Prophecy Coal Corp.

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

For the year ended December 31, 2012
(Expressed in Canadian Dollars)

CONTENTS

This Management's Discussion and Analysis ("**MD&A**") of Prophecy Coal Corp. and its subsidiaries ("**Prophecy Coal**", or the "**Company**") provides analysis of the Company's financial results for the year ended December 31, 2012. The following information should be read in conjunction with the accompanying December 31, 2012 audited consolidated financial statements and the notes to those financial statements, prepared in accordance with International Financial Reporting Standards ("**IFRS**"), as issued by the International Accounting Standards Board, and the Company's Annual Information Form for the year ended December 31, 2012, all of which are available on the SEDAR website at www.sedar.com. Financial information is expressed in Canadian dollars, unless stated otherwise. This MD&A is current as of April 2, 2013. This discussion is intended to supplement and complement Prophecy Coal's audited annual consolidated financial statements for the year ended December 31, 2012 and the notes thereto. Readers are cautioned that this MD&A contains "forward-looking statements" and that actual events may vary from management's expectations. Readers are encouraged to read the cautionary note contained herein regarding such forward-looking statements. This MD&A was reviewed, approved and authorized for issue by the Company's Board of Directors on April 2, 2013.

Cautionary Note Regarding 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 applicable securities laws. Such forward-looking statements, which reflect management's expectations regarding Prophecy Coal'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 to be materially different from future results, performance, or achievements expressed or implied by such forward-looking statements. These estimates and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies, many of which, with respect to future events, are subject to change and could cause actual results to differ materially from those expressed or implied in any forward-looking statements made by Prophecy.

In making the forward-looking statements in this MD&A, Prophecy Coal has made several assumptions that it believes are appropriate, including, but not limited to assumptions that: all required third party contractual, regulatory and governmental approvals will be obtained for the development, construction and production of Prophecy Coal's properties and the Chandgana Power Plant; 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 fuel, parts and equipment and other key supplies remain consistent with current levels; production forecasts meeting expectations, the accuracy of Prophecy Coal's current mineral resource estimates; labour and materials costs increasing on a basis consistent with Prophecy Coal's current expectations; and that any additional required financing will be available on reasonable terms. Prophecy Coal cannot assure you that any of these assumptions will prove to be correct.

In light of the risks and uncertainties inherent in all forward-looking statements, the inclusion or incorporation by reference of forward-looking statements in this MD&A should not be considered as a representation by Prophecy Coal or any other person that Prophecy Coal's objectives or plans will be achieved. Forward-looking statements in this MD&A include, without limitation, statements regarding the permitting, feasibility, plans for development and production of Prophecy Coal'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 mineral property and the Chandgana coal mineral properties; and other information concerning possible or assumed future results of operations of Prophecy.

Numerous factors could cause the Prophecy Coal's actual results to differ materially from those expressed or implied in the forward looking statements, including the following risks and uncertainties, which are discussed in greater detail under the heading "Risk Factors" in this MD&A: Prophecy's history of net losses and lack of foreseeable cash flow; exploration, development and production risks, including risks related to the development of Prophecy Coal's Ulaan Ovoo coal property; Prophecy Coal not having a history of profitable mineral production; the uncertainty of mineral resource and mineral reserve estimates; the capital and operating costs required to bring Prophecy Coal's projects into production and the resulting economic returns from its projects; foreign operations and political conditions, including the legal and political risks of operating in Mongolia, which is a developing jurisdiction; the availability and timeliness of various government approvals and licences; the feasibility, funding and development of the Chandgana Power Plant; title to the Prophecy Coal's mineral properties; environmental risks; the competitive nature of the mining business; lack of infrastructure; Prophecy Coal's reliance on key personnel; uninsured risks; commodity price fluctuations; reliance on contractors; Prophecy Coal's minority interest in Prophecy Platinum Ltd.; Prophecy Coal's need for substantial additional funding and the risk of not securing such funding on reasonable terms or at all; foreign exchange risks; anti-corruption legislation; recent global financial conditions; the payment of dividends; and conflicts of interest.

These factors should be considered carefully, and readers should not place undue reliance on the Prophecy Coal's forward-looking statements. Prophecy Coal believes that the expectations reflected in the forward-looking statements contained in this MD&A and the documents incorporated by reference herein are reasonable, but no assurance can be given that these expectations will prove to be correct. In addition, although Prophecy Coal has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. Prophecy Coal undertakes no obligation to release publicly any future revisions to forward-looking statements to reflect events or circumstances after the date of this MD&A or to reflect the occurrence of unanticipated events, except as expressly required by law.

1. INTRODUCTION

Prophecy Coal Corp. is a company incorporated under the laws of the province of British Columbia, Canada. Its focus is on the acquisition, exploration and development of coal properties and the development of its Chandgana Power Plant project in Mongolia.

General Corporate Information

At December 31, 2012 and April 2, 2013, Prophecy Coal had: (i) 228,400,956 and 230,400,956 common shares issued and outstanding, respectively; (ii) 32,485,550 and 32,785,550 share options for common shares outstanding, respectively; and (iii) 10,339,927 and 4,169,261 warrants for common shares outstanding, respectively.

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Share Information
Common shares of Prophecy Coal are listed for trading on: (i) the TSX under the symbol "PCY", (ii) the OTC-QX under the symbol "PRPCF", and (iii) on the Frankfurt Stock Exchange under the symbol "1P2".

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(Expressed in Canadian Dollars)

Directors and Officers

As at the date of this MD&A, Prophecy Coal's directors and officers were as follows:

Directors	Officers
John Lee, Executive Chairman	John Lee, Interim Chief Executive Officer
Harald Batista	Jeffrey Mason, Chief Financial Officer
Chuluunbaatar Baz	Charmaine Chan, Corporate Secretary
Michael Deats	
Greg Hall	

Audit Committee	***Compensation Committee***	***Corporate Governance Committee***
Greg Hall (Chair)	Greg Hall (Chair)	Greg Hall
Harald Batista	Harald Batista	Harald Batista
Michael Deats	Michael Deats	Michael Deats

Qualified Persons

Mr. Christopher Kravits, LPG, CPG, is a qualified person as defined under National Instrument 43-101 *Standards of Disclosure for Mineral Projects* ("**NI 43-101**"). Mr. Kravits is not considered independent of Prophecy Coal given the large extent that his professional time is dedicated solely to Prophecy Coal. Mr. Kravits has reviewed and approved the technical and scientific disclosure regarding the mineral properties of Prophecy Coal contained in this MD&A.

Mr. John Sagman, P.Eng. is the qualified person as defined under NI 43-101 who has reviewed and approved the technical and scientific disclosure regarding the mineral properties of Prophecy Platinum Corp. ("**Prophecy Platinum**") contained in this MD&A.

2. YEAR 2012 HIGHLIGHTS AND SIGNIFICANT EVENTS

Prophecy Coal Corp.

- On January 9, 2012 and February 3, 2012, Prophecy Coal granted 180,000 and 140,000 share options to consultants and employees of Prophecy Coal with exercise prices of $0.43 per option and $0.46 per option respectively. All of these options are exercisable for a period of five years.

- On March 1, 2012, Prophecy Coal cancelled a proposed dealer debt facility of $5 million announced on December 30, 2011.

- Prophecy Coal repaid $800,000 owing to Prophecy Platinum pursuant to a $2 million inter-company loan facility announced on December 30, 2011 plus associated interest, and subsequently cancelled the loan facility.

- On March 8, 2012, Prophecy Coal closed a non-brokered private placement of 22,363,866 shares at a price of $0.45 per share, raising aggregate gross proceeds of $10,063,740.

- On March 22, 2012, Prophecy Coal granted 3,000,000 share options to directors, consultants and employees of Prophecy Coal, each having an exercise price of $0.49 per option and exercisable for a period of five years.

- In March 2012, Prophecy Coal extended the expiry dates of certain outstanding warrants. The subject warrants were originally issued during March 2010 and April 2010 with original expiry dates of eighteen months and two years from their issuance date. The expiry dates of these warrants were extended by one year.

- On June 1, 2012, Prophecy Coal granted 10,000 share options to an employee of the Company, with an exercise price of $0.25 per option and exercisable for a period of five years.

- On June 18, 2012, Prophecy Coal signed a Sale and Purchase Agreement with Tethys Mining LLC ("**Tethys**") to acquire assets relating to Tugalgatai coal exploration licenses in Mongolia ("**Tugalgatai**"). The terms of the agreement included a US$10 million upfront payment and an 8.5% royalty on future coal sales from both the Chandgana and Tugalgatai licenses. The royalty can be extinguished by paying Tethys US$20 million before 2021 or US$25 million from 2021 onwards. Of the purchase price, US$2 million was deposited in escrow upon entering into the agreement. The total payment is required to be paid to Tethys from escrow upon the transfer of the licenses.

- On June 18, 2012, following the voluntary forfeiture of 5,435,000 options previously granted to directors, officers, employees and consultants with expiry dates June 13, 2016, August 30, 2016, January 9, 2017, February 3, 2017, and March 22, 2017 at exercise prices ranging from $0.425 to $0.77, Prophecy Coal granted new 5,435,000 options to the previous holders of the forfeited options at an exercise price of $0.28 with a term of five years and vesting over a two year period.

- On July 16, 2012, Prophecy Coal secured a $10 million debt facility (the "**Loan**") with Waterton Global Value, L.P. ("**Waterton**"). The funds, which were subsequently fully drawn, were borrowed by Prophecy Coal to help finance the purchase of the Tugalgatai licenses from Tethys, and for general working capital purposes. The Loan has a one year term, due July 16, 2013, and bears interest at 14% per annum. A structuring fee of 2.5% in cash plus a bonus for a fair value of $600,000 was paid through the issuance to Waterton of 2,735,617 of Prophecy Coal's common shares.

- On July 16, 2012, Prophecy Coal deposited US$8 million of the balance of the upfront payment for purchase of the Tugalgatai licenses in escrow.

- On July 27, 2012, Prophecy Coal announced the appointment of Mr. Harald Batista to its Board of Directors. Prophecy Coal also announced the resignation of Mr. Paul Venter and Mr. Paul McKenzie from its Board of Directors.

- On August 9, 2012, Prophecy Coal announced the temporary suspension of coal mining operations at its Ulaan Ovoo mine in an effort to save costs because at that time, Prophecy Coal had sufficient inventory to meet anticipated coal demand through the balance of 2012.

- On August 16, 2012, Prophecy Coal announced the appointment of Mr. Robert Bruggeman as Vice President of Corporate Development.

- On August 16, August 22, September 20, and September 24, 2012, Prophecy Coal granted an aggregate of 5,855,000 share options to consultants, directors and employees of Prophecy Coal with an exercise price of $0.18 per option and exercisable for a period of five years.

- On September 6, 2012, Prophecy Coal submitted a Power Purchase Agreement ("**PPA**") proposal to the Mongolian Government.

- On October 15, 2012, Prophecy Coal's wholly-owned subsidiary Prophecy Power Generation LLC ("**Prophecy Power**") (formerly East Energy Development LLC) started conducting final evaluation of three tenders from Engineering, Procurement and Construction ("**EPC**") firms to build the proposed Chandgana power plant in Mongolia.

- On October 28, 2012, Prophecy Coal extended the expiry date of 3,831,511 warrants by three years, from the original expiry date of October 28, 2012 to October 28, 2015, and amended the warrant exercise price of these warrants from $0.66 to $0.18.

- On October 31, 2012, Mr. Joseph Li resigned as General Manger and Corporate Secretary and as a director of Prophecy Coal.

- On November 2, 2012, Prophecy Coal announced that it had received the Chandgana Preliminary Economic Assessment ("**PEA**") report on its Chandgana Tal coal mining licenses, which was prepared by John T Boyd Co. ("**Boyd**"). The PEA was filed on SEDAR on November 30, 2012.

- On November 2, 2012, Prophecy Coal announced the postponement of its purchase of coal assets from Tethys which it announced on June 18, 2012. The escrow funds, net of costs, amounting to US$9.9 million was returned to Prophecy Coal on termination of the original Tugalgatai Agreement, which occurred due to the elapsing of the initial long stop date for approval of the licences transfer by the Minerals Resource Authority of Mongolia. Prophecy Coal is in negotiation for a new amended Tugalgatai Agreement to extend the acceptance period for the transfer application in regards to the coal licenses and to defer certain upfront payments such that they become payable upon achieving certain project milestones over time.

- On November 5, 2012, Prophecy Coal appointed Mr. Jeffrey Mason, CA as Chief Financial Officer and Mr. Samir Patel LLB, as Corporate Secretary. Prophecy Coal granted 1,500,000 share options with an exercise price of $0.135 and 150,000 share options with an exercise price $0.15 to Mr. Mason and Mr. Patel respectively, exercisable for a period of five years.

- On November 14, 2012, Prophecy Coal announced that it had entered into a Memorandum of Understanding (the "**MOU**") with a power generation group (the "**Strategic Partner**") to jointly develop the Chandgana Power Plant Project. The MOU sets out the proposed terms of the cooperation and timeline of implementation of a transaction between the Strategic Partner and Prophecy Coal.

- On November 30, 2012, it was determined that Prophecy Coal's control changed to significant influence over Prophecy Platinum due to the culmination of a series of events including: (i) the appointment of Prophecy Platinum's new senior executive management not common to both companies; (ii) election of a majority of the Board of Directors of Prophecy Platinum not common to both companies; (iii) a reduction in shared management and administrative functions between the companies; and (iv) the reduction of Prophecy Coal's equity ownership interest from 44.4%, as at the time of the spin out transaction in June 2011 to 32.6% as at November 30, 2012.

  Prophecy Coal's ownership interest in Prophecy Platinum during 2012 decreased from 40.8% to 32.1% at December 31, 2012 as a consequence of: (i) Prophecy Platinum's series of private equity placements, to which Prophecy Coal did not participate; (ii) the issuance of Prophecy Platinum common shares upon the acquisition by Prophecy Platinum of Ursa Major Minerals Inc.; and (iii) the sale of 464,700 Prophecy Platinum common shares held by Prophecy Coal.

  Prophecy Coal's investment in associate company, Prophecy Platinum, is recorded at its fair value of $25,118,910 as at December 31, 2012. Prophecy Coal continues to hold significant influence over Prophecy Platinum by virtue of its ownership of 32.1% of the total outstanding shares of Prophecy Platinum as at December 31, 2012, and its investment was initially recognised on deconsolidation as at November 30, 2012. Thereafter, the Company accounted for its holdings in Prophecy Platinum under the equity accounting method as defined in IAS 28 – Investments in Associates and will continue to do so for so long as it retains significant influence over Prophecy Platinum.

Subsequent to year end

- On January 25, 2013, Mr. Jivko Savov resigned as a Director of Prophecy Coal.

- On January 25, 2013, Mr. John Lee transitioned from his role as Chief Executive Officer ("**CEO**") of the Company to Executive Chairman of the Board of Directors (the "**Board**") of the Company. To complement Mr. Lee in his role as Executive Chairman of the Board, the Company has initiated a search for a new CEO to carry out day-to-day management responsibilities as the Company transitions into an advanced developer of coal powered electrical generation. Mr. Lee continues to serve as Interim CEO until a new candidate has been identified and appointed.

- On February 7, 2013, the Company announced that it is undertaking a non- brokered private equity placement to raise gross proceeds of up to $8,400,000 (the "**Placement**"), subject to regulatory approval. The Placement involves the issuance of up to 60,000,000 units (each a '**Unit**") at a price of $0.14 per Unit. Each Unit consists of one common share (a "**Share**") of the Company and 0.75 of a share purchase warrant (a "**Warrant**"). Each whole Warrant entitles the holder to acquire an additional Share at a price of $0.18 per Share for a period of two years following closing. NewMargin Prophecy Coal Ltd. ("**NewMargin**"), an entity at arm's length to the Company, is undertaking to subscribe for 40 million Units of this financing. Under the rules of the Toronto Stock Exchange, shareholder approval is required for part of the Placement. To the extent that such approval is required, the Company will issue special warrants which may not be converted to Units without shareholder approval, which will be sought at the Company's next annual general meeting. If such approval is not obtained, the special warrants will be cancelled and the portion of the Placement proceeds which relates to their sale will be returned to the subscribers. This equity financing has not closed and remains subject to receipt of subscription agreements, monies, TSX approval, and in the case of special warrants, shareholder approval.

