PROPHECY COAL CORP.
(Formerly Prophecy Resource Corp.)

Condensed Consolidated Interim Financial Statements
Unaudited
For the three month period ended March 31, 2011

Amended and Restated

(Expressed in Canadian Dollars)

Contents

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

"John Lee"	"David Jan"
………………………………………	………………………………………
John Lee, CEO	David Jan, CFO

Vancouver, British Columbia
June 23, 2011

PROPHECY COAL CORP.
(Formerly - Prophecy Resource Corp.)
Condensed Consolidated Interim Statements of Financial Position
Unaudited
(Expressed in Canadian Dollars)

			Amended and Restated	
		March 31	December 31	January 1
		2011	2010	2010
	Note		(note 3)	(note 3)
Assets				
Current assets				
Cash and cash equivalents	7	$ 19,744,612	$ 39,324,151	$ 139,312
Receivables and deposits	8	614,762	414,926	2,928
Prepaid expenses		174,886	82,513	-
Investments	9	6,677,692	3,295,385	-
		27,211,952	43,116,975	142,240
Non-current assets				
Reclamation deposits		6,500	6,500	6,850
Deposits	10	5,093,388	-	-
Property and equipment	11	31,452,779	25,301,993	77,927
Properties held for disposition	22	38,219,041	-	-
Mineral properties	12	5,236,752	42,147,366	15,933,591
		$ 107,220,411	$ 110,572,834	$ 16,160,608
Liabilities and Equity				
Current liabilities				
Accounts payable & accrued liabilities		$ 750,275	$ 2,221,951	$ 52,105
Loan payable	13	-	5,083,334	-
		750,275	7,305,285	52,105
Non-current liabilities				
Asset retirement obligation		103,652	80,000	-
Deferred income taxes		448,686	448,686	-
		1,302,613	7,833,971	52,105
Equity				
Share capital	14	128,193,042	125,458,376	33,896,787
Contributed surplus		6,075,735	4,720,060	3,000,310
Accumulated other comprehensive loss		1,119,692	(512,616)	-
Deficit		(29,470,671)	(26,926,957)	(20,788,594)
		105,917,798	102,738,863	16,108,503
		$ 107,220,411	$ 110,572,834	$ 16,160,608

Approved by the Board:

"John Lee"
Director

"Greg Hall"
Director

See Notes to Condensed Consolidated Interim Financial Statements.

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

		Amended and Restated	
		Three months ended March 31,	
		2011	2010
	Note		(note 3)
General and Administrative Expenses			
Consulting and management fees		$ 306,757	$ 163,723
Share-based payments	15	1,340,353	-
Advertising and promotion		217,043	29,233
Professional fees		120,600	39,504
Travel and accommodation		195,512	43,713
Stock exchange and shareholder services		56,500	45,698
Salary and benefits		108,529	60,367
Office and administration		104,171	30,787
Insurance		11,584	483
Director fees		4,206	-
Amortization		15,005	5,106
Loss Before Other Items		(2,480,260)	(418,614)
Other Items			
Interest income		51,203	432
Foreign exchange loss		(126,715)	(4,722)
		(75,512)	(4,290)
Net Loss for Period		(2,555,772)	(422,904)
Fair value Gain on Available-for-Sale Investments		1,632,308	-
Comprehensive Loss for Period		$ (923,464)	$ (422,904)
Loss Per Common Share, basic and diluted		$ (0.01)	$ (0.01)
Weighted Average Number of Shares Outstanding		188,310,157	56,893,206

See Notes to Condensed Consolidated Interim Financial Statements.

PROPHECY COAL CORP.
(Formerly - Prophecy Resource Corp.)
Condensed Consolidated Interim Statements of Changes in Equity
Unaudited
(Expressed in Canadian Dollars) Amended and Restated

	Note	Numbers of shares	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total
Balance, January 1, 2010	3	53,859,874	$ 33,896,787	$ 3,000,310	$ -	$ (20,788,594)	$ 16,108,503
Private placements, net of share issue costs		11,963,158	4,650,089	133,847	-	-	4,783,936
Loss for the period		-	-	-	-	(422,904)	(422,904)
							-
Balance, March 31, 2010	**3**	65,823,032	$ 38,546,876	$ 3,134,157	$ -	$ (21,211,498)	$ 20,469,535
Private placements, net of share issue costs		11,507,011	6,112,868	-	-		6,112,868
Shares reduced upon spin off		(5,265,840)	-	-	-	-	-
Shares issued upon acquisition of Prophecy Holdings Inc.		36,178,285	27,495,497	73,404	-	-	27,568,901
Shares issued upon acquisition of Northern Platinum Ltd.		14,170,815	7,085,408	448,253	-	-	7,533,661
Shares issued for mineral properties		5,760,000	3,658,400	-	-	-	3,658,400
Shares issued as financing fees		1,000,000	490,000	-	-	-	490,000
Prospectus offering, net of share							-
issue costs		49,475,000	38,426,910	573,300			39,000,210
Options exercised		2,610,000	1,876,283	(754,900)	-	-	1,121,383
Warrants exercised		3,722,896	1,766,134	-	-	-	1,766,134
Share-based payments		-	-	1,351,124	-	-	1,351,124
Loss for the period		-	-	-	-	(4,175,268)	(4,175,268)
Expire and forfeiture of options		-	-	(105,278)	-	70,055	(35,223)
Distribution to shareholders on spin off		-	-	-	-	(1,610,246)	(1,610,246)
Unrealized loss on available-for-sale security		-	-	-	(512,616)	-	(512,616)
Balance, December 31, 2010 (note 3)		**184,981,199**	**$ 125,458,376**	**$ 4,720,060**	**$ (512,616)**	**$ (26,926,957)**	**$ 102,738,863**
Options exercised		736,600	619,299	(306,284)	-	-	313,015
Share-based payments		-	-	1,674,017	-	-	1,674,017
Warrants exercised		4,205,465	2,115,367	-	-	-	2,115,367
Expire and forfeiture of options		-	-	(12,058)	-	12,058	-
Loss for the period		-	-	-	-	(2,555,772)	(2,555,772)
Unrealized gain on available-for-sale security		-	-	-	1,632,308	-	1,632,308
Balance, March 31, 2011		**189,923,264**	**$ 128,193,042**	**$ 6,075,735**	**$ 1,119,692**	**$ (29,470,671)**	**$ 105,917,798**

See Notes to Condensed Consolidated Interim Financial Statements.

PROPHECY COAL CORP.
(Formerly - Prophecy Resource Corp.)
Condensed Consolidated Interim Statements of Cash Flows
Unaudited
(Expressed in Canadian Dollars) Amended and Restated

	Three months ended March 31, 2011	2010 (note 3)
Operating Activities		
Net loss for period	$ (2,555,772)	$ (422,904)
Items not involving cash		
Amortization	15,005	5,106
Share-based payments	1,340,353	-
	(1,200,414)	(417,798)
Changes in non-cash working capital		
Receivables and deposits	(199,836)	(840,978)
Prepaid expenses	(92,373)	-
Accounts payable and accrued liabilities	(409,712)	241,830
	(701,921)	(599,148)
Cash Used in Operating Activities	(1,902,336)	(1,016,946)
Investing Activities		
Equipment deposits and other	(5,093,388)	-
Acquisition of property and equipment	(7,191,519)	(1,318)
Mineral property expenditures	(987,345)	(129,498)
Purchase of available for sale investments	(1,750,000)	-
Cash Used in Investing Activities	(15,022,252)	(130,816)
Financing Activities		
Repayment of loan	(5,083,334)	-
Shares issued, net of share issuance costs	2,428,382	4,783,936
Cash Provided by (Used in) Financing Activities	(2,654,952)	4,783,936
Net (Decrease) Increase in Cash	(19,579,539)	3,636,174
Cash and Cash Equivalents - beginning of period	39,324,151	139,312
Cash and Cash Equivalents - end of period	$ 19,744,612	$ 3,775,486

See Notes to Condensed Consolidated Interim Financial Statements.

(Expressed in Canadian Dollars) Amended and Restated

1. NATURE OF OPERATIONS

Prophecy Coal Corp. (formerly Prophecy Resource Corp.) (“Prophecy” or the “Company”) is incorporated under the laws of the province of British Columbia, Canada, and is engaged in the acquisition, exploration, and development of energy, nickel, and platinum group metals projects. The address of the Company’s head office and records is Suite 2060-777 Hornby Street, Vancouver, British Columbia, Canada, V6Z 1T4.

