Prophecy Coal Corp.

(Formerly Prophecy Resource Corp.)

Annual Audited Consolidated Financial Statements
For the years ended December 31, 2011 and 2010
(Expressed in Canadian Dollars)

TABLE OF CONTENTS

Financial Statements

Notes to Consolidated Financial Statements

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Prophecy Coal Corp. (formerly Prophecy Resource Corp.) are the responsibility of the Company's management. The consolidated financial statements have been prepared by management in conformity with International Financial Reporting Standard ("IFRS") as issued by the International Accounting Standards Board. These statements include amounts that are based on management's best estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. Financial information used elsewhere in annual filings is consistent with that in the financial statements.

The Company maintains a system of internal control, which provides management with reasonable assurance that assets are safeguarded and that reliable financial records are maintained.

The Board of Directors carries out its responsibility for the financial statements principally through its Audit Committee, consisting solely of outside directors. The Audit Committee meets periodically with management, as well as the external auditors, to review the financial statements and to satisfy itself that each party is properly discharging its responsibilities.

The external auditors, Smythe Ratcliffe LLP, have been appointed by the shareholders to render their opinion on the financial statements. The auditors have full and free access to the Audit Committee and their report is included herein.

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

March 29, 2012

SmytheRatcliffe
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF PROPHECY COAL CORP.
(formerly Prophecy Resource Corp.)

We have audited the accompanying consolidated financial statements of Prophecy Coal Corp. (formerly Prophecy Resource Corp.), which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Prophecy Coal Corp. (formerly Prophecy Resource Corp.) as at December 31, 2011, December 31, 2010 and January 1, 2010, and the results of its operations and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Smythe Ratcliffe LLP

Chartered Accountants

Vancouver, British Columbia
March 29, 2012

7th Floor 355 Burrard St
Vancouver, BC V6C 2G8

Tel: 604 687 1231
Fax: 604 688 4675
smytheratcliffe.com

PROPHECY COAL CORP.
(formerly Prophecy Resource Corp.)
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

As at	Note	December 31 2011	December 31 2010 (notes 4 & 25)	January 1 2010 (note 25)
Assets				
Current assets				
Cash and cash equivalents	6	$ 3,480,050	$ 39,324,151	$ 139,312
Receivables	7	1,105,429	414,926	2,928
Prepaid expenses	8	609,357	82,513	-
Available-for-sale investments	9	3,839,988	-	-
		9,034,824	39,821,590	142,240
Non-current assets				
Reclamation deposits		6,500	6,500	6,850
Receivables	7	2,137,031	-	-
Equipment deposits and other		2,053,613	-	-
Available-for-sale investments	9	3,796,175	3,295,385	-
Property and equipment	10	51,645,276	25,301,993	77,927
Mineral properties	11	62,169,481	50,464,655	15,933,591
		$ 130,842,900	$ 118,890,123	$ 16,160,608
Liabilities and Equity				
Current liabilities				
Accounts payable and accrued liabilities	12	$ 1,364,890	$ 2,221,951	$ 52,105
Loan payable	13	-	5,083,334	-
		1,364,890	7,305,285	52,105
Non-current liabilities				
Provision for closure and reclamation	14	257,355	80,000	-
Deferred income taxes	15	-	448,687	-
		1,622,245	7,833,972	52,105
Equity				
Share capital	16	134,492,080	125,458,376	33,896,787
Reserves		17,138,468	13,689,514	3,582,419
Accumulated other comprehensive loss	9	(1,842,782)	(512,616)	-
Deficit		(53,375,529)	(27,579,123)	(21,370,703)
Equity attributable to owners of the Company		96,412,237	111,056,151	16,108,503
Equity attributable to non-controlling interests		32,808,418	-	-
Total Equity		129,220,655	111,056,151	16,108,503
		$ 130,842,900	$ 118,890,123	$ 16,160,608

Approved on behalf of the Board:

"John Lee" — Director

"Greg Hall" — Director

See Notes to Consolidated Financial Statements.

PROPHECY COAL CORP.
(formerly Prophecy Resource Corp.)
Consolidated Statements of Operations and Comprehensive Loss
(Expressed in Canadian Dollars)

Year Ended December 31	Notes	**2011**	**2010** (note 25)
General and Administrative Expenses			
Consulting and management fees		$ 1,476,887	$ 1,278,392
Share-based payments	16	6,921,116	1,112,552
Advertising and promotion		1,208,229	693,778
Professional fees		1,161,838	447,512
Travel and accommodation		619,196	367,511
Stock exchange and shareholder services		337,059	254,658
Salaries and benefits		435,595	252,703
Office and administration		396,399	196,958
Insurance		122,458	6,038
Director fees		130,452	-
Depreciation		150,439	19,458
Loss Before Other Items and Deferred Income Tax Recovery		(12,959,668)	(4,629,560)
Other Items			
Interest income		135,466	9,399
Interest expense		(9,091)	-
Investment income		21,934	-
Loss on disposal of property and equipment		-	(1,739)
Foreign exchange gain		2,588,904	23,726
		2,737,213	31,386
Loss Before Deferred Income Tax Recovery		(10,222,455)	(4,598,174)
Deferred income tax recovery	15	448,687	-
Net Loss for Year		(9,773,768)	(4,598,174)
Fair value loss on available-for-sale investments		(1,414,819)	(512,616)
Comprehensive Loss for Year		$ (11,188,587)	$ (5,110,790)
Net loss for year attributable to:			
Owners of the Company		$ (7,137,313)	$ (4,598,174)
Non-controlling interest		(2,636,455)	-
		$ (9,773,768)	$ (4,598,174)
Comprehensive loss for period attributable to:			
Owners of the Company		$ (8,454,021)	$ (5,110,790)
Non-controlling interest		(2,734,566)	-
		$ (11,188,587)	$ (5,110,790)
Loss Per Common Share, basic and diluted		$ (0.05)	$ (0.05)
Weighted Average Number of Common Shares Outstanding		193,174,218	100,639,942

See Notes to Consolidated Financial Statements.

PROPHECY COAL CORP.
(formerly Prophecy Resource Corp.)
Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)

	Note	Numbers of shares	Share Capital	Reserves	Accumulated Other Comprehensive Loss	Deficit	Non-controlling Interest	Total
Balance, January 1, 2010	26	48,594,034	$ 33,896,787	$ 3,582,419	$ -	$ (21,370,703)	$ -	$ 16,108,503
Private placements, net of share issue costs		23,470,169	10,762,957	133,847	-	-	-	10,896,804
Shares issued upon acquisition of Prophecy Holdings Inc.		36,178,285	27,495,497	7,737,852	-	-	-	35,233,349
Shares issued upon acquisition of Northern Platinum Ltd.		14,170,815	7,085,408	1,101,095	-	-	-	8,186,503
Shares issued for mineral properties		5,760,000	3,658,400	-	-	-	-	3,658,400
Shares issued as financing fees		1,000,000	490,000	-	-	-	-	490,000
Propspectus offering, net of share issue costs		49,475,000	38,426,910	573,300	-	-	-	39,000,210
Options exercised		2,610,000	1,876,283	(754,900)	-	-	-	1,121,383
Warrants exercised		3,722,896	1,766,134	-	-	-	-	1,766,134
Share-based payments		-	-	1,351,123	-	-	-	1,351,123
Expiry of options		-	-	(35,222)	-	-	-	(35,222)
Distribution to shareholders on spin-off		-	-	-	-	(1,610,246)	-	(1,610,246)
Loss for the year		-	-	-	-	(4,598,174)	-	(4,598,174)
Unrealized gain on available-for-sale invesments		-	-	-	(512,616)	-	-	(512,616)
Balance, December 31, 2010	26	184,981,199	125,458,376	13,689,514	(512,616)	(27,579,123)	-	111,056,151
Expired escrowed shares cancelled		(187,500)	-	-	-	-	-	-
Options exercised		1,500,300	1,206,623	(543,925)	-	-	-	662,698
Warrants exercised		14,815,423	7,827,081	(156,347)	-	-	-	7,670,734
Share-based payments		-	-	4,149,226	-		3,659,740	7,808,966
Non-controlling interest on acquisition of Prophecy Platinum Ltd.		-	-	-	-	-	5,725,409	5,725,409
Distribution to shareholders on spin-off		-	-	-	-	(18,475,792)	18,475,792	-
Funding from non-controlling interest, net of dilution						2,888,033	7,668,585	10,556,618
Dilution on spin-out transaction		-	-	-	-	(3,071,334)	-	(3,071,334)
Loss for the year		-	-	-	-	(7,137,313)	(2,636,455)	(9,773,768)
Unrealized gain on available-for-sale investments		-	-	-	(1,330,166)	-	(84,653)	(1,414,819)
Balance, December 31, 2011		**201,109,422**	**$ 134,492,080**	**$ 17,138,468**	**$ (1,842,782)**	**$ (53,375,529)**	**$ 32,808,418**	**$ 129,220,655**

See Notes to Consolidated Financial Statements.

PROPHECY COAL CORP.
(formerly Prophecy Resource Corp.)
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

Year Ended December 31	2011	2010
Operating Activities		
Net loss for the year	$ (9,773,768)	$ (4,598,174)
Items not involving cash		
Depreciation	150,439	19,458
Share-based payments	6,921,116	1,112,552
Deferred income tax recovery	(448,687)	-
Loss of disposal of property and equipment	-	1,739
	(3,150,900)	(3,464,425)
Changes in non-cash working capital		
Receivables	(2,810,113)	(275,386)
Prepaid expenses	(522,034)	(82,513)
Accounts payable and accrued liabilities	(402,396)	(524,639)
	(3,734,543)	(882,538)
Cash Used in Operating Activities	(6,885,443)	(4,346,963)
Investing Activities		
Cash received upon acquisition of Prophecy Holdings Corp and Northern Platinum Ltd., net transaction costs	-	3,923,501
Cash received upon acquistion of Prophecy Platinum Ltd.	778,676	-
Reclamation deposit	-	6,850
Equipment deposits and other	(2,053,614)	-
Acquisition of property and equipment	(26,972,620)	(8,655,559)
Mineral property expenditures	(8,730,929)	(4,719,521)
Purchase of available-for-sale investments	(5,755,637)	(3,808,001)
Cash Used in Investing Activities	(42,734,124)	(13,252,730)
Financing Activities		
Proceeds from loan	-	5,000,000
Repayment of loan	(5,083,334)	-
Shares issued, net of share issuance costs	18,858,800	52,784,532
Dividend distribution to shareholders on spin-off	-	(1,000,000)
Cash Provided by Financing Activities	13,775,466	56,784,532
Net Increase (Decrease) in Cash	(35,844,101)	39,184,839
Cash and Cash Equivalents - beginning of year	39,324,151	139,312
Cash and Cash Equivalents - end of year	$ 3,480,050	$ 39,324,151

Supplemental cash flow information (Note 22)

See Notes to Consolidated Financial Statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

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

On June 13, 2011, Northern Platinum Ltd. (“Northern Platinum”), Prophecy Holdings Inc., and Prophecy Resource Corp. were amalgamated as one company under the name Prophecy Resource Corp. On June 14, 2011, Prophecy Resource Corp. changed its name to Prophecy Coal Corp. (see note 4 for more details on the ownership of its subsidiaries).

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

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

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business. The Company believes it has sufficient funds to continue operations for at least the next twelve months.

2. BASIS OF PRESENTATION

(a) Statement of compliance

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

These consolidated financial statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”). These are the Company’s first annual consolidated financial statements prepared in accordance with IFRS. The impact of the transition from Canadian GAAP to IFRS is explained in Note 25. IFRS 1 *First-Time Adoption of IFRS* has been applied.

2. BASIS OF PRESENTATION (Continued)

(a) Statement of compliance (continued)

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

The accounting policies set out in Note 3 have been applied consistently by the Company and its subsidiaries to all periods presented.

(b) Approval of the financial statements

The consolidated financial statements of Prophecy Coal for the year ended December 31, 2011 were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on March 29, 2012.

(c) Comparative figures

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

Please refer to notes 4 (a), (b) and (c), which discusses the impact on the comparative information provided with respect to the year ended December 31, 2010, arising from a restatement.

(d) New accounting pronouncements

All of the new and revised standards described below may be early-adopted. The Company has not yet assessed the impact of these standards.

(i) IFRS 9 *Financial Instruments* (2010)

A revised version of IFRS 9 incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirements from IAS 39 *Financial Instruments: Recognition and Measurement*.

The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at FVTPL; in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

Applicable to annual periods beginning on or after January 1, 2015. This standard supersedes IFRS 9 (2009). However, for annual reporting periods beginning before January 1, 2015, an entity may early-adopt IFRS 9 (2009) instead of applying this standard.

2. BASIS OF PRESENTATION (Continued)

(d) New accounting pronouncements (continued)

(ii) IFRS 11 *Joint Arrangements*

Replaces IAS 31 *Interests in Joint Ventures*. Requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.

Joint arrangements are either joint operations or joint ventures:

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint operators recognize their assets, liabilities, revenue and expenses in relation to its interest in a joint operation (including their share of any such items arising jointly)
A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (joint venturers) have rights to the net assets of the arrangement. A joint venturer applies the equity method of accounting for its investment in a joint venture in accordance with IAS 28 *Investments in Associates and Joint Ventures* (2011). Unlike IAS 31, the use of "proportionate consolidation" to account for joint ventures is not permitted.

Applicable to annual reporting periods beginning on or after January 1, 2013. If early adopted, must be adopted together with IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

(iii) IFRS 12 *Disclosure of Interests in Other Entities*

Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

In high-level terms, the required disclosures are grouped into the following broad categories:

- Significant judgments and assumptions - such as how control, joint control, significant influence has been determined
- Interests in subsidiaries - including details of the structure of the group, risks associated with structured entities, changes in control, and so on
- Interests in joint arrangements and associates - the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarized financial information)
- Interests in unconsolidated structured entities - information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities

2. BASIS OF PRESENTATION (Continued)

(d) New accounting pronouncements (continued)

(iii) IFRS 12 *Disclosure of Interests in Other Entities (Continued)*

IFRS 12 lists specific examples and additional disclosures which further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required.

Applicable to annual reporting periods beginning on or after January 1, 2013. If early adopted, must be adopted together with IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011).

(iv) IFRS 13 Fair Value Measurement

Replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard.

This IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

IFRS 13 applies when another IFRS requires or permits fair value and requires disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about hose measurements). With some exceptions, the standard requires entities to classify these measurements into a ”fair value hierarchy” based on the nature of the inputs:

Level 1 – quoted prices in active markets for identical assets or liabilities that the entity can assess at the measurement date.
Level 2 – inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 – unobservable inputs for the asset or liability.

Entities are required to make various disclosures depending upon the nature of the fair value measurement (e.g., whether it is recognized in the financial statements or merely disclosed) and the level in which it is classified.

Applicable to annual reporting periods beginning on or after January 1, 2013.

2. BASIS OF PRESENTATION (Continued)

(d) New accounting pronouncements (continued)

(v) Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

Amends IAS 1 *Presentation of Financial Statements* to revise the way other comprehensive income is presented.

The amendments:

- Preserve the amendments made to IAS 1 in 2007 to require profit or loss and other comprehensive income ("OCI") to be presented together, i.e., either as a single "statement of profit or loss and comprehensive income", or a separate "statement of profit or loss' and a 'statement of comprehensive income" – rather than requiring a single continuous statement as was proposed in the exposure draft.
- Require entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently, i.e., those that might be reclassified and those that will not be reclassified.
- Require tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax).

Applicable to annual reporting periods beginning on or after July 1, 2012.

(vi) IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

Clarifies the requirements for accounting for stripping costs associated with waste removal in surface mining, including when production stripping costs should be recognized as an asset, how the asset is initially recognized, and subsequent measurement.

The Interpretation requires stripping activity costs which provide improved access to ore are recognized as a non-current "stripping activity asset" when certain criteria are met. The stripping activity asset is depreciated or amortized on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity, using the units of production method unless another method is more appropriate.

Applicable to annual periods beginning on or after January 1, 2013.

2. BASIS OF PRESENTATION (Continued)

(e) Foreign currency translation

The Company's presentation currency and the functional currency is the Canadian dollar, as this is the principal currency of the economic environment in which they operate.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the consolidated statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Gains and losses arising from this translation are included in the determination of net loss for the year.

(f) Significant accounting judgments and estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Areas requiring the use of estimates include the rates of amortization for property and equipment, the useful life and recoverability of long-lived assets, the recoverability of accounts receivable, determination of environmental obligation provision for closure and reclamation, accounts payable and accrued liabilities, the assumptions used in the determination of the fair value of financial instruments and share-based payments, and the determination of the recoverability of for deferred income tax assets. The Company bases its estimates and assumptions on current and various other factors that it believes to be reasonable under the circumstances. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its controlled subsidiaries. All material intercompany balances and transactions have been eliminated. For a partially owned subsidiary, the interest attributable to non-controlling shareholders is reflected in non-controlling interest.