- On March 1, 2013, the Company announced that pursuant to the July 16, 2012 credit agreement between Prophecy Coal and Waterton, the expiry of the original purchase and sales agreement with Tethys constituted a default under the credit agreement. Waterton agreed to waive the default, subject to the Company completing (which it has) the following:

  (a) setting aside $3.5 million in escrow for the purchase of the Tugalgatai licenses:
    1) $1.5 million for the acquisition of the Mongolian coal assets and
    2) $2 million for the full repayment or a partial prepayment of the Loan,

  (b) issuing 2 million common shares to Waterton; and

  (c) pledging additional security to Waterton in the form of 5,535,000 remaining free trading Prophecy Platinum common shares held by the Company.

- On March 4, 2013, The Company granted 300,000 stock options at price $0.14 per share for a period of five years to an employee of the Company.

- On March 5, 2013, the Company announced that Prophecy Power has been granted 532.4 hectares of land to be used for the Company's proposed Chandgana power plant construction (the "**Land Use Rights**"). With the Land Use Rights in place, Prophecy Power has issued a contract to Erchim Concern LLC to bring 4MW of temporary power to the Chandgana power plant site from a local 35kV power line. Separately, Prophecy Power has issued tenders for the construction of 250 housing units along with a water supply to the Chandgana power plant site.

For further information about the Company, please refer to the Company's website: www.prophecycoal.com and the Company's SEDAR profile at www.sedar.com.

Prophecy Platinum

- On January 3, 2012, Prophecy Platinum announced that 9,000 metres of underground drilling on its Wellgreen project will start the third week of January, 2012.

- On January 9, 2012 and February 3, 2012, Prophecy Platinum granted 90,000 and 240,000 stock options to a director, consultants, and employees of Prophecy Platinum with exercise prices of $2.40 per option and $3.68 per option respectively, exercisable for a period of five years.

- On February 6, 2012, Prophecy Platinum appointed Mr. Mike Sylvestre as a director of Prophecy Platinum.

- On February 28, 2012, Prophecy Platinum paid $1,000,000 to Victory Nickel Corp. ("**Victory Nickel**") pursuant to the terms of a mineral property option agreement.

- On April 4, 2012 and May 9, 2012, 230,000 and 50,000 share options were granted to employees of Prophecy Platinum with exercise prices of $3.09 per option and $2.67 per option respectively, exercisable for a period of five years, with 50% of the options vesting in year one and the remaining 50% vesting in year two.

- On April 16, 2012, Prophecy Platinum and URSA Major Minerals Inc. ("**URSA**") signed a definitive agreement ("**Arrangement Agreement**") in connection with the business combination ("**Transaction**") to issue one common share for each 25 common shares of URSA held.

- On June 18, 2012, Prophecy Platinum announced the results of their NI 43-101 compliant Preliminary Economic Assessment ("**PEA**") report, prepared by Tetra Tech Wardrop ("**Tetra Tech**") for its Wellgreen project.

- On July 10, 2012, Mr. Harald Batista and Mr. Myron Manternach were appointed as directors of Prophecy Platinum.

- On July 16, 2012, Prophecy Platinum completed its acquisition of URSA. Prophecy Platinum issued a total of 3,186,916 common shares to acquire all of the outstanding shares in URSA using an agreed share exchange ratio of one common share of Prophecy Platinum for every twenty-five common shares of URSA. On completion of the acquisition, URSA delisted its shares from the TSX and became a wholly-owned subsidiary of Prophecy Platinum. The balance of shares of URSA that were held by Prophecy Platinum as at March 31, 2012 was cancelled pursuant to the terms of the acquisition.

- On July 25, 2012, Prophecy Platinum provided additional information related to its PEA for the Wellgreen project (Prophecy Platinum revised the base case metals pricing assumptions).

- On July 31, 2012, Prophecy Platinum closed a non-brokered private placement of 5,067,208 units at a price of $1.20 per unit and 807,655 flow-through shares at a price of $1.45 per share for gross proceeds totaling $7.25 million.

- On August 7, 2012, Prophecy Platinum announced the appointment of Mr. Wesley Hall to its Board of Directors. Mr. Donald Gee and Mr. David Patterson resigned as directors of Prophecy Platinum on the same date, and Mr. Patrick Langlois resigned as Vice President of Corporate Development.

- On August 7, 2012 and August 16, 2012, Prophecy Platinum granted 1,970,000 and 87,000 share options to directors, officers, employees, and consultants of Prophecy Platinum at exercise prices of $1.16 and $1.14 respectively, exercisable for a period of five years, with 50% of the options vesting in year one and the remaining 50% vesting in year two.

- On August 16, 2012, Prophecy Platinum concluded an exploration cooperation agreement with the Kluane First Nation to support Prophecy Platinum's exploration program and environmental studies of the Wellgreen project.

- On August 16, 2012, Prophecy Platinum announced the appointment of Mr. Robert Bruggeman as Vice President of Corporate Development.

- On August 30, 2012, Prophecy Platinum closed a non-brokered private placement of 2,500,000 million units at a price of $1.20 per unit for total gross proceeds of $3 million.

- On September 12, 2012, Prophecy Platinum announced an updated Mineral Resource estimate report for the Shakespeare Nickel deposit that was acquired through its merger with URSA.

- On October 15, 2012, Prophecy Platinum announced that it had terminated its option agreement with Marifil Mines Ltd. on the Las Aguilas property in Argentina.

- On October 15, 2012, Prophecy Platinum entered into a contract with EBA Engineering Consultants LTD ("**EBA**"), a Tetra Tech Company, to initiate environmental baseline studies on the Wellgreen project.

- On October 31, 2012, Mr. Joseph Li resigned as General Manger and Corporate Secretary and as a director of Prophecy Platinum.

- In November 2012, Prophecy Platinum announced the appointment of Mr. Greg Johnson as President and Chief Executive Officer, Mr. John Sagman as Senior VP and Chief Operating Officer, Mr. Jeffrey Mason as Chief Financial Officer, and Mr. Samir Patel as Corporate Secretary of Prophecy Platinum.

Subsequent to year end

- On February 4, 2013, Prophecy Platinum announced the final results of its 11,000 metre 2012 exploration drill program at Prophecy Platinum's 100%-owned Wellgreen project.

- On February 27, 2013, Prophecy Platinum entered into an Amending Option Agreement with Victory Nickel pursuant to which Prophecy Platinum may complete its earn-in of a 100% interest in the Lynn Lake property by making remaining option payments to Victory Nickel totalling $1.125 million, (as substitution for the March 1, 2013 $1 million final option payment), commencing with $125,000 on February 28, 2013 (paid), followed by six payments scheduled over the next year and a half, ending on August 29, 2014. Prophecy Platinum has the right to accelerate its 100% earn-in by completing a one-time option payment of $500,000 to Victory Nickel on February 28, 2014, in full satisfaction of the remaining three scheduled option payments for 2014 totalling $550,000.

For further information concerning Prophecy Platinum, please refer to www.prophecyplatinum.com, and Prophecy Platinum's SEDAR profile at www.sedar.com.

3. BUSINESS OVERVIEW

Prophecy Coal in its current form is primarily the product of an April 2010 business combination between Red Hill Energy Ltd. (at the time TSX.V ‑ RH) and a company formed in 2006, Prophecy Resource Corp. ("**Old Prophecy Coal**"). Under that merger, Red Hill was the successor legal entity which is herein referred to as the "Corporation". Under that 2010 business combination Old Prophecy Coal was merged with a subsidiary of Red Hill.

Red Hill was incorporated on November 6, 1978 under the *Company Act* (British Columbia) under the name "Banbury Gold Mines Ltd." Banbury changed its name to "Enerwaste Minerals Corp." on December 17, 1993, Enerwaste changed its name to "Universal Gun-Loc Industries Ltd.". On April 24, 2002, Universal Gun-Loc changed its name to "UGL Enterprises Ltd." and to Red Hill Energy Inc on April 16, 2006. On May 10, 2005, the Corporation, as UGL, transitioned under the new (2004) *Business Corporations Act* (British Columbia) ("**BCBCA**") which is the corporate law statute which continues to govern the Corporation. On April 16, 2010, the Corporation (then Red Hill) changed its name to "Prophecy Resource Corp." in conjunction with the Red Hill merger. On June 13, 2011, the Corporation changed its name to "Prophecy Coal Corp. in connection with an asset spin-off to capitalize our controlled at that time, publicly traded Prophecy Platinum Corp. ("**Prophecy Platinum**") further described herein.

(Expressed in Canadian Dollars)

Prophecy Coal is a reporting issuer in the provinces of British Columbia, Alberta, and Ontario. The Company's common shares (the "Shares" or "Prophecy Coal Shares") are listed for trading on the Toronto Stock Exchange ("TSX" or the "Exchange") under the symbol "PCY". The common shares of Prophecy Platinum trade on the TSX Venture Exchange under the symbol "NKL". Prophecy Coal currently has six wholly-owned subsidiaries (the "Subsidiaries") and one 32.1% publicly-traded associate company, Prophecy Platinum.

Investment in Associate

Prophecy Platinum is recorded at its fair value equal to $25,118,910 as at December 31, 2012. Prophecy Coal holds significant influence over Prophecy Platinum by way of its ownership of 32.1% of the total outstanding shares of Prophecy Platinum as at December 31, 2012, and its investment was initially recognised on deconsolidation as at November 30, 2012. Thereafter, the Company accounted for its holdings in Prophecy Platinum under the equity accounting method as defined in IAS 28 – Investments in Associates and will continue to do so for so long as it retains significant influence over Prophecy Platinum.

The consolidated financial statements include the Company's share of Prophecy Platinum's December 2012 net loss of $196,961, by way of reducing the initial recognized investment in associate as follows:

	December 31, 2012	December 31, 2011
Investment in Associate		
Initial recognition	$ 25,315,871	$ -
Share of net loss reported by associate	(196,961)	-
	$ 25,118,910	$ -

At December 31, 2012, the Company held 22,013,799 Prophecy Platinum's common shares, which were quoted on the Toronto Stock Venture Exchange at $1.01 per share.

Pursuant to the plan of arrangement and consolidation in share capital described in note 7(a), Business Combinations-Acquisitions, to these annual audited consolidated financial statements, each option and warrant holder of Prophecy Coal as at June 9, 2011 will, upon the exercise of their Prophecy Coal options and warrants, ("**June 9, 2011 Options and Warrants**") receive 0.094758 of a Prophecy Platinum common share, in addition to one common share of Prophecy Coal for each whole option or warrant of Prophecy Coal held and exercised. At December 31, 2012 Prophecy Coal held, reserved in-trust, 3,267,934 (December 31, 2011; 3,423,719: June 13, 2011; 4,417,643) Prophecy Platinum shares contingent on exercise of these June 9, 2011 Options and Warrants. Upon the expiry of unexercised June 9, 2011 Options and Warrants, if any, then those related Prophecy Platinum shares held in-trust, shall be returned to Prophecy Coal, of which none have been returned to-date. Prophecy Platinum common shares held in-trust, for Prophecy Coal June 9, 2011 Options and Warrants outstanding, are excluded from the calculation of Prophecy Coal's share and percentage ownership in Prophecy Platinum, until the Prophecy Platinum shares, if any, are released to Prophecy Coal.

For the period from January 1, 2012 to November 30, 2012, and for 2011, the Company's annual audited consolidated financial statements include the consolidation of Prophecy Platinum as it had the power to control the financial performance and operating parameters of Prophecy Platinum.

On November 30, 2012, it was determined that Prophecy Coal's control changed to significant influence over Prophecy Platinum due to the culmination of a series of events including: the appointment of Prophecy

(Expressed in Canadian Dollars)

Platinum's new senior executive management not common to both companies; election of a majority of the Board of Directors not common to both companies; a reduction in shared management and administrative functions between the companies; and the reduction of Prophecy Coal's equity ownership interest from 44.4%, as at the time of the June 2011 spin out transaction (note 7a to the annual consolidated financial statements), to 32.6% as at November 30, 2012.

The ownership interest in Prophecy Platinum during 2012 decreased from 40.8% (at December 31, 2011) to 32.1% (at December 31, 2012) as a consequence of: Prophecy Platinum's series of private equity placements, to which Prophecy Coal did not participate; the issuance of Prophecy Platinum common shares upon the acquisition of URSA (note 7b to the annual consolidated financial statements); and the sale of 464,700 Prophecy Platinum's common shares by Prophecy Coal.

The summarized consolidated financial information of Prophecy Platinum as at December 31, 2012 is as follows:

100% of Reported Balances by Prophecy Platinum Corp.		December 31, 2012
Current assets	$	3,690,046
Total assets		74,479,915
Current liabilities		1,956,299
Total liabilities		2,919,601
Net loss for the 1 month period	$	613,587

On November 30, 2012, as a result of the change from control to significant influence over Prophecy Platinum, in accordance with IAS 27 – Consolidated and Separate Financial Statements, the Company has:

- Derecognized the assets and liabilities of Prophecy Platinum at their carrying amounts of $74,479,915 and of $2,919,601 respectively;
- Derecognized non-controlling interest in Prophecy Platinum of $50,611,355;
- Reclassified other comprehensive loss of $19,375, in relation to Prophecy Platinum, to Statement of Operations and Comprehensive Loss;
- Recognized the investment retained in Prophecy Platinum at its fair value of $25,315,871, and;
- Recognized the difference as a gain on deconsolidation of subsidiary of $4,366,912 in the statement of operations and comprehensive loss for the year ended December 31, 2012 attributable to the Company upon the change from control to significant influence over Prophecy Platinum.

3.1 Resource Properties – Prophecy Coal Corp. Properties

As of December 31, 2012, Prophecy Coal's primary resource properties included: Ulaan Ovoo coal property (Mongolia), and the Chandgana Khavtgai and Chandgana Tal coal deposits (Mongolia), collectively known as the "Chandgana Coal Properties". The other properties of Prophecy Coal included the Okeover copper-molybdenum project (British Columbia, Canada) and the Titan project (Ontario, Canada).

Ulaan Ovoo Coal Property, Mongolia

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

(Expressed in Canadian Dollars)

On November 15, 2006, Prophecy Coal entered into an agreement with a private Mongolian company to purchase 100% of the title and interest in five mineral licenses including licenses that are contiguous and entirely surrounding the Ulaan Ovoo property. The aggregate purchase price for the licenses was US$400,000. Under the terms of the agreement the vendor retained a 2% net smelter return royalty on the five newly acquired licenses. On April 29, 2009, Prophecy Coal announced positive pre-feasibility study results for the Ulaan Ovoo property.

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

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

On November 9, 2010, Prophecy Coal received the final permit to commence pre-commercial mining operations at the Ulaan Ovoo mine. On December 16, 2010, Prophecy Coal received an updated prefeasibility study (the "**PFS**") on the Ulaan Ovoo property. The focus of the Ulaan Ovoo PFS was for the development of low ash coal reserves in the form of a starter pit.

The estimated resources, reserves, coal quality, and other mine characteristics of the Ulaan Ovoo coal property 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 Dolbear 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 December 2010 Wardrop pre-feasibility report. This study was prepared for a starter pit and only considered the resource area north of the Zelter River. Coal reserves and qualities given in the above table are stated on a Run-of-Mine (ROM) basis and take into account mining loss and rock dilution at coal/rock interfaces. Coal quality is stated on the as-received basis. Proven reserves are of Low Ash (high grade) coal.

The Behre Dolbear & Company (USA), Inc. report ("**Scoping Study Ulaan-Ovoo Coal Deposit**") dated October 2006 was prepared by independent Qualified Person Mr. Gardar G. Dahl, Jr, P. Geo, a senior associate of Behre Dolbear & Company (USA), Inc. (the "**Behre Dolbear Report**"). The Wardrop report ("Ulaan Ovoo Pre-Feasibility Study") dated December 10, 2010 was prepared by John Sampson, B.Sc. (Hons) and Brian Saul P. Eng. who are independent Qualified Persons under NI 43-101. Both reports are available on www.sedar.com.

