Prophecy
Coal Corp.

Condensed Interim Consolidated Financial Statements
Unaudited
For the three and nine month period ended September 30, 2012
(Expressed in Canadian Dollars)

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Financial Statements

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements have been prepared by management and approved by the Audit Committee and the Board of Directors. Prophecy Coal's independent auditors have not performed a review of these condensed interim consolidated financial statements in accordance with the standards established for a review of interim financial statements by an entity's auditors.

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

	Notes		September 30 2012		December 31 2011
Assets					
Current assets					
Cash and cash equivalents	5	$	4,462,052	$	3,480,050
Restricted cash	5, 10(d)		10,189,400		-
Receivables	6		1,584,986		1,105,429
Prepaid expenses	7		2,986,327		609,357
Available-for-sale-investments	8		-		3,839,988
			19,222,765		9,034,824
Non-current assets					
Restricted cash	5		667,524		-
Exploration deposit			118,278		-
Reclamation deposits			6,500		6,500
Receivables	6		-		2,137,031
Equipment deposits and other			-		2,053,613
Available-for-sale-investments	8		961,032		3,796,175
Property and equipment	9		61,527,848		51,645,276
Mineral properties	10		81,704,920		62,169,481
		$	164,208,865	$	130,842,900
Liabilities and Equity					
Current liabilities					
Accounts payable & accrued liabilities	11	$	5,390,859	$	1,364,890
Loans payable	12		9,734,642		-
			15,125,501		1,364,890
Non-current liabilities					
Provision for closure and reclamation			294,262		257,355
			15,419,763		1,622,245
Equity					
Share capital	13		145,679,507		134,492,080
Reserves			18,698,107		17,138,468
Accumulated other comprehensive loss			(4,491,286)		(1,842,782)
Deficit			(42,966,174)		(53,375,529)
Equity attributable to owners of the Company	3		116,920,154		96,412,237
Equity attributable to non-controlling interests	3		31,868,948		32,808,418
Total Equity			148,789,103		129,220,655
		$	164,208,865	$	130,842,900

Approved on behalf of the Board:

"Joseph Li"	*"Greg Hall"*
Director	Director

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

	Notes	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
General and Administrative Expenses					
Consulting and management fees		$ 381,812	$ 399,060	$ 950,214	$ 1,065,316
Share-based payments	13	475,409	3,378,471	3,604,683	5,773,313
Advertising and promotion		561,584	272,579	1,800,438	603,896
Professional fees		386,000	524,900	886,041	819,195
Travel and accommodation		107,618	114,974	301,060	481,316
Stock exchange and shareholder services		65,900	164,841	223,990	256,808
Salary and benefits		271,057	113,652	777,771	272,144
Office and administration		408,264	97,183	564,755	253,891
Insurance		60,240	32,352	165,354	81,508
Director fees		145,910	59,608	285,818	66,314
Mine site expenses		58,473	-	58,473	-
Amortization		48,096	38,723	160,327	79,728
Loss Before Other Items and Deferred Income Tax Recovery		(2,970,363)	(5,196,343)	(9,778,924)	(9,753,429)
Other Items					
Interest income		11,976	-	49,007	113,931
Interest expense		(487,652)	(6,241)	(545,252)	-
Financing costs		(150,000)	-	(150,000)	-
Loss on acquisition of mineral properties		-	-	-	(3,527,397)
Loss on sale of investments		(1,702,395)	-	(1,720,014)	-
Investment income		-	21,934	-	21,934
Foreign exchange gain (loss)	2	(676)	478,543	(42,735)	401,986
Mineral property write off	10	-	-	(190,980)	-
		(2,328,747)	494,236	(2,599,974)	(2,989,546)
Loss Before Deferred Income Tax Recovery		(5,299,110)	(4,702,107)	(12,378,898)	(12,742,975)
Deferred income tax recovery		160,247	-	213,532	-
Net Loss for Period		(5,138,863)	(4,702,107)	(12,165,366)	(12,742,975)
Fair value gain (loss) on available-for-sale investments		688,744	(808,024)	(553,028)	(1,174,209)
Unrealized loss on foreign exchange		(646,474)	-	(2,161,826)	-
Comprehensive Loss for Period		$ (5,096,593)	$ (5,510,131)	$ (14,880,220)	$ (13,917,184)
Net loss for period attributable to:					
Owners of the Company		$ (3,729,290)	$ (2,361,868)	$ (8,531,884)	$ (8,705,873)
Non-controlling interest		(1,409,573)	(2,340,239)	(3,633,482)	(4,037,102)
		$ (5,138,863)	$ (4,702,107)	$ (12,165,366)	$ (12,742,975)
Comprehensive loss for period attributable to:					
Owners of the Company		$ (3,448,702)	$ (2,918,992)	$ (11,253,382)	$ (9,732,426)
Non-controlling interest		(1,647,892)	(2,591,139)	(3,626,838)	(4,184,758)
		$ (5,096,593)	$ (5,510,131)	$ (14,880,220)	$ (13,917,184)
Loss Per Common Share, basic and diluted		$ (0.02)	$ (0.02)	$ (0.06)	$ (0.07)
Weighted Average Number of Shares Outstanding		227,407,328	195,008,886	218,573,241	191,372,837

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

	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	(522,504)	-	-	684,119	-	684,119
Warrants exercised	11,762,298	7,364,483	-	-	-	7,364,483	-	7,364,483
Share-based payments	-	-	3,801,550	-	-	3,801,550	2,570,973	6,372,523
Non-controlling interest on acquisition of Prophecy Platinum Corp.	-	-	-	-	-	-	5,725,409	5,725,409
Expiry of options	-	-	(112,558)	-	112,558	-	-	-
Loss for the period	-	-	-	-	(10,956,801)	(10,956,801)	(1,786,174)	(12,742,975)
Distribution to shareholders on spin-off	-	-	-	-	(18,475,792)	(18,475,792)	18,475,792	-
Unrealized loss on available-for-sale-invesments	-	-	-	(1,174,209)	-	(1,174,209)	-	(1,174,209)
Balance, September 30, 2011	198,056,297	134,029,482	$ 16,856,002	(1,686,825)	(56,899,158)	92,299,501	24,986,000	117,285,501
Balance, January 1, 2012	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	22,363,866	9,594,618	-	-	-	9,594,618	-	9,594,618
Shares issued as financing fees	2,735,617	600,000	-	-	-	600,000	-	600,000
Sale of Prophecy Platinum shares	-	-	673,800	-	-	673,800	-	673,800
Options exercised	187,500	159,875	(113,000)	-	-	46,875	-	46,875
Warrants exercised	1,479,509	762,578	(7,233)	-	-	755,345	-	755,345
Share-based payments	-	-	609,541	-	-	609,541	2,864,530	3,474,071
Bonus shares	460,042	70,356	-	-	-	70,356	-	70,356
Warrant modification	-	-	369,531	-	-	369,531	-	369,531
Common shares subscribed	-	-	27,000	-	-	27,000	-	27,000
Funding from non-controlling interest, net of dilution	-	-	-	-	18,556,785	18,556,785	(206,427)	18,350,358
Loss for the period	-	-	-	-	(8,045,171)	(8,045,171)	(3,633,482)	(11,678,653)
Unrealized gain (loss) on available-for-sale-invesments	-	-	-	(486,678)	(102,259)	(588,937)	35,909	(553,028)
Unrealized loss on foreign exchange	-	-	-	(2,161,826)	-	(2,161,826)	-	(2,161,826)
Balance, September 30, 2012	228,335,956	$ 145,679,507	$ 18,698,107	$ (4,491,286)	$ (42,966,174)	$ 116,920,154	$ 31,868,948	$ 148,789,103

See Accompanying Notes to Condensed Interim Consolidated Financial Statements.

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

	Nine months ended September 30, 2012	2011
Operating Activities		
Comprehensive loss for the period	$ (14,880,220)	$ (12,742,975)
Items not involving cash		
Accretion of provision for closure and reclamation	6,838	-
Amortization	160,327	79,728
Share-based payments	3,604,683	5,773,313
Loss on exchange transaction with Platinum	-	3,527,397
Loss on sale of investment	1,720,014	-
Future income tax recovery	(213,532)	-
Write-down of exploration and evaluation assets	190,980	-
Financing costs	150,000	-
Fair value (gain) loss on available for sale investments	553,028	-
Unrealized (gain) loss on foreign exchange	2,161,826	-
	(6,546,056)	(3,362,537)
Changes in non-cash working capital		
Receivables	1,657,474	(2,365,579)
Prepaid expenses	(2,376,970)	(3,215,110)
Accounts payable and accrued liabilities	4,022,030	(1,346,669)
Interest income	49,007	-
Interest expense	(545,252)	-
	2,806,290	(6,927,358)
Cash Used in Operating Activities	(3,739,766)	(10,289,895)
Investing Activities		
Cash received upon exchange transaction with Platinum	-	778,676
Cash received upon acquisition of URSA by Platinum	703,225	-
Exploration deposits	(118,278)	-
Equipment deposits and other	2,053,613	(1,294,897)
Acquisition of property and equipment	(9,933,246)	(23,365,624)
Mineral property expenditures	(18,936,736)	(2,046,276)
Net proceeds from sale of AFS investment ST	2,473,480	-
Net proceeds from sale of AFS investment LT	649,488	-
Proceeds from sale of Prophecy Platinum shares	673,800	(1,750,000)
Cash Used in Investing Activities	(22,434,654)	(27,678,121)
Financing Activities		
Bank loans proceeds	9,734,642	(5,083,334)
Platinum shares issued, net of share issuance costs	18,864,071	-
Prophecy shares issued, net of share issuance costs	9,594,618	7,923,940
Net proceeds from exercise of options	46,875	-
Net proceeds from exercise of warrants	755,345	-
Decrease in non-controlling interest	(939,470)	-
Cash Provided by Financing Activities	38,056,081	2,840,606
Net Increase (Decrease) in Cash	11,881,661	(35,127,410)
Net foreign exchange difference	(42,735)	-
Cash and Cash Equivalents - Beginning of Period	3,480,050	39,324,151
Cash and Cash Equivalents - End of period	$ 15,318,976	$ 4,196,741

Supplemental cash flow information (Note 19)

1. NATURE AND CONTINUANCE OF OPERATIONS

Prophecy Coal Corp. ("Prophecy Coal") is engaged in exploring and developing coal properties and developing power projects in Mongolia. Prophecy Platinum Corp. which is 37.5% owned by way of common shares held by Prophecy Coal, is in the exploration stage with its principal business activity being the exploration of nickel, copper and platinum group metals mineral properties in North America and South America.

Prophecy Coal as at September 30, 2012 had a working capital, including restricted cash, of $4.1 million (December 31 2011: working capital of $7.7 million) and will require additional sources of funding for ongoing operations, to continue to develop the Ulaan Ovoo coal property, and potentially to develop the Chandgana Power Plant project. Sources of funding include subsequent return of net escrow deposit, classified as restricted cash, amounting to US$9.9 million (note 20(b)), dispositions of Prophecy Platinum Corp. common shares and may include coal sales from off-take agreements, equity and or debt joint ventures with power project developers, and additional market equity and debt financing. Many factors influence the Company's ability to raise funds, and there is no assurance that the Company will be successful in obtaining adequate financing and at favorable terms for these or other purposes including general working capital purposes. These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business for the foreseeable future. Realization values may be substantially different from carrying values, as shown, and these consolidated financial statements do not give effect to the adjustment that would be necessary to the carrying values and classifications of assets and liabilities should Prophecy Coal be unable to continue as a going concern.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2012 have been prepared in accordance with IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB").

In preparing the condensed interim consolidated financial statements for the three and nine months ended September 30, 2012, Prophecy Coal followed the same accounting policies and methods of computation as in Note 3 of the annual consolidated financial statements for the year ended December 31, 2011.

(b) Change in functional currency

As the operations of Prophecy Coal's wholly owned Mongolian subsidiaries continue to gain significance relative to the operations of Prophecy Coal as a whole, management has concluded that the most appropriate functional currency of the Mongolian subsidiaries is the Mongolian Tugriks; and this change was effective for Prophecy Coal on April 1, 2012. This reflects the fact that the competitive and regulatory environment of the Mongolian subsidiaries are mainly influenced by the Mongolian currency, and the Mongolian currency now largely influences coal prices, labour, material and other costs of providing coal supply services. The previous functional

2. BASIS OF PRESENTATION (Continued)

(b) Change in functional currency (Continued)

currency of the Mongolian subsidiaries was the Canadian dollar. In accordance with IAS-21, this change in accounting policy was applied prospectively from April 1, 2012. The presentation currency of Prophecy Coal remains the same; the Canadian Dollar.

The financial position and results of Prophecy Coal's foreign subsidiary are translated from functional currency to Canadian dollars as follows:

- Assets and liabilities are translated using exchange rates prevailing at the balance sheet date;
- Income and expenses are translated using average exchange rates prevailing during the period;
- All resulting exchange gains and losses are included in other comprehensive income.

Prophecy Coal treats inter-company loan balances, which are not intended to be repaid in the foreseeable future, as part of its net investment. The exchange differences on inter-company balances are taken directly to other comprehensive loss. When a foreign entity is disposed, such differences are recognized in the statement of income as part of the gain or loss on sale.

(c) 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. Other borrowing costs not directly attributable to a qualifying asset are expensed in the period incurred.

(d) Approval of the financial statements

The condensed interim consolidated financial statements of Prophecy Coal for the three and nine months ended September 30, 2012 were reviewed and approved by the Audit Committee on November 13, 2012.

(e) Comparative figures

Certain prior period figures have been reclassified to conform to the current period's presentation. Such reclassifications are for presentation purposes only and have no effect on previously reported results.

(Unaudited) (Expressed in Canadian Dollars)

Details of Prophecy Coal's subsidiaries at September 30, 2012 are as follows:

	Principal Activity	Place of incorporation and operation	Ownership interest September 30, 2012
0912603 B.C. Ltd.	Exploration	Canada	100%
0912601 B.C. Ltd.	Exploration	Canada	100%
Chandgana Coal LLC	Exploration	Mongolia	100%
Prophecy Power Corp. (former East Energy Development LLC)	Exploration	Mongolia	100%
Red Hill Mongolia LLC	Mining	Mongolia	100%
UGL Enterprises LLC	Inactive	Mongolia	100%
Prophecy Platinum Corp.	Exploration	Canada	37.5%
Subsidiaries of Prophecy Platinum Corp. ("Prophecy Platinum")			
PCNC Holdings Corp.	Exploration	Canada	37.5%
Pacific Coast Nickel Corp. USA	Inactive	USA	37.5%
Pacific Nickel Sudamerica S.A.	Exploration	Uruguay	37.5%
0905144 B. C. Ltd.	Exploration	Canada	37.5%
Ursa Major Minerals Inc. ("URSA")	Mining	Canada	37.5%

3. ACQUISITIONS

Prophecy Coal’s common share ownership interest in Prophecy Platinum Corp. (“Prophecy Platinum”) was reduced to 37.5% or 25,281,735 common shares as at September 30, 2012, which resulted in a dilution impact recorded to deficit. However, as there are certain in common directors and officers, Prophecy Coal is deemed to continue to have control over Prophecy Platinum. The fair value of Prophecy Platinum’s net assets on the date of acquisition was as follows:

Acquisition of URSA Major Minerals Inc. by Prophecy Platinum

On July 16, 2012, Prophecy Platinum acquired a 100% equity investment in URSA Major Minerals Incorporated (“URSA”) through an Arrangement. Pursuant to the terms of the Arrangement, Prophecy Platinum issued 3,186,916 common shares to acquire all of the outstanding common shares in URSA. On March 8, 2012, Prophecy Platinum had 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 Arrangement on completion of the acquisition. 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 Arrangement has been accounted for as an acquisition under IFRS 3 *Business Combinations*. The results of URSA’s operations from the July 16, 2012 date of acquisition to the end of the current period have been included in these interim consolidated financial statements. The total fair value of $5,032,799 was assigned to the 3,186,916 common shares issued by Prophecy Platinum in the Arrangement is based on the quoted market price as of July 16, 2012. The transaction costs related to the acquisition was $55,640 and was expensed through Professional Fees and Stock Exchange & Shareholder Services at the time of the transaction.

URSA owns a 100% interest in the Shakespeare Platinum Nickel project located near Sudbury, Ontario, which was in production from 2010 to 2011. URSA also owns other exploration properties in Ontario. The acquisition provides a pipeline of platinum nickel projects, with potential near term production capabilities.

(Unaudited) (Expressed in Canadian Dollars)

3. ACQUISITIONS (Continued)

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

Cash paid (purchase of URSA shares)	$	1,000,000
Shares issued for acquisition		5,032,800
Acquisition Costs	$	6,032,800
Fair value of assets acquired and liabilities assumed:		
Mineral properties	$	7,401,348
Cash and cash equivalents		703,225
Receivables		341,854
Prepaids expenses		63,602
Available for sale		29,375
Property and equipment		149,148
Accounts payable and accrued liabilities		(2,655,752)
	$	6,032,800

URSA's production process was temporary suspended in January 2012. From the date of the acquisition of July 16, 2012 until the end of the quarter the revenue and net loss of URSA included in the consolidated statement of operations were $NIL and $323,950 respectively.

