Prophecy Resource Corp.

(Formerly - Red Hill Energy Inc.)

(An Exploration Stage Company)

Consolidated Financial Statements

March 31, 2010

(Unaudited, See Advisory to Reader)

Prophecy Resource Corp.
(Formerly - Red Hill Energy Inc.)
#2080 - 777 Hornby Street, Vancouver, BC, V6Z 1S4
Tel: (604) 683-7361 Fax: (604) 662-3231

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Brett Resources Inc. are the responsibility of the Company's managment, are prepared in accordance with accounting principles generally accepted in Canada, and reflect management's best estimates and judgement based on information currently available.

Managment has developed and maintains a system of internal controls to ensure that the Company's assets are safeguarded, transactions are authorized and properly recorded, and financial information is reliable.

The Board of Directors is respobsible for ensuring managment fulfills its responsibilities for financial reporting and internal controls through an audit committee, which is comprised of non-manamgement directors. The Audit Committee reviews the results of the consolidated financial statements prior to their submission to the Board of Directors for approval.

" John Lee "
CEO, Director

" Mark lotz "
CFO

Vancouver, British Columbia
July 7, 2010

Prophecy Resource Corp. (Formerly - Red Hill Energy Inc.)
(An Exploration Stage Company)
Consolidated Balance Sheet
(Unaudited, Prepared by management)

	March 31, 2010	December 31, 2009
ASSETS		
Current assets		
Cash and cash equivalents	$ **3,775,486**	$ 139,312
Accounts receivable and accrued interest	**843,906**	2,928
	4,619,392	142,240
Property and equipment, net (Note 6)	**74,139**	77,927
Deposits	**6,850**	6,850
Deferred acquisition costs	**173,000**	-
Mineral property interests (Note 7)	**16,071,276**	15,933,591
	$ **20,944,657**	$ 16,160,608
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ **475,122**	$ 52,105
	475,122	52,105
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	**38,546,876**	33,896,787
Contributed surplus (Note 8(e))	**3,716,266**	3,582,419
Deficit	**(21,793,607)**	(21,370,703)
	20,469,535	16,108,503
	$ **20,944,657**	$ 16,160,608

Approved by the Board:

" John Lee "
CEO, Director

" Mark lotz "
CFO

See notes to consolidated financial statements.

Prophecy Resource Corp. (Formerly - Red Hill Energy Inc.)
(An Exploration Stage Company)
Consolidated Statements of Operations and Deficit
(Unaudited, Prepared by management)

	Three Months Ended March 31 **2010**	2009
General and Administrative Expenses		
Amortization	$ **5,106**	$ 5,388
Consulting and management fees (Note 8 (c))	**163,723**	394,529
Director fees (Note 8 (c))	**-**	666,900
Professional fees	**39,504**	5,191
Stock exchange and shareholder services	**45,698**	13,504
Advertising and promotion (Note 8(c))	**29,233**	90,504
Office and administration	**30,787**	31,193
Travel and accommodation	**43,713**	37,665
Foreign exchange loss (gain)	**4,722**	(16,196)
Insurance	**483**	-
Salary and benefits (Note 8(c))	**60,367**	147,641
Loss before other items	**423,336**	1,376,319
Other items		
Interest, net	**432**	2,317
Mineral property interests written-off	**-**	(9,784)
Net loss and comprehensive loss for period	**(422,904)**	(1,383,786)
Deficit - beginning of period	**(21,370,703)**	(19,376,578)
Deficit - end of period	**$(21,793,607)**	$(20,760,364)
Loss Per Share	**$ (0.01)**	$ (0.03)
Weighted Average Number of Shares Outstanding	**56,893,206**	51,509,873

See notes to consolidated financial statements.

Prophecy Resource Corp. (Formerly - Red Hill Energy Inc.)
(An Exploration Stage Company)
Consolidated Statement of Cash Flows
(Unaudited, Prepared by management)

	Three Months Ended March 31 **2010**	2009
Cash flows from operating activities		
Net loss	$ **(422,904)**	$ (1,383,786)
Adjustments non-cash items:		
Stock based compensation	-	1,095,200
Mineral property interests written off	-	9,784
Amortization	**5,106**	5,388
	(417,798)	(273,414)
Changes in non-cash working capital		
Accounts receivable	**(840,978)**	16,248
Prepaid expenses and deposits	-	612
Accounts payable and accrued liabilities	**241,830**	(29,496)
	(1,016,946)	(286,050)
Cash flows from investing activities		
Purchase of property and equipment	(1,318)	-
Expenditures on mineral property interests	**(129,498)**	(241,028)
	(130,816)	(241,028)
Cash flows from financing activities		
Shares issued	**4,783,936**	-
	4,783,936	-
Net increase (decrease) in cash	**3,636,174**	(527,078)
Cash and cash equivalents - beginning of period	**139,312**	1,389,333
Cash and cash equivalents - end of period	**$ 3,775,486**	$ 862,255
Supplemental Cash Flow Information		
Accounts payable in mineral property interests	$ 8,187	$ 0

See notes to consolidated financial statements.

1. Nature of Operations

The Company is an exploration stage public company. The principal business activity of the Company is the acquisition, exploration and development of mineral properties, principally in Mongolia.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis.

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

At March 31, 2010, the Company had working capital of $4,144,270 (December 31, 2009- $90,135) and an accumulated deficit of $21,793,607 (December 31, 2009 - $21,370,703). The Company will require additional financing or outside participation to meet its planned corporate and administrative expenses for the coming year and to undertake further exploration and subsequent development of its mineral property interests. The Company's ability to continue as a going-concern is dependent on continued financial support from its shareholders, the ability of the Company to raise equity financing, and the attainment of profitable operations, external financings and further share issuances to meet the Company's liabilities as they become payable.

These financial statements have been prepared on a going-concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. These financial statements do not include any adjustments for the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going-concern.

2. Significant Accounting Policies

(a) Interim financial statements

The unaudited interim consolidated financial statements follow the same accounting policies and methods of their application as the most recent audited financial statements for the year ended December 31, 2009, however, they do not include all the information and disclosures required by the annual financial statements. In the opinion of management, all adjustments of a normal recurring nature necessary for a fair presentation have been included. The results for the interim periods are not necessarily indicative of the results for the entire year. The information contained in the interim financial statements should be read in conjunction with the Company's latest annual financial statements and notes thereto.

(b) Basis of presentation

These unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and its wholly owned integrated subsidiaries, Red Hill Energy (US) Inc., Redhill Mega Uranium LLC, Chandgana Coal LLC, UGL Enterprises LLC, and Redhill Mongolia LLC. All inter-company balances and transactions have been eliminated.

2. Significant Accounting Policies

(c) Change in Accounting Policy

Effective January 1, 2010, the Company adopted the following standards of the Canadian Institute of Chartered Accountants' ("CICA") under the following Handbook guidelines.

(i) Business Combinations

In January 2009, the Canadian Institute of Chartered Accountants issued Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests". These sections replace the former Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

(d) Future accounting changes

(i) International Financial Reporting Standards ("IFRS")

In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

3. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	March 31, **2010**	December 31, 2009
Bank - Canada	$ **2,262,139**	$ 21,063
Bank - Mongolia	**13,347**	18,249
Term deposits with average interest rate of 0.50%	**1,500,000**	100,000
(December 31, 2009 - 1.05%)	$ **3,775,486**	$ 139,312

4. Financial Instrument Risk Exposure and Risk Management

The Company has classified its cash and cash equivalents as held-for-trading; deposit and reclamation deposit as held-to-maturity; and accounts payable and accrued liabilities as other financial liabilities.

The carrying values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these financial instruments. The carrying value of the reclamation deposit approximates its fair value since amounts held earn interest at market rates. The Company's risk exposure and the impact on the Company's financial instruments are summarized below.

(a) Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. 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 in accordance with the Company's investment policy. Concentration of credit risk exists with respect to the Company's cash and cash equivalents as substantially all amounts are held with a single major Canadian financial institution.

(b) Market risk

The significant market risks to which the Company is exposed are interest rate risk and foreign currency risk. These are discussed further below:

(i) Interest rate risk
Interest rate risk consists of two components:

(a) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.

(b) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk

The Company's cash and cash equivalents consists of cash held in bank accounts and bankers acceptance with fixed interest rates. The Company has a $1,500,000 bankers acceptance due January 15, 2011 with interest at 0.5%. Accordingly, the Company is exposed to interest rate price risk on its bankers acceptance. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values as of March 31, 2010. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

(c) 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 is exposed to foreign currency risk with respect to cash and cash equivalents, and transactions during the year, exploration expenditures, and accounts payable and accrued liabilities as a portion of these amounts are denominated in US dollars and Mongolian tugrug. The Company has not entered into any foreign currency contracts to mitigate this risk.

4. Financial Instrument Risk Exposure and Risk Management (continued)

(d) Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash to meet its financial obligations as they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March 31, 2010, the Company had a cash and cash equivalents balance of $3,775,486 (December 31, 2009 - $139,312) to settle current liabilities of $475,122 (December 31, 2009 - $52,105). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

5. Capital 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, exploration and development of mineral properties. The board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

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 pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the period ended March 31, 2010. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

6. Property and equipment

			March 31, 2010	December 31, 2009
	Cost	**Accumulated Amortization**	**Net**	Net
Furniture and Equipment	$ **92,565**	$ **56,281**	$ **36,284**	$ 38,521
Leasehold Improvements	**7,244**	**1,811**	**5,433**	5,795
Vehicle	**47,475**	**21,571**	**25,904**	28,004
Computer Equipment	**27,157**	**20,639**	**6,518**	5,607
	$ **174,441**	$ **100,302**	$ **74,139**	$ 77,927

7. Mineral Property Interests

The Company's investment in and expenditures on resource properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent on establishing legal ownership of the properties, on the attainment of successful production from the properties or from the proceeds of their disposal.