Operation Statistics: The mine, which started operations in November 2010 through the mining contractor, Leighton Asia Limited ("**Leighton**") and later, under Prophecy Coal's own management, has removed and stockpiled approximately 3.31 million bank cubic metres ("**BCM**") of topsoil and overburden (waste), and produced 451,231 tonnes of coal of all grades. Prophecy Coal discontinued its mining contract with Leighton in August 2011 to reduce mining costs. Prophecy Coal then recruited and trained its own employees to mine at the Ulaan Ovoo mine.

Prophecy Coal acquired its two fleets of mining equipment for $14.7 million including: One CAT 390 Excavator, one CAT 385C Excavator, three CAT 773D Dump Trucks, three CAT 773E Dump Trucks, two CAT D8R Dozers, one CAT 160K Grader, one CAT 160H Grader, one CAT 928G Loader, two Liebherr 580 Loaders, eighteen Scania 30t 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.

Prophecy Coal secured a rail siding at Sukhbaatar with capacity of 40,000 tonnes. During 2011, Prophecy Coal trucked 126,359 tonnes of coal from the mine to the rail siding. During the year ended December 31, 2012, Prophecy Coal has trucked approximately 123,213 tonnes of coal.

Since the Ulaan Ovoo mine is still in pre-commercial production status, revenue from coal sales are being credited to, and the related cost of production are being charged against and capitalized to property and equipment, respectively.

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

During August 2011, Prophecy Coal signed coal sales agreements with Mongolian and Russian power plants for total sales of 92,000 tonnes of coal. Prophecy Coal sold 133,895 tonnes of coal of two grades - 4,200 GCV and 5,100 GCV (arb) to both Mongolian and Russian companies during 2011. For the year ended December 31, 2012, Prophecy Coal sold 121,000 tonnes of coal. The coal inventory as at December 31, 2012 was 131,899 tonnes.

In July 2012, the Company temporarily suspended pre-commercial production at Ulaan Ovoo due to soft market prices for coal and rising costs, and because at that time, Prophecy Coal had sufficient coal inventory to meet anticipated demand for the remainder of 2012 (the stockpile of coal was approximately 187,000 tonnes). Prophecy Coal laid-off 108 mining staff and paid aggregate severance of $73,100 to comply with local employment laws. Some 18 staff members remained on site for equipment and site maintenance, shipping and security operations during the suspension. With little local employment competition, the local labour force was expected to remain available for prompt rehire when needed. Transport of inventory coal from existing coal stockpiles commenced in November 2012. The overall effect of the suspended operations was expected to be modestly cash flow positive, through shipping from the existing stockpile. In 2013 the Company commenced leasing out some of its equipment. As at the date of this MD&A, the Company continues to supply from the existing coal stockpile and build loyalty from its existing customer base while actively developing new customers to increase its coal sales from the Ulaan Ovoo mine. Subsequent to year end, the Company shipped approximately 40,000 tonnes of coal to local customers. The coal stockpile balance is approximately 93,000 tonnes as at the date of this MD&A.

Starting January 2013, the Company has leased part of its fleet equipment with recent monthly leasing revenues of approximately $207,000. The leasing of fleet equipment allows the Company the flexibility to meet revenue targets, either through coal shipments and sales from the existing stockpile and or through the leasing of its equipment, which can be flexed between revenue activities.

Impairment write down of Ulaan Ovoo property: On December 31, 2012, the Company recorded a non-cash impairment write down of $47,063,173 on the Ulaan Ovoo property, which is reflected on the consolidated statement of operations. The impairment charge reduces previously capitalized deferred exploration within property and equipment, to a balance of $2 million (note 16 to the annual audited financial statements).

Pre-commercial operations for the period from commencement in November 2010 until the shutdown in July 2012, to which is ongoing; along with project exploration and development costs were capitalized within the category Ulaan Ovoo deferred exploration costs within property and equipment. Modest coal sales revenue from an existing stockpile along with associated costs to deliver the coal occurred during the balance of 2012, post shutdown, and have been recorded within deferred exploration, within property and equipment. The ending coal stockpile inventory value at December 31, 2012 was $2.4 million, $1.7 million at December 31, 2011 (note 13 to the annual audited consolidated financial statements).

The impairment test was based on pre-commercial operating results along with capital expenditures and the PFS dated December 2010 prepared by the independent engineering firm, Wardrop, a Tetra Tech Company.

The PFS determined a net present value for the project of US$71 million after capital expenditures of about US$70 million, assuming a base case price for coal at US$40 per tonne. Prophecy Coal expended about US$70 million in development and equipment costs but was unable to establish commercial production levels, faced higher input costs mainly due to fixed costs over lower production levels in addition to some higher unit input costs, and could not realize profitable coal sales prices. For 2011, which the PFS scheduled as a pre-commercial period, the PFS estimated coal sales of 250,000 tonnes with a gross value of $10 million, while in comparison, the Company in 2011 recorded coal sales of 132,000 tonnes for a gross value of $2.5 million. In 2012, the PFS projected coal sales rising to 1.1 million tonnes with a gross sales value of $45 million and thereafter at 2 million tonnes of annual coal production at a gross sales value of $80 million. For 2012, which was accounted for as a pre-commercial period, the Company recorded coal sales of 121,000 tonnes with a gross value of $2.3 million. Average coal prices realized for 2011, 2012 and most recently from 2012 coal shipments from the coal stockpile inventory, have averaged approximately US$20 per tonne, with only about 20% of the 2012 stockpile sales value above US$28 per tonne. The average lower sales volumes and prices is because of depressed local coal markets and the Company, due to border and export regulations, has been unable to ship coal across the Mongolian border into Russia where coal prices are significantly higher.

Based on longer term coal sales prices of $28 per tonne, unit costs approaching the PFS based on higher production levels, the Company determined a book recoverable amount for the Ulaan Ovoo property at $2 million and recorded a $47,063,713 non-cash impairment write-down ($49,718,797 credit to deferred exploration and a $2,655,084 charge to accumulated amortization) on its Ulaan Ovoo property for the year ended December 31, 2012.

2013 Outlook: The Company continues to evaluate project operating optimization alternatives for the Ulaan Ovoo property, in addition to investigating potential strategic partner and joint venture arrangements, sale of part or whole of the project, and coal marketing arrangements both domestically and potentially to access higher international coal market prices. However, Prophecy Coal is unable to determine with certainty, how long coal markets will remain depressed, and when, if at all, access to Russian coal markets will be opened, nor the extent of project changes and operational modifications that would be required to more fully realize, beyond its pre-commercial operating history, on the potential value of the existing NI 43-101 coal reserve estimates per the PFS and per the NI 43-101 coal resources as determined by the 2007 Behre Dolbear report.

Chandgana Coal Properties, Mongolia

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

During June, 2010, Prophecy Coal completed a 13 drill hole, 2,373 metre resource expansion drilling program on the Khavtgai property, including 1,070 metres of core drilling, and five lines of seismic geophysical survey for a total of 7.4 line kilometres. Prophecy completed a 15 drill hole program during June-July 2011 to better define the coal resource of the Tal licenses.

An NI 43-101 technical report ("Technical Report on the Coal Resources of the Chandgana Tal Coal Project Khentii Aimag, Mongolia") dated September 11, 2007 prepared by independent Qualified Person Mr. Gardar G. Dahl, Jr, P. Geo, a senior associate of Behre Dolbear & Company (USA), Inc. (the "**Behre Dolbear Report**") is available on SEDAR at www.sedar.com. On February 8, 2011, Prophecy Coal received a full mining license from the Mineral Resources Authority of Mongolia for the Tal property. Prophecy Coal engaged Leighton Asia LLC to prepare a scoping level mine study for the Tal property which was completed in December 2011. A preliminary economic assessment ("**PEA**") was later prepared by John T. Boyd Co. and received November 2012 for the Tal licenses. Prophecy Coal 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)

An updated NI 43-101 technical report on the Khavtgai property ("Updated Technical Report on the Coal Resources of the Chandgana Khavtgai Coal Resource Area, Khentii Aimag, Mongolia") dated September 28, 2010 was completed by Christopher Kravits, LPG, CPG of Kravits Geological Services LLC (the "**Khavtgai Report**"), and is available 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 SEDAR. Details of the Chandgana Coal Properties are summarized in the following table:

Table 2. Coal resource details of the Chandgana Properties is as follows:

	Resources Measured, mt	Resources Indicated, mt	Total mt	Gross Heating Value, kcal/kg	Ash, %	Sulfur, %	Strip Ratio, BCM/t	Average Gross Coal Seam Thickness, m	License Status
Khavtgai	509.3	538.8	1,048.1	4,379	12.18	0.72	2.2 : 1	37.5	Exploration
Tal	124.4	0	124.4	3,306	10.8	0.61	0.7:1	40.7	Mining
Total	633.7	538.8	1,172.5						

Coal quality is for the in-place coal and is given on the air-dried basis for Khavtgai and as-received basis for Tal.
Strip ratio is the point strip ratio for Khavtgai and operating strip ratio for Tal.

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, 2012, Prophecy Coal incurred total costs of $4,334,069 ($1,840,113 exploration expenditures and $2,493,955 Power Plant Project. By comparison for 2011 costs were $238,818 for exploration and $262,360 for the Power Plant Project at the Chandgana Coal Properties.

Chandgana Power Plant Project, Mongolia

The Chandgana Power Plant Project (the "**Power Plant Project**") area is next to the Baganuur to Undurkhaan paved road and within 150 kilometres of the Central Mongolian Railroad, which can facilitate the transportation of construction equipment. The Power Plant Project is within 150 kilometres of the Bagaanuur interconnect to the central electricity transmission grid and 50 kilometres to the Undurhaan interconnect to the eastern electricity transmission grid.

On November 15, 2010, Prophecy Coal 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 Power Plant Project.

On November 15, 2011, Prophecy Coal's wholly-owned Mongolian subsidiary East Energy Development LLC. (now renamed as Prophecy Power Generation LLC),("**Prophecy Power**") received a license certificate from the Mongolian Energy Regulatory Authority (the "**MEA**") to construct a 600 MW (150 MW x 4) power plant at Chandgana. An English translation of the license was filed on Sedar at www.sedar.com on December 14, 2011.

On May 28, 2012, Prophecy Coal reported that it entered into a Cooperation Covenant (the "**Covenant**") with the MEA to bring the 600 MW Chandgana Power Project online by 2016. The EA is the agency which implements governmental policy in the power and energy sector of Mongolia. The Covenant provides for the coventees to support the construction and operation of the Chandgana 600 MW (4x150 MW) mine-mouth power plant and its ability to supply the electricity to the central and eastern regions of Mongolia power grids by 2016. The Covenant also addresses the basic rights and obligations of Prophecy Coal, as the seller and the

National Electricity Transmission Grid Company of Mongolia ("**NETGCO"**) as the purchaser of the electric energy.

On August 7, 2012 Prophecy Coal reported that since East Energy Development LLC (now Prophecy Power Generation LLC) obtained the construction licence in November, 2011, Prophecy Coal has been in on-going discussions with the Mongolian government to finalize a Power Purchase Agreement ("**PPA**") that will enable Prophecy Coal to seek project financing and begin construction. Prophecy Coal has also had numerous discussions with the Ministry of Natural Resources and Energy (now Ministry of Energy) to discuss technical and commercial issues. On September 6, 2012, Prophecy Power Generation LLC ("**Prophecy Power**") formally submitted its PPA proposal to NETGCO. The proposed PPA details the terms under which Prophecy Power would be prepared to supply power to NETGCO. Highlights of the PPA include:

- Designated concrete-pour date of April 2013 (under revision) and 1st phase operational date of Q1 2016 (subject to conditions including but not limited to financing availability)**;**

- A long term power off take contract to ensure 24/7, uninterrupted dispatch power supply to the Mongolian grid; and

- Capacity and energy charge components in the tariff to cover fixed and variable costs respectively;

Prophecy Power has also been in discussions with several private Mongolia companies regarding entering into bilateral power purchase agreements for mining projects (copper, molybdenum and iron ore) and an industrial development complex (cement manufacture and smelter) in Mongolia.

In addition, on September 3, 2012, Prophecy Power submitted a Tariff Application to the Energy Regulatory Commission (ERC) which includes:

- A competitive tariff;
- A levelled tariff designed to meet anticipated project debt service; and
- Tariff indexation based on United States consumer price index, Mongolia wage index, and oil price index (i.e. a pricing structure that is responsive to changed inputs and which will provide long term project viability).

Prophecy Power has since received valuable feedback from both ERC and NETGCO in regards to their submissions and expects a definitive reply in the coming months. Prophecy Coal will also seek to supply power from Prophecy Power's Chandgana power plant to parts of eastern and northern Mongolia, and the capital city of Ulaanbaatar.

On March 5, 2013, the Company announced Prophecy Power has been granted 532.4 hectares of land to be used for the Company's proposed Chandgana power plant construction (the "**Land Use Rights**"). With the Land Use Rights in place, Prophecy Power has issued a contract to Erchim Concern LLC to bring 4MW of temporary power to the Chandgana Power Plant site from a local 35kV power line. Separately, Prophecy Power has issued tenders for the construction of 250 housing units along with a water supply to the Chandgana power plant site.

Prophecy Power entered into a Memorandum of Cooperation with Morun soum where the power plant will be located wherein both parties will support each other in areas of mutual concern such as infrastructure, cultural issues, social issues, education, and health issues. As a result, a scholarship program was initiated during 2012 and continues for those interested in obtaining a university degree. Also, Prophecy Coal supports certain cultural and social events.

Coal supply agreement: The terms of a coal supply agreement have been agreed to whereby Chandgana Coal LLC, another Prophecy Coal wholly-owned Mongolian subsidiary, will supply 3.5 million tonnes of coal per year to Prophecy Power for 25 years. The initial coal price will be set with annual price adjustments based on diesel price, the Mongolian consumer price index, and the U.S. consumer price index.

Engineering, procurement and construction (EPC) of thermal power plant: During December, 2011, Prophecy Power began seeking EPC contractors. Six tenders were received by the submission deadline of May 1, 2012 in the first round. For the second round in July 2012, Prophecy Power requested more detailed tenders which resulted in the shortlisting of three EPC contractors based on completeness of the tenders, construction capability, equipment quality, time to deployment, and price.

In August 2012, Prophecy Power's technical team, led by VP Sharma who has 30 years of experience with China Light and Power Group ("**CLP**"), met with those firms qualifying for the second round. The team discussed detailed owner technical specifications and requirement (OTSR), Mongolian customs, transport and insurance, tax, permit, labor policies, and project timeline in order to facilitate preparation of final tenders. This resulted in three full and complete tenders that were received in late September 2012.

In order to begin construction of the Chandgana Power Plant, Prophecy Coal must obtain additional financing. Prophecy Coal, directly or through its subsidiary Prophecy Power, is actively considering its financing options, which includes equity and debt project financing and joint ventures with international power project developers.

Prophecy Coal's goal is to secure developer sponsorship during 2013. Prophecy Power is also in discussions with EPC contractors to obtain funding through an equity stake and/or advanced credit line to meet targeted commencement of construction in 2013.

Ilch Khujirt Exploration License, Mongolia

Prophecy Coal terminated the Ilch Khujirt option without further obligation as it is not a core asset to Prophecy Coal. Prophecy Coal recorded an impairment of $190,980 during the financial year ended December 31, 2012 for the full carrying amount of the property.

Tugalgatai Licenses, Mongolia, and Restricted Cash

On June 18, 2012, Prophecy Coal entered into a Sale and Purchase Agreement (the "**Tugalgatai Agreement**") to acquire assets in Mongolia relating to certain Tugalgatai coal exploration property licenses from Tethys Mining LLC ("**Tethys**"), subject to approval from the Minerals Resource Authority of Mongolia, to have such exploration licenses transferred to Prophecy Coal. The Tugalgatai licenses are contiguous to Prophecy Coal's Chandgana licenses. The terms of the Agreement include a US$10 million upfront payment and an 8.5% royalty on future coal sales from both the Chandgana and Tugalgatai licenses. The royalty can be extinguished by paying Tethys US$20 million before 2021 or US$25 million from 2021 onwards.

