, 2012;(paid and issued)
- $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 three months from the agreement date, complete a resource estimate (completed);
- On or before November 1, 2012 incur $500,000 in exploration expenditures;
- On or before October 1, 2013 incur $500,000 in exploration expenditures; and
- On or before July 1, 2014 incur $1,000,000 in exploration expenditures.

8.5 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.

8. Liquidity and Capital Resources (Continued)

8.5 Capital Risk Management (Continued)

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 year ended December 31, 2011. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements. 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.

9. Environment

The Company is subject to the Environmental Protection Law of Mongolia (the "EPL") and has the following duties with respect to environmental protection:

- To comply with the EPL and the decision of the government, local self-governing organizations, local governors and Mongolian state inspectors;
- To comply with environmental standards, limits, legislation and procedures and to supervise their implementation with their organization;
- To keep records on toxic substances, adverse impacts, and waste discharged into the environment; and
- To report on measures taken to reduce or eliminate toxic chemicals, adverse impacts, and waste.

In addition to those duties imposed on them by the EPL, mining license holders are required to prepare an initial environment impact assessment analysis before the mine comes into production. The mining license holders must also annually develop and implement an environmental protection plan (including reclamation measures) in co-operation with the Ministry of Nature, Environment and Tourism which should take into account the results of the environmental impact assessment.

The Company received approval of its detailed Environmental Impact Assessment and Environmental Protection Plan from the Mongolian Ministry of Nature and Environment for the mining operation at the Ulaan Ovoo in 2010. The Company has implemented a number of internal policies to embrace responsibility for the impact of its business activities on the environment. By conducting studies, carefully designing mine plans, implementing pollution control recommendations from internal and external sources, monitoring the effects of mining on mining areas and carefully designing mine closure plans, the Company seeks to minimize the impact of our activities on the environment.

The Company established an environmental policy in 2008. The environmental policy affirms the Company's commitment to environmental protection. The Company monitors its operations to ensure that it complies with all applicable environmental requirements, and takes actions to prevent and correct problems if needed.

Closure and reclamation liability results from the development, construction and ordinary operation of mining property, plant and equipment and from environmental regulations set by regulatory authorities. The liability includes costs related to removal and/or demolition of mine equipment, buildings and other infrastructure, removing contaminated soil, protection of abandoned pits and re-vegetation.

At March 31, 2011, the Company had a liability of $290,085 (same period last year - $103,652). The fair value of the closure and reclamation liability is estimated using a present value technique and is based on existing laws, contracts or other policies and current technology and conditions. Please refer to Note 12 of the condensed consolidated interim financial statements.

10. Related Party Disclosures

Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation. 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:

Details of 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) Energy Investment Capital, a private company owned by Jivko Savov, Director of the Company and provides consulting service.

(b) J. P. McGoran and Associates Ltd., a private company controlled by John McGoran, a former director of the Company and provides geological consulting services.

(c) JWL Investment Corp., a private company owned by Joseph Li, a General Manager, Corporate Secretary and Director of the Company and Platinum and provides management services.

(d) Linx Partners Ltd., a private company controlled by John Lee, Director, CEO and Chairman of the Company, and Chairman and Director of Platinum, and provides management and consulting services for the Company and Platinum. The Company entered into a rental contract with Linx Partners Ltd. on April 1, 2011 to rent an apartment in Ulaanbaatar for $2,000 per month.

(e) MaKevCo Consulting Inc., a private company controlled by Greg Hall, Director of the Company and Platinum, and provides consulting and management services.

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

(g) The Elysian Enterprises Inc., a private company owned by David Patterson, Director of the Platinum and provides consulting and management services.

(h) The Cantech Capital Corporation, a private company owned by Donald Gee, Director of the Platinum and provides consulting and management services.

(Expressed in Canadian Dollars)

10. Related Party Disclosures (Continued)

The Company's related party general and administrative expense is as follows:

	Three months ended March 31,			
Related parties		2012		2011
Energy Investment Capital (a)		26,239		-
J. P. McGoran and Associates Ltd. (b)		-		7,500
JWL Investment Corp. (c)		42,000		-
Linx Partners Ltd. (d)		150,000		120,000
MaKevCo Consulting Inc. (e)		44,500		-
The Energy Gateway (f)		32,202		48,000
Elysian Enterprises Inc. (g)		3,000		-
Cantech Capital Corp. (h)		2,500		-
Key management personnel		78,333		71,306
	$	378,774	$	246,806

A summary of the expenses by nature among the related parties is as follows:

	Three months ended March 31,			
Related parties		2012		2011
Consulting and management fees	$	269,922	$	230,900
Director fee		69,150		4,206
Salaries and benefits		7,500		11,700
Mineral properties and P&E		32,202		-
	$	378,774	$	246,806

Prophecy shares management, administrative assistance, and office space with Platinum pursuant to a Service Agreement signed January 1, 2012 for fixed monthly fees of $40,000. Prophecy Coal recovers costs for services rendered to Platinum and expenses incurred on behalf of Platinum. The terms of the Service Agreement will remain in effect until 30 days following written notice of termination.