7. Mineral Properties (continued)	**March 31, 2010**	**December 31, 2009**
Banbury Property (note 7(a))		
Aquisition Cost	**$ 1**	$ 1
Ulaan Ovoo Property (note 7(b))		
Aquisition Cost	**10,537,737**	10,537,737
Exploration expenditures	**2,468,501**	2,412,480
	13,006,238	12,950,217
Chandgana Tal Property (note 7(c))		
Aquisition Cost	**814,334**	814,334
Exploration expenditures	**469,626**	467,910
	1,283,960	1,282,244
Chandgana Khavtgai (note 7(d))		
Aquisition Cost	**589,053**	589,053
Exploration expenditures	**584,324**	583,289
	1,173,377	1,172,342
Uranium Properties (note 7(e))		
Exploration expenditures	**-**	85,443
Write-off of property	**-**	(85,443)
	-	-
Red Lithium (note 7(f))		
Aquisition Cost	**290,000**	290,000
Exploration expenditures	**49,607**	49,607
	339,607	339,607
Thor Rare Earth Elements (note 7(g))		
Acquisition Cost	**155,000**	155,000
Exploration expenditures	**113,093**	34,180
	268,093	189,180
Total Mineral Properties	**$ 16,071,276**	$ 15,933,591

7. Mineral Properties (continued)

(a) Banbury Property

The Company owns a 100% undivided interest in six mineral claims near Hedley, BC, described as the Banbury Property. The interest is recorded at a nominal value of $1.

On October 30, 2008, the Company granted an exclusive option to 0838331 B.C. Ltd. (the "Optionee") for a three year period ending on October 31, 2011 to acquire an undivided 60% participating interest in the Company's 100% owned Banbury Gold Property. The purchase option requires the Optionee to make cash payments and incur expenditures on the property as follows:

(i) on or before October 31, 2009, expending $50,000 on an analysis and compilation of data and preparation of a summary report on the property;
(ii) on or before October 31, 2010, paying $100,000 to the Optionor and expending $750,000 on exploration and development work on the property; and
(iii) on or before October 31, 2011, paying $150,000 to the Optionor and expending $1,000,000 on exploration and development work on the property.

On April 16, 2010, as part of the completion of the plan of arrangement (Note 12), the Banbury Property was transferred to Elissa Resources Ltd.

(b) Ulaan Ovoo Property

On November 15, 2005, the Company entered into a letter of intent with Ochir LLC ("Ochir") that sets out the terms to acquire a 100% interest in the property known as Ulaan Ovoo coal project. 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.

On November 15, 2006, the Company entered into an agreement with a private Mongolian corporation (the "Vendor") to purchase a 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 is US $400,000, with US $50,000 being payable within 10 days of signing the agreement and the balance of the payment due upon transfer of ownership title to the Company (paid). Under the terms of the agreement the Vendor will retain a 2% net smelter return royalty on the five newly acquired licenses. A finder's fee of 58,500 shares was issued to a third party on the acquisition.

(c) Chandgana Tal Property

The Company entered into an agreement on March 29, 2006, to acquire a 100% interest in a coal exploration property known as Chandgana. The property, consisting of two licenses, is located in the northeast part of the Nyalga coal basin, approximately 290 kilometres east of Ulaan Bataar. Under the terms of the agreement, during the year ended December 31, 2006, the Company paid a total of US $400,000, and issued 250,000 common shares of the Company at a fair value of $1.20 per share. The Company also paid a finder's fee of 50,000 common shares at a fair value of $1.20 per share to a third party.

7. Mineral Properties (continued)

(d) Chandgana Khavtgai

The Company entered into an agreement to acquire a 100% interest in a coal exploration property known as Chandgana Khavtgai. The property consists of one license, and is located in the northeast part of the Nyalga coal basin, approximately 290 kilometres east of Ulaan Bataar. During the year ended December 31, 2007, payments totalling US $570,000 were made to acquire the property.

(e) Mongolia Uranium

During the year ended December 31, 2007, Mega completed the earn-in requirement by expending US $1,500,000 on uranium exploration in Mongolia. Upon Mega earning a 50% interest, a joint venture was formed with the parties contributing equally, named Redhill Mega Uranium LLC. Mega would also have the option to increase its interest to 60% by expending a further US $2,000,000 over the subsequent three years. The Company's net interest in the joint venture as at December 31, 2007 was $13,650. Mega had pre-funded the joint venture by the amount of $46,154.

On September 17, 2009, the Company assumed a 100% interest in Redhill Mega Uranium LLC when Mega formally terminated its interest and transferred its 50% interest in the joint venture to the Company. The transaction was accounted for using the acquisition method and recorded as a step up acquisition.

During the year ended December 31, 2009, the Company wrote-off its investment in all the uranium licenses in Mongolia.

(f) Red Lithium Property

The Company acquired a 100% interest in a property known as Red Lithium Project located in western Nevada, USA. As consideration, the Company paid $150,000 and issued 350,000 common shares at a fair value of $0.40 per share.

On April 16, 2010, as part of the completion of the plan of arrangement (Note 12), the Red Lithium Property was transferred to Elissa Resources Ltd.

(g) Thor Rare Earth Elements Poperty

The Company acquired a 100% interest in a property known as Thor Rare Earth Elements Project located in western Nevada, USA. As consideration, the Company paid $15,000 and issued 350,000 common shares at a fair value of $0.40 per share (issued).

On April 16, 2010, as part of the completion of the plan of arrangement (Note 12), the Thor Rare Earth Property was transferred to Elissa Resources Ltd.

8. Share Capital

(a) Authorized

Unlimited Common shares without par value.

(b) Issued

	Number of Shares	Amount
Balance, year ended December 31, 2008	**51,509,874**	**$ 33,002,987**
Private placement	**1,650,000**	**660,000**
Share issuance costs	**-**	**(46,200)**
Shares issued for mineral property interests	**700,000**	**280,000**
Balance, year ended December 31, 2009	**53,859,874**	**$ 33,896,787**
Private placement	**11,963,157**	**5,064,000**
Share issuance costs	**-**	**(413,911)**
Balance, period ended March 31, 2010	**65,823,031**	**$ 38,546,876**

On February 17, 2010, the Company closed a $1,950,000 private placement. Under the placement, the Company issued 6,500,000 units, 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 are subject to a hold period that expires on June 18, 2010. A finder's fee of 7.0% on the proceeds placed payable in cash was paid on portions of the placement.

On March 31, 2010, the Company closed a $3,114,000 private placement. Under the placement, the Company issued 5,463,158 units, 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 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 $1.06 for 10 consecutive trading days. The units issued under the placement are subject to a hold period that expires on August 1, 2010. A finder's fee of 7.0% on the proceeds placed payable in cash was paid on portions of the placement. Non-cash share issue costs of 382,421 brokers warrants have been fair valued at $133,487 with the following weighted average assumptions: risk free interest rate of 1.83%, dividend yield of nil, volatility of 80% and an expected life of 2 years. Included in accounts receivable is $836,019 private placement proceeds held by the brokers relating to shares issued. The funds were received and collected in full on April 2, 2010

(c) Share purchase options

Details of the status of the Company's stock option plans as at December 31, 2009 and March 31, 2010 and changes during the respective year are as follows:

	Number of Shares	Exercise Price	Expiry
Outstanding, December 31, 2009	3,880,000	$ 0.37	January 23, 2014
	100,000	0.36	February 3, 2014
Outstanding, March 31, 2010	3,880,000	0.37	January 23, 2014
	100,000	0.36	February 3, 2014

8. Share Capital (continued)

The Company applies the fair value method using the Black-Scholes options pricing model to account for options granted to employees, directors and non-employees.

(c) Share purchase options (continued)

The stock-based compensation has been included in the statements of operations and deficit as at March 31, 2010 and December 31, 2009 as follows:

		2010		2009
Directors' fees	$	-	$	341,700
Advertising and promotion		-		21,100
Salaries		-		38,852
Consulting fees		-		183,980
	$	-	$	585,632

(d) Warrants outstanding

The following warrants are outstanding at March 31, 2010, and December 31, 2009:

Expiry Date	Number of Warrants 2010	2009	Exercise Price
April 3, 2010	**3,750,000**	3,750,000	$1.25
May 31, 2010	**1,215,000**	1,215,000	$1.25
July 4, 2010	**2,025,000**	2,025,000	$0.90
September 1, 2011	**825,000**	825,000	$0.60
February 17, 2012	**3,250,000**	-	$0.45
March 31, 2012	**5,845,578**	-	$0.71
	16,910,578	7,815,000	$0.84

On February 23, 2009, the Company extended the expiry date of 3,750,000 warrants expiring on April 3, 2009 to April 3, 2010, and 1,215,000 warrants expiring on May 31, 2009 to May 31, 2010.These warrants were originally issued pursuant to private placements in 2007 as part of equity offerings. The warrant amendments resulted in an incremental fair value of $90,840 credited to contributed surplus and included in the Company's deficit. The incremental value was estimated using the Black-Scholes option pricing model.

(e) Contributed surplus

		2010		2009
Balance, beginning of year	$	**3,582,419**	$	2,905,947
Warrant modifications		-		90,840
Financing fee warrants		**133,847**		-
Stock-based compensation		-		585,632
Balance, end of period	$	**3,716,266**	$	3,582,419

9. Related Party Transactions

(a) The Company has paid accounting fees of $6,000 (2009 - $3,000), management consulting fees of $15,000 (2009 - $10,500), and rent of $9,165 (2009 - $9,165) to a company controlled by a common director.

(b) The Company has accured legal fees of $173,000 (2009 - $Nil) to law firms in which a director and an officer are principals.

(c) The Company paid consulting fees of $5,472 (2009 - $42,460) to a company controlled by a director and officer.

10. Commitments

Pursuant to an agreement dated March 5, 2010, the Company was granted the option to purchase a 2% net smelter returns royalty on the Ulaan Ovoo property for a payment of US$130,000 and issuance of 2,000,000 post arrangement common shares. The option was exercised on April 30, 2010.

11. Segmented information

The Company has one operating segment, which is the exploration and development of exploration properties. Geographic segmentation of the Company's assets are as follows: Canada - $4,824,3666 (December 31, 2009 - $169,896) USA - $607,700 (December 31, 2009 - $528,787) and Mongolia - $15,512,591 (December 31, 2009 - $15,461,925).

The majority of the Company's operating expenses are incurred in Canada, with a small portion in Mongolia. All exploration expenditures are incurred in Mongolia and the USA.

