Prophecy Resource Corp.

(Formerly – Red Hill Energy Inc.)

Consolidated Financial Statements - Amended

June 30, 2010

(Unaudited - expressed in Canadian dollars, unless otherwise stated)

Notice to Readers of the Unaudited Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2010

The unaudited interim consolidated statements of Prophecy Resources Corp. (Formerly - Red Hill Energy Inc.) for the three and six months ended June 30, 2010 ("Financial Statements") have been prepared by management. The Financial Statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2009 which are available at the SEDAR website at www.sedar.com. The Financial Statements are stated in terms of Canadian dollars, unless otherwise stated, and are prepared in accordance with Canadian generally accepted accounting principles.

Prophecy Resource Corp. (Formerly - Red Hill Energy Inc.)
Consolidated Balance Sheets
(Unaudited - expressed in Canadian Dollars)

	Notes		June 30, 2010 Restated		December 31, 2009
ASSETS					
Current Assets					
Cash and cash equivalents	12	$	**6,541,968**	$	139,312
Receivables and deposits	12		**101,369**		2,928
Prepaids	12		**112,020**		-
			6,755,357		142,240
Long-term investments	3, 12		**3,808,000**		-
Plant and equipment	4		**76,603**		77,927
Reclamation deposits			**6,500**		6,850
Mineral properties	5, 12		**48,262,976**		15,933,591
		$	**58,909,436**	$	16,160,608
LIABILITIES					
Current liabilities					
Accounts payable & accrued liabilities		$	**1,523,472**	$	52,105
Future income tax liabilities	1, 12		**6,844,063**		-
			8,367,535		52,105
SHAREHOLDERS' EQUITY					
Share capital	7, 12		**71,867,711**		33,896,787
Contributed surplus	7, 12		**3,696,091**		3,582,419
Deficit	12		**(25,021,901)**		(21,370,703)
			50,541,901		16,108,503
		$	**58,909,436**	$	16,160,608

Approved by the Board:

"John Lee"
CEO, Director

"Greg Hall"
Director

See accompanying notes to the unaudited interirm consolidated financial statemens

Prophecy Resource Corp. (Formerly - Red Hill Energy Inc.)
Consolidated Statements of Operations and Comprehensive Loss
(Unaudited - expressed in Canadian dollars except share data)

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	**2010**	2009
General and Administrative Expenses	**Restated**		**Restated**	
Amortization	**$ 379**	$ 6,168	**$ 4,727**	$ 11,556
Consulting and management fees	**738,545**	70,033	**992,820**	464,562
Director fees	-	-	-	666,900
Professional fees	**31,030**	29,179	**152,984**	34,370
Stock exchange and shareholder services	**99,617**	13,575	**145,314**	27,079
Advertising and promotion	**410,800**	20,114	**440,033**	110,618
Office and administration	**88,945**	35,608	**125,359**	66,801
Travel and accommodation	**125,828**	40,951	**164,684**	78,616
Foreign exchange loss (gain)	**94,504**	41,456	**(99,226)**	25,260
Insurance	**0**	-	**483**	-
Salary and benefits	**56,802**	29,699	**117,169**	177,340
Loss before other items	**1,646,450**	286,783	**2,044,347**	$ 1,663,102
Other income and expenses				
Interest income	**(2,106)**	313	**(3,395)**	(2,004)
Mineral property written off	-	-	-	11,066
Loss on disposal of plant and equipment	-	1,282	-	-
	(2,106)	1,595	**(3,395)**	9,062
Net income (loss) for the period	**$ (1,644,344)**	$ (288,378)	**$ (2,040,952)**	$ (1,672,164)
Comprehensive income (loss)	**$ (1,644,344)**	$ (288,378)	**$ (2,040,952)**	$ (1,672,164)
Basis and diluted loss per share	**$ (0.02)**	$ -	**$ (0.03)**	$ (0.03)
Weighted average number of shares outstanding	**95,282,588**	51,509,873	**76,335,115**	51,509,873

See accompanying notes to the unaudited interirm consolidated financial statemens

Prophecy Resource Corp. (Formerly - Red Hill Energy Inc.)
Consolidated Statements of Cash Flows
(Unaudited - expressed in Canadian dollars except share data)

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	**2010**	2009
Cash provided by (used in)	**Restated**		**Restated**	
Operating activities				
Net loss (income) for the period	**$ (1,644,344)**	$ (288,378)	**$ (2,040,952)**	$ (1,672,164)
Add (deduct) items not affecting cash				
Amortization	**379**	6,168	**4,727**	11,556
Stock based compensation expenses	**-**	-	**-**	1,095,200
Foreign exhange	**(141,992)**	-	**-**	-
Mineral properties written off	**-**	1,282	**-**	11,066
	(1,785,957)	(280,928)	**(2,036,225)**	(554,342)
Changes in non-cash working capital				
Receivables and deposits	**976,809**	(1,579)	**135,832**	14,669
Prepaid expense	**(112,020)**	-	**(112,020)**	612
Accounts payable and accrued liabilities	**21,619**	(51,162)	**271,999**	(80,658)
	886,408	(52,741)	**295,811**	(65,377)
Cash used in operating activities	**(899,549)**	(333,669)	**(1,740,414)**	(619,719)
Investing activities				
Cash received upon acquisition of Prophecy Holding	**4,213,364**	-	**4,213,364**	-
Reclamation deposits	**6,850**	-	**6,850**	-
Acquisition of plant and equipment	**(14,205)**	(8,349)	**(10,418)**	(8,349)
Acquisition of mineral property and deferred exploration and development expenditures	**(63,267)**	(87,296)	**(373,951)**	(328,324)
Purchase of investments	**(3,808,000)**	-	**(3,808,000)**	-
Cash used in investing activities	**334,742**	(95,645)	**27,845**	(336,673)
Financing activities				
Shares issued, net of share issuance costs	**4,331,289**	-	**9,115,225**	-
Dividend distribution to shareholders on spin-off	**(1,000,000)**	-	**(1,000,000)**	-
Cash provided by financing activities	**3,331,289**	**-**	**8,115,225**	**-**
Net increase (decrease) in cash	**2,766,482**	(429,314)	**6,402,656**	(956,392)
Cash and cash equivalents - beginning of period	**3,775,486**	862,255	**139,312**	1,389,333
Cash and cash equivalents - end of period	**$ 6,541,968**	$ 432,941	**$ 6,541,968**	$ 432,941
Supplemental cash flow information				
Interest paid	**$ -**	$ -	**$ -**	$ -
Income tax paid	**$ -**	$ -	**$ -**	$ -

See accompanying notes to the unaudited interirm consolidated financial statemens

Prophecy Resource Corp (Formerly - Red Hill Energy Inc.)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited - expressed in Canadian dollars except for share figures)

	Share capital					
	Numbers of shares	Amount	Contributed surplus	Deficit	**Total deficit and AOCI**	**Total shareholders' equity**
Balance, December 31, 2008	51,509,874	$33,002,987	$2,905,947 $	(19,376,578) $	**(19,376,578)**	**$16,532,356**
Private placement, net of share issuance costs	1,650,000	613,800	-	-	-	**613,800**
Shares issued for mineral properties	700,000	280,000	-	-	-	**280,000**
Stock based compensation	-	-	585,632	-	-	**585,632**
Loss for the year	-	-	-	(1,903,285)	**(1,903,285)**	**(1,903,285)**
Warrant modification	-	-	90,840	(90,840)	**(90,840)**	-
Balance, December 31, 2010	53,859,874	33,896,787	3,582,419	(21,370,703)	**(21,370,703)**	**$16,108,503**
Private placement, net of share issuance costs	19,638,658	8,854,878	133,847	-	-	**8,988,725**
Shares reduced upon spin off	(5,265,840)	-	-	-	-	-
Shares issued upon acquisition of Prophecy Holding	36,178,285	27,494,967	73,404	-	-	**27,568,371**
Shares issued for mineral properties	2,000,000	1,440,000	-	-	-	**1,440,000**
Shares issued upon options exercised	350,000	181,079	(93,579)	-	-	**87,500**
Loss for the period	-	-	-	(2,040,952)	**(2,040,952)**	**(2,040,952)**
Dividend distribution to shareholders on spin off	-	-	-	(1,610,246)	**(1,610,246)**	**(1,610,246)**
Unrealized gain on available for sale security	-	-	-	-	-	-
Balance, June 30, 2010	**106,760,977**	**$71,867,711**	**$3,696,091 $**	**(25,021,901) $**	**(25,021,901)**	**$50,541,901**

See accompanying notes to the unaudited interirm consolidated financial statemens

1. NATURE OF OPERATIONS

Prophecy Resource Corp. (formerly – Red Hill Energy Inc.) ("Prophecy" or the "Company") is an internationally diversified company incorporated under the laws of the province of British Columbia, Canada, and engaged in the acquisition, exploration and development of energy, nickel, and platinum group metals projects.

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

As at June 30, 2010, the Company had net working capital of $5,231,885 (December 31, 2009 - $90,135) and continues to incur exploration and development expenditures related to its mineral projects. As at June 30, 2010, the Company had cash and cash equivalents of $6,111,968 (December 31, 2009 - $139,312).