Details of the Company's subsidiaries at March 31, 2011 are as follows.

	Principal Activity	Place of incorporation and operation	Ownership interest
Chandgana Coal LLC	Mining	Mongolia	100%
East Energy Development LLC	Mining	Mongolia	100%
Red Hill Mongolia LLC	Mining	Mongolia	100%
UGL Enterpises LLC	Inactive	Mongolia	100%
Northern Platinum Ltd	Mining	British Columbia, Canada	100%
Prophecy Holdings Inc	Mining	British Columbia, Canada	100%

The Company is in the development phase of its energy resource projects (“coal projects”) in Mongolia and is exploring nickel and platinum group metals projects in Canada. The underlying value and recoverability of the amounts shown for mineral properties, and property and equipment are dependent upon the existence of economically recoverable mineral reserves, receipt of appropriate permits, the ability of the Company to obtain the necessary financing to complete the development of its projects, and future profitable production from, or the proceeds from the disposition of its mineral properties.

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

2. BASIS OF PREPARATION

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

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

2. BASIS OF PREPARATION (Continued)

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

These condensed consolidated interim financial statements were prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". They do not include all of the information required for annual financial statements.

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

3. TRANSITION TO IFRS

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

Initial elections upon adoption

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

(i) Share-based payments

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

(ii) Business Combinations ("IFRS 3")

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

3. TRANSITION TO IFRS (Continued)

Adjustments to transition to IFRS

(a) Income taxes

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

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

(b) Share-based payments

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

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

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

3. TRANSITION TO IFRS (Continued)

Adjustments to transition to IFRS

(c) Reclassification of mineral property interest

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

(d) Reclassification of borrowing costs

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

(e) Reconciliation to previously reported financial statements

A reconciliation of the above noted changes is included in the following Statements of Financial Position and Statements of Operations and Comprehensive Loss for the dates noted below.

- Consolidated Statement of Financial Position at January 1, 2010
- Consolidated Statement of Financial Position at March 31, 2010
- Consolidated Statement of Financial Position at December 31, 2010
- Consolidated Statement of Operations and Comprehensive Loss for the three-month period ended March 31, 2010
- Consolidated Statement of Operations and Comprehensive Loss for the year ended December 31, 2010
- Consolidated Statement of Cash Flows for the three-month period ended March 31, 2010

(Expressed in Canadian Dollars) Amended and Restated

3. TRANSITION TO IFRS (Continued)

The January 1, 2010 Canadian GAAP Consolidated Statement of Financial Position has been reconciled to IFRS as follows:

Consolidated Statement of Financial Position

	January 1, 2010		
	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets			
Current assets			
Cash and cash equivalents	$ 139,312	$ -	$ 139,312
Receivables	2,928	-	2,928
	142,240	-	142,240
Non-current assets			
Reclamation deposits	6,850	-	6,850
Property and equipment	77,927	-	77,927
Mineral properties	15,933,591	-	15,933,591
	$ 16,160,608	$ -	$ 16,160,608
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities	$ 52,105	$ -	$ 52,105
	52,105	-	52,105
Equity			
Share capital	33,896,787	-	33,896,787
Contributed surplus	3,582,419	(582,109)	3,000,310
Deficit	(21,370,703)	582,109	(20,788,594)
	16,108,503	-	16,108,503
	$ 16,160,608	$ -	$ 16,160,608

(Expressed in Canadian Dollars) Amended and Restated

3. TRANSITION TO IFRS (Continued)

The March 31, 2010 Canadian GAAP Consolidated Statements of Financial Position has been reconciled to IFRS as follows:

Consolidated Statement of Financial Position

	March 31, 2010		
	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets			
Current assets			
Cash and cash equivalents	$ 3,775,486	$ -	$ 3,775,486
Receivables and deposits	843,906	-	843,906
	4,619,392	-	4,619,392
Non-current assets			
Reclamation Deposits	6,850	-	6,850
Property and Equipment	74,139	-	74,139
Deferred Acquisition Costs	173,000	-	173,000
Mineral Properties	16,071,276	-	16,071,276
	$ 20,944,657	$ -	$ 20,944,657
Liabilities and Equity			
Current liabilities			
Accounts payable & accrued liabilities	475,122	-	475,122
	475,122	-	475,122
Equity			
Share Capital	38,546,876	-	38,546,876
Contributed Surplus	3,716,266	(582,109)	3,134,157
Deficit	(21,793,607)	582,109	(21,211,498)
	20,469,535	-	20,469,535
	$ 20,944,657	$ -	$ 20,944,657

(Expressed in Canadian Dollars) Amended and Restated

The December 31, 2010 Canadian GAAP Consolidated Statement of Financial Position has been reconciled to IFRS as follows:

Consolidated Statement of Financial Position

	December 31, 2010		
	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets			
Current assets			
Cash and cash equivalents	$ 39,324,151	$ -	$ 39,324,151
Receivables and deposits	414,926	-	414,926
Prepaid expenses	82,513	-	82,513
Investment	3,295,385	-	3,295,385
	43,116,975	-	43,116,975
Non-current assets			
Reclamation deposits	6,500	-	6,500
Property and equipment	91,706	25,210,287	25,301,993
Mineral properties	74,377,177	(32,229,811)	42,147,366
	$ 117,592,358	$ (7,019,524)	$ 110,572,834
Liabilities and Equity			
Current liabilities			
Accounts payable & accrued liabilities	$ 2,221,951	$ -	$ 2,221,951
Loans payable	5,083,334	-	5,083,334
	7,305,285	-	7,305,285
Non-current liabilities			
Asset retirement obligation	80,000	-	80,000
Deferred income tax taxes	8,606,656	(8,157,970)	448,686
	15,991,941	(8,157,970)	7,833,971
Equity			
Share capital	125,458,376	-	125,458,376
Contributed surplus	5,407,447	(687,387)	4,720,060
Accumulated other comprehensive loss	(512,616)		(512,616)
Deficit	(28,752,790)	1,825,833	(26,926,957)
	101,600,417	1,138,446	102,738,863
	$ 117,592,358	$ (7,019,524)	$ 110,572,834

(Expressed in Canadian Dollars) Amended and Restated

3. TRANSITION TO IFRS (Continued)

The March 31, 2010 Canadian GAAP Consolidated Statement of Operations and Comprehensive Loss have been reconciled to IFRS as follows:

Consolidated Statement of Operations and Comprehensive Loss

	Three months ended March 31, 2010		
	Canadian GAAP	Effect of transition to IFRS	IFRS
General and Administrative Expenses			
Consulting and management fees	$ 163,723	$ -	$ 163,723
Advertising and promotion	29,233	-	29,233
Professional fees	39,504	-	39,504
Travel and accommodation	43,713	-	43,713
Stock exchange and shareholder services	45,698	-	45,698
Salary and benefits	60,367	-	60,367
Office and administration	30,787	-	30,787
Insurance	483	-	483
Amortization	5,106	-	5,106
Loss Before Other Items	(418,614)	-	(418,614)
Other Items			
Foreign exchange loss	(4,722)	-	(4,722)
Interest income	432	-	432
	(4,290)	-	(4,290)
Net Loss for Period	$ (422,904)	$ -	$ (422,904)

(Expressed in Canadian Dollars) Amended and Restated

3. TRANSITION TO IFRS (Continued)

The Canadian GAAP Consolidated Statement of Operations and Comprehensive Loss for the year ended December 31, 2010 has been reconciled to IFRS as follows:

Consolidated Statement of Operations and Comprehensive Loss

	Year ended December 31, 2010		
	Canadian GAAP	Effect of transition to IFRS	IFRS
General and Administrative Expenses			
Consulting and management fees	$ 1,278,392	$ -	$ 1,278,392
Stock-based compensation	1,142,330	(29,780)	1,112,550
Advertising and promotion	693,778	-	693,778
Professional fees	447,512	-	447,512
Travel and accommodation	367,511	-	367,511
Stock exchange and shareholder services	254,658	-	254,658
Salary and benefits	252,703	-	252,703
Office and administration	196,958	-	196,958
Insurance	6,038	-	6,038
Amortization	19,458	-	19,458
Loss Before Other Items	(4,659,338)	29,780	(4,629,558)
Other Items			
Foreign exchange loss (gain)	23,726	-	23,726
Interest income	9,399	-	9,399
Interest expenses	(1,143,889)	1,143,889	-
Loss on disposal of plant and equipment	(1,739)		(1,739)
	(1,112,503)	1,143,889	31,386
Net Loss for Period	(5,771,841)	1,173,669	(4,598,172)