(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (continued)

Details of the Company's subsidiaries at December 31, 2011 are as follows:

	Principal Activity	Place of incorporation and operation	Ownership interest December 31, 2011
0912603 B.C. Ltd.	Exploration	Canada	100%
0912601 B.C. Ltd.	Exploration	Canada	100%
Chandgana Coal LLC	Exploration	Mongolia	100%
East Energy Development LLC	Exploration	Mongolia	100%
Red Hill Mongolia LLC	Mining	Mongolia	100%
UGL Enterprises LLC	Inactive	Mongolia	100%
Prophecy Platinum Corp.	Exploration	Canada	48.86%
Subsidiaries of Prophecy Platinum Corp.			
PCNC Holdings Corp.	Exploration	Canada	48.86%
Pacific Coast Nickel Corp. USA	Inactive	USA	48.86%
Pacific Nickel Sudamerica S.A.	Exploration	Uruguay	48.86%
0905144 B. C. Ltd.	Exploration	Canada	48.86%

(b) Cash equivalents

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

(c) Mineral properties

Costs directly related to the exploration and evaluation of resource properties are capitalized once the legal rights to explore the resource properties are acquired or obtained. When the technical and commercial viability of a mineral resource have been demonstrated and a development decision has been made, the capitalized costs of the related property are transferred to mining assets and depreciated using the units of production method on commencement of commercial production.

If it is determined that capitalized acquisition, exploration and evaluation costs are not recoverable, or the property is abandoned or management has determined an impairment in value, the property is written down to its recoverable amount. Resource properties are reviewed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount.

From time to time, the Company acquires or disposes of properties pursuant to the terms of option agreements. Options are exercisable entirely at the discretion of the optionee and, accordingly, are recorded as mineral property costs or recoveries when the payments are made or received. After costs are recovered, the balance of the payments received are recorded as a gain on option or disposition of mineral property.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property and equipment

(i) Development

When economically viable reserves have been determined and the decision to proceed with development has been approved, the expenditures related to development and construction are capitalized as construction-in-progress and classified as a component of property and equipment.

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

(ii) Equipment

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Property and equipment are carried at cost less accumulated depreciation.

Depreciation of property and equipment is recorded on a unit-of-production basis or declining-balance at the following annual rates:

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

When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property and equipment (continued)

(ii) Equipment (continued)

The cost of major overhauls of part of equipment is recognized in the carrying amount of the item if is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of equipment are recognized in profit or loss as incurred.

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

(e) Impairment of non-current assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit (the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflow from other assets or groups of assets (“CGU”), where the recoverable amount of CGU is the greater of the CGU’s fair value less costs to sell and its value in use) to which the assets belong.

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

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

The Company uses its best efforts to fully understand all of the aforementioned to make an informed decision based upon historical and current facts surrounding the projects. Discounted cash flow techniques often require management to make estimates and assumptions concerning reserves and expected future production revenues and expense.

The Company considers none of its assets to be impaired at December 31, 2011. Each project or group of claims or licenses is treated as a CGU.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Revenue recognition

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

Revenue from coal sales is charged against construction when generated during commissioning of the plant; to mineral properties when generated from pre-commercial production; and to operations when generated from commercial production.

(g) Unit offerings

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

(h) Share-based payments

The Company has a stock option plan that is described in Note 16. The Company accounts for share-based payments using a fair value based method with respect to all share-based payments to directors, employees, and service providers. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or if such fair value is not reliably measurable, at the fair value of the equity instruments issued. The fair value is recognized as an expense or capitalized to mineral properties or property and equipment with a corresponding increase in option reserve. This includes a forfeiture estimate, which is revised for actual forfeitures in subsequent periods. Upon the exercise of the stock option, the consideration received and the related amount transferred from option reserve are recorded as share capital.

(i) Loss per share

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Income taxes

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

(k) Provision for closure and reclamation

The Company assesses its mine rehabilitation provision at each reporting date. Changes to estimated future costs are recognized in the statement of financial position by either increasing or decreasing the rehabilitation liability and asset to which it relates if the initial estimate was originally recognized as part of an asset measured in accordance with IAS 16 *Property, Plant and Equipment*.

The Company records the present value of estimated costs of legal and constructive obligations required to restore mining operations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures; rehabilitating mine; dismantling operating facilities; closure of plant and waste sites; and restoration, reclamation and vegetation of affected areas.

Present value is used where the effect of the time value of money is material. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, and the amount or timing of the underlying cash flows needed to settle the obligation.

(l) Financial instruments

Financial assets

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

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. The Company's cash and cash equivalents are classified as FVTPL.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Financial instrument (continued)

Financial assets (continued)

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

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

Financial liabilities

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

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income. The Company has no financial liabilities classified as FVTPL.

(m) Non-controlling interest

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

4. ACQUISITION AND RESTATEMENT

(a) Acquisition of Prophecy Holdings Inc.

In April 2010, the Company completed the acquisition of 100% of Prophecy Holdings Inc. ("Prophecy Holdings") through a plan of arrangement ("the Arrangement"). As part of the Arrangement, the Company transferred $1,000,000 cash and its non-coal assets, principally the Red Lithium Property near Clayton Valley, Nevada, the Thor Rare Earth Property ("ThorRee") in Nevada and the Banbury Property in British Columbia, to Elissa Resources Ltd. ("Elissa"), in exchange for Elissa's common shares. The Company exchanged each of the common shares for 0.92 of a new common share and 0.25 of an Elissa common share. The result was to reduce the number of common shares outstanding by 5,265,840 and recognize a distribution of an asset. Each outstanding stock option and warrant is exercisable to acquire one new common share of the Company. As consideration for the

(Expressed in Canadian Dollars)

4. ACQUISITIONS AND RESTATEMENT (Continued)

(a) Acquisition of Prophecy Holdings Inc. (continued)

acquisition, a total of 36,178,285 common shares were issued to Prophecy Holdings' shareholders, and 3,500,000 options and 11,336,109 warrants were issued to replace the old options and warrants of Prophecy Holdings on a one-to-one basis. This transaction has been accounted for as an acquisition of assets. The consideration was allocated based on fair value of assets and liabilities acquired.

During the preparation of the consolidated financial statements for the year ended December 31, 2011, the Company determined the consideration paid for the acquisition of Prophecy Holdings was calculated incorrectly with respect to the accounting for the replacement options and warrants issued. The revised allocation of the consideration given and net assets acquired, inclusive of the impact of the transition to IFRS, of this transaction is summarized as follows:

Fair value of common shares issued	$	27,495,497
Fair value of replacement options and warrants		7,737,852
Transaction costs		174,998
Purchase price	$	35,408,347
Cash and cash equivalents	$	4,213,364
Receivables		24,566
Reclamation deposit		6,500
Mineral properties		31,802,069
Accounts payable and accrued liabilities		(591,823)
Deferred income tax liabilities		(46,329)
Net assets acquired	$	35,408,347

(b) Acquisition of Northern Platinum Ltd.

In September 2010, the Company completed the acquisition of 100% of Northern Platinum Ltd. ("Northern Platinum") through an Arrangement. Pursuant to the Arrangement, each common share of Northern Platinum was exchanged for 0.50 common share and 0.10 warrant of the Company, and each option and warrant of Northern Platinum was exchanged for 0.50 option and warrant of the Company, respectively. Upon closing the Arrangement, the Company issued a total of 13,874,819 common shares, 1,300,000 options and 6,079,715 warrants acquired to replace the common shares, options and warrants of Northern Platinum. The Company also issued 295,996 common shares as finder's fees for this transaction. This transaction has been accounted for as an acquisition of assets.

(Expressed in Canadian Dollars)

4. ACQUISITIONS AND RESTATEMENT (Continued)

(b) Acquisition of Northern Platinum Ltd. (continued)

During the preparation of the consolidated financial statements for the year ended December 31, 2011, the Company determined the consideration paid for the acquisition of Northern Platinum was calculated incorrectly with respect to the accounting for the replacement options and warrants issued. The revised allocation of the consideration given and net assets acquired, inclusive of the impact of the transition to IFRS, of this transaction is summarized as follows:

Fair value of common shares issued	$	6,937,410
Fair value of replacement options and warrants		1,101,095
Transaction costs		263,937
Purchase price	$	8,302,442
Cash and cash equivalents	$	1,075
Receivables		112,048
Mineral properties		9,146,231
Accounts payable and accrued liabilities		(614,845)
Deferred income tax liabiities		(342,067)
Net assets acquired	$	8,302,442

(c) Restatement of acquisition of Prophecy Holdings Inc. and Northern Platinum Ltd.

The following outlines the impact of the restatement to the consolidated statement of financial position as at December 31, 2010 and the impact of the transition to IFRS.

	Previously reported under Canadian GAAP	Impact of restatement	Restated under Canadian GAAP	Impact of transition to IFRS	Restated and/or reported under IFRS
Property and Equipment	$ 91,706	$ -	$ 91,706	$ 25,210,287	$ 25,301,993
Mineral Properties	74,377,177	11,089,720	85,466,897	(35,002,242)	50,464,655
Total Assets	$ 117,592,358	$ 11,089,720	$ 128,682,078	$ (9,791,955)	$ 118,890,123
Deferred Income Taxes	$ 8,606,656	$ 2,772,431	$ 11,379,087	$ (10,930,400)	$ 448,687
Reserves	5,407,447	8,317,289	13,724,736	(35,222)	13,689,514
Deficit	(28,752,790)	-	(28,752,790)	1,173,667	(27,579,123)
Total Liabilities and Equity	$ 117,592,358	$ 11,089,720	$ 128,682,078	$ (9,791,955)	$ 118,890,123

There was neither impact to the consolidated statement of financial position as at January 1, 2010, nor the consolidated statement of operations or cash flows for the year ended December 31, 2010.

(Expressed in Canadian Dollars)

4. ACQUISITIONS AND RESTATEMENT (Continued)

(d) Acquisition of Prophecy Platinum Ltd.

On June 13, 2011, the Company completed the transfer of the Wellgreen and Lynn Lake nickel properties and $2,000,000 cash to Pacific Coast Nickel Corp. ("PCNC") through an Arrangement. Pursuant to the terms of the Arrangement, PCNC would issue 450,000,000 of its common shares to Prophecy Coal. The Company retained 269,176,425 of these shares, distributed 180,823,575 of these shares to Prophecy Coal shareholders. Of the 269,176,425, the Company has reserved 44,176,425 common shares for distribution to holders of Prophecy Coal options and warrants, upon the exercise of such options and warrants.

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

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

As a result of the Arrangement, the Company acquired an interest of 53.24% of Platinum's issued and outstanding shares and through other relationships, is deemed to have control over Platinum. Accordingly, Prophecy consolidated the results of Platinum from June 14, 2011, the date of acquisition. The Company has recorded the interest in the Wellgreen and Lynn Lake properties at their carrying values as it has retained control of the properties. Platinum is considered a subsidiary of Prophecy and its financial results are consolidated into Prophecy's financial statements. Therefore, this transaction has been accounted for using the purchase method as an acquisition of assets. Additional information on Platinum as a publicly listed company is available on the SEDAR website, www.sedar.com.

The Company's ownership interest in Platinum was reduced to 48.86% as at December 31, 2011, which resulted in a dilution impact recorded to deficit. However, through the other relationships, the Company is deemed to continue to have control over Platinum.

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

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

(Expressed in Canadian Dollars)

5. SEGMENTED INFORMATION

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

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

	December 31, 2010				
	Canada	Uruguay	Argentina	Mongolia	Total
Reclamation deposits	$ 6,500	$ -	$ -	$ -	$ 6,500
Property and equipment	91,706	-	-	25,210,287	25,301,993
Mineral properties	49,036,439	-	-	1,428,218	50,464,657
	$ 49,134,645	$ -	$ -	$ 26,638,505	$ 75,773,150

	January 1, 2010			
	Canada	United States	Mongolia	Total
Reclamation	$ 6,850	$ -	$ -	$ 6,850
Property and equipment	77,927	-	-	77,927
Mineral properties	1	528,787	15,404,803	15,933,591
	$ 84,778	$ 528,787	$ 15,404,803	$ 16,018,368

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents of the Company are comprised of bank balances and short-term money market instruments with original maturities of three months or less. The Company's cash and cash equivalents are denominated in the following currencies:

	December 31, 2011	December 31, 2010	January 1, 2010
Cash			
Denominated in Canadian dollars	$ 2,316,433	$ 39,242,333	$ 121,431
Denominated in US dollars	68,419	6,202	-
Denominated in Mongolian tugrug	86,530	75,616	17,881
Denominated in Uruguayan pesos	6,770	-	-
Cash equivalents			
Denominated in Canadian dollars	1,001,898	-	-
	$ 3,480,050	$ 39,324,151	$ 139,312

7. RECEIVABLES

	December 31, 2011	December 31, 2010	January 1, 2010
Current assets			
HST receivable	$ 338,436	$ 414,926	$ 2,928
Trade receivable	730,373	-	-
Other receivables	36,620	-	-
	$ 1,105,429	$ 414,926	$ 2,928
Non-current assets			
VAT receivable	$ 2,137,031	$ -	$ -

8. PREPAID EXPENSES

	December 31, 2011	December 31, 2010	January 1, 2010
Prepaid insurance	$ 29,360	$ -	$ -
Other prepaid expenses	579,997	82,513	-
	$ 609,357	$ 82,513	$ -

(Expressed in Canadian Dollars)

9. AVAILABLE-FOR-SALE INVESTMENTS

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

		December 31, 2011		December 31, 2010		January 1, 2011
Current assets						
Platinum investments						
ETFS Physical Palladium	$	2,024,878	$	-	$	-
ETFS Physical Platinum		1,815,110		-		-
	$	3,839,988	$	-	$	-
Non-current assets						
Prophecy investments						
Victory Nickel	$	2,746,175	$	3,295,385	$	-
Compliance Energy		1,050,000		-		-
	$	3,796,175	$	3,295,385	$	-

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

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

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

10. PROPERTY AND EQUIPMENT

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

(Expressed in Canadian Dollars)

10. PROPERTY AND EQUIPMENT (Continued)

	Computer Equipment	Furniture & Equipment	Vehicles	Computer Software	Leasehold Improvements	Ulaan Ovoo Mining Equipment	Ulaan Ovoo Deferred Exploration	Exploration Equipment	Total
Cost									
Balance, January 1, 2010	$ 25,522	$ 92,565	$ 47,475	$ -	$ 7,244	$ -	$ -	$ -	$ 172,806
Additions									
Assets acquired	11,431	25,752	-	-	-	-	-	-	37,183
Reclassification of mine development costs	-	-	-	-	-	-	25,210,287	-	25,210,287
Disposals	(1,739)	-	-	-	-	-	-	-	(1,739)
Balance, December 31, 2010	35,214	118,317	47,475	-	7,244	-	25,210,287	-	25,418,537
Additions									
Assets acquired	109,231	106,247	724,636	234,068	165,574	14,248,586	13,128,589	28,299	28,745,230
Balance, December 31, 2011	$ 144,445	$ 224,564	$ 772,111	$ 234,068	$ 172,818	$ 14,248,586	$ 38,338,876	$ 28,299	$ 54,163,767
Accumulated depreciation									
Balance, January 1, 2010	$ 19,915	$ 54,044	$ 19,471	$ -	$ 1,449	$ -	$ -	$ -	$ 94,879
Depreciation for the year	3,636	9,350	7,502	-	1,177	-	-	-	21,665
Balance, December 31, 2010	23,551	63,394	26,973	-	2,626	-	-	-	116,544
Depreciation for the year	25,675	19,054	110,342	82,456	20,956	2,125,913	-	17,551	2,401,947
Balance, December 31, 2011	$ 49,226	$ 82,448	$ 137,315	$ 82,456	$ 23,582	$ 2,125,913	$ -	$ 17,551	$ 2,518,491
Carrying amounts									
At January 1, 2010	$ 5,607	$ 38,521	$ 28,004	$ -	$ 5,795	$ -	$ -	$ -	$ 77,927
At December 31, 2010	$ 11,663	$ 54,923	$ 20,502	$ -	$ 4,618	$ -	$ 25,210,287	$ -	$ 25,301,993
At December 31, 2011	$ 95,219	$ 142,116	$ 634,796	$ 151,612	$ 149,236	$ 12,122,673	$ 38,338,876	$ 10,748	$ 51,645,276

(Expressed in Canadian Dollars)