4. SEGMENTED INFORMATION

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

September 30, 2012	Canada	Uruguay	Argentina	Mongolia	Total
Reclamation deposits	$ 6,500	$ -	$ -	$ -	$ 6,500
Exploration deposits	-	118,278	-	-	118,278
Property and equipment	749,630	-	-	60,778,218	61,527,848
Mineral properties	70,384,826	748,340	460,843	10,110,910	81,704,920
	$ 71,140,956	$ 866,618	$ 460,843	$ 70,889,128	$ 143,357,545

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

5. 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. Prophecy Coal's cash and cash equivalents are denominated in the following currencies:

		September 30, 2012		December 31, 2011
Cash				
Denominated in Canadian dollars	$	358,399	$	2,316,433
Denominated in US dollars		85,996		68,419
Denominated in Mongolian tugriks		8,643		86,530
Denominated in Uruguayan pesos		2,694		6,770
Cash equivalents				
Denominated in Canadian dollars		4,006,320		1,001,898
Cash and cash equivalents	$	4,462,052	$	3,480,050
Denominated in Canadian dollars - Current restricted (Note 10 d)		10,189,400		-
Denominated in Canadian dollars - Non-current restricted		667,524		-
Restricted cash	$	10,856,924	$	-

URSA has guaranteed by pledge of a GIC an irrevocable standby letter of credit for $667,524 to the Ministry of Northern Development and Mines ("MNDM") as a financial assurance guarantee in connection with the Stage One Mining Closure Plan on the Shakespeare Project.

6. RECEIVABLES

		September 30, 2012		December 31, 2011
Current assets				
HST receivable	$	839,485	$	338,436
Trade receivable		538,208		730,373
Other receivables		207,293		36,620
	$	1,584,986	$	1,105,429
Non-current assets				
VAT receivable	$	-	$	2,137,031

7. PREPAID EXPENSES

		September 30, 2012		December 31, 2011
Prepaid insurance	$	193,395	$	29,360
Prepaid exploration and drilling		782,981		-
Prepaid promotional		62,932		-
Prepaid transportation and maintenance		749,495		-
General prepaid expenses		1,197,524		579,997
	$	2,986,327	$	609,357

(Unaudited) (Expressed in Canadian Dollars)

8. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments are as follows:

Available-for-sale investments		September 30, 2011		December 31, 2011
Current assets				
Platinum Group metals investments				
ETFS Physical Palladium	$	-	$	2,024,878
ETFS Physical Platinum				1,815,110
	$	-	$	3,839,988
Non-current assets				
Prophecy Coal common share investments				
Victory Nickel	$	942,282	$	2,746,175
Compliance Energy		-		1,050,000
Prophecy Platinum investments				
URSA investments: Auriga		18,750		-
	$	961,032	$	3,796,175

In May 2010, Prophecy Coal purchased 36,615,385 common shares in Victory Nickel Inc ("Victory Nickel"), which represented approximately 9.8% equity interest in Victory Nickel, for $3,808,001. During Q3 2012, Prophecy Coal sold 5,206,300 Victory Nickel shares for a realized loss of $332,589.

In March 2011, Prophecy Coal acquired 5,000,000 common shares of Compliance Energy Corporation ("Compliance"), representing approximately 8% of Compliance outstanding shares by means of a non-brokered private placement. Prophecy paid $1,750,000 for its interest in Compliance. At September 30, 2012, Prophecy Coal sold all shares of Compliance for a realized loss of $1,302,306.

In December 2011, Prophecy Platinum purchased 30,840 at $65 ETFS Physical Palladium and 12,950 at $155 ETFS Physical Platinum exchange traded funds. At September 30, 2012, Prophecy Platinum sold all of its platinum ETFs and palladium ETFs on hand and received proceeds for a realized loss of $100,147.

On March 9, 2012 Prophecy Platinum acquired, by means of a non-brokered private placement, 16,666,667 common shares of URSA Major Minerals Inc. ("URSA") at a price of $0.06 per common share for an aggregate cost of $1,000,000 representing approximately 17.3% of URSA outstanding shares. These shares of URSA were cancelled pursuant to the terms of the acquisition on July 16, 2012.

As at September 30, 2012, URSA owned 125,000 common shares of Auriga Gold Corp ("Auriga") valued at $18,750.

(Unaudited) (Expressed in Canadian Dollars)

9. PROPERTY AND EQUIPMENT

There are no restrictions on title or any expenditure to construct property and equipment during the period. 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, 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	23,259	271,775	34,822	22,984	-	430,682	15,708,704	330,590	16,822,816
Sale of coal	-	-	-	-	-	-	(1,894,785)	-	(1,894,785)
Disposals	-	-	-	-	-	-	-	-	-
Balance, September 30, 2012	167,704	496,339	806,933	257,052	172,818	14,679,268	52,152,795	358,889	69,091,797
Accumulated depreciation									
Balance, December 31, 2011	49,226	82,448	137,315	82,456	23,582	2,125,913	-	17,551	2,518,491
Depreciation for the period	24,356	38,392	121,124	72,679	25,922	2,362,243	2,356,251	44,490	5,045,458
Balance, September 30, 2012	73,582	120,840	258,439	155,135	49,504	4,488,156	2,356,251	62,041	7,563,949
Carrying amounts									
At December 31, 2011	95,219	142,116	634,796	151,612	149,236	12,122,673	38,338,876	10,748	51,645,276
At September 30, 2012	94,122	375,499	548,493	101,917	123,314	10,191,112	49,796,544	296,848	61,527,848

(Unaudited) (Expressed in Canadian Dollars)

10. MINERAL PROPERTIES

	Chandgana Tal	Chandgana Khavtgai	Titan	Okeover, others	Lynn Lake	Wellgreen	Burwash	Sarandi del Yi Durazno
Notes	10(b)	10(c)	10(e)	10(f)	10(g)	10(h)	10(i)	10(j)
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
2012 Additions:								
Acquisition cost	-	-	-	-	1,399,149	-	-	-
Deferred exploration costs:								
Licenses, leases, and Power Plant application	1,409,067	135,112	9,579	14,056	2,057	3,987	-	-
Geological core, engineering, and consulting	1,175,465	204,804	-	1,124	-	1,842,617	-	40,256
Drilling	-	-	-	-	-	3,376,773	-	-
Personnel	53,762	133,246	-	-	6,680	509,001	-	-
Camp and general	119,403	2,583	-	-	9,635	1,439,533	16,724	634
	2,757,697	475,745	9,579	15,180	18,373	7,171,911	16,724	40,890
Balance, September 30, 2012	**$7,510,398**	**$2,600,513**	**$748,228**	**$1,382,092**	**$34,178,328**	**$24,775,056**	**$1,899,774**	**$748,340**

	Las Aguilas	Shakespeare	Porter Baldwin and option	Shining Tree	Stumpy Bay Option	Fox Mountain	Total
Notes	10(k)	10(l)	10(m)	10(n)	10(o)	10(p)	
Balance, December 31, 2011	231,999	-	-	-	-	-	62,169,481
2012 Additions:							
Acquisition cost	198,255	5,944,660	592,130	439,568	316,433	108,557	8,998,752
Deferred exploration costs:							
Licenses and leases	22,361	-	-	-	-	-	1,596,218
Geological core, engineering, and consulting	-	-	-	-	-	-	3,264,266
Drilling	-	-	-	-	-	-	3,376,773
Personnel	-	-	-	-	-	-	702,689
Camp and general	8,228	-	-	-	-	-	1,596,741
	30,589	-	-	-	-	-	10,536,687
Balance, September 30, 2012	**$460,843**	**$5,944,660**	**$592,130**	**$439,568**	**$316,433**	**$108,557**	**$81,704,920**

10. MINERAL PROPERTIES (Continued)

(a) Ulaan Ovoo property

In November 2005, Prophecy Coal entered into a letter of intent with Ochir LLC that sets out the terms to acquire a 100% interest in the Ulaan Ovoo coal property. The Ulaan Ovoo property is located in Selenge province, Mongolia. It is held by the 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 and commercial viability and has, accordingly, reclassified mineral property costs to Property and Equipment (Note 9).

On August 9, 2012, Prophecy Coal decided to temporarily suspend coal mining operations in an effort to save costs because at that time, Prophecy Coal had sufficient inventory to meet contractual supply obligations through the balance of 2012.

Ilch Khujirt property

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. Prophecy Coal recorded an impairment of $190,980 during the nine month periods ended September 30, 2012 for the full carrying amount of the property.

(b) Chandgana Tal property

In March 2006, Prophecy Coal acquired a 100% interest in the Chandgana Tal property, a coal exploration property, as detailed in the December 31, 2011 audited financial statements.

10. MINERAL PROPERTIES (Continued)

(c) Chandgana Khavtgai property

In 2007, Prophecy Coal acquired a 100% interest in the Chandgana Khavtgai property, a coal exploration property, as detailed in the December 31, 2011 audited financial statements.

(d) Restricted Cash Tugalgatai property

On June 18, 2012, Prophecy Coal entered into a Sale and Purchase Agreement to acquire assets in Mongolia relating to certain Tugalgatai coal exploration property licenses from Tethys 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, $10,189,400 was deposited in escrow, and classified as restricted cash, during the period. In October 2012, subsequent to the period end, the funds net of costs amounting to US $9.9 million was returned to Prophecy Coal on termination of the Tugalgatai Agreement, which occurred due to the elapsing of the initial long stop date for approval of the licences transfer by the Minerals Resource Authority of Mongolia. Prophecy Coal is in negotiation for a new amended Tugalgatai Agreement to extend the acceptance period for the transfer application in regards to the coal licenses and to defer certain upfront payments such that they become payable upon achieving certain project milestones over time, and is in dialogue with Waterton to amend the Loan (note 12 and 20(b)).

(e) Titan property

Prophecy Coal has an 80% interest in the Titan property, a vanadium-titanium-iron project located in Ontario, Canada, as detailed in the December 31, 2011 audited financial statements.

(f) Okeover property

Prophecy Coal has a 60% interest in the Okeover property, a copper-molybdenum project in the Vancouver Mining Division of southwestern British Columbia, Canada, as detailed in the December 31, 2011 audited financial statements.

Prophecy Platinum (37.5% owned) Properties

(g) Lynn Lake property

Prophecy Coal acquired, through PCNC Holdings Corp., the Lynn Lake property, a nickel project located in northern Manitoba, Canada, in April 2010, and to which $31,802,069 was capitalized as the acquisition cost.

On October 20, 2009, PCNC Holdings Corp. entered into an option agreement with Victory Nickel. Pursuant to the option agreement, Prophecy Platinum has the right to earn a 100% interest in Lynn Lake by paying Victory an aggregate of $4,000,000 and by incurring an aggregate of $3,000,000 exploration expenditures at Lynn Lake and by issuing 2,419,548 shares to Victory (issued by Prophecy Coal Corp.). The option agreement also provided Victory with a

10. MINERAL PROPERTIES (Continued)

(g) Lynn Lake property (Continued)

right to participate in future financings or acquisitions on a pro-rata basis so that Victory may maintain its 10% interest in the number of outstanding shares of the Company. Pursuant to the option agreement, Prophecy Platinum is subject to a 3% Net Smelter Return Royalty.

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

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

On August 3, 2012 the Company signed a Settlement Agreement with Victory to provide for one time cash payment of $450,000 (paid) in full settlement for the Company's obligation to incur the remaining balance of exploration expenditures of $1,188,877, pursuant to the Option Agreement on or before November 1, 2012.

(h) Wellgreen property

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

The Wellgreen property was subject to a Back-in Assignment Agreement ("the Assignment Agreement") with Belleterre Quebec Mines ("Belleterre"), wherein Belleterre was granted a back-in right to a 50% interest in Wellgreen at any time up to and including completion of a positive feasibility study at Wellgreen by paying Prophecy Platinum, at the time of backing-in, 50% of the amount of expenditures incurred by Prophecy Platinum at Wellgreen. Pursuant to the Assignment Agreement, Belleterre assigned its rights, title and interest in the Assignment Agreement to Prophecy Platinum for consideration of $4,200,000 payable as follows:

- $2,100,000 in cash (paid); and
- $2,100,000 payable through the issuance by Prophecy Platinum of 3,560,000 common shares and 712,000 warrants exercisable at $0.80, expiring on October 8, 2011 (issued).

As a result, Prophecy Platinum acquired a 100% interest in the Wellgreen property.

(i) Burwash, Canada

On August 4, 2011, Prophecy Platinum entered into a purchase agreement with Strategic Metals Ltd. ("Strategic") to acquire a 100% working interest in the Burwash property as detailed in the December 31, 2011 audited financial statements.

(j) Sarandi del Yi Durazno, Uruguay

Prophecy Platinum has purchased five prospecting licences in Uruguay and has begun an exploration program on these properties as detailed in the December 31, 2011 audited financial statements.

10. MINERAL PROPERTIES (Continued)

(i) Las Aguilas, Argentina

On December 10, 2010, and as further amended on March 21, 2012 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 as detailed in the December 31, 2011 audited financial statements.

(j) Shakespeare property

URSA Major Minerals Inc. (“URSA”) has a 100% interest in the Shakespeare Property after issuing 350,000 common shares and completing $1,200,000 in exploration expenditures under an option agreement with Xstrata Nickel, a business unit of Xstrata Canada Corporation ("Xstrata"). The Shakespeare Property contains a nickel, copper, platinum group metal economic ore reserve. Xstrata has retained a 1.5% Net Returns Royalty and certain mineral processing rights. During the financial year ended January 31, 2011, URSA declared commercial production at the Shakespeare Mine. At the beginning of 2012, URSA temporarily suspended production at the Shakespeare Mine and as a result an impairment of $5,919,796 was recorded for the property.

(k) Porter Baldwin

URSA has staked mining claims in the Agnew Lake area that are contiguous with the Shakespeare Property noted above and are 100% owned by the URSA.

URSA has earned a 100% interest in certain mineral claims known as the Porter Option, located in Shakespeare, Dunlop and Porter Townships, Ontario. The optionor has retained a 2% Net Returns Royalty. Advance annual royalty payments of $24,000 commenced January 15, 2007. URSA has the right to purchase one-half of the royalty for $1,000,000.

(l) Shining Tree

URSA has earned a 100% interest in certain mineral claims known as the Shining Tree claims, located in Fawcett Township, Ontario. The optionor has retained a 1% Net Returns Royalty. URSA has the right to purchase one-half of the royalty for $500,000.

(m) Stumpy Bay

Prophecy Coal has earned a 100% interest in certain claims known as the Stumpy Bay property, located in Shakespeare and Baldwin Townships, Ontario. The optionor has retained a 2% Net Returns Royalty. Advance annual royalty payments of $30,000 commenced March 21, 2006. URSA 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 URSA’s interest in the Stumpy Bay property.

(n) Fox Mountain

URSA has staked and holds a 100% interest in certain mining claims in the Thunder Bay Mining Division of Ontario. On November 19, 2010, URSA entered into an agreement and purchased 100% interest in certain additional mining claims located in the Thunder Bay Mining Division of Ontario. The seller has retained a back in right to convert to a joint venture (seller 51%) or a 2% Net Smelter Revenue Royalty. During the year ended January 31, 2012, these claims lapsed.

(Unaudited) (Expressed in Canadian Dollars)

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		September 30 2012		December 31, 2011
Trade accounts payable	$	5,325,797	$	1,068,811
Accrued liabilities		65,062		296,079
	$	5,390,859	$	1,364,890

12. LOAN PAYABLE

In July 2012, Prophecy Coal arranged a secured debt facility of $10,000,000 (the “Loan”) with Waterton Global Value, L.P. (“Waterton”). The Loan has a one year term and bears interest at 14% per annum payable monthly with an effective interest rate of 24%. In connection with the Loan, a structuring fee of 2.5% ($250,000) was paid to Waterton in cash and legal fees of $189,805 were paid. Pursuant to the terms of the Loan, Prophecy Coal issued for a value of $600,000, 2,735,617 common shares of Prophecy Coal on closing of the Loan at July 16, 2012. The funds will be used to complete the purchase of the Tugalgatai, Mongolia coal licenses (note 10(d)) and for general working capital. Prophecy Coal’s holding of 7.5 million Prophecy Platinum’s common shares have been pledged as collateral with another 9 million Prophecy Platinum common shares being held in escrow against the Loan. As at September 30, 2012, Prophecy Coal had drawn down $10,000,000 of the Loan. The Loan has a due date of July 16, 2013, and is callable at the option of Waterton, in the case of the termination of the Tugalgatai Agreement, which has occurred as the initial long stop date for approval of the licences transfers by Minerals Resource Authority of Mongolia has elapsed. Prophecy Coal is in negotiation with the vendor, Tethys Mining LLC ("Tethys"), on a new amended Tugalgatai Agreement and is in dialogue with Waterton to amend the Loan (note 10(d) and 20(b)).

In August 2012, Prophecy Coal’s wholly-owned Mongolian subsidiary Red Hill Mongolia LLC (“Red Hill”) arranged a fixed term bank loan of $500,000 with Khan Bank. The bank loan has a one year term 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 secured against certain equipment.

As at September 30, 2012, Red Hill had drawn $450,000 of the loan and recorded $3,369 in interest expense.

The outstanding balance of the loans payable as at September 30, 2012 is summarized as follows:

		September 30 2012		December 31, 2011
Waterton loan payable - Prophecy Coal	$	9,301,352	$	-
Khan Bank loan payable - Red Hill		433,290		-
	$	9,734,642	$	-

13. 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.

(b) Equity issuances

During the nine months ended September 30, 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 March 8, 2012, Prophecy Coal closed a non-brokered private placement of 22,363,866 shares at a price of $0.45 per share for gross proceeds of $10,063,740. Finders' fees of 6% of the gross proceeds were paid on certain portions of the placement totalling $469,122. All shares issued were subject to a four-month hold period that expired on July 9, 2012.