(Expressed in Canadian Dollars) Amended and Restated

3. TRANSITION TO IFRS (Continued)

The March 31, 2010 Canadian GAAP Consolidated Statement of Cash Flows have been reconciled to IFRS as follows:

Consolidated Statement of Cash Flows

	Three months ended March 31, 2010		
	Canadian GAAP	**Effect of transition to IFRS**	**IFRS**
Cash Used in Operating Activities	$ (1,016,946)	-	$ (1,016,946)
Cash Used in Investing Activities	(130,816)	-	(130,816)
Cash Provided in Financing Activities	4,783,936	-	4,783,936
Net Increase in Cash	3,636,174	-	3,636,174

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Cash equivalents

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

(b) Property and equipment

Property and equipment ("PE") is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of PE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. PE are carried at cost less accumulated depreciation. Depreciation of property and equipment is recorded on a declining-balance or unit of production basis at the following annual rates:

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

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

(c) Mineral properties and mine development costs

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

During the development of a mine, prior to the commencement of production, costs incurred to remove overburden and other mine waste materials in order to access the resource body (“stripping costs”) are capitalized to the related property and depleted over the productive life of the mine using the unit-of-production method. During the production phase of a mine, stripping costs are accounted for as variable production costs and

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

included in the cost of inventory produced during the period except for stripping costs incurred to provide access to reserves that will be produced in future periods and would not otherwise have been accessible, which are capitalized to the cost of mineral property interests and depleted on a unit-of-production method over the reserves that directly benefit from the stripping activity.

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

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

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

These include the following:

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

(d) Impairment of assets

At each date of the statement of financial position, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Impairment of assets (Continued)

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

The Company considers none of its assets to be impaired at March 31, 2011. Each project or group of claims or licenses is treated a cash generating unit.

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

(e) Revenue recognition

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

(f) Share-based payments

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

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

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

(g) Loss per share

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Loss per share (Continued)

of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(h) Foreign currency translation

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

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

(i) Income taxes

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

(j) Asset retirement obligations

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Unit offerings

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

(l) Financial instruments

Financial assets

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

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

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

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

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

Financial liabilities

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

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

4. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

(m) Use of estimates

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

(Expressed in Canadian Dollars) Amended and Restated

5. ACQUISITIONS

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

This transaction has been accounted for as an acquisition of assets. The excess of the consideration given over the fair value of the assets and liabilities acquired has been allocated to mineral properties. Refer to Note 3 for a discussion of the adjustment to the measurement of the acquisition upon transition from Canadian GAAP to IFRS. The preliminary allocation of the consideration given and net assets acquired of this transaction are summarized as follows:

Fair value of common shares issued	$27,495,497
Fair value of replacement options and warrants	7,344
Transaction costs	174,999
Purchase Price	$27,743,900
Cash and cash equivalents	$4,213,364
Receivables	24,565
Reclamation deposit	6,500
Mineral properties	24,137,623
Accounts payable and accrued liabilities	(591,823)
Deferred income taxes	(46,329)
Net assets acquired	$27,743,900

(Expressed in Canadian Dollars)

5. ACQUISITIONS (Continued)

In September 2010, the Company completed the acquisition of Northern Platinum Ltd. ("Northern") through a plan of Arrangement. Pursuant to the Arrangement, each common share of Northern was exchanged for 0.50 common share and 0.10 warrant of the Company, and each option and warrant of Northern was exchanged for 0.50 option and warrant of the Company, respectively. Upon closing the Arrangement, the Company issued a total of 13,874,819 common shares and 1,300,000 options and 6,007,090 warrants acquired to replace the common shares, options and warrants of Northern. The Company also issued 295,996 common shares as finder's fees for this transaction. This transaction has been accounted for as an acquisition of assets. Refer to Note 3 for a discussion of the adjustment to the measurement of the acquisition upon transition from Canadian GAAP to IFRS. The preliminary allocation of the consideration given and net assets were issued of this transaction are summarized as follows:

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

(Expressed in Canadian Dollars) Amended and Restated

6. SEGMENTED INFORMATION

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

	March 31, 2011		
	Canada	Mongolia	Total
Current assets	$ 25,699,455	$ 1,512,497	$ 27,211,952
Non-current assets	50,982,365	$ 29,026,124	80,008,489
Total assets	$ 76,681,820	$ 30,538,621	$ 107,220,441
Current liabilities	350,940	399,335	750,275
Non-current liabilities	60,290	492,048	552,338
Total liabilities	$ 411,230	$ 891,384	$ 1,302,613
	Three months ended March 31, 2011		
Expenses	$ 2,447,174	$ 33,086	$ 2,480,260
Other items	53,515	21,997	75,512
Net loss	$ 2,500,689	$ 55,083	$ 2,555,772

	December 31, 2010 (note 3)		
	Canada	Mongolia	Total
Current assets	$ 42,874,486	$ 242,489	$ 43,116,975
Non-current assets	40,428,958	$ 26,638,505	67,067,463
Total assets	$ 83,303,444	$ 26,880,994	$ 110,184,438
Current liabilities	6,032,654	1,272,631	7,305,285
Non-current liabilities	60,290	80,000	140,290
Total liabilities	$ 6,092,944	$ 1,352,631	$ 7,445,575
	Three months ended March 31, 2010 (note 3)		
Expenses	$ 230,238	$ 188,376	$ 418,614
Other items	4,290	-	4,290
Net loss	$ 234,528	$ 188,376	$ 422,904

(Expressed in Canadian Dollars) Amended and Restated

7. CASH AND CASH EQUIVALENTS

Cash at banks and on hand earns interest at floating rates based on daily bank deposit rates. At March 31, 2011, the Company has cash and cash equivalents of $19,744,612 (December 31, 2010 - $39,324,151).

8. RECEIVABLES

Receivables and deposits consist of recoverable taxes. At March 31, 2011, the Company has receivables and deposits of $614,762 (December 31, 2010 - $414,926).

9. AVAILABLE FOR SALE INVESTMENTS

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

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

Investments are as follows:

		March 31, 2011		December 31, 2010
Investment in Victory Nickel	$	4,027,692	$	3,295,385
Investment in Compliance		2,650,000		-
	$	6,677,692	$	3,295,385

(Expressed in Canadian Dollars) Amended and Restated

10. EQUIPMENT DEPOSITS AND OTHER

Changes to the equipment deposits and other for the three months ended March 31, 2011 are as follows:

	March 31, 2011	December 31, 2010
Deposit on mining equipment	$ 4,952,580	$ -
Deposit on drilling contract	75,000	-
Deferred charges for Pacific Coast Nickel transaction (Note 22)	65,808	-
Total	$ 5,093,388	$ -

(Expressed in Canadian Dollars) Amended and Restated

11. PROPERTY AND EQUIPMENT

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

	Computer Equipment	Furniture & Equipment	Vehicles	Computer Software	Leasehold Improvements	Ulaan Ovoo Mining Equipment	Deferred Exploration	Total
Cost								
Balance, January 1, 2010	$ 25,522	$ 92,565	$ 47,475	-	$ 7,244	-	-	$ 172,806
Additions								
Assets acquired	11,431	25,752	-	-	-	-	-	37,183
Reclassification of mine development costs							25,210,287	25,210,287
Disposals	(1,739)	-	-	-	-	-	-	(1,739)
Balance, December 31, 2010	$ 35,214	$ 118,317	$ 47,475	$ -	$ 7,244	$ -	$ 25,210,287	$ 25,418,537
Additions								
Assets acquired	27,396	1,530	218,413	70,817	21,668	3,485,816	2,400,382	6,226,023
Balance, March 31, 2011	$ 62,610	$ 119,847	$ 265,888	$ 70,817	$ 28,912	$ 3,485,816	$ 27,610,669	$ 31,644,559
Accumulated depreciation								
Balance, January 1, 2010	$ 19,915	$ 54,044	$ 19,471	-	$ 1,449	-	-	$ 94,879
Depreciation for the period	3,636	9,350	7,502	-	1,177	-	-	21,665
Balance, December 31, 2010	$ 23,551	$ 63,394	$ 26,973	-	$ 2,626	-	-	$ 116,544
Depreciation for the period	2,854	2,785	4,441	8,852	362	55,943	-	75,237
Balance, March 31, 2011	$ 26,405	$ 66,179	$ 31,414	$ 8,852	$ 2,988	$ 55,943	-	$ 191,781
Carrying amounts								
At January 1, 2010	$ 5,607	$ 38,521	$ 28,004	-	$ 5,795	-	-	$ 77,927
At December 31, 2010	$ 11,663	$ 54,923	$ 20,502	-	$ 4,618	-	$ 25,210,287	$ 25,301,993
At March 31, 2011	$ 36,205	$ 53,669	$ 234,474	$ 61,965	$ 25,924	$ 3,429,873	$ 27,610,669	$ 31,452,778

