Prophecy
Coal Corp.

Annual Consolidated Financial Statements
For the years ended December 31, 2012 and 2011
(Expressed in Canadian Dollars)

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The annual audited consolidated financial statements (the "Annual Financial Statements"), the notes thereto, and other financial information contained in the accompanying Management's Discussion and Analysis ("MD&A") have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and are the responsibility of the management of Prophecy Coal Corp. (the "Company"). The financial information presented elsewhere in the MD&A is consistent with the data that is contained in the Annual Financial Statements. The Annual Financial Statements, where necessary, include amounts which are based on the best estimates and judgment of management.

In order to discharge management's responsibility for the integrity of the Annual Financial Statements, the Company maintains a system of internal accounting controls. These controls are designed to provide reasonable assurance that the Company's assets are safeguarded, transactions are executed and recorded in accordance with management's authorization, proper records are maintained and relevant and reliable financial information is produced. These controls include maintaining quality standards in hiring and training of employees, policies and procedures manuals, a corporate code of conduct and ethics and ensuring that there is proper accountability for performance within appropriate and well-defined areas of responsibility. The system of internal controls is further supported by a compliance function, which is designed to ensure that we and our employees comply with securities legislation and conflict of interest rules.

The Board of Directors is responsible for overseeing management's performance of its responsibilities for financial reporting and internal control. The Audit Committee, which is composed of non-executive directors, meets with management as well as the external auditors to ensure that management is properly fulfilling its financial reporting responsibilities to the Board who approve the Annual Financial Statements. The external auditors have full and unrestricted access to the Audit Committee to discuss the scope of their audits and the adequacy of the system of internal controls, and to review financial reporting issues.

The external auditors, Ernst & Young LLP, have been appointed by the Company's shareholders to render their opinion on the Annual Financial Statements and their report is included herein.

"John Lee"	"*Jeffrey Mason*"
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John Lee, Interim Chief Executive Officer	Jeffrey Mason, Chief Financial Officer
Vancouver, British Columbia	

April 2, 2013

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Prophecy Coal Corp.

We have audited the accompanying consolidated financial statements of **Prophecy Coal Corp.**, which comprise the consolidated statement of financial position as at December 31, 2012, and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Prophecy Coal Corp.** as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The consolidated financial statements of **Prophecy Coal Corp.** for the year ended December 31, 2011 were audited by another auditor who expressed an unmodified opinion on those statements on March 29, 2012.

Ernst & Young LLP

Vancouver, Canada,
April 2, 2013.

Chartered Accountants

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

	Notes		December 31 2012		December 31 2011
Assets					
Current assets					
Cash and cash equivalents	9	$	768,831	$	3,480,050
Short term investment	10		5,107,500		-
Receivables	11		456,035		1,105,429
Amount due from associate			82,500		-
Prepaid expenses	12		1,443,282		609,357
Inventory	13		2,436,534		-
Available-for-sale-investments	14		-		3,839,988
			10,294,682		9,034,824
Non-current assets					
Reclamation deposits			27,554		6,500
Receivables	11		-		2,137,031
Equipment deposits and other			-		2,053,613
Available-for-sale-investments	14		628,188		3,796,175
Investment in associate	15		25,118,910		-
Property and equipment	16		12,929,342		51,645,276
Mineral properties	17		13,387,882		62,169,481
		$	62,386,558	$	130,842,900
Liabilities and Equity					
Current liabilities					
Accounts payable & accrued liabilities	18	$	766,209	$	1,364,890
Loans payable	19		9,392,170		-
			10,158,379		1,364,890
Non-current liabilities					
Provision for closure and reclamation	20		294,263		257,355
Deferred income tax	21		953,100		-
			11,405,742		1,622,245
Equity					
Share capital	22		145,796,591		134,492,080
Reserves			18,577,859		17,138,468
Accumulated other comprehensive loss	14		-		(1,842,782)
Deficit			(113,393,634)		(53,375,529)
Equity attributable to owners of the Company			50,980,816		96,412,237
Equity attributable to non-controlling interest	15		-		32,808,418
Total Equity			50,980,816		129,220,655
		$	62,386,558	$	130,842,900

Approved on behalf of the Board:

"John Lee"	*"Greg Hall"*
Director	Director

Events After the Reporting Date (note 31)

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

Year Ended December 31	Notes		2012		2011
General and Administrative Expenses					
Consulting and management fees		$	877,343	$	1,476,887
Share-based payments	22		2,650,632		6,921,116
Advertising and promotion			2,018,946		1,208,229
Professional fees			1,303,805		1,161,838
Travel and accommodation			397,126		619,196
Stock exchange and shareholder services			231,272		337,059
Salaries and benefits			1,725,900		435,595
Office and administration			517,095		396,399
Insurance			225,347		122,458
Director fees			335,964		130,452
Mine site care and maintenance			367,879		-
Depreciation			196,968		150,439
Loss Before Other Items and Deferred Income Tax Recovery			(10,848,277)		(12,959,668)
Other Items					
Interest income			59,435		135,466
Interest expense	19		(1,145,031)		(9,091)
Loss on sale of investments			(1,652,514)		-
Gain on deconsolidation of subsidiary	15		4,366,912		-
Share of net loss of associate	15		(196,961)		-
Investment income			-		21,934
Flow through premium liability income			201,914		-
Foreign exchange gain (loss)			(272,456)		2,588,904
Mineral property write down	17		(651,823)		-
Loss on disposal of equipment			(191,528)		-
Impairment write down on property and equipment	16		(47,063,713)		-
Impairment on available-for-sale investments	14		(2,639,572)		-
			(49,185,337)		2,737,213
Loss Before Deferred Income Tax Recovery (Expense)			(60,033,616)		(10,222,455)
Deferred income tax recovery (expense)	21		(1,355,492)		448,687
Net Loss for Year			(61,389,108)		(9,773,768)
Fair value gain (loss) on available-for-sale investments	14		1,923,769		(1,414,819)
Comprehensive Loss for Year		$	(59,465,339)	$	(11,188,587)
Net loss for year attributable to:					
Owners of the Company		$	(56,876,372)	$	(7,137,313)
Non-controlling interest			(4,512,736)		(2,636,455)
		$	(61,389,108)	$	(9,773,768)
Comprehensive loss for year attributable to:					
Owners of the Company		$	(55,033,590)	$	(8,454,021)
Non-controlling interest			(4,431,749)		(2,734,566)
		$	(59,465,339)	$	(11,188,587)
Loss Per Common Share, basic and diluted		$	(0.28)	$	(0.05)
Weighted Average Number of Shares Outstanding			222,183,144		193,174,218

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

	Note	Numbers of shares	Share Capital	Reserves	Accumulated Other Comprehensive Loss	Deficit	Equity attributable to owners of the Company	Non-controlling Interest	Total
Balance, January 1, 2011		184,981,199	$ 125,458,376	$ 13,689,514	$ (512,616)	$ (27,579,123)	$ 111,056,151	$ -	$ 111,056,151
Expired escrowed shares cancelled		(187,500)	-	-	-	-	-	-	-
Options exercised		1,500,300	1,206,623	(543,925)	-	-	662,698	-	662,698
Warrants exercised		14,815,423	7,827,081	(156,347)	-	-	7,670,734	-	7,670,734
Share-based payments		-	-	4,149,226	-	-	4,149,226	3,659,740	7,808,966
Non-controlling interest on acquisition		-	-	-	-	-	-	-	-
of Prophecy Platinum Corp.		-	-	-	-	-	-	5,725,409	5,725,409
Funding from non-controlling interest,		-	-	-	-	-	-	-	-
net of dilution		-	-	-	-	2,888,033	2,888,033	7,668,585	10,556,618
Dilution on spin-out transaction		-	-	-	-	(3,071,334)	(3,071,334)	-	(3,071,334)
Loss for the year		-	-	-	-	(7,137,313)	(7,137,313)	(2,636,455)	(9,773,768)
Distribution to shareholders on spin-off		-	-	-	-	(18,475,792)	(18,475,792)	18,475,792	-
Unrealized loss on available-for-sale-investments		-	-	-	(1,330,166)	-	(1,330,166)	(84,653)	(1,414,819)
Balance, December 31, 2011		201,109,422	134,492,080	17,138,468	(1,842,782)	(53,375,529)	96,412,237	32,808,418	129,220,655
Private placement, net of share issue costs	22	22,363,866	9,289,191	-	-	-	9,289,191	-	9,289,191
Shares issued as financing fees	19	2,735,617	600,000	-	-	-	600,000	-	600,000
Options exercised	22	187,500	159,875	(113,000)	-	-	46,875	-	46,875
Warrants exercised	22	1,479,509	762,578	(7,232)	-	-	755,346	-	755,346
Share-based payments	22	-	-	905,229	-	-	905,229	1,984,365	2,889,594
Warrant modification		-	-	580,031	-	(580,031)	-	-	-
Stock bonus to personnel		525,042	78,857	74,363	-	-	153,220	-	153,220
Dilution and sale of interest in subsidiary	15	-	-	-	-	(2,561,702)	(2,561,702)	20,250,321	17,688,619
Loss for the year		-	-	-	-	(56,876,372)	(56,876,372)	(4,512,736)	(61,389,108)
Unrealized gain (loss) on available-for-sale-investments		-	-	-	(795,580)	-	(795,580)	80,987	(714,593)
Unrealized loss on foreign exchange		-	-	-	-	-	-	-	-
Deferred income tax	21		414,010	-	-	-	414,010	-	414,010
Impairment of available-for-sale-investment	14	-	-	-	2,638,362	-	2,638,362	-	2,638,362
De-consolidation of subsidiary	15	-	-	-	-	-	-	(50,611,355)	(50,611,355)
Balance, December 31, 2012		228,400,956	$ 145,796,591	$ 18,577,859	$ -	$ (113,393,634)	$ 50,980,816	$ -	$ 50,980,816

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

	Year Ended December 31, 2012	2011
Operating Activities		
Net loss for the year	$ (61,389,108)	$ (9,773,768)
Items not involving cash		
Depreciation and accretion	203,806	150,439
Share-based payments	2,650,632	6,921,116
Loss on sale of investments	1,652,514	-
Unrealized gain on deconsolidation of subsidiary	(4,366,912)	-
Share of loss of an associate	196,961	-
Impairment write down on property and equipment	47,063,713	-
Impairment on available-for-sale investments	2,639,572	
Deferred income tax expense (recovery)	1,355,492	(448,687)
Mineral property write down	651,823	-
Interest income	(59,435)	-
	(9,400,941)	(3,150,900)
Changes in non-cash working capital		
Receivables	2,703,925	(2,810,113)
Prepaid expenses	(833,925)	(522,034)
Accounts payable and accrued liabilities	48,254	(402,396)
Interest expense	1,145,031	-
	3,063,285	(3,734,543)
Cash Used in Operating Activities	(6,337,656)	(6,885,443)
Investing Activities		
Cash received upon exchange transaction with Prophecy Platinum	-	778,676
Equipment deposits and other	-	(2,053,614)
Acquisition of property and equipment	(14,415,386)	(26,972,620)
Mineral property expenditures	(8,882,679)	(8,730,929)
Purchase of available-for-sale investments	-	(5,755,637)
Purchase of short term investment	(5,107,500)	-
Interest received from short term investment	78,164	-
Net proceeds from sale of available-for-sale investments	4,570,289	-
Loss on disposal of equipment	(191,528)	-
Cash disposed on loss of control of subsidiary	(2,146,240)	-
Cash Used in Investing Activities	(26,094,880)	(42,734,124)
Financing Activities		
Proceeds from loan, net	9,625,000	-
Interest paid	(656,736)	-
Flow through premium liability income	201,914	-
Repayment of loan	-	(5,083,334)
Shares issued, net of share issuance costs	19,147,919	18,858,800
Net proceeds from exercise of options	298,876	-
Net proceeds from exercise of warrants	1,104,344	-
Cash Provided by Financing Activities	29,721,317	13,775,466
Net Decrease in Cash	(2,711,219)	(35,844,101)
Cash and Cash Equivalents - beginning of year	3,480,050	39,324,151
Cash and Cash Equivalents - end of year	$ 768,831	$ 3,480,050

1. NATURE OF OPERATIONS AND GOING CONCERN

Prophecy Coal Corp. (“Prophecy Coal” or the “Company”) is incorporated under the laws of the province of British Columbia, Canada and is engaged in exploring and developing coal properties and coal mine-mouth power projects in Mongolia. The Company maintains its head office at 2nd floor, 342 Water Street, Vancouver, B.C., Canada, V6B 1B6.