(iii) On January 2, 2012, Prophecy Coal 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 Annual General Meeting on June 11, 2012. Based on calculations using the Black Scholes pricing model, Prophecy Coal has expensed $70,356 of these bonus shares to date. As at September 30, 2012, Prophecy Coal released 15,000 bonus shares and ordered a release of the 445,042 shares, which were issued subsequent to the period end.

(iv) On July 16, 2012, Prophecy Coal issued 2,735,617 shares to Waterton at a ascribed value of $0.22 per share as a financing fee pursuant to a $10 million Loan, see note 12.

Prophecy Platinum placements

i) On July 31, 2012 Prophecy Platinum closed a non-brokered private placement of units and flow through shares totaling $7.25 million. 5,067,208 units were issued at a price of $1.20 per unit to generate gross proceeds of approximately $6,080,650. 807,655 flow through shares were issued at a price of $1.45 per share to generate gross proceeds of approximately $1,171,100.

ii) On July 16, 2012, Prophecy Platinum issued 3,186,916 common shares to acquire all of the outstanding shares in URSA using an agreed share exchange ratio of one common share in Prophecy Platinum for each twenty-five common shares in URSA.

iii) On August 30, 2012 Prophecy Platinum closed a $3.0 million non-brokered private placement of 2,500,000 units at a price of $1.20 per unit.

(Unaudited) (Expressed in Canadian Dollars)

13. SHARE CAPITAL (Continued)

(c) Share options

On May 31, 2011, Prophecy Coal adopted and approved at the Company's Annual General Meeting, 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 number of common shares equal to 38,165,342.

The following is a summary of the changes in Prophecy Coal's share purchase options from December 31, 2011 to September 30, 2012:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2011	24,493,050	$0.70
Granted	14,200,000	$0.29
Exercised	(187,500)	$0.25
Forfeited	(1,770,000)	$0.63
Cancelled	(5,899,150)	$0.50
Outstanding, September 30, 2012	30,836,400	$0.52

During the nine months ended September 30, 2012, Prophecy Coal granted 14,200,000 share options (2011 – 2,700,000) to directors, officers, employees and consultants at exercise prices ranging from $0.17 to $0.485 (2011 – from $0.63 to $0.98) and expiry dates ranging from January 9, 2017 to September 24, 2017. Of these 14,200,000 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, Prophecy Coal cancelled 5,315,000 options granted to 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. These share options were replaced with a new option grant of 5,315,000 share options 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 two years. The incremental fair value of these options was determined using the Black-Scholes option pricing model and the corresponding expense was recognized during the nine month period ended September 30, 2012.

On June 18, 2012, Prophecy Coal amended the exercise price of 18,358,050 options granted to directors, officers, employees and consultants with expiry dates ranging from January 23, 2014 to February 14, 2016 from existing exercise prices ranging from $0.38 to $0.93 to $0.28, subject to both a special meeting of the shareholders and TSX approval. There are no changes to the existing expiry dates and vesting periods. As at September 30, 2012, this potential amended option exercise price had not been approved by the shareholders or the TSX; consequently these options were not valued.

(Unaudited) (Expressed in Canadian Dollars)

13. SHARE CAPITAL (Continued)

(c) Share options (Continued)

The following is a summary of the changes in Prophecy Platinum's options from December 31, 2011 to September 30, 2012:

	Number of Options		Weighted Average Exercise Price
Outstanding, December 31, 2011	6,976,250	$	1.34
Granted	2,667,000		1.62
Exercised	(250,000)		0.90
Forfeited	(675,000)		4.43
Outstanding, September 30, 2012	8,718,250	$	1.42

Prophecy Coal and Prophecy Platinum recorded the fair value of all options granted using the Black-Scholes options pricing model. Share-based payment expenses are amortized over the corresponding vesting periods. During the nine months ended September 30, 2012, the share-based payment expenses were calculated using the following weighted average assumptions:

Prophecy Coal	Nine months ended September 30, 2012	
	2012	2011
Risk-free interest rate	1.28%	1.40%
Expected life of options in years	4.2 years	4.25 years
Expected volatility	92.8%	80.9%
Expected dividend yield	Nil	Nil
Platinum Platinum	Nine months ended September 30, 2012	
	2012	2011
Risk-free interest rate	1.35%	1.68%
Expected life of options in years	4 years	4.99 years
Expected volatility	75.0%	74.0%
Expected dividend yield	Nil	Nil

The forfeiture rates: Prophecy Coal - 2%, Prophecy Platinum - %Nil.

(Unaudited) (Expressed in Canadian Dollars)

13. SHARE CAPITAL (Continued)

(c) Share options (Continued)

For the nine months ended September 30, 2012 and 2011, share-based payments were recorded as follows:

Prophecy Coal	Three months ended September 30,		Nine months ended September 30,	
Statement of Operations	2012	2011	2012	2011
Share based payments	$ 339,306	$ 933,415	$ 1,013,054	$ 3,271,325
	339,306	933,415	1,013,054	3,271,325
Statement of Financial Position				
Ulaan Ovoo exploration	19,814	(48,924)	32,135	175,526
Power Plant application		-	4,237	-
Lynn Lake exploration	-	-	-	2,445
Wellgreen exploration	-	-	-	352,253
	19,814	(48,924)	36,372	530,224
Total share-based payments	$ 359,120	$ 884,491	$ 1,049,426	$ 3,801,550

Prophecy Platinum	Three months ended September 30,		Nine months ended September 30,	
Statement of Operations	2012	2011	2012	2011
Share based payments	296,460	2,445,056	$ 2,591,629	$ 2,501,988
	296,460	2,445,056	2,591,629	2,501,988
Statement of Financial Position				
Lynn Lake exploration	-	-	-	56,987
Wellgreen exploration	91,287	-	272,901	11,997
	91,287	-	272,901	68,984
Total share-based payments	387,747	2,445,056	2,864,530	2,570,972
Consolidated Statement of Operations	$ 635,768	$ 3,378,471	$ 3,604,683	$ 5,773,313
Consolidated Statement of Financial Position	$ 111,101	$ (48,924)	$ 309,273	$ 599,208
	$ 746,868	$ 3,329,547	$ 3,913,955	$ 6,372,521

(Unaudited) (Expressed in Canadian Dollars)

13. SHARE CAPITAL (Continued)

(c) Share options (Continued)

Prophecy Coal

As of September 30, 2012 and December 31, 2011, the following Prophecy options were outstanding:

Exercise Price	September 30, 2012	December 31, 2011	Expiry Date	Exercisable	Unvested
$0.17	100,000	-	September 24, 2017	-	100,000
$0.18	230,000	-	August 16, 2017	-	230,000
$0.18	5,104,167	-	August 22, 2017	-	5,104,167
$0.18	75,000	-	September 24, 2017	-	75,000
$0.25	975,000	1,162,500	October 29, 2014	975,000	-
$0.25	-	50,000	February 14, 2012	-	-
$0.25	10,000	-	June 1, 2017	-	10,000
$0.28	4,730,850	-	June 18, 2017	-	4,730,850
$0.38	200,000	200,000	November 30, 2014	200,000	-
$0.40	1,056,800	1,056,800	January 23, 2014	1,056,800	-
$0.40	381,250	381,250	January 29, 2015	381,250	-
$0.43	80,000	-	January 17, 2017	-	80,000
$0.49	40,000	-	March 22, 2017	-	40,000
$0.54	850,000	1,000,000	September 21, 2015	850,000	-
$0.55	350,000	350,000	March 11, 2015	350,000	-
$0.60	175,000	175,000	July 17, 2014	175,000	-
$0.60	65,000	65,000	September 21, 2014	65,000	-
$0.63	-	2,400,000	June 13, 2016	-	-
$0.67	1,722,500	1,967,500	May 10, 2015	1,722,500	-
$0.67	175,000	175,000	October 15, 2015	87,500	87,500
$0.77	9,000,000	9,000,000	December 10, 2015	4,500,000	4,500,000
$0.77	2,050,000	2,050,000	December 24, 2015	1,793,750	256,250
$0.77	-	710,000	August 30, 2016	-	-
$0.80	475,000	475,000	April 30, 2014	475,000	-
$0.80	100,000	100,000	September 23, 2015	50,000	50,000
$0.80	120,000	120,000	January 4, 2016	60,000	60,000
$0.93	50,000	50,000	January 6, 2016	25,000	25,000
$0.93	2,590,833	2,875,000	December 24, 2015	1,295,417	1,295,417
$0.98	130,000	130,000	February 14, 2016	65,000	65,000
	30,836,400	24,493,050		14,127,217	16,709,184

At September 30, 2012, Prophecy Coal had 14,127,217 exercisable share options outstanding (2011 – 4,164,925).

(Unaudited) (Expressed in Canadian Dollars)

13. SHARE CAPITAL (Continued)

(c) Share options (Continued)

Prophecy Platinum

As of September 30, 2012, the following Prophecy Platinum share purchase options were outstanding:

Exercise Price		Number of Options Outstanding	Expiry Date	Exercisable	Unvested
$	1.60	3,750	January 7, 2013	3,750	-
$	1.00	12,500	November 6, 2014	12,500	-
$	1.40	175,000	December 13, 2015	175,000	-
$	0.90	5,295,000	June 20, 2016	4,447,500	847,500
$	2.25	725,000	December 12, 2016	190,000	535,000
$	2.40	90,000	January 9, 2017	-	90,000
$	3.68	240,000	February 3, 2017	-	240,000
$	3.09	70,000	April 4, 2017	-	70,000
$	2.67	50,000	May 9, 2017	-	50,000
$	1.16	1,970,000	August 7, 2017	-	1,970,000
$	1.14	87,000	August 16, 2017	-	87,000
		8,718,250		4,828,750	3,889,500

At September 30, 2012, Prophecy Platinum had 4,828,750 exercisable share options outstanding (2011 - 3,262,500).

(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 Outsanding	Original Expiry Date	Amended Expiry date
$0.49	2,752,097	March 23, 2012	March 23, 2013
$0.66	551,967	March 31, 2012	March 31, 2013
$0.77	2,964,730	March 31, 2012	March 31, 2013
$0.80	337,750	April 21, 2012	April 21, 2013
	6,606,544		

The incremental fair value of the warrants with the amended expiry dates, determined using the Black-Scholes warrant pricing model, was expensed during the nine month period ended September 30, 2012.

(Unaudited) (Expressed in Canadian Dollars)

13. SHARE CAPITAL (Continued)

(d) Share purchase warrants (Continued)

The following is a summary of the changes in Prophecy Coal's warrants from December 31, 2011 to September 30, 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, September 30, 2012	10,339,926	$0.75

The following is a summary of the changes in Prophecy Platinum's warrants from December 31, 2011 to September 30, 2012:

	Number of Warrants	Weighted Avg Exercise Price
Outstanding, December 31, 2011	1,217,000	1.00
Granted	3,927,701	2.02
Exercised	(354,000)	1.00
Outstanding, September 30, 2012	4,790,701	1.78

As of September 30, 2012 and at December 31, 2011 the following Prophecy Coal warrants were outstanding:

Exercise price	Number of Warrants		Expiry date
	September 30, 2012	December 31, 2011	
$0.49	-	1,396,714	February 17, 2012
$0.66	3,831,511	3,831,511	October 28, 2012
$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	11,834,770	

See note 20 (a).

(Unaudited) (Expressed in Canadian Dollars)

13. SHARE CAPITAL (Continued)

(d) Share purchase warrants (Continued)

As of September 30, 2012 and December 31, 2011 the following Prophecy Platinum warrants were outstanding:

Exercise Price		Number of Warrants		Expiry Date
		September 30, 2012	December 31, 2011	
$	1.00	-	327,000	August 3, 2012
$	1.00	863,000	890,000	January 6, 2013
$	7.50	107,980	-	January 13, 2013
$	4.75	36,117	-	January 13, 2013
$	1.50 / 2.00	2,533,604	-	July 31, 2013/2014
$	2.00	1,250,000	-	August 24, 2014
		4,790,701	1,217,000	

14. CAPITAL RISK MANAGEMENT

Prophecy Coal considers its capital structure to consist of share capital, share options and warrants. Prophecy Coal manages its capital structure and makes adjustments to it, based on the funds available to, 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 quarter 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 12) for further details.

The properties, to which Prophecy Coal currently has an interest in, are in the exploration stage; as such, Prophecy Coal is dependent on external financing to fund its activities. In order to carry out the planned exploration and development and pay for administrative costs, Prophecy Coal will spend its existing working capital and raise additional amounts as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of Prophecy Coal, is reasonable. There were no changes in Prophecy Coal's approach to capital management during the nine months ended September 30, 2012. Neither Prophecy Coal nor its subsidiaries are subject to externally imposed capital requirements.

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

(Unaudited) (Expressed in Canadian Dollars)

15. 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 September 30, 2012	Level 1	Level 2	Level 3	Total
Financial assets				
Fair value through profit or loss	$ 5,129,576	$ -	$ -	$ 5,129,576
Available-for-sale investments	961,032	-	-	961,032
	$ 6,090,608	$ -	$ -	$ 6,090,608

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

16. FINANCIAL RISK MANAGEMENT DISCLOSURES

For financial risk management disclosures, please refer to the audited December 31, 2011 financial statements.

17. 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, Director of Prophecy Coal and provides consulting service.

(Unaudited) (Expressed in Canadian Dollars)

17. RELATED PARTY DISCLOSURES (Continued)

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

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

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

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

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

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

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

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
Related parties	2012	2011	2012	2011
Energy Investment Capital (a)	$ -	$ 15,161	$ 26,239	$ 15,161
JP McGoran and Associates Ltd. (b)	-	-	-	12,500
JWL Investment Corp. (c)	59,500	-	143,500	-
Linx Partners Ltd. (d)	150,000	150,000	449,862	389,778
MaKevCo Consulting Inc. (e)	60,500	7,500	122,500	7,500
Monnis International LLC (f)	-	3,109,742	-	4,052,743
The Energy Gateway (g)	-	36,076	51,991	127,813
Elysian Enterprises Inc. (h)	2,500	-	7,500	-
Cantech Capital Corp. (i)	1,500	-	6,500	-
Resinco Capital Partners (j)	-	38,714	-	110,714
Prophecy Platinum Corp.	-	4,098	-	4,098
Key management personnel	123,785	206,742	296,645	520,201
	$ 397,785	$ 3,568,033	$ 1,104,737	$ 5,240,508

(Unaudited) (Expressed in Canadian Dollars)

17. RELATED PARTY DISCLOSURES (Continued)

	Three months ended September 30,		Nine months ended September 30,	
Related parties	2012	2011	2012	2011
Consulting and management fees	$ 307,000	$ 280,675	$ 809,284	$ 710,507
Director fees	82,035	49,782	220,962	56,488
Salaries and benefits	8,750	7,500	22,500	30,900
Office and administration	-	16,098	-	16,098
Mineral properties and P&E	-	3,213,978	51,991	4,426,515
	$ 397,785	$ 3,568,033	$ 1,104,737	$ 5,240,508

Prophecy Coal shares management, administrative assistance, and office space with Prophecy Platinum pursuant to a 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. The terms of the Service Agreement will remain in effect until 30 days following written notice of termination.

At September 30, 2012, accounts payable includes $91 (December 31, 2011 - $92,362) owing for reimbursable expenses to companies with certain officers and directors in common, and $33,726 (December 31, 2011 - $3,560) due to directors of Prophecy Coal and Prophecy Platinum for director fees.

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

18. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management of Prophecy Coal comprises executive and non-executive directors, senior management and the corporate secretary.

	Three months ended September 30,		Nine months ended September 30,	
Key Management Personnel	2012	2011	2012	2011
Salaries and short-term employee benefits	$ 333,961	$ 356,742	$ 896,739	$ 909,979
Share-based payments	198,358	3,213,978	324,624	4,426,515
	$ 532,319	$ 3,570,720	$ 1,221,363	$ 5,336,494

(Unaudited) (Expressed in Canadian Dollars)

19. SUPPLEMENTAL CASH FLOW INFORMATION

	Nine months ended September 30, 2012	2011
Supplementary information		
Interest paid	$ 58,539	$ 83,334
Non-Cash Financing and Investing Activities		
Capitalized amortization for fixed assets	4,885,131	1,537,514
Property and equipment expenditures included in accounts payable	526,112	-
Mineral property expenditures included in accounts payable	428,256	382,727
equipment	36,374	-
Share-based payments capitalized in mineral properties	272,901	-

20. EVENTS AFTER THE REPORTING DATE

The following events occurred subsequent to September 30, 2012:

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

b) The Agreement to purchase the Tugalgatai coal licenses (note 10(d) from Tethys Mining LLC ("Tethys") announced on June 18, 2012 was terminated in October 2012 due to the elapsing of the initial long stop date for approval of the licences transfer by the Minerals Resource Authority of Mongolia. Prophecy Coal is in negotiation on a new amended Tugalgatai Agreement with Tethys's to extend the acceptance period for the transfer application in regards to the coal licenses and to defer certain upfront payments such that they become payable upon achieving certain project milestones over time, and is in dialogue with Waterton to amend the Loan (note 12). In October 2012, the escrow fund deposit, net of costs, of approximately US$9.9 million from the terminated Agreement, has been released and transferred back to Prophecy Coal.

c) Prophecy Platinum terminated its option agreement with Marifil Mines Ltd. on the Las Aguilas property in Argentina.

d) On November 14, 2012, Prophecy Coal announced that it has entered into a Memorandum of Understanding (the "MOU") with one of the world's largest power generation groups (the "Strategic Partner") to jointly develop the Chandgana Power Plant project in Mongolia. The MOU sets out the proposed terms of the cooperation and timeline of implementation of a transaction between the Strategic Partner and Prophecy Coal. Prophecy Coal cautions that the MOU is not binding and should not be relied upon as a guarantee that a transaction will be completed.