11. MINERAL PROPERTIES

	Ulaan Ovoo	Chandgana Tal	Chandgana Khavtgai	Titan	Okeover, others	Red Lithium	ThorRee	Lynn Lake	Wellgreen	Burwash	Sarandi del Yi Durazno	Las Aguilas	Total
Notes	11(a)	11(b)	11(c)	11(f)	11(e)	11(h)	11(h)	11(d)	11(g)	11(i)	11(j)	11(k)	
Balance, January 1, 2010	$ 12,950,217	$ 1,282,244	$ 1,172,342	$ -	$ 1	$ 339,607	$ 189,180	$ -	$ -	$ -	$ -	$ -	$ 15,933,591
Acquisition costs	1,570,000	-	-	307,274	1,246,890	-	-	30,672,677	13,464,630	-	-	-	47,261,471
Deferred exploration costs:													
Licenses, leases, and Power Plant application	35,460	1,450	322,305	-	-	-	-	6,395	31,912	-	-	-	397,522
Geological core, engineering, and consulting	1,029,524	15,091	191,722	64,630	80,738	-	81,458	330,825	248,105	-	-	-	2,042,093
Drilling	25,129	-	267,080	-	-	-	-	419,402	49,876	-	-		761,487
Transportation and shipping	522,346	-	-	-	-	-	-	-	-	-	-	-	522,346
Road and bridge construction	2,925,587	-	-	-	-	-	-	-	-	-	-	-	2,925,587
Mine development	4,671,075	-	-	-	-	-	-	-	-	-	-	-	4,671,075
Personnel	116,097	1,502	19,948	-	-	-	-	-	33,333	-	-	-	170,880
Camp and general	328,577	34,153	112,743	-	-	-	-	55,763	31,625	-	-	-	562,861
	24,174,012	1,334,440	2,086,140	371,904	1,327,629	339,607	270,638	31,485,062	13,859,481	-	-	-	75,248,913
Recovery	(107,614)	-	-	-	-	-	-	-	-	-	-	-	(107,614)
Disposal	-	-	-	-	(1)	(339,607)	(270,638)	-	-	-	-	-	(610,246)
Interest and financing fees	1,143,889	-	-	-	-	-	-	-	-	-	-	-	1,143,889
Reclassification to property and equipment	(25,210,287)	-	-	-	-	-	-	-	-	-	-	-	(25,210,287)
Balance, December 31, 2010	$ -	$ 1,334,440	$ 2,086,140	$ 371,904	$ 1,327,628	$ -	$ -	$ 31,485,062	$ 13,859,481	$ -	$ -	$ -	$ 50,464,655
Acquisition costs	-	-	-	337,510	-	-	-	865,796	924,115	1,126,500	792,448	179,811	4,226,180
Deferred exploration costs:													-
Licenses, leases, and Power Plant application	-	785,649	135,112	7,138	926	-	-	39,757	16,102	-	(80,481)	-	904,203
Geological core, engineering, and consulting	-	2,352,592	(229,730)	20,002	37,989	-	-	123,555	990,985	756,550	21,937	45,522	4,119,402
Drilling	-	-	-	-	-			243,219	1,151,059				1,394,278
Personnel	-	279,572	133,246	-		-	-	695	286,754	-	-	-	700,267
Camp and general	-	448	-	2,095	369	-	-	2,723	374,649	-	(26,454)	6,666	360,496
		3,418,261	38,628	366,745	39,284	-	-	1,275,745	3,743,664	1,883,050	707,450	231,999	11,704,826
Balance, December 31, 2011	**$ -**	**$ 4,752,701**	**$ 2,124,768**	**$ 738,649**	**$ 1,366,912**	**$ -**	**$ -**	**$ 32,760,807**	**$ 17,603,145**	**$ 1,883,050**	**$ 707,450**	**$ 231,999**	**$ 62,169,481**

11. MINERAL PROPERTIES (Continued)

(a) Ulaan Ovoo property

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

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

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

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

During the year ended December 31, 2010, the Company had reached technical feasibility and commercial viability and has, accordingly, reclassified mineral property costs to Property and Equipment (Note 10).

- Ilch Khujirt exploration license

  On April 21, 2011, the Company entered into an Option Agreement ("the Agreement") with a private Mongolian company ("the Seller") holding an exploration license near Prophecy’s Ulaan Ovoo coal property, pursuant to which Prophecy has been granted the right to acquire 100% ownership for US$2,000,000 within the first year, or US$4,000,000 in the second year of execution of the Agreement. Pursuant to the Agreement, Prophecy has the right to acquire 100% of the property by making the following payments to the Seller:

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

  or

  - US$200,000 on agreement signing (paid);
  - US$500,000 before April 21, 2012; and
  - US$3,300,000 before April 21, 2013, 50% payable in Prophecy shares.

11. MINERAL PROPERTIES (Continued)

(a) Ulaan Ovoo property (continued)

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

(b) Chandgana Tal property

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

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

(c) Chandgana Khavtgai property

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

(d) Lynn Lake property

The Company has acquired Lynn Lake property, a nickel project located in northern Manitoba, Canada, through the acquisition of Prophecy Holdings in April 2010 (see Note 4). A total of $31,802,069 was capitalized as the acquisition cost of Lynn Lake.

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

11. MINERAL PROPERTIES (Continued)

(d) Lynn Lake property (continued)

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

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

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

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

(e) Okeover property

The Company has a 60% interest in the Okeover property, a copper-molybdenum project in the Vancouver Mining Division of southwestern British Columbia, Canada.

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

(f) Titan property

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

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

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

11. MINERAL PROPERTIES (Continued)

(g) Wellgreen property

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

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

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

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

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

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

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

(i) Burwash, Canada

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

(j) Sarandi del Yi Durazno, Uruguay

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

(k) Las Aguilas, Argentina

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

11. MINERAL PROPERTIES (Continued)

(k) Las Aguilas, Argentina (Continued)

To earn a 49% interest in the property:

Cash and shares

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

Work Commitments

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

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

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

(l) Title to mineral properties

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

(m) Realization of assets

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

(Expressed in Canadian Dollars)

11. MINERAL PROPERTIES (Continued)

(n) Environmental

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

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

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		December 31, 2011		December 31, 2010		January 1, 2010
Trade accounts payable	$	1,068,811	$	729,140	$	
Accrued expenses		296,079		1,492,811		52,105
	$	1,364,890	$	2,221,951	$	52,105

13. LOAN PAYABLE

		December 31, 2011		December 31, 2010		January 1, 2010
Loan payable	$	-	$	5,000,000	$	-
Accrued financing fees		-		83,334		-
	$	-	$	5,083,334	$	-

In August 2010, the Company arranged a secured debt facility of up to $10,000,000 (the “Loan”) with Waterton Global Value, L.P. (“Waterton”). The Loan was due by August 31, 2011 and bore interest at 10% per annum payable monthly. A structuring fee of $50,000 was payable in cash. In conjunction with the closing of the Loan, the Company issued 1,000,000 common shares to Waterton. Macquarie Capital Markets Canada Ltd. (“Macquarie”) acted as the financial advisor to the Company with respect to the loan, and a total of $300,000 finder’s fee was paid to Macquarie.

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

(Expressed in Canadian Dollars)

13. LOAN PAYABLE (Continued)

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

In December 2011, the Company entered into a loan facility ("Inter-Co Loan") with Platinum, which provides the Company and Platinum with the ability to request a demand loan from the other company of up to $2,000,000 at an interest rate of 14.4% per annum, compounded annually. On consolidation the intercompany loan balances have been eliminated. On March 1, 2012, the Company terminated the Inter-Co Loan.

In December 2011, the Company entered into a bridge loan facility for up to $5,000,000, bearing interest at 10% per annum. As at December 31, 2011, the Company had not drawn-down on this loan and, in March 2012, the Company cancelled the debt facility.

14. PROVISION FOR CLOSURE AND RECLAMATION

		2011		2010
Balance, January 1	$	80,000	$	-
Additions		54,469		80,000
Accretion		122,886		-
Balance, December 31	$	257,355	$	80,000

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

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

(Expressed in Canadian Dollars)

15. DEFERRED INCOME TAXES

Prophecy operations are, in part, subject to foreign tax laws where interpretations, regulations and legislation are complex and continually changing. As a result, there are usually some tax matters in question that may, upon resolution in the future, result in adjustments to the amount of deferred income tax assets and liabilities, and those adjustments may be material to Prophecy's financial position and results of operations.

Effective January 1, 2011, the Canadian federal corporate tax rate decreased from 18% to 16.5% and the British Columbia provincial tax rate decreased from 10.%% to 10%. The overall reduction in tax rates has resulted in a decreased in the Company's statutory tax rates from 28.5% to 26.5%.

The reconciliation of income tax computed at the statutory tax rate of 26.5% (2010 – 28.5%) to income tax (recovery) expense is:

	2011	2010
Income tax (recovery) at Canadian statutory rates	$ (10,222,455)	$ (4,598,174)
Statutory income rate	26.5%	28.5%
	(2,708,951)	(1,310,480)
Share-based payments	1,834,096	317,077
Permanent differences	(691,228)	(264,233)
Temporary differences	215,133	(616,386)
Unused tax losses and tax offsets not recognized as tax assets	902,263	1,874,022
Income tax (recovery) expense	$ (448,687)	$ -

The tax effected items that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities at December 31, 2011 and 2010 are presented below:

	2011	2010
Deferred income tax assets		
Non-capital losses	$ 477,877	$ 718,715
Equipment	-	112,895
Net deferred income tax assets	477,877	831,610
Deferred income tax liabilities		
Mineral properties	(477,877)	(1,280,297)
Net deferred income tax liability	$ -	$ (448,687)

(Expressed in Canadian Dollars)

15. DEFERRED INCOME TAXES (Continued)

The Company recognizes tax benefits on losses or other deductible amounts generated in countries where the probable criteria for the recognition of deferred tax assets has been met. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	2011	2010
Non-capital losses	$ 18,179,123	$ 16,476,600
Available-for-sale investments	884,092	256,308
Share issue costs	2,777,812	2,901,436
Mineral properties, property and equipment	4,757,936	4,610,264
Unrecognized deductible temporary differences	$ 26,598,963	$ 24,244,608

The Company has non-capital losses that may be carried forward to apply against future taxable income for Canadian income tax purposes. The losses expire as follows:

Available to	Amount
2014	$ 395,000
2015	688,000
2026	686,000
2027	1,326,000
2028	1,535,000
2029	1,481,000
2030	5,010,000
2031	7,534,000
	$ 18,655,000

16. SHARE CAPITAL

(a) Authorized

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

16. SHARE CAPITAL (Continued)

(b) Equity issuances

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

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

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

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

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

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

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

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

(Expressed in Canadian Dollars)

16. SHARE CAPITAL (Continued)

(b) Equity issuances (continued)

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

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

(c) Stock options

In December 2010 and in the period ended March 31, 2011, the Company had granted 6,068,755 and 300,000 options, respectively, in excess of the limits of the Company's stock option plan. As these option grants were subject to receipt of regulatory and shareholder approval at the Company's next annual general meeting, no share-based payments were recognized on granting. On May 31, 2011 these option grants were approved by the Company's shareholders and were valued using the Black Scholes model and an expense was recognized on that date.

On May 31, 2011, the Company adopted a new, fixed stock option plan for its directors, officers, employees, and consultants under which the Company may grant options to acquire a maximum number of common shares equal to 38,165,342.

The following is a summary of the changes in the Company's options from January 1, 2010 to December 31, 2011:

	Number of Options	Weighted Average Exercise Price
Outstanding, January 1, 2010	3,661,600	$0.37
Granted	17,685,500	$0.77
Conversion as per merger with Prophecy - old (Note 4)	3,500,000	$0.40
Conversion as per acquisition of Northern Platinum (Note 4)	1,300,000	$0.67
Exercised	(2,610,000)	$0.40
Expired/forfeited	(510,000)	$0.64
Outstanding, December 31, 2010	23,027,100	$0.69
Granted	3,510,000	$0.69
Exercised	(1,500,300)	$0.46
Expired/forfeited	(543,750)	$0.63
Outstanding, December 31, 2011	24,493,050	$0.70

(Expressed in Canadian Dollars)

16. SHARE CAPITAL (Continued)

(c) Stock options (continued)

During the year ended December 31, 2010, a total of 17,685,500 options with a term of five years were granted to directors, officers, employees and consultants at exercise prices ranging from $0.54 to $0.85; the options vest over a two-year period.

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

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

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

The following is a summary of the changes in Platinum's options from June 13, 2011 (the date of acquisition) to December 31, 2011:

	Number of Options	Weighted Average Exercise Price
Outstanding, June 13, 2011	455,000	$1.32
Granted	6,960,000	$1.37
Exercised	(205,000)	$1.32
Expired/forfeited	(233,750)	$1.95
Outstanding, December 31, 2011	6,976,250	$1.34

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

(Expressed in Canadian Dollars)

16. SHARE CAPITAL (Continued)

(c) Stock options (continued)

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

Prophecy	**2011**	**2010**
Risk-free interest rate	1.40%	2.01% to 3.09%
Expected life of options in years	4.25 years	3 to 5 years
Expected volatility	80.90%	89% to 96%
Expected dividend yield	Nil	Nil
Expected forfeiture rate	2%	2%
Platinum		
Risk-free interest rate	1.68%	N/A
Expected life of options in years	4.99 years	N/A
Expected volatility	74.00%	N/A
Expected dividend yield	Nil	N/A
Expected forfeiture rate	0%	N/A

(Expressed in Canadian Dollars)

16. SHARE CAPITAL (Continued)

(c) Stock options (continued)

For the years ended December 31, 2011 and 2010, share-based payments were recorded as follows:

Prophecy				
Consolidated Statement of Operations		**2011**		**2010**
Share-based payments	$	3,578,654	$	1,112,552
Consolidated Statement of Financial Position				
Ulaan Ovoo property		115,260		-
Lynn Lake exploration		3,138		-
Wellgreen exploration		452,174		-
		570,572		-
Total share-based payments	$	4,149,226	$	1,112,552

Platinum				
Consolidated Statement of Operations				
Share-based payments	$	3,342,462	$	-
Consolidated Statement of Financial Position				
Lynn Lake exploration		15,643		-
Wellgreen exploration		301,634		-
		317,277		-
Total share-based payments		3,659,739		-
Grand total	$	7,808,965	$	1,112,552

(Expressed in Canadian Dollars)

16. SHARE CAPITAL (Continued)

(c) Stock options (continued)

Prophecy

As of December 31, 2011 and 2010, the following Prophecy options were outstanding:

Exercise Exercise Price	2011 Number of Options	2010 Number of Options	Expiry Date
$0.25	50,000	50,000	February 14, 2012
$0.25	1,162,500	1,287,500	October 29, 2014
$0.38	200,000	200,000	November 30, 2014
$0.40	1,056,800	1,719,600	January 23, 2014
$0.40	381,250	600,000	January 29, 2015
$0.54	1,000,000	1,000,000	September 21, 2015
$0.54	-	250,000	October 1, 2015
$0.55	350,000	350,000	March 11, 2015
$0.60	175,000	550,000	July 17, 2014
$0.60	65,000	115,000	September 21, 2014
$0.63	2,400,000	-	June 13, 2016
$0.67	1,967,500	1,980,000	May 10, 2015
$0.67	175,000	175,000	October 15, 2015
$0.77	710,000	-	August 30, 2016
$0.77	9,000,000	9,000,000	December 10, 2015
$0.77	2,050,000	2,050,000	December 24, 2015
$0.80	475,000	500,000	April 30, 2014
$0.80	100,000	100,000	September 21, 2015
$0.80	120,000	-	January 4, 2016
$0.93	50,000	-	January 6, 2016
$0.93	2,875,000	2,950,000	December 24, 2015
$0.98	130,000		February 14, 2016
$1.03		150,000	March 25, 2015
	24,493,050	23,027,100	

At December 31, 2011, the Company had 15,538,050 exercisable stock options outstanding (2010 – 5,772,100).

(Expressed in Canadian Dollars)

16. SHARE CAPITAL (Continued)

(c) Stock options (continued)

Platinum

As of December 31, 2011, the following Platinum options were outstanding:

Exercise Price	Number of Options	Expiry Date
$0.90	5,545,000	June 20, 2016
$1.00	12,500	November 6, 2014
$1.40	175,000	December 13, 2015
$1.60	3,750	January 7, 2013
$2.25	840,000	January 29, 2015
$5.59	400,000	August 30, 2016
	6,976,250	

At December 31, 2011, Platinum had 3,991,250 exercisable stock options outstanding.