12. Subsequent events

On April 16, 2010, the Company closed the arrangement in respect of a friendly transaction to combine the Company with Prophecy Resource Corp. through an all share transaction, and changed its name to Prophecy Resource Corp.

Per the arrangement, Red Hill shareholders received 0.92 of a new Prophecy common share and 0.25 of a new Elissa Resources common share, for each Red Hill common share held. All outstanding Red Hill options and warrants were exchanged for options and warrants of new Prophecy on similar terms.

Pursuant to the arrangement, Red Hill exercised its right, prior to closing of the proposed transaction, to transfer to a newly formed subsidiary ("Elissa Resources Ltd.") the following: (i) $1,000,000 cash, and (ii) all of Red hill's non-Mongolian assets, namely, the Banbury Property near Hedley B.C., the Red Lithium Property near Clayton Valley, Nevada and Thor Rare earth Property in Nevada, and distribute securities of Elissa Resources Ltd. to shareholders of Red Hill as of April 16, 2010 by way of a spinoff mechanism.

On completion of the transaction new Prophecy will have approximately 96,672,977 common shares issued and outstanding, of which Red Hill shareholders will own approximately 63% and the current Prophecy shareholders will own approximately 37%.

On April 3, 2010, 3,750,000 pre merger warrants with an exercise price of $1.25 expired unexercised.

On April 30, 2010, pursuant to an agreement dated March 5, 2010, the Company paid US$130,000 and issued 2,000,000 post merger common shares to purchase a 2% net smelter returns royalty on the Ulaan Ovoo property.

12. Subsequent events (continued)

On April 23, 2010, the Company closed a private placement, post merger, of 675,500 units at a price of $0.59 cents per unit for gross proceeds of $398,545. Each unit consists of one share and one half of a warrant, with each full warrant exercisable to purchase an additional share of the Company at $0.80 cents until April 21, 2012. In the event that the closing price of Prophecy's common shares on the TSX Venture Exchange is at least $1.10 for 20 consecutive trading days at any time following four months from the date of closing, the Company may reduce the remaining exercise period of the warrants to not less than 30 days from the date of providing notice of such reduced exercise period

On May 5, 2010, 92,000 post merger stock options with a exercise price of $0.39 expired unexercised

On May 28, 2010, the Company subscribed for 36,615,385 common shares in Victory Nickel Inc. ("Victory Nickel") at a price of $0.104 per common share for gross proceeds of $3,808,000. In turn, Victory Nickel subscribed for 7,000,000 Prophecy common shares at a price of $0.544 per common share for gross proceeds of $3,808,000. The transaction resulted in Victory Nickel owning a 9.9% interest in Prophecy and Prophecy acquiring a 9.8% interest in Victory Nickel. The Prophecy common shares issued to Victory are subject to a four month hold period expiring on September 29, 2010.

On May 10, 2010, the Company granted incentive stock options to directors and consultants in the amount of 2,500,000 common shares at an exercise price of $0.67 per share for a period of five years

On July 16, 2010, the Company announced that they had signed a definitive agreement with Northern Platinum Ltd. ("Northern") for a business combination through a proposed all share transaction. The Company also announced that they signed a definitive agreement with Belleterre Quebec Mines to acquire 50% of their Back in right on Northen's Wellgreen project.

On July 21, 2010, the Company announced that its common share had been called to trade on the OTC market in the United States.

Prophecy Resource Corp.

(Formerly – Red Hill Energy Inc.)

(An Exploration Stage Company)

#2080 – 777 Hornby Street, Vancouver, B.C., V6Z 1S4

Tel: 604-683-7361 Fax: 604-662-3231

Management Discussion and Analysis
For the 3 months ended March 31, 2010

Prophecy Resource Corp.
3 Months Ended March 31, 2010
Management Discussion and Analysis

The following discussion and analysis, prepared as of May 25, 2010, should be read together with the unaudited consolidated financial statements for the 3 months ended March 31, 2010, and related notes attached thereto, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts are stated in Canadian dollars unless otherwise indicated. Any reference to "period" refers to the quarter ending March 31, 2010.

The information, discussion, and analysis as presented reflect the combination of Red Hill Energy Inc. and Prophecy Resource Corp., who merged under a plan of arrangement on April 16, 2010. The reader should also refer to the annual audited financial statements for the years ended December 31, 2009 and 2008, and the Management Discussion and Analysis for those years for each of the predecessor corporations.

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements.

Additional information related to the Company is available for view on SEDAR at www.sedar.com and the Company web site at www.prophecyresource.com.

1. Description of Business

Prophecy Resource Corp. ("Prophecy" or the "Company") is a mineral resource exploration and development stage public company. The principal business activity of the Company is the acquisition, exploration and development of mineral properties. Since June 1, 2003, the Company has been focusing on the acquisition, exploration and development of properties located in Mongolia. Since the combination of Red Hill Energy Inc. and Prophecy Resource Corp. under a plan of arrangement concluded on April 16, 2010, the Company has acquired either through a plan of arrangement or directly, interests in British Columbia, Manitoba and Ontario. Also under the plan, the Company spun off the former Red Hill non-Mongolian assets. The Company is a reporting issuer in British Columbia and Alberta, and trades on the TSX Venture Exchange under the symbol "PCY". The Company has a business relationship with Mine Info Ltd., a leading Mongolian Exploration company, and has a full time office in the capital city, Ulaan Baatar. Prophecy's work programs have been supervised by Mr. Glenn Griesbach, P.Geo., Mr. Mel Klohn, L.P.Geo Director, Eric Robeck, P.Geo. and Mr. Garry Clark, P.Geo Director who have periodically acted as Prophecy's Qualified Persons for work in Mongolia as well as assisting and advising with operations. Mongolian logistical support is provided by Mine Info Ltd., a leading Mongolian consulting and exploration group based in Mongolia's capital Ulaan Baatar.

Selected Annual Information

Year Ended December 31	2009	2008	2007
Total Revenues (including interest)	$2,687	$26,761	$225,477
Loss before discontinued operations and extraordinary items	1,903,285	2,399,918	3,297,695
Loss per share before discontinued and extraordinary items	0.04	0.05	0.08
Net Loss	1,903,285	2,399,918	3,297,695
Loss per share	0.04	0.05	0.08
Total Assets	16,160,608	16,617,873	16,143,319
Cash dividends declared per share	$0.00	$0.00	$0.00

Summary of Quarterly Results

Quarter Ended	2010	2009				2008			
	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Total Revenues *	$432	$(147)	$830	$(313)	2,317	$10,554	$10,732	$295	$5,180
Net Loss	422,194	351,989	(120,868)	288,378	1,383,786	193,246	1,414,715	398,475	394,022
Loss per share	0.01	0.01	0.00	0.01	0.02	0.00	0.01	0.01	.001

* Revenues presented above include interest net of bank charges.

2. Significant Events

On April 16, 2010, the Company completed the merger of Red Hill Energy and Prophecy Resource Corp.

Pursuant to the terms of the plan of arrangement, which was completed on April 16, 2010 the Red Hill shareholders received 0.92 of a new Prophecy common share for each Red hill common share held. All outstanding Red Hill and Prophecy options and warrants were exchanged for options and warrants of new Prophecy on similar terms.

Subsequent to the completion of the transaction the Chairman and CEO of old Prophecy, Mr. John Lee, will become the CEO and Co-Chairman of the combined company known as "Prophecy Resource Corp." The board of directors of new Prophecy is comprised of four nominees from Red Hill and three nominees from Prophecy.

Pursuant to the plan, Red Hill, prior to closing of the proposed transaction, transferred to a newly formed subsidiary, Elissa Resources Ltd. ("Elissa"), the following: (i) $1,000,000 cash, and (ii) all of Red Hill's non-Mongolian assets, namely, the Red Lithium Property near Clayton Valley, Nevada and Thor Rare Earth Property in Nevada, and distribute securities of Elissa to shareholders of Red Hill as of March 08, 2010 by way of spinoff.

Upon completion of the transaction, new Prophecy had approximately 96,672,974 common shares issued and outstanding, of which the former Red Hill shareholders owned approximately 67% and the current Prophecy shareholders will own approximately 33%.

3. Discussion of operations and financial conditions for the three months ended March 31, 2010

a) Results of Operations

The Company's accounting policy is to capitalize its mineral properties at cost. Exploration and development expenditures relating to mineral properties are deferred until either the properties are brought into production, at which time they are amortized on a unit of production basis, or until the properties are sold or abandoned, at which time the deferred costs are written off.

The Company has not paid any dividends on its common shares. The Company has no present intention of paying dividends on its common shares, as it anticipates any excess funds will be invested to finance the growth of its business.

At March 31, 2010 the Company had cash and cash equivalents of $3,775,486 as compared to $862,225 on March 31, 2009. The Company was owed $843,906, primarily by securities dealers relating to private placements . Accounts payable at period end was $475,122 (2009 - $56,021). Of this approximately $173,000 was for legal fees relating to the plan of arrangement. The balance of the accounts payable related to administrative and general items.

Company realized a net loss for the period ended March 31, 2010, of $422,904 compared to a net loss of $1,383,786 in 2009.

Consulting expenses for the period were $163,723 as compared to $394,529 in 2009. The variance relates to a stock-based compensation inclusion of $291,600 in the prior year, which was not present in the current period. Consulting expenses consist of amounts paid to geology consultants for matters not directly applicable to any particular project, and amounts paid for the services of the Managing Director of Operations and CFO, Ranjeet Sundher.

Professional fees for the period were $39,504 as compared to $5,191 in 2009. The professional fees consist of auditing, legal and accounting services.

Advertising and promotion expenses for the period were $29,233 as compared to $90,504 in 2009. In 2008, the Company entered into an investor relations services contract with the Mau Capital Management expiring December 2009. Mau Capital was paid a monthly fee of $2,500 and was granted 125,000 stock options, vesting 25% every three months exercisable at $0.37 per share, expiring January 23, 2014. In the period, the Company cancelled all the previously granted stock options to Mau Capital Management.

Other advertising and promotion expenses consist of attending various industry trade shows and events and updating the Company web site. The Company also sponsors a children's charity in Mongolia.