Prophecy

Coal Corp.

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

For the three and nine months ended September 30, 2012

(Expressed in Canadian Dollars)

CONTENTS

This Interim Management's Discussion and Analysis ("MD&A") provides a review of the significant developments and issues that influenced Prophecy Coal Corp. ("Prophecy Coal") during the three and nine months ended September 30, 2012. This MD&A should be read in conjunction with the condensed interim consolidated financial statements of Prophecy Coal for the three and nine months ended September 30, 2012 (prepared in accordance with International Financial Reporting Standards or "IFRS") and the audited annual consolidated financial statements of Prophecy Coal for the year ended December 31, 2011 (prepared in accordance with IFRS). This MD&A also incorporates certain disclosure about Prophecy Coal Corp's 37.5% owned affiliate Prophecy Platinum Corp. ("Prophecy Platinum").

This MD&A was reviewed, approved and authorized for issue by the Audit Committee on November 13, 2012. The information contained within this MD&A is current to November 14, 2012.

Forward-looking statements

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

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

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

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

(Expressed in Canadian Dollars)

1. Introduction

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

General Corporate Information

At September 30, 2012 and November 13, 2012, Prophecy Coal had: (i) 227,890,914 and 228,400,956 common shares issued and outstanding, respectively; (ii) 30,426,400 share options for common shares outstanding, and (iii) 10,339,927 warrants outstanding common shares.

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2nd floor, 342 Water Street, Vancouver, BC, V6B 1B6
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Registered office
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Share Information
Common shares of Prophecy Coal are listed for trading under the symbol "PCY", OTC-QX under symbol "PRPCF", and Frankfurt Stock Exchange under symbol "1P2".

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

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(Vancouver, Canada)
info@prophecycoal.com

Directors and Officers

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

Directors	Officers
John Lee, Chairman	John Lee, CEO
Jivko Savov	Jeffrey Mason, CFO
Chuluunbaatar Baz	Samir Devendra Patel, Corporate Counsel & Secretary
Harald Batista	Rob Bruggeman, VP Corporate Development
Greg Hall	
Michael J Deats	

Audit Committee	***Compensation Committee***	***Corporate Governance Committee***
Greg Hall	John Lee	John Lee
Jivko Savov	Greg Hall	Greg Hall
Harald Batista	Harald Batista	Harald Batista

Qualified Person

Mr. Christopher Kravits, LPG, CPG, a qualified person for the purposes of National Instrument (NI) 43-101. Mr. Kravits is not considered independent of Prophecy Coal given the large extent that his professional time is dedicated solely to Prophecy Coal.

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

2. Nine Months 2012 Highlights and Significant Events

Prophecy Coal

- On January 9, 2012 and February 3, 2012, Prophecy Coal granted 180,000 and 80,000 share options to consultants and employees of Prophecy Coal with exercise prices of $0.43 per share and $0.46 per share respectively for a period of five years.

- On March 1, 2012, Prophecy Coal cancelled a proposed dealer debt facility of $5 million announced on December 30, 2011. Prophecy Coal repaid the $800,000 loan due to Prophecy Platinum, pursuant to a $2 million inter-company loan facility announced on December 30, 2011 plus interest, and subsequently cancelled the inter-company loan facility agreement.

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

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

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

- On June 18, 2012, Prophecy Coal signed a Sale and Purchase Agreement with Tethys Mining LLC ("Tethys") to acquire assets relating to Tugalgatai coal exploration licenses in Mongolia. 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, $2 million was deposited in escrow. The total payment will be paid to Tethys upon the transfer of the licenses.

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

- On July 16, 2012, Prophecy Coal secured a $10 million debt facility (the "Loan") with Waterton Global Value, L.P. ("Waterton"). The funds will be used to complete the purchase of the Tugalgatai, Mongolia coal licenses ("Tugalgatai"). The Loan has a one year term and bears interest at 14% per annum. A structuring fee of 2.5% in cash plus a bonus for a fair value of $600,000 was paid through the issuance of 2,735,617 of Prophecy Coal's common shares.

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

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

- On August 9, 2012, Prophecy Coal announced temporarily suspension of coal mining operations in an effort to save costs because at that time, Prophecy Coal had sufficient inventory to meet contractual supply obligations through the balance of 2012.

- On August 16, 2012, Prophecy Coal announced the appointment of Mr. Rob Bruggeman as VP of Corporate Development.

- On August 16, August 22, and September 24, 2012, Prophecy Coal granted 230,000, 5,150,000, and 150,000 share options respectively to consultants, directors and employees of Prophecy Coal with exercise price of $0.18 per share for a period of five years.

- On September 6, 2012, Prophecy Coal submitted Power Purchase Agreement ("PPA") Proposal to the Mongolian Government. The Government's decision is expected within 90 days.

Subsequent to period end:

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

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

- On November 2, 2012, Prophecy Coal announced receiving the Chandgana Preliminary Economic Assessment ("PEA") report on its Chandgana Tal coal mining licenses, which was prepared by John T Boyd Co. ("Boyd"). The Technical Report (PEA) will be filed on Sedar within 45 days.

- On November 2, 2012, Prophecy Coal announced that it is postponing the purchase of coal assets from Tethys Mining LLC announced on June 18, 2012. The escrow funds, net of costs, amounting to US $9.9 million was returned to Prophecy Coal on termination of the original Tugalgatai Agreement, which occurred due to the elapsing of the initial long stop date for approval of the licences transfer by the Minerals Resource Authority of Mongolia. Prophecy Coal is in negotiation with the vendors, Tethys Mining LLC, on a new amended Tugalgatai Agreement and is in dialogue with Waterton to amend the Loan.

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

- On November 5, 2012, Mr. Joseph Li has resigned as Director and Corporate Secretary of Prophecy Coal.

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

Prophecy Platinum

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

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

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

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

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

- On April 16, 2012, Prophecy Platinum and URSA Major Minerals Inc. ("URSA") signed a definitive agreement ("Arrangement Agreement") in connection with the business combination ("Transaction") to issue one common share for each 25 common share of URSA held. As a result of the Transaction, the URSA securityholders will become Prophecy Platinum securityholders, URSA will become a wholly owned subsidiary of Prophecy Platinum and URSA will apply for voluntary delisting of its common shares from the Toronto Stock Exchange. Following the Transaction, Prophecy Platinum will have a total of approximately 58.7 million shares issued and outstanding, as well as options and warrants entitling holders to purchase approximately 8.2 million common shares.

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

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

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

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

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

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

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

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

- On August 16, 2012, Prophecy Platinum announced the appointment of Mr. Rob Bruggeman as VP of Corporate Development.

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

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

Subsequent to period end:

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

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

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

3. Business Overview

Prophecy Coal in its current form is primarily the product of an April 2010 business combination between Red Hill Energy Ltd. (at the time TSX.V ‐ RH) and a company formed in 2006, Prophecy Resource Corp. ("Old Prophecy Coal"). Under that merger Red Hill was the successor legal entity which is herein referred to as the "Corporation". Under that 2010 business combination Old Prophecy Coal was merged with a subsidiary of Red Hill and then Red Hill's name was changed to Prophecy Resource Corp. and, in 2011, to Prophecy Coal Corp. Red Hill was incorporated on November 6, 1978 under the Company Act (British Columbia) under the name "Banbury Gold Mines Ltd." Banbury changed its name to "Enerwaste Minerals Corp." on December 17, 1993, Enerwaste changed its name to "Universal Gun-Loc Industries Ltd.". On April 24, 2002, Universal Gun-Loc changed its name to "UGL Enterprises Ltd." and to Red Hill Energy Inc on April 16, 2006. On May 10, 2005, the Corporation, as UGL, transitioned under the new (2004) Business Corporations Act (British Columbia) ("BCBCA") which is the corporate law statute which continues to govern the Corporation. On April 16, 2010, the Corporation (then Red Hill) changed its name to "Prophecy Resource Corp." in conjunction with the Red Hill merger. On June 13, 2011, the Corporation changed its name to "Prophecy Coal Corp." in connection with an asset spin-off to capitalize our controlled affiliate (initially approximately 53.2% controlled, now 37.5%), publicly traded Prophecy Platinum Corp. further described herein.

Prophecy Coal is a reporting issuer in the provinces of British Columbia, Alberta, and Ontario. The Corporation's common shares (the "Shares" or "Prophecy Coal Shares") are listed for trading on the Toronto Stock Exchange ("TSX" or the "Exchange") under the symbol "PCY". The common shares of Prophecy Platinum trade on the TSX Venture Exchange under the symbol "NKL". Prophecy Coal currently has six wholly-owned subsidiaries (the "Subsidiaries") and one 37.5% controlled publicly-traded affiliate, Prophecy Platinum.

The number of Prophecy Platinum's common shares outstanding at September 30, 2012 was 67,476,057. For the nine months ended September 30, 2011 Prophecy Platinum has incurred net loss of $5,810,782. The loss was mainly due to non-cash share-based payment expense of $2,591,629. (See Note 13 in the condensed consolidated interim financial statements). Additional information on Prophecy Platinum is available on the SEDAR website, www.sedar.com or at Prophecy Platinum's website at http://prophecyplat.com.

3.1 Resource Properties

As of September 30, 2012, Prophecy Coal's primary resource properties include: Ulaan Ovoo coal mine (Mongolia), and the Chandgana Khavtgai and Chandgana Tal coal deposits (Mongolia), collectively known as the "Chandgana Coal Properties". The other properties of Prophecy Coal include Okeover copper-molybdenum (British Columbia, Canada) and Titan (Ontario, Canada).

(Expressed in Canadian Dollars)

Properties owned by Prophecy Platinum include the Wellgreen nickel (Yukon, Canada), Lynn Lake nickel (Manitoba, Canada), Burwash nickel (Yukon, Canada), and Sarandi nickel (Uruguay). Properties owned by Prophecy Platinum's 100% owned subsidiary URSA Major Mineral Inc. include Shakespeare nickel mine, Shining Tree nickel project, Porter Baldwin property, and Fox Mountain property all located in Ontario, Canada.

Ulaan Ovoo Coal Mine

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

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

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

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

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

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

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

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

The Behre Dolbear & Company (USA), Inc. ("Scoping Study Ulaan-Ovoo Coal Deposit") dated October 2006 and Wardrop studies ("Ulaan Ovoo – Pre-Feasibility Study") dated December 10, 2010, prepared by John

Sampson, B.Sc. (Hons) and Brian Saul P. Eng. who is an independent Qualified Person under National Instrument 43-101 are filed and available on www.sedar.com.

Operation Statistics: The mine, which started operations in November 2010 through the mining contractor, Leighton Asia Limited ("Leighton") and later, under Prophecy Coal's own management, has removed and stockpiled approximately 2.85 million bank cubic metres ("BCM") of topsoil and overburden (waste), and produced nearly 433,900 tonnes saleable coal. Prophecy Coal discontinued its mining contract with Leighton in August 2011 to reduce mining costs. Prophecy Coal then recruited and trained its own employees to mine at the Ulaan Ovoo mine.

Prophecy Coal acquired its two fleets of mining equipment for $14.7 including: One CAT 390 Excavator, one CAT 385C Excavator, six CAT 773D Dump Trucks, two CAT D8R Dozers, one CAT 160K Grader, one CAT 160H Grader, one CAT 928G Loader, two Liebherr 580 Loaders, eighteen Scania 30t Tipper trucks, two Nissan Water Trucks (for purpose of road maintenance), four 20t Nissan tipper trucks, one road roller, diesel generating and lighting plants and other equipment.

Prophecy Coal secured a rail siding at Sukhbaatar with capacity of 40,000 tonnes. During 2011, Prophecy Coal has trucked 126,359 tonnes of coal from the mine to the rail siding. During the nine months ended September 30, 2012, Prophecy Coal has trucked approximately 107,300 tonnes of coal.

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

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

During August 2011, Prophecy Coal signed coal sales agreements with Mongolian and Russian power plants for total sales of 92,000 tonnes of coal. Prophecy Coal sold 133,632 tonnes of coal of two grades - 4,200 GCV and 5,100 GCV (arb.) to both Mongolian and Russian companies during 2011. For the nine months ended September 30, 2012, Prophecy Coal sold 108,838 tonnes of coal. The coal inventory as at September 30, 2012 was 158,607 tonnes.

On August 9, 2012, Prophecy Coal decided to temporarily suspend coal mining operations in an effort to save costs because at that time, Prophecy Coal had sufficient inventory (the stockpile of coal was approximately 187,000 tonnes) to meet contractual supply obligations through the balance of 2012. Prophecy Coal laid-off 108 mining staff and paid aggregate severance of $73,100 to comply with local employment laws. Some 18 staff members remained on site for equipment and site maintenance, shipping and security operations during the shutdown. With little local employment competition, the local labour force is expected to remain available for prompt rehire when needed. The suspension is expected to last approximately six months but could end sooner if any significant new coal sale agreements are entered into. Start-up can be effected in a matter of weeks. The overall effect of the suspended operations will be modestly cash flow positive as Ulaan Ovoo operations had not yet achieved break-even levels.

2012 Outlook: Discussions to restart the Ulaan Ovoo mine continue. The planned milestones include: ensuring repair of the road and bridge between the mine and Sukhbaatar siding by the government (completed), obtaining water discharge permit, and procuring higher prices and volumes from domestic and export customers. Recent marketing efforts to some domestic customers have made for increased prices. But it is feared that the two domestic power plants that are Ulaan Ovoo's largest customers may not renegotiate to these increased prices. Coal mining may therefore remain suspended should the increased prices with these customers not be realized.

Prophecy Coal is negotiating coal sales to Russia which are expected to have higher selling prices through Zheltura. These negotiations are ongoing.

Prophecy Coal is working with Russian partners and the Buryiat Provincial government in Russia to open the Zheltura border post (approximately 15 km from the mine) in order to reduce the cost of transporting coal to

(Expressed in Canadian Dollars)

Russia. The Russian federal government has already granted federal permission to open the border on a temporary basis, but the Mongolian government has not granted such permission. Prophecy Coal is also working closely with the Selenge provincial government of Mongolia to obtain approval from the Mongolian government to open Zheltura. While selling coal through the Russian eastern seaports proved to be complex and difficult in 2011, Prophecy Coal intends to further pursue this option through the remainder of 2012 and into 2013.

On the strategic front, Prophecy Coal has received expressions of interest from potential joint venture partners to assist in the development of Ulaan Ovoo.

Some infrastructure issues have recently been resolved. This has allowed resumption of trucking coal to local customers and to Sukhbaatar siding for rail transport to more distant customers.

Chandgana Coal Properties

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

Under the terms of the Chandgana Khavtgai agreement, Prophecy Coal paid a total of US$570,000.

In June, 2010, Prophecy Coal completed a 13 drill hole, 2,373 metre resource expansion drilling program on the Khavtgai property, including 1,070 metres of core drilling, and five lines of seismic geophysical survey for a total of 7.4 line km.

An NI 43-101 technical report ("Technical Report on the Coal Resources of the Chandgana Tal Coal Project Khentii Aimag, Mongolia") dated September 11, 2007 prepared by independent Qualified Person Mr. Gardar G. Dahl, Jr.,P. Geo, a senior associate of Behre Dolbear & Company (USA), Inc. (the "Behre Dolbear Report") is filed on SEDAR. On February 8, 2011, Prophecy Coal received a full mining license from the Mineral Resources Authority of Mongolia for the Tal property. Prophecy Coal engaged Leighton Asia LLC to prepare a scoping level mine study for the Tal property which was completed in December 2011. Prophecy Coal is positioned to apply for a mining permit which may be received as early as 90 days from submittal of the application.

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

Table 2. Details of the Chandgana Properties

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

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

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

During the nine months ended September 30, 2012, Prophecy Coal incurred a total of $3,233,441 ($1,174,080 exploration expenditures and $2,059,361 Power Plant Project costs) (same period last year 2011 - $238,818 exploration and 262,360 Power Plant Project) at the Chandgana Coal Properties.

Chandgana Power Plant Project

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

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

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

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

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

- Designated concrete-pour date of April 2013 and 1st phase operational date of Q1 2016 (subject to conditions including but not limited to financing availability);
- A long term power off take contract to ensure 24/7, uninterrupted dispatch power supply to the Mongolian grid;
- Capacity and energy charge components in the tariff to cover fixed and variable costs respectively;

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

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

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

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

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

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

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

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

Prophecy Coal's goal is to secure developer sponsorship in 2012. Prophecy Power is also in discussions with EPC contractors to obtain funds through an equity stake and/or advanced credit line to ensure construction starts in 2013 as planned.

Ilch Khujirt Exploration License

Prophecy Coal terminated the Ilch Khujirt option without further obligation as it is not a core asset to Prophecy Coal. Prophecy Coal recorded an impairment of $190,980 during nine months ended September 30, 2012 for the full carrying amount of the property.

Tugalgatai Licenses and Restricted Cash

On June 18, 2012, Prophecy Coal entered into a Sale and Purchase Agreement to acquire assets in Mongolia relating to certain Tugalgatai coal exploration property licenses from Tethys 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, $10,189,400 was deposited in escrow in the period. During October 2012, subsequent to the period end, the funds, net of costs, amounting to US $9.9 million was returned to Prophecy Coal on termination of the Tugalgatai Agreement, which occurred due to the elapsing of the initial long stop date for approval of the licences transfer by the Minerals Resource Authority of Mongolia. Prophecy Coal is in negotiation on a new amended Tugalgatai Agreement to extend the acceptance period for the transfer application in regards to the coal licenses and to defer certain upfront payments such that they become payable upon achieving certain project milestones over time, and is in dialogue with Waterton to amend the Loan (see note 12 and 20(b) to the interim financial statements).