(d) Share purchase warrants

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

The following is a summary of the changes in the Company's warrants from January 1, 2010 to December 31, 2011:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, January 1, 2010	6,462,154	$1.09
Issued	15,776,840	$0.69
Conversion as per acquisition of Prophecy Holdings (note 5)	11,336,109	$0.55
Conversion as per acquisition of Northern Platinum (note 5)	6,079,715	$0.69
Exercised	(3,722,897)	$0.47
Expired	(6,430,800)	$1.15
Outstanding, December 31, 2010	29,501,121	$1.25
Exercised	(14,815,423)	$0.63
Expired	(2,850,929)	$0.52
Outstanding, December 31, 2011	11,834,769	$0.72

(Expressed in Canadian Dollars)

16. SHARE CAPITAL (Continued)

(d) Share purchase warrants (continued)

The following is a summary of the changes in Platinum's warrants from June 13, 2011 to December 31, 2011:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, June 13, 2011	329,500	$1.00
Issued	1,581,000	$1.00
Exercised	(693,500)	$1.00
Outstanding, December 31, 2011	1,217,000	$1.00

As of December 31, 2011 the following Prophecy warrants were outstanding:

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

(Expressed in Canadian Dollars)

16. SHARE CAPITAL (Continued)

(d) Share purchase warrants (continued)

As at December 31, 2010, the following Prophecy warrants were outstanding:

Exercise Price	Number of Warrants Outstanding	Expiry Date
$ 0.10	3,250,000	December 31, 2011
$ 0.40	745,750	December 31, 2011
$ 0.40	449,302	January 25, 2012
$ 0.40	125,000	June 5, 2011
$ 0.40	25,000	December 31, 2011
$ 0.46	100,000	September 4, 2011
$ 0.49	2,418,221	February 17, 2012
$ 0.50	1,711,533	December 31, 2011
$ 0.60	687,500	June 5, 2011
$ 0.60	237,500	August 18, 2011
$ 0.60	137,500	December 31, 2011
$ 0.60	323,750	December 21, 2011
$ 0.60	62,500	December 22, 2011
$ 0.65	759,000	September 1, 2011
$ 0.66	3,831,511	October 28, 2012
$ 0.70	550,000	September 4, 2011
$ 0.77	5,377,932	March 31, 2012
$ 0.80	3,040,458	March 31, 2012
$ 0.80	337,750	April 21, 2012
$ 0.80	2,818,914	March 23, 2012
$ 0.80	712,000	October 8, 2011
$ 0.85	1,800,000	December 24, 2011
	29,501,121	

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

Exercise price	Number of Warrants	Expiry date
$1.00	327,000	August 3, 2012
$1.00	890,000	January 6, 2013
	1,217,000	

(Expressed in Canadian Dollars)

17. CAPITAL RISK MANAGEMENT

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

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

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

18. FINANCIAL INSTRUMENTS

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

	2011	As at December 31, 2010	As at January 1, 2010
Fair value through profit or loss			
Cash and cash equivalents	$ 3,480,050	$ 39,324,151	$ 139,312
Receivables	3,242,460	414,926	2,928
Available-for-sale investments			
Investment in Victory Nickel	2,746,175	3,295,385	-
Investment in Compliance Energy	1,050,000	-	-
ETFS Palladium	2,024,878	-	-
ETFS Platinum	1,815,110	-	-
	$ 14,358,673	$ 43,034,462	$ 142,240
Other financial liabilities			
Accounts payable and accrued liabilities	$ 1,364,890	$ 2,221,951	52,105
Loan payable	-	5,083,334	-
	$ 1,364,890	$ 2,221,951	52,105

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

(Expressed in Canadian Dollars)

18. FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy

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

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

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

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

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

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

As at December 31, 2010	Level 1	Level 2	Level 3	Total
Financial assets				
Fair value through profit or loss	$ 39,324,151	$ -	$ -	$ 39,324,151
Available-for-sale investments	3,295,385	-	-	3,295,385
	$ 42,619,536	$ -	$ -	$ 42,619,536

As at January 1, 2010	Level 1	Level 2	Level 3	Total
Financial assets				
Fair value through profit or loss	$ 139,312	$ -	$ -	$ 139,312

19. FINANCIAL RISK MANAGEMENT DISCLOSURES

(a) Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its financial obligations as they fall due. The Company manages liquidity risk by preparing cash flow forecasts of upcoming cash requirements. As at December 31, 2011, the Company has cash and cash equivalents of $3,480,050 (December 31, 2010 - $39,324,151, January 1, 2010 - $52,105) and financial liabilities of $1,364,890 (December 31, 2010 - $7,305,285, January 1, 2010 - $139,312), which have contractual maturities of 90 days or less.

19. FINANCIAL RISK MANAGEMENT DISCLOSURES (Continued)

(b) Credit risk

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

(c) Market risk

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

(i) Interest rate risk

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

(ii) Foreign currency risk

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

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

Based on the above, net exposures as at December 31, 2011, with other variables unchanged, a 1% (December 31, 2010 - 10%) strengthening (weakening) of the Canadian dollar against the Mongolian tugrug would not have a material impact on earnings with other variables unchanged. A 1% (December 31, 2010 - 4%) strengthening (weakening) of the US dollar against the Canadian dollar would not have a material impact on net loss. The Company currently does not use any foreign exchange contracts to hedge this currency risk.

19. FINANCIAL RISK MANAGEMENT DISCLOSURES (Continued)

(c) Market risk (continued)

(iii) Commodity and equity price risk

The Company holds investments in available-for-sale that fluctuate in value based on market prices. Based upon the Company's investment position as at December 31, 2011, a 90% increase (decrease) in the market price of the investments held would have resulted in an increase (decrease) to comprehensive income (loss) of approximately $5.5 million (December 31, 2010 - $329,538). The Company also holds investments in exchange traded funds. Based on the Company's investment position at December 31, 2011, a 35% increase (decrease) in the market price of the investments held would have resulted in an increase (decrease) to comprehensive income (loss) of approximately $680,000. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in value may be significant.

20. RELATED PARTY DISCLOSURES

Details of transactions between the Company and other related parties are disclosed below.

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

(a) Armada Investments Ltd., a private company owned by Arnold Armstrong, a former director of the Company, and provided accounting, management services and office rent.

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

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

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

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

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

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

(Expressed in Canadian Dollars)

20. RELATED PARTY DISCLOSURES (Continued)

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

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

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

(k) David McAdam, the common CFO for the Company's subsidiary, Prophecy Platinum, and Resinco Capital Partners ("Resinco"). Resinco provides consulting and management service.

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

	Year ended December 31, 2011	Year ended December 31, 2010
Armada Investments Ltd. (a)	$ -	$ 134,440
Canrim Ventures Ltd.(b)	-	12,914
Energy Investment Capital (c)	38,146	-
J. P. McGoran and Associates Ltd. (d)	12,500	12,500
JWL Investment Corp. (e)	36,272	-
Linx Partners Ltd. (f)	560,312	324,000
MaKevCo Consulting Inc. (g)	64,000	-
Mau Capital Management Ltd. (f)	-	132,487
Monnis International LLC. (h)	4,215,846	-
S. Paul Simpson Law Corp. (i)	-	414,109
The Energy Gateway Ltd. (j)	164,596	-
Resinco Capital Partners (k)	110,714	-
Prophecy Platinum (k)	4,098	-
Key management personnel	693,323	95,462
	$ 5,899,807	$ 1,125,912

(Expressed in Canadian Dollars)

20. RELATED PARTY DISCLOSURES (Continued)

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

		Year ended December 31,		
		2011		2010
Consulting and management fees	$	1,014,705	$	637,363
Professional fees		8,250		434,109
Director fees		132,033		-
Salaries and benefits		38,400		-
Office and administration		14,632		54,440
Mineral properties and property and equipment				
Consulting and management fees		475,941		-
Property and equipment		4,215,846		-
	$	5,899,807	$	1,125,912

Prophecy shares management, administrative assistance, and office space with Platinum pursuant to a Service Agreement signed August 1, 2011 for fixed monthly fees of $28,000. Prophecy Coal recovers costs for services rendered to Platinum and expenses incurred on behalf of Platinum. The terms of the Service Agreement will remain in effect until 30 days following written notice of termination.

At December 31, 2011, accounts payable includes $92,362 (2010 - $Nil) owing to directors for director fees and for reimbursable expenses to companies with common officers and directors, and $3,560 (2010 - $Nil) due to directors of Platinum for director fees.

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

21. KEY MANAGEMENT PERSONNEL COMPENSATION

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

		December 31, 2011		December 31, 2010
Salaries and short-term employee benefits	$	973,396	$	-
Share-based payments		3,181,822		3,465,000
Total key management personnel compensation	$	4,155,218	$	3,465,000

(Expressed in Canadian Dollars)

22. SUPPLEMENTAL CASH FLOW INFORMATION

		December 31 2011		December 31 2010		January 1 2010
Supplementary information						
Interest paid	$	83,334	$	300,000	$	-
Non-Cash Financing and Investing Activities						
Shares issued for mineral properties	$	31,250	$	3,658,400	$	280,000
Non-cash share issue costs	$	-	$	3,448,075	$	-
Shares issed as financing fees	$	-	$	490,000	$	-
Shares issued on acquisitions	$	-	$	34,580,905	$	-
Capitalized amortization of equipment	$	2,380,564	$	-	$	-
Property and equipment expenditures included in accounts payable	$	771,414	$	1,550,654	$	-
Mineral property expenditures included in accounts payable	$	241,757	$	-	$	112,685
Share-based payments capitalized in property and equipment	$	115,260	$	-	$	-
Share-based payments capitalized in mineral properties	$	772,588	$	-	$	-

23. COMMITMENTS FOR EXPENDITURE

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

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

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

Commitments related to mineral properties are disclosed in the Note 11.

24. EVENTS AFTER THE REPORTING DATE

The following events occurred subsequent to December 31, 2011:

(a) The Company granted a total of 3,320,000 options exercise at prices between $0.43 and $0.485 per share for a period of five years to consultants and employees of the Company. The grants are subject to regulatory approval, including the approval of the TSX Exchange.

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

(c) On March 1, 2012, Platinum entered into a letter of agreement with Ursa Major Minerals Inc. ("Ursa"), which will result in Platinum acquiring all the issued and outstanding shares of Ursa. As part of the arrangement, Platinum subscribed for 16,666,667 common shares of Ursa at a price of $0.06 per share, which closed on March 8, 2012. The closing of the acquisition is subject to the approval of the shareholders of Ursa and other regulatory agencies.

(d) 1,383,000 Prophecy warrants at an exercise price of $0.49 per share and 100,000 stock options at an exercise price of $0.25 were exercised.

(e) Platinum granted a total of 330,000 options at prices between $2.40 and $3.64 per share for a period of five years to consultants and employees of the Company. The grants are subject to regulatory approval.

(f) 150,000 options of Platinum were exercised for total gross proceeds of $135,000.

(g) Platinum sold 1,560 units of Platinum ETFS and 3,700 units of Palladium ETFS for gross proceeds of $497,959 and a realized gain of $24,461.

25. TRANSITION TO IFRS

An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position and comprehensive loss is set out in this note.

The accounting policies set out in Note 3 have been applied in preparing the financial statements for the year ended December 31, 2011, the comparative information presented in these consolidated financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS balance sheet at January 1, 2010 (the Company's date of transition).

IFRS 1 *First-time Adoption of International Financial Reporting Standards* (IFRS 1)

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

25. TRANSITION TO IFRS (Continued)

Initial elections upon adoption

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

(a) Share-based payment

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

(b) Business Combinations

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

Adjustments to transition to IFRS

(a) Income taxes

In April 2010, the Company acquired all of the outstanding common shares of Prophecy Holdings. On acquisition of Prophecy Holdings, the Company recognized a deferred income tax liability of $9,352,550 in accordance with Canadian GAAP. Under IAS 12 Income Taxes (“IAS 12”), the deferred tax liability would not be recognized, either on acquisition or subsequently. This accounting policy change resulted in a reversal of the deferred income tax liability and a corresponding decrease in the carrying value of mineral properties.

Similarly, in September 2010, the Company acquired all of the outstanding common shares of Northern Platinum. On acquisition of Northern Platinum, the Company recognized a deferred income tax liability of $1,577,850 in accordance with Canadian GAAP. Under IAS 12 the Company reversed the deferred income tax liability which resulted in a corresponding decrease in the carrying value of mineral properties.

(b) Share-based payments

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

These policy changes resulted in a reduction in reserves for the year ended December 31, 2010 of $35,222, from which, $29,778 reduced share-based payments expense and $5,444 reduced mineral properties. It should be noted that $1,955 related to the Company’s Ulaan Ovoo property, which has been reclassified to property and equipment and $531 and $2,958 related to the Lynn Lake and Wellgreen properties, respectively.

25. TRANSITION TO IFRS (Continued)

(c) Reclassification of mineral property interest

Prior to transition to IFRS, the Ulaan Ovoo mineral property, which as of the period ended June 30, 2011 is in the development stage, was classified as mineral property interests. In accordance with IFRS 6 *Exploration for and Evaluation of Mineral Resources*, a mineral property is no longer classified under this standard once technical feasibility and commercial viability are demonstrable, resulting in this asset being reclassified as property and equipment commencing June 30, 2010. Accordingly, during the year ended December 31, 2010, $24,066,398 was transferred from mineral property interests to property and equipment.

(d) Reclassification of borrowing costs

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

(e) Reconciliation to previously reported financial statements

A reconciliation of the above-noted changes is included in the following statements for the dates noted below. There is no effect of transition from Canadian GAAP to IFRS on the statement cash flows. Therefore, a reconciliation of cash flows has not been presented.

- Transitional Consolidated Statement of Financial Position – January 1, 2010
- Consolidated Statement of Financial Position – December 31, 2010
- Consolidated Statement of Operations and Comprehensive Loss – December 31, 2010

(Expressed in Canadian Dollars)

25. TRANSITION TO IFRS (Continued)

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

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

(Expressed in Canadian Dollars)

25. TRANSITION TO IFRS (Continued)

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

	December 31, 2010		
	Canadian GAAP (Notes 3 and 4)	**Effect of transition to IFRS**	**IFRS**
Assets			
Current assets			
Cash and cash equivalents	$ 39,324,151	$ -	$ 39,324,151
Receivables	414,926	-	414,926
Prepaid expenses	82,513	-	82,513
	39,821,590	-	39,821,590
Non-current assets			
Reclamation deposits	6,500	-	6,500
Available-for-sale investments	3,295,385	-	3,295,385
Property and equipment	91,706	25,210,287	25,301,993
Mineral properties	85,466,897	(35,002,242)	50,464,655
	$ 128,682,078	$ (9,791,955)	$ 118,890,123
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities	$ 2,221,951	$ -	$ 2,221,951
Loans payable	5,083,334	-	5,083,334
	7,305,285	-	7,305,285
Non-current liabilities			
Asset retirement obligation	80,000	-	80,000
Deferred income tax taxes	11,379,087	(10,930,400)	448,687
	18,764,372	(10,930,400)	7,833,972
Equity			
Share capital	125,458,376	-	125,458,376
Reserves	13,724,736	(35,222)	13,689,514
Accumulated other comprehensive loss	(512,616)		(512,616)
Deficit	(28,752,790)	1,173,667	(27,579,123)
	109,917,706	1,138,445	111,056,151
	$ 128,682,078	$ (9,791,955)	$ 118,890,123

(Expressed in Canadian Dollars)

25. TRANSITION TO IFRS (Continued)

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

	Year ended December 31, 2010		
	Canadian GAAP	Effect of transition to IFRS	IFRS
General and Administrative Expenses			
Consulting and management fees	$ 1,278,392	$ -	$ 1,278,392
Share-based payments	1,142,330	(29,778)	1,112,552
Advertising and promotion	693,778	-	693,778
Professional fees	447,512	-	447,512
Travel and accommodation	367,511	-	367,511
Stock exchange and shareholder services	254,658	-	254,658
Salaries and benefits	252,703	-	252,703
Office and administration	196,958	-	196,958
Insurance	6,038	-	6,038
Amortization	19,458	-	19,458
Loss Before Other Items	(4,659,338)	29,778	(4,629,560)
Other Items			
Foreign exchange gain	23,726	-	23,726
Interest income	9,399	-	9,399
Interest expenses	(1,143,889)	1,143,889	-
Loss on disposal of property and equipment	(1,739)		(1,739)
	(1,112,503)	1,143,889	31,386
Net Loss for Year	(5,771,841)	1,173,667	(4,598,174)
Fair value loss on available-for-sale investments	(512,616)	-	(512,616)
Net Loss and Comprehensive Loss for Year	$ (6,284,457)	$ 1,173,667	$ (5,110,790)

Prophecy
Coal Corp.

(Formerly Prophecy Resource Corp.)

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

December 31, 2011
(Expressed in Canadian Dollars)

CONTENTS

This Annual Management's Discussion and Analysis ("MD&A") provides a review of the significant developments and issues that influenced Prophecy Coal Corp. (formerly, Prophecy Resource Corp.) ("Prophecy" or the "Company") during the year ended December 31, 2011. (prepared in accordance with International Financial Reporting Standards or "IFRS") and with the audited consolidated financial statements of the Company for the year ended December 31, 2010, which were prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Comparative figures under IFRS as at the year ended December 31, 2010 are also provided. This MD&A should also be read in conjunction with the audited annual consolidated financial statements of Prophecy Platinum Corp. (formerly, Pacific Coast Nickel Corp.) ("Platinum") for the years ended July 31, 2011 and 2010, and the MD&A of Platinum for the year ended July 31, 2011, which were prepared in accordance with Canadian GAAP.