Management recognized that the Company will need to generate additional financing in order to meets its planned business objectives since the Company has not yet produced any revenue and has incurred losses since inception. There is no assurance that the Company will be able to raise these additional financial resources. If the Company is unable to obtain adequate additional financing, the Company will be required to curtail operations and exploration and development activities. However, the mine operation at Ulaan Ovoo mine has been commissioning and expects to generate significant revenue and cash inflow in the coming year. The Company is also in the process to raise additional cash through equity financing. As a result, these financial statements are prepared on the basis that the Company will continue as a going concern, and do not include any adjustments for the recoverability and classification of recorded assets amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

In April 2010, Red Hill Energy Inc. ("Red Hill") completed the acquisition of the old Prophecy Resource Corp. ("Prophecy Holding") through a plan of arrangement ("Arrangement"). Under the Arrangement, Red Hill transferred $1,000,000 cash and its non-coal asset, principally the Red Lithium Property near Clayton Valley, Nevada, the Thor Rare Earth Property ("ThorRee") in Nevada, and the Banbury Property in British Columbia, to Elissa Resource Ltd. ("Elissa"), in exchange for Elissa's common shares. Red Hill then created a new class of shares called "Class A Shares" and each common share of Red Hill was converted to 0.92 Class A Shares and 0.25 Elissa common shares. In addition, each Red Hill stock option and warrant, including the Red Hill Placement Warrants, will entitle the holder to receive 0.92 Class A share. The Elissa common shares were further transferred, as dividend payments, to the shareholders of Red Hill. Upon completion of the amalgamation, Red Hill changed its name to Prophecy Resource Corp. and the Class A shares were renamed as the common shares of Prophecy. As consideration of the acquisition, a total of 36,178,285 common shares, 3,500,000 options, and 11,336,109 warrants were issued to replace the old common shares, options, and warrants of Prophecy Holding at a one-to-one basis. This transaction has been accounted for using acquisition accounting with Red Hill identified as the acquirer. The excess of the consideration given over the fair value of the assets and liabilities acquired has been allocated to mineral properties. The preliminary allocation of the consideration given and net assets received of this transaction are summarized as follows:

(Unaudited – expressed in Canadian dollars, unless stated otherwise)

Purchase price	**$**	**27,743,900**
Cash and cash equivalents	$	4,213,364
Receivables		24,565
Reclamation deposit		6,500
Mineral properties		30,935,357
Accounts payable and accrued liabilities		(591,823)
Future income tax liabilities		(6,844,063)
Net assets acquired	**$**	**27,743,900**

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and follow the same accounting policies and methods of their application as the most recent audited financial statements for the year ended December 31, 2009, except note 2(b) below. However, they do not include all the information and disclosures required by the annual financial statements. In the opinion of management, all adjustments of a normal recurring nature necessary for a fair presentation have been included. The results for the interim period are not necessarily indicative of the results for the year ended December 31, 2010. As a result, the information contained in the interim financial statements should be read in conjunction with the Company's latest annual financial statements and notes thereto.

These unaudited interim consolidated financial statements include the accounts of the Company and its directly or indirectly wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated.

(b) Adoption of Accounting Policy

Business Combinations and related sections

In January 2009, the Canadian Institute of Chartered Accountants ("CICA") issued Section 1582, "Business Combinations" to replace Section 1581. The new standard effectively harmonized the business combinations standard under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new standard revised guidance on the determination of the carrying amounts of the assets acquired and liabilities assumed, goodwill, and accounting for non-controlling interests at the time of a business combination.

The CICA concurrently issued Section 1601, "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interest", which replace Section 1600, "Consolidated Financial Statements". Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interest in consolidated financial statements subsequent to a business combination.

Effective January 1, 2010, the Company early adopted these standards and the adoption of these standards did not have any material impact on the consolidated financial statements for the period ended June 30, 2010.

(c) Future Accounting Changes

i) Convergence with IFRS

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS for fiscal years beginning on or after January 1, 2011, with early adoptions permitted. The Company's first IFRS financial statements will be its interim financial statements for the first quarter of 2011 with an opening balance sheet date of January 1, 2011, which will require restatement of comparative information presented.

The conversion to IFRS will impact the Company's accounting policies, information technology and data systems, internal control over financial reporting, and disclosure controls and procedures. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

ii) Multiple Deliverable Revenue Arrangements

In December 2009, the Emerging Issue Committee ("EIC") issued EIC Abstract 175, "Multiple Deliverable Revenue Arrangements." This Abstract addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and how such a multiple deliverable revenue arrangement consideration should be measured and allocated to the separate units of accounting. This Abstract should be applied prospectively and should be applied to revenue arrangements with multiple deliverables entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011 with early adoption permitted. The Company did not early adopt this Abstract and expects there will be no material impact on the consolidated financial statements upon adoption of this Abstract.

3. LONG-TERM INVESTMENT

In May 2010, the Company and Victory Nickel Inc. ("Victory Nickel") agreed to reciprocal private placements enabling Victory Nickel to maintain an approximately 9.9% equity interest in the Company in accordance with the terms of an Equity Participation Agreement dated October 20, 2009. Victory Nickel subscribed for 7,000,000 shares of the Company at a price of $0.544 per share, while the Company purchased 36,615,385 common shares in Victory Nickel, which represented an approximately 9.8% interest in Victory Nickel, for a cost of $3,808,000. This investment is classified as an available-for-sale financial instrument, which is initially measured at cost and subsequently measured at fair value with unrealized gains or losses recorded as other comprehensive income (loss).

(Unaudited – expressed in Canadian dollars, unless stated otherwise)

As of June 30, 2010, the fair value of the investment in Victory Nickel was $3,808,000.

4. PLANT AND EQUIPMENT

	June 30, 2010			December 31, 2009		
	Cost	**Accumulated Amortization**	**Net Book Value**	Cost	Accumulated Amortization	Net Book Value
Leasehold improvments	**$ 7,244**	**$ (1,811)**	**$ 5,433**	$ 7,244	$ (1,449)	$ 5,795
Funiture and equipment	**94,240**	**(56,281)**	**37,959**	92,565	(54,044)	38,521
Vehicle	**47,475**	**(21,571)**	**25,904**	47,475	(19,471)	28,004
Computer equipment	**27,885**	**(20,578)**	**7,307**	25,522	(19,915)	5,607
	$ 176,844	**$ (100,241)**	**$ 76,603**	$ 172,806	$ (94,879)	$ 77,927

5. MINERAL PROPERTIES

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

The Company's investment in and expenditures on mineral properties are comprised of the following:

	Ulaan Ovoo	Chandgana Tal	Chandgana Khavtgai	Lynn Lake	Okeover	Titan	Uranium	Red Lithium	ThorRee	Banbury	Total
Notes	5(a)	5(b)	5(c)	5(d)	5(e)	5(f)	5(g)	5(g)	5(g)	5(g)	
Balance, December 31, 2008	$ 12,619,128	$ 1,279,337	$ 1,144,830	$ -	$ -	$ -	$ 74,844	$ -	$ -	$ 1	$ 15,118,139
Acquisition costs	-	-	-	-	-	-	-	290,000	155,000	-	445,000
Deferred exploration and development expenditures	331,089	2,907	27,512	-	-	-	10,599	49,607	34,180	-	455,894
Impairment charges	-	-	-	-	-	-	(85,443)	-	-	-	(85,443)
Balance, December 31, 2009	12,950,217	1,282,244	1,172,342	-	-	-	-	339,607	189,180	1	15,933,590
Acquisition costs	1,570,000	-	-	29,405,964	1,222,119	307,274	-	-	81,459	-	32,586,816
Deferred exploration and development expenditures	203,518	36,547	55,000	50,800	6,241	-	-	-	-	-	352,106
Properties transferred out	-	-	-	-	-	-	-	(339,607)	(270,639)	(1)	(610,246)
Balance, June 30, 2010	**$ 14,723,735**	**$1,318,791**	**$ 1,227,342**	**$29,456,764**	**$1,228,360**	**$307,274**	**$ -**	**$ -**	**$ -**	**$ -**	**$48,262,266**

a) Ulaan Ovoo Property

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

In November 2006, the Company entered into an agreement with a private Mongolian corporation to purchase 100% title and interest in five mineral licences including licences that are contiguous and entirely surrounding the Ulaan Ovoo property. The aggregate purchase price for the licences was US$400,000 with $50,000 being payable within 10 days of signing the agreement and the balance of the payment due upon transfer of ownership title to Red Hill. Under the terms of the agreement the Vendor retained a 2% NSR. A finder's fee of 58,500 shares was issued to a third party on the acquisition.

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

b) Chandgana Tal Property

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

During the six-month period ended June 30, 2010, the Company incurred a total of $36,547 expenditures at Chandgana Tal Property.

c) Chandgana Khavtgai Property

In 2007, the Company acquired a 100% interest in Chandgana Khavtgai Property, a coal exploration property consisting of one license and located in the northeast part of the Nyalga coal basin, approximately 290 kilometres east of Ulaan Bataar, the capital of Mongolia, by cash payment of US$570,000. A total of $589,053 was capitalized as the acquisition costs of the Chandgana Khavtgai Property.