Of the purchase price, US $10 million was deposited in escrow, and classified as restricted cash, during the period. During October 2012 the funds net of costs amounting to US $9.9 million were returned to Prophecy Coal on termination of the Tugalgatai Agreement, which occurred due to the elapsing of the initial long stop date for approval of the licences transfer by the Minerals Resource Authority of Mongolia.

Prophecy Coal is in negotiation with Tethys for a new amended Tugalgatai Agreement to extend the acceptance period for the transfer application in regards to the coal licenses and to defer certain upfront payments such that they become payable upon achieving certain project milestones over time.

Under the July 16, 2012 credit agreement between Prophecy Coal and Waterton, the expiry of the original purchase and sales agreement with Tethys constituted a default. Subsequent to the year end, in February 2012 Waterton agreed to waive the default, subject to certain conditions (see notes 19 and 31 of the annual audited consolidated financial statements) one of which is the Company setting aside $1.5 million in escrow (completed) for the purchase of the Tugalgatai licenses. The full conditions which have been met are as follows:

(a) setting aside $3.5 million in escrow for the purchase of the Tugalgatai licenses:
   1) $1.5 million for the acquisition of the Mongolian coal assets and
   2) $2 million for the full repayment or a partial prepayment of the Loan,

(b) issuing 2 million common shares to Waterton; and

(c) pledging additional security to Waterton in the form of 5,535,000 remaining free trading Prophecy Platinum common shares held by the Company.

Titan Property, Ontario, Canada

Prophecy Coal has an 80% interest in the Titan property ("**Titan**"). Prophecy Coal property historic work includes 22 line kilometres of line cutting covering over 2.7 square kilometres in 100 metre intervals that extended 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 extent of the magnetic anomaly associated with the Titan deposit, successfully demonstrating exploration potential outside the previously known limits. Modest assessment work is planned for 2013

Okeover Property, British Columbia, Canada

The 60% interest of Okeover, a copper-molybdenum project in 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 Coal Holdings Inc. in April 2010. Modest assessment work is planned for 2013.

3.2 Resource Properties – Prophecy Platinum Corp. Properties

For 2011 and the period from January 1, 2012 to November 30, 2012, the annual audited consolidated financial statements included the consolidation of Prophecy Platinum (including mineral properties) as the Company had the power to control the financial performance and operating parameters of Prophecy Platinum.

On November 30, 2012, it was determined that Prophecy Coal's control changed to significant influence over Prophecy Platinum due to the culmination of a series of events including: the appointment of Prophecy Platinum's new senior executive management not common to both companies; election of a majority of the Board of Directors not common to both companies; a reduction in shared management and administrative functions between the companies; and the reduction of Prophecy Coal's equity ownership interest from 44.4%, as at the time of acquisition in June 2011, to 32.6% as at November 30, 2012.

At December 31, 2012 the investment in associate, Prophecy Platinum is recorded at its fair value equal to $25,118,910. Prophecy Coal holds significant influence over Prophecy Platinum by way of its ownership of 32.1% of the total outstanding shares of Prophecy Platinum at December 31, 2012, and its investment was initially recognised at $25,315,871 on deconsolidation as at November 30, 2012. Thereafter, the Company accounted for its holdings in of Prophecy Platinum under the equity accounting method as defined in IAS 28 – Investments in Associates and will continue to do so for so long as it retains significant influence over Prophecy Platinum.

The value of those Prophecy Platinum mineral properties up until November 30, 2012 reflected on a consolidated basis are at December 31, 2012 reflected in the Investment in Associate account (note 15 to the annual audited consolidated financial statements).

Wellgreen and Lynn Lake Property Acquisition

On June 13, 2011, Prophecy Platinum Corp. acquired the Wellgreen and Lynn Lake properties from Prophecy Coal Corp. pursuant to a plan of arrangement (the "**Spin Out Arrangement**"). Under the Spin Out Arrangement, Prophecy Coal Corp. spun out its Wellgreen and Lynn Lake mineral properties, along with $2,000,000 cash, into a newly incorporated company named 0905144 BC Ltd. Prophecy Coal Corp. then transferred all the issued and outstanding shares of 0905144 BC Ltd. to Prophecy Platinum (at the time, Pacific Coast Nickel Corp.) in consideration for 450,000,000 (45,000,000 post-Consolidation) of the Prophecy Platinum shares.

(Expressed in Canadian Dollars)

Wellgreen Property, Yukon Territory, Canada

The Wellgreen property, a nickel-copper and platinum group metals project located in southwestern Yukon Territory, Canada, approximately 35 kilometres northwest of Burwash Landing in the Yukon Territory, and about 400 kilometres from Alaska's deep sea port at Haines, was acquired by Prophecy Platinum from Prophecy Coal on June 13, 2011 pursuant to the Spin Out Arrangement, and in respect of which 45,000,000 common shares of Prophecy Platinum was provided to Prophecy Coal as consideration for the transaction. Based on the ascribed market value of Prophecy Platinum's shares amounting to $49,134,454, the purchase price allocation to the acquisition cost of a 100% interest in the Wellgreen mineral property amounted to $14,783,596 and the option to acquire a 100% interest in the Lynn Lake property amounted to $32,350,858 (note 7a to the annual audited consolidated financial statements).

An independent NI 43-101 compliant resource calculation was issued by Wardrop Engineering, a Tetra Tech Company ("Technical Report and Resource Estimate on the Wellgreen Platinum-Palladium-Nickel-Copper Project, Yukon, Canada") on July 21, 2011.

In January 2012, Prophecy Platinum announced the commencement of a combined surface and underground HQ core size drilling program. The drilling was targeted at providing infill information to the existing resource as released in July 2011. Drilling at site was completed late November 2012 and included 5,417 metres of underground and 5,567 metres of surface drilling totaling 10,984 metres of drilling in 2012. Logging was completed in December as well as the majority of core sampling / assaying with some carrying over to January 2013. The final drill assays and interpretation thereon were reported by Prophecy Platinum on February 4, 2013.

Prophecy Platinum announced results from its PEA on June 18, 2012 with additional information reported on July 25, 2012. The independent PEA (effective date August 1, 2012), prepared by Tetra Tech was supervised by Todd McCracken, P.Geo., Andrew Carter, C.Eng., Pacifico Corpuz, P.Eng., Philip Bridson, P.Eng and Wayne Stoyko, P.Eng who are Qualified Persons, as defined under NI 43-101. Measured and indicated resources from the Wellgreen PEA are categorized in the following table.

Wellgreen Pitshell Indicated Resource Cut-off Table

NiEq Cut-off	Tonnes	NiEq (%)	Ni (%)	Cu (%)	Co (%)	Pt (g/t)	Pd (g/t)	Au (g/t)
0.10	14,423,900	1.40	0.68	0.62	0.05	0.99	0.73	0.51
0.15	14,423,900	1.40	0.68	0.62	0.05	0.99	0.73	0.51
0.20	**14,423,900**	**1.40**	**0.68**	**0.62**	**0.05**	**0.99**	**0.73**	**0.51**
0.25	14,423,900	1.40	0.68	0.62	0.05	0.99	0.73	0.51
0.30	14,423,900	1.40	0.68	0.62	0.05	0.99	0.73	0.51
0.35	14,411,000	1.40	0.68	0.62	0.05	0.99	0.73	0.51
0.40	14,333,700	1.41	0.69	0.62	0.05	0.99	0.74	0.52
0.45	14,136,700	1.42	0.69	0.62	0.05	1.00	0.74	0.52
0.50	13,816,100	1.44	0.70	0.63	0.05	1.02	0.75	0.53

Wellgreen pitshell Inferred Resource Cut-off table.

(Expressed in Canadian Dollars)

NiEq Cut-off	Tonnes	NiEq (%)	Ni (%)	Cu (%)	Co (%)	Pt (g/t)	Pd (g/t)	Au (g/t)
0.10	460,021,000	0.58	0.30	0.24	0.02	0.38	0.32	0.16
0.15	455,884,000	0.59	0.31	0.24	0.02	0.38	0.33	0.16
0.20	**446,649,000**	**0.60**	**0.31**	**0.25**	**0.02**	**0.38**	**0.33**	**0.16**
0.25	403,731,000	0.64	0.33	0.27	0.02	0.42	0.35	0.17
0.30	370,872,000	0.67	0.34	0.29	0.02	0.44	0.37	0.18
0.35	333,963,000	0.71	0.36	0.31	0.03	0.48	0.39	0.20
0.40	288,238,000	0.76	0.38	0.34	0.03	0.52	0.42	0.22
0.45	234,697,000	0.83	0.41	0.39	0.03	0.58	0.46	0.26
0.50	185,150,000	0.93	0.45	0.45	0.03	0.65	0.50	0.30

A PEA should not be considered to be a pre-feasibility or feasibility study, as the economics and technical viability of the project has not been demonstrated at this time. The PEA is preliminary in nature and includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied that would enable these mineral resources to be categorized as mineral reserves. Furthermore, there is no certainty that the PEA results will be realized. Mineral resources that are not mineral reserve do not have demonstrated economic viability. Prophecy Platinum advises that investors should continually refer to correspondence issued by Prophecy Platinum on an as-required basis. Results based on EMCF pricing assumptions are provided as a sensitivity analysis. Further sensitivity analyses may be found in the PEA executive summary included in the written report filed on SEDAR at www.sedar.com.

On August 1, 2012, Prophecy Platinum concluded an exploration cooperation agreement with the Kluane First Nation ("**Kluane First Nation**") to support Prophecy Platinum's exploration program and environmental studies for the development of the Wellgreen project. The exploration cooperation agreement, which is comprehensive in nature, includes provisions for employment and training opportunities for Kluane First Nation citizens, contracting opportunities for Kluane First Nation businesses and citizens, funding for the meaningful implementation of the cooperation and benefits agreement, and an equity position in Prophecy Platinum for Kluane First Nation and its citizens. Acting reasonably and in good faith, Kluane First Nation may participate fully and without limitation in all regulatory process concerning the exploration activities. Other highlights include environmental protection through the cooperative design and implementation of environmental management and monitoring programs, and a framework and mutual commitment to develop a comprehensive cooperation and benefits agreement for the eventual development and operation of a mine. During Q4, 2012, as per the cooperation and benefits agreement, discussions regarding establishment of the Kluane First Nations / Prophecy Platinum advisory committee commenced.

In addition, during Q3 and Q4, 2012, Prophecy Platinum continued consultation with the White River First Nations.

As reported on October 15, 2012, Prophecy Platinum initiated environmental baseline studies on the Wellgreen Project. Prophecy Platinum has contracted EBA Engineering Consultants Ltd. ("**EBA**"), a Tetra Tech Company from Whitehorse to initiate the studies. The present scope of baseline work to be carried out by EBA includes collection of meteorological data, surface water flows, surface water quality, wildlife studies and analysis of previous environmental studies. The Yukon Environmental and Socio-economic Assessment Board (YESAB) requires approximately two years of baseline data as part of the overall mining permit application.

Work plans to be carried out in the near future by Prophecy Platinum on the Wellgreen project include the following:

- complete an updated geological model incorporating drill results and interpretations from 2012 program to assist in targeting for 2013 drill program and as the basis for future resource updates;
- design and implement the 2013 exploration drill program as it relates to both further resource development, converting a portion of the inferred resource to measured / indicated and expand resource area along strike and at depth;

- continue engineering work to optimize staged pit scoping level designs with the objective to enhance revenue generation during the initial production phase and decrease pre-production capital requirements;
- develop a metallurgical test program to further optimize PGM, nickel and copper recovery as well as determine the economic contribution of rare PGM's, increase concentrate grades;
- commence metallurgical testing associated with alternative processes that would increase recovery and decrease offsite concentrate freight, treatment and refining expenditures;
- continue review of alternative power generation processes such as Liquefied Natural Gas and micro-hydro power plants that would significantly reduce operating expenditures;
- commence with basic engineering required to finalize the location of a potential mill, camp and tailings storage facility;
- continue to review concentrate, supply and materials logistics plans that includes basic engineering associated with the offsite infrastructure requirements;
- continue Environmental Baseline studies and commence compilation of the Project Description; and
- continue Kluane First Nation and White River First Nations consultation programs.

During the eleven months of the fiscal year 2012, Prophecy Platinum had incurred a total of $8,430,372 in exploration costs on the Wellgreen property principally focused on drilling and resource determination followed by PEA work programs.

Burwash Property, Yukon Territory, Canada

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

On August 4, 2011, Prophecy 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 the agreement dated May 14, 2008, as amended December 2, 2008, February 23, 2010, and April 1, 2011 that had previously been entered into with Strategic.

Prophecy Platinum plans to conduct future exploration work on the property in conjunction with the Wellgreen property which adjoins the Burwash property. Assay results are available on Prophecy Platinum's website: www.prophecyplatinum.com.

Lynn Lake Property, Manitoba, Canada

Prophecy Platinum has an option to acquire 100% of the Lynn Lake property which is a nickel project located in northern Manitoba, Canada. In June 2011 Prophecy Platinum purchased the Lynn Lake option from Prophecy Coal Corp. pursuant to the Arrangement (Note 3 to the Financial Statements). Prophecy Platinum has assumed the original terms of the October 20, 2009 option agreement (the "**Option Agreement**") that Prophecy Coal Corp. entered into with Victory Nickel.

In June 2011, Prophecy Platinum acquired the Lynn Lake nickel property option from Prophecy Coal (Note 3), assuming the original terms of the October 20, 2009 Option Agreement between Prophecy Coal and Victory Nickel.

Pursuant to the October 2009 Option Agreement, Prophecy Platinum may earn a 100% interest in the Lynn Lake property by paying Victory Nickel an aggregate of $4 million, including $1 million due on March 1, 2013 and by incurring an aggregate of $3 million in exploration expenditures on the Lynn Lake property, and by issuing 2,419,548 common shares to Victory Nickel (issued by Prophecy Coal). The October 2009 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 Prophecy Platinum and Prophecy Platinum is subject to a 3% net smelter return royalty.

On August 3, 2012, Prophecy Platinum signed a Settlement Agreement with Victory Nickel which provides for a one-time cash payment of $450,000 (paid) in full settlement for Prophecy Platinum's obligation under the October 2009 Option Agreement to incur the remaining balance of exploration expenditures of $1,188,877 on or before November 1, 2012.

(Expressed in Canadian Dollars)

On February 27, 2013, Prophecy Platinum entered into an Amending Option Agreement with Victory Nickel pursuant to which Prophecy Platinum may complete its earn-in of a 100% interest in the Lynn Lake property by making remaining option payments to Victory Nickel totaling $1.125 million, (as substitution for the March 1, 2013 $1 million final option payment), commencing with $125,000 on February 28, 2013, followed by six payments as set out in the amended agreement scheduled over the next year and a half and ending on August 29, 2014. Prophecy Platinum has the right to accelerate its 100% earn-in by completing a one-time option payment of $500,000 to Victory Nickel on February 28, 2014, in full satisfaction of the remaining three scheduled option payments for 2014 totaling $550,000.

Technical Report on the Lynn Lake Property

An independent NI 43-101 compliant resource calculation was issued by Wardrop Engineering, a Tetra Tech Company ("Technical Report on the Lynn Lake Nickel Project, Northern Manitoba, Canada") on April 14, 2011. The updated resource estimate has 20.8 million tonnes of measured and indicated resources grading 0.57% nickel or 263 million pounds of in-situ nickel as well as 7.3 million tonnes of inferred resources grading 0.51% nickel which contains an additional 82 million pounds of in-situ nickel. In addition, the updated resource estimate 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 46 million pounds of in-situ copper.