This MD&A was reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on March 29, 2012. The information contained within this MD&A is current to March 30, 2012.

1. Forward-looking statements

Certain statements contained in this MD&A, including statements which may contain words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", or similar expressions, and statements related to matters which are not historical facts, are forward-looking information within the meaning of securities laws. Such forward-looking statements, which reflect management's expectations regarding Prophecy's future growth, results of operations, performance, business prospects and opportunities are based on certain factors and assumptions and involve known and unknown risks and uncertainties which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Forward-looking statements in this MD&A include, without limitation, statements regarding the permitting, feasibility, plans for development and production of the Company's Chandgana Power Plant, including finalizing of any power purchase agreement, the likelihood of securing project financing, estimated future coal production at the Ulaan Ovoo coal mine and the Chandgana Coal properties, and other information concerning possible or assumed future results of operations of Prophecy.

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

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

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

(Expressed in Canadian Dollars)

2. Introduction

Prophecy is incorporated under the laws of the province of British Columbia, Canada, with its primary activities focussed on the acquisition, exploration and development of coal properties in Mongolia.

General Corporate Information

At December 31, 2011 and March 30, 2012, the Company had: (i) 201 million and 224 million common shares issued and outstanding, respectively; (ii) 24.5 million and 26.7 million stock options for common shares outstanding, respectively; and (iii) 11.8 million and 10.4 million warrants outstanding common shares, respectively

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

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

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

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

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

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

Directors and Officers

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

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

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

Qualified Person

Mr. Christopher Kravits, LPG, CPG, a qualified person for the purposes of National Instrument (NI) 43-101. Mr. Kravits is not considered independent of the Company.

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

3. Adoption of International Financial Reporting Standards (IFRS)

Prophecy's audited annual consolidated financial statements and the financial data included in this annual MD&A have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The Company adopted IFRS with a transition date of January 1, 2010 and the audited annual consolidated financial statements have been prepared in accordance with IFRS standards and interpretations effective as of December 31, 2011, which significant accounting policies as described in Note 3 to the annual consolidated financial statements. The adoption of IFRS does not impact the underlying economics of Company's operations or its cash flows.

Note 25 to the annual consolidated financial statements contains a detailed description of the Company's adoption of IFRS, including a reconciliation of the annual consolidated financial statements previously prepared under Canadian GAAP to those under IFRS for the following:

- The Consolidated Statements of Financial Position at January 1, 2010;
- The Consolidated Statements of Financial Position at December 31, 2010; and
- The Consolidated Statements of Operations and Comprehensive loss for the year ended December 31, 2010.

There is no effect of transition from Canadian GAAP to IFRS on the cash flow. Therefore, a reconciliation of cash flows has not been presented.

The most significant impacts of the adoption of IFRS, together with details of the IFRS 1 exemptions taken, are described in the 'Critical Accounting Policies' section of this annual MD&A.

Comparative information has been restated to comply with IFRS requirements, unless otherwise indicated.

4. 2011 Highlights and Significant Events

- In January 2011, the Company and Platinum entered into an agreement ("Arrangement") whereby Platinum acquired Prophecy's nickel PGM projects by issuing common shares to the Company. Pursuant to the Agreement, Platinum acquired the Wellgreen and Lynn Lake nickel projects by issuing 450 million common shares of Platinum to Prophecy.

- In January 2011, the Company repaid the $5 million debt facility.

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

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

- In April 2011, the Company submitted the formal request with the Ministry of Natural Resources and Energy of Mongolia to obtain a license to build 600 MW Chandgana Power Plant.

- In April 2011, the Company entered into an Option Agreement with Ilch Khujrt LLC holding an exploration license, pursuant to which Prophecy was granted the right to acquire 100% ownership of the license for US $2 million within the first year, or US $4 million in the second year.

- In May 2011, the Company appointed of Mr. David Jan as the Company's Chief Financial Officer.
  Mr. Jan resigned as CFO in July 2011 for personal reasons.

4. 2011 Highlights and Significant Events (Continued)

- In June 2011, the Company completed the Arrangement whereby Platinum acquired the Lynn Lake and Wellgreen nickel properties from Prophecy. In connection with the Arrangement, Prophecy changed its name to "Prophecy Coal Corp.", Platinum changed its name from Pacific Coast Nickel Corp. to "Prophecy Platinum Corp.", and the Company obtained a 53.24% interest in Platinum.

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

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

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

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

- On September 15, 2011, the Company announced that its Chandgana Power Plant Project has been officially endorsed by the Mongolian Ministry of Natural Resources and Energy. The Mongolian Energy Regulatory Authority ("ERA"), in charge of power plant license issuance, has received the endorsement and is expected to issue a final response to Prophecy's license application in Q4, 2011.

- The Company appointed Mr. Patrick Langlois as Vice President, Corporate Development and Mr. Joseph Li to its Board of Directors.

- On October 19, 2011, the Company shares were listed for trading on the Toronto Stock Exchange and were delisted from the TSX Venture Exchange.

- On November 17, 2011 Platinum announced closing of a $10 million non-brokered private placement.

- On November 21, 2011, the Company's wholly-owned Mongolian subsidiary, East Energy Development LLC, has received the license certificate from the Mongolian Energy Regulatory Authority to construct the 600 MW Chandgana power plant.

- On December 30, 2011, Prophecy executed a term sheet for a secured debt facility of up to $5 million (the "Debt Facility") with a Sprott Asset Management LP and a $2 million inter-company loan facility agreement (the "Inter-Co Facility") with its controlled affiliate, Platinum.

Subsequent to December 31, 2011:

- Platinum granted 330,000 stock options to a director, consultants, and employees of Platinum and vest 50% at the end of each year for two years, and vest 50% fifteen months from grant date, and the remaining 50% vest twenty-seven months from the grant date.

- The Company granted 320,000 stock options to consultants and employees of the Company with exercise prices ranging $0.46 and $0.43 per share for a period of five years.

4. 2011 Highlights and Significant Events (Continued)

- Platinum paid $1,000,000 to Victory Nickel Corp. pursuant to the terms of the mineral property option agreement.
- The Company repaid the $800,000 loan due to the Company, pursuant to the loan facility agreement, plus $15,189 in interest income, and subsequently cancelled the loan facility agreement.
- The Company closed a non-brokered private placement of 22,363,866 shares at a price of $0.45 per share to raise aggregate gross proceeds of 10,063,740.
- The Company cancelled the debt facility of $5 million announced on December 30, 2011.
- The Company granted 3,000,000 stock options to directors, consultants, and employees of the Company with an exercise price of $0.49 per share for a period of five years.
- Platinum and Ursa Major Minerals Incorporated ("Ursa") (TSX: UML) entered into a letter of agreement ("Letter of Agreement") whereby Platinum will acquire all of the issued and outstanding shares of Ursa in exchange for shares of Platinum on the basis of 25 shares of Ursa for 1 share of Platinum. In connection with the Letter of Agreement, Platinum subscribed for 16,666,667 common shares of Ursa at gross proceeds $0.06 per share for gross proceeds of $1,000,000. The use of the proceeds shall be confined to payment of current accounts payable, general working capital purposes and expenditures on the mineral properties of Ursa for the purposes of developing such properties. The acquisition of Ursa has not yet closed and is subject to the approval of the TSX Venture exchange, Ursa's shareholders and the Ontario Superior Court of Justice. Additional information on Ursa as a publicly listed company is available on the SEDAR website, www.sedar.com.
- The Company extended the expiry dates of certain outstanding warrants. The subject warrants were originally issued during March 2010, April 2010 and September 2010, with original expiry dates of eighteen months and two years from issuance date. The new expiry dates will provide a one year extension.

(Expressed in Canadian Dollars)

5. Business Overview

5.1 Arrangement

In June 2011, the Company completed the Arrangement whereby Platinum acquired the Lynn Lake and Wellgreen nickel properties from Prophecy. The Company has acquired 53.24% of Platinum's issued and outstanding shares (450,000,000 shares) and through other relationships, is deemed to have control of Platinum.

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

The Company has recorded the interest in the Wellgreen and Lynn Lake properties at their carrying values as it has retained control of the properties. Platinum is considered a subsidiary of Prophecy and its financial results are consolidated into Prophecy's annual consolidated financial statements. Therefore, this transaction has been accounted for using the purchase method as an acquisition of assets. Additional information on Platinum as a publicly listed company is available on the SEDAR website, www.sedar.com or at Platinum's website at http://prophecyplat.com.

The Company's ownership interest in Platinum was reduced to 48.86% as at December 31, 2011, which resulted in a dilution impact recorded to deficit.

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

Cash and cash equivalents	$	778,676
Receivables		17,421
Prepaids		4,810
Property and equipment		7,726
Mineral properties		2,026,388
Accounts payable and accrued liabilities		(82,820)
Net assets	$	2,752,201

The number of Platinum's common shares outstanding at December 31, 2011 was 55,203,543.

From June 14, 2011 to December 31, 2011, Platinum has incurred net loss of $5,002,375. The loss was mainly due to non-cash share-based payment expense of $3,342,462 (see Note 16 in the annual consolidated financial statements).

5.2 Resource Properties

As of December 31, 2011, the Company's primary resource properties include: Ulaan Ovoo coal mine (Mongolia), and the Chandgana Khavtgai and Chandgana Tal coal deposits (Mongolia), collectively known as the "Chandgana Coal Properties". The other properties of the Company include Okeover copper-molybdenum (British Columbia, Canada) and Titan (Ontario, Canada).

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

(Expressed in Canadian Dollars)

5. Business Overview (Continued)

Ulaan Ovoo Coal Mine

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

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

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

Coal product tonnages and qualities stated in the above table are stated on a Run-of-Mine (ROM) basis and take into account mining loss and rock dilution at coal/rock interfaces. Proven reserves are of Low Ash (high grade) coal.

The Minarco Mineconsult and Wardrop prefeasibility studies for the Ulaan Ovoo coal mine are filed and available on SEDAR.

Operation Statistics: The mine, which started operations in November 2010 through its mining contractor, Leighton Asia Limited ("Leighton") and later, under its own operations, has removed and stockpiled approximately 2.2 million of bank cubic metres ("BCM") of topsoil, overburden, and waste, and produced nearly 370 000 tonnes of thermal coal of different grades. The Company discontinued its mining contract with Leighton in August 2011 to reduce mining costs. The Company recruited and trained its own employees to mine at the Ulaan Ovoo mine.

The Company secured a rail siding at Sukhbaatar with capacity of 40,000 tonnes. During 2011, the Company has trucked 135,364 tonnes of coal from the mine to the rail siding.

Since June 2011, the supply of diesel fuel was rationed in Mongolia due to reduced supplies from Russia. This has not had a negative impact on Ulaan Ovoo's operations. The mine has been allowed to receive an allocation of diesel because it produces coal for local Mongolian power stations. The Company closely monitored its diesel supply to optimize mining production rates and coal transportation activities for the remainder of 2011. Since the mine was still in pre-commercial production status, revenue from coal sales and the related cost of production were being charged against and capitalized to property and equipment, respectively.

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

In August 2011, the Company signed coal sales agreements with Mongolian and Russian power plants for total sales of 92,000 tonnes. During 2011, the Company sold 133 632 tonnes of coal of two grades - 4,200 GCV and 5,100 GCV (arb.) (In Q4 2011 – 90,000 tonnes) to both Mongolian and Russian companies.

6. Business Overview (Continued)

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

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

2012 Outlook: The Company expects to produce 400,000 - 500,000 tonnes of coal in 2012 with increased sales to Russia at higher selling prices. In addition to this production, the Company has stockpiled coal available for sale.

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

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

New Discovery Near Ulaan Ovoo Coal Mine

On August 17, 2011, the Company announced that it has intercepted an aggregate of 19-meters of coal during drilling at the newly acquired Ilch Khujirt ("Ilch") property. The 4,773-hectare property is located 17 km northeast of Prophecy's producing Ulaan Ovoo Coal Mine. It is contiguous to Prophecy's existing exploration license covering 7,392 hectares. This license was considered prospective for coal as is Prophecy's adjacent Khujirt license. Due to its shallow depth and significant thickness, the coal seam has the potential to be mineable by surface methods. The lack of nearby rivers and forests increase the attractiveness of these licenses. This new information is being reviewed and additional surface mapping and other work will be performed to plan additional exploration.

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

Chandgana Coal Properties

The Chandgana Coal Properties consist of the Chandgana Tal ("Tal") and Chandgana Khavtgai ("Khavtgai") coal properties and are within nine kilometres of each other in the Nyalga Coal Basin in Mongolia. The Company's plans to build the Chandgana Power Plant, a pit-mouth 600 megawatt (MW) coal fired power plant adjacent to Chandgana Tal property.

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

(Expressed in Canadian Dollars)

5. Business Overview (Continued)

Chandgana Coal Properties (continued)

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

Table 2. Details of the Chandgana Properties

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

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

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

During the year ended December 31, 2011, the Company incurred a total of $3,456,889 (2010 - $965,994) exploration expenditures at the Chandgana Coal Properties.

Chandgana Power Plant Project

The Power Plant Project is next to the Baganuur to Undurkhaan paved road and within 150 km of the Central Mongolian Railroad, which can facilitate transport of construction equipment. The Project is adjacent to a 35 kilovolt ("kv") electrical distribution line(this line is of no use as it is very small in terms of capacity, the EPC contractors will have to use diesel generators for construction) and within 150km from a 2 x 220kv electric transmission lines that connects to the central electricity transmission grid.

On November 15, 2010, the Company reported that a Detailed Environmental Impact Assessment ("DEIA") pertaining to the construction of the Power Plant Project has been approved by the Mongolian Ministry of Nature and the Environment. The DEIA was prepared by an independent Mongolian environmental consulting firm which considered social and labour issues, climate and environmental circumstances specific to the proposed power plant. According to the study, there are no major impediments to the project.

During Q1 2011, a Power Plant Project feasibility study was completed. During Q2 2011, the Company commissioned Steag Energy Service GmbH (former Evonik Energy Services) ("Steag"), a German firm specializing in the planning, financing, construction and operation of highly efficient, thermal power plants for fossil fuels to produce a Feasibility Study ("FS"). The FS report was independently prepared by Ralf Thomsen, Project Manager at Steag. The scope of the feasibility study covers technical specification, deployment, and financial analysis of a 4 x 150 MW thermal power plant. Engineering, Procurement & Construction Management ("EPCM") selection and Project Financing Discussion are underway and expected to be concluded in 2012.

5. Business Overview (Continued)

Chandgana Power Plant Project (continued)

The FS is several months from completion because a power purchase agreement and a coal supply agreement have yet to be consummated.

On September 15, 2011, the Chandgana Power Plant Project was officially endorsed by the Mongolian Ministry of Natural Resources and Energy.

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

2012 Outlook: The Company has been in discussion with a number of potential engineering, procurement and construction ("EPC") contractors with the goal of finalizing EPC selection expeditiously after the power plant license is obtained. The Company goal is to sign an EPC contract and power purchase agreement ("PPA") by mid-year 2012, and conclude project financing by the end of 2012. The Company has retained Linklaters of London, a leading global law firm with PPA experience, to assist Prophecy with finalizing the PPA. The PPA will provide long term, stable energy price and supply to Mongolia, as well as predictable cash flow to Prophecy's shareholders in return for the hard assets the company has contributed and risks undertaken. Construction is expected to start in 2013 with completion in 2016.

Okeover Property

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

Titan Vanadium Iron Property

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

(Expressed in Canadian Dollars)

5. Business Overview (Continued)

Prophecy Platinum Resources (40.8% owned)

Wellgreen Nickel Property

The Wellgreen property is located approximately 35 km northwest of Burwash Landing in the Yukon, 320 km from Whitehorse, and about 400 km from Alaska's deep sea port at Haines. The Wellgreen property is a platinum group metal (PGM)-rich, nickel (Ni)-copper (Cu) project located in the south-western Yukon Territory.