Okeover Property

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

Titan Vanadium Iron Property

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

Prophecy Platinum (37.5% owned) Projects

Wellgreen Nickel Property

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

From its July 21, 2011 independent NI 43-101 compliant resource calculation from Wardrop Engineering, a Tetra Tech Company ("Technical Report and Resource Estimate on the Wellgreen Platinum-Palladium-Nickel-Copper Project, Yukon, Canada"), the Wellgreen deposit is estimated to contain a total inferred resource of 289.2 million tonnes at an average grade of 0.53 g/t platinum, 0.42 g/t palladium, 0.23 g/t gold (1.18g/t PGM+Gold), 0.38% nickel, and 0.35% copper. Separately, the deposit also contains an indicated resource of 14.3 million tonnes at an average grade of 0.99 g/t platinum, 0.74 g/t palladium, 0.52 g/t gold (2.25 g/t PGM+Gold), 0.69% nickel, and 0.62% copper. A 0.4% nickel equivalent cutoff grade was adopted for reporting.

The resource estimate incorporated drill data from 701 diamond drill holes (182 surface and 519 underground) totaling over 53,222 metres. The resource includes both the East Zone and the West Zone of the Wellgreen project, which are tabulated in the table below showing respective metal grades which are also expressed as nickel equivalent (NiEq) values. The report is authored by Todd McCracken, P. Geo. of Wardrop Engineering Inc., a Tetra Tech Company, who is an independent Qualified Person under NI 43-101.

Wellgreen indicated and inferred resource summary:

(Expressed in Canadian Dollars)

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

Several parameters were used in calculating the reported resource:

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

Contained Metals at Wellgreen*

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

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

In January 2012, Prophecy Platinum announced the commencement of a combined surface and underground HQ core size drilling program. The drilling was targeted at providing infill information to the existing resource as released in July 2011. Drilling at site was finished in late November with a total of 5,417 meters of underground and 5,567 meters of surface drilling completed for a total of 10,984 meters of drilling in 2012. Logging and sampling of core is still in progress at site with results being reported as they are received.

Results of assays received and reported in Q3 of 2012 are listed below with bore hole identification (BHID) preface WS for Wellgreen Surface Hole and WU for Wellgreen Underground Hole:

BHID	From	To	Length (m)	Ni (%)	Cu (%)	Pt (g/t)	Pd (g/t)	Au (g/t)	PGM+Au (g/t)	NiEQ (%)
WS12-193	**3.05**	**462.5**	**459.45**	**0.26**	**0.09**	**0.16**	**0.21**	**0.02**	**0.40**	**0.37**
including	3.05	56	52.95	0.24	0.03	0.09	0.15	0.01	0.25	0.31

(Expressed in Canadian Dollars)

And	56	104.77	48.77	0.03	0.01	0.01	0.02	0.00	0.04	0.05
And	104.77	462.5	357.73	0.29	0.11	0.19	0.25	0.03	0.47	0.42
WS12-194	**0**	**234**	**234**	**0.21**	**0.14**	**0.17**	**0.19**	**0.04**	**0.40**	**0.35**
including	0	177.54	177.54	0.24	0.10	0.18	0.21	0.04	0.42	0.37
And	177.54	199	21.46	0.01	0.02	0.00	0.02	0.01	0.03	0.02
And	199	214.75	15.75	0.42	0.91	0.49	0.33	0.09	0.91	0.96
And	214.75	234	19.25	0.01	0.07	0.08	0.04	0.02	0.15	0.06
WS12-195	**0**	**190.01**	**190.01**	**0.30**	**0.15**	**0.19**	**0.21**	**0.03**	**0.43**	**0.45**
including	0	183.99	183.99	0.23	0.11	0.15	0.18	0.03	0.36	0.35
And	183.99	190.01	6.02	2.25	1.55	1.37	1.11	0.20	2.68	3.44
WS12-196	**0**	**195**	**195**	**0.24**	**0.14**	**0.20**	**0.20**	**0.04**	**0.43**	**0.38**
Including	0	181.58	181.58	0.22	0.09	0.14	0.18	0.03	0.35	0.33
And	181.58	195	13.42	0.48	0.77	0.87	0.47	0.22	1.57	1.10
WS12-197	**0**	**184.4**	**184.4**	**0.27**	**0.13**	**0.21**	**0.23**	**0.07**	**0.50**	**0.42**
Including	0	175.5	175.5	0.26	0.08	0.15	0.20	0.06	0.41	0.38
And	175.5	184.4	8.9	0.45	1.11	1.29	0.88	0.21	2.38	1.31
WS12-199	**0**	**180.87**	**180.87**	**0.27**	**0.26**	**0.28**	**0.28**	**0.08**	**0.64**	**0.50**
including	74.27	180.87	106.6	0.31	0.40	0.38	0.34	0.12	0.84	0.63
And	172	180.87	8.87	0.64	1.65	0.80	0.59	0.41	1.79	1.63
WS12-200	**0**	**195.55**	**195.55**	**0.23**	**0.24**	**0.29**	**0.24**	**0.08**	**0.61**	**0.45**
including	0	84.52	84.52	0.25	0.10	0.14	0.21	0.05	0.41	0.37
And	84.52	110.34	25.82	0.01	0.02	0.00	0.02	0.01	0.03	0.03
And	110.34	179.5	69.16	0.23	0.31	0.43	0.27	0.10	0.80	0.51
And	179.5	195.55	16.05	0.49	1.10	0.95	0.58	0.25	1.77	1.27
WS12-201	**42.8**	**71.32**	**28.52**	**0.26**	**0.20**	**0.35**	**0.17**	**0.03**	**0.55**	**0.46**
WS12-206	**25.82**	**94.67**	**68.85**	**0.07**	**0.07**	**0.07**	**0.05**	**0.03**	**0.16**	**0.13**
including	25.82	39.3	13.48	0.22	0.05	0.11	0.15	0.01	0.27	0.30
And	39.3	89.71	50.41	0.02	0.02	0.01	0.01	0.00	0.03	0.03
And	89.71	94.67	4.96	0.26	0.58	0.53	0.20	0.39	1.11	0.71
WU12-521	**18.01**	**302.36**	**284.35**	**0.22**	**0.11**	**0.20**	**0.32**	**0.04**	**0.55**	**0.35**
including	35.66	81.38	45.72	0.29	0.27	0.33	0.32	0.07	0.72	0.52
and	35.66	215.49	179.83	0.22	0.14	0.26	0.22	0.05	0.53	0.39
WU12-528	**58.6**	**249.68**	**191.08**	**0.27**	**0.18**	**0.29**	**0.23**	**0.05**	**0.57**	**0.46**
including	163.09	188.32	25.23	0.38	0.17	0.28	0.37	0.03	0.68	0.57
WU12-529	**90.68**	**264.57**	**173.89**	**0.18**	**0.13**	**0.22**	**0.16**	**0.06**	**0.45**	**0.32**
including	90.68	104.85	14.17	0.24	0.44	0.63	0.33	0.20	1.16	0.63
and	223.72	264.57	40.84	0.32	0.11	0.24	0.27	0.03	0.54	0.47
WU12-530	**0**	**189.28**	**189.28**	**0.30**	**0.16**	**0.21**	**0.25**	**0.04**	**0.50**	**0.46**
including	0	13.11	13.11	0.35	0.67	0.66	0.47	0.11	1.24	0.81
and	135.03	186.84	51.82	0.35	0.13	0.20	0.26	0.03	0.49	0.49
WU12-535	**0**	**94.18**	**94.18**	**0.26**	**0.16**	**0.25**	**0.24**	**0.06**	**0.56**	**0.43**
including	0	31.39	31.39	0.21	0.30	0.43	0.30	0.15	0.88	0.48
WU12-536	**0**	**131.06**	**131.06**	**0.25**	**0.09**	**0.15**	**0.19**	**0.03**	**0.37**	**0.36**

(Expressed in Canadian Dollars)

including	15.51	62.26	46.75	0.29	0.11	0.19	0.25	0.04	0.48	0.43
WU12-538	**0**	**213.06**	**213.06**	**0.25**	**0.13**	**0.24**	**0.23**	**0.05**	**0.51**	**0.40**
including	0	92.96	92.96	0.24	0.19	0.31	0.26	0.06	0.62	0.43
WU12-539	**0**	**242.01**	**242.01**	**0.28**	**0.20**	**0.27**	**0.29**	**0.04**	**0.60**	**0.47**
including	0	51.51	51.51	0.31	0.50	0.57	0.45	0.09	1.11	0.69
and	0	17.98	17.98	0.48	0.82	0.84	0.78	0.13	1.75	1.08
and	56.08	66.75	10.67	0.41	0.23	0.36	0.55	0.05	0.95	0.66
WU12-540	**0**	**304.5**	**304.5**	**0.27**	**0.20**	**0.31**	**0.29**	**0.06**	**0.66**	**0.47**
including	0	21.03	21.03	0.34	0.62	0.69	0.44	0.15	1.29	0.83
And	21.03	43.89	22.86	0.03	0.06	0.08	0.06	0.02	0.16	0.09
And	43.89	52.82	8.93	1.01	1.73	2.90	1.96	0.50	5.36	2.63
And	52.82	304.5	251.67	0.26	0.12	0.21	0.24	0.03	0.48	0.40
WU12-541	**0**	**268.22**	**268.22**	**0.32**	**0.19**	**0.28**	**0.33**	**0.05**	**0.66**	**0.52**
including	0	44.04	44.04	0.24	0.47	0.58	0.33	0.12	1.03	0.62
And	44.04	268.22	224.18	0.33	0.14	0.22	0.33	0.03	0.59	0.50
WU12-542	**0**	**205.44**	**205.44**	**0.26**	**0.11**	**0.20**	**0.23**	**0.04**	**0.48**	**0.40**
WU12-543	**0**	**158.11**	**158.11**	**0.25**	**0.10**	**0.15**	**0.21**	**0.03**	**0.39**	**0.37**
WU12-544	**0**	**154.53**	**154.53**	**0.33**	**0.12**	**0.22**	**0.29**	**0.03**	**0.54**	**0.48**
WU12-545	**0**	**203.61**	**203.61**	**0.26**	**0.10**	**0.17**	**0.23**	**0.03**	**0.43**	**0.38**
WU12-546	**0**	**156.67**	**156.67**	**0.25**	**0.09**	**0.14**	**0.19**	**0.03**	**0.37**	**0.36**
WU12-547	**0**	**75.59**	**75.59**	**0.25**	**0.12**	**0.19**	**0.24**	**0.04**	**0.47**	**0.39**

The header information, indicating dips and azimuths, is tabulated below:

BHID	Easting	Northing	Elevation	Azimuth	Dip	Length (m)
WS12-193	3209	15109	1443	30	-85	462.5
WS12-194	3209	15109	1443	30	-65	234
WS12-195	3209	15109	1443	30	-45	201.2
WS12-196	3209	15109	1443	30	-55	223.5
WS12-197	3209	15109	1443	0	-47	196.5
WS12-199	3250	15080	1438	0	-55	200.5
WS12-200	3250	15080	1438	0	-65	208
WS12-201	1575	15580	1494	0	-50	151
WS12-206	1525	15580	1500	0	-63	161.5
WU12-521	3411	15244	1298.9	200	-27	302.36
WU12-528	3411	15244	1298.9	147	-9	290.17
WU12-529	3411	15244	1298.9	147	-30	264.57
WU12-530	3139	15235	1303.19	145	-2	186.84
WU12-535	3139	15235	1303.19	180	54	94.18
WU12-536	3139	15235	1303.19	210	33	131.06
WU12-538	3139	15235	1303.19	210	-33	213.06
WU12-539	3139	15235	1303.19	145	-30	242.01
WU12-540	3139	15235	1303	145	-55	304.5

(Expressed in Canadian Dollars)

WU12-541	3077	15260	1302.74	167	-60	268.2
WU12-542	3077	15260	1302.74	167	-30	205.44
WU12-543	3077	15260	1302.74	167	0	158.5
WU12-544	3077	15260	1302.74	185	-10	154.53
WU12-545	3077	15260	1302.74	225	-25	206.65
WU12-546	3077	15260	1302.74	225	-2	156.7
WU12-547	3077	15260	1302.74	225	25	75.6

Notes:

1. NiEq calculations are based London Metals Exchange 3 year trailing average metal prices as of July 6, 2012 at US$ 9.48/lb nickel, US$ 3.56/lb copper, US$ 16.23/lb cobalt, US$ 1377.87/troy oz gold, US$ 1587.97/troy oz platinum, and US$ 581.28/troy oz palladium. The equation for NiEq value is as follows: NiEq = ((Ni grade x Ni price x 22.04622) + (Cu grade x Cu price x 22.04622) + (Co grade x Co price x 22.04622) + (Au grade x Au price x 0.02916) + (Pt grade x Pt price x 0.02916) + (Pd grade x Pd price x 0.02916)) / (Ni price x 22.04622)
2. *CuEq = NiEq * $9.48 / $3.56, calculated as those intercepts display substantial copper grades compared to nickel and PGE
3. Reported widths are intersected widths and not true widths.
4. "Central-East" and "Central-West" zones refer to "East Zone" and "West Zone", respectively, as reported in the Company's July 2011 NI43-101 compliant resource announcement for the Wellgreen Property.
5. "Easting" and "Northing" coordinates are in local non-earth mine grid coordinates. Elevations reported are above mean sea level. All coordinates are reported in metres.
6. Azimuths reported here are with respect to local mine grid.

On May 10, 2012 Platinum announced initial results of its ongoing metallurgical testing. A total of 41 rougher and cleaner tests, and 4 locked cycle flotation tests were conducted and completed at SGS Laboratories in Vancouver, British Columbia. Results ("LCT-3") indicate that a bulk concentrate of 5.7% nickel, 6.0% copper, 3.6 g/t platinum, 6.2 g/t palladium and 0.5 g/t gold can be produced. These results represent recoveries of 68% nickel, 88% copper, 46% platinum, 73% palladium and 59% gold. LCT-3 results are in the following table:

Product	Weight	Assays, (Cu, Ni, Pt, Pd, Au g/t)					% Recovery				
	%	%Cu	%Ni	g/t Pt	g/t Pd	g/t Au	Cu	Ni	Pt	Pd	Au
LCT-3 CONCENTRATE	5.36	6.01	5.66	3.57	6.22	0.48	87.8	67.6	46.0	72.9	58.9

The LCT-3 tests focused on metal recovery from Wellgreen's mineralization of typical representative grade, an additional test ("LCT-4") was conducted using material with a higher calculated head feed grade of 0.83% nickel, 0.55% copper, 0.57 g/t platinum, 0.57 g/t palladium, and 0.08 g/t Au. LCT-4 produced a concentrate containing 8.2% nickel, 6.5% copper, 2.9 g/t platinum, 5.6 g/t palladium and 0.6 g/t gold. These results represent recoveries of 73% nickel, 88% copper, 38% platinum, 73% palladium, and 62% gold. LCT-4 results are in the following table:

Product	Weight	Assays, (Cu, Ni, Pt, Pd, Au g/t)					% Recovery				
	%	%Cu	%Ni	g/t Pt	g/t Pd	g/t Au	Cu	Ni	Pt	Pd	Au
LCT-4 CONCENTRATE	7.42	6.48	8.15	2.89	5.59	0.64	88.0	72.9	37.7	72.6	62.2

A 150 kg composite blend of the prevalent host-mineralized rocks was crushed to a -10 mesh size and used as the sample for testing. A calculated head feed grade of 0.45% nickel, 0.35% copper, 0.42 g/t platinum, and 0.46 g/t palladium was tested for LCT-3. Conventional flotation conditions were used to produce a concentrate with emphasis on base metal recoveries from locked-cycle testing. The 41 batch tests were designed to test different flowsheet and reagent combinations. Conditions for the reported test LCT-3 include Xanthate, CMC, guar gum and $CuSO_4$. Test conditions for LCT-4 utilized the same reagents as LCT-3 except for the exclusion of $CuSO_4$. LCT-3 and LCT-4 demonstrate that metals can be recovered from varied Wellgreen mineralization through substantially identical flowsheets and common reagents.

Prophecy Platinum announced results from its Preliminary Economic Assessment (PEA) on June 18, 2012 with additional information reported on July 25, 2012. The independent PEA, prepared by Tetra Tech was supervised by Todd McCracken, P.Geo., Andrew Carter, C.Eng., Pacifico Corpuz, P.Eng., Philip Bridson, P.Eng and Wayne Stoyko, P.Eng who are the Qualified Persons, as defined under National Instrument 43-10. The PEA evaluates a base case of an open-pit mine (111,500 tonne/day mining rate), an onsite concentrator (32,000 tonne/day milling rate) and an initial capital cost of $863 million. The project is expected to produce (in concentrate) 1.959 billion pounds of nickel, 2.058 billion pounds of copper and 7.119 million ounces of platinum+palladium+gold over 37 year mine life with an average strip ratio of 2.57.

The financial highlights of the PEA are shown below. (All amounts are in US dollars unless otherwise stated).