During the six-month period ended June 30, 2010, the Company incurred a total of $55,000 expenditures at Chandgana Khavtgai Property.

d) Lynn Lake Property

Lynn Lake, a nickel project located in northern Manitoba, Canada, was acquired through the amalgamation between Red Hill and Prophecy Holding in April 2010 (also see note 1). Upon completion of the amalgamation in April 2010, a total of $29,405,964 was capitalized as the acquisition costs of Lynn Lake, of which $100,997 exploration expenditures incurred by Prophecy Holding during the period from January 1, 2010 to the closing of the amalgamation were considered qualified flow-through expenditures. Subsequent to the acquisition, a total of $50,800 flow-through expenditures were incurred at Lynn Lake.

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

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

i) $300,000 within five business days after the approval from the Toronto Stock Venture Exchange (paid);
ii) $300,000 on January 9, 2010 (paid);
iii) $400,000 within 180 days of the option agreement (paid);
iv) $1,000,000 on or before March 1, 2011;
v) $1,000,000 on or before March 1, 2012; and,
vi) $1,000,000 on or before March 1, 2013.

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

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

e) Okeover Property

The 60% interest of Okeover, a copper-molybdenum project in the Vancouver Mining Division of south-western British Columbia, Canada, 25 kilometres north of Powell River and 145 kilometres northwest of Vancouver, was acquired through the amalgamation between Red Hill and Prophecy Holding in April 2010 (also see note 1). Upon completion of the amalgamation in April 2010, a total of $1,222,119 was capitalized as the acquisition costs of Okeover. Subsequent to amalgamation, a total of $6,241 flow-through expenditures were incurred at Okeover.

(Unaudited – expressed in Canadian dollars, unless stated otherwise)

f) Titan Property

The 80% interest of Titan, a vanadium-titanium-iron project located in Ontario Canada, was acquired through the amalgamation between Red Hill and Prophecy Holding in April 2010 (also see note 1). Upon completion of the amalgamation in April 2010, a total of $307,274 was capitalized as the acquisition costs of Titan.

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

g) Mongolia Uranium Project

Mongolia Uranium Project was written off during the year ended December 31, 2009 due to unsuccessful exploration results. In June 2010, the Company changed the name of Redhill Mega Uranium LLC, the operator of the Mongolia Uranium Project, to East Energy Development LLC.

h) Red Lithium, ThorRee, and Banbury Properties

Under the plan of Arrangement between Red Hill and Prophecy Holding, the Red Lithium, ThorRee, and Banbury properties were transferred, before the closing of the Arrangement, to Elissa in exchange for Elissa's common shares, which were distributed to the shareholders of Redhill as dividend distribution (also see note 1).

6. RELATED PARTY TRANSACTIONS

Related party transactions not disclosed elsewhere in the financial statements are as follows:

	Three months ended June 30,		Six months ended June 30,	
Transactions with related parties	**2010**	2009	**2010**	2009
Armada Investments Ltd (a)	$ **33,165**	$ 22,665	$ **63,330**	$ 46,205
Consulting fees (b)	-	-	-	120,273
Mark Lotz (c)	**21,667**	-	**21,667**	-
Mau Capital Management Ltd. (d)	**32,000**	-	**32,000**	-
	$ **86,832**	$ 22,665	$ **116,997**	$ 166,478

a) During the three and six months ended June 30, 2010, the Company paid $33,165 and $63,330, (three and six months ended June 30, 2009 - $22,665 and $46,205), respectively, to Armada Investments Ltd, a private company controlled by a common director of the Company, for office rent and accounting and management services provided;

b) During the three and six months ended June 30, 2010, the Company paid $nil (three and six months ended June 30, 2009 - $nil and $120,273), respectively, to a company controlled by a former director and officer of the Company;

c) During the three and six months ended June 30, 2010, the Company paid $21,667 and $21,667 (three and six months ended June 30, 2009 - $nil), respectively, to Mark Lotz, an officer of the Company; and

d) During the three and six months ended June 30, 2010, the Company paid $32,000 and $32,000 (three and six months ended June 30, 2009 - $nil), respectively, to Mau Capital Management Ltd., a private company controlled by a director and officer of the Company, for management and financing services provided.

Transactions with related parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

7. SHARE CAPTIAL

a) Authorized

Unlimited number of common shares without par value.

b) Equity financing

In February 2010, the Company closed a $1,950,000 private placement. Under the placement, the Company issued 6,500,000 units, each unit is comprised of one common share and one-half of one share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one additional common share for a period of two years at a price of $0.45 per share during the warrant term. The warrants are subject to forcible conversion within 30 days of delivery of notice from the Company, in the event the shares of the Company close at over $0.65 for 10 consecutive trading days. The units issued under the placement were subject to a hold period that expired on June 18, 2010. A finder's fee of 7.0% on the proceeds placed payable in cash were paid on portions of the placement.

In March 2010, the Company closed a $3,113,937 private placement. Under the placement, the Company issued 5,463,158 units, and each unit is comprised of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to acquire one additional common share for a period of two years at a price of $0.71 during the warrant term. The warrants are subject to forcible conversion within 30 days of delivery of notice from the Company, in the event the shares of the Company close at $1.06 for 10 consecutive trading days. The units issued under the placement are subject to a hold period that expires on August 1, 2010. A finder's fee of 7.0% on the proceeds placed payable in cash was paid on portions of the placement.

In April 2010, the Company closed a $398,545 private placement. Under the placement, the Company issued 675,500 units, and each unit is comprised of one common share and one share purchase warrant.

(Unaudited – expressed in Canadian dollars, unless stated otherwise)

Each share purchase warrant entitles the holder to acquire one additional common share for a period of two years at a price of $0.80 during the warrant term. The warrants are subject to forcible conversion within 30 days of delivery of notice from the Company, in the event the shares of the Company close at $1.10 for 20 consecutive trading days.

In May 2010, the Company closed a reciprocal private placement with Victory Nickel whereby Victory Nickel subscribed for 7,000,000 shares of the Company at a price of $0.544 per share while the Company subscribed for 36,615,385 common shares of Victory Nickel at a price of $0.104.

c) Stock options

The Company has a stock option plan which allows for the maximum number of common shares to be reserved for issuance on the exercise of options granted under the stock option plan to be 19,334,595 shares. The following is a summary of the option transactions:

	Number of options		Weighted average exercise price per option
Balance, December 31, 2008	3,720,000	$	0.78
Granted	385,000		0.37
Repriced - old	(3,675,000)		0.78
Repriced - new	3,675,000		0.37
Cancelled/forfeited	(125,000)		0.52
Balance, December 31, 2009	3,980,000		0.37
Granted	2,430,000		0.67
Conversion as per merger with Prophecy Holding - old (note 1)	(3,980,000)		0.37
Conversion as per merger with Prophecy Holding - new (note 1)	3,454,600		0.40
Exchanged for Prophecy Holding options (note 1)	3,500,000		0.38
Exercised	(350,000)		0.25
Cancelled/forfeited	(62,500)		0.46
Balance, June 30, 2010	**8,972,100**		**0.47**

During the six months ended June 30, 2010, a total of 2,430,000 options vesting immediately with a life of five years were granted to directors, officers, employees, and consultants at an exercise price of $0.67.

(Unaudited – expressed in Canadian dollars, unless stated otherwise)

The following is the summary of assumptions used to estimate the fair value of each option granted using the Black-Scholes option pricing model:

	Six months ended June 30, 2010	2009
Risk-free interest rate	1.72%	3.46%
Expected life of options in years	3 years	5 years
Expected volatility	95%	94.39%
Expected dividend yield	Nil	Nil

The weighted average grant date fair value of options granted during the six months ended June 30, 2010 was $0.33 per option. For the six months ended June 30, 2010, a total of $979,574 stock-based compensation expenses were recorded on the statements of operations as follows:

	Six months ended June 30, **2010**	2009
Directors' fees	$ **292,260**	$ 666,900
Advertising and promotion	-	59,750
Salaries	**169,309**	76,950
Consulting fees	**518,005**	291,600
	$ 979,574	$ 1,095,200

As of June 30, 2010, the following director, officer, employee, and consultant options were outstanding:

Exercise price	Number of options outstanding as at June 30, 2010	Expiry date
$0.25	200,000	February 14, 2012
$0.25	1,337,500	October 29, 2014
$0.38	200,000	November 30, 2014
$0.40	3,454,600	January 23, 2014
$0.40	750,000	January 29, 2015
$0.55	350,000	March 15, 2015
$0.67	2,430,000	May 10, 2015
$1.03	250,000	March 24, 2015
$0.25 to $1.03	**8,972,100**	

Subsequent to June 30, 2010, a total of 453,000 options were exercised for proceeds of $181,215.