Foreign exchange loss (gain) for the period was $4,722 as compared to a $ 16,196 gain in 2009.

Office and administration expenses for the period were $30,787 as compared to $31,193 in 2009. The office administration expenses include rent and telephone expenses.

Travel expenses for the period were $43,713 as compared to $37,665 in 2009. Travel expenses include flights, accommodation, and auto expenses. The increase is due to increased travel by management during the period. Travel expense will fluctuate each quarter depending on the travel activity of management and staff.

Salary and benefits expenses for the period were $60,637 as compared to $147,641 in 2009. The decline reflects the absence of $76,950 of stock-based compensation recognized in 2009. The Company has one Director on salary and two employees to assist with public relations and promotion. The Company also employs a number of resident Mongolians to assist with administration, geology, and translation.

Directors fee were $nil compared to $666,900 in 2009, the prior year amount was comprised entirely of stock-based compensation, that did not re-occur in the current period.

Subsequent to the period, the company granted 2,500,000 stock options at a price of $0.67 to employees, directors and consultants. These stock options are valid for a period of five years and vest quarterly in advance over two years.

Mineral Properties
Copper/Gold Projects:

During fiscal 2008, the Company wrote-off its investments in its copper/gold projects in Mongolia.

The following properties were transferred to Elissa Resources as part of the plan of arrangement on April 16, 2010.

Banbury

Comprising a 100% undivided interest in six patented mineral claims near Hedley, B.C. described as the Banbury Property. The interest was recorded at a nominal value of $1.

Red Lithium Property

On September 11, 2009, the Company agreed to acquire the Red Lithium Property located in western Nevada, US. In consideration for a 100% interest in the property the Company paid $150,000 and 350,000 common shares of the Company.

Thor Rare Earth Property

On December 15, 2009, the Company agreed to acquire the Thor Rare Earth Elements Property located in south western Nevada, USA. In consideration for a 100% interest in the property the Company paid $15,000 and 350,000 common shares of the Company, valued at $140,000

Coal Projects:

Ulaan Ovoo

On November 15, 2005, the Company entered into a letter of intent with Ochir LLC that sets out the terms to acquire a 100% interest in the property known as Ulaan Ovoo coal project. The Ulaan Ovoo property is located in Selenge province, Mongolia. It was held by the vendor under a transferable, 55 year mining licence 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. The acquisition was completed on October 30, 2007.

A finder's fee of 75,000 common shares was paid to a third party by the Company in respect of the Ulaan Ovoo purchase.

On March 18 the Company engaged Wardrop Engineering Inc., to conduct a Preliminary Economic Assessment, on the Ulaan Ovoo property. Subsequent to the period, on May 11, the Company entered into a Mine Services Agreement with Leighton Asia Limited with a view to a pilot production of 250,000 tonnes commencing in late 2010. The anticipated total cash payments to Leighton under this agreement are approximately $3,800,000.

Chandgana Tal Project

On March 29, 2006, the Company entered into a letter agreement with Coal Khentiy Ltd. that set out the terms to acquire a 100% interest in the property known as Chandgana Tal. The Chandgana Tal property, consisting of two licenses, is located in the northeast part of the Nyalga coal basin, approximately 290 km east of Ulaan Bataar. Under the terms of the agreement, the Company paid a total of US$400,000, plus 250,000 common shares. A finder's fee of 50,000 common shares was paid to a third party.

The purchase price was paid as follows:

Within three days of the date that the agreement was accepted and approved by the TSX Venture Exchange, the issuance of 250,000 common shares.

US$50,000 within 21 days of signing the letter agreement;

US$75,000 on or before July 1, 2006; and

US$275,000 on or before October 1, 2006.

As at December 31, 2006, the Company had made payments totalling US$400,000 and 250,000 shares were issued to the Vendor.

<u>Chandgana Khavtgai</u>

On August 7, 2007, the Company entered into a letter agreement that set out the terms to acquire a 100% interest in the property known as Chandgana Khavtgai. The Chandgana Khavtgai property consists of one license, and is located in the northwest part of the Nyalga coal basin, approximately 290 km east of Ulaan Bataar, 9 km southwest of the Chandgana Tal coal project. Under the terms of the agreement, the Company paid a total of US$570,000.

The purchase price was paid as follows:

US$280,000 within seven days of signing the letter agreement.

US$290,000 on or before the date which is 90 days from the date of signing the letter agreement.

During the period ended December 31, 2007, payments totalling US$570,000 were made.

Uranium Projects:

<u>Mongolia Uranium Option Agreement</u>

On June 14, 2005, the Company entered into a Letter Agreement with Maple Minerals Corp. (now known as Mega Uranium Ltd. "Mega") for uranium exploration and target generation in Mongolia. The agreement covered the Company's current uranium ground holdings in Mongolia, which were then comprised of 18 granted exploration licenses and an option to earn 100% of two exploration licenses in the Nergui Project. In addition, Mega and Prophecy will cooperate during the term of the agreement in the generation and acquisition of other uranium exploration targets in Mongolia. Prophecy's coal/gold/copper property holdings are not included in this agreement.

Upon completion of the due diligence review by Mega, a definitive formal option agreement was executed. The formal option agreement granted Mega the exclusive option to earn a 50% interest in Prophecy's uranium properties through the expenditure of US$1.5 million over three years, with a minimum of US$350,000 expended within the first year. As per the agreement, Mega issued Prophecy 50,000 common shares in its capital within three business days of the date that the executed formal agreement was accepted and approved by the TSX Venture Exchange. In addition, Mega was required to issue to Prophecy the equivalent of CDN$75,000 in its common share capital (determined using the ten day average closing price) within ten business days of the later of the date upon which Red Hill issues 250,000 common shares for the acquisition of its interest in the Nergui property, and the date that the executed formal agreement is accepted and approved by the TSX Venture Exchange. During the year ended December 31, 2005, the Company decided not to complete the acquisition and wrote-off its investment in the Nergui Property, and the shares were not issued.

Upon Mega earning a 50% interest, a joint venture was formed with the parties contributing pro-rata. Mega also had the option to increase its interest to 60% by expending a further US$2 million over the subsequent three years.

During the period ended December 31, 2007, Mega completed the expenditure of US$1.5 million and earned a 50% interest in all the Uranium projects. Mega declined to exercise its option to increase its interest to 60% by expending a further US$2 million. A joint venture was formed with the parties contributing 50-50 funding pro-rata going forward.

On March 4, 2008, a new Joint Venture LLC was incorporated in Mongolia, named Red Hill Mega Uranium LLC. The new LLC was owned 50% by Prophecy Energy Inc. and 50% by

Mega Uranium Ltd. All of the Uranium licences held by Prophecy in Mongolia have been transferred into the new LLC.

On September 17, 2009, Prophecy assumed 100% interest in Red Hill Mega Uranium LLC as Mega Uranium Ltd formally terminated its interest and transferred its 50% interest in the Joint Venture Company back to Prophecy.
During the year ended December 31, 2009, the Company wrote-off its investment in all the uranium licenses in Mongolia.

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For the Current period reflecting Plan of Arrangement

(a) Schedule of increases in deferred costs:

Name	Opening Balance	Increase (Decrease)	Write-off	Ending Balance
Banbury	$1	-	-	$1
Red Lithium	$339,607	-	-	$339,607
Thor REE	$189,180	$78,913	-	$268,093

Chandgana Tal	$1,282,244	$1,716	0	$1,283,960
Chandgana Khavtgai	$1,172,342	$1,035	0	$1,173,377
Ulaan Ovoo	$12,619,128	$331,089	0	$13,006,238
Uranium Joint Venture		,		0
Total	$15,933,5911	$900,894		$16,071,276

Exploration Results

Prophecy work programs are supervised by one or more of Mr. Glenn Griesbach, P.Geo., Mr. Mel Klohn, L.P.Geo Director, Eric Robeck, P.Geo. and Mr. Garry Clark, P.Geo Director all of whom periodically act as Prophecy's Qualified Persons for work in Mongolia as well as assisting and advising with all operations. Mongolian logistical support is provided by Mine Info, a leading Mongolian consulting and exploration group based in Mongolia's capital Ulaan Baatar.

Copper/Gold Projects:

During the year ended December 31, 2008, the investments in the copper/gold projects in Mongolia were written-off.

Uranium Projects:

During the year ended December 31, 2007, Mega completed the earn-in requirement of expending US$1.5 million on uranium exploration in Mongolia. Mega has earned a 50% interest in all of Prophecy's uranium claims. Mega has declined to exercise its option to expend an additional US$2 million over three years to earn a 60% interest. A joint venture was formed and all future uranium exploration were to be funded on a 50-50 pro-rata basis. A new Joint Venture LLC was incorporated in Mongolia on March 4, 2008, for the purposes of this joint venture named Red Hill Mega Uranium LLC. All the uranium licenses have been transferred to the new Joint Venture LLC as at December 31, 2008.

Exploration activity consisted of geology field work during the year ended December 31, 2008, on the uranium projects. During the year ended December 31, 2008, after careful review, management decided not to proceed further with the Naidal property and the Emeelt property and wrote off its investment in these projects.

On September 17, 2009, Prophecy assumed 100% interest in Red Hill Mega Uranium LLC as Mega Uranium Ltd formally terminated its interest and transferred its 50% interest in the Joint Venture Company back to Prophecy.

During the year ended December 31, 2009, the Company wrote-off its investment in all the uranium licenses in Mongolia, as management determined the licenses did not have sufficient merit to continue exploration.

Coal Projects:

<u>Ulaan Ovoo Property</u>

The Company initiated an independent Pre-Feasibility Study for the Ulaan Ovoo project in 2008. The Company engaged Minarco-MineConsult (MMC), based in Sydney, Australia, to prepare a comprehensive pre-feasibility study on the Ulaan Ovoo project.

On April 29, 2009, the Company announced a positive, NI 43-101 compliant, pre-feasibility study ("PFS") for the 100% owned Ulaan Ovoo coal project. This PFS follows from the project's scoping study, prepared by Behre Dolbear that was filed on SEDAR on November 9, 2006. The scoping study reported a NI 43-101 compliant resource estimate of 208 million tonnes, of which 174.5 Mt are Measured and 34.3 Mt are Indicated Resources.