The business of mineral exploration involves a high degree of risk and there can be no assurance that the Company’s current operations, including exploration programs, will result in profitable mining operations. The recoverability of the carrying value of mineral properties, and property and equipment interests and the Company’s continued on going existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, the ability of the Company to raise additional sources of funding, and/or, alternatively, upon the Company’s ability to dispose of some or all of its interests on an advantageous basis.

It is indeterminate when and whether the Company can attain profitability and positive cash flow, obtain adequate additional financing, start and achieve profitable operations at the Ulaan Ovoo property, develop the Chandgana Power Plant project including coal feed, control costs of production, and achieve the required market price levels for coal.

The Company has incurred significant losses and negative cash flow from operations in recent years. The Company was in pre-commercial production at its Ulaan Ovoo coal property in Mongolia commencing in November 2010. 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. For the year ended December 31, 2012, the Company’s net loss amounted to $61.4 million, including a non-cash impairment write-down of $47.1 million to the carrying value of the Ulaan Ovoo property, and the cumulative deficit was $113.4 million, as at December 31, 2012.

At December 31, 2012, Prophecy Coal had approximately $0.8 million, cash and cash equivalents and $5.1 million comprised of short term investments in the form of Guaranteed Investment Certificates with the Bank of Montreal. Working capital amounted to $0.1 million at December 31, 2012 compared to working capital of $9.8 million as at December 31, 2011.

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); 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. In the event that the Company is not able to obtain adequate additional funding to continue as a going concern, material adjustment would be required to both the carrying value and classification of assets and liabilities on the balance sheet.

In 2012, in order to finance its business, the Company: 1) entered into a $10 million secured debt facility with Waterton Global Value, L.P. (note 19); 2) completed share equity financings amounting to net $9.6 million, 3) received proceeds from warrants and options exercised amounting to $0.8 million; and 4) sold some of its Prophecy Platinum shares for $0.7 million. Subsequent to the year end, on February 7, 2013, the Company announced that is undertaking a non-brokered private placement to raise gross proceeds of up to $8.4 million (note 31).

Management has determined that the Company will be able to continue as a going concern for the foreseeable future and realize its assets and discharge its liabilities and commitments in the normal course of business, and therefore, these annual audited consolidated financial statements for the year ended December 31, 2012 (the "Annual Financial Statements") have been prepared on a going concern basis and do not reflect any adjustments that maybe necessary if the Company is unable to continue as a going concern.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires the Company's management to exercise judgment in applying the Company's accounting policies. The areas where significant judgments and estimates have been made in preparing these Annual Financial Statements and their effect are disclosed in note 5.

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as available-for-sale and fair value through profit or loss ("FVTPL"), which are stated at their fair values.

The accounting policies set out in note 5 have been applied consistently by the Company and its subsidiaries to all years presented.

(b) Approval of the financial statements

The Annual Financial Statements were approved and authorized for issue by the Board of Directors on April 2, 2013.

(c) Functional Currency

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

3. BASIS OF CONSOLIDATION

a) Subsidiaries

The Annual Financial Statements comprise the financial statements of the Company and its wholly owned subsidiaries as at December 31, 2012. Subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. Effects of transactions between related companies are eliminated on consolidation. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company. Accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

On November 30, 2012, it was determined that Prophecy Coal's control changed to significant influence over Prophecy Platinum. As a result, the Company deconsolidated Prophecy Platinum from its balance sheet on November 30, 2012 and thereafter accounts for Prophecy Platinum as an Investment in Associate using the equity accounting method (note 15).

(Expressed in Canadian Dollars)

Prophecy Coal's subsidiaries at December 31, 2012 are as follows:

	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%

4. CHANGES IN ACCOUNTING POLICIES

a) New Accounting Standards

IFRS 9 Financial Instruments

In November 2009, the IASB issued IFRS 9 Financial Instruments as the first step in its project to replace IAS 39 Financial Instruments: Recognition a Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on an entity's business model and the contractual cash flows of the financial asset. Classification is made at the time the financial asset is initially recognized, namely when the entity becomes a party to the contractual provisions of the instrument. IFRS 9 amends some of the requirements of IFRS 7 Financial Instruments: Disclosures, including added disclosures about investments in equity instruments measured at fair value in OCI, and guidance on the measurement of financial liabilities and de-recognition of financial instruments. In December 2011, the IASB issued an amendment that adjusted the mandatory effective date of IFRS 9 from January 1, 2013 to January 1, 2015.

The amendments to IFRS 7 were effective for the Company beginning on January 1, 2012, and there was no impact on the Company's financial statements upon adoption.

IFRS 10 Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10 Consolidated Financial Statements to replace IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. The new consolidation standard changes the definition of control so that the same criteria apply to all entities, both operating and special purpose entities, to determine control. The revised definition focuses on the need to have both powers over the investee to direct relevant activities and exposure to variable returns before control is present. IFRS 10 will be applied starting January 1, 2013. The Company expects no significant impact on the Company's financial statements upon adoption of IFRS 10 on January 1, 2013.

IFRS 11 Joint Arrangements

In May 2011, the IASB issued IFRS 11 Joint Arrangements to replace IAS 31 Interests in Joint Ventures. The new standard defines two types of arrangements: Joint Operations and Joint Ventures. Focus is on the rights and obligations of the parties to the joint arrangement, thereby requiring parties to recognize the individual assets and liabilities to which they have rights or for which they are responsible, even if the joint arrangement operates in a separate legal entity. IFRS 11 will be applied starting January 1, 2013. The Company is currently assessing the impact of adopting IFRS 11 on its consolidated financial statements.

IFRS 12 Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12 Disclosure of Interests in Other Entities to create a comprehensive disclosure standard to address the requirements for subsidiaries, joint arrangements and associates and the reporting entity's involvement with other entities. It also includes the requirements for unconsolidated structured entities (i.e. special purpose entities). IFRS 12 will be applied starting January 1, 2013. The Company's financial statements in subsequent periods will include new disclosures as required by IFRS 12.

IFRS 13 Fair Value Measurement

In May 2011, the IASB issued IFRS 13 Fair Value Measurement as a single source of guidance for all fair value measurements required by IFRS to reduce the complexity and improve consistency across its application. The standard provides a definition of fair value and guidance on how to measure fair value as well as a requirement for enhanced disclosures. IFRS 13 will be applied starting January 1, 2013. The Company's financial statements in subsequent period will include new disclosure as required by IFRS 13.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

In October 2011, the IASB issued IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine. IFRIC 20 provides guidance on the accounting for the costs of stripping activity in the production phase of surface mining when two benefits accrue to the entity from the stripping activity: useable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods. The Company is currently assessing the impact of adopting IFRIC 20 on its consolidated financial statements.

5. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of a company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

5.1 Significant Judgments

The significant judgments that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimation uncertainties (note 5.1.2), that have the most significant effect on the amounts recognized in the Annual Financial Statements include, but are not limited to:

a) Assessment between control over a subsidiary and significant influence over an associate

   Each reporting period, the Company assesses whether the Company has control over its partially owned subsidiary, Prophecy Platinum Corp. A determination of whether the parent still has control over a subsidiary requires the Company to make significant judgment, taking into account several facts and circumstances. On November 30, 2012, it was determined that Prophecy Coal's control over Prophecy Platinum changed to significant influence (note 15).

b) Functional currency determination

   The functional currency for each of the Company's subsidiaries and investment in an associate is the currency of the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

c) Operating levels intended by management and valuation of property and equipment

   Prior to reaching operating levels intended by management, costs incurred are capitalized as part of the costs of the related mineral property and proceeds from coal sales are offset against capitalized costs. Depletion of capitalized costs for a mineral property begins when operating levels intended by management have been reached. Management considers several factors in determining when a mineral property has reached the operating levels intended by management (note 5.3 (h)). The results of operations of the Company during the year ended December 31, 2012, presented in these Annual Financial Statements, have been impacted by management's determination that its Ulaan Ovoo mineral property, classified within property and equipment on the balance sheet, did not reach the operating levels intended by management. The Company is unable to determine with certainty the extent of project changes and operational modifications that would be required to more fully realize on the potential value of the existing coal resources and, as a consequence, booked a non-cash impairment write down on the Ulaan Ovoo property as at December 31, 2012 (Note 16).

d) Economic recoverability and probability of future economic benefits of exploration, evaluation and development costs

   Management has determined that exploratory drilling, evaluation, development and related costs incurred which have been capitalized are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping, prefeasibility and feasibility studies, assessable facilities, existing permits and life of mine plans.

e) Impairment assessment of deferred exploration interests

The Company considers both external and internal sources of information in assessing whether there are any indications that mineral property interests are impaired. External sources of information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of mineral property interest. Internal sources of information the Company considers include the manner in which mineral properties and plant and equipment are being used or are expected to be used and indications of economic performance of the assets. Management has determined that at December 31, 2012, there was an impairment write down of the Ulaan Ovoo property (note 16) and there was no impairment of the Company's other mineral property interests.