Financial Highlights:

Payback Period:	6.29 years
Initial Capital Investment:	$863 million
IRR Pre-tax (100% equity):	32%
NPV Pre-tax (8% discount):	$2.4 billion
Mine Life:	37 years
Total Mill Feed:	405.3 million tonnes
Mill Throughput:	32,000 tonnes per day
Foreign Exchange:	CAD$1=US$0.9970

Commodity pricing used in the June 18, 2012 press release was obtained from the Q2, 2012 Energy and Metals Consensus Forecast (EMCF), a long-term forward consensus among 20 leading international financial institutions published by Consensus Economics. On July 25, 2012, Platinum announced it had revised its base case metal pricing assumptions for the PEA from EMCF to the London Metals Exchange three year trailing average in order to be in line with pricing assumptions used by comparable issuers. The long term LME pricing method is more commonly adopted in base case studies of comparable issuers and closer to current spot metals pricing, which offers investors a more balanced view of project economics. Table below provides a comparison of the EMCF assumptions used in the June 18, 2012 press release, the LME base case pricing assumptions and spot pricing.

Metal Prices

Commodity	Base Case LME 3 Year Trailing*	LME Spot Price	EMCF in June 18 Press release	Units
Platinum	1,587.97	1,468.00	2,043.50	US$/oz
Palladium	581.28	588.00	932.00	US$/oz
Nickel	9.48	7.71	10.82	US$/lb
Copper	3.56	3.49	3.11	US$/lb
Cobalt	16.23	13.15	16.70	US$/lb
Gold	1,377.87	1,604.00	1,347.50	US$/oz

*LME three year trailing average ended July 6, 2012 and spot prices as at July 6, 2012, being the proposed effective date of the PEA.

Prophecy Platinum restated the financial model results from the June 18, 2012 press release to reflect the LME base case:

	NPV @ 8% ($ million)	IRR (%)	Payback (years)
Base Case (LME 3 year trailing average) (base case)	2,396	32	4.88
LME (spot price)	1,783	26	6.29
EMCF (in June 18 Press Release)	3,044	38	3.55

A PEA should not be considered to be a pre-feasibility or feasibility study, as the economics and technical viability of the project has not been demonstrated at this time. The PEA is preliminary in nature and includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves.

(Expressed in Canadian Dollars)

Furthermore, there is no certainty that the PEA will be realized. Mineral resources that are not mineral reserve do not have demonstrated economic viability. Platinum advises that investors should rely on the new base case data. Results based on EMCF pricing assumptions are provided as a sensitivity analysis. Further sensitivity analyses may be found in the PEA executive summary included in the written report filed on Sedar.

Capital and Operating Costs: The initial capital cost for the Wellgreen project is estimated at $863 million, including 25% contingency and is summarized below:

Initial Capital Costs:

Project Execution:	$23 million
Surface Facilities	$692 million
Mine Equipment:	$148 million
Total Initial Capex:	**$863 million**

Total operating costs are estimated to be $29.74 per tonne of mill feed over the life of mine. These operating costs are based on an estimated diesel power rate of $0.28 per kWh. Liquid natural gas power option will be examined in the prefeasibility study.

Operating Costs:

Mining:	$9.02/tonne
Site Services:	$1.08/tonne
Milling:	$17.34/tonne
General & Administration:	$2.30/tonne
Total Operating Costs:	**$29.74/tonne**

Development Plan: The PEA study recommends development of the Wellgreen deposit as a conventional, diesel truck-shovel open pit mine. The deposit will be processed using a conventional concentrator to produce bulk Ni-Cu-PGE concentrate. The mill will have a nominal production rate of 32,000 tonnes of mill feed per day (averaged over the life of mine) with average annual stripping ratio estimated at 2.57 over the life of mine.

Over a projected mine life of 37 years, the mill will produce 1.959 billion pounds of nickel, 2.058 billion pounds of copper and 7.119 million ounces of platinum+palladium+gold in concentrate. The average feed is graded at Ni 0.32%, Cu 0.26%, Pt 0.411 g/t, Pd 0.347 g/t, Au 0.177 g/t, & Co 0.02%.

The following flotation concentrates recoveries from May 2012 SGS Studies are adopted in the PEA: Ni 67.60%, Cu 87.80%, Pt 46.00%, Pd 72.90%, Au 58.90%, & Co 64.40%

Once metals in concentrate are determined, the following smelting/refining recoveries are applied, together with a 25% cost factor against gross metals recovered to account for smelting, refining, transportation, and marketing cost: Ni 90.00%, Cu 98.00%, Pt 96.00%, Pd 96.00%, Au 96.00%, & Co 90.00%.

Resource Estimate: At a 0.22% NiEq cut-off, the Wellgreen Project is estimated to contain an Indicated Resource of 14.4 Mt at 0.68% Ni, 0.62% Cu, and 2.23 g/t Pt+Pd+Au grade. In additional, the Wellgreen Project is estimated to contain an Inferred Resource of 446.6 Mt at 0.31% Ni, 0.25% Cu, and 0.87 g/t Pt+Pd+Au grade. The table below summarizes the results of the resource estimate constrained by an optimized open pit.

Wellgreen Mineral Resource Summary as Highlighted in PEA:

NiEq Cut-off (%)	Category Zone	Tonnes	NiEq (%)	Ni (%)	Cu (%)	Co (%)	Au (g/t)	Pt (g/t)	Pd (g/t)
0.22	Indicated Pitshell	14,432,900	1.4	0.68	0.62	0.05	0.51	0.99	0.73
0.22	Inferred Pitshell	446,649,000	0.6	0.31	0.25	0.02	0.16	0.38	0.33

(Expressed in Canadian Dollars)

Additional metallurgical work was completed after the PEA was issued. On Aug 9, 2012 Prophecy Platinum announced the results of this work. Metallurgical tests completed at SGS Laboratories under the direction of metallurgist Mr. Mike Ounpuu indicate separate nickel-PGE-cobalt concentrates grading up to 12.9% nickel and copper-PGE-gold concentrates grading up to 23.2% copper can be produced from Wellgreen's disseminated PGE-Ni-Cu mineralization.

Locked-cycle test results (LCT-1) successfully produced a nickel-PGE-cobalt concentrate grading 12.9% Ni 13.7g/t PGE and 0.76% cobalt, and a copper-PGE-gold concentrate grading 23.2% Cu with 7.0g/t PGE and 1.4g/t Au. Tabulated concentrate grades for LCT-1 and LCT-5 are shown in Table 1 and Table 2 respectively.

Table 1. LCT-1 Separate concentrate grade results

Product	Weight %	Cu%	Ni%	Co%	Pt g/t	Pd g/t	Au g/t
Cu Concentrate	1.00	23.2	0.88	0.05	2.16	4.83	1.44
Ni Concentrate	2.26	2.69	12.9	0.76	3.84	9.84	0.34

Table 2. LCT-5 Separate concentrate grade results

Product	Weight %	Cu%	Ni%	Pt g/t	Pd g/t	Au g/t
Cu Concentrate	1.52	19.1	1.37	2.51	6.06	1.41
Ni Concentrate	3.46	1.32	9.11	4.56	7.77	0.33

Following Table 3 and Table 4 indicate the overall metals recoveries

Table 3. LCT-1 Recoveries to concentrate in %

	% Recovery					
Product	**Cu**	**Ni**	**Co**	**Pt**	**Pd**	**Au**
Cu Concentrate	68.2	1.8	1.5	4.9	11.0	31.2
Ni Concentrate	18.0	60.9	58.8	19.7	51.1	16.9
Total	86.2	62.8	60.3	24.6	62.1	48.1

Table 4. LCT-5 Recoveries to concentrate in %

	% Recovery				
Product	**Cu**	**Ni**	**Pt**	**Pd**	**Au**
Cu Concentrate	74.1	4.2	8.3	17.8	31.5
Ni Concentrate	11.8	61.5	35.6	52.1	34.8
Total	85.9	65.7	43.8	69.8	66.3

These results conclude the first phase of an extensive metallurgical program commenced in late 2011 and show it is now possible to produce separate Ni- PGE-Co and Cu-PGE-Au concentrates from disseminated sulphide-bearing, ultramafic mineralized rocks that comprise the bulk of Wellgreen's National Instrument 43-101 resource. Tests were conducted and completed at SGS Laboratories in Vancouver, British Columbia. A 150 kg submitted composite blend of the prevalent host-mineralized rocks was crushed to a -10 mesh size and used as the sample for testing. A calculated head feed grade of 0.48% nickel, 0.34% copper, 0.44 g/t platinum, and 0.44 g/t palladium was tested. Conventional flotation conditions were used to produce a concentrate with emphasis on base metal recoveries from locked-cycle testing. Conditions for the reported test include Xanthate, CMC, guar gum and CuSO4. Conceptually, the metallurgical flowsheet involved preliminary flotation of copper-rich concentrates using primary reagents followed by secondary flotation of nickel using with a reagent combination suitable to optimize flotation of Ni-rich products.

The recently completed Preliminary Economic Assessment ("PEA") dated July 6, 2012 was based on the assumption of Wellgreen project producing a bulk concentrate. In addition to discounting the standard smelting recoveries in the financial model, a further 25% smelter cost factor was applied to account for the bulk concentrate option. The results reported today indicate the 25% cost factor is likely conservative in light of the added marketability of separate concentrates. This may reduce the downstream costs, and enhance the economics of the Wellgreen project.

As reported on Aug 2, 2012 Prophecy concluded a cooperation and benefits agreement ("Agreement") with the Kluane First Nation ("KFN") to support Prophecy's exploration program and environmental studies for the development of the Wellgreen Project.

The Agreement, which is comprehensive in nature, includes provisions for employment and training opportunities for KFN citizens, contracting opportunities for KFN businesses and citizens, funding for the meaningful implementation of the Agreement, and an equity position in Prophecy Platinum for KFN and its citizens. Acting reasonably and in good faith, KFN may participate fully and without limitation in all regulatory process concerning the exploration activities. Other highlights include environmental protection through the cooperative design and implementation of environmental management and monitoring programs, and a framework and mutual commitment to develop a Comprehensive Cooperation and Benefits Agreement for the eventual development and operation of a mine.

In addition, during Q3, Prophecy Platinum has commenced further consultation with the White River First Nations.

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

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

- Review the existing geological / resource model and provide revisions that will lay the foundation for a more comprehensive geometallurgical model. Geometallurgy relates to combining geology and geostatistics with extractive metallurgy. The purpose is to create a spatially or geologically based predictive model which will be used to improve optimization of future mine plans and mineral processing plants as part of the next stage of economic analysis;
- Review status of metallurgical work completed to date and design the next phase of lock cycle testing;
- Complete scenario-based type analysis for optimizing the overall mine design and plan;
- Design required drill program for the 2013 drilling season as it relates to both further mine development and exploration.

During the nine month period ended September 30, 2012, Platinum had incurred a total of $7,171,191 in exploration costs on the Wellgreen property

Burwash Property

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

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

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

(Expressed in Canadian Dollars)

Lynn Lake Nickel Property

From an updated resource estimate released in April 2011 ("Technical Report on the Lynn Lake Nickel Project Northern Manitoba, Canada"), Lynn Lake has 22.9 million tons of measured and indicated resources grading 0.57% nickel or 263 million pounds of in-situ nickel as well as 8.1 million tons inferred resources grading 0.51% nickel which contains an additional 81.6 million pounds of in-situ nickel. In addition, the updated resource estimated stated that the resource contained measured and indicated resources grading 0.30% copper or 138 million pounds of in-situ copper plus inferred resources grading 0.28% copper or 45.6 million pounds of in-situ copper.
Measured and indicated resources at Lynn Lake are categorized in the following table:

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

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

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

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

Uruguay Property

Platinum's wholly-owned incorporated subsidiary in Uruguay, Pacific Nickel Sudamerica SA, owns 5 prospecting licenses for properties in Uruguay totalling approximately 28,000 h.a. Of the 28,000 h.a., 400 h.a. from the Molles North license was forfeited in late September, 2011 as a result of it being in a cultivated forest area. The only work done on the 400 h.a. was BRGM regional geochemical sampling and there were no anomalies noted. Platinum has no future obligations or expenditures requirements related to the Uruguayan properties. Platinum is currently reviewing a number of future plans for the properties and will disclose such plans once they have been determined.

Las Aguilas Property

On October 15, 2012, Platinum terminated of its option agreement with Marifil Mines Ltd. on the Las Aguilas property in Argentina.

Shakespeare Nickel Mine

URSA acquired the Shakespeare Property located 70 km west of Sudbury Ontario from Xstrata Nickel ("Xstrata") in 2000. URSA completed a positive feasibility study on a 4,500 t/d open pit mining operation and on- site processing plant. The Shakespeare Property has a diluted probable mineral reserve of 11,828,000 tonnes grading 0.33% nickel, 0.35% copper, 0.02% cobalt, 0.33 g/t platinum, 0.36 g/t palladium and 0.18 g/t gold. URSA permitted an open-pit mine and 4,500 t/d concentrator at the Shakespeare Property.

On May 27, 2010, URSA declared commercial production and the mine was in production for twenty months until January 27, 2012. On December 13, 2011, URSA announced that it had limited operations at the Shakespeare Property to crushing of existing broken ore, ore sampling and trucking operations as a consequence of reduced base metals prices. On February 3, 2012, URSA announced it had temporarily suspended operations at the Shakespeare Property following the expiration, on December 31, 2011, of the milling agreement in place with Xstrata. URSA was not able to conclude a new processing agreement.

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

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

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

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

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

Cut-Off NSR C$/tonne	tonnes (000's)	Ni %	Cu %	Co %	Pt g/t	Pd g/t	Au g/t
Wireframe	8,169	0.227	0.282	0.016	0.247	0.271	0.149
$10	7,537	0.242	0.300	0.017	0.263	0.288	0.158
$20	6,912	0.256	0.316	0.017	0.274	0.301	0.166
$30	5,996	0.274	0.336	0.018	0.290	0.318	0.175
$40	4,857	0.295	0.360	0.019	0.312	0.340	0.188
$50	**3,571**	**0.320**	**0.387**	**0.020**	**0.337**	**0.367**	**0.202**
$60	2,284	0.350	0.415	0.022	0.366	0.396	0.217
$70	1,105	0.385	0.453	0.023	0.404	0.439	0.237
$80	460	0.420	0.496	0.025	0.440	0.481	0.257
$90	148	0.454	0.535	0.026	0.480	0.523	0.276

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

Cut-Off NSR C$/tonne	tonnes (000's)	Ni %	Cu %	Co %	Pt g/t	Pd g/t	Au g/t
Wireframe	4,680	0.205	0.247	0.015	0.224	0.240	0.135
$10	3,803	0.244	0.291	0.017	0.265	0.284	0.159
$20	3,356	0.264	0.312	0.018	0.285	0.305	0.171
$30	2,950	0.282	0.329	0.019	0.302	0.322	0.182
$40	2,544	0.298	0.344	0.020	0.316	0.336	0.193
$50	**1,871**	**0.325**	**0.363**	**0.022**	**0.340**	**0.357**	**0.209**
$60	1,211	0.354	0.381	0.024	0.364	0.378	0.228
$70	574	0.393	0.395	0.027	0.398	0.404	0.257
$80	179	0.431	0.427	0.029	0.429	0.435	0.272
$90	33	0.499	0.442	0.032	0.451	0.425	0.293

Notes:

- *CIM definitions were followed for Mineral Resources.*
- *The Qualified Persons for this Mineral Resource estimate are: Richard Routledge, M.Sc. (Applied), P.Geo., Eugene Puritch, P.Eng, and Antoine Yassa, P. Geo.*
- *Mineral Resources are estimated by conventional 3D block modeling based on wireframing at a $50/tonne NSR cut-off and ordinary kriging grade interpolation.*
- *Metal prices for the estimate are: US$3.69/lb Cu, US$9.46/lb Ni, US$1,595/oz Pt, US$590/oz Pd, US$1,396/oz Au and US$18.50/lb Co based on a three-year trailing average as of July 31, 2012.*
- *A uniform bulk density of 3.01 tonnes/m3 has been applied for volume to tonnes conversion.*
- *Underground Mineral Resources are estimated beneath the bottom of the 2006 feasibility study pit at approximately 80 m elevation (258 m depth) to the -294 m elevation (632 m depth).*
- *Mineral Resources are classified as Indicated and Inferred based on drill hole spacing and geologic continuity.*
- *Overall revenue contribution expected from payable metals in the NSR calculation is 30% Cu, 52% Ni and 18% for combined Co, Au, Pt and Pd.*
- *Mineral resources, which are not mineral reserves, do not have demonstrated economic viability. The estimate of mineral resources may be materially affected by environmental, permitting, legal, title, taxation, socio-political, marketing, or other relevant issues. There is no certainty that all or any part of the Inferred Mineral Resource will be upgraded to an Indicated or Measured Mineral Resource as a result of continued exploration.*

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

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

Work plans to be carried out in the near future by Prophecy Platinum on the Shakespeare Nickel Mine includes the following:

- Review various options or proposals to decrease the overall operating expenditures required to bring the mine back into production.

Shining Tree Nickel Project

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

(Expressed in Canadian Dollars)

Porter Baldwin Property

URSA's 100%-owned Porter Baldwin property comprises certain claims that cover a 15 km strike length extending from the Shakespeare Property towards the Sudbury intrusive complex. The majority of the property was acquired by claim staking. Part of the Porter Baldwin property was acquired by an option agreement dated February 10, 2004 to acquire certain claims known as the Porter option located in Shakespeare Dunlop and Porter Townships. The optionor retains a 2% net smelter royalty. Advance royalty payments of C$24,000 per year commenced January 15, 2007. URSA has the right to purchase one-half of the royalty at any time for C$1,000,000.