The Project involves open cut mining of coal and waste rock using conventional shovel and truck techniques. Higher quality coal of > 5,000 kcal/kg (as-received basis), known as "by-pass coal," will be crushed and stockpiled while other coal, known as "washed coal", will be beneficiated in a wash plant prior to stockpiling. Both washed and by-pass coal will be blended on the product stockpile to derive a consistent product prior to transport from the site by rail to the Port of Nadhodka on the Russian eastern seaboard and sold on the export thermal market. Infrastructure construction is proposed for the latter half of 2009, overburden removal commencing in 2010 with mining and sale of coal proposed to commence in 2011.

The PFS concludes that the Project is financially robust with an estimated after-tax NPV (10% discount rate) of US$250 Million at a coal price of US$76 per tonne (fob, Port of Nadhodka) and a discounted cash flow-internal rate of return (DCF-IRR) of 19%. Project values for a range of coal prices are shown in Table 1.

Table 1. Technical Project Value

Thermal Coal Price (US$/t product FOB)	**$60**	**$68**	**$76**
NPV @ 10% (US$ millions)	-$231	$0	$250
DCF-IRR (%)	1%	10%	19%
Payback (years)	-	-	9.5
Cash Mining Cost (US$/t product)	$55	$56	$56
Average Annual Revenue (US$ millions)[1]	$354	$399	$449
Average Annual After-Tax Net Profit (US$ millions)[1]	$10	$40	$76

1. Coal prices are FOB Port of Nadhodka, Russia

Project highlights are summarized in Table 2.

Table 2. Project Production and Expenditure

Item	
Total Mined Coal (ROM Mt)	108
Mine Life (production years)	17
ROM Production Rate (Mtpa)	6.3
Average Stripping Ratio (bcm/ROM t)	1.8
Saleable Coal Production	
Total Saleable Coal @ 15% ash (Mt)	100
Average Annual Sales (Mtpa)	5.9
Average Cash Costs (US$/t product)	
On-Site Cost	$15
Off-Site Cost	$41
Total Cash Cost	$56
Capital Cost (US$ millions)	
Initial Capital Cost	$337
Sustaining/Replacement Capital	$155
Total Life of Mine Capital Cost	$492

Mtpa = million metric tonnes per annum; t = metric tonne; ROM = run of mine

Production Summary

The PFS defines an open-cut mining strategy of expanding the mine from lower stripping ratio areas to higher stripping ratio areas to maximise the Project's economic potential. All waste rock will be directed to a large surface dump to the north and west of the pit as the steep coal dips prevent in-pit dumping of waste rock.

The total project life is 21 years, comprising a 2-year construction phase (2009 to 2010) followed by an 18-year mining period with site reclamation in the final year. The initial construction phase involves site preparation, infrastructure construction, and waste pre-stripping and stockpiling of coal. Major infrastructure to be constructed on site includes a wash plant, power station, coal stockpiles and handling equipment, mine offices, equipment workshops, and a staff camp facility.

Coal processing will be conducted on site with approximately 60% of the coal crushed and placed directly on the product stockpile and the remainder beneficiated using a wash plant. Average wash plant yield has been estimated at 80%. The initial three production years (2011 to 2013) will target higher quality coal seams which require no washing for sale. From 2016 on, between 2.5 and 4.8 Mt of ROM coal per year will be processed through the wash plant. The final coal product will be a thermal coal of moderate energy at nominally 5,000 kcal/kg. The coal product is proposed to be railed to the Port of Nadhodka starting in 2011 for sale on the export market.

Mining commences with the stockpiling of small amounts of ROM coal in 2010 and saleable coal production begins in 2011. ROM coal production increases to 6 Mtpa from 2012 to 2015 and targets higher quality seams suitable for “by-pass” and direct sale. From 2016 on, annual ROM coal production ranges from 6.5 to 7 Mt to achieve a coal product of 6 Mt.

The mine plan indicates an overall stripping ratio (bcm/ROM t) of 1.8:1. The strip ratio is initially above average at > 2.5 (bcm/ROM t) to establish pit development and coal inventory. After Year 11 (2021), the stripping ratio averages 0.8:1 until the end of the mine life.

Potential Mineable Coal

The quantity of open-pit mineable coal is estimated at 108 Mt of run-of-mine (ROM) coal at a stripping ratio of 1.8 to 1 (waste bcm: coal ROM t). The saleable product is estimated at 100 Mt of thermal coal. Only Measured and Indicated resources were included to calculate the potential mineable coal resource. Reserve status has not been assigned to the potentially mineable resource due to the current uncertainty with coal price forecasts and has hence been defined as > potential mineable quantities of coal.

Workforce

The mining workforce requirements were estimated based on MMC‘s experience with similar sized projects and previous studies in Mongolia. Joharko provided the wash plant workforce requirements. A key assumption was that maintenance personnel for the mining equipment would be provided by the equipment suppliers under a maintenance agreement. The remaining workforce, including sufficient staff for all levels of management, supervision, planning, and equipment operation would be directly employed by the mine. Table 3 shows a breakdown of the total site workforce including staff and support services for a typical year. In general, the workforce will range from 500 to 600 employees.

Table 3. Typical Mine Workforce at Full Production

Personnel	Total
Management	47
Mining Operations	309
Community Relations	16
HR and Safety	20
Tech Services	69
Coal Handling & Processing Plant (CHPP)	35
Infrastructure	30
Total	**526**

Capital Expenditures

The mine development plan assumes that capital spending begins in 2009, with the majority of capital spending (equipment and facilities) occurring up to 2014 and completion of the wash plant. Initial capital expenditure was calculated through to 2014 to include all major capital. Thereafter there will be on-going capital expenditures classified as either replacement or sustaining capital primarily being replacement mining equipment. The components of capital spending are listed in Table 4.

Table 4. Initial and Sustaining Capital Costs

Capital Item	US$ (millions)
Overburden Removal Equipment	75
Coal Mining Equipment	22
Support Equipment	9
Coal Handling/Blending/Wash Plant (CHPP)	94
Coal Transport (New Rail Spur)	120
Mine Site Buildings, Roads & Camp	18
Total Initial Capital	**$338**
Sustaining / Replacement Capital	**$155**
Total Project Capital Spending	**$493**

Mine Operating Costs

The mine operating costs reflect a typical truck-and-shovel open-pit operation with a favourable stripping ratio and limited coal beneficiation requirements. Estimated cash costs are summarized in Table 5.

Table 5. Estimated Production Cash Costs

Unit Cash Costs per Product Tonne	US$/t
Overburden Removal	$5
Coal Mining & Haulage to CHPP	2
Field Support Cost	1
Coal Washing & Handling (CHPP)	3
Admin & Overheads	3
Total Mine Operating Costs/tonne	**$14**
Transport	$30
Port	9
Royalty	2
Total Project Operating Costs/tonne (FOB)[1]	**$55**

1. FOB Port of Nadhodka, Russia

Additional Project Opportunities

Several opportunities remain at Ulaan Ovoo for generating additional revenues and profits, as well as for lowering costs. These opportunities were considered outside the scope of the work, but may be addressed in subsequent feasibility studies. These opportunities include:

- Export coal through and to China;
- Increase the quantity of saleable coals through resource additions achieved by exploration drilling. Additional resource drilling, if successful, could either expand the mine size or extend mine life;
- Decrease mining costs by using local mining contractors and/or using lower priced Russian or Chinese mining equipment;
- Improve washing yields through selective mining; and
- Gain competitive access to the domestic Mongolian or Russian markets.

The Project has no significant issues that would prevent successful mining and processing of the coal. Furthermore, there are a number of opportunities to increase the coal resource, reduce coal loss and add value to the Project.

A Detailed Environmental Impact Assessment (DEIA) and Environmental Protection Plan (EPP) were approved for Ulaan Ovoo by the Mongolian Ministry of Nature and the Environment under Mongolia's 2006 Minerals Law and 1995 Environmental Protection Law. Approval of the DEIA is required before the project can be developed. The Ulaan Ovoo Coal Project has already been granted a fully transferable mining licence from the Mongolian government. The mining license is valid for 30 years and is extendible for an additional 45 years.

Qualified Person

Mr. Romeo Ayoub, an Independent Consulting Mining Engineer for Minarco-MineConsult, is the Qualified Person as defined by NI 43-101, and has reviewed and approved the results presented.

There are five known structural basins in the vicinity of the Ulaan Ovoo coal property covered by five exploration licenses 100% controlled by Prophecy, three of which are considered highly prospective for further discoveries of economic coal. The life of the future Ulaan Ovoo coal operation could be greatly increased beyond the currently anticipated 34-40 year mine life should any of these surrounding basins be proven to contain significant coal accumulations.

On November 12, 2009, the Company announced the results from its recent geophysical survey program on its 4,961 hectare Khoot Ovoo property in northern Mongolia. Dual magnetic and IP resistivity surveys show strong potential for a coal-bearing basin only 20 km from Ulaan Ovoo. Surface prospecting at Khoot Ovoo previously identified this as the most prospective of several sedimentary basins near Ulaan Ovoo. If confirmed, the proximity of both basins could significantly enhance the life and economics of a large mining operation in this region.

The geophysical survey was carried out in fall 2009 by Geo-Oron LLC, a Mongolian geophysical company. The company carried out 34 km of magnetic survey lines and 16 km of pole-dipole Induced Polarization (IP) resistivity surveys. Dipole spacing was set at 100 m in order to have a section depth of 200 m. In addition, one 3.7 km magnetic line and one 1.8 km IP resistivity line were run along a known section at Ulaan Ovoo to allow better interpretation of the Khoot Ovoo results.

Several areas with geophysical features similar to those of the thick, shallow coal seam at Ulaan Ovoo were observed. In particular, one area approximately 2 x 1 km shows potential for a thick coal seam located 50-150 m below the surface. The prospective coal-bearing area is located only 1 km from sooty outcrops mapped by Prophecy geologists during earlier site visits. The area is characterized by a negative magnetic field and a shallowly dipping, high resistivity contact.