PROPHECY COAL CORP.
(Formerly Prophecy Resource Corp.)
Notes to Condensed Consolidated Interim Financial Statements
Unaudited
For the three months ended March 31, 2011
(Expressed in Canadian Dollars) Amended and Restated

12. MINERAL PROPERTIES

	Ulaan Ovoo	Chandgana Tal	Chandgana Khavtgai	Titan	Okeover, others	Red Lithium	ThorRee	Subtotal	Lynn Lake	Wellgreen	Subtotal	Total
Notes	12(a)	12(b)	12(c)	12(f)	12(e),(h)	12(h)	12(h)		12(d), 22	12(g), 22		
Balance, January 1, 2010	12,950,217	1,282,244	1,172,342	-	1	339,607	189,180	15,933,591	-	-	-	15,933,591
Acquisition cost	1,570,000	-	-	307,274	1,246,890	-	-	3,124,164	23,008,230	12,811,788	35,820,018	38,944,182
Deferred exploration costs:												
Licenses, leases, and Power Plant Application	35,460	1,450	322,305	-	-	-	-	359,215	6,395	31,912	38,307	397,522
Geological core, engineering, and	1,029,524	15,091	191,722	64,630	80,738	-	81,458	1,463,163	330,825	248,105	578,930	2,042,093
Drilling	25,129	-	267,080	-	-	-	-	292,209	419,402	49,876	469,278	761,487
Transportation and shipping	522,346	-	-	-	-	-	-	522,346	-	-	-	522,346
Road and bridge construction	2,925,587	-	-	-	-	-	-	2,925,587	-	-	-	2,925,587
Mine Development	4,671,075	-	-	-	-	-	-	4,671,075	-	-	-	4,671,075
Personnel	116,097	1,502	19,948	-	-	-	-	137,547	-	33,333	33,333	170,880
Camp and general	328,577	34,153	112,743	-	-	-	-	475,473	55,763	31,625	87,388	562,861
	9,653,795	52,196	913,798	64,630	80,738	-	81,458	10,846,615	812,385	394,851	1,207,236	12,053,851
Recovery	(107,614)	-	-	-	-	-	-	(107,614)	-	-	-	(107,614)
Disposal	-	-	-	-	(1)	(339,607)	(270,638)	(610,246)	-	-	-	(610,246)
Interest and financing fees	1,143,889							1,143,889				1,143,889
Reclassification to PE	(25,210,287)	-	-	-	-	-	-	(25,210,287)	-	-	-	(25,210,287)
Balance, December 31, 2010	-	1,334,440	2,086,140	371,904	1,327,628	-	-	5,120,112	23,820,615	13,206,639	37,027,254	42,147,366
									Held for Disposition			
Acquisition cost	-	-	-	3,617	-	-	-	3,617	600,000	-	600,000	603,617
Deferred exploration costs												
Licenses, leases, and Power Plant Application	-	-	19,483	5,661	926	-	-	26,071	(1,095)	2,302	1,206	27,277
Geological core, engineering, and consulting	-	51,592	-	15,062	1,587	-	-	68,241	102,126	449,906	552,032	620,273
Personnel	-	15,833	-	-	-	-	-	15,833	-	4,500	4,500	20,333
Camp and general	-	1,822	-	168	889	-	-	2,879	18,257	15,791	34,048	36,926
		69,247	19,483	20,891	3,402	-	-	113,023	119,288	472,499	591,786	704,810
Balance, March 31, 2011	**-**	**$1,403,687**	**$2,105,623**	**$396,412**	**$1,331,030**	**-**	**-**	**$5,236,752**	**$24,539,903**	**$13,679,138**	**$38,219,041**	**$43,455,792**

12. MINERAL PROPERTIES (Continued)

(a) Ulaan Ovoo property

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

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

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

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

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

(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.

12. MINERAL PROPERTIES (Continued)

(d) Lynn Lake property

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

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

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

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

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

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

On June 13, 2011, the Company sold Lynn Lake assets with assumed liabilities to Pacific Coast Nickel Corp. (see note 22).

(e) Okeover property

The 60% interest in the Okeover property, a copper-molybdenum project in the Vancouver Mining Division of southwestern British Columbia, Canada, was acquired through the acquisition of Prophecy Holdings in April 2010 (see note 5). A total of $1,222,119 was capitalized as the acquisition costs of Okeover.

12. MINERAL PROPERTIES (Continued)

(f) Titan property

The 80% interest in Titan property, a vanadium-titanium-iron project located in Ontario, Canada, was acquired through the acquisition of Prophecy Holdings in April 2010 (see note 5).

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

(g) Wellgreen property

The Wellgreen property, a nickel-copper and platinum group metals project located in southwestern Yukon Territory, Canada, was acquired through the acquisition of Northern in September 2010 (see note 5).

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

Pursuant to the Assignment Agreement, Belleterre assign 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.

On June 13, 2011, the Company sold Wellgreen property to Pacific Coast Nickel Corp. (see note 22).

(h) Red Lithium, ThorRee and Banbury properties

Under the plan of Arrangement between the Company and Prophecy Holdings, the Red Lithium, ThorRee and Banbury properties were transferred, before the closing of the Arrangement, to Elissa in exchange for Elissa’s common shares, which were distributed to the shareholders of Red Hill as dividend distribution (see note 5).

(Expressed in Canadian Dollars) Amended and Restated

13. LOAN PAYABLE

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

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

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

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

Loan payable changes are as follows:

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

14. SHARE CAPITAL

Authorized

Unlimited number of common shares without par value

Equity financing

During the period ended March 31, 2011, the Company had the following share capital transactions:

During the period ended March 31, 2011, the Company issued 736,600 and 4,205,465 shares on the exercise of options and warrants, respectively, for the total proceeds of $2,734,666.

14. SHARE CAPITAL (Continued)

Equity financing (Continued)

During the year ended December 31, 2010, the Company had the following share capital transactions:

(a) In February 2010, the Company issued 6,500,000 units for gross proceeds of $1,950,000. Each unit is comprised of one common share and one-half of one share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one additional common share for a period of two years at a price of $0.45 per share during the warrant term. The warrants are subject to forcible conversion within 30 days of delivery of notice from the Company, in the event the shares of the Company close at over $0.65 for 10 consecutive trading days. The units issued under the placement were subject to a hold period that expired on June 18, 2010. Finder's fees of $71,872 were incurred on a portion of the financing and recorded as share issuance costs.

(b) In March 2010, the Company issued 5,463,158 units for gross proceeds of $3,113,945. Each unit is comprised of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to acquire one additional common share for a period of two years at a price of $0.71 during the warrant term. The warrants are subject to forcible conversion within 30 days of delivery of notice from the Company, in the event the shares of the Company close at $1.06 for 10 consecutive trading days. The units issued under the placement were subject to a hold period that expired on August 1, 2010. Finders' fees of $217,980 and 382,421 warrants, with a fair value of $133,847, exercisable for a period of two years from closing at $0.76 per unit, were incurred on a portion of the financing and recorded as share issuance costs.

(c) In April 2010, the Company issued 675,500 units for gross proceeds of $398,545. Each unit is comprised of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to acquire one additional common share for a period of two years at a price of $0.80 during the warrant term. The warrants are subject to forcible conversion within 30 days of delivery of notice from the Company, in the event the shares of the Company close at $1.10 for 20 consecutive trading days.

(d) In May 2010, the Company closed a reciprocal private placement with Victory Nickel whereby Victory Nickel subscribed for 7,000,000 shares of the Company at a price of $0.544 per share (note 9).

(e) In October 2010, the Company issued 3,831,511 flow-through units for gross proceeds of $2,030,701. Each unit is comprised of one flow-through common share and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share for a period of two years at a price of $0.66. Finder's fees of $114,535 were incurred on a portion of the financing and recorded as share issuance costs.