(Unaudited – expressed in Canadian dollars, unless stated otherwise)

c) Share purchase warrants

The outstanding balance or purchase warrants as at June 30, 2010 is summarized as follows:

Exercise price	Number of warrants outstanding as at June 30, 2010	Expiry date
$0.10	3,250,000	December 31, 2011
$0.40	1,340,750	December 31, 2011
$0.40	1,370,968	January 25, 2012
$0.49	2,990,001	February 17, 2012
$0.50	1,781,533	December 31, 2011
$0.65	759,000	September 1, 2011
$0.77	5,377,932	March 31, 2012
$0.80	3,307,858	March 31, 2012
$0.80	337,750	April 21, 2012
$0.10 to $0.80	**20,515,792**	

8. CAPITAL DISCLOSURE

The Company considers its capital structure to consist of share capital, stock options, and warrants. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration, and development of mineral properties. The Board of directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration or development stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

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

There were no changes in the Company's approach to capital management during the period ended June 30, 2010. Except for the exploration expenditure commitments disclosed in note 5, the Company is not subject to further externally imposed capital requirements.

9. FINANCIAL INSTRUMENTS

The Company manages its exposure to financial risks, including liquidity risk, credit risk, and market risk, in accordance with its risk management framework. The Company's Board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

(Unaudited – expressed in Canadian dollars, unless stated otherwise)

a) Fair value

The following table sets forth the Company's financial assets and liabilities that are measured at fair value on a recurring basis by level within the fair value hierarchy. As at June 30, 2010, those financial assets and liabilities are classified in their entirety based on the level of input that is significant to the fair value measurement.

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	$ 6,541,968	$ -	$ -	$ 6,541,968
Long-term investments	3,808,000	-	-	3,808,000

b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company manages liquidity by maintaining adequate cash and cash equivalents to meet financial obligations when due. As at June 30, 2010, the Company has cash and cash equivalents of $6,541,968 (December 31, 2009 - $139,312) and financial liabilities of $1,523,472 (December 31, 2009 - $52,105), which have contractual maturities of less than one year.

c) Credit risk

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

d) Market risk

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

i) Interest rate risk

Interest risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's cash equivalents primarily include highly liquid investments that earn interests at market rates that are fixed to maturity or at variable interest rates. Because of the short-term nature of these financial instruments, fluctuations in market rates do not have significant impact on the fair values of the financial instruments as of June 30, 2010.

ii) Foreign currency risk

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

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

The Company currently does not engage in foreign currency hedging, and the exposure of the Company's financial assets and financial liabilities to foreign currency risk is summarized as follows:

The amount are expressed in Canadian dollar equivalents		**June 30, 2010**		December 31, 2009
Canadian dollars	**$**	**6,556,659**	$	121,063
United States dollars		**1,554**		2,928
Mongolian tugrug		**36,389**		18,249
Total financial assets	**$**	**6,594,602**	$	142,240
Canadian dollars	**$**	**1,523,472**	$	52,105
Total financial liabilities	**$**	**1,523,472**	$	52,105

As at June 30, 2010, with other variables unchanged, the effect arising from the strengthening or weakening of the US dollar against the Canadian dollar were nominal as the Company was holding small amount of US dollars; with other variables unchanged, a 10% strengthening (weakening) of the Mongolia tugrug against the Canadian dollar would have decreased (increased) net income by approximately $3,639.

iii) Equity share price risk

The Company holds certain marketable securities that will fluctuate in value as a result of trading on Canadian financial markets. Furthermore, as the Company's marketable securities are also in mining companies, market values will fluctuate as commodity prices change. Based upon the Company's investment position as at June 30, 2010, a 10% increase (decrease) in the market price of the securities held would have resulted in an increase (decrease) to comprehensive income of approximately $380,800.

(Unaudited – expressed in Canadian dollars, unless stated otherwise)

10. SEGMENT INFORMATION

The Company operates in one operating segment, being the acquisition, exploration, and development of mineral properties. Based on the internal reporting structure and the nature of the Company's activities, projects within the same geographic area are not identified for segment reporting purposes. Corporate head office provides support to the mining and exploration activities with respect to financial and technical supports and its information is included in the Canada category.

As at:	**June 30, 2010**			
	Canada	**Mongolia**	**United States**	**Total**
Plant and equipment	$ 39,203	$ 37,400	$ -	$ 76,603
Mineral properties	$ 30,992,398	$ 17,269,868	$ -	$ 48,262,266
Long-term investment	$ 3,808,000	$ -	$ -	$ 3,808,000
Total assets	$ 41,565,779	$ 17,343,657	$ -	$ 58,909,436

As at:	December 31, 2009			
	Canada	Mongolia	United States	Total
Plant and equipment	$ 20,805	$ 57,122	$ -	$ 77,927
Mineral properties	$ -	$ 15,404,803	$ 528,788	$ 15,933,591
Long-term investment	$ -	$ -	$ -	$ -
Total assets	$ 151,646	$ 15,480,174	$ 528,788	$ 16,160,608

	Three months ended June 30, 2010			
	Canada	**Mongolia**	**United States**	**Total**
Expenses	$ (1,603,104)	$ (43,346)	$ -	$ (1,646,450)
Other income and expenses	2,106	-	-	2,106
Net loss	$ (1,600,998)	$ (43,346)	$ -	$ (1,644,344)

	Three months ended June 30, 2009			
	Canada	Mongolia	United States	Total
Income	$ (228,113)	$ (58,670)	$ -	$ (286,783)
Other income and expenses	(313)	(1,282)	-	(1,595)
Net income (loss)	$ (228,426)	$ (59,952)	$ -	$ (288,378)

	Six months ended June 30, 2010			
	Canada	**Mongolia**	**United States**	**Total**
Expenses	$ (1,679,922)	$ (364,425)	$ -	$ (2,044,347)
Other income and expenses	3,395	-	-	3,395
Net loss	$ (1,676,527)	$ (364,425)	$ -	$ (2,040,952)

	Six months ended June 30, 2009			
	Canada	Mongolia	United States	Total
Expenses	$ (1,481,165)	$ (181,937)	$ -	$ (1,663,102)
Other income and expenses	(7,780)	(1,282)	-	(9,062)
Net loss	$ (1,488,945)	$ (183,219)	$ -	$ (1,672,164)

(Unaudited – expressed in Canadian dollars, unless stated otherwise)

11. SUBSEQUENT EVENTS

In June 2010, the Company entered into a definitive agreement with Northern Platinum Ltd. ("Northern") to acquire Northern through a Plan of Arrangement. Pursuant to the agreement, each common share of Northern was exchanged for 0.50 common shares and 0.10 warrants of the Company, and each option and each warrant of Northern was exchanged for 0.50 options and 0.50 warrants of the Company, respectively. This transaction was closed in September 2010. Upon closing the Arrangement, the Company issued a total of 13,874,819 common shares, 1,300,000 options, and 6,007,090 warrants to replace the common shares, options, and warrants of Northern. The Company also issued a total of 295,996 common shares to O&M Partners Inc. as finder's fees for this transaction.

In August 2010, the Company arranged a secured debt facility of up to $10,000,000 (the "Loan") with Waterton Global Value, L.P. ("Waterton"). Subject to certain draw-down conditions, the Loan may be drawn in three tranches as follows: (a) $2,000,000 on the closing date, which occurred as at September 1, 2010; (b) $3,000,000 upon completion of the acquisition of Northern; and, (c) $5,000,000 at such time as Prophecy completes an off-take agreement for the Ulaan Ovoo Property. The Loan is due by August 31, 2011 and bears interest at 10% per annum payable each month. A structuring fee of $50,000 and 1% of the third tranche (if drawn down) is payable in cash.

(Unaudited – expressed in Canadian dollars, unless stated otherwise)

12. RESTATATEMENTS FOR THREE AND SIX MONTHS ENDED JUNE 30, 2010

During the completion of the consolidated financial statements for the three and nine months ended September 30, 2010, the Company identified certain accounting errors and deficiencies in disclosures related to the consolidated financial statements for the three and six months ended June 30, 2010, which had been originally filed on September 1, 2010. As a result, the Company has amended and restated the financial statements for the three and six months ended June 30, 2010 to reflect the corrections. The restatements had the following impact to the financial statements as follows:

a) Consolidated Balance Sheet as of June 30, 2010

	Notes		June 30, 2010	Adjustments		**June 30, 2010**
ASSETS			As originally presented			**Restated**
Current Assets						
Cash and cash equivalents	ii)	$	8,811,968	(2,270,000)	$	**6,541,968**
Receivables and deposits	i),viii), ix)		836,613	(735,244)		**101,369**
Prepaids			112,020			**112,020**
			9,809,336	(3,053,979)		**6,755,357**
Long-term investments	iii)		-	3,808,000		**3,808,000**
Plant and equipment			76,603			**76,603**
Reclamation deposits	vii), ix)		6,850	(350)		**6,500**
Mineral properties	iii),iv), v), vii), ix)		56,219,621	(7,956,645)		**48,262,976**
		$	68,512,410	$ (9,602,974)	$	**58,909,436**
LIABILITIES						
Current liabilities						
Accounts payable & accrued liabilities	viii),ix)	$	501,649	1,021,823	$	**1,523,472**
Future income tax liabilities			8,918,445	(2,074,382)		**6,844,063**
			9,420,094	(1,052,559)		**8,367,535**
SHAREHOLDERS' EQUITY						
Share capital	ii),iii), v), vi), ix)		72,810,392	(942,681)		**71,867,711**
Contributed surplus	viii)		10,568,066	(6,871,975)		**3,696,091**
Deficit	vii), ix)		(24,286,142)	(735,759)		**(25,021,901)**
			59,092,316	(8,550,415)		**50,541,901**
		$	68,512,410	$ (9,602,974)	$	**58,909,436**

i) The $48,735 recoverable taxes has been reclassified and grouped into Receivable and deposits to be consistent with the presentation adopted for the period ended September 30, 2010.