Four drill hole locations have been proposed based on the results of the geophysical survey for the 2010 exploration program. If the drilling results confirm the presence of a major coal seam, follow-up drilling and core sampling would immediately follow.

Glenn S. Griesbach (P.Geo.), Geologist, is the Company's qualified person as defined by National Instrument 43-101 and has reviewed and approved the technical information contained in the above information.

Chandgana Tal Project
No exploration activity took place during the year ended December 31, 2009, on this project. The project property licenses have been maintained.

The Company plans to commission a detailed Transportation and Economic Assessment Study for this project.

Chandgana Khavtgai Project
Exploration activity consisted of a geophysical survey during the year ended December 31, 2009, on this project. The project property licenses have been maintained.

The Company plans to commission a detailed Transportation and Economic Assessment Study for this project.

On September 6, 2007, the Company announced that it had entered into an agreement to purchase a 100% interest in, and had already commenced significant exploratory drilling operations on, the 37,000 hectare Chandgana Khavtgai coal exploration property located in the Nyalga Coal Basin in southeast central Mongolia. Prophecy Geologists believed Chandgana Khavtgai might contain a significantly sized extension to the Nyalga Coal Basin.

The Chandgana Khavtgai property is located 9 km southwest of Prophecy's Chandgana Tal coal project. Both Chandgana Khavtgai and Chandgana Tal are contiguous to Tethys Mining's Nyalga Coal Basin property, 100% owned Mongolian subsidiary of international mining conglomerate CVRD (Companhia Vale do Rio Doce) of Brazil. CVRD is actively exploring their Nyalga coal licenses.

Field exploration on Chandgana Khavtgai identified several thick coal outcrop zones that appeared to indicate the continuation of the same 30-50 metre coal seam observed at Prophecy's Chandgana Tal property. The coal outcrop extends at least 4 km onto the new license area. Prophecy geologists believed that this license had the potential to significantly increase Prophecy's coal resource in this area.

A month long, 7 hole, 1,200 m drilling program was completed on Chandgana Khavtgai in August and September 2007. These 7 holes were widely spaced in order to test the quality and full extent of the coal deposit. In addition, surface trenches were dug to fully define the coal outcrop zone.

On October 25, 2007, the Company announced that it had made a new coal discovery on the Chandgana Khavtgai property. The recently completed drill program has defined a 678.4 million tonne coal resource, with 188.7 million tonnes measured and 489.7 million tonnes indicated. Additionally, another 439.6 million tonnes of inferred coal resource has been outlined.

An independent NI 43-101 Technical Report was prepared on the new Chandgana Khavtgai resource and was filed on Sedar.com as required by the TSX. The resources defined in the NI 43-101 report are in-line with those reported on October 25, 2007.

The 7 hole drill program (1,237 metres) on the property recovered 160 total metres of coal core from 5 holes. Nearly all of the coal is contained within a single 25-60 metre thick coal seam from surface covering an area of approximately 1,800 hectares. The seam doubles in thickness with depth, maintaining an average stripping ratio of approximately 2.1:1.

The Chandgana coal deposits are amenable to low cost surface mining operations. In both Chandgana projects, the coal is outcropping, offering easy access to the seams. The Nyalga Coal Basin, which hosts the deposits, is linked by road to Mongolia's capital Ulaan Baatar (300 km to the west) and to the Mongolian Railroad (160 km to the west), providing direct rail access to China to the south and Russia to the north.

Prophecy coal discoveries to date are as follows:

PROJECT/ BASIN	MEASURED	INDICATED	MEASURED & INDICATED	INFERRED
ULAAN OVOO / (NORTHERN BASIN)	174.5	34.3	208.8 million	35.9
CHANDGANA TAL (NYALGA BASIN)	141.3	(none)	141.3 million	(none)
CHANDGANA KHAVTGAI (NYALGA BASIN)	188.7 million	489.7 million	678.4 million	440 million
TOTAL	504.5	524.0	**1,028.5 Million**	**475.9 Million**

Prophecy's coal quality is demonstrated as follows:

PROJECT	ASH (%)	SULFUR (%)	BTU/lb	Kcal/kg	STRIPPING RATIO (Avg)	SEAM THICKNESS (Avg)
ULAAN OVOO (as received)	11.6	0.37	9,367	5,204	2.0:1 (1^{st} 140 million tonnes)	53.9 metres
CHANDGANA TAL (air-dried)	12.49	0.68	7,628	4,238	0.53:1	40 metres
CHANDGANA KHAVTGAI (air-dried)	10.3	0.50	7,800	4,400	1.9:1	38.0 metres

Related party transactions

During the period, the Company had the following related party transactions:

- paid accounting fees of $6,000, rent of $9,165, and management fees of $15,000 to a company controlled by G. Arnold Armstrong, Director and Chairman of the Company.

- accrued legal fees of $173,000 to a law firm in which Paul Simpson, an officer, is owner.

- paid consulting fees of $5,472 to a company controlled by Ranjeet Sundher, Director and former CFO.

Critical Accounting Estimates

Critical accounting estimates used in the preparation of the financial statements include the Company's estimate of recoverable value on its mineral properties as well as the value of stock-based compensation. Both of these estimates involve considerable judgment and are, or could be, affected by significant factors that are beyond the Company's control.

Mineral properties
The Company's recorded value of its mineral properties are in all cases on historical costs that expect 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 uncertainties, including exploration risk, development risk, commodity price risk, operating risk, ownership risk, ownership and political risk, funding and currency risk, as well as environmental risk.

Stock-based compensation
The factors affecting stock-based compensation include estimates of when stock options might be exercised and the stock price volatility. The timing for exercise of options or warrants is out of the Company's control and will depend, among other things, upon a variety of factors including the market value of the Company's shares and financial objectives of the holders of the options or warrants. The Company has used historical data to determine volatility in accordance with Black-Scholes modeling, however the future volatility is inherently uncertain and the model has its limitations. While these estimates can have a material impact on the stock-based compensation and hence results of operations or amounts recorded to capital stock, there is no impact on the Company's financial condition.

Changes in Accounting Policy

During the year ended December 31, 2009, the Company adopted the following new accounting policies:

Goodwill and Intangible Assets

In November 2007, the CICA approved Handbook Section 3064, "Goodwill and Intangible Assets" which replaces the existing Handbook Sections 3062, "Goodwill and Other Intangible Assets" and 3450 "Research and Development Costs". This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009, with earlier adoption encouraged. The standard provides guidance on the recognition, measurement and disclosure requirements for goodwill and intangible assets. The adoption of this new accounting standard had no significant impact on its financial statements.

Future accounting changes

International Financial Reporting Standards ("IFRS")

In 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the transition to IFRS from Canadian GAAP will be effective for fiscal years beginning on or after January 1, 2011, for publicly accountable enterprises. The Company will therefore be required to present IFRS financial statements for its March 31, 2011, interim financial statements. The effective date will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and for the year ended December 31, 2010, and earlier where applicable. The Company is currently evaluating the impact of the conversion on the Company's consolidated financial statements and is considering accounting policy choices available under IFRS.

IFRS Changeover Plan: Assessment as of December 31, 2009

The Company is currently assessing the impact of IFRS on its financial statements and is in the process of designing a changeover plan. The key elements of the plan will address the impact of IFRS on:

- accounting policies, including choices among policies permitted under IFRS, and implementation decisions such as whether certain changes will be applied on a retrospective or a prospective basis;
- information technology and data systems;
- internal control over financial reporting;
- disclosure controls and procedures, including investor relations and external communications plans;
- financial reporting expertise, including training requirements; and

- business activities, such as foreign currency, as well as matters that may be influenced by GAAP measures.

The Company has begun the process of training and educating key staff members on IFRS and the changeover plan. The Company is considering engaging the services of professional IFRS consultants to assist with the changeover to IFRS. The Company has begun the process of identifying differences in Canadian GAAP and its transition to IFRS which is mainly the disclosure in the financial statements. IFRS 1 requires an explanation of the effect of the transition from old Canadian GAAP to IFRS when the first financial statements are issued.

Other MD&A Requirements

(a) Summary of Securities Issued During or Subsequent to the Period:

- On February 17, 2010, the Company closed a $1,950,000 private placement. Under the placement, the Company issued 6,500,000 units, each unit 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 are subject to a hold period that expires on June 18, 2010. A finder's fee of 7.0% on the proceeds placed payable in cash was paid on portions of the placement.

- On March 31, 2010, the Company closed a $3,114,000 private placement. Under the placement, the Company issued 5,463,158 units, each unit 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 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 $1.06 for 10 consecutive trading days. The units issued under the placement are subject to a hold period that expires on August 1, 2010. A finder's fee of 7.0% on the proceeds placed payable in cash was paid on portions of the placement.

- On April 30, 2010, pursuant to an agreement dated March 5, 2010, the Company paid US$130,000 and issued 2,000,000 post merger common shares to purchase a 2% net smelter returns royalty on the Ulaan Ovoo property.

- On April 23, 2010, the Company closed a private placement, post merger, of 675,500 units at a price of $0.59 cents per unit for gross proceeds of $398,545. Each unit consists of one share and one half of a warrant, with each full warrant exercisable to purchase an additional share of the Company at $0.80 cents until April 21, 2012. In the event that the closing price of Prophecy's common shares on the TSX Venture Exchange is at least $1.10 for 20 consecutive trading days at any time following four months from the date of closing, the Company may reduce the remaining exercise period of the warrants to not less than 30 days from the date of providing notice of such reduced exercise period

- On May 5, 2010, 92,000 post merger stock options with a exercise price of $0.39 expired unexercised

- On May 28, 2010, the Company subscribed for 36,615,385 common shares in Victory Nickel Inc. ("Victory Nickel") at a price of $0.104 per common share for gross proceeds of $3,808,000. In turn, Victory Nickel subscribed for 7,000,000 Prophecy common shares at a price of $0.544 per common share for gross proceeds of $3,808,000. The transaction resulted in Victory Nickel owning a 9.9% interest in Prophecy and Prophecy acquiring a 9.8% interest in Victory Nickel. The Prophecy common shares issued to Victory are subject to a four month hold period expiring on September 29, 2010.

During the period the following warrants were exercised:
-None.

During the period the following options were exercised:
-None.