(f) In December, 2010, the Company issued 49,475,000 common shares for gross proceeds of $42,053,750. Finder's fees of $3,053,540 and 1,800,000 warrants, with a fair value of $573,300, exercisable for a period of one year from closing at $0.91 per unit, were incurred on a portion of the financing and recorded as share issuance costs.

(Expressed in Canadian Dollars) Amended and Restated

14. SHARE CAPITAL (Continued)

During the year ended December 31, 2010, the Company issued 2,610,000 and 3,722,896 shares on the exercise of options and warrants, respectively, for the total proceeds of $2,887,517.

15. SHARE-BASED PAYMENTS

Stock options

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

In December 2010 and in the period ended March 31, 2011, the Company granted 3,692,505 and 300,000 options respectively in excess of the limits of the Company's stock option plan. As these option grants were subject to receipt of regulatory and shareholder approval at the Company's next annual general meeting, they were not value in accordance with the Black-Scholes model valuation. On May 31, 2011 these option grants were approved by the Company's shareholders at the annual general meeting and will be valued and expense recognized during the six months ended June 31, 2011.

The following is a summary of the changes in options from January 1, 2010 to March 31, 2011:

	Number of Options	Weighted Average Exercise Price
Outstanding, January 1, 2010	3,980,000	$0.37
Granted	17,685,500	$0.77
Options reduced as per spin-off (note 5)	(318,400)	$0.37
Conversion as per merger with Prophecy Holdings - old (note 5)	3,500,000	$0.40
Conversion as per acquisition of Northern (note 5)	1,300,000	$0.67
Exercised	(2,610,000)	$0.40
Cancelled/forfeited	(510,000)	$0.64
Outstanding, December 31, 2010	23,027,100	$0.69
Granted	300,000	$0.90
Exercised	(736,600)	$0.42
Cancelled/forfeited	(218,750)	$0.54
Outstanding, March 31, 2011	22,371,750	$0.71

During the three months ended March 31, 2011, a total of 300,000 options with a life of five years were granted to consultants and an employee at exercise prices ranging from $0.80 to $0.98 and vest over a two-year period. As noted above, these grants will be subject to Black-Scholes model valuation in Q2 2011 as they have been approved by the Company's shareholders at the annual general meeting on May 31, 2011.

(Expressed in Canadian Dollars) Amended and Restated

15. SHARE-BASED PAYMENTS (Continued)

For the three months ended March 31, 2011, a total of $1,674,017(2010 - $nil) share-based payments were recorded as follows:

	Three months ended March 31	
Consolidated Statement of Operations	2011	2010
Nature of expense		
Directors' fees	$ 36,589	$ -
Advertising and promotion	1,192,750	-
Salaries	6,858	-
Consulting fees	104,155	-
	$ 1,340,352	$ -
Consolidated Statement of Financial Position	March 31, 2011	March 31, 2010
Ulaan Ovoo exploration	$ 12,583	$ -
Lynn Lake exploration	5,358	-
Wellgreen exploration	315,723	-
	$ 333,664	$ -
Total share-based payments	$ 1,674,017	$ -

(Expressed in Canadian Dollars) Amended and Restated

15. SHARE-BASED PAYMENTS (Continued)

As of March 31, 2011, the following director, officer, employee, and consultant options were outstanding:

Exercise Price	Number of Options Outstanding	Expiry Date
$0.25	50,000	February 14, 2012
$0.25	1,225,000	October 29, 2014
$0.38	200,000	November 30, 2014
$0.40	1,383,000	January 23, 2014
$0.40	381,250	January 29, 2015
$0.54	1,000,000	September 21, 2015
$0.55	350,000	March 11, 2015
$0.60	550,000	July 17, 2014
$0.60	65,000	September 21, 2014
$0.67	1,967,500	May 10, 2015
$0.67	175,000	October 15, 2015
$0.77	9,000,000	December 10, 2015
$0.77	2,050,000	December 24, 2015
$0.80	475,000	April 30, 2014
$0.80	100,000	September 21, 2015
$0.80	120,000	January 4, 2016
$0.93	50,000	January 6, 2016
$0.93	2,950,000	December 24, 2015
$0.98	130,000	February 14, 2016
$1.03	150,000	March 24, 2015
$0.25 to $1.03	22,371,750	

Subsequent to March 31, 2011, a total of 135,800 stock options were exercised for proceeds of $54,320.

Share purchase warrants

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

(Expressed in Canadian Dollars) Amended and Restated

15. SHARE-BASED PAYMENTS (Continued)

Share purchase warrants (Continued)

The following is a summary of the changes in warrants from January 1, 2010 to March 31, 2011:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, January 1, 2010	7,815,000	$1.09
Issued	15,776,840	$0.69
Warrants reduced on spin-off (note 5)	(1,352,846)	$0.67
Conversion as per acquisition of Prophecy Holdings (note 5)	11,336,109	$0.55
Conversion as per acquisition of Northern Platinum (note 5)	6,079,715	$0.69
Exercised	(3,722,897)	$0.47
Expired	(6,430,800)	$1.15
Outstanding, December 31, 2010	29,501,121	$1.25
Exercised	(4,205,465)	$0.50
Expired	(144,167)	$0.40
Outstanding, March 31, 2011	25,151,489	$0.65

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15. SHARE-BASED PAYMENTS (Continued)

As at March 31, 2011 the following warrants were outstanding:

Exercise price	Number of Warrants	Expiry date
$0.10	3,250,000	December 31, 2011
$0.40	17,250	December 31, 2011
$0.40	90,000	June 5, 2011
$0.46	72,500	September 4, 2011
$0.49	1,859,321	February 17, 2012
$0.60	670,000	June 5, 2011
$0.60	187,500	August 18, 2011
$0.60	133,750	December 31, 2011
$0.60	143,750	December 21, 2011
$0.65	414,000	September 1, 2011
$0.66	3,831,511	October 28, 2012
$0.70	536,250	September 4, 2011
$0.77	5,377,932	March 31, 2012
$0.80	2,964,731	March 31, 2012
$0.80	337,750	April 21, 2012
$0.80	2,753,244	March 23, 2012
$0.80	712,000	October 8, 2011
$0.85	1,800,000	December 24, 2011
$0.10 to $0.85	25,151,489	

Subsequent to March 31, 2011, a total of 772,022 warrants were exercised for proceeds of $443,468.

16. CAPITAL RISK MANAGEMENT

The Company considers its capital structure to consist of share capital, stock options and warrants. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of mineral properties. The Board of Directors does not establish quantitative returns on capital criteria for management.

The properties in which the Company currently has an interest are in the exploration stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the three months ended March 31, 2011. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

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16. CAPITAL RISK MANAGEMENT (Continued)

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

17. FINANCIAL INSTRUMENTS

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

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

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

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices), and

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

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

Prophecy Resource Corp
Financial instruments

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	$ 19,744,612	$ -	$ -	$ 19,744,612
Investments	6,677,692	-	-	6,677,692
	$ 26,422,304	**$ -**	**$ -**	**$ 26,422,304**

(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, 2011, the Company has cash and cash equivalents of $19,744,612 (December 31, 2010 - $39,324,151) and financial liabilities of $750,275 (December 31, 2010 - $7,305,285), which have contractual maturities of 90 days.

17. FINANCIAL INSTRUMENTS (Continued)

(b) Credit risk

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

(c) Market risk

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

(i) Interest rate risk

Interest risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's cash equivalents primarily include highly liquid investments that earn interest at market rates that are fixed to maturity or at variable interest rates. The Company also drew on credit facility bearing an annual coupon rate of 10%, which was repaid in January 2011. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on the fair values of the financial instruments as of March 31, 2011. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

(ii) Foreign currency risk

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

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

Based on the above, net exposures as at March 31, 2011, with other variables unchanged, a 5% (at December 31, 2010 - 4%) strengthening (weakening) of the US dollar against the Canadian dollar would not have a material impact on earnings; with other variables unchanged, a 1% (at December 31, 2010 - 10%)

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17. FINANCIAL INSTRUMENTS (Continued)

(ii) Foreign currency risk

strengthening (weakening) of the Mongolia tugrug against the Canadian dollar would not have a material impact on net loss.

(iii) Other price risk

The Company holds an investment in marketable securities that fluctuates in value. Based upon the Company's investment position as at March 31, 2011, a 10% increase (decrease) in the market price of the investment held would have resulted in an increase (decrease) to net income of approximately $839,538 (at December 31, 2010 - $329,538).