Fox Mountain

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

4. Summary of Quarterly Results

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

	2012			2011
	Sep-30	Jun-30	Mar-31	Dec-31
Operating expense	$ (2,970,363)	$ (2,474,327)	$ (4,334,233)	$ (3,206,240)
Loss Before Other Items and Future Income Tax Recovery	(2,970,363)	(2,474,327)	(4,334,233)	(3,206,240)
Other items	(2,328,747)	1,439,189	(1,710,416)	2,199,362
Loss Before Future Income Tax Recovery	(5,299,110)	(1,035,138)	(6,044,649)	(1,006,878)
Future income tax recovery	160,247	(68,176)	121,461	448,687
Net Income (Loss) for Period	(5,138,863)	(1,103,314)	(5,923,188)	(558,191)
Fair value gain (loss) on available-for-sale investments	688,744	(2,114,759)	872,987	(240,610)
Unrealized gain (loss) on foreign exchange	(646,474)	(1,515,352)	-	-
Comprehensive Income (Loss) for Period	(5,096,593)	(4,733,425)	(5,050,201)	(798,801)
Net Income (Loss) for Period Attributable to:				
Owners of the parent	(3,729,290)	(289,024)	(4,513,569)	567,571
Non-controlling interest	(1,409,573)	(814,290)	(1,409,619)	(1,125,761)
	(5,138,863)	(1,103,314)	(5,923,188)	(558,191)
Comprehensive Loss for Period Attibutable to:				
Owners of the parent	(3,448,702)	(4,638,569)	(3,166,111)	425,073
Non-controlling interest	(1,647,892)	(94,856)	(1,884,090)	(1,223,872)
	$ (5,096,593)	$ (4,733,425)	$ (5,050,201)	$ (798,801)
Share Information				
Net Loss per share, basic and diluted attributable to owners of the Company				
Owners of the parent	$ (0.02)	$ (0.00)	$ (0.02)	$ 0.00
Non-controlling interest	(0.01)	(0.00)	(0.01)	(0.01)
Comprehensive Loss per share, basic and diluted attributable to owners of the Company				
Owners of the parent	(0.02)	(0.02)	(0.02)	0.00
Non-controlling interest	$ (0.01)	$ (0.00)	$ (0.01)	$ (0.01)
Average number of common shares outstanding for the period, basic and diluted	227,407,328	225,071,203	199,587,605	195,035,960

(Expressed in Canadian Dollars)

	2011			2010
	Sep-30	Jun-30	Mar-31	Dec-31
Operating expense	$ (5,196,343)	$ (2,076,826)	$ (2,480,260)	$ (432,436)
Loss Before Other Items and Future Income Tax Recovery	(5,196,343)	(2,076,826)	(2,480,260)	(432,436)
Other items	494,235	119,127	(75,512)	76,872
Loss Before Future Income Tax Recovery	(4,702,107)	(1,957,699)	(2,555,772)	(355,564)
Future income tax recovery	-	-	-	-
Net Loss for Period Attributable to Owners	(4,702,107)	(1,957,699)	(2,555,772)	(355,564)
Fair value gain (loss) on available-for-sale investments	(808,025)	(1,998,493)	1,632,308	(732,308)
Comprehensive Income (Loss) for Period	(5,510,132)	(3,956,192)	(923,464)	(1,087,872)
Net Income (Loss) for Period Attributable to:				
Owners of the parent	(3,233,347)	(1,915,765)	(2,555,772)	(1,087,872)
Non-controlling interest	(1,468,760)	(41,934)	-	-
	(4,702,107)	(1,957,699)	(2,555,772)	(1,087,872)
Comprehensive Loss for Period Attibutable to:				
Owners of the parent	(4,041,372)	(3,914,258)	(923,464)	(1,087,872)
Non-controlling interest	(1,468,760)	(41,934)	-	-
	$ (5,510,132)	$ (3,956,192)	$ (923,464)	$ (1,087,872)
Share Information				
Net Loss per share, basic and diluted attributable to owners of the Company				
Owners of the parent	$ (0.02)	$ (0.01)	$ (0.01)	$ (0.00)
Non-controlling interest	(0.01)	0.00	-	-
Comprehensive Loss per share, basic and diluted attributable to owners of the Company				
Owners of the parent	(0.02)	(0.02)	0.00	(0.01)
Non-controlling interest	$ (0.01)	$ 0.00	$ -	$ -
Average number of common shares outstanding for the period, basic and diluted	195,008,886	190,228,186	188,310,157	131,277,270

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

In Q1 2012 the comprehensive loss attributable to shareholders of Prophecy Coal changed from a comprehensive gain of $425,073 or $Nil per share to a comprehensive loss of $3,166,111 or $0.02 per share The increase was mainly due to foreign exchange losses related to the translation of the foreign subsidiaries operations and share based payments.

In Q2 2012 the comprehensive loss attributable to shareholders of Prophecy Coal increased from a comprehensive loss of $3,166,111 or $0.02 per share to a comprehensive loss of $4,638,569 or $0.02 per share. The increase was mainly due to the increase in loss on available-for-sale investments and unrealized loss on foreign currency translations.

In Q3 2012 the comprehensive loss attributable to shareholders of Prophecy Coal decreased from a comprehensive loss of $4,638,569 or $0.02 per share to a comprehensive loss of $3,448,702 or $0.02 per share. The decrease was mainly due to the decrease in the ownership in Prophecy Platinum.

(Expressed in Canadian Dollars)

5. Discussion of Operations

All of the information described below is accounted for in accordance with IFRS. The reader is encouraged to refer to Note 3 of Prophecy Coal's annual consolidated financial statements for the year ended December 31, 2011 for Prophecy Coal's IFRS accounting policies. Certain prior period figures have been reclassified to conform to the current period's presentation. Such reclassification is for presentation purposes only and has no effect on previously reported results. For discussion on each project, the reader is encouraged to refer to Business Overview section of this MD&A.

Nine month ended September 30, 2012 and 2011 ("2012 reporting period and 2011 reporting period")

The following table summarizes Prophecy Coal's consolidated results for nine months ended September 30, 2012 and 2011:

		Nine Months Ended September 30, 2012		Nine Months Ended September 30, 2011
General and administrative expenses	$	2,178,015	$	1,010,393
Consulting and management fees		950,214		1,065,316
Mine site expenses		58,473		-
Share-based payments		3,604,683		5,773,313
Advertising and promotion		1,800,438		603,896
Professional fees		886,041		819,195
Travel and accommodation		301,060		481,316
Interest (income)		(49,007)		(113,931)
Interest expense		545,252		-
Financing costs		150,000		-
Foreign exchange loss (gain)		42,735		(401,986)
Future income tax recovery		(213,532)		-
Loss on sale of investments		1,720,014		(21,934)
Loss on sale of mineral properties		-		3,527,397
Mineral property written off		190,980		-
	$	12,165,366	$	12,742,975

For nine month ended September 30, 2012, Prophecy Coal incurred a net loss of $ 12.2 million compared to a $12.7 million net loss incurred in the same period last year. The decrease by $0.5 million in net loss was due primarily to a $2.2 million decrease in share based payment expense offset by increases in various other expenses. The details of these changes are further discussed below.

General and administrative expense was $2.2 million in 2012 reporting period compared to $1 million during the same reporting period last year. The increase by $1.2 million in 2012 period was due primarily to increased salaries (by $0.5 million) due to new staff hired by Prophecy Coal and Prophecy Platinum , director fees (by $0.2 million) due to new directors added to the Prophecy Coal and Prophecy Platinum , amortization (by $0.08 million) due to additional amortization from Prophecy Platinum, and office and administration expenses (by $0.4 million) due to the increased cost of having two public company compliances, and new insurance coverage, substantially driven by greater administrative efforts necessary for the management of the Wellgreen project.

Consulting and management fees of $0.95 million were consistent with the 2011 reporting period ($1 million). Consulting and management fees include fees charged by officers of Prophecy Coal.

Share-based payments expense is a non-cash expense and represents the estimated fair value of share options vested during the period. It is accounted for at fair value as determined by the Black-Scholes Option Pricing model and varies from period to period based on the number and valuation of the share options granted during the period, vesting provisions, and amortization schedule of the previously granted share options.

For the 2012 reporting period, share-based payment expense was $3,604,683 compared to $5,773,313 during the same period last year. The decrease in share-based payment expense was mainly due to a decrease in the grant dates fair value of the options granted in 2012 compared to 2011. Prophecy Coal incurred $573,170 in share-based payment expense which is net of $36,372 that was capitalized to Ulaan Ovoo property and PPA, $70,354 share-based expense from 1,933,000 bonus shares related to common shares granted to employees, directors, and consultants as discretionary bonuses, and $369,531 from warrant modification related to Prophecy Coal warrants with extended expiry dates. Prophecy Platinum incurred $2,591,629 in share compensation expenses net of $272,901 that was capitalized to Wellgreen property during 2012 reporting period.

Advertising and promotion expense increased by $1.2 million from $0.6 million in 2011 reporting period to $1.8 million in 2012 reporting period. The increase in 2012 was due primarily to more extensive promotion carried out for Prophecy Platinum such as conference, trade show attendance, publications, German advertising, Europe marketing, radio/TV interviews, and to hiring of new investor relations individuals to accommodate the increased business operations of Prophecy Platinum.

Professional fees of $0.88 million were slightly higher compared to $0.82 million during the same reporting period last year. The increase in 2012 was due primarily to increase in general legal services due to the increase in business activities for Prophecy Platinum.

Loss on sale of investments of $1.76 million was mainly due the fact that Prophecy Coal sold all its shares of Compliance Energy.

Loss on sale of mineral properties during the 2011 reporting period of $3.5 million was due to the exchange of the Wellgreen and Lynn Lake properties for shares in Prophecy Platinum. The loss represented professional fees related to the exchange and the difference between Prophecy Coal's share of assets acquired from Prophecy Platinum and Prophecy Coal's share of assets spun off to Prophecy Platinum. Since there were no transactions of this kind relating to the current nine month period ended, there was no gain or loss to report, which lead to the large difference in comparison to the previous reporting period.

Interest Expense includes structuring fees paid for a proposed dealer debt facility of $5 million announced on December 30, 2011 and then cancelled in Q1 2012 and interest paid on the Waterton Loan and Khan Bank loan.

(Expressed in Canadian Dollars)

Three month ended September 30, 2012 and 2011 ("Q3 2012 and Q3 2011")

The following table summarizes Prophecy Coal's consolidated results for three months ended September 30, 2012 and 2011:

		Three Months Ended September 30, 2012		Three Months Ended September 30, 2011
General and administrative expenses	$	999,467	$	506,359
Consulting and management fees		381,812		399,060
Mine site expenses		58,473		-
Share based payments		475,409		3,378,471
Advertising and promotion		561,584		272,579
Professional fees		386,000		524,900
Travel and accommodation		107,618		114,974
Interest (income)		(11,976)		6,241
Interest expense		487,652		-
Financing cost		150,000		-
Foreign exchange (gain)		676		(478,543)
Future income tax recovery		(160,247)		-
Loss on sale of investments		1,702,395		(21,934)
	$	5,138,863	$	4,702,107

For three months ended September 30, 2012, Prophecy Coal had a net loss of $5.1 million or $0.02 per share compared to $ 4.7 million net loss or $0.02 per share for the same period last year. The small increase in loss was mainly due to the factors discussed below.

General and administrative expense increased by $0.5 million from $0.5 million in Q3 2011 to $1 million in Q3 2012. The increase was due primarily to increased salaries (by $157,405) due to new staff hired by Prophecy Coal and Prophecy Platinum , director fees (by $86,302) due to new directors added to the Prophecy Coal and Prophecy Platinum , and office and administration expense (by $311,081) and small increases in insurance, and amortization.

Consulting and management fees expense of $0.4 million were consistent with the Q3 2011 ($0.4 million). Consulting and management fees include fees charged by officers of Prophecy Coal

Share-based Payments expense was $0.5 million compared to $3.4 million during the Q3 2011. The decrease in share-based payment expense was mainly due to a decrease in the grant dates fair value of the options granted in Q3 2012 and to less options granted compared to 2011.

Advertising and promotion expense was $0.5 million compared to $0.3 million during Q3 2011. The increase in Q3 2012 period was due primarily to more extensive promotion carried out for Prophecy Coal and Prophecy Platinum such as conference, trade show attendance, publications, German advertising, Europe marketing, radio/TV interviews, and to hiring of new investor relations individuals to accommodate the increased business operations of Prophecy Platinum .

Professional fees decreased by $0.1 million from $0.5 million in Q3 2011 to $0.4 million in Q3 2012. There were more legal activities due to acquisition of Prophecy Platinum in Q3 2011.

Travel and accommodation of $0.1 million was consistent with the Q3 2011.

Interest Expense includes interest paid on the Waterton Loan and Khan Bank loan.

Loss on sale of investments of $1.76 million was mainly due the fact that Prophecy Coal sold all its shares of Compliance Energy.

6. Liquidity and Capital Resources

Prophecy Coal as at September 30, 2012 had a working capital, including restricted cash, of $4.1 million (December 31 2011: working capital of $7.7 million) and will require additional sources of funding for ongoing operations, to continue to develop the Ulaan Ovoo coal property, and potentially to develop the Chandgana Power Plant project. Sources of funding include subsequent return of net escrow deposit, classified as restricted cash, amounting to US$9.9 million (note 20(b)), dispositions of Prophecy Platinum Corp. common shares and may include coal sales from off-take agreements, equity and or debt joint ventures with power project developers, and additional market equity and debt financing. Many factors influence the Company's ability to raise funds, and there is no assurance that the Company will be successful in obtaining adequate financing and at favorable terms for these or other purposes including general working capital purposes. These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business for the foreseeable future. Realization values may be substantially different from carrying values, as shown, and these consolidated financial statements do not give effect to the adjustment that would be necessary to the carrying values and classifications of assets and liabilities should Prophecy Coal be unable to continue as a going concern.

6.1 Working Capital

Prophecy Coal ended nine months 2012 with $ 4.5 million (December 31, 2011 - $3.5 million) in consolidated cash and cash equivalents, current assets of $9 million (December 31, 2011 - $9 million), current liabilities of $15.1 million (December 31, 2011 - $1.4 million).

Current assets of $19.2 million increased by $10.2 million mainly due to the funds received from the Waterton loan. Prophecy Coal closely monitors collectability of outstanding accounts receivables for coal sales. Prophecy Coal sells to recognized, creditworthy third parties and expects to collect all outstanding receivables.

Effective November 10, 2010, the Government of Mongolia issued the list defining finished mineral products. Based on that list, Prophecy Coal's current coal products do not qualify as finished mineral products and is not eligible to claim VAT amounts paid.

On March 8, 2012, Prophecy Coal closed off the non-brokered private placement of 22,363,866 shares at a price of $0.45 per share for net proceeds of $9,594,618. Proceeds of the placement were applied to work at the Chandgana Thermal Power Project ($1.4 million), operations at the Ulaan Ovoo mine ($4.0 million), purchase of Tugalgatai licenses ($2.055 million) and general corporate purposes ($2.15 million).

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

Current liabilities increased to from $1.4 million as at December 31, 2011 to $15.8 million as at December 31, 2012 mainly due to an arrangement of a secured a $10 million debt facility with Waterton on July 16, 2012. The Loan has a one year term and bears interest at 14% per annum escrow (note 10(d) and 20(b) to the condensed interim financial statements).

On June 18, 2012, Prophecy Coal entered into a Sale and Purchase Agreement to acquire assets in Mongolia relating to certain Tugalgatai coal exploration property licenses from Tethys 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, $10,189,400 was deposited in escrow in the period and included in restricted cash on the balance sheet. During October 2012, subsequent to the period end, the funds, net of costs, amounting to US$9.9 million was returned to Prophecy Coal on termination of the Tugalgatai Agreement, which occurred due to the elapsing of the initial long stop date for approval of the licences transfer by the Minerals Resource Authority of Mongolia. Prophecy Coal is in negotiation on a new amended Tugalgatai Agreement to extend the acceptance period for the transfer application in regards to the coal licenses and to defer certain upfront payments such that they become payable upon achieving certain project milestones over time, and is in dialogue with Waterton to amend the Loan (see note 12 and 20(b) to the interim financial statements).

(Expressed in Canadian Dollars)

Prophecy Coal had no long-term debt outstanding at September 30, 2012, other than provision for closure and reclamation relating to Ulaan Ovoo mine.

As at the date of this report, Prophecy Coal's working capital deficit is approximately $2.5 million. Prophecy Coal continues to seek ways to improve its operating efficiency and thereby minimize its operating costs.

6.2 Cash Flow Highlights

		Nine months ended September 30, 2012		2011
Cash used in operating activities	$	(3,739,766)	$	(10,289,895)
Cash used in investing activities		(22,434,654)		(27,678,121)
Net foreign exchange difference		(42,735)		-
Cash produced by (used in) financing activities		38,056,081		2,840,606
Decrease in cash for the period		11,838,926		(35,127,410)
Cash balance, beginning of the period		3,480,050		39,324,151
Cash balance, end of the period	$	15,318,976	$	4,196,741

6.3 Cash Flows for the nine months ended September 30, 2012 and 2011

Operating activities: Cash used in operating activities was $3.7 million compared to cash used of $10.3 million in the same period of 2011. The decreased outflows for the nine months ended September 30, 2012 primarily related to decreased accounts receivable and increased accounts payable of which $3.9 million was for the Prophecy Platinum's payable mainly due to acquisition of URSA's liabilities.

Investing activities: $22.4 million (same period last year - $27.7 million) was used in investing activities, of which $9.9 million (same period last year - $23.4 million) was related to the acquisition of property and equipment, $18.9 million (same period last year - $2.0 million) was used for exploration expenditures incurred at Prophecy Coal's and Prophecy Platinum's mineral properties, $3.8 million (same period last year – $1.75 million) was received/(paid) upon for investments transactions. $0.7 million cash was received upon acquisition of Ursa by Prophecy Platinum and $0.1 million was used for exploration deposits.