From the July 2011 independent NI 43-101 compliant resource calculation completed by Wardrop Engineering, a Tetra Tech Company, the Wellgreen deposit is estimated to contain a total inferred resource of 289.2 million tonnes at an average grade of 0.53 g/t platinum, 0.42 g/t palladium, 0.23 g/t gold (1.18g/t PGM+Gold), 0.38% nickel, and 0.35% copper. Separately, the deposit also contains an indicated resource of 14.3 million tonnes at an average grade of 0.99 g/t platinum, 0.74 g/t palladium, 0.52 g/t gold (2.25 g/t PGM+Gold), 0.69% nickel, and 0.69% copper. A 0.4% nickel equivalent cutoff grade was adopted for reporting. The resource estimate incorporated drill data from 701 diamond drill holes (182 surface and 519 underground) totalling over 53,222 metres. The resource includes both the East Zone and the West Zone of the Wellgreen project, which are tabulated in Table 1 showing respective metal grades which are also expressed as nickel equivalent (NiEq) values. The report is authored by Todd McCracken, P. Geo. of Wardrop Engineering Inc., a Tetra Tech Company, who is an independent Qualified Person under NI 43-101:

Table 3: Summary Wellgreen indicated and inferred resource

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

Several parameters were used in calculating the reported resource:

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

(Expressed in Canadian Dollars)

5. Business Overview (Continued)

Wellgreen Nickel Property (Continued)

Table 4
Contained Metals at Wellgreen*

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

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

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

In October 2011, Platinum completed a planned drill program that commenced in May, 2011. A total of 2,200 meters was completed during the program. Technical difficulties associated with ground conditions hampered progress leading to a shortfall of metrage from the projected 8,000 meters announced in May 2011.On August 22, 2011, Platinum announced it has drilled 49.5 meters grading 1.27 g/t PGM+Au, 0.71% Ni, 0.45% Cu within 472 meters grading 0.43% NiEq.Additional results were reported on September 26, 2011 where it was disclosed that borehole WS11-188 encountered 457 meters of mineralization grading 0.47% NiEq (including 0.72 g/t Pt+Pd+Au) from surface to the footwall contact. Within this larger swath of mineralization, the hole encountered a high grade section of 17.8 meters of 3.14 g/t Pt+Pd+Au, 1.03% Ni, 0.74% Cu (1.77% NiEq). NiEq values were calculated using the same parameters noted in Table 1. On December 8, 2011 the Company released it's final drill results from the 2011 Wellgreen drilling program, featuring borehole WS11-192 which intercepted 384.9 meters of 0.45% NiEq starting from 9.45 meters depth. Included in this greater interval of continuous mineralization is a PGM-rich zone with a combined Pt+Pd+Au grade of 1.358 g/t over 19.23 meters (NiEq 0.74%).

Platinum previously announced that it retained SGS Mineral Services to commence a metallurgical study on the Wellgreen mineralization in early September, 2011. Platinum submitted 150 kg of representative grade material to SGS' laboratories to commence flotation tests and to ascertain optimized recoveries for mineralization at Wellgreen. Results are now expected in the second quarter of 2012, pending final tests and additional downstream bench-level testing of the final concentrate.

The commencement of a Preliminary Economic Assessment ("PEA") was announced in early September 2011. The PEA will examine the Wellgreen deposit in the context of an open pit project and determine preliminary economics for the project. The results of this work are on schedule and are expected in April 2012.

5. Business Overview (Continued)

Wellgreen Nickel Property (Continued)

In January 2012, Platinum announced it will be commencing a 9,000 meter underground diamond drilling program that will launch an infill program for the existing resource as released in July 2011, and summarized above. Platinum outlined its strategy to complete 20,000 meters of drilling in 2012, with a combined surface and underground program. This program will be aimed at upgrading the current inferred resource material into a measured and indicated categorization as standardized by NI43-101. This drilling program will also include exploration drilling outside of the current resource that will examine future potential of the project.

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

During the year-ended ended December 31, 2011, the Company and Platinum incurred a total of $2,819,549 exploration costs (2010 - $394,851).

Burwash Property

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

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

At December 31, 2011, $756,550 in exploration costs had been spent on the Burwash property.

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

Lynn Lake Nickel Property

From an updated resource estimate released in April 2011, Lynn Lake has 22.9 million tons of measured and indicated resources grading 0.57% nickel or 263 million pounds of in-situ nickel as well as 8.1 million tons inferred resources grading 0.51% nickel which contains an additional 81.6 million pounds of in-situ nickel. In addition, the updated resource estimated stated that the resource contained measured and indicated resources grading 0.30% copper or 138 million pounds of in-situ copper plus inferred resources grading 0.28% copper or 45.6 million pounds of in-situ copper.

(Expressed in Canadian Dollars)

5. Business Overview (Continued)

Lynn Lake Nickel Property (continued)

Measured and indicated resources at Lynn Lake are categorized in the Table 5:

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

A 1,500 meter drill hole program was conducted in September and October of 2011 testing some existing induced polarization (IP) geophysical anomalies that exist on the property. Modest intercepts of mineralization were encountered including 0.3% nickel and 0.2% copper over 11.4 meters on hole NKL11-003, and 0.03% nickel and 1.3% copper for 3.7 meters on hole NKL-004, explaining the occurrence of the 'North Anomaly' which remains open with increasing chargeability with lower associated resistivities with depth.

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

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

During the year ended December 31, 2011, the Company and Platinum incurred a total of $409,254 on the Lynn Lake property (2010 - $812,385).

Uruguay Property

The Platinum's wholly-owned incorporated subsidiary in Uruguay, Pacific Nickel Sudamerica SA, is conducting a review of several properties with demonstrated nickel potential within Uruguay. During fiscal 2009 Platinum applied for and acquired 5 prospecting licences for properties it had reviewed. As of December 31, 2011, $707,450 had been spent on the properties. The expenditures have consisted of reviews of existing data and site visits by our geological consultants based in the area. During the year Platinum paid property fees to the Uruguay government to secure the five properties for a two year period. Platinum has no future obligations or expenditures requirements related to the Uruguayan properties. Platinum is currently reviewing a number of future plans for the property and will disclose such plans once they have been determined.

(Expressed in Canadian Dollars)

5. Business Overview (Continued)

Las Aguilas Property

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

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

Table 6. Las Aguilas NI 43-101 resource calculation summary as follows:

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

Notes: Nickel price = US$9.02/lb and copper = US$2.66/lb, platinum = US$1842/oz, palladium = US$681/oz, gold = US$1058/oz, silver = US$16.57/oz. The following formulas were used in Datamine to calculate Nickel Equivalence: NiEQ=([Ni grade x $Ni)+(Cu grade x $Cu)+(Co grade x $Co)] x 20+[(Au grade x $Au)+(Ag grade X $Ag)+(Pt grade x $Pt)+(Pd grade x $Pd) x 0.0291667)]/($Nix20). A total of 79 drill holes comprising 1,815 assays were used for resource model validation. Specific gravities of 3.5 were used in this resource calculation. Block sizes of 8x8x4 meters for mineralized lodes with two minor lodes on eastern zone given 1x1x1 meter block.

The interpolation of the East and West zones was completed using the estimation methods: nearest neighbour (NN), inverse distance squared (ID2) and ordinary kriging (OK). Validation was carried out by visual comparison of colour-coded block model grades with composite grades on section and plan, comparison of the global mean block grades for OK, ID2, NN and composites, and Swath Plots comparing NN estimates and OK estimates. Danniel Oosterman, P. Geo., a consultant of Platinum, is the Qualified Person under National Instrument 43-101 who has approved the technical content above.

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

(Expressed in Canadian Dollars)

6. Selected Annual Information

	Years ended December 31,		
	IFRS 2011	IFRS 2010	CGAAP 2009
Operating expense	$ (12,959,668)	$ (4,629,560)	$ (1,796,495)
Loss Before Other Items and Future Income Tax Recovery	(12,959,668)	(4,629,560)	(1,796,495)
Other items	2,737,213	31,386	(106,790)
Loss Before Future Income Tax Recovery	(10,222,455)	(4,598,174)	(1,903,285)
Future income tax recovery	448,687	-	-
Net Loss for Year	(9,773,768)	(4,598,174)	(1,903,285)
Fair value gain (loss) on available-for-sale investments	(1,414,819)	(512,616)	-
Comprehensive Loss for Period	(11,188,587)	(5,110,790)	(1,903,285)
Net Loss for Period Attributable to:			
Owners of the parent	(7,137,313)	(4,598,174)	(1,903,285)
Non-controlling interest	(2,636,455)	-	-
	(9,773,768)	(4,598,174)	(1,903,285)
Comprehensive Loss for Period Attibutable to:			
Owners of the parent	(8,454,021)	(5,110,788)	(1,903,285)
Non-controlling interest	(2,734,566)	-	-
	(11,188,587)	(5,110,788)	(1,903,285)
Share Information			
Net loss per share, basic and diluted attributable to owners of the Company			
Owners of the parent	(0.04)	(0.05)	(0.04)
Non-controlling interest	(0.01)	-	-
Comprehensive loss per share, basic and diluted attributable to owners of the Company			
Owners of the parent	(0.04)	(0.06)	(0.04)
Non-controlling interest	(0.01)	-	-
Weighted average number of common shares outstanding	193,174,218	87,172,481	52,173,846
Financial Position			
Total assets	130,842,900	118,890,123	16,160,608
Non-current liabilities	257,355	528,687	-
Dividends	$ -	$ -	$ -

Net loss attributable to owners of the Company increased from to $1,903,285 in 2009 to $4,598,174 in 2010. This increase was mainly due to the increased management and consulting fees of $870,432 and advertising activities of $583,614 after the amalgamation with Prophecy Holdings in April 2010 and acquisition of Northern Platinum in September 2010, and to the increased non-cash share-based payments expense of $526,920.

6. Selected Annual Information (Continued)

The increase of net loss attributable to owners of the Company in 2011 ($7,137,313) compared to 2010 ($4,598,174) was mainly due to the increase in the share-based payments expense of $5,808,564, professional fees of $714,326 and offset by increase in foreign exchange gain of $2,565,178 and interest income of $126,067.

The Company's total assets at the December 31 of 2011 were $130,849,900 compared to $118,890,123 at the end of 2010 and $16,160,608 at the end of 2009. As at December 31, 2011, the Company had $3,480,050 in cash and cash equivalents, $7,636,163 in available-for-sale investments compared to $39,324,151 and $3,295,385, respectively, as at December 31, 2010. The available-for-sale investments at December 31, 2011 include investment in Victory Nickel Inc. of $2,746,175, investment in Compliance Energy Corporation of $1,050,000 and Platinum's investments of $3,839,988 in exchange traded funds. All available-for-sale investments as at December 31, 2011 are recorded at fair value.

The increase in comprehensive loss attributable to owners of the Company from $5,110,790 in 2010 to $8,454,021 in 2011 includes the increase in net loss explained above and to an increase in fair vale loss of $902,203 on available-for sale investments.

(Expressed in Canadian Dollars)

7. Summary of Quarterly Results

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

	2011 - IFRS			
	Dec-31	Sep-30	Jun-30	Mar-31
Operating expense	$ (3,206,240)	$ (5,196,343)	$ (2,076,826)	$ (2,480,260)
Loss Before Other Items and Future Income Tax Recovery	(3,206,240)	(5,196,343)	(2,076,826)	(2,480,260)
Other items	2,199,362	494,235	119,127	(75,512)
Loss Before Future Income Tax Recovery	(1,006,878)	(4,702,107)	(1,957,699)	(2,555,772)
Future income tax recovery	448,687	-	-	-
Net Income (Loss) for Period	(558,191)	(4,702,107)	(1,957,699)	(2,555,772)
Fair value gain (loss) on available-for-sale investments	(240,610)	(808,025)	(1,998,493)	1,632,308
Comprehensive Income (Loss) for Period	(798,801)	(5,510,132)	(3,956,192)	(923,464)
Net Income (Loss) for Period Attributable to:				
Owners of the parent	567,571	(3,233,347)	(1,915,765)	(2,555,772)
Non-controlling interest	(1,125,761)	(1,468,760)	(41,934)	-
	(558,191)	(4,702,107)	(1,957,699)	(2,555,772)
Comprehensive Loss for Period Attibutable to:				
Owners of the parent	425,073	(4,041,372)	(3,914,258)	(923,464)
Non-controlling interest	(1,223,872)	(1,468,760)	(41,934)	-
	$ (798,801)	$ (5,510,132)	$ (3,956,192)	$ (923,464)
Share Information				
Net Loss per share, basic and diluted attributable to owners of the Company				
Owners of the parent	$ 0.00	$ (0.02)	$ (0.01)	$ (0.01)
Non-controlling interest	(0.01)	(0.01)	(0.00)	-
Comprehensive Loss per share, basic and diluted attributable to owners of the Company				
Owners of the parent	0.00	(0.02)	(0.02)	(0.00)
Non-controlling interest	$ (0.01)	$ (0.01)	$ (0.00)	$ -
Average number of common shares outstanding for the period, basic and diluted	195,035,960	195,008,886	190,228,186	188,310,157

	2010 - IFRS			
	Dec-31	Sep-30	Jun-30	Mar-31
Operating expense	$ (432,436)	$ (2,132,058)	$ (1,646,450)	$ (418,614)
Loss Before Other Items and Future Income Tax Recovery	(432,436)	(2,132,058)	(1,646,450)	(418,614)
Other items	76,872	(43,302)	2,106	(4,290)
Loss Before Future Income Tax Recovery	(355,564)	(2,175,360)	(1,644,344)	(422,904)
Future income tax recovery	-	-	-	-
Net Loss for Period Attributable to Owners	(355,564)	(2,175,360)	(1,644,344)	(422,904)
Fair value gain (loss) on available-for-sale investments	(732,308)	-	-	-
Comprehensive Loss for Period Attributable to Owners	$ (1,087,872)	$ (2,175,360)	$ (1,644,344)	$ (422,904)
Share Information				
Net Loss per share, basic and diluted attributable to owners of the Company	$ (0.00)	$ (0.02)	$ (0.02)	$ (0.01)
Comprehensive Loss per share, basic and diluted attributable to owners of the Company	$ (0.01)	$ (0.02)	$ (0.02)	$ (0.01)
Average number of common shares outstanding for the period, basic and diluted	131,277,270	108,738,115	95,282,588	56,893,206

7. Summary of Quarterly Results (Continued)

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

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

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

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

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

The decrease in net loss attributable to shareholders of the Company to $1,916,765 or $0.01 per share in Q2 2011, from $2,555,772 or $0.01 per share in Q1 2011, was due to decrease in share-based payments and office administration expenses.

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

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

(Expressed in Canadian Dollars)

8. Discussion of Operations

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

Year Ended December 31 ("reporting period")

The following table summarizes the Company's consolidated results:

	Year Ended December 31, 2011	Year Ended December 31, 2010
General and administrative expenses	$ 1,572,402	$ 729,815
Consulting and management fees	1,476,887	1,278,392
Share based payments	6,921,116	1,112,552
Advertising	1,208,229	693,778
Professional fees	1,161,838	447,512
Travel and accommodation	619,196	367,511
Interest (income)	(135,466)	(9,399)
Interest expense	9,091	-
Loss on disposal of plant and equipment	-	1,739
Investment income	(21,934)	-
Foreign exchange loss (gain)	(2,588,904)	(23,726)
Future income tax recovery	(448,687)	-
	$ 9,773,768	$ 4,598,174

Company incurred net loss for the reporting period 2011 of $9,773,768 compared to a $4,598,174 net loss incurred in the same reporting period last year. The increase in operating loss is due to the factors discussed below.

For the reporting period 2011, share-based payment expense was $6,921,116 compared to $1,112,552 during the same reporting period last year. The change in 2011 reflects the fair value of options granted in 2010 and 2011 that vested in the current reporting period. The increase in share-based payments is also due to stock incentive options granted to new directors, officers and consultants of the Company and Platinum. Increase is attributed to more stock options granted during the reporting period compared to 2010. Both the exercise price and the share price at grant date are higher for options granted in 2011 compared to 2010 thus increasing the fair value of the options and the Company recognizing a higher share-based payment expense relative to the prior year's reporting period.

8. Discussion of Operations (Continued)

Other factors

General and administrative

For the reporting period 2011, general and administrative expense was $1,572,402 compared to $729,815 during the same reporting period last year. The increase in 2011 was due primarily to increased salaries (by $182,892) due to new staff hired, office and administration (by $199,441) due to moving to the new office, director fees (by $130,452) due to new directors hired, amortization (by $130,981) due to software, computer and office equipment purchased in 2011, and insurance costs (by $116,420) due to new insurance coverage, substantially driven by greater administrative efforts necessary for the management of the Ulaan Ovoo mine development and management of the exploration programs for the Lynn Lake and Wellgreen projects.

Consulting and management fees

For the reporting period 2011, consulting and management fees expense was $1,476,887 compared to $1,278,392 during the same reporting period last year. The non-significant increase in 2011 was due primarily to the increased consulting and those senior management and advisors activities in Platinum due to the acquisition of Lynn Lake and Wellgreen properties.

Advertising and promotion

For the reporting period 2011, advertising expense was $1,208,229 compared to $693,778 during the same reporting period last year. The increase in 2011 was due primarily to increased business development activities, such as conference, trade show attendance, publications, German advertising, Europe marketing, radio/TV interviews and other with ongoing affairs of the both public companies (Prophecy and Platinum), and to hiring of new investor relations individuals to accommodate the increased business operations of Platinum.

Professional fees

For the reporting period 2011, professional fees expense was $1,161,838 compared to $447,512 during the same reporting period last year. The increase in 2011 was due primarily to the following factors:

- increase in audit and accounting fees ($332,924 compared to $100,160 in 2010) for the audit of the annual financial statements, income tax and other filings, consulting fees in connection with the conversion from Canadian GAAP to IFRS for the Company and Platinum;

- increase in general corporate legal fees ($828,914 compared to $347,352 in 2010) for various matters arising from the affairs of two larger publicly listed companies (Prophecy and Platinum) such as the Company upgrade from TSX Venture to TMX, Platinum listing on OTCQX, spin out of Wellgreen and Lynn Lake properties and other.