18. RELATED PARTY TRANSACTIONS

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

	Principal Activity	Place of incorporation and operation	Ownership interest
Chandgana Coal LLC	Mining	Mongolia	100%
East Energy Development LLC	Mining	Mongolia	100%
Red Hill Mongolia LLC	Mining	Mongolia	100%
UGL Enterpises LLC	Inactive	Mongolia	100%
Northern Platinum Ltd	Mining	British Columbia, Canada	100%
Prophecy Holdings Inc	Mining	British Columbia, Canada	100%

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

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

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

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

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

d. Linx Partners Ltd. is a private company controlled by John Lee, Director, CEO, and Chairman of the Company, provides management service.

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18. RELATED PARTY TRANSACTIONS (Continued)

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

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

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

	Three months ended March 31	
	2011	2010
Consulting and management fees	$ 230,900	$ 15,000
Professional fees	-	184,472
Director fee	4,206	-
Salaries and benefits	11,700	-
Office and administration	-	9,165.00
Total related party expenses	$ 246,806	$ 208,637

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

	Three months ended March 31	
Related parties	2011	2010
Armada Investments Ltd. (a)	$ -	$ 30,165
Canrim Ventures Ltd. (b)	-	5,472
J. P. McGoran and Associates Ltd. (c)	7,500	-
Linx Partners Ltd. (d)	120,000	-
S. Paul Simpson Law Corp. (e)	-	173,000
The Energy Gateway Ltd. (f)	48,000	-
Key management personnel	71,306	-
Total related party expenses	$ 246,806	$ 208,637

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

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19. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended March 31,	
	2011	2010
Supplementary Information		
Interest paid	$ 83,334	$ -
Non-Cash Financing and Investing Activities		
Mineral property expenditures included in accounts payable	$ 488,690	$ 8,187

20. COMMITMENTS FOR EXPENDITURE

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

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

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

21. SUBSEQUENT EVENTS

(a) On June 13, 2011, the Company completed the sale of the Wellgreen and Lynn Lake nickel properties to Pacific Coast Nickel Corp. ("PCNC") (the "Transaction").

Pursuant to the Transaction, PCNC issued 450,000,000 of its common shares to Prophecy. Prophecy retained 225,000,000 of these shares and will distribute 180,823,575 PCNC common shares to Prophecy shareholders and reserve 44,176,425 common shares for distribution to holders of Prophecy options and warrants, upon the exercise of such options and warrants.

Immediately following the completion of the Transaction, PCNC will consolidate its share capital on a 10 old for one new basis (the "Consolidation") and will change its name to Prophecy Platinum Corp. PCNC will retain its existing symbol NKL.V. Prophecy will change its name to Prophecy Coal Corp. and will retain its existing symbol PCY.V.

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

Following completion of the Transaction, PCNC will have 50,603,484 post-Consolidation shares outstanding and Prophecy will own 22,500,000 common shares of PCNC or 44.46% on an outstanding and 42.54% on a fully diluted basis.

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

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

OR

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

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.

21. SUBSEQUENT EVENTS (Continued)

(c) Subsequent to March 31, 2011, the Company has granted options to acquire an aggregate of 2.4 million common shares at a price of $0.63 per share for a period of five years to directors, officers, consultants, and employees of the Company. The above grant is subject to regulatory approval, including the approval of the TSX Venture Exchange.

This Interim Management's Discussion and Analysis ("MD&A") provides a review of the significant developments and issues that influenced the Company during the quarter ended March 31, 2011 It should be read in conjunction with the condensed interim consolidated financial statements of Prophecy Coal Corp. (Formerly – Prophecy Resource Corp.) ("Prophecy" or the "Company") as at and for three month periods ended March 31, 2011 and 2010, and the 2010 MD&A and audited annual Consolidated Financial Statements of the Company.

This MD&A contains information up to and including June 22, 2011.

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

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

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

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

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

Adoption of International Financial Reporting Standards (IFRS)

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

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

- The Consolidated Statement of Financial Position at January 1, 2010, March 31, 2010, and at December 31, 2010;
- The Consolidated Statements of Operations and Comprehensive loss for the year ended December 31, 2010 and three month period ended March 31, 2010;
- The Consolidated Statements of Cash Flows for the three month period ended March 31, 2010.

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

1. First Quarter 2011 Highlights and Significant Events

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

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

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

- *Subsequent to period-end:*

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

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

- In May 2011, the Company has announced the appointment of Mr. David Jan as the Company's Chief Financial Officer.
- In June 2011, Prophecy completed the Arrangement whereby PCNC acquired the Lynn Lake and Wellgreen nickel properties from Prophecy. In connection with the Arrangement, Prophecy changed its name to "Prophecy Coal Corp.", and shareholders of PCNC also approved a 10:1 share consolidation. Prophecy owns 44.5% of outstanding common shares and 42.5% of diluted common shares of PCNC.

(Expressed in Canadian Dollars)

2. Business Overview

Prophecy is an internationally diversified company incorporated under the laws of the province of British Columbia, Canada, with its primary activities focussed on the acquisition, exploration and development of coal properties in Mongolia. The Company is a publicly listed company and its outstanding common shares are listed for trading on the TSX Venture Exchange ("TSXV") under symbol "PCY", OTC-QX under symbol "PRPCF", and Frankfurt Stock Exchange under symbol "1P2".

The address of the Company's head office and records is at Suite 2060-777 Hornby Street, Vancouver, BC, V6Z 1T4.

Resource Properties

As of March 31, 2011, the Company's primary resource properties include: Ulaan Ovoo coal mine (Mongolia), and the Chandgana Khavtgai and Chandgana Tal coal deposits (Mongolia), collectively known as the Chandgana Coal Properties. Other properties included the Wellgreen nickel (Yukon, Canada), Lynn Lake nickel (Manitoba, Canada), Okeover copper-molybdenum (British Columbia, Canada), and Titan (Ontario, Canada).

On June 13, 2011 the Wellgreen and Lynn Lake properties were sold to PCNC.

Ulaan Ovoo Coal Mine

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

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

Operation Statistics: The mine, which started operations in November 2010 through its mining contractor, Leighton Asia Limited ("Leighton") has removed and stockpiled approximately 1.5 million of bank cubic metres ("BCM") of topsoil and overburden thereby produced nearly 230,000 tonnes of thermal coal of varying qualities. During the three months of first quarter 2011, the Company produced over 160,000 tonnes of coal. The Company is currently working with Leighton to optimize mine plans for the remainder of 2011 on an incurred cost basis.

Having secured a rail siding at Sukhbaatar covering an area of 23,770 square meters, the Company currently has trucked nearly 20,000 tonnes of coal from Ulaan Ovoo to the Sukhbaatar railway siding.

Equipment: During the three months ended March 2011, the Company bought its first fleet of mining equipment for $5.8 million and incurred mine development and exploration expenditures of approximately $2.7 million (2010 - $2.5 million).

2. Business Overview (Continued)

Resource Properties (Continued)

Ulaan Ovoo Coal Mine (Continued)

During the second quarter 2011, the Company has ordered and received to date a second fleet of mining equipment, which consists of:

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

The purchase of the Scania trucks will enable Prophecy to reduce the cost of road hauling coal from the mine to the rail siding, which is currently done with contractors. Between April and December 2011, the pit is being expanded to reach a production rate of at the 1 million tonnes per annum.

Coal Off-take/Sales Agreement: Prophecy is in active discussion with several potential International and Russian coal customers. The priority is to export the first shipment export quality thermal coal of 5,100+ kcal/kg NAR coal through the Sukhbaatar rail station along Russian rail lines to the eastern Russian seaboard port of Sovgavan, where the Company recently secured 25,000 tonnes per month of port allocation. The strategic location of the port provides access to meet the rising demand in the Asian seaborne export coal markets, specifically China, Korea and Japan. Meanwhile, the Company also continues to seek coal off-take agreements for sales into local Russian and Mongolian power plants.

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

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

(Expressed in Canadian Dollars)

2. Business Overview (Continued)

Resource Properties (Continued)

Chandgana Coal Property

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

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

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

Details of the Chandgana Coal Properties, as noted in the September 2010 NI-43-101 report, are summarized in the following table:

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

During the current quarter, the Company incurred a total of $89,000 (2010 - $970,000) exploration and development expenditures at the Chandgana Coal Property.

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

Tal will be the starter pit and will supply an estimated 2.4 to 2.8 million tonnes per year of coal to the Power Plant Project. Khavtgai will supplement mine production in later years. The Power Plant Project is next to a paved road and within 160 km of the Central Mongolian Railroad, which can facilitate transport of construction equipment. The Project is adjacent to a 45 kilovolts ("kv") electrical distribution line and within 150km from a 2 x 220kv electric transmission line.