5.2 Estimates and Assumptions

The Company bases its estimates and assumptions on current and various other factors that it believes to be reasonable under the circumstances. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

The areas which require management to make significant estimates and assumptions in determining carrying values include, but are not limited to:

a) Mineral reserves

The recoverability of the carrying value of the exploration and evaluation assets and mineral properties is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest;

b) Purchase price allocation

Applying the acquisition method to business combinations requires each identifiable asset and liability to be measured at its acquisition-date fair value. The excess, if any, of the fair value of consideration over the fair value of the net identifiable assets acquired is recognized as goodwill. The determination of the acquisition-date fair values often requires management to make assumptions and estimates about future events. The assumptions and estimates relating to determining the fair value of mineral properties, property, plant and equipment acquired generally require a high degree of judgment, and include estimates of mineral reserves acquired, future metal prices and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could affect the amounts assigned to assets, liabilities and goodwill in the purchase price allocation.

c) Depreciation, depletion and amortization

Significant judgment is involved in the determination of useful life and residual values for the computation of depreciation, depletion and amortization and no assurance can be given that actual useful lives and residual values will not differ significantly from current assumptions.

d) Impairment

The carrying value of property and equipment is reviewed each reporting period to determine whether there is any indication of impairment. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired and an impairment loss is recognized in the consolidated statement of operations. The assessment of fair values, including those of the cash generating units (the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflow from other assets or groups of assets) ("CGUs") for purposes of testing goodwill, require the use of estimates and assumptions for recoverable production, long-term commodity prices, discount rates, foreign exchange rates, future capital requirements and operating performance. Changes in any of the assumptions or estimates used in determining the fair value of goodwill or other assets could impact the impairment analysis.

e) Inventories

Coal stockpiles are valued at the lower of production cost and net realizable value. The costs of inventories are determined on a weighted average basis. Production cost includes direct and indirect labour, operating materials and supplies, transportation costs, and an applicable portion of operating overhead, including depreciation and depletion. Net realizable value is the expected average selling price of the finished product less the costs to get the product into saleable form and to the selling location.

The allocation of costs to stockpiles and in-process inventories and the determination of net realizable value involve the use of estimates. There can be no assurance that actual results will not differ significantly from estimates used in the determination of the carrying value of inventories.

f) Allowance for doubtful accounts, and the recoverability of accounts receivable and prepaid expense amounts

Significant estimates are involved in the determination of recoverability of accounts receivable and no assurance can be given that actual proceeds will not differ significantly from current estimations. Similarly, significant estimates are involved in the determination of the recoverability of services and/or goods related to the prepaid expense amounts, and actual results could differ significantly from current estimations.

g) Asset retirement obligation

The Company assesses its mineral properties' rehabilitation provision at each reporting date or when new material information becomes available. Exploration, development and mining activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. Accounting for reclamation obligations requires management to make estimates of the future costs that the Company will incur to complete the reclamation work required to comply with existing laws and regulations at each location. Actual costs incurred may differ from those amounts estimated. Also, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for reclamation and remediation. The provision represents management's best estimate of the present value of the future reclamation and remediation obligation. The actual future expenditures may differ from the amounts currently provided.

h) Share-based payments.

Management uses valuation techniques in measuring the fair value of share options granted. The fair value is determined using the Black Scholes option pricing model which requires management to make certain estimates, judgement, and assumptions in relation to the expected life of the share options and share purchase warrants, expected volatility, expected risk-free rate, and expected forfeiture rate (note 23). Changes to these assumptions could have a material impact on the Annual Financial Statements.

i) Contingencies.

The assessment of contingencies involves the exercise of significant judgment and estimates of the outcome of future events. In assessing loss contingencies related to legal proceedings that are pending against the Company and that may result in regulatory or government actions that may negatively impact the Company's business or operations, the Company and its legal counsel evaluate the perceived merits of the legal proceeding or unasserted claim or action as well as the perceived merits of the nature and amount of relief sought or expected to be sought, when determining the amount, if any, to recognize as a contingent liability or when assessing the impact on the carrying value of the Company's assets. Contingent assets are not recognized in the Annual Financial Statements.

j) Deferred Tax Liability

Judgement is required to determine which types of arrangements are considered to be a tax on income in contrast to an operating cost. Judgement is also required in determining whether deferred tax liabilities are recognised in the statement of financial position. Deferred tax liabilities, including those arising from un-utilised tax gains, require management to assess the likelihood that the Company will generate sufficient taxable losses in future periods, in order to offset recognised deferred tax liabilities. Assumptions about the generation of future taxable losses depend on management's estimates of future cash flows. These estimates of future taxable losses are based on forecast cash flows from operations (which are impacted by production and sales volumes, commodity prices, reserves, operating costs, closure and rehabilitation costs, capital expenditure, and other capital management transactions) and judgement about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable losses differ significantly from estimates, the ability of the Company to offset the net deferred tax liabilities recorded at the reporting date could be impacted

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Business combinations and loss of control of an entity

Business combinations are accounted for applying the acquisition method:

- The acquisition cost is measured at the acquisition date at the fair value of the consideration transferred, including all contingent consideration. Subsequent changes in contingent consideration are accounted for either through profit or loss or through other comprehensive income.

- Identifiable assets and liabilities acquired are measured at fair value. Fair value measurements must be completed within one year or as soon as the necessary information to identify and value the assets and liabilities has been obtained. They are performed in the currency of the acquiree. In subsequent years, these fair value adjustments follow the same accounting treatment as the items to which they relate.

- Goodwill is the difference between the consideration transferred and the fair value of the identifiable assets and a liability assumed at the acquisition date, and is recognized as an asset in the balance sheet.

The loss of control of an entity while retaining a residual equity interest may be analyzed as the disposal of a controlling interest followed by the acquisition of a non-controlling interest. This process involves, as of the date when control is lost: (i) the recognition of a gain or loss on disposal, comprising a gain or loss resulting from the percentage ownership interest sold; and (ii) a gain or loss resulting from the re-measurement at fair value of the ownership interest retained in the entity. The other comprehensive income items are reclassified in the profit or loss resulting from the ownership interest disposed.

(b) Associates

Associates are entities, including unincorporated entities such as partnerships, over which the Company has significant influence and that are neither subsidiaries nor interests in joint ventures. Significant influence is the ability to participate in the financial and operating policy decisions of the investee without having control or joint control over those policies. In general, significant influence is presumed to exist when the Company has between 20% and 50% of voting power. Significant influence may also be evidenced by factors such as the Company's representation on the board of directors, participation in policy-making of the investee, material transactions with the investee, interchange of managerial personnel, or the provision of essential technical information. Associates are equity accounted for from the effective date of commencement of significant influence to the date that the company ceases to have significant influence.

Results of associates are equity accounted for using the results of their most recent annual financial statements or interim financial statements, as applicable. Losses from associates are recognized in the consolidated financial statements until the interest in the associate is written down to nil. Thereafter, losses are recognized only to the extent that the Company is committed to providing financial support to such associates.

The carrying value of the investment in an associate represents the cost of the investment, including goodwill, a share of the post-acquisition retained earnings and losses accumulated other comprehensive income ("AOCI") and any impairment losses. At the end of each reporting period, the Company assesses whether there is any objective evidence that its investments in associates are impaired.

(c) Cash equivalents

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

(d) Short term investment

Short-term investments consist of certificates of deposit and money market instruments, including cashable guaranteed investment certificates, bearer deposit notes and commercial paper with original terms of three months or more, but less than one year.

(e) Available-for-sale investments

Available-for-sale equity investments are recorded at fair value with unrealized gains and losses recorded in Other Comprehensive Income ("OCI"). Realized gains and losses are recorded in the consolidated statement of operations when investments are sold and are calculated using the average carrying amount of securities sold.

(f) Impairment of financial assets

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of investments classified as available-for-sale, an evaluation is made as to whether a decline in fair value is significant or prolonged based on an analysis of indicators such as market price of the investment and significant adverse changes in the technological, market, economic or legal environment in which the investee operates.

If an available-for-sale financial asset is impaired, an amount equal to the difference between its carrying value and its current fair value is transferred from AOCI and recognized in the consolidated statement of operations. Reversals of impairment charges in respect of equity instruments classified as available-for-sale are not recognized in the consolidated statement of operations.

(g) Mineral properties

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

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

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

(i) Title to mineral properties

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title, nor has the Company insured title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

(ii) Realization of mineral property assets

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

(iii) Environmental

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

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

(h) Property and equipment

(i) Development

When economically viable reserves have been determined and the decision to proceed with development has been approved, the expenditures related to development and construction are capitalized as construction-in-progress and, in addition, any pre-commercial production is also capitalized, all of which is classified as a component of property and equipment.

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

Road and bridges, classified within mine development and deferred exploration costs, are amortized on a declining balance basis at an annual rate of 20%.

(ii) Equipment

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

Depreciation of equipment is recorded on a declining-balance basis at the following annual rates, (excepting standby equipment at 50% of these rates):

Computer equipment	45%
Computer software	100%
Exploration equipment	20%
Furniture and equipment	20%
Leasehold improvements	Straight line/5yrs
Mining equipment	20%
Vehicles	30%

When parts of major components of equipment have different useful lives, they are accounted for as a separate item of equipment.

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

Leasehold improvements are amortized on a straight-line basis over the term of the lease. Additions during the year are amortized at one-half the annual rates.

(i) Impairment of non-current assets and CGUs

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU, where the recoverable amount of the CGU is the greater of the CGU's fair value less costs to sell and its value in use to which the assets belong.

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

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

Each project or group of claims or licenses is treated as a CGU. The Company uses its best efforts to fully understand all of the aforementioned to make an informed decision based upon historical and current facts surrounding the projects. Discounted cash flow techniques often require management to make estimates and assumptions concerning reserves and expected future production revenues and expenses, which can vary from actual.

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

(j) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. Where surplus funds are available for a short-term from funds borrowed specifically to finance a project, the income generated from the temporary investment of such amounts is also capitalized and deducted from the total capitalized borrowing cost. Where the funds used to finance a project are from part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during the period. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(k) Foreign currency translation

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

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

(l) Revenue recognition

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

Sales of coal are recognized when the risks and rewards of ownership pass to the customer and the price can be measured reliably. Sales contracts and revenue is recognized based on the terms of the contract. Revenue is measured at the fair value of the consideration received, excluding discounts and rebates. Royalties related to production are recorded in cost of sales.

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

(m) Unit offerings

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

(n) Inventories

Net realisable value tests are performed at each year end reporting date and represent the estimated future sales price of the product the entity expects to realise when the product is processed and sold, less estimated costs to complete production and bring the product to sale. This value is compared to the cost of producing coal, with the lower of the net realisable value or the cost being recorded.

Stockpiles are measured by estimating the number of tonnes added and removed from the stockpile.

Stockpile tonnages are verified by periodic surveys.

(o) Share-based payments

The Company has a share option plan that is described in Note 21c. The Company accounts for share-based payments using a fair value based method with respect to all share-based payments to directors, officers, employees, and service providers. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or if such fair value is not reliably measurable, at the fair value of the equity instruments issued. The fair value is recognized as an expense or capitalized to mineral properties or property and equipment with a corresponding increase in option reserve. This includes a forfeiture estimate, which is revised for actual forfeitures in subsequent periods.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated statement of comprehensive income over the remaining vesting period.

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

(p) Loss per share

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

(q) Income taxes

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

(r) Provision for closure and reclamation

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

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

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

(s) Financial instruments

(i) Financial assets

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

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

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

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in profit or loss. The losses arising from impairment are recognized in profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

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

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

(iii) Financial liabilities

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

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

(t) Non-controlling interest

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

7. BUSINESS COMBINATIONS AND ACQUISITIONS

(a) Acquisition of Shares of Prophecy Platinum Corp.