ii) The $2,270,000 adjustment to cash and cash equivalents was related to an error in recording cash for shares to be issued. This misstatement resulted in an overstatement of cash and cash equivalent and share capital by $2,270,000.

iii) In May 2010, the Company and Victory Nickel Inc. ("Victory") agreed to reciprocal private placements. This adjustment recognizes the increase in the investment in Victory.

iv) During the quarter ended June 30, 2010, the Company paid $400,000 to Victory pursuant to option agreement related to Lynn Lake. The payment should have been capitalized as an additional acquisition cost of Lynn Lake.

v) In April 2010, the Company exercised an option to purchase 2% net smelter return royalty ("NSR") on the Ulaan Ovoo property by cash payment of US$130,000 and the issuance of 2,000,000 common shares of the Company. Based the market price as at the date the shares issued, the fair value of the 2,000,000 common share are amounted to $1,440,000, which should have been capitalized as acquisition costs of Ulaan Ovoo. The adjustment recognizes the fair value of the shares issued for the 2,000,000 common shares.

vi) Upon exercise of options, the fair value of the stock based compensation previously recognised with respect to the options exercised should be transferred to share capital from contributed surplus. During the quarter ended June 30, 2010, $93,579 of fair value of those options were not transferred to share capital from contributed surplus.

vii) Pursuant to the acquisition of Prophecy Holdings, a total of $473,203 expenditures incurred by Prophecy Holding prior to the closing of the acquisition was incorrectly treated as an expense. The restatements will increased mineral rights by $473,203 and reduce the deficit by $473,203.

viii) Pursuant to the adoption of CICA HB 3842, Business Combinations, the valuation of options and warrants issued to replace the warrants and options of Prophecy Holdings should use modification accounting pursuant to CICA HB 3870, Stock-based compensation and other stock-based payments. During the three and six months ended June 30, 2010, the Company included the incorrect fair value of the replacement options and warrants as part of consideration given. In addition, certain receivables and payables were not properly accrued. This restatement will reduce receivables by $83,979, mineral properties by $8,297,028, and future income tax liabilities by $2,074,382, contributed surplus by $6,770,475, and increase accounts payable and accrued liabilities by $457,350 and reclamation deposit by $6,500.

(Unaudited – expressed in Canadian dollars, unless stated otherwise)

Also, the acquirer was deemed to be Red Hill, but was incorrectly identified as Prophecy Holdings resulted in incorrectly allocating the purchase price differences to Red Hill's mineral properties. The correction of the allocation is disclosed on note 5.

ix) As disclosed in note 1, as part of arrangement of the acquisition of Prophecy Holdings, the Company transferred $1,000,000 cash and its non-coal assets with a book value of $610,245 to Elissa in exchange for Elissa's common shares, which was subsequently distributed to the shareholders of Red Hill as a dividend payment. However, the Company did not record this transaction properly and this correction will increase the deficit by $1,610,245.

b) Restatements for Consolidated Statements of Operation and Comprehensive Loss

As discussed in above a)vii), due to a total of $473,203 expenditures incurred by Prophecy Holdings prior to the closing of the acquisition was incorrectly consolidated and included in the consolidated statements of operation. The restatements will reduce the net loss for the three and six months ended June 30, 2010 by $473,203.

	Three months ended June 30, 2010			Sxi months ended June 30, 2010		
	Originally presented	Adjustements	Restated	Originally presented	Adjustements	Restated
Net loss for the period	$ (2,117,547)	$ 473,203	$ (1,644,344)	$ (2,514,155)	$ 473,203	$ (2,040,952)
Comprehensive loss	$ (2,117,547)	$ 473,203	$ (1,644,344)	$ (2,514,155)	$ 473,203	$ (2,040,952)

(Unaudited – expressed in Canadian dollars, unless stated otherwise)

c) Restatements for Consolidated Statements of Cash Flows

Due to the errors as discussed in note 12 a(ii) above, cash and cash equivalents as at June 30, 2010 was overstated by $2,700,000. Also, certain non-cash items, such as future income tax liabilities and mineral properties acquisition through issuance common shares, were incorrectly the statements of cash flows for the three and six months ended June 30, 2010. The restatements to the consolidated statements of cash flows are summarized as follows:

	Notes	Three months ended June 30, 2010			Six months ended June 30, 2010		
		Originally presented	Adjustments	**Restated**	Originally presented	Adjustments	**Restated**
Cash provided by (used in)							
Operating activities							
Net loss (income) for the period	i)	$ (2,117,547)	$ 473,203	**$ (1,644,344)**	$ (2,514,155)	$ 473,203	**$ (2,040,952)**
Add (deduct) items not affecting cash							
Amortization		379	-	**379**	4,727	-	**4,727**
Unrealized foreign exchange gain	ii)	(372,094)	230,102	**(141,992)**	(230,102)	230,102	-
Mineral properties written off	iii)	1,635	(1,635)	-	1,635	(1,635)	-
		(2,487,627)	701,670	**(1,785,957)**	(2,737,895)	701,670	**(2,036,225)**
Changes in non-cash working capital							
Receivables and deposits	iv)	(41,442)	1,018,251	**976,809**	(882,420)	1,018,252	**135,832**
Prepaid expense		(112,020)	-	**(112,020)**	(112,020)	-	**(112,020)**
Accounts payable and accrued liabilities		21,619	-	**21,619**	271,999	-	**271,999**
Future income tax liabilities	v)	8,918,445	(8,918,445)	-	8,918,445	(8,918,445)	-
		8,786,602	(7,900,194)	**886,408**	8,196,004	(7,900,193)	**295,810**
Cash used in operating activities		6,298,975	(7,198,524)	**(899,549)**	5,458,109	(7,198,523)	**(1,740,414)**
Investing activities							
Cash received upon acquisition of Prophecy Holding	vi)	-	4,213,364	**4,213,364**	-	4,213,364	**4,213,364**
Reclamation deposits	vii)	-	6,850	**6,850**	-	6,850	**6,850**
Acquisition of plant and equipment	viii)	(2,464)	(11,741)	**(14,205)**	1,325	(11,743)	**(10,418)**
Acquisition of mineral property and deferred exploration and development expenditures	ix)	(39,975,345)	39,912,078	**(63,267)**	(40,286,030)	39,912,079	**(373,951)**
Purchase of investments	x)	-	(3,808,000)	**(3,808,000)**	-	(3,808,000)	**(3,808,000)**
Cash used in investing activities		(39,977,809)	40,312,551	**334,742**	(40,284,705)	40,312,550	**27,845**
Financing activities							
Due to related party	xi)	(2,400,000)	2,400,000	-	(2,400,000)	2,400,000	-
Proceeds from loans payable		-	-	-	-	-	-
Deferred financing fees		-	-	-	-	-	-
Shares issued, net of share issuance costs	xii)	41,115,316	(36,784,027)	**4,331,289**	45,899,252	(36,784,027)	**9,115,225**
Dividend distribution to shareholders on spin-off	xiii)	-	(1,000,000)	**(1,000,000)**	-	(1,000,000)	**(1,000,000)**
Cash provided by financing activities		38,715,316	(35,384,027)	**3,331,289**	43,499,252	(35,384,027)	**8,115,225**
Net increase (decrease) in cash		5,036,482	(2,270,000)	**2,766,482**	8,672,656	(2,270,000)	**6,402,656**
Cash and cash equivalents - beginning of period		3,775,486	-	**3,775,486**	139,312	-	**139,312**
Cash and cash equivalents - end of period		$ 8,811,968	$ (2,270,000)	**$ 6,541,968**	$ 8,811,968	$ (2,270,000)	**$ 6,541,968**

i) The adjustments to the net loss for period of $473,203 was related to the adjustments as discussed in note 12 a(vii) above.

ii) The adjustments to the unrealized foreign exchange gain as this item was related to currency conversions which should have been treated as realized and therefore deducted from cash flows.

iii) This is an immaterial error that is being corrected.

iv) Refer to note 12 a(i)(ix) above as well as the receivables assumed from the acquisition of Prophecy Holding as disclosed in note 1.

v) Future income tax liabilities should not be presented in the statements of cash flows.

vi) Upon the acquisition of Prophecy Holdings, the Company received $4,213,364 cash and cash equivalents from Prophecy Holding (also see note 1). This amount should be reflected as a separate item on the statements of cash flows.

vii) Upon transferring the non-coal assets to Elissa (also see note 1), the $6,850 reclamation deposits were released to the Company; and therefore, it should be considered as a cash inflow from investing activities.

viii) This is an immaterial error that is being corrected.

ix) Refer to note 12 a(v)(vii)(ix) above as well as the cash assumed from the acquisition of Prophecy Holdings.

x) The investment in Victory as discussed in note 11 a(iii) should be showed on as an cash out flow items.

xi) Refer to note 12 a(iii)(iv) above.

xii) Refer to notes 12 a(v)(vi)(vii)(viii) as well as the shares issued to acquire Prophecy Holdings.

xiii) The Cash transferred to Elissa as disclosed in note 1 was originally omitted.