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

2. Business Overview (Continued)

Resource Properties (Continued)

Chandgana Coal Property (Continued)

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

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

Resource Properties Held for Disposition

Wellgreen Nickel Property

The Wellgreen property is located approximately 35 km northwest of Burwash Landing in the Yukon, and about 400 Km from Alaska's deep sea port at Haines. The Wellgreen property is a platinum group metal (PGM)-rich, nickel (Ni)-copper (Cu) project located in the south-western Yukon Territory. On July 26, 2010, the Company has received a positive independent NI 43-101 technical report from Wardrop Engineering, a Tetra Tech Company, stated that the potential within the Quill Creek Ultramafic intrusion on the Wellgreen property is in the range of 77 to 254 million tonnes at 0.26 to 0.38% nickel, 0.26 to 0.36% copper, 0.32 to 0.47 g/t platinum and 0.23 to 0.38 g/t palladium. This estimate is conceptual in nature based on the assumption of a specific gravity of 3.22, strike length of 4000 to 7000 metres, depth of 200 to 250 metres and a width of 30 to 35 metres. The report is authored by, Todd McCracken, P.Geo. an independent Qualified Person.

Prophecy is currently completing a compilation on over 45 years of surface and underground drilling data, geophysical and geological work on the property. The company has also commissioned Wardrop Engineering, a Tetra-tech Company, to complete an updated NI 43-101 compliant resource calculation for the Wellgreen property. The results of this study are expected in late June 2011, and will be announced through PCNC.

In May 2011, the Company commenced of an expansion drilling program that will be completed by PCNC. The program will comprise of 8,000 meters of solid-core diamond drilling from May to September 2011 with up to 3 drills to test minimum 17 infill and exploration targets.

During three months ended March 31, 2011, the Company incurred a total of $472,499 exploration costs.

Lynn Lake Nickel Property

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

(Expressed in Canadian Dollars)

2. Business Overview (Continued)

Resource Properties Held for Disposition (Continued)

Lynn Lake Property (Continued)

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

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

During three months ended March 31, 2011, the Company incurred a total of flow through expenditures of $119,288 at Lynn Lake.

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

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

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

Other Properties:

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 Holding in April 2010.

2. Business Overview (Continued)

Other Properties (Continued)

Titan Vanadium Iron Property

The Company is earning an 80% interest in the Titan property ("Titan"). Prophecy has commenced an exploration program which 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

3. Transition to International Financial Reporting Standards

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

The Company's unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2011 have been prepared in accordance with existing IFRS standards with restatements of comparative balance sheets as at December 31, 2010, March 31, and January 1, 2010 and statements of earnings and comprehensive income for the three months ended March 31, 2010 and year ended December 31, 2010 as previously reported and prepared in accordance with Canadian GAAP. In the preparation of these financial statements, the Company utilized certain elections provided under IFRS 1 for first time IFRS adopters. Set forth below are the IFRS 1 applicable exemptions applied in the Company's conversion from Canadian GAAP to IFRS.

3.1 IFRS Exemption Options

(a) Share-based payments

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

3. Transition to International Financial Reporting Standards (Continued)

3.1 IFRS Exemption Options *(Continued)*

(b) Business Combinations ("IFRS 3")

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

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

3.2 Income Taxes

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

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

3.3 Share-Based Payments

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

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

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

3.4 *Reclassification of Mineral Property Interest*

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

(Expressed in Canadian Dollars)

3. Transition to International Financial Reporting Standards (Continued)

3.4 *Reclassification of Mineral Property Interest* (Continued)

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

4. Summary of Quarterly Results

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

	2011	2010				2009		
	IFRS	IFRS	IFRS	IFRS	IFRS	CGAAP	CGAAP	CGAAP
	Mar-31	Dec-31	Sep-30	Jun-30	Mar-31	Dec-31	Sep-30	Jun-30
Expenses	$ (2,480,260)	$(432,436)	$(2,132,058)	$(1,646,450)	$ (418,614)	$(340,801)	$ 181,571	$(286,783)
Other income and expenses	(75,512)	76,872	(43,302)	2,106	(4,290)	(11,215)	(60,676)	(1,595)
Loss for the period	$ (2,555,772)	$(355,564)	$(2,175,360)	$(1,644,344)	$ (422,904)	$(352,016)	$ 120,895	$(288,378)
Loss per share	(0.01)	(0.01)	(0.02)	(0.02)	(0.01)	(0.01)	-	(0.01)

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

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

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

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

(Expressed in Canadian Dollars)

5. Results of Operations

The Company incurred an operating loss for the three months ended March 31, 2011 ("Q1 2011") of $2,555,772 compared to a $422,904 loss incurred in the same quarter last year. The increase in operating loss is due to the factors discussed below.

		Three Months Ended March 31, 2011		Three Months Ended March 31, 2010
General and Administrative Expenses	$	299,995	$	142,441
Consulting and management fees		306,757		163,723
Share based payments		1,340,353		
Advertising		217,043		29,233
Professional fees		120,600		39,504
Travel and accommodation		195,512		43,713
Interest (income)		(51,203)		(432)
Foreign exchange loss		126,715		4,722
	$	2,555,772	$	422,904

General and administrative

For the three months ended March 31, 2011, general and administrative expense was $299,995 compared to $142,441 during the year ago period. The increase in 2011 was due primarily to increased salaries and office rent substantially driven by greater administrative efforts necessary for the management of the Ulaan Ovoo mine development and management of the exploration programs for the Lynn Lake and Wellgreen projects acquired in September 2010.

Consulting and management fees

For the three months ended March 31, 2011, consulting and management fees expense was $306,757 compared to $163,723 during the year ago period. The increase in 2011 was due primarily to management fees charged by officers of the company and by independent consultants for services required for the management of the Ulaan Ovoo mine development and management of the exploration programs for the Lynn Lake and Wellgreen projects acquired in September 2010.

Share-based payments

For the three months ended March 31, 2011, share-based payments expense was $1,340,353 compared to $Nil during the year ago period. The charge in 2011 reflects the fair value of options granted in 2010 that vested in the current quarter. No options were granted in the three month period ended March 31, 2010 nor did any options vest in that period.

Advertising

For the three months ended March 31, 2011, advertizing expense was $217,043 compared to $29,233 during the year ago period. The increase in 2011 was due primarily to a greatly expanded investor relations program that included conferences, trade shows, and media and web advertising.

5. Results of Operations (Continued)

Professional fees

For the three months ended March 31, 2011, professional fees expense was $120,600 compared to $39,504 during the year ago period. The increase in 2011 was due primarily to general corporate legal fees for various matters arising from the affairs of a larger company, consulting fees in connection with the conversion from CGAAP to IFRS, and auditors' fees for the review of the current financial statements. The year ago financial statements were prepared by management but not reviewed by the auditors.

Travel and accommodation

For the three months ended March 31, 2011, travel and accommodation expense was $195,512 compared to $43,713 during the year ago period. The increase in 2011 was due to increased travel by Vancouver staff to the Ulaan Bataar office to oversee the administration of the Ulaan Ovoo mine and the Chandgana coal projects. The higher travel and accommodation expense was also due to an expended investor relations program.

Interest income

For the three months ended March 31, 2011, interest income was $51,208 compared to $432 during the year ago period. Interest income for the current quarter was earned on funds raised in late December 2010 and invested in short-term interest bearing accounts. Interest income in the year ago quarter represents miscellaneous interest earned on bank balances.

Foreign exchange loss

For the three months ended March 31, 2011, foreign exchange loss expense was $126,715 compared to $4,722 during the year ago period. The increase in 2011 was due to the decline of the Mongolian tugrik and United States dollar against the Canadian dollar during the quarter.

(Expressed in Canadian Dollars)

5. Results of Operations (Continued)

Use of funds raised in December 2010

In December, 2010, the Company issued 49,475,000 common shares for gross proceeds of $42,053,750. Funds used to March 31, 2011 are compared to the estimated use of proceeds in the short form prospectus as set out below:

	Quarter Ended March 31, 2011	Actual Net Proceeds From Offering
Use of Proceeds		
Repayment of the loan	$ 5,000,000	$ 5,000,000
Ulaan Ovoo Property:		
Mining equipment	7,980,190	15,000,000
Road Improvement	495,000	8,000,000
Trucks and transport costs	458,206	6,000,000
Feasibility report	-	2,706,000
General working capital	785,255	2,824,525
Mine development	1,892,799	-
Reduction in net proceeds		(530,315)
Purchase of available for sale investments	1,750,000	-
Expenditures on other properties and corporate administration in excess of additional funds Raised in 2011	894,148	-
	$ 19,255,598	$ 39,000,210

Projected expenditures on the Ulaan Ovoo mine were incurred as set out above. Further expenditures were made subsequent to March 31, 2011.