At March 31, 2011, accounts payable includes $25,521 (December 31, 2011 - $92,362) owing for reimbursable expenses to companies with common officers and directors, and $15,000 (December 31, 2011 - $3,560) due to directors of Platinum for director fees.

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

The key management of the Company comprises executive and non-executive directors, senior management and the corporate secretary. The remuneration of directors and other members of key management were as follows:

(Expressed in Canadian Dollars)

10. Related Party Disclosures (Continued)

		March 31, 2012		March 31 2011
Salaries and short-term employee benefits	$	296,828	$	259,061
Share-based payments		85,759		61,000
Total key management personnel compensation	$	382,587	$	320,061

11. Critical Accounting Estimates and Judgments

Critical accounting estimates used in the preparation of the condensed consolidated interim financial statements include determining the carrying value of exploration and evaluation projects and property and equipment, assessing the impairment of long-lived assets, determination of environmental obligation provision for closure and reclamation, 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 for the year ended December 31, 2011. The Company's condensed consolidated interim financial statements have been prepared using the going concern assumption; reference should be made to note 1 to the Company's condensed consolidated interim financial statements.

Significant accounting judgments and 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 useful life and recoverability of long-lived assets, the recoverability of accounts receivable, determination of environmental obligation provision for closure and reclamation, accounts payable and accrued liabilities, the assumptions used in the determination of the fair value of financial instruments and share-based payments, and the determination of the recoverability of for deferred income tax assets. The Company bases its estimates and assumptions on current and various other factors that it believes to be reasonable under the circumstances. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

a) Same accounting policies as annual consolidated financial statements

The Company followed the same accounting policies and methods of computation in the condensed consolidated interim financial statements for the three months ended March 31, 2012 as followed in the consolidated financial statements for the year ended December 31, 2011.

(Expressed in Canadian Dollars)

11. Critical Accounting Estimates and Judgments (Continued)

b) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its controlled subsidiaries. All material intercompany balances and transactions have been eliminated. For a partially owned subsidiary, the interest attributable to non-controlling shareholders is reflected in non-controlling interest. Details of the Company's subsidiaries at March 31, 2012 are as follows:

	Principal Activity	Place of incorporation and operation	Ownership interest March 31, 2012
0912603 B.C. Ltd.	Exploration	Canada	100%
0912601 B.C. Ltd.	Exploration	Canada	100%
Chandgana Coal LLC	Exploration	Mongolia	100%
East Energy Development LLC	Mining	Mongolia	100%
Red Hill Mongolia LLC	Exploration	Mongolia	100%
UGL Enterprises LLC	Inactive	Mongolia	100%
Prophecy Platinum Corp.	Exploration	Canada	48.6%
Subsidiaries of Prophecy Platinum Corp.			
PCNC Holdings Corp.	Exploration	Canada	48.6%
Pacific Coast Nickel Corp. USA	Inactive	USA	48.6%
Pacific Nickel Sudamerica S.A.	Exploration	Uruguay	48.6%
0905144 B. C. Ltd.	Exploration	Canada	48.6%

12. Financial Instruments and Related Risks

The Board of Directors, through the Audit Committee is responsible for identifying the principal risks of the company and ensuring that risk management systems are implemented. 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 reviews the Company's policies on an ongoing basis.

12.1 Financial Instruments (see note 15 to the condensed consolidated interim financial statements)

The following table sets forth the Company's financial assets that are measured at fair value on a recurring basis by level within the fair value hierarchy. As at March 31, 2012, those financial assets and liabilities are classified in their entirety based on the level of input that is significant to the fair value measurement

12. Financial Instruments and Related Risks (Continued)

As at March 31, 2012	Level 1	Level 2	Level 3	Total
Financial assets				
Fair value through profit or loss	$ 6,876,703	$ -	$ -	$ 6,876,703
Available-for-sale investments	8,268,563	-	-	8,268,563
	$ 15,145,266	$ -	$ -	$ 15,145,266

12.2 Related Risks

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 March 31, 2012, the Company has cash and cash equivalents of $6,876,703 (December 31, 2011 - $3,480,050) and financial liabilities of $1,634,832 (December 31, 2011 - $1,364,890), which have contractual maturities of 90 days or less.

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 statements of financial position 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.

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

(a) Interest rate risk

Interest rate 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. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on the fair values or future cash flows of the financial instruments as of March 31, 2012. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity

(b) 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.