(b) Summary of Options Granted During or Subsequent to the Period:
- On May 10, 2010, the Company granted incentive stock options to directors and consultants in the amount of 2,500,000 common shares at an exercise price of $0.67 per share for a period of five years

As at the March 31 period end
(a) Share Capital:
i. Authorized: Unlimited Common Shares without par value.
ii. Issued and outstanding: 65,823,031 Common Shares.

(b) Summary of Options, Warrants and Convertible Securities:

Options:

3,880,000 exercisable at $0.37 per share expiring January 23, 2014.
100,000 exercisable at $0.36 per share expiring Feb 03, 2014.

Warrants:

3,750,000 whole warrants $1.25 per share until April 03, 2010
1,215,000 whole warrants $1.25 per share until May 31, 2010.
2,025,000 whole warrants $0.90 per share until July 4, 2010.
825,000 whole warrants $0.60 per share until September 1, 2011.

(c) List of Directors and Officers:

G. Arnold Armstrong,	Director, Chairman, Vancouver, B.C.
John Lee	Director, President & CEO, Pt. Roberts, Wa.,USA
Mark Lotz,	CFO, West Vancouver, BC
Greg Hall,	Director, West Vancouver, B.C.
Stuart Fredrickson,	Director, Vancouver, BC
Paul McKenzie,	Director, Vancouver, B.C.
Mel Klohn,	Director, Spokane Valley, Washington, USA
Stuart Rogers	Director, Vancouver, BC.
Paul Simpson	Secretary, Vancouver, B.C.

On January 21, 2010, Ranjeet Sundher resigned as a Director and President and CFO of the Company. Paul McKenzie was appointed interim President and CFO. On April 16, 2010 coinciding with the merger, Lloyd S. Bray and J. Garry Clark resigned, as directors, to be replaced by Dan Fredrickson, Greg Hall, Stuart Rogers and John Lee.
Mark Lotz, was appointed CFO on May 01, 2010

It is with regret that we note the passing of Lloyd S. Bray on May 12, 2010. The Company and its shareholders owe him a sincere debt of gratitude for his diligent efforts and accomplishments.

On January 23, 2009, the Company cancelled its stock option contracts with Directors, employees and consultants as follows:

Expiring June 9, 2010 for 600,000 shares at an exercise price of $0.50,
Expiring March 1, 2010 for 425,000 shares at an exercise price of $0.60,
Expiring January 31, 2011 for 575,000 shares at an exercise price of $0.45,
Expiring March 15, 2011 for 50,000 shares at an exercise price of $1.20,
Expiring April 3, 2001 for 130,000 shares at an exercise price of $1.10,
Expiring April 5, 2012 for 725,000 shares at an exercise price of $0.92,
Expiring July 12, 2012 for 50,000 shares at an exercise price of $1.20,
Expiring October 30, 2012 for 520,000 shares at an exercise price of $1.18,
Expiring December 24, 2010 for 50,000 shares at an exercise price of $0.95,
Expiring July 22, 2013 for 550,000 shares at an exercise price of $0.88.

The Company re-issued 3,675,000 stock options at an exercise price of $0.37 expiring January 23, 2014.

On February 23, 2009, the Company extended the expiry date of 3,750,000 warrants expiring on April 3, 2009, and having an exercise price of $1.00 during the first year of the warrant term and $1.25 during the second year of the warrant term to April 3, 2010, with the exercise price of the warrant during the third year of the warrant term being $1.25.

On February 23, 2009, the Company extended the expiry date of 1,215,000 warrants expiring on May 31, 2009, and having an exercise price of $1.25 per share, to May 31, 2010.

Liquidity and Capital Resources

The Company ended the period with $3,775,486 (Dec 31, 2009 - $139,312) cash and working capital of $4,144,270 (Dec 31, 2009 - $90,134).

Net cash used in operating activities for the year was $1,016,940 as compared to net cash used of $241,028 during the prior period.

Net cash used for investing activities for the year was $13,816 as compared to net cash used of $177,546 during the prior period.

Net cash provided from financing activities for the year was $4,783,936 as compared to net cash provided of $Nil for the prior period.

Subsequent Events

On April 3, 2010, 3,750,000 pre merger warrants with an exercise price of $1.25 expired unexercised.

On April 30, 2010, pursuant to an agreement dated March 5, 2010, the Company paid US$130,000 and issued 2,000,000 post merger common shares to purchase a 2% net smelter returns royalty on the Ulaan Ovoo property.

On April 23, 2010, the Company closed a private placement, post merger, of 675,500 units at a price of $0.59 cents per unit for gross proceeds of $398,545. Each unit consists of one share and one half of a warrant, with each full warrant exercisable to purchase an additional share of the Company at $0.80 cents until April 21, 2012. In the event that the closing price of Prophecy's common shares on the TSX Venture Exchange is at least $1.10 for 20 consecutive trading days at any time following four months from the date of closing, the Company may reduce the remaining exercise period of the warrants to not less than 30 days from the date of providing notice of such reduced exercise period

On May 5, 2010, 92,000 post merger stock options with a exercise price of $0.39 expired unexercised

On May 28, 2010, the Company subscribed for 36,615,385 common shares in Victory Nickel Inc. ("Victory Nickel") at a price of $0.104 per common share for gross proceeds of $3,808,000. In turn, Victory Nickel subscribed for 7,000,000 Prophecy common shares at a price of $0.544 per common share for gross proceeds of $3,808,000. The transaction resulted in Victory Nickel owning a 9.9% interest in Prophecy and Prophecy acquiring a 9.8% interest in Victory Nickel. The Prophecy common shares issued to Victory are subject to a four month hold period expiring on September 29, 2010.

On May 10, 2010, the Company granted incentive stock options to directors and consultants in the amount of 2,500,000 common shares at an exercise price of $0.67 per share for a period of five years

On June 16, 2010 the Company signed a definitive agreement to merge with Northern Platinum Ltd. ("Northern") under a Plan of Arrangement. which results in the Northern shareholders receiving one half of one common share of Prophecy in exchange for one common share of Northern. The acquisition will be achieved by Prophecy issuing 13,874,817 common shares for 100% of the issued and outstanding common shares of Northern. In addition, Northern shall issue to each shareholder 0.2 of a Northern Arrangement stock option for each share held. Thereafter, Northern's outstanding stock options and warrants will also be exchanged on the same basis as the common shares. On completion of the transaction, Northern will become a wholly-owned subsidiary of Prophecy.

Off-Balance Sheet Arrangements

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

Financial Instruments

The Company has not entered into any specialized financial agreements to minimize its investment risk, commodity risk, and currency risk.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The CEO and CFO have evaluated the effectiveness of the company's disclosure controls and procedures and assessed the design of the company's internal control over financial reporting as of March 31, 2010, pursuant to the requirements of National Instrument 52-109.

Management has concluded that, as of March 31, 2010, weaknesses existed.

A weakness existed in the design of internal control over financial reporting caused by a lack of adequate segregation of duties between (a) the authorization, recording, review and reconciliation of transactions, and (b) the recording of receipts and the reconciliation of bank accounts. This weakness has the potential to result in material misstatements in the company's financial statements, and should also be considered a weakness in its disclosure controls and procedures.

A weakness existed in the design of internal control over financial reporting caused by the absence of a policy requiring documentation of the performance of critical control procedures. This weakness leads to uncertainty as to whether the control procedures are being carried out, such that material misstatements in the financial statements may fail to be prevented or detected. This weakness should also be considered a weakness in the company's disclosure controls and procedures.

The Company has designed and implemented changes in the Company's internal control over financial reporting improving the documentation of the performance of critical control procedures and improving the segregation of duties to improve internal control; however, weaknesses still exist.

Management has concluded and the board has agreed that, taking into account the present stage of the company's development and the best interests of its shareholders, the company does not have sufficient size and scale to warrant the hiring of additional staff to correct these weaknesses at this time.

No material changes in the Company's internal control over financial reporting were identified by management during the most recent interim period.

Risk factors

The principal activity of the Company is mineral exploration which is inherently risky. There is intensive government legislation from state, provincial, federal, municipal and aboriginal governments, surrounding the exploration for and production of minerals from our and any mining operations. Exploration and development is also capital intensive and the Company currently has no source of income. Only the skills of its management and staff in mineral exploration and exploration financing serve to mitigate these risks, and therefore constitute one of the main assets of the Company.

The Corporation has its cash deposited with a large, federally insured, commercial bank which it believes to be creditworthy. Federal deposit insurance covers deposit balances up to $100,000. Therefore, the majority of the Company's cash on deposit exceeds federal deposit insurance available.

Title

Title to mineral properties, as well as the location of boundaries on the grounds may be disputed. Moreover, additional amounts may be required to be paid to surface right owners in connection with any mining development. At all of such properties where there are current or planned exploration activities, the Company believes that it has either contractual, statutory, or common law rights to make such use of the surface as is reasonably necessary in connection with those activities. Although the Company believes it has taken reasonable measures to ensure proper title to its properties, there is no guarantee that title to its properties will not be challenged or impaired.

Successful challenges to the title of the Company's properties could impair the development of operations on those properties.

Political Risk

The Company's ability to conduct operations or exploration and development activities is subject to changes in legislation or government regulations or shifts in political attitudes beyond the Company's control.

Government policy may change to discourage foreign investment, nationalization of mining industries may occur or other government limitations, restrictions or requirements not currently foreseen may be implemented. There can be no assurance that the Company's assets will not be subject to nationalization, requisition or confiscation, whether legitimate or not, by any authority or body.

There is no assurance that provisions under Mongolian law for compensation and reimbursement of losses to investors under such circumstances would be effective to restore the value of the Company's original investment. Similarly, the Company's operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, environmental legislation, mine safety and annual fees to maintain mineral licenses in good standing. There can be no assurance that Mongolian laws protecting foreign investments will not be amended or abolished or that existing laws will be enforced or interpreted to provide adequate protection against any or all of the risks described above.