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

Zone	Category	NiEQ% Cut-off	Tons	Nickel %	Copper %	NiEQ%	Ni lbs	Cu lbs
Measured & Indicated Resource								
N	MEAS	>=0.4	461,496	0.84	0.41	1.05	7,753,133	3,784,267
O	MEAS	>=0.4	556,062	0.70	0.32	0.87	7,784,868	3,558,797
Total	**MEAS**	**>=0.4**	**1,017,558**	**0.76**	**0.36**	**0.95**	**15,538,001**	**7,343,064**
N	IND	>=0.4	12,680,895	0.56	0.31	0.71	142,026,024	78,621,549
O	IND	>=0.4	9,203,226	0.57	0.28	0.71	104,916,776	51,538,066
Total	**IND**	**>=0.4**	**21,884,121**	**0.56**	**0.30**	**0.71**	**246,942,800**	**130,159,615**
Total	**MEAS+IND**		**22,901,679**	**0.57**	**0.30**	**0.72**	**262,480,801**	**137,502,679**

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

Mintek, South Africa, issued the final report on November 11, 2011 that discussed metallurgical results related to the amenability of Lynn Lake mineralization to a bioleach process. The report was overseen by Andy Carter, Manager of Metallurgical Engineering for Tetra Tech Inc. The report concluded that there was good potential to achieve nickel extractions in excess of 95% using a moderate grind and leach temperature. Higher copper recoveries would generally require finer grinding and increased temperatures.

Danniel Oosterman, P. Geo., a consultant of Prophecy Platinum at the time was the Qualified Person under NI 43-101 who approved the technical content above.

Work plans to be carried out in the near future by Prophecy Platinum on the Lynn Lake Project include the following:

- Complete a review of the capital and operating expenditures related to the bioleach process.
- Review historical geophysics data with the objective of developing an exploration program.

Shakespeare Property, Ontario, Canada

On July 16, 2012, Prophecy Platinum acquired all of the issued and outstanding securities of URSA pursuant to a court-approved plan of arrangement under the *Business Corporations Act* (Ontario) involving Prophecy Platinum, URSA and its security holders. Pursuant to the arrangement, URSA amalgamated with a wholly-owned subsidiary of Prophecy Platinum and all of the security holders of URSA, other than option holders, exchanged their URSA securities for securities of Prophecy Platinum.

For each share of URSA held, an URSA shareholder received 0.04 of a common share of Prophecy Platinum. Each URSA warrant was exchanged for a warrant of Prophecy Platinum exercisable for that number of shares that is equal to the number of URSA shares that would otherwise have been issuable thereunder multiplied by 0.04 with the exercise price of such convertible security of Prophecy Platinum being adjusted to equal the exercise price of the applicable URSA warrant divided by 0.04.

On March 9, 2012, Prophecy Platinum acquired from URSA 16,666,667 common shares at a price of $0.06 per share for aggregate proceeds of $1,000,000. All of the 16,666,667 URSA shares held by Prophecy Platinum were cancelled without repayment of capital on July 16, 2012, as a term of the acquisition.

As a result of the URSA acquisition, URSA, as amalgamated, is now a wholly owned subsidiary of Prophecy Platinum and its common shares were delisted from the TSX.

URSA holds a 100% interest in the Shakespeare property, the Shining Tree property, the Porter-Baldwin property and the Fox Mountain property, and an 80% joint venture interest with Xstrata Nickel ("**Xstrata**") on some Shakespeare surrounding claims, all located in Ontario and further described below.

URSA acquired the Shakespeare property, located 70 kilometres west of Sudbury, Ontario, from Xstrata in 2000. On behalf of URSA, an independent NI 43-101 compliant reserve calculation was issued by Micon International Ltd ("Feasibility Study for the Shakespeare Nickel Deposit, near Espanola, Ontario", in January 2006. This positive feasibility study was based on a 4,500 t/d open pit mining operation and on- site processing plant. The mineral resource estimate contained therein was prepared under the supervision and direction of B. Terrence Hennessey, P.Geo., with the assistance of Eugene Puritch, P.Eng., of P&E who operated the Gemcom software. The open pit designs and production schedules, as well as the capital and operating cost estimates for the mining aspects of the project, were prepared by Eugene Puritch. Met-Chem prepared the process plant and infrastructure designs and the associated capital cost estimates under the direction of Lionel Poulin, P.Eng. Golder was responsible for the design and costing of the co-disposal area for mill tailings and mine rock, and for geotechnical work in relation to the open pit. Knight Piésold, under the direction of Steve Aiken, P.Eng., conducted the environmental baseline studies and geotechnical work not relating to the open pit. Operating cost estimates (other than for mining) were prepared by Micon, as were the metal price, revenue and cash flow projections. The Shakespeare property has a diluted probable mineral reserve of 11,828,000 tonnes grading 0.33% nickel, 0.35% copper, 0.02% cobalt, 0.33 g/t platinum, 0.36 g/t palladium and 0.18 g/t gold. URSA permitted an open-pit mine and assessed permitting a 4,500 t/d concentrator at the Shakespeare property.

On May 27, 2010, URSA declared commercial production at the Shakespeare open pit property, and began direct shipping mineralized material to a third party mill (Strathcona) for toll processing; to which open pit production continued for twenty months until January 27, 2012. On December 13, 2011, URSA announced that it had limited operations at the Shakespeare property to crushing of existing broken ore, ore sampling and trucking operations, as a consequence of reduced base metals prices. On February 3, 2012, URSA announced it had temporarily suspended operations at the Shakespeare property following the expiration without extension, on December 31, 2011, of the toll milling agreement in place with Xstrata and its Strathcona mill.

During the twelve months of production ending January 31, 2012, URSA delivered 151,910 (2011: 166,913) tonnes of ore to the Strathcona Mill for processing. Contained metals in the delivered ore totaled approximately 1,052,000 (2011: 1,314,000), pounds of nickel; 1,234,000 (2011: 1,499,000) pounds of copper; 64,700 (2011: 92,204) pounds of cobalt; and 1,650 (2011: 1,900) ounces of platinum; 1,840 (2011: 2,100) ounces of palladium; 960 (2011: 1,100) ounces of gold; and 10,260 (2011: 12,100) ounces of silver. The recovered and contained metals are subject to smelter recoveries and to further smelter deductions.

For the twelve production months ended January 31, 2012, the ore averaged 0.314% nickel (2011: 0.357%), 0.368% copper (2011: 0.0407%), 0.019% cobalt (2011: 0.025%), and 0.941 gram/tonne precious metals (2011: 0.989). This is approximately 84% of the average budgeted grade for 2011 that is based on the previous mined grades 0.373% nickel, 0.419% copper, 0.027% cobalt and 1.069 grams/tonne precious metals.

URSA, a wholly-owned private subsidiary of Prophecy Platinum, currently has a 100% beneficial interest in the Shakespeare property area which contains all of the Shakespeare reserves and resources and is subject to a 1.5% net smelter royalty in favour of Xstrata. The Shakespeare property area is partially surrounded by an exploration property that is the basis of a joint venture between URSA and Xstrata with URSA as the project operator. URSA holds a 80% beneficial interest in the joint venture area.

On September 12, 2012, Prophecy Platinum released an updated Mineral Resource estimate for the Shakespeare Underground East Zone prepared by P&E Mining Consultants Inc. ("**P&E**") of Brampton, Ontario. At a $50/tonne NSR cut-off, the Underground East Zone contains an Indicated resource of 3.57 million tonnes grading 0.32% nickel, 0.39% copper, 0.02% cobalt, 0.34 g/t platinum, 0.37 g/t palladium, and 0.2 g/t gold. The East Zone also contains an Inferred resource of 1.87 million tonnes grading 0.32% nickel, 0.36% copper, 0.02% cobalt, 0.34 g/t platinum, 0.36 g/t palladium, and 0.21 g/t gold. This resource update adds approximately 30% to Shakespeare's global resource.

East Zone Underground Indicated Resource Sensitivity at Various NSR Cut-Offs

Cut-Off NSR C$/tonne	tonnes (000's)	Ni %	Cu %	Co %	Pt g/t	Pd g/t	Au g/t
Wireframe	8,169	0.227	0.282	0.016	0.247	0.271	0.149
$30	5,996	0.274	0.336	0.018	0.290	0.318	0.175
$40	4,857	0.295	0.360	0.019	0.312	0.340	0.188
$50	**3,571**	**0.320**	**0.387**	**0.020**	**0.337**	**0.367**	**0.202**
$60	2,284	0.350	0.415	0.022	0.366	0.396	0.217

East Zone Underground Inferred Resource Sensitivity at Various NSR Cut-Offs

Cut-Off NSR C$/tonne	tonnes (000's)	Ni %	Cu %	Co %	Pt g/t	Pd g/t	Au g/t
Wireframe	4,680	0.205	0.247	0.015	0.224	0.240	0.135
$30	2,950	0.282	0.329	0.019	0.302	0.322	0.182
$40	2,544	0.298	0.344	0.020	0.316	0.336	0.193
$50	**1,871**	**0.325**	**0.363**	**0.022**	**0.340**	**0.357**	**0.209**
$60	1,211	0.354	0.381	0.024	0.364	0.378	0.228

Notes:

- CIM definitions were followed for Mineral Resources.
- The Qualified Persons for this Mineral Resource estimate are: Richard Routledge, M.Sc. (Applied), P.Geo., Eugene Puritch, P.Eng, and Antoine Yassa, P. Geo.
- Mineral Resources are estimated by conventional 3D block modeling based on wire framing at a $50/tonne NSR cut-off and ordinary kriging grade interpolation.
- Metal prices for the estimate are: US$3.69/lb Cu, US$9.46/lb Ni, US$1,595/oz Pt, US$590/oz Pd, US$1,396/oz Au and US$18.50/lb Co based on a three-year trailing average as of July 31, 2012.
- A uniform bulk density of 3.01 tonnes/m3 has been applied for volume to tonnes conversion.

- Underground Mineral Resources are estimated beneath the bottom of the 2006 feasibility study pit at approximately 80 metres elevation (258 metres depth) to the -294 metres elevation (632 metres depth).
- Mineral Resources are classified as Indicated and Inferred based on drill hole spacing and geologic continuity.
- Overall revenue contribution expected from payable metals in the NSR calculation is 30% Cu, 52% Ni and 18% for combined Co, Au, Pt and Pd.
- Mineral resources, which are not mineral reserves, do not have demonstrated economic viability. The estimate of mineral resources may be materially affected by environmental, permitting, legal, title, taxation, socio-political, marketing, or other relevant issues. There is no certainty that all or any part of the Inferred Mineral Resource will be upgraded to an Indicated or Measured Mineral Resource as a result of continued exploration.

A Probable Mineral Reserve of similar grades on the Shakespeare project was last reported in a feasibility study prepared by Micon (available on SEDAR at www.sedar.com), within the open pit shell to a maximum depth of 250 metres below surface. The feasibility study recommended the on-site mill to produce 4,500 t/d of ore mining and subsequent concentrate for sale.

In-fill and step-out drilling in the underground portion of the East Zone was carried out in 2010 and 2011, and consisted of 8,024 metres in 13 diamond drill holes which represent 35% of the drill hole database for the East Zone. The additional drilling prompted the update to the Mineral Resource estimate for the East Zone.

During Q4, 2012, exploration consisted of two additional step-out drill holes between the East and West Zones followed by a down the hole UTEM electro-magnetic geophysics program. Drill hole 137 was completed to a depth of 597 metres and drill hole 134 to a depth of 714 metres. The sampling/assay program as well as the interpretation of the geophysics data was completed in Q1 2013, with no significant mineralized intercepts nor geophysical anomalies.

Work plans to be carried out in the near future by Prophecy Platinum on the Shakespeare property include reviewing various initiatives that have the potential of decreasing operating expenditures that would facilitate a return to open pit production and establishment of sustainable economically viable operation, subject to base metal market prices rising above current prices.

Shining Tree Property, Ontario, Canada

In 2005, URSA acquired an option to earn a 100% interest in the Shining Tree nickel-copper deposit located in Fawcett Township, 110 kilometres north of Sudbury, Ontario. During 2007, URSA exercised its option and now Prophecy Platinum holds a 100% of the project subject to a 1% net smelter royalty. The Shining Tree property consists of staked claims covering approximately 1,600 acres.

On behalf of URSA, an independent NI 43-101 compliant resource calculation was issued by Wardrop Engineering, a Tetra Tech Company ("Shining Tree" on February 14, 2006. The mineral resource estimate contained herein was prepared under the supervision and direction of Rob Carter, P.Eng. and authorized by Tim Maunula, P.Geo. The Technical report relied on an open pit mining scenario with haulage of the ore to the Shakespeare Mine where the processing facility would be located.

(Expressed in Canadian Dollars)

Shining Tree Cumulative Indicated Resources by NiEq% Cut-off

NIEQ% Cut-off	Tonnes	Ni%	Cu%	Co%
>1.5	40,000	1.47	0.73	0.04
>1.4	70,000	1.40	0.69	0.03
>1.3	100,000	1.33	0.65	0.03
>1.2	140,000	1.27	0.62	0.03
>1.1	200,000	1.20	0.59	0.03
>1.0	270,000	1.13	0.55	0.03
>0.9	370,000	1.05	0.51	0.03
>0.8	470,000	0.99	0.48	0.03
>0.7	550,000	0.94	0.46	0.03
>0.6	650,000	0.89	0.44	0.03
>0.5	770,000	0.82	0.41	0.02
>0.4	910,000	0.76	0.38	0.02
>0.3	1,020,000	0.71	0.36	0.02

Shining Tree Cumulative Inferred Resources by NiEq%Cut-off

NIEQ% Cut-off	Tonnes	Ni%	Cu%	Co%
>1.5	40,000	1.39	0.70	0.05
>1.4	80,000	1.33	0.69	0.05
>1.3	140,000	1.27	0.67	0.05
>1.2	200,000	1.22	0.64	0.05
>1.1	290,000	1.16	0.60	0.04
>1.0	360,000	1.11	0.57	0.04
>0.9	460,000	1.06	0.54	0.04
>0.8	580,000	0.99	0.51	0.04
>0.7	690,000	0.94	0.49	0.04
>0.6	830,000	0.87	0.46	0.03
>0.5	1,050,000	0.79	0.42	0.03
>0.4	1,340,000	0.71	0.38	0.03
>0.3	1,490,000	0.67	0.36	0.03

Porter Baldwin Property, Ontario, Canada

Prophecy Platinum's 100%-owned Porter Baldwin property comprises certain claims that cover a 15 kilometre strike length extending from the Shakespeare property towards the Sudbury intrusive complex. The majority of the property was acquired through claim staking, while a portion was acquired by an option agreement dated February 10, 2004**.** The optionors retain a 2% net smelter royalty. Advance royalty payments of $24,000 per year commenced January 15, 2007. Prophecy Platinum has the right to purchase one-half of the royalty at any time for $1,000,000.

Fox Mountain

Prophecy Platinum's 100%-owned Fox Mountain property is located approximately 50 kilometres north of Thunder Bay, within the Mid-Continent rift of Northwestern Ontario. The property consists of certain claims covering approximately 5,600 hectares. In November 2010, URSA completed airborne magnetic and EM surveys on the Fox Mountain property. In early 2011, URSA completed the drilling of two (2) holes for a total of 513 metres of drilling at the Fox Mountain property.

(Expressed in Canadian Dollars)

Uruguay Property

Prophecy Platinum's wholly-owned subsidiary that was incorporated in Uruguay, Pacific Nickel Sudamerica SA, owns 5 prospecting licenses for properties in Uruguay totalling approximately 28,000 hectares. Of the 28,000 hectares, 400 hectares from the Molles North license was forfeited in late September 2011 as a result of it being in a cultivated forest area. The only work done on the 400 hectares was BRGM regional geochemical sampling and there were no anomalies noted. Prophecy Platinum has no future obligations or expenditure requirements related to the Uruguayan properties and the properties remain in the evaluation stage.

Las Aguilas Property, Argentina

On November 1, 2012, Prophecy Platinum terminated its option agreement with Marifil Mines Ltd. on the Las Aguilas property in Argentina and wrote-off its investment of $460,844.