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

During the quarter ended March 31, 2011, the Company raised $2,482,382 from the exercise of warrants and options. Other expenditures on fixed assets, exploration, and corporate overhead exceeded the funds raised by $894,148.

6. Liquidity and Capital Resources

The Company will require additional sources of liquidity to continue to develop the Ulaan Ovoo mine and develop the Chandgana Power Plant Project. Sources of potential liquidity may include cash on hand, generating coal sales from off-take agreements, dispositions of its 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 mining industry.

6.1 Working Capital

The Company ended Q1 2011 with $19.7 million (December 31, 2010 - $39.3 million) cash and cash equivalents and net working capital of over $26.5 million (December 31, 2010 - $35.8 million).

As at the date of this report, the Company's working capital is approximately $8.5 million.

6.2 Cash Flows Q1 2011 and 2010

Operating activities: During three months ended March 31, 2011, cash used in operating activities was $1.9 million as compared to cash used of $1.0 million in the first quarter of 2010. The increase in cash used in operating activities was mainly due to increase in operations at Ulaan Ovoo.

Investing activities: During three months ended March 31, 2011, $15 million cash (same period last year - $0.1 million) was used in investing activities, of which $7.2 million (same period last year - $nil) was related to the acquisition of mining and other equipment, $1 million (same period last year - $0.1 million) was used for exploration expenditures incurred at the Company's mineral properties, and $1.75 million was used for purchase of investments.

Financing activities: During three months ended March 31, 2011, a total of $2.6 million cash was used in financing activities. $5 million was used to repay the loan which was offset by $2.4 million cash generated from issuance of shares on options ($619,299) and warrants exercise ($2,115,367)

6.3 Secured Credit Facility

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

6.4 General Contractual Commitments

As of date of these MD&A, the Company does not have any commitments related to Lynn Lake and Wellgreen properties (refer to Notes to Condensed Consolidated Interim Financial Statements, note 12) as they were sold to PCNC on June 10, 2011.

(Expressed in Canadian Dollars)

7. Related Party Transactions

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

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

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

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

d. Linx Partners Ltd. is a private company controlled by John Lee, Director, CEO, and Chairman of the Company, provides management service.

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

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

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

	Three months ended March 31	
	2011	2010
Consulting and management fees	$ 230,900	$ 15,000
Professional fees	-	184,472
Director fee	4,206	-
Salaries and benefits	11,700	-
Office and administration	-	9,165.00
Total related party expenses	$ 246,806	$ 208,637

(Expressed in Canadian Dollars)

7. Related Party Transactions (Continued)

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

	Three months ended March 31	
Related parties	2011	2010
Armada Investments Ltd. (a)	$ -	$ 30,165
Canrim Ventures Ltd. (b)	-	5,472
J. P. McGoran and Associates Ltd. (c)	7,500	-
Linx Partners Ltd. (d)	120,000	-
S. Paul Simpson Law Corp. (e)	-	173,000
The Energy Gateway Ltd. (f)	48,000	-
Key management personnel	71,306	-
Total related party expenses	$ 246,806	$ 208,637

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

8. Critical Accounting Estimates

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

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

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

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

9. Changes in Accounting Policies including Initial Adoption of IFRS

9.1 Adoption of Accounting Policy

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

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

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

9.2 IFRS Conversion

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

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

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

i. Share-based payments

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

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

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

ii. Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of January 1, 2008 are consistent with its Canadian GAAP estimates for the same date.

iii. Assets and liabilities of subsidiaries and associates

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

9.4 Financial Statement Impact on Transition to IFRS

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

i. Share-based payments

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

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

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

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

ii. Income taxes

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

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

9.4 Financial Statement Impact on Transition to IFRS (Continued)

i. *Income taxes* (Continued)

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

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

ii. *Exploration and Evaluation Accounting*

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

iii. *Impairment of assets*

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

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

Additionally, another difference exists as IAS 36, *Impairment of Assets* allows for the reversal of any previous impairment losses where circumstances have changed such that the impairments have been reduced. Canadian GAAP prohibits reversal of impairment losses.
The Company has concluded that the adoption of these standards will not result in a change to the carrying value of its assets on transition to IFRS.

10. Financial Instruments and Related Risks

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

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

The following table sets forth the Company's financial assets and liabilities that are measured at fair value on a recurring basis by level within the fair value hierarchy. As at March 31, 2011, those financial assets and liabilities are classified in their entirety based on the level of input that is significant to the fair value measurement.

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	$ 19,744,612	$ -	$ -	$ 19,744,612
Investments	6,677,692	-	-	6,677,692
	$ 26,422,304	**$ -**	**$ -**	**$ 26,422,304**

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

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

11. Internal Control over Financial Reporting

The adoption of IFRS impacts the Company's presentation of financial results and accompanying disclosures. The Company has evaluated the impact of IFRS on its processes, controls and financial reporting systems and has made modifications to its control environment accordingly. There have been no significant changes in Prophecy's internal control over financial reporting during the three month period ended March 31, 2011 that have materially affected, or are reasonably likely to materially effect, the Company's internal control over financial reporting.

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

In contrast to the certificate required under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("MI 52-109"), the venture issuer certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in MI52-109. In particular, the certifying officers filing certificates for venture issuers are not making any representations relating to the establishment and maintenance of:

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

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

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

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

12. Additional Disclosure for Venture Issuers without Significant Revenue

Directors and Officers

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

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

Audit Committee

Greg Hall
Paul Venter
Paul McKenzie

Qualified Person

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

Investor Relations

John Lee, CEO, and David Jan, CFO, coordinate investor relations' activities for the Company.

13. Off-Balance Sheet Arrangement

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

(Expressed in Canadian Dollars)

14. Disclosure of Outstanding Share Data

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

14.1 ***Share Capital***

Authorized – unlimited number of common shares without par value.

Issued and outstanding – common shares outstanding 190,266,211 with recorded value of $128,350,705.

Summary of securities issued during the period

	Common Shares	Value
Outstanding, December 31, 2010	184,981,198	$125,458,376
Shares issued on exercise of options	872,400	673,619
Shares issued on exercise of warrants	4,977,487	2,558,835
Outstanding, June 23, 2011	190,831,085	128,690,830

14.2 ***Stock Options***

Summary of options granted during the period:

Exercise Price	Number of Options Granted	Expiry Date
$0.80	120,000	January 4, 2016
$0.93	50,000	January 6, 2016
$0.98	130,000	February 14, 2016
	300,000	

Subsequent to the quarter-end, the Company has granted options to acquire an aggregate of 2.4 million common shares at a price of $0.63 per share for a period of five years to directors, officers, consultants and employees of the Company. The above grant is subject to regulatory approval, including the approval of the TSX Venture Exchange.

(Expressed in Canadian Dollars)

14. Disclosure of Outstanding Share Data (Continued)

14.2 *Stock Options*

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

Exercise Price	Number of Options Outstanding	Expiry Date
$0.25	50,000	February 14, 2012
$0.25	1,225,000	October 29, 2014
$0.38	200,000	November 30, 2014
$0.40	1,247,200	January 23, 2014
$0.40	381,250	January 29, 2015
$0.54	1,000,000	September 21, 2015
$0.55	350,000	March 11, 2015
$0.60	550,000	July 17, 2014
$0.60	65,000	September 21, 2014
$0.63	2,400,000	June 13, 2016
$0.67	1,967,500	May 10, 2015
$0.67	175,000	October 15, 2015
$0.77	9,000,000	December 10, 2015
$0.77	2,050,000	December 24, 2015
$0.80	475,000	April 30, 2014
$0.80	100,000	September 21, 2015
$0.80	120,000	January 4, 2016
$0.93	50,000	January 6, 2016
$0.93	2,950,000	December 24, 2015
$0.98	130,000	February 14, 2016
$1.03	150,000	March 24, 2015
$0.25 to $1.03	24,635,950	

(Expressed in Canadian Dollars)

14. Disclosure of Outstanding Share Data (Continued)

14.3 *Share Purchase Warrants*

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

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

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