Permits and Licenses

Although the Company either currently holds or has applied for or is about to apply for all consents which it requires in order to carry out its current exploration and development programs, the Company cannot be certain that it will receive the necessary permits and licenses on acceptable terms or at all, in order to conduct further exploration and to develop its properties. The failure to obtain such permits, or delays in obtaining such permits could adversely affect the operations of the Company. Government approvals and permits are currently and may in the future be required in connection with the operations of the Company. To the extent such approvals are required and not obtained; the Company may be curtailed or prohibited from continuing its mining operations or from proceeding with planned exploration or development of mineral properties.

Exploration and Development Efforts May Be Unsuccessful

There is no certainty that the expenditures to be made by the Company in the exploration and development of its properties as described herein will result in discoveries of mineralized material in commercial quantities. Most exploration and development projects do not result in the discovery of commercially mineable ore deposits and no assurance can be given that any particular level of recovery of ore reserves will in fact be realized or that any identified mineral deposit will ever qualify as a commercially mineable (or viable) ore body which can be legally and economically exploited. Estimates of reserves, mineable deposits and production costs can also be affected by such factors as environmental permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. In addition, the grade of ore ultimately mined may differ from that indicated by drilling results. Short term factors relating to ore reserves, such as the need for orderly development of ore bodies or the processing of new or different grades, may also have an adverse effect on mining operations and on the results of operations. There can be no assurance that minerals recovered in small scale tests will be duplicated in large scale tests under on-site conditions or in production scale. Material changes in ore reserves, grades, stripping ratios or recovery rates may affect the economic viability of any project.

Lack of Infrastructure

The Company has projects located in extremely remote areas which currently lack basic infrastructure, including sources of electric power, water, housing, food and transport, necessary to develop and operate a major mining project. While the Company has established the limited infrastructure necessary to conduct its exploration and development activities, substantially greater sources of power, water, physical plant and transport infrastructure in the area will need to be established before the Company can conduct mining operations. Lack of availability of the means and inputs necessary to establish such infrastructure may adversely affect mining feasibility. Establishing such infrastructure will, in any event, require significant financing, identification of adequate sources of raw materials and supplies and necessary approvals from national and regional governments, none of which can be assured.

Lack of Cash Flow

None of the Company's properties have advanced to the commercial production stage and the Company has no history of earnings or cash flow from operations. The Company does not expect to generate material revenue from mining operations or to achieve self-sustaining commercial mining operations for several years.

The Company has paid no dividends on its shares since incorporation and does not anticipate doing so in the foreseeable future. Historically, the only source of funds available to the Company is through the sale of its securities. Future additional equity financing would cause dilution to current shareholders.

No Proven Reserves

The properties in which the Company has an interest or right to earn an interest are in the exploratory stage only and are without a known body of ore in commercial production.

Uncertainty of Obtaining Additional Funding Requirements

Programs planned by the Company may necessitate additional funding, which could cause a dilution of the value of the investment of the shareholders of the Company. The recuperation value of mining properties indicated in the balance sheet depends on the discovery of mineralization that can be profitably exploited and on the Company's capacity to obtain additional funds in order to realize these programs.

The Company's exploration activities can therefore be interrupted at any moment if the Company is incapable of obtaining the necessary funds in order to continue any additional activities that are necessary and that are not described in the exploration programs outlined in the Company's geological report for its properties.

Mineral Prices May Not Support Corporate Profit

The mining industry in general is intensely competitive and there is no assurance that, even if commercial quantities of mineral resources are developed, a profitable market will exist for the sale of same. Factors beyond the control of the Company may affect the marketability of any substances discovered. The price of minerals is volatile over short periods of time, and is affected by numerous factors beyond the control of the Company, including international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining techniques.

Competition

The mining industry is intensively competitive in all its phases. The Company competes with companies possessing greater financial resources and technical facilities than itself for the acquisition of mineral interests as well as for the recruitment and retention of qualified employees.

Environmental Regulations

The current and future operations of the Company, including further exploration, development activities and commencement of production on its properties, requires permits from various Mongolian governmental authorities.

Such operations are subject to various laws governing land use, the protection of the environment, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, mine safety and other matters. There can be no assurance, however, that all permits which the Company may require for construction of mining facilities and conduct of mining operations will be obtainable on reasonable terms. Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions.

Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violation of applicable laws or regulations.

Uncertainty of Reserves and Mineralization Estimates

There are numerous uncertainties inherent in estimating proven and probable reserves and mineralization, including many factors beyond the control of the Company. The estimation of reserves and mineralization is a subjective process and the accuracy of any such estimates is a function of the quality of available data and of engineering and geological interpretation and judgment. Results of drilling, metallurgical testing and production and the evaluation of mine plans subsequent to the date of any estimate may justify revision of such estimates. No assurance can be given that the volume and grade of reserves recovered and rates of production will not be less than anticipated. Assumptions about prices are subject to greater uncertainty and metals and commodity prices have fluctuated widely in the past. Declines in the market price of coal, base or precious metals also may render reserves or mineralization containing relatively lower grades of ore uneconomic to exploit. Changes in operating and capital costs and other factors including, but not limited to, short-term operating factors such as the need for sequential development of ore bodies and the processing of new or different ore grades, may materially and adversely affect reserves.

Foreign Operations

The Company's foreign activities are subject to the risk normally associated with conducting business in foreign countries, including exchange controls and currency fluctuations, limitations on repatriation of earnings, foreign taxation, laws or policies of particular countries, labour practices and disputes, and uncertain political and economic environments, as well as risk of war and civil disturbances, or other risk that could cause exploration or development difficulties or stoppages, restrict the movement of funds or result in the deprivation or loss of contract rights or the taking of property by nationalization or expropriation without fair compensation. Foreign operations could also be adversely impacted by laws and policies affecting foreign trade, investment and taxation. The Company currently has exploration projects located in Mongolia and Canada.

Operating Hazards and Risks Associated with the Mining Industry

Mining operations generally involve a high degree of risk, which even with a combination of experience, knowledge and careful evaluation may not be able to overcome. Hazards such as unusual or unexpected formations and other conditions are involved.

Operations in which the Company has direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of precious and base metals, any of which could result in work stoppages, damage to or destruction of mines and other producing facilities, damage to life and property, environmental damage and possible legal liability for any or all damage. The Company may become subject to liability for cave-ins and other hazards for which it cannot insure or against which it may elect not to insure where premium costs are disproportionate to the Company's perception of the relevant risks. The payment of such insurance premiums and of such liabilities would reduce the funds available for exploration activities.

Ability to Manage Growth

Should the Company be successful in its efforts to develop its mineral properties or to raise capital for other mining ventures it will experience significant growth in operations. If this occurs management anticipates that additional expansion will be required in order to continue development. Any expansion of the Company's business would place further demands on its management, operational capacity and financial resources. The failure to manage growth effectively could have a material adverse effect on the Company's business, financial condition and results of operations.

Lack of a Dividend Policy

The Company does not presently intend to pay cash dividends in the foreseeable future, as any earnings are expected to be retained for use in developing and expanding its business. However, the actual amount of dividends received from the Company will remain subject to the discretion of the Company's board of directors and will depend on results of operations, cash requirements and future prospects of the Company and other factors.

Possible Dilution to Present and Prospective Shareholders

The Company's plan of operation, in part, contemplates the accomplishment of business negotiations by the issuance of cash, securities of the Company, or a combination of the two, and possibly, incurring debt. Any transaction involving the issuance of previously authorized but unissued common shares, or securities convertible into common shares, would result in dilution, possibly substantial, to present and prospective holders of common shares.

Dependence on Key Personnel

The Company strongly depends on the business and technical expertise of its management and key personnel. There is little possibility that this dependence will decrease in the near term.

As the Company's operations expand, additional general management resources will be required, especially since the Company encounters risks that are inherent in doing business in several countries.

Conflict of Interest

Certain directors of the Company are also directors, officers or shareholders of other companies that are similarly engaged in the business of acquiring, developing and exploiting natural resource properties. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interest which they may have in any project or opportunity of the Company. If a conflict arises at a meeting of the board of directors, any director in a conflict will disclose his interest and abstain from voting on such matter. In determining whether or not the Company will participate in any project or opportunity, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at that time.

Lack of Trading Volume

The lack of trading volume of the Company's shares reduces the liquidity of an investment in the Company's shares.

Volatility of Share Price

Market prices for shares of early stage companies are often volatile. Factors such as announcements of mineral discoveries, financial results, and other factors could have a significant effect on the price of the Company's shares.

Outlook and Investor Relations

The Company continues to keep the shareholders advised as to the status of exploration and development on all its properties. For more information please visit the Company's website at www.redhillenergy.com.

The Company continues to be logged into the SEDAR electronic filing system for the purpose of reporting on a timely basis. SEDAR can be accessed via the Internet at www.sedar.com.

Forward Looking Statements

Certain statements contained in this Management Discussion and Analysis constitute "forward-looking statements". These statements relate to future events or the Company's future performance, business prospects or opportunities. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Information concerning the interpretation of drill results, mineral resource and reserve estimates and capital cost estimates may also be deemed as forward-looking statements as such information constitutes a prediction of what mineralization might be found to be present and how much capital will be required if and when a project is actually developed. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this Management Discussion and Analysis should not be relied upon. These statements speak only as of the date of this Management Discussion and Analysis. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by forward-looking statements contained in this Management Discussion and Analysis. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about:

- general business and economic conditions;
- the supply and demand for, deliveries of, and the level and volatility of prices of copper, uranium, or other mineral commodities under exploration;
- the availability of financing for the Company's exploration and development projects on reasonable terms;
- the ability to procure equipment and operating supplies in sufficient quantities and on a timely basis;
- the ability to attract and retain skilled staff;
- market competition;
- the accuracy of our resource estimate (including, with respect to size, grade and recoverability) and the geological, operational and price assumptions on which it is based; and
- tax benefits and tax rates.

These forward-looking statements involve risks and uncertainties relating to, among other things, risks related to international operations, actual results of current exploration activities, conclusions of economic evaluations, changes in project parameters as plans continue to be refined, as well as those factors discussed in the section "Risk Factors". Factors that could cause actual results to differ materially include, but are not limited to, the risk factors discussed in the section. The Company cautions that the foregoing list of important factors is not exhaustive. Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Company does not undertake to update any forward-looking statements that are incorporated by reference herein, except in accordance with applicable securities laws.