On June 13, 2011, the Company completed the transfer of the Wellgreen and Lynn Lake nickel properties and $2,000,000 cash to Pacific Coast Nickel Corp. ("PCNC") through an court-approved plan of arrangement (the "Arrangement"). Pursuant to the terms of the Arrangement, PCNC issued 450,000,000 of its common shares to Prophecy Coal. The Company retained 269,176,425 of these shares, and distributed 180,823,575 of these shares to Prophecy Coal shareholders. Of the 269,176,425 retained shares, the Company placed in trust 44,176,425 reserved pre-consolidation shares for distribution to holders of Prophecy Coal options and warrants, upon the exercise of such options and warrants, which if unexercised will revert back to Prophecy Coal in February 2016.

Immediately following the completion of the Arrangement, PCNC consolidated its share capital on a ten (10) old for one (1) new basis (the "Consolidation") and changed its name to Prophecy Platinum Corp. ("Prophecy Platinum").

As a result of the Arrangement and Consolidation, each Prophecy Coal shareholder received 0.094758 of a post-Consolidation Prophecy Platinum share for each Prophecy Coal share held by them as at the end of June 9, 2011. Each option holder and warrant holder of Prophecy Coal will, upon the exercise of their Prophecy Coal options and warrants, as the case may be, receive 0.094758 of a post-Consolidation Prophecy Platinum share, in addition to one common share of Prophecy Coal for each whole option or warrant of Prophecy Coal held, Prophecy Coal placed in trust 44,176,425 reserved Prophecy Platinum pre-consolidation shares if these options and warrants are exercised. Upon completion of the transaction, Prophecy Platinum had 50,657,321 post-Consolidation shares outstanding and Prophecy Coal owned 22,500,000 post-Consolidation shares of Prophecy Platinum. There were 3,267,934 post consolidation shares reserved for distribution to holders of Prophecy Coal as of December 31, 2012 (December 31, 2011 3,423,719: June 13, 2011; 4,417,643). The Company has not included these reserved shares in its ownership calculation of Prophecy Platinum as there is no certainty if the Company will become owners of those shares.

As a result of the Arrangement, the Company acquired 44.4% of Prophecy Platinum's issued and outstanding shares and, through other relationships, was determined to have had de facto control over Prophecy Platinum following completion of the Arrangement. Accordingly, the Company consolidated the results of Prophecy Platinum from June 13, 2011, the date that the Arrangement was completed. The Company recorded the interest in the Wellgreen and Lynn Lake properties at their carrying values as it retained control of the properties. Prophecy Platinum was considered a subsidiary of Prophecy Coal and its financial results were consolidated into the Company's financial statements.

The Company's ownership interest in Prophecy Platinum was reduced to 32.1% as at December 31, 2012, which resulted in a dilution impact recorded to deficit. The Company determined that as at November 30, 2012 its control over Prophecy Platinum had changed to significant influence and, as a result, deconsolidated Prophecy Platinum from its balance sheet. Since December 1, 2012, the Company has exerted and continues to exert significant influence over Prophecy Platinum and accounts for the Prophecy Platinum shares that it holds as an Investment in Associate using the equity accounting method (note 15).

(Expressed in Canadian Dollars)

The fair value of Prophecy Platinum's net assets following completion of the Arrangement was as follows:

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

(b) Prophecy Platinum's Acquisition of URSA Major Minerals Inc.

On July 16, 2012, Prophecy Platinum acquired URSA Major Minerals Incorporated ("URSA") through a court-approved plan of arrangement (the "Ursa Arrangement"). Pursuant to the terms of the Ursa Arrangement, Prophecy Platinum issued 3,186,916 of its common shares to acquire all of the outstanding shares of URSA. On March 8, 2012, Prophecy Platinum subscribed for 16,666,667 common shares of URSA at $0.06 per share for a total cost of $1,000,000 representing 17.3% of URSA's common shares. These shares of URSA were cancelled, pursuant to the terms of the Ursa Arrangement, upon completion of the transaction. Prophecy Platinum assumed all outstanding warrants of URSA, which were converted to 144,097 warrants of Prophecy Platinum and are of nominal fair value.

The total fair value amount of $5,088,440 assigned to the 3,186,916 common shares issued by Prophecy Platinum under the Ursa Arrangement, including the capitalized transaction costs, is based on the quoted market price as of July 16, 2012. The purchase of URSA has been accounted for as an asset acquisition as URSA's activities at the time of acquisition consisted of a mineral property that is on care and maintenance.

The following is a summary of allocation of the purchase price to assets acquired and liabilities assumed:

Shares issued for acquisition	$	5,032,800
Cash paid (purchase of URSA shares)		1,000,000
Transaction Costs		55,640
Advance Paid to URSA		65,200
Acquisition Costs	$	6,153,640
Fair value of assets acquired and liabilities assumed:		
Mineral properties	$	7,456,988
Cash and cash equivalents		703,225
Receivables		341,854
Prepaids expenses		63,602
Available for sale investments		29,375
Equipment		149,148
Accounts payable and accrued liabilities		(2,590,552)
	$	6,153,640

(Expressed in Canadian Dollars)

URSA owns a 100% interest in the Shakespeare mineral property located near Sudbury, Ontario, which from May 2010 to January 2012, prior to the completion of the URSA Arrangement, URSA direct shipped mineralized material from an open pit to a third party mill for toll processing. From the date of the acquisition of July 16, 2012 until November 30, 2012 the revenue and net loss of URSA included in the consolidated statement of operations and comprehensive loss were $Nil and $410,122 respectively.

Prior to December 1, 2012, Prophecy Platinum's net assets and operations were consolidated into the financial statements of Prophecy Coal. On November 30, 2012, it was determined that Prophecy Coal's control changed to significant influence over Prophecy Platinum, and therefore, since December 1, 2012, the value of those amounts were reflected as an Investment in Associate using the equity accounting method (note 15).

8. SEGMENTED INFORMATION

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

	December 31, 2012		
	Canada	Mongolia	Total
Reclamation deposits	$ 6,500	$ 21,055	$ 27,555
Property and equipment	279,045	12,650,297	12,929,343
Mineral properties	2,159,765	11,228,117	13,387,881
Investment in associate	25,118,910	-	25,118,910
	$ 27,564,220	$ 23,899,469	$ 51,463,689

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

Prior to December 1, 2012, Prophecy Platinum's net assets and operations were consolidated into the financial statements of Prophecy Coal. On November 30, 2012, it was determined that Prophecy Coal's control changed to significant influence over Prophecy Platinum, and therefore, since December 1, 2012, the value of those amounts were reflected as an Investment in Associate using the equity accounting method (note 15).

9. CASH AND CASH EQUIVALENTS

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

	December 31, 2012	December 31, 2011
Cash		
Denominated in Canadian dollars	$ 269,246	$ 2,316,433
Denominated in US dollars	58,484	68,419
Denominated in Mongolian tugriks	441,056	86,530
Denominated in Uruguayan pesos	-	6,770
Cash equivalents		
Denominated in Canadian dollars	45	1,001,898
	$ 768,831	$ 3,480,050

Prior to December 1, 2012, Prophecy Platinum's net assets and operations were consolidated into the financial statements of Prophecy Coal. On November 30, 2012, it was determined that Prophecy Coal's control changed to significant influence over Prophecy Platinum, and therefore, since December 1, 2012, the value of those amounts were reflected as an Investment in Associate using the equity accounting method (note 15).

10. SHORT TERM INVESTMENT

	December 31, 2012	December 31, 2011
Short Term Investment		
Denominated in Canadian dollars	$ 5,107,500	$ -
	$ 5,107,500	$ -

The Company's short-term investment is in the form of Guaranteed Investment Certificates with the Bank of Montreal earning interest at 2.05% and maturing on November 25, 2013.

11. RECEIVABLES

	December 31, 2012	December 31, 2011
Current assets		
HST receivable	$ 104,515	$ 338,436
Trade receivable	351,520	730,373
Other receivables	-	36,620
	$ 456,035	$ 1,105,429
Non-current assets		
VAT receivable	$ -	$ 2,137,031

(Expressed in Canadian Dollars)

Prior to December 1, 2012, Prophecy Platinum's net assets and operations were consolidated into the financial statements of Prophecy Coal. On November 30, 2012, it was determined that Prophecy Coal's control changed to significant influence over Prophecy Platinum, and therefore, since December 1, 2012, the value of those amounts were reflected as an Investment in Associate using the equity accounting method (note 15).

The Company anticipates full recovery of its outstanding trade and other receivables, net of any allowances.

12. PREPAID EXPENSES

Prepaid expenses correspond to expenses paid during the period that relate to subsequent period are as follows:

	December 31, 2012	December 31, 2011
Prepaid advertising and promotion	$ 63,694	$ -
Prepaid exploration and drilling	607,524	-
Prepaid general	242,824	579,997
Prepaid insurance	49,243	29,360
Prepaid maintenance	117,156	-
Prepaid road and bridge repair	279,999	-
Prepaid stock exchange fee	14,891	-
Prepaid transportation and fuel	11,726	-
Rent deposit	56,225	-
	$ 1,443,282	$ 609,357

Prior to December 1, 2012, Prophecy Platinum's net assets and operations were consolidated into the financial statements of Prophecy Coal. On November 30, 2012, it was determined that Prophecy Coal's control changed to significant influence over Prophecy Platinum, and therefore, since December 1, 2012, the value of those amounts were reflected as an Investment in Associate using the equity accounting method (note 15).

The Company anticipates full recovery of its outstanding prepaid expense amounts in the form of goods and services, net of any allowances.

13. INVENTORY

	December 31, 2012	December 31, 2011
Inventory	$ 2,436,534	$ -
	$ 2,436,534	$ -

At December 31, 2011, the coal stockpile inventory amount of $1,715,211 was recorded in deferred exploration of Ulaan Ovoo property, within property and equipment on the balance sheet. At December 31, 2012, the coal stockpile inventory has been reclassified to a separate inventory balance sheet item.

(Expressed in Canadian Dollars)

14. AVAILABLE FOR SALE INVESTMENTS

a) Prophecy Coal Investments

Available-for-sale investments		December 31, 2012		December 31, 2011
Victory Nickel	$	628,188	$	2,746,175
Compliance Energy		-		1,050,000
	$	628,188	$	3,796,175

In May 2010, the Company purchased 36,615,385 common shares in Victory Nickel Inc ("Victory Nickel"), which represented approximately a 9.8% equity interest in Victory Nickel, for $3,808,001. During the year ended December 31 2012, Prophecy Coal sold 5,206,300 Victory Nickel shares for a realized loss of $332,589.

At December 31 2012, the Company owned 7.9% of Victory Nickel's issued and outstanding common shares. Due to the prolonged decline in value of Victory Nickel shares, the Company recognized an impairment loss of $2,639,572 in the consolidated statement of operations. The impairment loss represents the difference between the acquisition cost of the Company's investment in Victory Nickel and its fair market value at December 31, 2012.