Travel and accommodation

For the reporting period 2011, travel and accommodation expense was $619,196 compared to $367,511 during the same reporting period last year. The increase in 2011 was due to increased travel by Vancouver staff to the Ulaanbaatar office to oversee the administration of the Ulaan Ovoo mine and the Chandgana coal projects. The higher travel and accommodation expense was also due to an expanded investor relations program.

(Expressed in Canadian Dollars)

8. Discussion of Operations (Continued)

Interest income

For the reporting period 2011, interest income was $135,466 compared to $9,399 during the same reporting period last year. Interest income for the current reporting period was earned on funds raised by the Company in late December 2010 and by Platinum in November 2011 and invested in short-term interest bearing accounts. Interest income in the prior year ago represents miscellaneous interest earned on bank balances.

Foreign exchange loss

For the reporting period 2011, foreign exchange gain was $2,588,904 compared to $23,726 during the same reporting period last year. The gain in 2011 arose from fluctuations in the value of the Canadian dollar compared with the Mongolian tugrik and the United States dollar. Foreign exchange gain was mainly the effect on translation of the operation results of foreign subsidiaries.

Use of funds raised in December 2010

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

	Year ended December 31, 2011	Actual Net Proceeds From Offering
Use of Proceeds		
Repayment of the loan	$ 5,000,000	$ 5,000,000
Ulaan Ovoo Property:		
Mining equipment and equipment deposits	16,302,199	15,000,000
Road Improvement	2,649,505	8,000,000
Trucks and transport costs	2,686,079	6,000,000
Feasibility report	-	2,706,000
General working capital	1,691,964	2,824,525
Mine development	9,254,605	-
Reduction in net proceeds		(530,315)
Purchase of available for sale investments	1,750,000	-
Raised in 2011, net	(334,142)	-
	$ 39,000,210	$ 39,000,210

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

During the year ended December 31, 2011, the Company raised $18,245,264 from a private placement for Platinum and the exercise of warrants and stock options. Other expenditures on fixed assets, acquisitions, exploration, and corporate overhead were less than the funds raised by $334,142.

(Expressed in Canadian Dollars)

9. Fourth Quarter

Three Months Ended December 31, 2011 ("Q4 2011").

The Company incurred net loss for the three months ended December 31, 2011 of $558,190 compared to a $355,564 net loss incurred in the same quarter last year. The increase in loss is due to the factors discussed below.

		Three Months Ended December 31, 2011		Three Months Ended December 31, 2010
General and administrative expenses	$	562,010	$	101,581
Consulting and management fees		411,572		250,027
Share based payments		1,147,803		(246,348)
Advertising		604,332		245,311
Professional fees		342,642		151,851
Travel and accommodation		137,880		89,993
Interest (income)		(21,535)		(589)
Interest expense		9,091		(48,716)
Loss on disposal of plant and equipment		-		1,739
Foreign exchange loss (gain)		(2,186,918)		(189,285)
Future income tax recovery		(448,687)		
	$	558,190	$	355,564

The increase in loss was primarily due to the following:

General and administrative

For the Q4 2011, general and administrative expense was $562,010 compared to $101,581 during the same quarter last year. The increase in 2011 was due to increase in salaries and benefits, stock exchange and shareholder services, office and administration, and insurance premiums as a direct reflection of the increased business activities of Prophecy and Platinum. The Company and Platinum have one Director on salary and ten full-time employees.

Consulting and management fees

For the Q4 2011, consulting and management fees expense was $411,572 compared to $250,027 during the same quarter last year. Most senior management and advisors of the Company are on a consultant basis, and increase of consulting fees is mainly due to increased corporate activities for both companies.

Share-based payments

For the Q4 2011 the share-based payments expense of $1,147,808 compared to negative (due to the year-end adjustment) $246,348 during the same quarter 2010. The charge in 2011 reflects the fair value of options granted in 2010 and 2011 that vested in the quarter.

9. Fourth Quarter (Continued)

Advertising and promotion

For the Q4 2011, advertising expense was $604,332 compared to $245,311 during the same quarter last year. Advertising and promotion expense include investor relation employee salary, investor relation activities attendance, publications, radio and TV interviews. The increase in 2011 was due primarily to the increased business promotion activities for Platinum due to purchase Wellgreen and Lynn Lake properties and to the increased business promotion activities for the Company due to intensive marketing campaign related to construction of Chandgana power plant.

Professional fees

For the Q4 2011, professional fees expense was $342,642 compared to $151,851 during the same quarter last year. The increase in 2011 was due primarily to the following factors:

- increase in audit and accounting fees ($79,431 compared to $31,620 in 2010) for accounting, reviews, and other services.
- increase in general corporate legal fees ($263,211 compared to $120,231 in 2010) for various matters arising related to support of corporate governance matters for both public companies (Prophecy and Platinum), and the higher level of business development activity with the ongoing affairs of these companies.

Travel and accommodation

For the Q4 2011, travel and accommodation expense was $137,880 compared to $89,993 during the same quarter last year. The small increase in 2011 was due to increased travel by Vancouver staff to the Ulaanbaatar office to oversee the administration of the Ulaan Ovoo mine and the Chandgana coal projects.

Interest income

For the Q4 2011, interest income of $21,535 includes interest income for the current quarter that was earned on funds raised in November for Platinum and invested in short-term interest bearing accounts. Interest income in the year ago quarter of $589 represents miscellaneous interest earned on bank balances.

Interest expense

For the Q4 2011, interest expense includes interest on the intercompany loan of $3,353. Interest expense in the year ago quarter was due to interest expense on a secured debit facility with Waterton Global Value.

For Q4 2011, the Company recorded foreign exchange gain of $2,186,918 and future income tax recovery of $448,687. Foreign exchange gain was mainly the effect on translation of the operation results of foreign subsidiaries.

(Expressed in Canadian Dollars)

10. Liquidity and Capital Resources

The Company will require additional sources of liquidity to continue to develop the Ulaan Ovoo mine and develop the Chandgana Power Plant Project. Sources of potential liquidity may include cash on hand, coal sales from off-take agreements, dispositions of investments in energy resource, nickel and platinum companies, and additional financing. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. The timing and ability to fulfill this objective will depend on the liquidity of the financial markets as well as the willingness of investors to finance exploration companies in the industry.

10.1 Working Capital

The Company ended year 2011 with $3.5 million (December 31, 2010 - $39.3 million) in cash and cash equivalents and net working capital of $9.8 million (December 31, 2010 - $32.5 million).

As at the date of this report, the Company's working capital is approximately $7.7 million.

On March 8, 2012, the Company closed off the non-brokered private placement previously announced on March 1, 2012 of 22,363,866 shares at a price of $0.45 per share for gross proceeds of $10,063,740. Finder's fees of 6% of the proceeds places, payable in cash, were paid on certain arm-length portions of the placement. All shares issued are subject to a hold period expiring on July 9, 2012. Proceeds of the placement will be applied to technical work at the Chandgana Thermal Coal Power Project, operations at the Ulaan Ovoo mine and general corporate purposes.

10.2 Cash Flow Highlights

	Year ended December 31, 2011	2010
Cash used in operating activities	$ (6,885,443)	$ (4,346,963)
Cash used in investing activities	(42,734,124)	(13,252,730)
Cash produced by (used in) financing activities	13,775,466	56,784,532
Decrease in cash for the period	(35,844,101)	39,184,839
Cash balance, beginning of the year	39,324,151	139,312
Cash balance, end of the year	$ 3,480,850	$ 39,324,151

10. Liquidity and Capital Resources (Continued)

10.3 Cash Flows for the year ended December 31, 2011 and 2010

Cash and cash equivalents

Cash and cash equivalents as at December 31, 2011 decreased by $35.8 million to $3.5 million from $39.3 million at December 31, 2010 as a result of: cash used in operating activities of $6.9 million, cash used in investing activities of $42.7 million, and cash provided by financing activities of $13.8 million

Operating activities

During the year ended December 31, 2011, cash used in operating activities was $6.9 million compared to cash used of $4.3 million in the same period of 2010.

Investing activities

During the year ended December 31, 2011, $42.7 million (same period last year - $13.3 million) was used in investing activities, of which $26.3 million (same period last year - $8.7 million) was related to the acquisition of property and equipment, $0.5 million (same period last year $nil) was used for equipment deposits, $8.7 million (same period last year - $4.7 million) was used for exploration expenditures incurred at the Company's mineral properties, $0.8 million was received upon sale of mineral properties to Platinum ($3.9 million was received on acquisition of Prophecy Holdings in 2010, and $5.8 million (2010 - $3.8 million) was used for purchase of investments.

Financing activities

During the year ended December 31, 2011, a total of $13.8 million cash was produced by financing activities compared to $56.8 million provided in 2010). A total of $18.9 million cash was generated from issuance of shares on the exercise of options and warrants and a private placement, offset by repayment of a loan ($5,0 million). In 2010, cash provided from financing activities was comprised of share issuance ($52.8 million) offset by $1 million dividend distribution to shareholders as part of the spin-off assets of to Elissa Resources Ltd. In the same period in 2010, $5 million was received from a loan.

Prophecy holds for investment purposes 36,615,385 common shares of Victory Nickel Inc. (TSX:NI) acquired in a reciprocal private placement, 5,000,000 common shares of Compliance Energy Corporation (US OTCBB CPYCF) acquired in a private placement and 26,971,621 common shares of its controlled affiliate Platinum (TSXV:NKL) acquired in connection with the Platinum Arrangement. Prophecy does not currently have any material long term liabilities. The aggregate market value of the Company's marketable securities held in public company shares is approximately $75 million (including Platinum). The market value of such shares may go up and down.

As at March 30, 2012, the Company had options exercisable and warrants outstanding, which could bring in additional cash funds of approximately $26 million though not all of these instruments are presently "in-the-money".

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

(Expressed in Canadian Dollars)

10. Liquidity and Capital Resources (Continued)

10.4 Contractual Commitments

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

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

The Company's commitments related to mineral properties are as follows and disclosed in Note 11 to annual consolidated financial statements.

Ulaan Ovoo Property

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

Pursuant to the Agreement, Prophecy has the right to acquire 100% of the property by making the following payments to the Seller:

- US$200,000 on agreement signing (paid); and
- US$1,800,000 before April 21, 2012, 50% payable in Prophecy shares
  or
- US$200,000 on agreement signing (paid);
- US$500,000 before April 21, 2012; and
- US$3,300,000 before April 21, 2013, 50% payable in Prophecy shares.

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

Lynn Lake Property

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

10. Liquidity and Capital Resources (Continued)

10.4 Contractual Commitments

Lynn Lake Property (continued)

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

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

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

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

Las Aguilas, Argentina

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

To earn a 49% interest in the property:

Cash and shares

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

Work Commitments

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

10. Liquidity and Capital Resources (Continued)

10.5 Capital Risk Management

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

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

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

11. Environment

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

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

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

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

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

11. Environment (Continued)

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

At December 31, 2010, the Company recognized a liability of $80,000. The fair value of the closure and reclamation liability is estimated using a present value technique and is based on existing laws, contracts or other policies and current technology and conditions. Please refer to Note 14 in the audited consolidated financial statements.

12. Related Party Disclosures

Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation. Details of the transactions between the Company and other related parties are disclosed below.

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

(a) Armada Investments Ltd., a private company owned by Arnold Armstrong, a former director of the Company, and provided accounting, management services and office rent.

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

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

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

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

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

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

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

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

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

(Expressed in Canadian Dollars)

12. Related Party Disclosures (Continued)

(k) David McAdam, the common CFO for the Company's subsidiary, Prophecy Platinum, and Resinco Capital Partners ("Resinco"). Resinco provides consulting and management service.

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

		Year ended December 31,		
Related parties		2011		2010
Armada Investments Ltd. (a)	$	-	$	134,440
Canrim Ventures Ltd.(b)		-		12,914
Energy Investment Capital (c)		38,146		-
J. P. McGoran and Associates Ltd. (d)		12,500		12,500
JWL Investment Corp. (e)		36,272		
Linx Partners Ltd. (f)		560,312		324,000
MaKevCo Consulting Inc. (g)		64,000		-
Mau Capital Management (f)		-		132,487
Monnis International LLC. (h)		4,215,846		-
S. Paul Simpson Law Corp. (i)		-		414,109
The Energy Gateway (j)		164,596		-
Resinco Capital Partners (k)		110,714		-
Prophecy Platinum Corp.		4,098		-
Key management personnel		693,323		95,462
	$	5,899,807	$	1,125,912

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

		Year ended December 31,		
Related parties		2011		2010
Consulting and management fees	$	1,014,705	$	637,363
Professional fees		8,250		434,109
Director fee		132,033		-
Salaries and benefits		38,400		-
Office and administration		14,632		54,440
Mineral properties and P&E				
Property acquisition		-		-
Consulting and management fees		475,941		-
Property and equipment		4,215,846		-
	$	5,899,807	$	1,125,912

Prophecy shares management, administrative assistance, and office space with Platinum pursuant to a Service Agreement signed on August 1, 2011 for fixed monthly fees of $28,000. Prophecy recovers costs for services rendered to Platinum and expenses incurred on behalf of Platinum. The terms of the Service

(Expressed in Canadian Dollars)

12. Related Party Disclosures (Continued)

Agreement will remain in effect until 30 days following written notice of termination.

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

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

		December 31, 2011		December 31, 2010
Salaries and short-term employee benefits	$	973,396	$	-
Share-based payments		3,181,822		3,465,000
Total key management personnel compensation	$	4,155,218	$	3,465,000

13. Critical Accounting Estimates and Judgments

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

Readers are encouraged to read the significant accounting policies and estimates as described in the Company's audited consolidated financial statements (note 2). Notes 3 and 25 to the audited consolidated financial statements provides readers with information, analyses and reconciliations of historic information from pre-transition Canadian GAAP to IFRS. The Company's annual consolidated financial statements have been prepared using the going concern assumption; reference should be made to note 1 to the Company's annual consolidated financial statements.

Exploration and Evaluation Projects

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

13. Critical Accounting Estimates and Judgments (Continued)

Property and Equipment

When economically viable reserves have been determined and the decision to proceed with development has been approved, the expenditures related to development and construction are capitalized as construction-in-progress and classified as a component of property and equipment. During the development of a mine, prior to the commencement of production, costs incurred to remove overburden and other mine waste materials in order to access the resource body ("stripping costs") are capitalized to the related property and depleted over the productive life of the mine using the unit-of-production method. During the production phase of a mine, stripping costs are accounted for as variable production costs and included in the cost of inventory produced during the period except for stripping costs incurred to provide access to reserves that will be produced in future periods and would not otherwise have been accessible, which are capitalized to the cost of mineral property interests and depleted on a unit-of-production method over the reserves that directly benefit from the stripping activity.
Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation of property and equipment is recorded on a declining-balance or unit-of-production basis at the following annual rates:

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

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

Impairment of Long-Lived Assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit (the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflow from other assets or groups of assets ("CGU"), where the recoverable amount of CGU is the greater of the CGU's fair value less costs to sell and its value in use) to which the assets belong.

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

The Company uses its best efforts to fully understand all of the aforementioned to make an informed decision based upon historical and current facts surrounding the projects. Discounted cash flow techniques often require management to make estimates and assumptions concerning reserves and expected future production revenues and expense.

13. Critical Accounting Estimates and Judgments (Continued)

Provision for Closure and Reclamation
The Company assesses its mine rehabilitation provision at each reporting date. Changes to estimated future costs are recognized in the statement of financial position by either increasing or decreasing the rehabilitation liability and asset to which it relates if the initial estimate was originally recognized as part of an asset measured in accordance with IAS 16 Property, Plant and Equipment.

Deferred Income Taxes

The Company uses the asset and liability method to account for income taxes. Deferred income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax basis on the statement of financial position date. Deferred income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse.

Share-Based Payments

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

14. Critical Accounting Policies and Adoption of IFRS

On January 1, 2011, the Canadian Accounting Standards Board ("IASB") replaced Canadian GAAP with IFRS for publicly accountable enterprises, with a transition date of January 1, 2010. IFRS represents standards and interpretations approved by the IASB and are comprised of IFRSs, International Accounting Standards ('IASs"), and interpretations issued by the IFRS Interpretations Committee ('IFRIC") or the former Standing Interpretations Committee ("SIC"). As previously discussed in the Company's MD&A for the year ended December 31, 2010, the Company's IFRS conversion plan addressed matters including changes in accounting policies, IT and data systems, restatement of comparative periods, organizational and internal controls and any required changes to business processes. To facilitate this process and ensure the full impact of the conversion was understood and managed reasonably, the Company retained an IFRS conversion project manager. The accounting staff also attended several training courses on the adoption and implementation of IFRS. Through in-depth training and detailed analysis of IFRS standards, the Company's accounting personnel obtained a thorough understanding of IFRS and possesses sufficient financial reporting expertise to support the Company's future needs.