4. SELECTED ANNUAL INFORMATION

	Years ended December 31,		
	IFRS 2012	IFRS 2011	IFRS 2010
Loss before other items and future income tax recovery	$ (10,848,277)	$ (12,959,668)	$ (4,629,560)
Net loss for year	(61,389,108)	(9,773,768)	(4,598,174)
Comprehensive loss for year	(59,465,339)	(11,188,587)	(5,110,790)
Net loss for period attributable to:			
Owners of the Company	(56,876,372)	(7,137,313)	(4,598,174)
Non-controlling interest	(4,512,736)	(2,636,455)	-
	(61,389,108)	(9,773,768)	(4,598,174)
Comprehensive loss for period attibutable to:			
Owners of the Company	(55,033,590)	(8,454,021)	(5,110,788)
Non-controlling interest	(4,431,749)	(2,734,566)	-
	(59,465,339)	(11,188,587)	(5,110,788)
Share Information:			
Net loss per share, basic and diluted attributable to:			
Owners of the Company	(0.26)	(0.04)	(0.05)
Non-controlling interest	(0.02)	(0.01)	-
Comprehensive loss per share, basic and diluted attributable to:			
Owners of the Company	(0.25)	(0.04)	(0.06)
Non-controlling interest	(0.02)	(0.01)	-
Weighted average number of common shares outstanding	222,183,144	193,174,218	87,172,481
Financial Position:			
Current assets	10,294,682	9,034,824	39,821,590
Property and equipment	12,929,342	51,645,276	25,301,993
Mineral properties	13,387,882	62,169,481	50,464,655
Total assets	62,386,558	130,842,900	118,890,123
Non-current liabilities	1,247,363	257,355	528,687
Dividends	$ -	$ -	$ -

On November 30, 2012, it was determined that Prophecy Coal's control changed to significant influence over Prophecy Platinum due to the culmination of a series of events, (note 15 to the annual audited consolidated financial statements), hence the Company's interest in Prophecy Platinum is reported:

- using the equity accounting method starting November 30, 2012; and
- using full consolidation for any earlier part of the current reporting year (January 1 – November 30, 2012), and for any reporting period prior to 2012, during which Prophecy Platinum was controlled.

The increase of net loss attributable to owners of the Company to 56,876,372 in the fiscal year 2012 from $7,137,313 in the fiscal year 2011 was largely due to the impairment charge relating to the Ulaan Ovoo mine of $47.1 million (note 16 to the annual audited consolidated financial statements), a gain on deconsolidation of Prophecy Platinum of $4.4 million (note 15 to the annual audited consolidated financial statements), a loss on impairment of available-for-sale investments of $2.6 million (note 14 to the annual audited consolidated financial statements, and a deferred income tax expense of $1.4 million (note 21 to the annual audited consolidated financial statements).

The increase of net loss attributable to owners of the Company in the fiscal year 2011 ($7,137,313) compared to the fiscal year 2010 ($4,598,174) was mainly attributable to the increase in the share-based payments expense of $5,808,564 on options vested during the year. The increase of net loss was also due to the increase in general and office expenses due to increased business activities of the Company.

The increase in comprehensive loss attributable to owners of the Company to $55,033,590 in 2012 from $8,454,021 in the fiscal year 2011 was largely due the increase in net loss explained above.

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

Financial Position:

The decrease in total assets to $62,386,558 in the fiscal year 2012 from $130,842,900 in the fiscal year 2011 was mainly due to the:

(a) deconsolidation of Prophecy Platinum as at November 30, 2012 of approximately net amount of $21 million (note 15 to the annual audited consolidated financial statements);
(b) impairment write down of Ulaan Ovoo property of $47.1 million (note 16 to the annual audited consolidated financial statements).

The increase in total assets to $130,842,900 in the fiscal year 2011 from $118,890,123 in the fiscal year 2010 was mainly due to increase in long term assets as a result of increased capitalized exploration, development, and equipment expenditures of Prophecy Coal and Prophecy Platinum.

(Expressed in Canadian Dollars)

SUMMARY OF QUARTERLY RESULTS

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

	2012			
	Dec-31	Sep-30	Jun-30	Mar-31
Operating expense	$ (1,069,354)	$ (2,970,363)	$ (2,474,327)	$ (4,334,233)
Loss Before Other Items and Deferred Income Tax	(1,069,354)	(2,970,363)	(2,474,327)	(4,334,233)
Other items	(46,585,365)	(2,328,747)	1,439,189	(1,710,416)
Loss Before Deferred Income Tax	(47,654,718)	(5,299,110)	(1,035,138)	(6,044,649)
Deferred income tax recovery	(1,569,024)	160,247	(68,176)	121,461
Net Income (Loss) for Quarter	(49,223,742)	(5,138,863)	(1,103,314)	(5,923,188)
Fair value gain (loss) on available-for-sale investments	2,476,797	688,744	(2,114,759)	872,987
Comprehensive Income (Loss) for Quarter	(46,746,945)	(4,450,119)	(3,218,073)	(5,050,201)
Net Income (Loss) for Quarter Attributable to:				
Owners of the Company	(48,831,202)	(3,242,577)	(289,024)	(4,513,569)
Non-controlling interest	(879,254)	(1,409,573)	(814,290)	(1,409,619)
	(49,710,456)	(4,652,150)	(1,103,314)	(5,923,188)
Comprehensive Loss for Quarter Attributable to:				
Owners of the Company	(44,266,921)	(2,961,989)	(4,638,569)	(3,166,111)
Non-controlling interest	(804,911)	(1,647,892)	(94,856)	(1,884,090)
	$ (45,071,832)	$ (4,609,880)	$ (4,733,425)	$ (5,050,201)
Share Information				
Net Loss per share, basic and diluted attributable to:				
Owners of the Company	$ (0.22)	$ (0.01)	$ (0.00)	$ (0.02)
Non-controlling interest	(0.00)	(0.01)	(0.00)	(0.01)
Comprehensive Loss per share, basic and diluted attributable to:				
Owners of the Company	(0.21)	(0.01)	(0.02)	(0.02)
Non-controlling interest	$ (0.00)	$ (0.01)	$ (0.00)	$ (0.01)
Average number of common shares outstanding for quarter, basic and diluted	228,379,503	227,407,328	225,071,203	199,587,605

	2011			
	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 Deferred Income Tax	(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 Deferred Income Tax	(1,006,878)	(4,702,107)	(1,957,699)	(2,555,772)
Future income tax recovery	448,687	-	-	-
Net Loss for Quarter	(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 Quarter	(798,801)	(5,510,132)	(3,956,192)	(923,464)
Net Income (Loss) for Quarter Attributable to:				
Owners of the Company	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 Quarter Attributable to:				
Owners of the Company	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)

(Expressed in Canadian Dollars)

Share Information				
Net Loss per share, basic and diluted attributable to owners of the Company				
Owners of the Company	$ 0.00	$ (0.02)	$ (0.01)	$ (0.01)
Non-controlling interest	(0.01)	(0.01)	0.00	0.00
Comprehensive Loss per share, basic and diluted attributable to owners of the Company				
Owners of the Company	0.00	(0.02)	(0.02)	0.00
Non-controlling interest	$ (0.01)	$ (0.01)	$ 0.00	$ 0.00
Average number of common shares outstanding for quarter, basic and diluted	195,035,960	195,008,886	190,228,186	188,310,157

Prior to December 1, 2012, Prophecy Platinum's results of operations were consolidated into the statement of operations and comprehensive loss while thereafter the proportional share of Prophecy Platinum's net loss was reflected in the Share of Loss of an Associate line item on the statements of operations and comprehensive loss (note 15 to the annual audited consolidated financial statements).

The Company's quarterly general and administrative expenses remain relatively stable. Factors causing significant changes between the most recently completed eight quarters have primarily been items such as share-based payments expense, consulting and management fees, and advertising and promotion expense.

The increase in other items in the fourth fiscal quarter of 2012 was mainly due to an impairment loss of 47.1 million, offset by a gain on deconsolidation of Prophecy Platinum of $4.4 million, an impairment loss on available-for-sale investments of $2.6 million, and a deferred income tax expense of $1.6 million.

The increase in loss in the third fiscal quarter of 2011 was mainly the result of the accelerated vesting of directors' options.

6. DISCUSSION OF OPERATIONS

All of the information described below is accounted for in accordance with IFRS. The reader is encouraged to refer to Note 6 of Prophecy Coal's annual audited consolidated financial statements for the year ended December 31, 2012 for Prophecy Coal's IFRS accounting policies. Certain prior period 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 the "Business Overview" section of this MD&A.

Prior to December 1, 2012, Prophecy Platinum's results of operations were consolidated into the statement of operations and comprehensive loss while thereafter the proportional share of Prophecy Platinum's net loss was reflected in the Share of Loss of an Associate line item on the statements of operations and comprehensive loss (note 15 to the annual audited consolidated financial statements).

For the fiscal year 2012, Prophecy Coal incurred a net loss of $ 61.4 million compared to a $9.8 million net loss incurred for the fiscal year 2011. The increase by $53.6 million in net loss was due to the following factors:

(Expressed in Canadian Dollars)

Year ended December 31, 2012 and 2011

	December 31, 2012	December 31, 2011	Discussion
General and administrative expenses	$3,232,546	$1,572,402	General and administrative expenses include expenses related to the overall management of the business which are not part of direct exploration costs. The increase in general and administrative expenses was due primarily to increased salaries (by $1.3 million) due to new staff hired by Prophecy Coal and Prophecy Platinum, director fees (by $0.2 million) due to new directors added to Prophecy Coal and Prophecy Platinum, insurance coverage (by $0.1million), and office and administration expenses (by $0.06 million) due to the increased cost of having two public company compliances.
Consulting and management fees	$877,343	$1,476,887	Consulting and management fees include fees charged by officers of the Company and its subsidiaries. The decrease was mainly due to allocation of consulting and management fees paid to the Company's CEO capitalized to mineral properties.
Mine site care and maintenance	$367,879	$Nil	Includes care and maintenance of Prophecy Platinum's Shakespeare property of $94,398 (acquired in URSA transaction in July 2012) and Prophecy Coal's Ulaan Ovoo property of $273,481 due to the temporary suspension of pre-commercial operations in July 2012.
Share-based payments	$2,650,632	$6,921,116	It is a non-cash expense and represents the estimated fair value of share options vested during the period. It is accounted for at fair value as determined by the Black-Scholes Option Pricing model and varies from period to period based on the number and valuation of the share options granted during the period, vesting provisions, and amortization schedule of the previously granted share options. For the fiscal year 2012, the decrease in share-based payment expense was mainly due to a decrease in the grant dates fair value of the options granted in 2012 compared to 2011 and to reclassification of one time consultants. These outstanding options were recalculated using Black Sholes calculation model and their corresponding amortization was recorded in the 2010 fiscal year. Prophecy Coal incurred $666,268 in share-based

(Expressed in Canadian Dollars)

			payment expense which is net of $187,311 that was capitalized to Ulaan Ovoo property and the PPA. Prophecy Platinum incurred $1,984,365 in share compensation expenses.
Advertising and promotion	$2,018,946	$1,208,229	The increase in 2012 was due primarily to more extensive promotion carried out for Prophecy Platinum such as conferences, trade show attendance, publications, German advertising, European marketing, radio/TV interviews, and to hiring of new investor relations individuals to accommodate the increased business operations of Prophecy Platinum.
Professional fees	$1,303,805	$1,161,838	Professional fees increased as a result of additional legal fees incurred by Prophecy Platinum related to the acquisition of URSA, financings and counseling on exploration cooperation agreements related to Wellgreen.
Travel and accommodation	$397,126	$619,196	The decrease was due to decreased travel activities
Interest income	$59,435	$135,466	Interest income was earned on funds raised during the year and invested in short-term interest bearing accounts.
Interest expense	$1,145,031	$9,091	The increase in interest expense was mainly due to the interest charges at 14% per annual on the $10 million Waterton loan.
Loss on sale of investments	$1,652,514	$Nil	The loss on sale of investment was mainly due to the fact that Prophecy Coal had sold all shares of Compliance Energy Corporation for a realized loss of $1,302,306 and 5.2 million shares of Victory Nickel for a realized loss of $332,589.
Gain on deconsolidation of subsidiary	$4,366,912	$Nil	The Company recognized a gain of $4,366,912 upon the change from control to significant influence over Prophecy Platinum on November 30, 2012. (Note 15 to the annual audited consolidated financial statements).
Share of loss of an associate	$196,961	$Nil	The Company's interest in Prophecy Platinum, starting December 1 2012, is reported using the equity accounting method. The share of loss of an associate amount represents the net loss of Prophecy Platinum for the month of December 2012 (note 15 to the annual audited consolidated financial statements).

(Expressed in Canadian Dollars)

Investment income	$Nil	$21,934	No investment income was recorded in the fiscal year 2012.
Flow through premium liability income	$201,914	$Nil	The flow through premium liability of $201,914 (prior year nil) increased during the year due to the amortization of the flow through premium related to the July 2012 flow through placement during the year. In the prior year there was no flow through premium liability.
Foreign exchange (gain) / loss	$272,456	$(2,588,904)	The foreign exchange loss in the fiscal year 2012 was due primarily to the translation of net monetary assets denominated in Mongolian tugrik to the Canadian dollar. The increase in was loss due to fluctuations in the value of the Canadian dollar compared to the Mongolian tugrik and the Unites States dollar.
Mineral property write down	$651,823	$Nil	Prophecy Coal terminated the Ilch Khujirt exploration property license option, without further obligation, and wrote off its investment of $190,980. Prophecy Platinum terminated its option agreement with Marifil Mines Ltd. on the Las Aguilas property and wrote off its investment of $460,843.
Loss on disposal of equipment	$191,528	$Nil	The loss was due to a disposal of one of the Scania trucks at the Ulaan Ovoo property.
Impairment write down on property and equipment	$47,063,713	$Nil	On December 31, 2012, the Company recorded a non-cash impairment write down of $47.1 million, on its Ulaan Ovoo property. The impairment charge reduces previously capitalized property, equipment, exploration and pre-commercial operating expenses to a balance of $2 million (note 16 to the annual audited consolidated financial statements).

(Expressed in Canadian Dollars)

Impairment write down of Ulaan Ovoo property

On December 31, 2012, the Company recorded a non-cash impairment write down of $47,063,173 on the Ulaan Ovoo property, which is reflected on the consolidated statement of operations. The impairment charge reduces previously capitalized deferred exploration within property and equipment, to a balance of $2 million (note 16 to the annual audited financial statements).

Pre-commercial operations for the period from commencement in November 2010 until the shutdown in July 2012, to which is ongoing; along with project exploration and development costs were capitalized within the category Ulaan Ovoo deferred exploration costs within property and equipment. Modest coal sales revenue from an existing stockpile along with associated costs to deliver the coal occurred during the balance of 2012, post shutdown, and have been recorded within deferred exploration, within property and equipment. The ending coal stockpile inventory value at December 31, 2012 was $2.4 million, $1.7 million at December 31, 2011 (note 13 to the annual audited consolidated financial statements).

The impairment test was based on pre-commercial operating results along with capital expenditures and the PFS dated December 2010 prepared by the independent engineering firm, Wardrop, a Tetra Tech Company. The PFS determined a net present value for the project of US$71 million after capital expenditures of about US$70 million, assuming a base case price for coal at US$40 per tonne. Prophecy Coal expended about US$70 million in development and equipment costs but was unable to establish commercial production levels, faced higher input costs mainly due to fixed costs over lower production levels in addition to some higher unit input costs, and could not realize profitable coal sales prices. For 2011, which the PFS scheduled as a pre-commercial period, the PFS estimated coal sales of 250,000 tonnes with a gross value of $10 million, while in comparison, the Company in 2011 recorded coal sales of 132,000 tonnes for a gross value of $2.5 million. In 2012, the PFS projected coal sales rising to 1.1 million tonnes with a gross sales value of $45 million and thereafter at 2 million tonnes of annual coal production at a gross sales value of $80 million. For 2012, which was accounted for as a pre-commercial period, the Company recorded coal sales of 121,000 tonnes with a gross value of $2.3 million. Average coal prices realized for 2011, 2012 and most recently from 2012 coal shipments from the coal stockpile inventory, have averaged approximately US$20 per tonne, with only about 20% of the 2012 stockpile sales value above US$28 per tonne. The average lower sales volumes and prices is because of depressed local coal markets and the Company, due to border and export regulations, has been unable to ship coal across the Mongolian border into Russia where coal prices are significantly higher.