In March 2011, the Company acquired 5,000,000 common shares of Compliance Energy Corporation ("Compliance"), representing approximately 8% of Compliance's issued and outstanding shares at the time, by means of a non-brokered private placement. Prophecy Coal paid $1,750,000 for its interest in Compliance. At December 31, 2012, Prophecy Coal had sold all shares of Compliance for a realized loss of $1,302,306.

b) Prophecy Platinum Investments

Available-for-sale investments		December 31, 2012		December 31, 2011
ETFS Physical Palladium	$	-	$	2,024,878
ETFS Physical Platinum		-		1,815,110
Non-current assets				
Auriga shares		10,000		-
Deconsolidation of subsidiary (note 3)		(10,000)		-
	$	-	$	3,839,988

Prior to December 1, 2012, Prophecy Platinum's net assets and operations were consolidated into the financial statements of Prophecy Coal. On November 30, 2012, it was determined that Prophecy Coal's control changed to significant influence over Prophecy Platinum, and therefore, since December 1, 2012, the value of those amounts were reflected as an Investment in Associate using the equity accounting method (note 15). During the 11 months ended November

(Expressed in Canadian Dollars)

30, 2012, Prophecy Platinum recorded a realized loss on sale of its EFTS investments of $17,619.

15. INVESTMENT IN ASSOCIATE

The investment in associate, Prophecy Platinum, is recorded at its carrying amount of $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 issued and outstanding shares of Prophecy Platinum as at December 31, 2012, and its investment was initially recognised on deconsolidation as at November 30, 2012 with ownership of 32.6%. Thereafter, the Company accounted for its share of Prophecy Platinum results under the equity accounting method as defined in IAS 28 – Investments in Associates and will continue to do so for as long as it retains significant influence over Prophecy Platinum.

The Annual 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 common shares, which as of that date 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. Any Prophecy Platinum shares held in-trust, but not delivered, due to the expiry of unexercised June 9, 2011 Options and Warrants, 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 ownership percentage in Prophecy Platinum until they are returned, if any at all, to Prophecy Coal due to the expiry of unexercised June 9, 2011 Options and Warrants.

For the period from January 1, 2012 to November 30, 2012, and for 2011, the Company's 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 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 (note 7a), to 32.6% as at November 30, 2012.

(Expressed in Canadian Dollars)

The ownership interest in Prophecy Platinum during 2012 decreased from 40.8% to 32.1% 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); and the sale of 464,700 Prophecy Platinum 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 December 31, 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.

(Expressed in Canadian Dollars)

16. PROPERTY AND EQUIPMENT

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

						Ulaan Ovoo			
	Computer Equipment	Furniture & Equipment	Vehicles	Computer Software	Leasehold Improvements	Mining Equipment	Deferred Exploration	Exploration Equipment	Total
Cost									
Balance, December 31, 2010	35,214	118,317	47,475	-	7,244	-	25,210,287	-	25,418,537
Additions									
Assets acquired	109,231	106,247	724,636	234,068	165,574	14,248,586	13,128,589	28,297	28,745,230
Balance, December 31, 2011	144,445	224,564	772,111	234,068	172,818	14,248,586	38,338,876	28,297	54,163,767
Accumulated depreciation									
Balance, December 31, 2010	23,551	63,394	26,973	-	2,626	-	-	-	116,544
Depreciation for the period	25,675	19,054	110,342	82,456	20,956	2,125,913	-	17,551	2,401,947
Balance, December 31, 2011	49,226	82,448	137,315	82,456	23,582	2,125,913	-	17,551	2,518,491
Carrying amounts									
At December 31, 2011	95,219	142,116	634,796	151,613	149,236	12,122,674	38,338,876	10,746	51,645,276

(Expressed in Canadian Dollars)

	Computer Equipment	Furniture & Equipment	Vehicles	Computer Software	Leasehold Improvements	Ulaan Ovoo Mining Equipment	Ulaan Ovoo Deferred Exploration	Exploration Equipment	Total
Cost									
Balance, December 31, 2011	144,445	224,564	772,111	234,068	172,818	14,248,586	38,338,876	28,299	54,163,767
Additions									
Assets acquired	33,319	153,137	14,835	21,726	-	210,526	15,705,544	330,590	16,469,678
Sale of coal	-	-	-	-	-	-	(2,325,623)	-	(2,325,623)
Disposals	-	-	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	-	(49,718,797)	-	(49,718,797)
Deconsolidation of subsidiary (note 3 & 15)	(1,572)	-	-	(59,087)	-	-	-	(358,889)	(419,548)
Balance, December 31, 2012	176,192	377,701	786,946	196,707	172,818	14,459,112	2,000,000	-	18,169,478
Accumulated amortization									
Balance, December 31, 2011	49,226	82,448	137,315	82,456	23,582	2,125,913	-	17,551	2,518,491
Amortization for the year	32,583	53,003	151,173	84,026	34,563	2,431,190	2,655,084	61,313	5,502,935
Impairment	-	-	-	-	-	-	(2,655,084)	-	(2,655,084)
Deconsolidation of subsidiary (note 3 & 15)	(1,294)	-	-	(46,049)	-	-	-	(78,864)	(126,206)
Balance, December 31, 2012	80,515	135,451	288,488	120,433	58,145	4,557,103	-	-	5,240,136
Carrying amounts									
At December 31, 2012	95,678	242,250	498,459	76,274	114,673	9,902,009	2,000,000	-	12,929,342

Prior to December 1, 2012, Prophecy Platinum's net assets and operations were consolidated into the financial statements of Prophecy Coal. On November 30, 2012, it was determined that Prophecy Coal's control changed to significant influence over Prophecy Platinum, and therefore, since December 1, 2012, the value of those amounts were reflected as an Investment in Associate using the equity accounting method (note 15).

Ulaan Ovoo Property

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

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

In March 2010, Prophecy Coal was granted an option to purchase a 2% NSR on the Ulaan Ovoo property from Dunview Services Ltd., a private British Virgin Islands company, with a cash payment of US$130,000 and issuance of 2,000,000 common shares of Prophecy Coal. In April 2010, Prophecy Coal exercised the option and a total of $1,570,000 was capitalized as acquisition costs of the property.

On November 9, 2010, Prophecy Coal received a mining permit from the Mongolian Ministry of Mineral Resources and Energy ("MMMRE") for the Ulaan Ovoo coal property. During the year ended December 31, 2010, Prophecy Coal had reached technical feasibility, commenced development, and achieved some pre-commercial production, and accordingly reclassified mineral property costs to Property and Equipment.

Care and maintenance of Ulaan Ovoo property

The Ulaan Ovoo property ceased pre-commercial operations in July 2012. All capital assets related to the property are treated as being in a care and maintenance state from July 2012 until shipping from the existing coal stockpile commenced in October 2012. While in this state, equipment is depreciated at 50% of the annual declining balance rate. During the year ended December 31, 2012, the Company recorded care and maintenance of Ulaan Ovoo of $273,481.

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 (see note 16, table of property and equipment).

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).

The impairment test was based on pre-commercial operating results along with capital expenditures and the Ulaan Ovoo-Prefeasibility Study ("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.

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. 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.

(Expressed in Canadian Dollars)

17. MINERAL PROPERTIES

	Chandgana Tal	Chandgana Khavtgai	Titan	Okeover, others	Lynn Lake	Wellgreen	Burwash	Sarandi del Yi Durazno	Las Aguilas	Total
Notes	17(a)	17(b)	17(c)	17(d)	17(f)	17(g)	17(h)	17(i)	17(j)	
Balance, December 31, 2010	1,334,440	2,086,140	371,904	1,327,628	31,485,062	13,859,481	-	-	-	50,464,656
										-
Acquisition cost	-	-	337,510	-	865,796	924,115	1,126,500	792,448	179,811	4,226,180
Deferred exploration costs:										-
Plant application	785,649	135,112	7,138	926	39,757	16,102	-	(80,481)	-	904,203
Consulting	2,352,592	(229,730)	20,002	37,989	123,555	990,985	756,550	21,937	45,522	4,119,402
Drilling	-	-	-	-	243,219	1,151,059	-	-	-	1,394,278
Personnel	279,572	133,246	-	-	695	286,754	-	-	-	700,267
Camp and general	448	-	2,095	369	2,723	374,649	-	(26,454)	6,666.00	360,496
	3,418,261	38,628	29,235	39,284	409,949	2,819,549	756,550	(84,998)	52,188	7,478,646
Balance, December 31, 2011	**$4,752,701**	**$2,124,768**	**$738,649**	**$1,366,912**	**$32,760,807**	**$17,603,145**	**$1,883,050**	**$707,450**	**$231,999**	**$62,169,481**

(Expressed in Canadian Dollars)

	Chandgana Tal	Chandgana Khavtgai	Titan	Okeover, others	Ilch Khujirt	Lynn Lake	Wellgreen	Burwash
Notes	17(a)	17(b)	17(c)	17(d)	17(e)	17(f)	17(g)	17(h)
Balance, December 31, 2011	4,752,701	2,124,768	738,649	1,366,912	-	32,760,807	17,603,145	1,883,050
2012 Additions:								
Acquisition cost	-	-	-	-	-	1,450,000	-	-
Deferred exploration costs:								
Application	2,493,956	-	11,979	14,056	-	28,474	3,987	-
Consulting	1,186,558	475,464	-	20,373	190,980	-	2,124,984	-
Drilling	-	-	-	-	-	-	3,945,131	-
Personnel	70,341	-	-	-	-	11,157	516,454	-
Recovery	-	-	-	-	-	(50,851)	-	-
Camp and general	120,574	3,754	-	7,797	-	11,291	1,839,816	16,744
Impairment					(190,980)			
	3,871,429	479,218	11,979	42,226	-	1,450,070	8,430,372	16,744
Deconsolidation of subsidiary (note 3 & 15)	-	-	-	-	-	(34,210,877)	(26,033,517)	(1,899,794)
Balance, December 31, 2012	**$8,624,130**	**$2,603,986**	**$750,628**	**$1,409,138**	**-**	**-**	**-**	**-**

	Cerro Chato and others	Las Aguilas	Shakespeare	Baldwin and option	Shining Tree	Stumpy Bay Option	Fox Mountain	Total
Notes	17(i)	17(j)	17(k)	17(l)	17(m)	17(n)	17(o)	
Balance, December 31, 2011	707,450	231,999	-	-	-	-	-	62,169,481
2012 Additions:								
Acquisition cost	-	198,255	5,989,350	477,114	442,873	318,811	109,373	8,985,776
Deferred exploration costs:								-
Licenses and leases	-	22,361	-	-	-	-	-	2,574,812
Consulting	40,256	-	-	-	-	-	-	4,038,615
Drilling	-	-	-	-	-	-	-	3,945,131
Personnel	-	-	-	-	-	-	-	597,952
Camp and general	-	8,228	-	-	-	-	-	(42,623)
Recovery	803	-	-	-	-	-	-	2,000,780
Impairment	-	(460,843)	-	-	-	-	-	(651,823)
	41,059	-	-	-	-	-	-	12,462,843
Deconsolidation of subsidiary (note 3 & 15)	(748,509)	-	(5,989,350)	(477,114)	(442,873)	(318,811)	(109,373)	(70,230,218)
Balance, December 31, 2012	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**$13,387,882**

Prophecy Coal Corp. Properties

a) Chandgana Tal Property, Mongolia

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

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

b) Chandgana Khavtgai Property, Mongolia

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

c) Titan property, Ontario, Canada

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

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

On June 30, 2011, the Company paid Randsburg the balance of unexpended amount of $114,742 according to the terms of an amended agreement with Randsburg signed on June 30, 2011.

d) Okeover property, British Columbia, Canada

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

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

e) Other Properties

Ilch Khujirt Property, Mongolia

Prophecy Coal terminated the Ilch Khujirt exploration property license option, which was part of the Ulaan Ovoo property, without further obligation, as it is not a core asset to Prophecy Coal and wrote off its investment of $190,980.