This Management's Discussion and Analysis ("MD&A") provides a review of the significant developments and issues that influenced the Company during the three months and six months ended June 30, 2010. It should be read in conjunction with the unaudited consolidated financial statements of Prophecy Resource Corp. (Formerly – Red Hill Energy Inc.) ("Prophecy" or the "Company") for the three and six months ended June 30, 2010, and the audited consolidated financial statements of the Company for the year ended December 31, 2009.

This MD&A contains information up to and including August 30, 2010.

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

Except for statements of historical fact relating to the Company, certain information contained herein constitutes forward-looking statements. This MD&A contains forward-looking statements which reflect management's expectations regarding Prophecy's future growth, results of operations, performance, business prospects and opportunities. Words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", or similar expressions, are forward-looking statements within the meaning of securities laws. Forward-looking statements include, without limitation, the information concerning possible or assumed future results of operations of Prophecy. These statements are not historical facts but instead represent only Prophecy's expectations, estimates and projections regarding future events. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. In addition to the factors that Prophecy currently believes to be material such as, but not limited to, its ability to obtain adequate working capital, its ability to secure purchase contracts relating to its various operations, the cyclical nature of the industry within which it operates and price fluctuations in the demand and supply of the products it produces, its reliance on joint venture partners, authorized intermediaries, key customers, suppliers and third party service providers, its ability to operate its production facilities on a profitable basis, changes in currency exchange rates and interest rates, evaluation of its provision for income and related taxes and the Mongolian economic, political and social conditions and government policy, as well as other factors, such as general, economic and business conditions and opportunities available to or pursued by Prophecy, which are not currently viewed as material but could cause actual results to differ materially from those described in the forward-looking statements. Although Prophecy has attempted to identify important risks and factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors and risks that cause actions, events or results not anticipated, estimated or intended. Accordingly, readers should not place any undue reliance on forward-looking statements as such information may not be appropriate for other purposes.

Prophecy maintains a forward-looking statement database which is reviewed by management on a regular basis to ensure that no material change has occurred with respect to such forecasts. The Company will publicly disclose such material changes to its forward-looking statements as soon as they are known to management.

1. Highlights and Significant Events for the three months ended June 30, 2010 ("Q2 2010")

- Acquired Lynn Lake, Okeover, and Titan properties through the amalagamation with Prophecy Holding;
- Raised $4.3 through shares issuance;
- Recorded net loss of $1.6 million, or loss of $0.02 per share; and,

(Expressed in Canadian dollars, unless otherwise stated) AMENDED

- Entered into a definitive agreement with Northern Platinum Ltd. ("Northern") to acquire Northern through a plan of arrangement.

2. Business Overview

Prophecy Resource Corp. (formerly – Red Hill Energy Inc.) ("Prophecy" or the "Company") is an internationally diversified company incorporated under the laws of the province of British Columbia, Canada, and engaged in the acquisition, exploration and development of energy, nickel, and platinum group metals projects.

2.1 Business Combination between the Company and PHI

On April 16, 2010, the Company completed a plan of arrangement with old Prophecy Resource Corp. (old PCY" or "PHI") and Elissa Resources Ltd. ("Elissa") (the "RH Plan of Arrangement"). As the first step in the RH Plan of Arrangement, the Company transferred $1,000,000 and its non-coal assets, principally the Red Lithium property in Nevada, the Thor Rare Earth property in Nevada and the Banbury property in British Columbia, to Elissa Resources Ltd. in exchange for the issuance Elissa common shares to shareholders of the Company.

The Company then created a new class of common share, being the currently outstanding common shares of the Company. Each one old common share of the Company was exchanged for 0.92 new common shares of the Company and 0.25 Elissa common shares, and each common share of old PCY was exchanged for one new common share of the Company. In addition, each stock option and warrant of the Company was amended to entitle the holder to receive 0.92 common shares and each old PCY stock option or warrant was exchanged for an option or warrant to acquire one common share. The common shares of PHI were voluntarily delisted from the Tonoto Stock Exchange, and PHI became a wholly owned subsidiary of the Company.

Following the RH Plan of Arrangement, the Company changed its name to "Prophecy Resource Corp." A total of 36,178,285 common shares, 3,500,000 options, and 11,336,109 warrants were issued to replace the old common shares, options, and warrants of PHI on a one-to-one basis. The preliminary allocation of the consideration given and net assets received of this transaction is summarized as follows:

Purchase price	**$**	**27,743,900**
Cash and cash equivalents	$	4,213,364
Receivables		24,565
Reclamation deposit		6,500
Mineral properties		30,935,357
Accounts payable and accrued liabilities		(591,823)
Future income tax liabilities		(6,844,063)
Net assets acquired	**$**	**27,743,900**

2.2 Entered into a definitive agreement to acquire Northern Platinum Ltd. and to consolidate the Ownership of Wellgreen Property

In June 2010, the Company entered into a definitive agreement with Northern Platinum Ltd. ("Northern") to acquire Northern through a Plan of Arrangement. Pursuant to the agreement, each common share of Northern was exchanged for 0.50 common shares and 0.10 warrants of the Company, and each option and each warrant of Northern was exchanged for 0.50 options and 0.50 warrants of the Company, respectively. This transaction was closed in September 2010. Upon closing the Arrangement, the Company issued a total of 13,874,819 common shares, 1,300,000 options, and 6,007,090 warrants to replace the common shares, options, and warrants of Northern. This transaction was schedule to be closed on September 23, 2010.

In connection with the Northern Transaction, the Company signed a definitive agreement dated June 4, 2010 with Belleterre Quebec Mines Ltd. of Quebec, Canada ("Belleterre") to acquire its 50% back-in right ("Back-in") on Northern's Wellgreen project by paying Belleterre $2.1 million cash and issurance 3.56 million common shares to Belleterre.

2.3 Ulaan Ovoo Coal Property

During the six months period ended June 2010, the Company incurred development expenditures of approximately $203,158 at Ulaan Ovoo and exercised an option to acquire the 2% net smelter returns royalty on Ulaan Ovoo by cash payment of US$130,000 and issuance 2.0 million shares of the Company.

Subsequent to June 30, 2010, the Company entered into an Mine Service Agreement with Leighton Asia Limited ("Leighton") to establish the required infrastructure and deploy all necessary equipment and manpower to excute long term mining operation at the Ulaan Ovoo property.

2.4 Chandgana Khavtgai and Tal Coal Property

The Company has received a mining license for Tal and intends to convert Khavtgai's exploration license to a mining license in 2011. The Company intends to commission a mine feasibility study on Chandgana Tal and is conducting multiple site visits with power plant engineers from multinational companies. The Company cautions that discussion of power plants is preliminary and there is no assurance of project feasibility.

During the six months ended June 30, 2010, the Company incurred a total of $36,547 and $55,000 exploration and development expenditures at Chandgana Tal and Khavtgai Property, respectively.

2.5 Lynn Lake Nickel Property

Lynn Lake Nickel Property ("Lynn Lake") was acquired through the amalgamation between the Company and PHI. Upon closing of the amalgamation, a total of $29,405,964 was capitalized as the acquisition cost of Lynn Lake, of which $100,997 expenditures incurred by Prophecy Holding during the period from January 1, 2010 to the closing of the amalgamation were considered qualified flow-through expenditures. During the six months ended June 30, 2010, the Company incured a total of flowthrough expenditures of $50,800 at Lynn

(Expressed in Canadian dollars, unless otherwise stated) AMENDED

Lake.

2.6 Okeover Property

60% interest of the Okeover Property was acquired through the amalgamation between the Company and Prophecy Holding. Upon closing of the amalgamation, a total of $1,222,119 was capitalized as the acquisition cost. During the six months ended June 30, 2010, the Company incurred a total of flow-through expenditures of $6,241 at Okeover.

2.7 Titan Vanadium Iron Property

80% interest of the Titan Property was acquired through the amalgamation between the Company and Prophecy Holding. Upon closing of the amalgamation, a total of $307,274 was capitalized as the acquisition costs of Titan.

2.8 Red Lithium, ThorRee, and Banbury Properties

Under the plan of Arrangement between the Company and PHI, the Red Lithium, ThorRee, and Banbury Properties were transferred, at cost, before the closing of the Arrangement, to Elissa Resource Ltd., ("Elissa") in exchange for Elissa's common shares, which were distributed to the shareholders of the Company as dividend distribution.

3. Annual Financial Results

The following table sets out highlights of Prophecy's financial results together with selected balance sheet information for the years ended December 31, 2009, 2008, and 2007.