Based on longer term coal sales prices of $28 per tonne, unit costs approaching the PFS based on higher production levels, the Company determined a book recoverable amount for the Ulaan Ovoo property at $2 million and recorded a $47,063,713 non-cash impairment write-down ($49,718,797 credit to deferred exploration and a $2,655,084 charge to accumulated amortization) on its Ulaan Ovoo property for the year ended December 31, 2012.

Impairment on available-for-sale investments	$2,639,572	$Nil	Due to the prolonged decline in value of Victory Nickel shares, the Company recognized an impairment loss of $2,639,572 which represents the difference between the acquisition cost of the Company's investment in Victory Nickel and its fair market value at December 31, 2012. No such loss was recognized during the fiscal year 2011.
Deferred income tax expense (recovery)	$1,355,492	$448,687	The Company recorded non-cash deferred income tax expense of $1,355,492 in the fiscal year 2012 Due to the recognition of the deferred tax liability on the investment in associate during the year.

(Expressed in Canadian Dollars)

7. FOURTH QUARTER

The following table summarizes Prophecy Coal's consolidated results for the three months ended December 31, 2012 and 2011:

	Three Months Ended December 31, 2012	
	2012	2011
General and administrative expenses	$ 1,054,531	$ 562,010
Consulting and management fees	(72,871)	411,572
Mine site expenses	309,406	-
Share based payments	(954,051)	1,147,803
Advertising and promotion	218,508	604,333
Professional fees	417,764	342,642
Travel and accommodation	96,066	137,880
Interest (income)	(10,428)	(21,535)
Interest expense	449,779	9,091
Loss on sale of investments	(67,500)	-
Gain on deconsolidation of subsidiary	(4,366,912)	-
Share of net loss of associate	196,961	-
Flow through premium liability income	(201,914)	-
Foreing exchange loss (gain)	229,721	(2,186,918)
Mineral property write down	460,843	-
Loss on disposal of equipment	191,528	-
Impairment write down on property and equipment	47,063,713	-
Impairment on available-for-sale investments	2,639,572	-
Deferred income tax expense (recovery)	1,569,024	(448,687)
	$ 49,223,742	$ 558,191

Prior to December 1, 2012, Prophecy Platinum's results of operations were consolidated into the statement of operations and comprehensive loss while thereafter the proportional share of Prophecy Platinum's net loss was reflected in the Share of Loss of an Associate line item on the statements of operations and comprehensive loss (note 15 to the annual audited consolidated financial statements).

In the fourth quarter 2012, the Company incurred a loss of $49,223,742 compared to a loss of $558,191 for the same quarter in 2011. In the current quarter the Company recorded an impairment loss in relation to its Ulaan Ovoo property of $47,063,713 and an impairment loss of Victory Nickel shares of $2,639,572. Also, in the fourth quarter the Company deconsolidated Prophecy Platinum from its balance sheet as of November 30, 2012 and recorded a gain on deconsolidation of subsidiary of $4,366,912. The fourth quarter 2012 does not include Prophecy Platinum's expenses from December 1 to December 31, 2012.

General and administrative expenses increased to $1,054,531 (2011 - $562,010). The increase was due primarily to increased salaries (by $784,678) due to an increase in personnel during the year ended December 31, 2012 and overall salary increase for shared personnel, offset by a decrease in director fees (by $13,992) due to two Prophecy Coal directors having resigned and by a decrease in the office and administrative expenses (by $278,166) due to savings activities undertaken by the Company.

The negative balance of consulting and management fees of $72,871 in the fourth quarter of 2012 was mainly due to the allocation of consulting and management fees paid to the Company's CEO to Chandgana and Ulaan Ovoo properties capitalized under exploration costs.

There was a decrease in share based payments from Q3 to Q4 resulted in a negative balance of $954,051 (2011 - $1,147,803) due to a reclassification of one time consultants. These outstanding options were recalculated using Black Sholes calculation model and their corresponding amortization was recorded in the 2010 fiscal year.

Decrease in advertising and promotion expense to $218,508 (2011 - $604,333) and in travel and accommodation expense to $96,066 (2011 - $137,880) was due to less promotion carried out for Prophecy Coal and Prophecy Platinum.

The increase in professional fees to $417,764 (2011 - $342,942) was due to increased audit fees.

In the fourth quarter 2012, the Company recorded an impairment loss on available-for-sale investments of $2,639,572, and deferred income tax expense of $1,569,024.

8. LIQUIDITY AND CAPITAL RESOURCES

Prophecy Coal as at December 31, 2012 had a working capital, including restricted cash, of $0.1 million (December 31 2011: working capital of $9.8 million) and will require additional sources of funding for ongoing operations, to continue to develop its Ulaan Ovoo coal property, and potentially to develop the Chandgana Power Plant project. Additional sources of funding, which may not be available at favourable terms, if at all, include: share equity and debt financings; dispositions of Prophecy Platinum Corp. common shares held as an investment in associate (note 15 to the annual audited consolidated financial statements); coal sales from stockpile inventory; equity, debt or property level joint ventures with power project and coal property developers; and sale of interests in existing assets.

The Company's exploration activities are subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labour standards. In order for the Company to carry out its exploration activities, the Company is required to hold certain permits. There is no assurance that the Company's existing permits will be renewed or that new permits that have been applied for will be granted.

Major expenditures are required to locate and establish resources, ore reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. The recoverability of valuations assigned to exploration and evaluation mineral properties are dependent upon discovery of economically recoverable reserves, the ability to obtain necessary financing to complete exploration, development and future profitable production or proceeds from disposition.

Management reviews the carrying value of the Company's interest in each property and where necessary, exploration and evaluation mineral properties are written down to their estimated recoverable amount or written off. Although management has made its best estimate of these factors, it is reasonably possible that certain events could adversely affect management's estimates of recoverable amounts and the need for, as well as, the amount of provision for impairment in the carrying value of exploration properties and related assets.

Many factors influence the Company's ability to raise funds, and there is no assurance that the Company will be successful in obtaining adequate financing and at favourable terms for these or other purposes including general working capital purposes. Prophecy Coal's annual audited 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 for the foreseeable future. Realization values may be substantially different from carrying values, as shown, and these annual audited consolidated financial statements do not give effect to the adjustment that would be necessary to the carrying values and classifications of assets and liabilities should Prophecy Coal be unable to continue as a going concern.

8.1 Working Capital

As at November 30, 2012, the Company no longer consolidates the operating results of Prophecy Platinum in the Company's statements of operations and statements of cash flows. The statements of financial position line items as at December 31, 2012 exclude the assets and liabilities of Prophecy Platinum, which are consolidated in prior quarters.

At December 31, 2012 Prophecy Coal had approximately $5.9 million, comprised of cash and cash equivalents and short term investments in the form of Guaranteed Investment Certificates with the Bank of Montreal of $5.1 million. Working capital amounted to $0.1 million at December 31, 2012 compared to working capital of $9.8 million as at December 31 2011. The Company's working capital has decreased since the year ended December 31, 2011 as proceeds raised on equity and debt financing have been used to explore and develop mineral properties.

On March 8, 2012, Prophecy Coal closed a non-brokered private placement of 22,363,866 shares at a price of $0.45 per share for net proceeds of $9,594,618. Proceeds of the placement were applied to work at the Chandgana Thermal Power Project ($1.4 million), operations at the Ulaan Ovoo property ($4.0 million), purchase of Tugalgatai licenses ($2.06 million) and general corporate purposes ($2.13 million).

On July 31 and August 30, 2012, Prophecy Platinum closed two non-brokered private placements of units and flow through shares totaling $7.25 million and $3 million respectively. Proceeds of the placements applied to the Wellgreen project and Prophecy Platinum's other properties, in addition to general working capital purposes.

On December 27, 2012, Prophecy Platinum closed a non-brokered private placement of flow through shares totalling $1.24 million. Proceeds of the placements will be applied to the Wellgreen project and Prophecy Platinum's other properties, in addition to general working capital purposes.

Subsequent to year end, on February 7, 2013, the Company announced that it is undertaking a non- brokered private equity placement to raise gross proceeds of up to $8,400,000 (the "**Placement**"), subject to regulatory approval. The Placement involves the issuance of up to 60,000,000 Units at a price of $0.14 per Unit. Each Unit consists of one Share of the Company and 0.75 of a Warrant. Each whole Warrant entitles the holder to acquire an additional Share at a price of $0.18 per Share for a period of two years following closing. NewMargin, an entity at arm's length to the Company, is undertaking to subscribe for 40 million Units of this financing. Under the rules of the Toronto Stock Exchange, shareholder approval is required for part of the Placement. To the extent that such approval is required, the Company will issue special warrants which may not be converted to Units without shareholder approval, which will be sought at the Company's next annual general meeting. If such approval is not obtained, the special warrants will be cancelled and the portion of the Placement proceeds which relates to their sale will be returned to the subscribers. This equity financing has not closed and remains subject to receipt of subscription agreements, monies, TSX approval, and in the case of special warrants, shareholder approval.

In July 2012, Prophecy Coal arranged a Loan of $10 million with Waterton. The Loan has a one year term, due July 16, 2013, and bears interest at 14% per annum payable monthly with an effective interest rate of 24%. In connection with the Loan, a structuring fee of 2.5% ($250,000) was paid to Waterton in cash and legal fees of $189,805 were paid. Pursuant to the terms of the Loan, Prophecy Coal issued for a value of $600,000, 2,735,617 common shares of Prophecy Coal on closing of the Loan at July 16, 2012 (note 19 to the annual audited consolidated financial statements).

On June 18, 2012, Prophecy Coal entered into a Sale and Purchase Agreement to acquire assets in Mongolia relating to certain Tugalgatai coal exploration property licenses from Tethys, subject to approval from the Minerals Resource Authority of Mongolia, to have such exploration licenses transferred to Prophecy Coal. The Tugalgatai licenses are contiguous to Prophecy Coal's Chandgana licenses. The terms of the agreement include a US$10 million upfront payment and an 8.5% royalty on future coal sales from both the Chandgana and Tugalgatai licenses. The royalty can be extinguished by paying Tethys US$20 million before 2021 or US$25 million from 2021 onwards. Of the purchase price, $10,189,400 was deposited in escrow in the period and included in restricted cash on the balance sheet. During October 2012, the funds, net of costs, amounting to US$9.9 million was returned to Prophecy Coal on termination of the Tugalgatai agreement, which occurred due to the elapsing of the initial long stop date for approval of the licences transfer by the Minerals Resource Authority of Mongolia.

(Expressed in Canadian Dollars)

Under the July 16, 2012 credit agreement between Prophecy Coal and Waterton, the expiry of the original purchase and sales agreement with Tethys constituted a default.

Subsequent to the year end, in February 2013, Waterton agreed to waive the default, subject to the Company completing (which it has) the following:

(a) setting aside $3.5 million in escrow for the purchase of the Tugalgatai licenses:

1) $1.5 million for the acquisition of the Mongolian coal assets and
2) $2 million for the full repayment or a partial prepayment of the 2012 Loan,

(b) issuing 2 million common shares to Waterton; and

(c) pledging additional security to Waterton in the form of 5,535,000 remaining free trading Prophecy Platinum common shares, (note 19 and 31 to the annual audited consolidated financial statements).

In August 2012, Prophecy Coal's wholly-owned Mongolian subsidiary, Red Hill Mongolia LLC ("**Red Hill**"), arranged a line of credit for $500,000 with the Khan Bank. The line of credit has a one year term, with the option of extending it, and bears interest at 14.4% per annum and a commitment rate of 2% per annum payable monthly. A structuring fee of 0.5% was paid in cash. The funds will be used for working capital and general and administrative expenses. The loan facility is collateralized by certain equipment. As at December 31, 2012, Red Hill had fully repaid the loan and recorded $3,369 in interest expense.

Prophecy Coal had no long-term debt outstanding at December 31, 2012, other than provision for closure and reclamation of $294,262 relating to its Ulaan Ovoo property. The Company has no capital lease obligations, operating leases (other than office leases) or any other long term obligations.

As at the date of this MD&A, Prophecy Coal's working capital deficit is approximately $1.7 million.

8.2 Cash Flow Highlights

	Year ended December 31, 2012	Year ended December 31, 2011
Cash used in operating activities	$ (6,337,656)	$ (6,885,443)
Cash used in investing activities	(26,094,880)	(42,734,124)
Cash provided by financing activities	29,721,317	13,775,466
Decrease in cash for the year	(2,711,219)	(35,844,101)
Cash balance, beginning of the year	3,480,050	39,324,151
Cash balance, end of the year	$ 768,831	$ 3,480,050

8.3 Cash Flows for the year ended December 31, 2012 and 2011

Operating activities: Cash used in operating activities was $6.3 million in 2012 compared to cash used of $6.9 million in the same period of 2011. Overall levels of activity and expenses increased including interest expense in 2012, but was effectively offset by increases in non-cash working capital in 2012; whereas, the Company used cash for non-cash working capital items in 2011.

Investing activities: $26.1 million (same period last year - $42.7 million) was used in investing activities, of which $14.4 million (same period last year - $27 million) was related to the acquisition of property and equipment, $8.9million (same period last year - $8.7 million) was used for exploration expenditures incurred at Prophecy Coal's and Prophecy Platinum's mineral properties, $4.6 million (same period last year – $Nil) was received from sale of shares of a subsidiary and interest received from short term investment. In 2012, the Company invested $5.1 million Guaranteed Investment Certificates with the Bank of Montreal (2011 – $Nil). Cash disposed on loss of control of subsidiary at November 30, 2012 was $2,146,240 (2011 – $Nil) (note 15 to the annual audited consolidated financial statements), and loss on disposal of equipment was $0.2 million (2011 – $Nil).

Financing activities: A total of $29.7 million cash was received by financing activities compared to $13.8 million received in 2011. A total of $19.15 million was received from private placements of Prophecy Coal and Prophecy Platinum (same period last year $18.9 million), $9.6 million were proceeds from the Waterton loan, and cash of $1.4 million was received from issuance of shares on the exercise of options and warrants. During the same period last year a total of $5.1 million was used to repay a loan. $0.7 million interest charges related to the Waterton loan and the Khan bank line of credit were paid during the year ended December 31, 2012.

During the financial year ended December 31, 2012, Prophecy Platinum sold its ETF's to meet on going working capital requirements. On July 16, 2012 Prophecy Platinum completed its acquisition of URSA at which time the balance of the shares of URSA held by Prophecy Platinum were cancelled pursuant to the terms of the acquisition.

Prophecy Coal sold all of its investment in Compliance Energy and some other available-for-sale investments. At the date of this MD&A Prophecy Coal holds for investment purposes 31.4 million common shares of Victory Nickel acquired in a reciprocal private placement and 22 million common shares of its 32.1% owned associate company, Prophecy Platinum, (TSXV:NKL) acquired in connection with the June 2011 spin out transaction (these common shares were pledged as collateral in connection with the Waterton loan). The aggregate market value of available for sale Prophecy Coal's marketable securities (including the 22 million pledged shares in Prophecy Platinum) is approximately $18 million. The market value of such shares may go up or down.

8.4 Contractual Commitments

Prophecy Coal commitments. Prophecy Coal's commitments related to mineral properties are disclosed in note 17 to the annual audited consolidated financial statements.