Prophecy Platinum Corp. Properties

As at December 31, 2012, the Company owned 32.1% (December 31, 2011 – 40.8%) of the issued and outstanding common shares of Prophecy Platinum. Prior to December 1, 2012, Prophecy Platinum's net assets and operations were consolidated into the financial statements of Prophecy Coal. On November 30, 2012, it was determined that Prophecy Coal's control changed to significant influence over Prophecy Platinum, and therefore, since December 1, 2012, the value of those amounts were reflected as an Investment in Associate using the equity accounting method (note 15). The following Prophecy Platinum mineral properties were included within Prophecy Coal's consolidated financial statements prior to December 1, 2012.

f) Lynn Lake Property, Manitoba, Canada

In June 2011, the Company acquired the Lynn Lake nickel property option from Prophecy Coal (note 8a), 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 the last payment of $1 million due on March 1, 2013 and by incurring an aggregate of $3 million in exploration expenditures on the Lynn Lake property by November 1, 2012, and by issuing 2,419,548 common shares to Victory Nickel (issued on December 31, 2009 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 the Lynn Lake property is subject to a 3% NSR.

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.

Subsequent to the year end, 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.

g) Wellgreen Property, Yukon Territory, Canada

The 100% owned Wellgreen property, a platinum group metals and nickel-copper project, located in southwestern Yukon Territory, Canada, approximately 35 kilometres northwest of Burwash Landing in the Yukon, and about 400 kilometres from Alaska's deep sea port at Haines, was acquired by Prophecy Platinum from Prophecy Coal on June 13, 2011 by way of a plan of arrangement (note 8a), under which 450,000,000 common shares of PCNC (26,971,621 common shares on a post-Consolidation basis, following the name change of PCNC to Prophecy Platinum) was provided to Prophecy Coal as consideration for the transaction. Based on the ascribed market value of the Prophecy Platinum 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.

h) Burwash Property, Yukon Territory, Canada

On August 4, 2011, Prophecy Platinum entered into a letter agreement with Strategic Metals Ltd. to acquire a 100% interest in the Burwash property for $1,000,000 (paid). The agreement replaces the Burwash option agreement dated February 23, 2010 and the letter agreement entered into on April 1, 2011.

i) Cerro Chato, Molles North, Molles South, Quebracho and Polanco, Uruguay

Prophecy Platinum has five prospecting licences in Uruguay and performed some initial exploration activities on the properties, however, no further work is on-going and Prophecy Platinum is currently re-evaluating these properties.

j) Las Aguilas Property, Argentina

On December 10, 2010, Prophecy Platinum entered into a letter agreement with Marifil Mines Limited (“Marifil”) with an option to acquire up to a 70% interest in the Las Aguilas Nickel-Copper-PGM property located in San Luis Province, Argentina. The agreement with Marifil, which was amended on March 21, 2012, provides for cash and share payments and work commitments in order for Prophecy Platinum to earn a 49% interest in the property as follows:

Cash and common shares (on a 10 for 1 consolidation basis):

- $25,000 upon signing and 25,000 shares (paid and issued)
- $125,000 and 25,000 shares on or before April 1, 2012 (paid and issued)
- $100,000 and 25,000 shares on or before April 1, 2013
- $100,000 and 25,000 shares on or before April 1, 2014

Work Commitments:

- On or before 3 months from the agreement date, complete a resource estimate (completed)
- On or before November 1, 2012 incur $500,000 in exploration expenditures,
- On or before October 1, 2013 incur $500,000 in exploration expenditures,
- On or before July 1, 2014 incur $1,000,000 in exploration expenditures,

The agreement also provides for Prophecy Platinum to earn an additional 11% by preparing a pre-feasibility study on the property and issuing an aggregate of 200,000 common shares (post-Consolidation) from April 1, 2014 to April 1, 2015. A further 10% can be earned by completing a feasibility study on the property, making cash payment of $100,000 and issuing an aggregate of 100,000 common shares (post-Consolidation) from April 1, 2015 to April 1, 2016.

The agreement also provides for granting of a 3% NSR to Marifil of which 0.5% may be purchased for $1,000,000 and a further 0.5% of the royalty may be purchased at any time upon the payment of a further $2,000,000. The Company has an option to buy Marifil’s 30% interest for $5,000,000.

On November 1, 2012, Prophecy Platinum terminated its option agreement with Marifil on the Las Aguilas property, returned the property to the vendor, and wrote off the property for $460,000.

Upon the acquisition of URSA (note 8b), Prophecy Platinum acquired the following mineral properties:

k) Shakespeare Property, Ontario Canada

Prophecy Platinum has a 100% interest in the nickel, copper, and PGM Shakespeare property, subject to a 1.5% NSR in favour of the vendor and certain mineral processing rights. Prophecy Platinum also holds 75% to 81% of the beneficial interest in various mineral claims surrounding the Shakespeare Property.

l) Baldwin and Porter Properties, Ontario, Canada

Prophecy Platinum owns a 100% interest in staked mining claims in the Agnew Lake area that are contiguous with the Shakespeare property.

Prophecy Platinum has a 100% interest in certain mineral claims known as the Porter property, located in Shakespeare, Dunlop and Porter Townships, Ontario. The vendor has retained a 2% NSR. Advance royalty payments of $24,000 per year commenced January 15, 2007. The Company has the right to purchase one-half of the royalty for $1,000,000.

m) Shining Tree Property, Ontario, Canada

Prophecy Platinum has a 100% interest in certain mineral claims known as the Shining Tree property, located in Fawcett Township, Ontario. The option or has retained a 1% NSR. Prophecy Platinum has the right to purchase one-half of the royalty for $500,000.

n) Stumpy Bay Property, Ontario, Canada

Prophecy Platinum owns a 100% interest in certain claims known as the Stumpy Bay property, located in Shakespeare and Baldwin Townships, Ontario. The option or has retained a 2% NSR. Advance royalty payments of $30,000 per year commenced March 21, 2006. Prophecy Platinum has the right to purchase one-half of the royalty for $750,000. Xstrata has elected to include this property as part of the Shakespeare agreement and accordingly holds a 25% interest in Prophecy Platinum's interest in the Stumpy Bay property.

o) Fox Mountain Property, Ontario, Canada

Pursuant to a November 19, 2010 purchase agreement, Prophecy Platinum owns a 100% interest in certain staked mining claims located in the Thunder Bay Mining Division of Ontario. The vendor retained a back-in right to convert to a joint venture (vendor 51%) or a 2% NSR. In December 2011, a portion of the non-core claims were cancelled by Prophecy Platinum.

(Expressed in Canadian Dollars)

18. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities of the Company consist of amounts outstanding for trade and other purchases relating to development and exploration, along with administrative activities. The usual credit period taken for trade purchases is between 30 to 90 days.

		December 31, 2012		December 31, 2011
Trade accounts payable	$	487,497	$	1,068,811
Accrued liabilities		278,712		296,079
	$	766,209	$	1,364,890

Prior to December 1, 2012, Prophecy Platinum's net assets and operations were consolidated into the financial statements of Prophecy Coal. On November 30, 2012, it was determined that Prophecy Coal's control changed to significant influence over Prophecy Platinum, and therefore, since December 1, 2012, the value of those amounts were reflected as an Investment in Associate using the equity accounting method (note 15).

19. LOANS PAYABLE

The outstanding balance of the loans payable as at December 31, 2012 is summarized as follows:

		December 31, 2012		December 31, 2011
Loans payable	$	9,392,170	$	-
	$	9,392,170	$	-

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. In 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.

In order to purchase the Tethys property, in July 2012, Prophecy Coal arranged a secured debt facility of $10,000,000 (the "Loan") 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 25%. 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.

(Expressed in Canadian Dollars)

Upon entering into the secured debt facility, Prophecy Coal's holding of 16.5 million Prophecy Platinum common shares, along with its holding of common shares in each of its Mongolian and Canadian subsidiaries were pledged as collateral against the Loan. Pursuant to the credit agreement dated July 16, 2012 (the "Credit Agreement"), the funds will be used to complete the purchase of the Tugalgatai, Mongolia coal licenses and for general working capital.

As at December 31, 2012, Prophecy Coal had drawn down $10,000,000 of the Loan, which is callable at the option of Waterton in the case of the termination of the Tugalgatai Agreement. Such termination occurred in October 2012 as the initial long stop date for approval of the licence transfers by Minerals Resource Authority of Mongolia had elapsed. Under the Credit Agreement, the expiry of the original purchase and sales agreement with Tethys constituted a default.

Subsequent to the year end (note 31), 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:
 i) $1.5 million for the acquisition of the Mongolian coal assets and
 ii) $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.

As at December 31, 2012, the Company recorded interest expense of $1,083,340.

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.

20. PROVISION OF CLOSURE AND RECLAMATION

		December 31, 2012		December 31, 2011
Balance	$	257,356	$	80,000
Additions		30,069		54,469
Accretion		6,838		122,886
Balance, end of year	$	294,263	$	257,355

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

(Expressed in Canadian Dollars)

Management used a risk-free interest rate of 1.79% and a risk premium of 7% in preparing the Company's provision for closure and reclamation. Although the ultimate amount of reclamation costs to be incurred cannot be predicted with certainty, the total undiscounted amount of estimated cash flows required to settle the Company's estimated obligations is $2,000,000 over the next 9 years. The cash expenditures are expected to occur over a period of time extending several years after the projected mine closure of the mineral properties.

21. DEFERRED INCOME TAXES

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

Effective January 1, 2012, the Canadian federal corporate tax rate decreased from 16.5% to 15%. The overall reduction in tax rates has resulted in a decrease in the Company's statutory tax rates from 26.5% to 25%.

The reconciliation of income tax computed at the statutory tax rate of 25% (2011 – 26.5%) to income tax (recovery) expense is:

	2012	2011
Income (Loss) per Financial Statements	$ (60,033,616)	$ (10,222,455)
Income tax rate	25%	26.5%
Income tax expense (recovery)	(15,008,404)	(2,708,951)
Stock-based payments	832,816	1,834,096
Permanent differences	(908,042)	(691,228)
Accounting impairment	13,806,185	-
Change in benefits not recognized	(140,847)	1,117,396
Change in estimate	300,586	-
Portion of losses not recognized	1,029,220	-
Gain on deconsolidation of associate	(1,084,747)	-
Deconsolidation of investment in associate	2,425,232	-
Flow-through shares	292,775	-
Other	(189,283)	-
Income tax expense (recovery)	$ 1,355,492	$ (448,687)

(Expressed in Canadian Dollars)

The tax effected items that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities at December 31, 2012 and 2011 are presented below:

		2012		2011
Deferred income tax assets				
Non-capital losses	$	809,968	$	477,877
Fixed assets		112,804		-
Share issuance cost - Equity		414,010		-
Other		135,350		-
Net deferred income tax assets		1,472,132		477,877
Deferred income tax liabilities				
Investment in associate		(2,425,232)		-
Mineral properties		-		(477,877)
Net deferred income tax liability	$	(953,100)	$	-

The increase in deferred tax liability in 2012 by $0.95 million is largely due to the recognition of deferred tax liability of the investment in associate during the year.