Net exposures as at March 31, 2012, with other variables unchanged, a 1% strengthening (weakening) of the Canadian dollar against the Mongolian tugrug would not have a material impact on earnings with

12. Financial Instruments and Related Risks (Continued)

other variables unchanged. A 1% strengthening (weakening) of the US dollar against the Canadian dollar would not have a material impact on net loss. The Company currently does not use any foreign exchange contracts to hedge this currency risk.

12.2 Related Risks

(c) Commodity and equity price risk

The Company holds investments in available-for-sale that fluctuate in value based on market prices. Based upon the Company's investment position as at March 31, 2012, a 10% increase (decrease) in the market price of the investments held would have resulted in an increase (decrease) to comprehensive income (loss) of approximately $381,310. The Company also holds investments in exchange traded funds. Based on Platinum investment position at March 31, 2012, a 10% increase (decrease), net of tax the market price of the investments held would have resulted in an increase (decrease) to comprehensive income (loss) of approximately $389,788. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in value may be significant.

13. Risks and Uncertainties

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, 2011. Readers are encouraged to refer to these documents for a more detailed description of some of the risks and uncertainties inherent in the Company's business.

The Audit Committee meets regularly to review reports and discuss significant risk areas with the internal and external auditors. 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.

Political and Country Risk

The Company conducts its operations mainly in Mongolia and is potentially subject to a number of political and economic risks. The Company is not able to determine the impact of these risks on its future financial position or results of operations. The Company's exploration, development and production activities may be substantially affected by factors outside of the Company's control. These potential factors include, but are not limited to: levies and tax increases or claims by governmental bodies, expropriation or nationalization, foreign

13. Risks and Uncertainties (Continued)

exchange controls, cancellation or renegotiation of contracts, and environmental and permitting regulations. The Company currently has no political risk insurance coverage against these risks.

Environmental Risks

The Company's activities are subject to extensive laws and regulations governing environmental protection and employee health and safety. Environmental laws and regulations are complex and have tended to become more stringent over time. Although the Company makes provisions for reclamation costs, it cannot be assured that these provisions will be adequate to discharge its future obligations for these costs. Failure to comply with applicable environmental health and safety laws may result in injunctions, damages, suspension or revocation of permits and imposition of penalties. There can be no assurance that the Company has been or will be at all times in complete compliance with current and future environmental and health and safety laws and permits and such failure may materially adversely affect the Company's business, results of operations or financial condition.

Other Risk Factors

The Company is subject to other risks that are outlined in the NI 43-101 technical reports, which are available on SEDAR at www.sedar.com.

14. Disclosure controls and procedures

On October 19, 2011, the Company graduated from the TSX Venture Exchange to the TSX. Consequently, according to the requirements of National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings" ("NI 52-109") management of the Company took steps to improve the design, evaluation and the monitoring of the disclosure controls and procedures over the public disclosure of financial and non-financial information and reliability of financial reporting.

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of March 31, 2012, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's disclosure controls and procedures, as defined in NI 52-109 are effective to achieve the purpose for which they have been designed.

The Company's disclosure committee, which is a non-Board committee, is comprised of the Corporate Secretary, the CEO, and senior members of management. The disclosure committee's responsibilities include: determining whether information is material and ensuring the timely disclosure of material information in accordance with securities laws; reviewing the Corporation's disclosure policy to ensure that it addresses the Corporation's principal business risks, changes in operations or structure, and facilitates compliance with applicable legislative and regulatory reporting requirements: designing disclosure controls and procedures and directing and supervising an annual evaluation of the effectiveness of the Corporation's disclosure controls and procedures, and presenting the results of the evaluations to the audit and risk committee; ensuring that policies and guidance related to corporate disclosure and financial reporting are developed and effected.

14. Disclosure controls and procedures (Continued)

All material disclosures are forwarded to the Board for comments prior to the release thereof. All press releases are required to be approved by at least two independent directors, one of which must be a member of the audit committee.

Design of Internal Controls over Financial Reporting

The Company's internal controls over financial reporting include policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail accurately and fairly reflect the transactions and disposition of assets;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with IFRS and that receipts and expenditures are being made only in accordance with authorization of management and directors of the Company;

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Because of their inherent limitations, internal controls over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's internal controls over financial reporting using the framework and criteria established in "Internal Control - Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the evaluation, management has concluded that internal controls over financial reporting were effective as at March 31, 2012.

There has been no change in the Company's internal controls over financial reporting that occurred during the most recently completed quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

(Expressed in Canadian Dollars)

15. Disclosure of Outstanding Share Data

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

15.1 *Share Capital*

Authorized – unlimited number of common shares without par value.

As of the date of this MD&A, issued and outstanding – common shares outstanding 225,065,297 with recorded value of $144,788,541

Summary of securities issued during the period.