In July 2012, Prophecy Coal arranged a secured Loan of $10,000,000 with Waterton. The Loan has a one year term and bears interest at 14% per annum payable monthly with an effective interest rate of 24%. In connection with the Loan, a structuring fee of 2.5% ($250,000) was paid to Waterton in cash and legal fees of $189,805 were paid. Pursuant to the terms of the Loan, Prophecy Coal issued for a value of $600,000, 2,735,617 common shares of Prophecy Coal on closing of the Loan at July 16, 2012. The funds will be used to complete the purchase of the Tugalgatai, Mongolia coal licenses (note 10 (d)) and for general working capital purposes. Prophecy Coal's holding of 22 million Prophecy Platinum common shares have been pledged as collateral in connection with the Loan. As at December 31, 2012, Prophecy Coal had drawn down $10,000,000 of the Loan. The Loan has a due date of July 16, 2013, and is callable at the option of Waterton, in the case of the termination of the Tugalgatai Agreement, which has occurred as the initial long stop date for approval of the licences transfers by Minerals Resource Authority of Mongolia has elapsed. Under the credit agreement between Prophecy Coal and Waterton, the expiry of the original purchase and sales agreement with Tethys constituted a default.

(Expressed in Canadian Dollars)

Subsequent to the year end, in February 2013, the Company announced that pursuant to the credit agreement between Prophecy Coal and Waterton, the expiry of the original purchase and sales agreement with Tethys constituted a default under the Credit Agreement. Waterton agreed to waive the default, subject to the Company completing, (which it has) the following:

(a) setting aside $3.5 million in escrow for the purchase of the Tugalgatai licenses:
   1) $1.5 million for the acquisition of the Mongolian coal assets and
   2) $2 million for the full repayment or a partial prepayment of the Loan,

(b) issuing 2 million common shares to Waterton; and

(c) pledging additional security to Waterton in the form of 5,535,000 remaining free trading Prophecy Platinum's common shares (note 19 and 31 to the annual audited consolidated financial statements).

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

Year	Amount (Rent)
2013	61,172
2014	63,641
2015	63,641
2016	21,214
	$ 209,668

8.5 Capital Risk Management

Prophecy Coal considers its capital structure to consist of share capital, share options and warrants. Prophecy Coal manages its capital structure and makes adjustments to it, based on the funds available to Prophecy Coal, 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 Prophecy Coal currently has an interest are in the exploration stage; as such, Prophecy Coal is dependent on external financing to fund its activities. In order to carry out the planned exploration and development and pay for administrative costs, Prophecy Coal 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 Prophecy Coal, is reasonable. There were no changes in Prophecy Coal's approach to capital management during the year ended December 31, 2012. Neither Prophecy Coal nor its subsidiaries are subject to externally imposed capital requirements. Prophecy Coal's investment policy is to invest its surplus cash in highly liquid short-term interest-bearing investments with maturities of 90 days or less from the original date of acquisition, all held with major Canadian financial institutions.

9. ENVIRONMENT

Prophecy Coal 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.

Prophecy Coal received approval of its detailed Environmental Impact Assessment and Environmental Protection Plan from the Mongolian Ministry of Nature and Environment for mining operations at its Ulaan Ovoo mine in 2010. Prophecy Coal 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, Prophecy Coal seeks to minimize the impact of our activities on the environment.

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

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

At December 31, 2012, Prophecy Coal had a provision for closure and reclamation liability of $294,262 (December 31, 2011 - $257,355). 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 20 of the annual audited consolidated financial statements.

10. RELATED PARTY DISCLOSURES

Details of transactions between Prophecy Coal and other related parties are disclosed below.

Prophecy Coal had related party transactions with the following companies, related by way of directors and key management personnel:

(a) Energy Investment Capital, a private company owned by Jivko Savov, a former director of Prophecy Coal and provides consulting services.

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

(Expressed in Canadian Dollars)

(c) JWL Investment Corp., a private company owned by Joseph Li, a former General Manager, Corporate Secretary and director of Prophecy Coal and Prophecy Platinum and provides management services.

(d) Linx Partners Ltd., a private company controlled by John Lee, Director, Interim CEO and Executive Chairman of Prophecy Coal, and director and former Chairman and CEO of Prophecy Platinum, and provides management and consulting services for Prophecy Coal and Prophecy Platinum.

(e) MaKevCo Consulting Inc., a private company 50% owned by Greg Hall, director of both Prophecy Coal and Prophecy Platinum, and provides consulting and management services.

(f) Monnis International LLC, a private company controlled by Chuluunbaatar Baz, a director of Prophecy Coal and supplied mining equipment for the Ulaan Ovoo property.

(g) The Energy Gateway Ltd., a private company owned by a former director of Prophecy Coal and provides consulting and management services.

(h) The Elysian Enterprises Inc., a private company owned by David Patterson, a former director of Prophecy Platinum and provides consulting and management services.

(i) The Cantech Capital Corporation, a private company owned by Donald Gee, a former director of Prophecy Platinum and provides consulting and management services.

(j) Resinco Capital Partners with a common former director, provided consulting and management service.

The Company's related party schedules include Prophecy Platinum's related party transactions during the year ended December 31, 2011 and during the eleven months ended November 30, 2012. As a result of the change from control to significant influence over Prophecy Platinum, starting December 1, 2012, the Company uses the equity accounting method.

A summary of related party general and administrative expenses is as follows:

	Year Ended December 31,	
Related parties	2012	2011
Cantech Capital Corp. (i)	$ 6,500	$ -
Elysian Enterprises Inc. (h)	7,500	-
Energy Investment Capital (a)	39,852	38,146
JP McGoran and Associates Ltd. (b)	-	12,500
JWL Investments Corp. (c)	284,500	36,272
Linx Partners Ltd. (d)	1,109,862	560,312
MaKevCo Consulting Inc. (e)	195,500	64,000
Monnis International LLC (f)	-	4,215,846
The Energy Gateway (g)	51,991	164,596
Prophecy Platinum Corp.	-	4,098
Resinco Capital Partners (j)	-	110,714
Directors and officers	400,418	693,323
	$ 2,096,123	$ 5,899,807

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

(Expressed in Canadian Dollars)

		Year Ended December 31,		
Related parties		2012		2011
Consulting and management fees	$	787,534	$	1,014,705
Director fees		313,621		132,033
Office and administration		-		14,632
Professional fees		-		8,250
Salaries and benefits		78,864		38,400
Mineral properties		701,109		4,215,846
Property and equipment		214,996		475,941
	$	2,096,123	$	5,899,807

Prophecy Coal shares administrative assistance and office space, and previously shared management with Prophecy Platinum pursuant to a one year Service Agreement commencing January 1, 2012 for fixed monthly fees of $40,000. Prophecy Coal recovers costs for services rendered to Prophecy Platinum and expenses incurred on behalf of Prophecy Platinum.

On November 6, 2012, Prophecy Coal terminated the consulting agreement that it had with Mau Capital Management LLC, a private company controlled by Mr. John Lee, and as a result of the termination, and in settlement of same, Prophecy Coal made a severance payment of $525,000 to Linx Partners Ltd., another private company controlled by Mr. John Lee. On November 5, 2012, Prophecy Platinum terminated the consulting agreement that it had with Mau Capital Management LLC, and as a result of the termination, and in settlement of same, Prophecy Platinum made a severance payment of $240,000 to Linx Partners Ltd.

On October 31, 2012, each of Prophecy Coal and Prophecy Platinum granted a severance payment of $125,000 to Mr. Joseph Li (50% of each such payment has been paid to JWL Investments Corp., a private company controlled by Mr. Li) in connection with Mr. Li's termination with each of Prophecy Coal and Prophecy Platinum .

As at December 31, 2012, due to related parties was $53,334 (December 31, 2012 – $92,362) owing to directors for directors' fees and for reimbursable expenses. An amount of $82,500 is due from Prophecy Platinum for shared office costs.

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

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including directors of the Company.

		Year Ended December 31,		
Key Management Personnel		2012		2011
Salaries and short-term employee benefits	$	1,628,982	$	973,396
Share-based payments		719,505		3,181,822
Termination benefits		1,015,000		-
	$	3,363,487	$	4,155,218

(Expressed in Canadian Dollars)

11. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Critical accounting estimates used in the preparation of the consolidated financial statements include determining the carrying value of mineral properties 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 Prophecy Coal's control.

Readers are encouraged to read the significant accounting policies and estimates as described in Prophecy Coal's audited consolidated financial statements for the year ended December 31, 2012 (note 5 to the annual audited consolidated financial statements). Prophecy Coal's consolidated financial statements have been prepared using the going concern assumption see note 1 to Prophecy Coal's consolidated financial statements.

Significant accounting judgments and estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Areas requiring the use of estimates include the rates of amortization for property and equipment, the useful life and recoverability of long-lived assets, the recoverability of accounts receivable, determination of environmental obligation provision for closure and reclamation, accounts payable and accrued liabilities, the assumptions used in the determination of the fair value of financial instruments and share-based payments, and the determination of the recoverability of for deferred income tax assets. Prophecy Coal 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. See note 5 to the annual audited consolidated financial statements for further details.

a) Same accounting policies as annual audited consolidated financial statements

Prophecy Coal followed the same accounting policies and methods of computation in the consolidated financial statements for the year ended December 31, 2012 as followed in the consolidated financial statements for the year ended December 31, 2011.

b) Basis of consolidation

The annual audited consolidated financial statements include the accounts of Prophecy Coal and its controlled subsidiaries. All material intercompany balances and transactions have been eliminated. Details of Prophecy Coal's subsidiaries at the date of these MD&A:

	Principal Activity	Place of incorporation and operation	Ownership interest December 31, 2012
0912603 B.C. Ltd.	Exploration/Development	Canada	100%
0912601 B.C. Ltd.	Exploration/Development	Canada	100%
Chandgana Coal LLC	Exploration/Development	Mongolia	100%
Prophecy Power Generation LLC. (formerly East Energy Development LLC)	Exploration/Development	Mongolia	100%
Red Hill Mongolia LLC	Exploration/Development	Mongolia	100%
UGL Enterprises LLC	Inactive	Mongolia	100%

(Expressed in Canadian Dollars)

12. FINANCIAL INSTRUMENTS AND RELATED RISKS

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

12.1 Financial Instruments (see note 24 to the annual audited consolidated financial statements)

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

As at December 31, 2012	Level 1	Level 2	Level 3	Total
Financial assets				
Receivables	$ 456,035	$ -	$ -	$ 456,035
Due from related party	80,000	-	-	80,000
Available-for-sale investments	628,188	-	-	628,188
	$ 1,164,223	$ -	$ -	$ 1,164,223

12.2 Related Risks

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. The Company maintained sufficient cash, including short term investments, at December 31, 2012 in the amount $5,876,331 (December 31, 2011 - $3,480,050) in order to meet short-term business requirements. At December 31, 2012, the Company had accounts payable and accrued liabilities $766,209 (December 31, 2010 - $1,364,890), which have contractual maturities of 90 days or less, and loan payable of $9,392,170 due within one year, on July 16, 2013.

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. Prophecy Coal is exposed to credit risk primarily associated to cash and cash equivalents, receivables and deposits. Prophecy Coal 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 Prophecy Coal'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 Prophecy Coal 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. Prophecy Coal's cash equivalents primarily include highly liquid investments that earn interest at market rates that are fixed to maturity or at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on the fair values or future cash flows of the financial instruments as of December 31, 2012. Prophecy Coal manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

(b) Foreign currency risk

Prophecy Coal is exposed to foreign currency risk to the extent that monetary assets and liabilities held by Prophecy Coal are not denominated in Canadian dollars. Prophecy Coal has exploration and development projects in Mongolia and undertakes transactions in various foreign currencies. Prophecy Coal 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 reporting currency, the Canadian dollar.

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

(c) Commodity and equity price risk

The Company holds investments in available-for-sale that fluctuate in value based on market prices. Based upon the Company's investment position as at December 31, 2012, a 10% increase (decrease) in the market price of the available-for-sale investments held would have resulted in an increase (decrease) to comprehensive income (loss) of approximately $62,800 (December 31, 2011 - $5.5 million). Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in value may be significant.

13. RISKS AND UNCERTAINTIES

Prophecy Coal is exposed to many risks in conducting its business, including but not limited to

Readers should carefully consider the risks and uncertainties described in the Company's Annual Information Form for the year ended December 31, 2012 (the "**AIF**") "Risk Factors" page 66. The AIF is available under the Company's profile at www.sedar.com.

14. DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by Prophecy Coal in its annual filings, 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 Prophecy Coal in its annual filings, filings or other reports filed or submitted under securities legislation is accumulated and communicated to Prophecy Coal'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 Prophecy Coal's disclosure controls and procedures. As of December 31, 2012, the Chief Executive Officer and Chief Financial Officer have each concluded that Prophecy Coal's disclosure controls and procedures, as defined in NI 52-109 are effective to achieve the purpose for which they have been designed except as follows: Prophecy Coal Corp. management identified two material weaknesses in internal controls regarding 2012 annual reporting; being the consistent application of the Company's accounting policies and procedures during 2012 by its wholly owned Mongolian subsidiaries and accounting for non-cash stock based compensation, both of which were communicated to the audit committee and the board of directors. To mitigate these issues the Company hired an internal auditor to report to the audit committee, increased accounting personnel and time in these two areas, and expanded the review diligence, prior to the finalization of the year end consolidated financial statements. Subsequent to the year end, the audit committee, internal auditor and management continue to work with the internal auditor to enhance Company practices and internal controls, in addition to refinements to the Whistle Blower and Code of Conduct policies.

Prophecy Coal's disclosure committee, is comprised of the Chief Executive Officer 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. The Board of Directors is responsible for reviewing the Corporation's disclosure policy, procedures and controls to ensure that it addresses the Corporation's principal business risks, and changes in operations or structure, and facilitates compliance with applicable legislative and regulatory reporting requirements.

Design of Internal Controls over Financial Reporting

Prophecy Coal'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, acquisition and disposition of assets and liabilities;

- 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 the authorization of management and directors of Prophecy Coal; and

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

The Company's management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation 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. There has not been any change in the Company's internal control over financial reporting that occurred during the Company's fourth fiscal quarter of 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

15. DISCLOSURE OF OUTSTANDING SHARE DATA

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

15.1 Share Capital

Authorized – unlimited number of common shares without par value.

Common shares outstanding 230,400,956 with recorded value of $145,968,000.

Subsequent to December 31, 2012, 2,000,000 common shares were issued to Waterton pursuant to the waiver of default related to the $10 million Waterton loan (note 31 to the annual audited consolidated financial statement statements).

15.2 Stock options

Prophecy Coal has adopted a fixed share option plan (the "**Share Option Plan**") permitting it to grant share options exercisable for up to 38,165,342 common shares of the Company. The purpose of the Share Option

Plan is to allow Prophecy Coal to grant options to directors, officers, employees and consultants, as additional compensation, and as an opportunity to participate in the success of Prophecy Coal. 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 Coal to set option exercise prices equal to or greater than the market price (as defined by the TSX based on the closing market price of the shares prevailing on the day that options are granted).

Subsequent to the year end, the Company granted 300,000 stock options at an exercise price $0.14 per option for a period of five years to an employee of the Company.

As at the date of this report, 32,785,550 share options are outstanding, 21,366,383 are exercisable at prices ranging from $0.25 to $1.03 and which expire between 2014 and 2017.

15.3 Share Purchase Warrants

During the year ended December 31, 2012, 1,479,509 warrants were exercised at a weighted average exercise price of $0.51 and 15,334 warrants expired at a weighted average exercise price of $0.49. Prophecy Coal has not issued any warrants in the fiscal year 2012.

Prophecy Coal has extended the expiry date of 3,831,511 warrants by three years, from the original expiry date of October 28, 2012 to October 28, 2015 and re-priced the exercise price of these warrants from $0.66 to $0.18.

Subsequent to December 31, 2012, the following warrants expired unexercised:

- 2,653,967 warrants exercisable at $0.80 per share on March 23, 2013;
- 2,964,730 warrants exercisable at $0.80 per share on March 31, 2013; and
- 551,968 warrants exercisable at $0.77 per share on March 31, 2013.

As at the date of this MD&A, Prophecy Coal has 4,169,261 warrants outstanding at prices ranging from $0.18 to $0.80 and expiry dates ranging from April 21, 2013 to October 28, 2015.

16. OFF-BALANCE SHEET ARRANGEMENT

During the year ended December 31, 2012, Prophecy Coal 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 Prophecy Coal.