Financing activities: A total of $38 million cash was received by financing activities compared to $2.8 million received in 2011). A total of $28.5 million was received from private placements (same period last year $7.9 million), and cash of $0.8 million was received from issuance of shares on the exercise of options and warrants. Net proceeds received from loans were $9.7 million. During the same period last year a total of $5.1 million was used to repay a loan.

During nine months ended September 30, 2012, Prophecy Platinum sold its ETF's to meet working capital requirements. On July 16, 2012 Prophecy Platinum completed its acquisition of URSA at which time the balance of the shares of URSA held by Prophecy Coal were cancelled pursuant to the terms of the acquisition.

Prophecy Coal sold all of its investment in Compliance Energy and some other available-for-sale investments. At the date of this MD&A Prophecy Coal holds for investment purposes 31.4 million common shares of Victory Nickel Inc. (TSX:NI) acquired in a reciprocal private placement and 25.3 million common shares of its controlled affiliate Prophecy Platinum (TSXV:NKL) acquired in connection with the Prophecy Platinum Arrangement (16.5 million common shares were pledged against the Waterton loan). The aggregate market value of available for sale Prophecy Coal's marketable securities (including 25,3 million shares in Prophecy Platinum including pledged, escrowed and free trading) is approximately $10.6 million. The market value of such shares may go up or down.

6.4 Contractual Commitments

Prophecy Coal commitments. Prophecy Coal's commitments related to mineral properties are disclosed in Note 10 to the condensed interim consolidated financial statements.

In July 2012, Prophecy Coal arranged a secured debt facility of $10,000,000 (the "Loan") with Waterton Global Value, L.P. ("Waterton"). The Loan has a one year term and bears interest at 14% per annum payable monthly with an effective interest rate of 24%. In connection with the Loan, a structuring fee of 2.5% ($250,000) was paid to Waterton in cash and legal fees of $189,805 were paid. Pursuant to the terms of the Loan, Prophecy Coal issued for a value of $600,000, 2,735,617 common shares of Prophecy Coal on closing of the Loan at July 16, 2012. The funds will be used to complete the purchase of the Tugalgatai, Mongolia coal licenses (note 10 (d)) and for general working capital. Prophecy Coal's holding of 7.5 million Prophecy Platinum's common shares have been pledged as collateral with another 9 million Prophecy Platinum common shares being held in escrow against the Loan. As at September 30, 2012, Prophecy Coal had drawn down $10,000,000 of the Loan. The Loan has a due date of July 16, 2013, and is callable at the option of Waterton, in the case of the termination of the Tugalgatai Agreement, which has occurred as the initial long stop date for approval of the licences transfers by Minerals Resource Authority of Mongolia has elapsed. Prophecy Coal is in negotiation with Tethys Mining LLC on a new amended Tugalgatai Agreement and is in dialogue with Waterton to amend the Loan (note 10 (d) and 20(b) to the consolidated interim financial statements).

Prophecy Platinum commitments. Prophecy Platinum has entered into a cooperation and benefits agreement with Kluane First Nation to support Prophecy's exploration program and environmental studies for the development of the Wellgreen Project. As part of the agreement total annual payments of up to $90,000 in each calendar year is payable in which exploration activities are carried out.

6.5 Capital Risk Management

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

The properties in which Prophecy Coal currently has an interest are in the exploration stage; as such, Prophecy Coal is dependent on external financing to fund its activities. In order to carry out the planned exploration and development and pay for administrative costs, Prophecy Coal will spend its existing working capital and raise additional amounts as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of Prophecy Coal, is reasonable. There were no changes in Prophecy Coal's approach to capital management during the nine months ended September 30, 2012. Neither Prophecy Coal nor its subsidiaries are subject to externally imposed capital requirements. Prophecy Coal's investment policy is to invest its surplus cash in highly liquid short-term interest-bearing investments with maturities of 90 days or less from the original date of acquisition, all held with major Canadian financial institutions.

7. Environment

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

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

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

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

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

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

At September 30, 2012, Prophecy Coal had a liability of $294,262 (December 31, 2011 - $257,355). The fair value of the closure and reclamation liability is estimated using a present value technique and is based on existing laws, contracts or other policies and current technology and conditions. Please refer to Note 12 of the condensed interim consolidated financial statements.

8. Related Party Disclosures

Balances and transactions between Prophecy Coal and its subsidiaries have been eliminated on consolidation. Details of the 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, Director of Prophecy Coal and provides consulting service.

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

(Expressed in Canadian Dollars)

(c) JWL Investments Corp., a private company owned by Joseph Li, a General Manager, Corporate Secretary and Director of Prophecy Coal and Prophecy Platinum and provides management services.
(d) Linx Partners Ltd., a private company controlled by John Lee, Director, CEO and Chairman of Prophecy Coal, and Chairman and Director of Prophecy Platinum, and provides management and consulting services for Prophecy Coal and Prophecy Platinum.

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

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

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

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

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
Related parties	2012	2011	2012	2011
Energy Investment Capital (a)	$ -	$ 15,161	$ 26,239	$ 15,161
JP McGoran and Associates Ltd. (b)	-	-	-	12,500
JWL Investments Corp. (c)	59,500	-	143,500	-
Linx Partners Ltd. (d)	150,000	150,000	449,862	389,778
MaKevCo Consulting Inc. (e)	60,500	7,500	122,500	7,500
Monnis International LLC (f)	-	3,109,742	-	4,052,743
The Energy Gateway (g)	-	36,076	51,991	127,813
Elysian Enterprises Inc. (h)	2,500	-	7,500	-
Cantech Capital Corp. (i)	1,500	-	6,500	-
Resinco Capital Partners (j)	-	38,714	-	110,714
Prophecy Platinum Corp.	-	4,098	-	4,098
Individual directors and officers	123,785	206,742	296,645	520,201
	$ 397,785	$ 3,568,033	$ 1,104,737	$ 5,240,508

(Expressed in Canadian Dollars)

	Three months ended September 30,		Nine months ended September 30,	
Related parties	2012	2011	2012	2011
Consulting and management fees	$ 307,000	$ 280,675	$ 809,284	$ 710,507
Director fees	82,035	49,782	220,962	56,488
Salaries and benefits	8,750	7,500	22,500	30,900
Office and administration	-	16,098	-	16,098
Mineral properties and P&E	-	3,213,978	51,991	4,426,515
	$ 397,785	$ 3,568,033	$ 1,104,737	$ 5,240,508

Prophecy Coal shares management, administrative assistance, and office space with Prophecy Platinum pursuant to a 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. The terms of the Service Agreement will remain in effect until 30 days following written notice of termination.

At September 30, 2012, accounts payable includes $91 (December 31, 2011 - $92,362) owing for reimbursable expenses to companies with common officers and directors, and $33,726 (December 31, 2011 - $3,560) due to directors of Prophecy Coal and Prophecy Platinum for director fees (paid subsequent to period end).

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

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

	Three months ended September 30,		Nine months ended September 30,	
Key Management Personnel	2012	2011	2012	2011
Salaries and short-term employee benefits	$ 333,961	$ 356,742	$ 896,739	$ 909,979
Share-based payments	198,358	3,213,978	324,624	4,426,515
	$ 532,319	$ 3,570,720	$ 1,221,363	$ 5,336,494

Subsequent to period end

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

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

9. Critical Accounting Estimates and Judgments

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

Readers are encouraged to read the significant accounting policies and estimates as described in Prophecy Coal's audited consolidated financial statements for the year ended December 31, 2011. Prophecy Coal's condensed consolidated interim financial statements have been prepared using the going concern assumption; reference should be made to note 1 to Prophecy Coal's condensed consolidated interim financial statements.

Significant accounting judgments and estimates

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

a) Same accounting policies as annual consolidated financial statements

Prophecy Coal followed the same accounting policies and methods of computation in the condensed consolidated interim financial statements for the nine months ended September 30, 2012 as followed in the consolidated financial statements for the year ended December 31, 2011. Of note, Prophecy Coal changed the functional currency of its Mongolian operations on April 1, 2012 from Canadian Dollars to Mongolian Tugriks. The presentation currency of Prophecy Coal remains the same. See Note 2 in the consolidated financial statements for further details.

b) Basis of consolidation

The consolidated financial statements include the accounts of Prophecy Coal and its controlled subsidiaries. All material intercompany balances and transactions have been eliminated. For a partially owned subsidiary, the interest attributable to non-controlling shareholders is reflected in non-controlling interest. Details of Prophecy Coal's subsidiaries at the date of these MD&A:

(Expressed in Canadian Dollars)

	Principal Activity	Place of incorporation and operation	Ownership interest September 30, 2012
0912603 B.C. Ltd.	Exploration	Canada	100%
0912601 B.C. Ltd.	Exploration	Canada	100%
Chandgana Coal LLC	Exploration	Mongolia	100%
Prophecy Power Corp. (former East Energy Development LLC)	Exploration	Mongolia	100%
Red Hill Mongolia LLC	Mining	Mongolia	100%
UGL Enterprises LLC	Inactive	Mongolia	100%
Prophecy Platinum Corp.	Exploration	Canada	37.5%
Subsidiaries of Prophecy Platinum Corp.			
PCNC Holdings Corp.	Exploration	Canada	37.5%
Pacific Coast Nickel Corp. USA	Inactive	USA	37.5%
Pacific Nickel Sudamerica S.A.	Exploration	Uruguay	37.5%
0905144 B. C. Ltd.	Exploration	Canada	37.5%
Ursa Major Minerals Inc.	Mining	Canada	37.5%

10. Financial Instruments and Related Risks

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

10.1 Financial Instruments (see note 15 to the condensed interim consolidated financial statements)

The following table sets forth Prophecy Coal's financial assets that are measured at fair value on a recurring basis by level within the fair value hierarchy. As at September 30, 2012, those financial assets and liabilities are classified in their entirety based on the level of input that is significant to the fair value measurement

As at September 30, 2012	Level 1	Level 2	Level 3	Total
Financial assets				
Fair value through profit or loss	$ 5,129,576	$ -	$ -	$ 5,129,576
Available-for-sale investments	961,032	-	-	961,032
	$ 6,090,608	$ -	$ -	$ 6,090,608

10.2 Related Risks

Liquidity risk – Liquidity risk is the risk that an entity will be unable to meet its financial obligations as they fall due. Prophecy Coal manages liquidity risk by preparing cash flow forecasts of upcoming cash requirements. As at September 30, 2012, Prophecy Coal has cash and cash equivalents of $4,462,052 (December 31, 2011 - $3,480,050), restricted cash of $10,189,400 (December 31, 2011 - $nil) and financial liabilities of $5,390,859 (December 31, 2011 - $1,364,890), which have contractual maturities of 90 days or less, and loans payable of $9,734,642 due within one year.

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

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

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Prophecy Coal's cash equivalents primarily include highly liquid investments that earn interest at market rates that are fixed to maturity or at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on the fair values or future cash flows of the financial instruments as of September 30, 2012. Prophecy Coal manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity

(b) Foreign currency risk

Prophecy Coal is exposed to foreign currency risk to the extent that monetary assets and liabilities held by Prophecy Coal are not denominated in Canadian dollars. Prophecy Coal has exploration and development projects in Mongolia and undertakes transactions in various foreign currencies. Prophecy Coal is therefore exposed to foreign currency risk arising from transactions denominated in a foreign currency and the translation of financial instruments denominated in US dollars and Mongolia tugrug into its reporting currency, the Canadian dollar.

Net exposures as at September 30, 2012, with other variables unchanged, a 1% strengthening (weakening) of the Canadian dollar against the Mongolian tugrug would not have a material impact on earnings with other variables unchanged. A 1% strengthening (weakening) of the US dollar against the Canadian dollar would not have a material impact on net loss. Prophecy Coal currently does not use any foreign exchange contracts to hedge this currency risk.

(b) Commodity and equity price risk

Prophecy Coal holds investments in available-for-sale that fluctuate in value based on market prices. Based upon Prophecy Coal's investment position as at September 30, 2012, a 10% increase (decrease) in the market price of the investments held would have resulted in an increase (decrease) to comprehensive income (loss) of approximately $94,282. Prophecy Coal also holds investments in exchange traded funds. Based on Prophecy Platinum investment position at September 30, 2012, a 10% increase (decrease), net of tax the market price of the investments held would have resulted in an increase (decrease) to comprehensive income (loss) of approximately $1,875. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. Prophecy Coal closely monitors commodity prices, individual equity movements and the share market to determine the appropriate course of action to be taken by Prophecy Coal. Fluctuations in value may be significant.

11. Risks and Uncertainties

Prophecy Coal is exposed to many risks in conducting its business, including but not limited to: a) product price risk as any fluctuations in the prices of the products that Prophecy Coal purchases and the prices of the products that Prophecy Coal sells have a significant effect on Prophecy Coal's business, results of operations, financial conditions and cash flows; b) credit risk in the normal course of dealing with other companies and financial institutions; c) foreign exchange risk as Prophecy Coal reports its financial statements in Canadian dollars while Prophecy Coal has significant operations and assets in Mongolia; d) interest rate risk as

Prophecy Coal raises funds through debt financing and e) other risk factors, including inherent risk of the mineral exploration, political risks, and environmental risk.

These and other risks are described in Prophecy Coal's audited consolidated financial statements, management's discussion and analysis for the year ended December 31, 2011. Readers are encouraged to refer to these documents for a more detailed description of some of the risks and uncertainties inherent in Prophecy Coal's business.

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

Political and Country Risk

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

Environmental Risks

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

Other Risk Factors. Prophecy Coal is subject to other risks that are outlined in the NI 43-101 technical reports, which are available on SEDAR at www.sedar.com.

12. Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by Prophecy Coal in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by Prophecy Coal in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to Prophecy Coal's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of Prophecy Coal's disclosure controls and procedures. As of September 30, 2012, the Chief Executive Officer and Chief Financial Officer have each concluded that Prophecy Coal's disclosure controls and procedures, as defined in NI 52-109 are effective to achieve the purpose for which they have been designed.

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

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

Design of Internal Controls over Financial Reporting

Prophecy Coal's internal controls over financial reporting include policies and procedures that:

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

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

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

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

Prophecy Coal's management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of Prophecy Coal's internal controls over financial reporting using the framework and criteria established in "Internal Control - Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the evaluation, management has concluded that internal controls over financial reporting were effective as at September 30, 2012.

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

13. Disclosure of Outstanding Share Data

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

13.1 Share Capital

Authorized – unlimited number of common shares without par value.

Common shares outstanding 228,400,956 with recorded value of $146,353,307

Summary of securities issued during the nine month ended September 30, 2012 and after period end:

(Expressed in Canadian Dollars)

	Common shares		Value
Outstanding, December 31, 2011	201,109,422	$	134,492,080
Private placement	22,363,866		9,594,618
Shares issued on exercise of options	187,500		159,875
Share issued on exercise of warrants	1,479,509		762,578
Bonus shares	525,042		79,456
Shares issued as financing fee	2,735,617		600,000
Outstanding	228,400,956	$	145,688,607

13.2 Stock Options

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

During the nine months ended September 30, 2012, Prophecy Coal granted a total of 14,200,000 share options to its directors, consultants and employees with a life of five years at exercise price from $0.17 to $0.28 per share subject to a vesting schedule over two years with 50% options vesting every year. Of these 14,200,000 options that were granted for the 2012 fiscal year-to-date, 5,315,000 were re-granted options at $0.28 exercise price.

Total share-based payment expense with regards to share options for the nine month period ended September 30, 2012 was $3.6 million, which takes into account the vesting of options. During this period 187,500 options were exercised at a weighted average exercise price of $0.25, 1,770,000 options were forfeited and 5,899,150 options were cancelled at a weighted average exercise price of $0.63 and $0.50 respectively.

As at the date of this report, 32,426,400 share options are outstanding, 14,127,217 are exercisable at prices ranging from $0.17 to $0.98 and which expire between 2014 and 2017.

During the nine months ended September 30, 2012, Prophecy Platinum granted 2,667,000 share options to its directors, consultants and employees with a life of five years at exercise price from $1.14 to $3.68 per share subject to a vesting schedule over two years with 50% options vesting every year. During this period 250,000 options were exercised at a weighted average exercise price of $0.90, 675,000 options were forfeited at a weighted average exercise price of $4.43.

As at the date of this report, Prophecy Platinum has 10,748,250 share options outstanding, 4,828,750 are exercisable at prices ranging from $1.00 to $3.68 and which expire between 2013 and 2017.

13.3 Share Purchase Warrants

During the nine months ended September 30, 2012, 1,479,509 warrants were exercised at a weighted average exercise price of $0.51 and 15,334 warrants expired at a weighted average exercise price of $0.49. Prophecy Coal has not issued any warrants in the reported period. Prophecy Coal has extended the expiry date of the 3,831,511 warrants by three years, from the original expiry date October 28, 2012 to October 28, 2015 and re-priced the exercise price of these warrants from $0.66 to $0.18.

As at the date of this report, Prophecy Coal has 10,339,926 warrants outstanding at prices ranging from $0.18 to $0.80.

As at the date of this report, Prophecy Platinum has 4,790,701 warrants outstanding, exercisable at prices ranging from $1.00 to $7.5 and which expire between 2013 and 2014.

14. Off-Balance Sheet Arrangement

During the period ended September 30, 2012, Prophecy Coal was not a party to any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources of Prophecy Coal.