	Years ended December 31, 2009	2008	2007
Current assets	$ 142,240	$ 1,414,811	$ 1,000,198
Other assets	16,018,368	15,203,062	15,143,121
Liabilities	(52,105)	(85,517)	(200,462)
Shareholder equities	(16,108,503)	(16,532,356)	(15,942,857)
Expenses	(1,822,332)	(1,718,329)	(3,393,888)
Other income and expenses	(80,953)	(681,589)	96,193
Loss for the year	(1,903,285)	(2,399,918)	(3,297,695)
Loss per share	(0.04)	(0.05)	(0.08)
Dividend	$ -	$ -	$ -

(Expressed in Canadian dollars, unless otherwise stated) AMENDED

4. Summary of Quarterly Financial Results

		Quarters ended			
		June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009
		Restated			
Expenses	$	**(1,646,450)**	$ (397,897)	$ (340,801)	$ 181,571
Other income and expenses		**2,106**	1,289	(11,188)	(60,676)
Loss for the period	$	**(1,644,344)**	$ (396,608)	$ (351,989)	$ 120,895
Loss per share		**(0.02)**	(0.01)	(0.01)	-

		Quarters ended			
		June 30, 2009	March 31, 2009	December 31, 2008	September 30, 2008
Expenses	$	(286,783)	$ (1,376,319)	$ (335,720)	$ (699,849)
Other income and expenses		(1,595)	(7,467)	142,474	(714,326)
Loss for the period	$	(288,378)	$ (1,383,786)	$ (193,246)	$ (1,414,175)
Loss per share		(0.01)	(0.03)	-	(0.03)

The expenses incurred by the Company are typical of an exploration company in the mining industry that has not yet generated significant revenue. The Company's fluctuations in expenditures from quarter to quarter are mainly related to exploration activities conducted during the respective quarter.

The fluctuation of other income and expenses from quarter to quarter is mainly attributed to interest income which fluctuates along with changes of interest rates and the balance of cash and cash equivalent, interest expense on loans payable, as well as the timing to recognize any gain or loss on the disposal of plant and equipment and written off mineral properties.

5. Financial Results

5.1 Three months ended June 30, 2010("Q2 2010")

Net loss for Q2 2010 was $1,644,344 compared to net loss of $288,378 recorded in the same quarter last year. The increase of loss in Q2 2010 was mainly due to the increase of consulting fee, promotion and travelling expenditures after the acquisition of Prophecy Holding.

Consulting and management fees for Q2 2010 were $446,285, an increase of $376,252, compared to the consulting and management fee of $70,033 in the same period last year. Most senior management and advisors of the Company are on a consultant basis, and the increase of consulting and management fee is mainly due to the increasing activities from those senior management and advisors after the amalgamation with Prophecy Holding in April 2010 as well as the increasing stock based compensation arising from the options granted to those senior management and advisors.

Director fees for Q2 2010 were $292,260 compared to $nil recorded in the same quarter last year. Director fees are stock based compensation expenses arising from options granted to directors. It will fluctuate from time to time depending on the fair value of options granted and the timing to amortize the fair value of options granted. No cash was paid to directors in their capacity as directors.

Professional fees for Q2 2010 were $31,030, which was comparable to the professional fee of $29,179 in the same quarter last year. Professional fees consist of auditing, legal, and accounting services.

Stock exchange and shareholder services for Q2 2010 were $99,617, an increase of $86,042, compared to $13,575 recorded in the same quarter last year. Stock exchange and shareholder services include regulatory filing fees, transfer agent service fees, and news wires services fee which fluctuate along with the volume of those services.

Advertising and promotion for Q2 2010 was $410,800, an increase of $390,686, compared to $20,114 advertising and promotion expenses recorded in the same quarter last year. Advertising and promotion expenses mainly related to investor relation activities, such as conference and web advertising, to impove the comminciation with investors.

Office and administration for Q2 2010 was $88,945, an increase of $53,337 or 150%, compared to the $35,608 office and administration expenses recorded in the same quarter last year. The increase was mainly due to the increasing administration activities after the amalgamation with Prophecy Holding in April 2010.

Travel and accommodation for Q2 2010 was $125,828, an increase of $84,877 or 207%, compared to $40,951 travel and accommodation expenses recorded in the same quarter last year and the increase was mainly due to increased travel by management and staff to participate in conferences and meetings with financial institutions.

Foreign exchange loss for Q2 2010 was $94,504, an increase of $53,048, compared to the loss $41,456 recorded in the same quarter last year. Foreign exchange loss was mainly the effect on the conversion of Canadian dollars to US dollars and then to Mongolia tugurt to fund the exploratio programs.

Salary and benefits for Q2 2010 was $56,802, an increase of $27,103, compared to the $29,699 salary and benefit expenses recorded in the same quarter last year. The increase was mainly due to more personel were hired after the acquistion of Prophecy Holding.

5.2 Six months ended June 30, 2010

Net loss for the six months ended June 30, 2010 was $2,040,952, or $0.03 per share, compared to loss of $1,672,164 recorded in the same period last year. The increase was mainly due to increasing management and consulting activites after the amalgamation with Prophecy Holding in April 2010.

Consulting and management fees for the six months ended June 30, 2010 were $700,560, an increase of $235,998, compared to the consulting and management fee of $464,562 in the same period last year. Most senior management and advisors of the Company are on a consultant basis, and the increase of consulting and management fees is mainly due to the increasing activities from those senior management and advisors after the amalgamation with Prophecy Holding in April 2010 as well as the increasing stock based compensation arising from the options granted to those senior management and advisors.

Director fees for the six months ended June 30, 2010 were $292,2600 compared to $666,900 recorded in the same period last year. Director fees are non-cash stock based compensation expense arising from options granted to directors. It will fluctuate from time to time depending on the fair value of options granted and the timing to amortize the fair value of options granted. No cash was paid to directors in their capacity as directors.

Professional fees for the six months ended June 30, 2010 were $152,984, an increase of $118,614, compared to the professional fee of $34,370 in the same period last year. Professional fees consist of auditing, legal, and accounting services fees which fluctuate along with the volume of those services.

Stock exchange and shareholder services for the six months ended June 30, 2010 were $145,314, an increase of $118,235, compared to $27,079 recorded in the same period last year. Stock exchange and shareholder services including regulatory filing fees, transfer agent service fees, and news wires services fees which fluctuate along with the volume of those services.

Advertising and promotion for the six months ended June 30, 2010 was $440,033, an increase of $329,415, compared to $110,618 advertising and promotion expenses recorded in the same period last year. Advertising and promotion expenses mainly related to investor relation activities, such as conference and web advertising, to improve the communication with investors.

Office and administration for the six months ended June 30, 2010 was $125,359, an increase of $58,558 or 88%, compared to the $66,801 office and administration expenses recorded in the same quarter last year and the increase was mainly due to the increasing administration activities after the amalgamation with Prophecy Holding in April 2010.

Travel and accommodation for the six months ended June 30, 2010 was $164,684, an increase of $86,068 or 109%, compared to $78,616 travel and accommodation expenses recorded in the same period last year and the increase was mainly due to increased travel by management and staff to participate in conferences and meetings with financial insititutions.

Foreign exchange gain for the six months ended June 30, 2010 was $99,226 while a loss of $25,260 was recorded in the same period last year. Foreign exchange gain or loss was mainly the effect on translation of the operation results of foreign subsidiaries.

Salary and benefits for the six months ended June 30, 2010 was $117,169, a decrease of $60,171, compared to the $177,340 salary and benefit expenses recorded in the same period last year. The decrease was mainly due to less stock based compensation expenses were allocated to salary and benefits of exmployees.

6. Liquidity and Financial Resources

6.1 Working capital

As at June 30, 2010, the Company had working capital of $5,231885 (December 31, 2009 - $90,135). Cash and cash equivalent as at June 30, 2010 increased by $6,402,656 to $6,541,968 from $139,312 as at December 31, 2009 as a result of: cash used in operation activities of $1,740,414, cash provided by investing activities of $27,845, and cash provided from financing activities of $8,115,225.

During the six months ended, the Company throught a serious of private placments by issuances of a total of $19,638,658 to raise cash of $8,854,878, which was used to fund the Company's exploration and development programs and as working capital.

6.2 Cash flow

Operating activities in Q2 2010 used cash of $899,549 (Q2 2009 – used $333,669). Prior to changes in non-cash working capital items, which generated cash of $886,408 (Q2 2009 – used cash of $52,741), cash flow used in operating activities in Q2 2010 was $1,785,957 (Q2 2009 – used $280,928). The increase in cash used in operating activities was mainly due to increase of administration, management, and consulting activities after the amalgamation with Prophecy Holding.

During the six months ended June 30, 2010, cash used in operating activities was $1,740,414 (same period last year - $619,719). Prior to changes in non-cash working capital items, cash used in operating activities was $2,036,225 (same period last year - $554,342).

Investing activities in Q2 2010 generated cash of $334,742 (Q2 2009 – used $95,645). A total of $63,267 (Q2 2009 - $87,296) was related to the exploration and development expenditures incurred at the Company's mineral properties, $3,808,000 was invested in the common shares of Victory Nickel Ltd. ("Victory"), and $14,205(Q2 2009 - $8,349) was used to purchase plant and equipment offset by a refund of reclamation deposit of $6,850 and cash of $4,213,363 received upon the acquisition of Prophecy Holding.