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

		2012		2011
Non capital losses	$	-	$	18,179,123
Mineral properties, property and equipment		112,804		4,757,936
Share issuance costs		-		2,777,812
Available-for-sale investments - OCI		329,799		884,092
Asset retirement obligation		73,566		-
Unrecognizable deductible temporary differences	$	516,169	$	26,598,963

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

Available to		Amount
2029		7,650
2030		1,286,588
2031		573,341
2032		1,372,293
Non-capital loss carryforward	$	3,239,872

22. SHARE CAPITAL

(a) Authorized

The authorized share capital consists of an unlimited number of common shares without par value. There are no authorized preferred shares. At December 31, 2012, the Company had 228,400,956 (December 31, 2011 - 201,109,422) common shares issued and outstanding.

(b) Equity issuances

During the year ended December 31, 2012, Prophecy Coal had the following common share capital transactions:

(i) Prophecy Coal issued 187,500 and 1,479,509 shares on the exercise of options and warrants, respectively, for total proceeds of $922,453.

(ii) On January 2, 2012, the Company granted 868,583 bonus shares to employees, consultants and directors, subject to the following terms: 50% escrowed for 9 months, and 50% escrowed for 18 months from the grant date. This share bonus grant was approved at the Company's Annual General Meeting on June 11, 2012. As at December 31, 2012, Prophecy Coal had released 525,042 bonus shares.

(iii) On March 8, 2012, the Company closed a non-brokered private placement of 22,363,866 shares at a price of $0.45 per share for gross proceeds of $10,063,740. Finders' fees of 6% of the gross proceeds were paid on certain portions of the placement totalling $466,064. All shares issued were subject to a four-month hold period that expired on July 9, 2012, and

(iv) On July 16, 2012, Prophecy Coal issued 2,735,617 shares to Waterton at a value of $0.20 per share as a financing fee pursuant to a $10 million Loan, (note 20).

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

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

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

(c) Share purchase options

On May 31, 2011, Prophecy Coal's board of directors adopted a new share option plan for its directors, officers, employees, and consultants under which Prophecy Coal may grant share purchase options to acquire a maximum of 38,165,342 common shares and to settle the options by issuance of the Company's equity instruments. The share option plan was approved by the Company's shareholders at the June 11, 2012 AGM.

During the year ended December 31, 2011, the Company granted a total of 3,510,000 share options with a five year expiry term to directors, officers, consultants, and employees at exercise prices ranging from $0.63 to $0.98 per share subject to a vesting schedule over five years with 50% of the options vesting after each of the first and second years, with expiry dates ranging from January 4, 2016 to August 30, 2016.

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

During the year ended December 31, 2012, the Company granted 10,835,000 share options to directors, officers, employees and consultants at exercise prices ranging from $0.17 to $0.49 and expiry dates ranging from January 9, 2017 to November 5, 2017. Of these 15,850,000 options that were granted for the 2012 fiscal year-to-date, 5,315,000 were re-granted options as described below.

On June 18, 2012, further to the voluntary forfeiture of share options held by certain directors, officers, employees and consultants with expiry dates on 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, the Company granted 5,315,000 new share options to such individuals with an expiry date of June 18, 2017 at an exercise price of $0.28 per share subject to a two year vesting schedule whereby 50% of the options granted vest at the end of the each of the first and second years . As at December 31, 2012, the re-issuing of these options had been approved by the TSX, but they had not been approved by the shareholders; consequently these options were not valued. Shareholder approval of the re-issuing of these options will be sought at the 2013 AGM.

On June 18, 2012, the Company amended the exercise price of 18,358,050 options that had previously been granted to directors, officers, employees and consultants with expiry dates ranging from January 23, 2014 to February 14, 2016 by reducing the exercise prices (which ranged from $0.38 to $0.93) to $0.28, subject to TSX and shareholder approval. There were no changes to the expiry dates and vesting periods of these options. As at December 31, 2012, the re-pricing of these options had been approved by the TSX but they had not been approved by the shareholders; consequently these options were not valued. Shareholder approval of the re-pricing of these options will be sought at the 2013 AGM.

(Expressed in Canadian Dollars)

The following is a summary of the changes in Prophecy Coal's share purchase options from December 31, 2011 to December 31, 2012:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2011	24,493,050	$0.70
Granted	10,835,000	$0.27
Exercised	(187,500)	$0.25
Forfeited	(1,830,000)	$0.61
Cancelled	(825,000)	$0.26
Outstanding, December 31, 2012	32,485,550	$0.57
Options exercisable on December 31, 2012	21,366,383	$0.73

On November 30, 2012, it was determined that Prophecy Coal's control changed to significant influence over Prophecy Platinum, and therefore, since December 1, 2012, the value of those amounts were reflected as an Investment in Associate using the equity accounting method (note 15). Share-based payment expenses are amortized over the corresponding vesting periods. During the year ended December 31, 2012 for the Company and during the eleven months ended for Prophecy Platinum, the share-based payment expenses were calculated using the following weighted average assumptions:

Prophecy	Year ended December 31, 2012	Year ended December 31, 2011
Risk-free interest rate	1.50%	1.40%
Expected life of options in years	4.46 years	4.25 years
Expected volatility	91.0%	80.9%
Expected dividend yield	Nil	Nil
Expected forfeiture rate	3%	2%
Platinum	Eleven months ended Nov 2012	Year ended December 31, 2011
Risk-free interest rate	1.65%	1.68%
Expected life of options in years	5 years	4.99 years
Expected volatility	74.9%	74.0%
Expected dividend yield	Nil	Nil
Expected forfeiture rate	5%	0%

The expected volatility used in the Black-Scholes option pricing model is based on the historical volatility of the Company's shares.

(Expressed in Canadian Dollars)

Share-based payments charged to operations and assets were allocated between capitalization as property and equipment for Ulaan Ovoo and other deferred mineral properties, and general and administrative expenses. For the year ended December 31, 2012 and 2011, share-based payments were recorded as follows:

Prophecy Coal		Year Ended December 31,		
Consolidated Statement of Operations		2012		2011
Share based payments	$	666,268	$	3,578,654
Consolidated Statement of Financial Position				
Ulaan Ovoo exploration		170,731		115,260
Power Plant application		16,580		-
Lynn Lake exploration		-		3,138
Wellgreen exploration		-		452,174
		187,311		570,572
Total share-based payments	$	853,579	$	4,149,226

Prophecy Platinum		Eleven months ended		Twelve months ended
Statement of Operations		2012		2011
Share based payments	$	1,984,365	$	3,342,462
Consolidated Statement of Financial Position				
Lynn Lake exploraiton				15,643
Wellgreen exploration		605,770		301,634
Deconsolidation (note 15)		(605,770)		-
Total share-based payments	$	1,984,365	$	3,659,739
Consolidated Statement of Operations	$	2,650,633	$	6,921,116
Consolidated Statement of Financial Position	$	187,311	$	887,849

(Expressed in Canadian Dollars)

Prophecy Coal

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

December 31, 2012		December 31, 2011		Expiry Date	Exercisable	Unvested
Exercise Price	Options Outstanding	Exercise Price	Options Outstanding			
$0.14	1,500,000	-	-	November 2, 2017	-	1,500,000
$0.15	150,000	-	-	November 5, 2017	-	150,000
$0.18	375,000	-	-	September 24, 2017	-	375,000
$0.18	230,000	-	-	August 16, 2017	-	230,000
$0.18	5,044,167	-	-	August 22, 2017	-	5,044,167
$0.18	100,000	-	-	September 20, 2017	-	100,000
$0.25	975,000	$0.25	1,162,500	October 29, 2014	975,000	-
$0.25	-	$0.25	50,000	February 14, 2012	-	-
$0.25	10,000	-	-	June 1, 2017	-	10,000
$0.38	200,000	$0.80	200,000	November 30, 2014	200,000	-
$0.40	1,056,800	$0.60	1,056,800	January 23, 2014	1,056,800	-
$0.40	381,250	$0.60	381,250	January 29, 2015	381,250	-
$0.43	80,000	-	-	January 9, 2017	-	80,000
$0.49	2,555,000	-	-	March 22, 2017	-	2,580,000
$0.54	850,000	$0.54	1,000,000	September 21, 2015	850,000	-
$0.55	350,000	$0.55	350,000	March 11, 2015	350,000	-
$0.60	175,000	$0.60	175,000	July 17, 2014	175,000	-
$0.60	65,000	$0.60	65,000	September 21, 2014	65,000	-
$0.63	1,615,000	$0.63	2,400,000	June 13, 2016	795,000	795,000
$0.67	1,722,500	$0.67	1,967,500	May 10, 2015	1,722,500	-
$0.67	175,000	$0.67	175,000	October 15, 2015	175,000	-
$0.77	2,050,000	$0.77	2,050,000	December 24, 2015	2,050,000	-
$0.77	210,000	$0.77	710,000	August 30, 2016	105,000	105,000
$0.77	9,000,000	$0.77	9,000,000	December 10, 2015	9,000,000	-
$0.80	475,000	$0.80	475,000	April 30, 2015	475,000	-
$0.80	100,000	$0.80	100,000	September 23, 2015	100,000	-
$0.80	120,000	$0.80	120,000	January 4, 2016	60,000	60,000
$0.93	2,590,833	$0.93	2,875,000	December 24, 2015	2,590,833	-
$0.93	50,000	$0.93	50,000	January 6, 2016	25,000	25,000
$0.98	130,000	$0.98	130,000	February 14, 2016	65,000	65,000
$1.03	150,000	-	-	March 24, 2015	150,000	-
	32,485,550		24,493,050		21,366,383	11,119,167

At December 31, 2012, the Company had 21,366,383 exercisable share purchase options outstanding (2011 – 4,164,925).

(Expressed in Canadian Dollars)

(d) Share purchase warrants

On April 5, 2012, Prophecy Coal extended the expiry date by one year for 6,606,544 share purchase warrants, which were originally issued in a 2010 transaction with Northern Platinum Ltd. at a weighted average exercise price of $0.74; summarized as follows:

Exercise Price		Number of Warrants Outstanding	Original Expiry Date	Amended Expiry Date
$	0.80	2,752,097	March 23, 2012	March 23, 2013
$	0.77	551,967	March 31, 2012	March 31, 2013
$	0.80	2,964,730	March 31, 2012	March 31, 2013
$	0.80	337,750	April 21, 2012	April 21, 2013
		6,606,544		

On October 19, 2012, the Company extended the expiry date by three years from October 28, 2012 to October 28, 2015 and changed the exercise price from $0.66 to $0.18 for 3,831,511 share purchase warrants, which were originally issued as part of a private placement completed by the Company on October 28, 2010. None of these warrants are held directly or indirectly by insiders of the Company.

These extensions increased the fair value of the warrants by $580,031 over the original fair value with the corresponding change in the fair value charged to the deficit.