The Company also reviewed its internal and disclosure control processes and no significant modification were needed as a result of the conversion to IFRS. Further, the Company assessed the impact on IT and data systems and concluded there was no significant impact to applications arising from the transition to IFRS.

The Company's annual consolidated financial statements as at and for the year ended December 31, 2011 have been prepared in accordance with IFRS with restatements of comparative balance sheets as at January 1, 2010, December 31, 2010 and statements of earnings and comprehensive income for the year ended December 31, 2010 as previously reported and prepared in accordance with Canadian GAAP. There is no effect of transition from Canadian GAAP to IFRS on the cash flow. Therefore, a reconciliation of cash flows has not been presented. In the preparation of these consolidated financial statements, the Company utilized certain elections provided under IFRS 1 for first time IFRS adopters. Set forth below are the IFRS 1 applicable exemptions applied in the Company's conversion from Canadian GAAP to IFRS.

14. Critical Accounting Policies and Adoption of IFRS (Continued)

14.1 IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1")

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

Initial elections upon adoption

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

(a) Share-based payments ("IFRS 2")

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

(b) Business Combinations ("IFRS 3")

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

14.2 Income Taxes

In April 2010, the Company acquired all of the outstanding common shares of Prophecy Holdings Inc. On acquisition of Prophecy Holdings Inc., the Company recognized a future income tax liability $9,352,550 in accordance with Canadian GAAP. Under IAS 12 Income Taxes, the deferred tax liability would not be recognized, either on acquisition or subsequently. This accounting policy change resulted in a write-off of the future income tax liability and a corresponding decrease in the carrying value of mineral properties.

Similarly, in September 2010, the Company acquired all of the outstanding common shares of Northern Platinum Ltd. On acquisition of Northern Platinum Ltd, the Company recognized a deferred income tax liability $1,577,850 in accordance with Canadian GAAP. Under IAS 12 *Income Taxes*, the Company reversed the deferred income tax liability which resulted in a corresponding decrease in carrying value of mineral properties.

14.3 Share-Based Payments

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

These policy changes resulted in a reduction in contributed surplus for the year ended December 31, 2010 of $35,222, from which, $29,778 reduced share-based payments expense and $5,444 reduced mineral properties. It should be noted that $1,955 related to the Company's Ulaan Ovoo property, which has been reclassified to property and equipment and $531 and $2,958 related to Lynn Lake and Wellgreen, respectively.

14. Critical Accounting Policies and Adoption of IFRS (Continued)

14.4 Reclassification of Mineral Property Interest

Prior to transition to IFRS, the Ulaan Ovoo mineral property, which as of the period ended June 30, 2010 is for the development stage, was classified as mineral properties interests. In accordance with IFRS 6 Exploration and Evaluation of Mineral Resources, a mineral property is no longer classified under this standard once technical feasibility and commercial viability are demonstrable, resulting in this asset being reclassified as property and equipment commencing June 30, 2010. Accordingly, during the year ended December 31, 2010, $24,066,398 was transferred from mineral property interests to property and equipment.

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

14.5 Reclassification of Borrowing Costs

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

14.6 New Accounting Pronouncements

All of the new and revised standards described below may be early-adopted.

(i) IFRS 9 *Financial Instruments* (2010)

A revised version of IFRS 9 incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirements from IAS 39 *Financial Instruments: Recognition and Measurement*.

The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

Applies to annual periods beginning on or after January 1, 2015. This standard supersedes IFRS 9 (2009). However, for annual reporting periods beginning before January 1, 2015, an entity may early-adopt IFRS 9 (2009) instead of applying this standard.

14. Critical Accounting Policies and Adoption of IFRS (Continued)

(ii) IFRS 11 *Joint Arrangements*

Replaces IAS 31 *Interests in Joint Ventures.* Requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligation and then account for those rights and obligations in accordance with that type of joint arrangement.

Joint arrangements are either joint operations or joint ventures:

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (joint operations) have rights to the assets, and obligations for the liability, relating to the arrangement. Joint operations recognize their assets, liabilities, revenue and expenses in relation to its interest in a joint operation (including their share of any such items arising jointly).

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (joint venturers) have rights to the net assets of the arrangement. A joint venturer applies the equity method of accounting for its investment in a joint venture in accordance with IAS 28 *Investments in Associates and Joint Venturers (2011).* Unlike IAS 31, the use of "proportional consolidation" to account for joint ventures is not permitted.

Applicable to annual reporting periods beginning on or after January 1, 2013. If early adopted, must be adopted together with IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

(iii) IFRS 12 *Disclosure of Interests in Other Entities*

Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

In high-level terms, the required disclosures are grouped into the following broad categories:

Significant judgements and assumptions – such as how control, joint controls, significant influence has been determined.

Interests in subsidiaries – including details of the structure of the group, risks associated with structured entities, changes in control and so on.

Interests in joint arrangements and associates – the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarized financial information)

Interests in unconsolidated structured entities – information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated entities.

IFRS 12 lists specific examples and additional disclosures which further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosure required.

14. Critical Accounting Policies and Adoption of IFRS (Continued)

14.6 New Accounting Pronouncements (continued)

Applicable to annual reporting periods beginning on or after January 1, 2013. If early adopted, must be adopted together with IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011).

(iv) IFRS 13 *Fair Value Measurement*

Replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard.

This IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

IFRS 13 applies when another IFRS requires or permits fair value and requires disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about hose measurements). With some exceptions, the standard requires entities to classify these measurements into a "fair value hierarchy" based on the nature of the inputs:

Level 1 – quoted prices in active markets for identical assets or liabilities that the entity can assess at the measurement date.

Level 2 – inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – unobservable inputs for the asset or liability.

Entities are required to make various disclosures depending upon the nature of the fair value measurement (e.g., whether it is recognized in the financial statements or merely disclosed) and the level in which it is classified.

Applicable to annual reporting periods beginning on or after January 1, 2013.

(v) Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

Amends IAS 1 *Presentation of Financial Statements* to revise the way other comprehensive income ("OCI") is presented. The amendments:

- Preserve the amendments made to IAS 1 in 2007 to require profit or loss and ("OCI") to be presented together, i.e., either as a single "statement of profit or loss and comprehensive income", or a separate "statement of profit or loss' and a 'statement of comprehensive income" – rather than requiring a single continuous statement as was proposed in the exposure draft.
- Require entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently, i.e., those that might be reclassified and those that will not be reclassified.

(Expressed in Canadian Dollars)

14. Critical Accounting Policies and Adoption of IFRS (Continued)

14.6 New Accounting Pronouncements (continued)

- Require tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax).

Applicable to annual reporting periods beginning on or after July 1, 2012.

(vi) IFRIC 20 *Stripping Costs n the Production Phase of a Surface Mine*

Clarifies the requirements for accounting for stripping costs associated with waste removal in surface mining, including when production stripping costs should be recognized as an asset, how the asset is initially recognized, and subsequent measurement.

The Interpretation requires stripping activity costs which provide improved access to ore are recognized as a non-current "stropping activity asset" when certain criteria are met. The stripping activity asset is depreciated or amortized on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity, using the units of production method unless another method is more appropriate.

Applies to annual periods beginning on or after January 1, 2013.

15. Financial Instruments and Related Risks

The Board of Directors, through the Audit Committee is responsible for identifying the principal risks of the company and ensuring that risk management systems are implemented. The Company manages its exposure to financial risks, including liquidity risk, foreign exchange rate risk, interest rate risk, and credit risk in accordance with its risk management framework. The Company's Board of Directors reviews the Company's policies on an ongoing basis.

15.1 Financial Instruments (see note 18 to the annual consolidated financial statements)

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

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	$ 3,480,050	$ -	$ -	$ 3,480,050
Receivables	730,373	-	-	730,373
Available-for-sale Investments	7,636,163	-	-	7,636,163
	$ 11,846,586	$ -	$ -	$ 11,846,586

15. Financial Instruments and Related Risks (Continued)

15.2 Related Risks

Liquidity risk – Liquidity risk is the risk that an entity will be unable to meet its financial obligations as they fall due. the Company manages liquidity risk by preparing cash flow forecasts of upcoming cash requirements. As at December 31, the Company has cash and cash equivalents of $3.5 million and financial liabilities of $1,364,890, which have contractual maturities of 90 days or less.

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

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

(a) Interest rate risk

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

(b) Foreign currency risk

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

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

Net exposures as at December 31, 2011, with other variables unchanged, a 1% strengthening (weakening) of the Canadian dollar against the Mongolian tugrug would not have a material impact on earnings with other variables unchanged. A 1% strengthening (weakening) of the US dollar against the Canadian dollar would not have a material impact on net loss. The Company currently does not use any foreign exchange contracts to hedge this currency risk.

15. Financial Instruments and Related Risks (Continued)

15.2 Related Risks

(c) Commodity and equity price risk

The Company holds an investment in marketable securities that fluctuates in value. Based upon the Company's investment position at year end, a 10% increase (decrease) in the market price of the investments held would have resulted in an increase (decrease) to net income of approximately $124,923. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in value may be significant.

16. Risks and Uncertainties

The Company is exposed to many risks in conducting its business, including but not limited to: a) product price risk as any fluctuations in the prices of the products that the Company purchases and the prices of the products that the Company sells have a significant effect on the Company's business, results of operations, financial conditions and cash flows; b) credit risk in the normal course of dealing with other companies and financial institutions; c) foreign exchange risk as the Company reports its financial statements in Canadian dollars while the Company has significant operations and assets in Mongolia; d) interest rate risk as the Company raises funds through debt financing and e) other risk factors, including inherent risk of the mineral exploration, political risks, and environmental risk.

These and other risks are described in the Company's audited consolidated financial statements, management's discussion and analysis for the year ended December 31, 2010. Readers are encouraged to refer to these documents for a more detailed description of some of the risks and uncertainties inherent in the Company's business.

The Audit Committee meets regularly to review reports and discuss significant risk areas with the internal and external auditors. Management and the Board of Directors continuously assess risks that the Company is exposed to, and attempt to mitigate these risks where practical through a range of risk management strategies.

Political and Country Risk

The Company conducts its operations mainly in Mongolia and is potentially subject to a number of political and economic risks. The Company is not able to determine the impact of these risks on its future financial position or results of operations. The Company's exploration, development and production activities may be substantially affected by factors outside of the Company's control. These potential factors include, but are not limited to: levies and tax increases or claims by governmental bodies, expropriation or nationalization, foreign exchange controls, cancellation or renegotiation of contracts, and environmental and permitting regulations. The Company currently has no political risk insurance coverage against these risks.

16. Risks and Uncertainties (Continued)

Environmental Risks

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

Other Risk Factors

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

17. Disclosure controls and procedures

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

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of December 31, 2011, the Chief Executive Officer and Chief Financial Officer have each concluded that the Company's disclosure controls and procedures, as defined in NI 52-109 are effective to achieve the purpose for which they have been designed.

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

17. Disclosure controls and procedures

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

Design of Internal Controls over Financial Reporting

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

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

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

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

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

The Company's management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's internal controls over financial reporting using the framework and criteria established in "Internal Control - Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the evaluation, management has concluded that internal controls over financial reporting were effective as at December 31, 2011.

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

(Expressed in Canadian Dollars)

18. Disclosure of Outstanding Share Data

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

18.1 *Share Capital*

Authorized – unlimited number of common shares without par value.

Issued and outstanding – common shares outstanding 224,956,568 with recorded value of $144,788,541

Summary of securities issued during the period

Outstanding, December 31, 2010	184,981,199	$	125,458,376
Expired escrowed shares cancelled	(187,500)		
Shares issued on exercise of optons	1,500,300		1,206,623
Shares issued on exercise of warrants	14,815,423		7,827,081
Outstanding, December 31, 2011	201,109,422		134,492,080
Shares issued on exercise of optons	100,000		25,000
Shares issued on exercise of warrants	1,383,280		673,843
Private placement	22,363,866		9,594,618
Outstanding, March 30, 2012	224,956,568	$	144,785,541

18.2 Stock Options

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

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

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

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

(Expressed in Canadian Dollars)

18. Disclosure of Outstanding Share Data (Continued)

18.2 Stock Options (continued)

Summary of options granted during the year and after the year end:

Exercise Price	Number of Options Granted	Expiry Date
$0.80	120,000	January 4, 2016
$0.93	50,000	January 6, 2016
$0.98	130,000	February 14, 2016
$0.63	2,400,000	June 13, 2016
$0.77	810,000	August 30, 2016
$0.43	180,000	January 9, 2017
$0.46	140,000	February 3, 2017
$0.47	3,000,000	March 22, 2017
	6,830,000	

Summary of Platinum options granted from June 13, 2011 to December 31, 2011 and after the year end:

Exercise Price	Number of Options Granted	Expiry Date
$0.90	5,670,000	June 20, 2016
$5.59	450,000	August 30, 2016
$2.25	840,000	December 12, 2016
$2.40	90,000	January 16, 2017
$3.68	240,000	February 7, 2017
	7,290,000	

(Expressed in Canadian Dollars)

18. Disclosure of Outstanding Share Data (Continued)

18.2 Stock Options (continued)

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

Expiry Date	Exercise Price	Outstanding	Exercisable
January 23, 2014	$0.40	1,056,800	1,056,800
April 30, 2014	$0.80	475,000	475,000
July 17, 2014	$0.60	175,000	175,000
September 21, 2014	$0.60	65,000	65,000
October 29, 2014	$0.25	1,062,500	1,062,500
November 30, 2014	$0.38	200,000	200,000
January 29, 2015	$0.40	381,250	381,250
March 11, 2015	$0.55	350,000	350,000
May 10, 2015	$0.67	1,722,500	1,510,000
September 21, 2015	$0.54	850,000	662,500
September 23, 2015	$0.80	100,000	50,000
October 15, 2015	$0.67	175,000	87,500
December 10, 2015	$0.77	9,000,000	4,500,000
December 24, 2015	$0.77	2,050,000	1,537,500
December 24, 2015	$0.93	2,875,000	2,315,000
January 4, 2016	$0.80	120,000	-
January 6, 2016	$0.93	50,000	-
February 14, 2016	$0.98	130,000	-
June 13, 2016	$0.63	1,975,000	-
February 13, 3570	$0.77	610,000	-
January 9, 2017	$0.43	180,000	-
February 3, 2017	$0.46	140,000	
March 22, 2017	$0.49	3,000,000	
		26,743,050	14,428,050

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

Expiry Date	Exercise Price		Outstanding	Exercisable
January 7, 2013	$	1.60	3,750	3,750
November 6, 2014	$	1.00	12,500	12,500
December 13, 2015	$	1.40	175,000	175,000
June 20, 2016	$	0.90	5,395,000	-
August 30, 2016	$	5.59	400,000	-
December 12, 2016	$	2.25	840,000	-
			6,826,250	191,250

(Expressed in Canadian Dollars)

18. Disclosure of Outstanding Share Data (Continued)

18.3 *Share Purchase Warrants*

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

Subsequent to the year end 1,383,000 Prophecy warrants were exercised and 75,000 Platinum's warrants were exercised.

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

Exercise price	Number of Warrants	Expiry date
$0.66	3,831,511	October 28, 2012
$0.77	551,968	March 31, 2012
$0.80	2,964,730	March 31, 2012
$0.80	337,750	April 21, 2012
$0.80	2,752,097	March 23, 2012
$0.66 to $0.80	10,438,056	

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

Exercise price	Number of Warrants	Expiry date
$1.00	252,000	August 3, 2012
$1.00	890,000	January 6, 2013
$1,00	1,142,000	

19. Additional Disclosure

Subsequent to period end, Platinum and Ursa Major Minerals ("Ursa") Incorporated entered into a letter of agreement ("Letter of Agreement") whereby Platinum will acquire all of the issued and outstanding shares of Ursa in exchange for shares of Platinum on the basis of 25 shares of Ursa for 1 share of Platinum. As a result of the Letter of Agreement, all existing warrants, options and other rights to acquire common shares of Ursa will be exchanged for options and warrants of Platinum such that each former Ursa option and warrant will be exchanged for a Platinum option or warrant, respectively, exercisable for that number of Platinum shares that is equal to the number of Ursa shares that would otherwise have been issuable thereunder. In connection with the Letter of Agreement, Platinum will subscribe for 16,666,667 common shares of Ursa at gross proceeds $0.06 per share for gross proceeds of $1,000.000. The use of the proceeds shall be confined to payment of current accounts payable, general working capital purposes and expenditures on the mineral properties of

Ursa for the purposes of developing such properties. Subsequent to period end, the $1,000,000 has been paid.

20. Off-Balance Sheet Arrangement

During the year ended December 31, 2011, Prophecy was not a party to any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources of the Company.