	Common shares		Value
Outstanding, December 31, 2011	201,059,422	$	134,492,080
Private placement	22,363,866		9,594,618
Shares issued on exercise of options	100,000		82,000
Share issued on exercise of warrants	1,479,509		762,629
Outstanding, March 31, 2012	225,002,797	$	144,931,327

15.2 Stock Options

The Company has adopted a fixed stock option plan (the "Stock Option Plan"). The purpose of the Stock Option Plan is to allow the Company to grant options to directors, officers, employees and consultants, as additional compensation, and as an opportunity to participate in the success of Prophecy. Options are exercisable for up to 10 years or as determined by the Board and are required to have exercise prices no less than the discounted market price. However, it is the practice of Prophecy to set option exercise prices equal to or greater than the market price (as defined by the Exchange based on the closing market price of the shares prevailing on the day that options are granted).

Subsequent to the year end, the Company has granted options to acquire an aggregate of 140,000 and 180,000 common shares at a price of $0.46 and $0.43 per share respectively for a period of five years to consultants and employees of the Company and vest 50% at the end of each year for two years.

Subsequent to the year end, the Company has granted options to acquire an aggregate of 3,000,000 common shares at a price of $0.49 per share r for a period of five years to directors, consultants and employees of the Company and vest 50% at the end of each year for two years. The above grants are subject to regulatory approval, including the approval of the TSX Exchange.

Subsequent to the year-end, 100,000 Prophecy's options at $0.25 and 150,000 Platinum's options at $0.90 were exercised.

(Expressed in Canadian Dollars)

15. Disclosure of Outstanding Share Data (Continued)

15.2 Stock Options (continued)

During the three months ended March 31, 2012, a total of 3,320,000 options with a term of five years were granted to directors, officers, employees and consultants at exercise prices ranging from $0.425 to $0.485 per share subject to a vesting schedule over two years with 50% options vesting every year.

During the three months year ended March 31, 2011, Platinum granted a total of 330,000 options with a term of five years to directors, consultants, and employees at exercise prices ranging from $2.40 to $3.68 per share subject to a vesting schedule over two years with 50% options vesting every year.

15.2 Stock Options (continued)

As at the date of this report, the outstanding options of the Company are comprised as follows:

Expiry Date	Exercise Price	Options Outstanding	Options Exercisable
January 23, 2014	$0.40	1,056,800	1,056,800
April 30, 2014	$0.80	475,000	475,000
July 17, 2014	$0.60	175,000	175,000
September 21, 2014	$0.60	65,000	65,000
October 29, 2014	$0.25	1,050,000	1,050,000
November 30, 2014	$0.38	200,000	200,000
January 29, 2015	$0.40	381,250	381,250
March 11, 2015	$0.55	350,000	350,000
May 10, 2015	$0.67	1,722,500	1,510,000
September 21, 2015	$0.54	850,000	662,500
September 23, 2015	$0.80	100,000	50,000
October 15, 2015	$0.67	175,000	87,500
December 10, 2015	$0.77	9,000,000	4,500,000
December 24, 2015	$0.77	2,050,000	1,537,500
December 24, 2015	$0.93	2,875,000	2,315,000
January 4, 2016	$0.80	120,000	-
January 6, 2016	$0.93	50,000	-
February 14, 2016	$0.98	130,000	-
June 13, 2016	$0.63	1,975,000	-
August 30, 2016	$0.77	610,000	-
January 9, 2017	$0.43	180,000	-
February 3, 2017	$0.46	140,000	
March 22, 2017	$0.49	3,000,000	
		26,730,550	14,415,550

(Expressed in Canadian Dollars)

15. Disclosure of Outstanding Share Data (Continued)

As at the date of this report, the outstanding options of Platinum are comprised as follows:

Expiry Date		Exercise Price	Options Outstanding	Options Exercisable
January 7, 2013	$	1.60	3,750	3,750
November 6, 2014	$	1.00	12,500	12,500
December 13, 2015	$	1.40	175,000	175,000
June 20, 2016	$	0.90	5,395,000	3,650,000
December 12, 2016	$	2.25	790,000	-
January 9, 2017	$	2.40	90,000	-
February 3, 2017	$	3.68	240,000	-
April 4, 2012	$	3.09	230,000	
			6,936,250	3,841,250

15.3 *Share Purchase Warrants*

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

Subsequent to the three months end March 31, 2012 no warrants were exercised.

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

Exercise price	Number of Warrants	Expiry date
$0.66	3,831,511	October 28, 2012
$0.77	551,968	March 31, 2013
$0.80	2,964,730	March 31, 2013
$0.80	337,750	April 21, 2013
$0.80	2,653,968	March 23, 2013
$0.66 to $0.80	10,339,927	

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

Exercise Price		Number of Warrants	Expiry Date
$	1.00	252,000	August 3, 2012
$	1.00	890,000	January 6, 2013
		1,142,000	

16. Off-Balance Sheet Arrangement

During the period ended March 31, 2012, Prophecy was not a party to any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources of the Company.