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

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2011	11,834,769	$0.72
Exercised	(1,479,509)	$0.51
Expired	(15,334)	$0.49
Outstanding, December 31, 2012	10,339,926	$0.57

(Expressed in Canadian Dollars)

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

	At December 31, 2012	At December 31, 2011	
Exercise price	Number of Warrants		Expiry date
$0.49	-	1,396,714	February 14, 2012
$0.18	3,831,511	3,831,511	October 28, 2015
$0.77	551,968	551,968	March 31, 2013
$0.80	2,964,730	2,964,730	March 31, 2013
$0.80	337,750	337,750	April 21, 2013
$0.80	2,653,967	2,752,097	March 23, 2013
$0.49 to $0.80	10,339,926	11,834,769	

23. CAPITAL RISK MANAGEMENT

Management 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, and required by, Prophecy Coal, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative returns on capital criteria for management.

Prophecy Coal obtained financing this year with a new loan, which has given rise to an increase in capital funds available and a liability. Please refer to the Loan Payable (note 19) for further details.

The properties to which Prophecy Coal currently has an interest in, are predominantly 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 managements 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, and Guaranteed Investment Certificates with maturities of 365 days of less, all principally held with major Canadian financial institutions.

Additional sources of funding, which may not be available on favourable terms, if at all, include: share equity and debt financings; dispositions of Prophecy Platinum common shares held as an Investment in Associate (note 15); 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 (note 1).

(Expressed in Canadian Dollars)

24. FINANCIAL INSTRUMENTS

Fair value hierarchy

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

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

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

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

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

As at December 31, 2012	Level 1	Level 2	Level 3	Total
Financial assets				
Receivables	$ 456,035	$ -	$ -	$ 456,035
Due from related party	82,500	-	-	82,500
Available-for-sale investments	628,188	-	-	628,188
	$ 1,166,723	$ -	$ -	$ 1,166,723

As at December 31, 2011	Level 1	Level 2	Level 3	Total
Financial assets				
Receivables	$ 1,105,429	$ -	$ -	$ 1,105,429
Due from related party	-	-	-	-
Available-for-sale investments	7,636,163	-	-	7,636,163
	$ 8,741,592	$ -	$ -	$ 8,741,592

The fair values of the Company's financial assets, approximate their carrying values at December 31, 2012.

Impairment on available-for-sale investments

For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Company evaluates, among other factors, historical share price movements and the duration or extent to which the fair value of an investment is less than its cost. Based on these criteria, the Company identified an impairment of $2,639,572 on available-for-sale investment, which is recognized in the consolidated statement of operations and comprehensive loss.

(Expressed in Canadian Dollars)

25. FINANCIAL RISK MANAGEMENT DISCLOSURES

(a) Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its financial obligations as they fall due. The Company manages liquidity risk by preparing cash flow forecasts of upcoming cash requirements. The Company maintained sufficient cash, including short term investments, at December 31, 2012 in the amount of $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 $10,158,379 (December 31, 2011 - $1,364,890), which have contractual maturities of 90 days or less, except the Waterton loan payable that is due on July 16, 2013 (note 19).

The Company has a planning and budgeting process in place by which it anticipates and determines the funds required to support normal operation requirements as well as the growth and development of its mineral property interests. The Company coordinates this planning and budgeting process with its financing activities through the capital management process in normal circumstances.

The following table details the Company's current and expected remaining contractual maturities for its financial liabilities with agreed repayment periods. The table is based on the undiscounted cash flows of financial liabilities.

	0 to 6 months	6 to 12 months	Total
As at December 31, 2012			
Trade accounts payable	$ 487,497	$ -	$ 487,497
Loans payable	-	10,000,000	10,000,000
	$ 487,497	10,000,000	$ 10,487,497
As at December 31, 2011			
Trade accounts payable	$ 766,208	$ -	$ 766,208
Loans payable	-	-	-
	$ 766,208	$ -	$ 766,208

The loan payable is carried at an amortized cost of $9,392,170 (Note 19).

The Company attempts to manage liquidity risk by maintaining sufficient cash and short-term investment balances. Liquidity requirements are managed based on expected cash flow to ensure there is sufficient capital to meet short-term obligations. The Company ensures, as far as reasonably possible, that it will have sufficient capital in order to meet short term business requirements, after taking into account cash flows from operations and the Company's holdings of cash and cash equivalents. The Company believes that these sources will be sufficient to cover the likely short term cash requirements.

Additional sources of funding, which may not be available on favourable terms, if at all, include: share equity and debt financings; dispositions of Prophecy Platinum common shares held as an Investment in Associate (note 15); 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. In the event that the Company is not able to obtain adequate additional funding to continue as a going concern, material adjustment would be required to both the carrying value and classification of assets and liabilities on the balance sheet (note 1).

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk primarily associated to cash and cash equivalents, receivables, net of allowances (50% for receivables over 90 days and 15% for receivables over 60 days), and deposits. The Company manages credit risk, in respect of cash and cash equivalents, by purchasing highly liquid, short-term investment-grade securities held at a major Canadian financial institution. The carrying amount of assets included on the statements of financial position represents the maximum credit exposure. Concentration of credit risk exists with respect to the Company's cash and cash equivalents, as substantially all amounts are held with a single Canadian financial institution.

(c) Market risk

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

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's cash equivalents primarily include highly liquid investments that earn interest at market rates that are fixed to maturity or at variable interest rates. The Company also drew down $10,000,000 on its credit facility bearing an annual coupon rate of 14%, with monthly interest payments. 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. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

(ii) Foreign currency risk

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

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

Based on the above, net exposures as at December 31, 2012, with other variables unchanged, a 1% (December 31, 2011 - 1%) strengthening (weakening) of the Canadian dollar against the Mongolian tugrik would not have a material impact on earnings with other variables unchanged. A 1% (December 31, 2011 - 1%) strengthening (weakening) of the US dollar against the Canadian dollar would not have a material impact on net loss. The Company currently does not use any foreign exchange contracts to hedge this currency risk.

(iii) Commodity and equity price risk

The Company holds investments in available-for-sale that fluctuate in value based on market prices. Based upon the Company's investment position as at December 31, 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.

26. 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, former Director of Prophecy Coal who provided consulting services to the Company.

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

(c) JWL Investment Corp., a private company owned by Joseph Li, former General Manager, Corporate Secretary and Director of Prophecy Coal and Prophecy Platinum and who provided management services to the Company.

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

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

(g) The Energy Gateway Ltd., a private company owned by former Director Paul Venter, provided consulting and management services.

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

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

(j) Resinco Capital Partners, owned by John Icke, provided consulting and management services.

The Company's related party disclosure includes Prophecy Platinum's related party transactions during the year ended December 31, 2011 and during the eleven months ended November 30,

(Expressed in Canadian Dollars)

2012. Prior to December 1, 2012, Prophecy Platinum's net assets and operations were consolidated into the financial statements of Prophecy Coal. On November 30, 2012, it was determined that Prophecy Coal's control changed to significant influence over Prophecy Platinum, and therefore, since December 1, 2012, the value of those amounts were reflected as an Investment in Associate using the equity accounting method (note 15).

A summary of related party 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:

		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		214,995		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 signed 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, Prophecy Coal made a severance payment of $525,000 to Linx Partners Ltd., a 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, Prophecy Platinum made a severance payment of $240,000 to Linx Partners Ltd.

(Expressed in Canadian Dollars)

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 director fees and for reimbursable expenses. An amount of $82,500 is due from Prophecy Platinum for shared office cost.

27. KEY MANAGEMENT PERSONNEL COMPENSATION

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

28. KEY SUPPLEMENTAL CASH FLOW INFORMATION

		December 31 2012		December 31 2011
Supplementary information				
Interest paid	$	656,736	$	83,334
Non-Cash Financing and Investing Activities				
Shares issued for mineral properties	$	-	$	31,250
Non-cash share issue costs	$	-	$	-
Shares issued as financing fees	$	600,000	$	-
Shares issued on acquisitions	$	-	$	-
Shares issed as stock bonus	$	78,857	$	-
Capitalized depreciation of equipment	$	5,043,167	$	2,380,564
Property & equipment expenditures included in accounts payable	$	167,460	$	241,757
Mineral property expenditures included in accounts payable	$	1,666	$	-
Share-based payments capitalized in property and equipment	$	170,731	$	115,260
Share-based payments capitalized in mineral properties	$	16,580	$	772,588

29. COMMITMENTS

Prophecy Coal's commitments related to mineral properties are disclosed in note 17 to these Annual Financial Statements.

(Expressed in Canadian Dollars)

Prophecy Coal's commitments related to Waterton 2012 loan are disclosed in note 19 to these Annual Financial Statements.

Commitments, not disclosed elsewhere in these Annual Financial Statements, are as follows:

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

30. CONTINGENCIES

The Company accrues for liabilities when it is probable and the amount can be reasonably estimated.

The Company's Mongolian subsidiary Red Hill Mongolia has been involved in a legal proceeding concerning a potential financial liability relating to road repair work by Selenge AZZA LC. The financial effect and timing of the court decision is indeterminable at the current time, and no amounts have been accrued.

Prophecy Platinum is currently reviewing a potential financial liability for the reclamation of land related to mining conducted on the Wellgreen property prior to Prophecy Platinum's acquisition of the property. They are in discussions with the Yukon Government and the third party involved in the prior operation of the property, to determine the plan for assessing the reclamation work that will need to be conducted. Once an assessment is conducted, there is a potential that a portion of the financial cost for reclamation will need to be incurred by Prophecy Platinum. The financial effect and timing of the reclamation work is indeterminable at the current time, and no amounts have been accrued.

31. EVENTS AFTER THE REPORTING DATE

The following events occurred subsequent to December 31, 2012:

(a) 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"), at arms lengths to the Company, is undertaking to subscribe for 40 million units of this financing. Company insiders may participate in the Placement.
TSX policy requires shareholder approval for (a) the acquisition by NewMargin of over 20% of the Company's issued and outstanding Shares, and (b) for the placement generally, as it will involve the issuance of more than 25% of the Company's issued and outstanding Shares, in each case after giving effect to the exercise of the Warrants. At the closing of the Placement, the Company intends to issue a combination of Units and special warrants ("Special

Warrants" to stay below each of these thresholds. Each Special Warrant will be automatically exercised for one Unit without payment of additional consideration following receipt of shareholder approval, which the Company will seek at its next annual general meeting in June 2013. 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.

The Shares are subject to a minimum hold period of four months plus one day. Finder's fees may be paid as part of the Placement.

The proceeds of the Placement will be used to advance the Chandgana power plant project and for general working capital purposes.

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.

(b) 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. In February 2013, Waterton agreed to waive the default, subject to the Company completing (which it has) the following;

   i) 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,

   ii) issuing issue 2 million common shares to Waterton; and

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

(c) The following warrants (note 22d) expired unexercised subsequent to December 31, 2012:

- 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;
- 551,968 warrants exercisable at $0.77 per share on March 31, 2013.

(d) 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.

(e) On February 27, 2013, Prophecy Platinum entered into an Amending Option Agreement with Victory pursuant to which Prophecy Platinum may complete its earn-in of a 100% interest in the Lynn Lake property by making option payments to Victory totalling $1.125 million, (as substitution for the March 1, 2013 $1 million 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 on February 28, 2014, in full satisfaction of the remaining three scheduled option payments for 2014 totalling $550,000.