During the six months ended June 30, 2010, $27,845 cash (same period last year - used $336,673) was generated in investing activities. A total of $373,951 was used in relation to the exploration and development expenditures incurred at the Company's mineral properties, $3,808,000 was invested in the common shares of Victory, and $10,418 (same period last year - $8,349) was used to purchase plant and equipment offset by a refund of reclamation deposit of $6,850 and cash of $4,213,364 received upon the acquisition of Prophecy Holding.

Financing activities in Q2 2010 generated cash of $3,331,289 (Q2 2009 - $nil), of which $4,331,289 (Q2 2009 - nil) was from share issuances, offset by $1,000,000 (Q2 2009 - $nil) paid as Dividend distribution to shareholders on spin-off of assets to Elissa.

For the six months ended June 30, 2010, a total of $8,115,225 (same period last year - $nil) cash was generated, of which $9,115,225 (same period last year - nil) was from share issuances, and $1,000,000 (same period last year - $nil) was distributed to shareholders as part of the spin-off of assets to Elissa.

6.3 General contractual commitments

Commitment related to Lynn Lake property

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

(Expressed in Canadian dollars, unless otherwise stated) AMENDED

Pursuant to the option agreement, the schedule of cash paid or payable to Victory Nickel is as follows:

i) $300,000 within five business days after the approval from the Toronto Stock Venture Exchange (paid);
ii) $300,000 on January 9, 2010 (paid);
iii) $400,000 within 180 days of the option agreement (paid);
iv) $1,000,000 on or before March 1, 2011;
v) $1,000,000 on or before March 1, 2012; and,
vi) $1,000,000 on or before March 1, 2013.

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

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

6.4 Available sources of funding

At present, the Company's ability to continue as a going concern is dependent upon its ability to obtain necessary financing to complete the development of its projects, and future profitable production from, or the proceeds from dispositions of its energy resource, nickel and platinum projects. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. The timing and ability to fulfill this objective will depend on the liquidity of the financial markets as well as the willingness of investors to finance exploration companies in the minig industry. The Company will need to access additional financing to raise funds to maintain its on-going operation and to facilitate its desired expansion in the near term.

During the six months ended June 30, 2010, the Company has completed a series of non-brokered private placements and raised cash of over $4.3 million to fund its exploration and development programs and has cash and cash equivalent of $6,541,968 as at June 30, 2010. The Company is continuously looking at and considering financing options and believes its current capital resources are enough to fund its ongoing activities for the next 12 months, and that if additional funding is required, the Company will be able to raise additional funds through financings to meet its operating needs.

7. Related Party Transactions

Related party transactions not disclosed elsewhere in the financial statements are as follows:

	Three months ended June 30,		Six months ended June 30,	
Transactions with related parties	**2010**	2009	**2010**	2009
Armada Investments Ltd (a)	$ **33,165**	$ 22,665	$ **63,330**	$ 46,205
Consulting fees (b)	**-**	-	**-**	120,273
Mark Lotz (c)	**21,667**	-	**21,667**	-
Mau Capital Management Ltd. (d)	**32,000**	-	**32,000**	-
	$ **86,832**	$ 22,665	$ **116,997**	$ 166,478

a) During the three and six months ended June 30, 2010, the Company paid $33,165 and $63,330, (three and six months ended June 30, 2009 - $22,665 and $46,205), respectively, to Armada Investments Ltd, a private company controlled by a common director of the Company, for office rent and accounting and management services provided;

b) During the three and six months ended June 30, 2010, the Company paid $nil (three and six months ended June 30, 2009 - $nil and $120,273), respectively, to a company controlled by a former director and officer of the Company;

c) During the three and six months ended June 30, 2010, the Company paid $21,667 (three and six months ended June 30, 2009 - $nil), respectively, to Mark Lotz, a former officer of the Company; and

d) During the three and six months ended June 30, 2010, the Company paid $32,000 (three and six months ended June 30, 2009 - $nil), respectively, to Mau Capital Management Ltd., a private company controlled by a director and officer of the Company, for management and financing services provided.

Transactions with related parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

8. Proposed Transactions

With the exception of the information provided in this document, the Company is not a party to any proposed transaction that may have an effect on its financial condition, results of operations or cash flows which the management believes would require the intervention or approval of the Board of Directors of the Company.

9. Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the amounts reported on the Consolidated Financial Statements. These critical accounting estimates represent management estimates that are uncertain and any changes in these estimates could materially impact the Company's financial statements. Management continuously reviews its estimates and assumptions using the most current information available. Except the adoption of "Business Combinations and Related Sections" as per item 10.1 below and note 2(b) to the consolidated financial statements for the period ended June 30, 2010, there have not been changes to the Company's critical accounting policies and estimates since fiscal year 2009 ended December 31, 2009. Readers are encouraged to read the critical accounting policies and estimates as described in the Company's audited consolidated financial statements and Management's Discussion and Analysis for the year ended December 31, 2009.

10. Critical Accounting Policies and Estimates

10.1 *Adoption of accounting policy*

Business Combinations and related sections

In January 2009, the Canadian Institute of Chartered Accountants ("CICA") issued Section 1582, "Business Combinations" to replace Section 1581. The new standard effectively harmonized the business combinations standard under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new standard revised guidance on the determination of the carrying amounts of the assets acquired and liabilities assumed, goodwill, and accounting for non-controlling interests at the time of a business combination.

The CICA concurrently issued Section 1601, "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interest", which replace Section 1600, "Consolidated Financial Statements". Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interest in consolidated financial statements subsequent to a business combination.

Effective January 1, 2010, the Company early adopted these standards and the adoption of these standards did not have any material impact on the consolidated financial statements for the period ended June 30, 2010.

10.2 *Future accounting changes*

a) Convergence with IFRS

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt Internation Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011, with early adoptions permitted. The Company's first IFRS financial statements will be its interim financial statements for the first quarter of 2011 with an opening balance sheet date of January 1, 2011, which will require restatement of comparative information presented.

The conversion to IFRS will impact the Company's accounting policies, information technology and data systems, internal control over financial reporting, and disclosure controls and procedures. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time due to limited resources and significant business acquisitions during the year.

The Company's conversion plan consist of the following phases: scoping and planning, diagnostic assessment, operations implementation, and post implementation. The Company has completed the scoping and planning phase. The scoping and planning phase involved establishing a project management team, mobolizing organziational support for the conversion plan, obtaining stakeholder support for the project, identifying major areas affected by the conversion and developing a project charter, implementaion plan, and communication strategy. The resulting identified areas of accounting difference of highest potential impact to the Company, based on existing IFRS, are impairment of assets, property plant and equipment, provisions and contingent liabilities, income taxes, financial instruemnts, stock based compensation expenses, and initial adoption of IFRS under the provision of IFRS 1 First-Time Adoptions of IFRS.

The diagnostic assessment phase ("phase 2") which is in progress will result in the selection of IFRS accounting policies and transitional exemption decision, estimates of quantification of financial statement impacts, preparation of financial statements and identification of business processes and transitional exemptions decisions. The Company intends to complete phase 2 in the forth quarter of 2010.

The operations implementation ("phase 3") includes the design of business, reporting and system process as to support the compilation of IFRS compliant fianncial data for the IFRS opening balance sheet as at Janaury 1, 2011 and thereafter. The Company is in the process of changing its reporting and system process to support the compilation of IFRS and intends to determine the IFRS opening balances during the coming financial statements audit for the year ended December 31, 2010.

Post implementation ("phase 4") will include sustainable IFRS compliant financial data and processes for fiscal 2011 and beyond. The International Accounting Standards Board continues to amend and add to current IFRS with several projects currently underway. The Company will monitor actual and anticipated changes to IFRS and related rules and regulations and assessing the impacts of these changes on the Company and its reporting, including expected dates of when such impacts are effective.

b) Multiple Deliverable Revenue Arrangements

In December 2009, the Emerging Issue Committee ("EIC") issued EIC Abstract 175, "Multiple Deliverable Revenue Arrangements." This Abstract addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and how such a multiple deliverable revenue arrangement consideration should be measured and allocated to the separate units of accounting. This Abstract should be applied prospectively and should be applied to revenue arrangements with multiple deliverable entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011 with early adoption permitted. The Company did not early adopt this Abstract and expects there will be no material impact on the consolidated financial statements upon adoption of this Abstract.

11. Financial Instruments and Related Risks

The Company manages its exposure to financial risks, including liquidity risk, foreign exchange rate risk, interest rate risk, and credit risk in accordance with its risk management framework. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

The following table sets forth the Company's fiancial assets and liabilities that are measured at fair value on a recuring basis by level within the fair value hierarchy. As at June 30, 2010, those financial assets and liabilities are classified in their entirety based on the level of input that is significant to the fair value measurement.

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	$ 6,541,968	$ -	$ -	$ 6,541,968
Long-term investments	3,808,000	-	-	3,808,000

12. Risks and Uncertainties

The Company is exposed to many risks in conducting its business, including but not limited to: a) product price risk as any fluctuations in the prices of the products that the Company purchases and the prices of the products that the Company sells have a significant effect on the Company's business, results of operations, financial conditions and cash flows; b) credit risk in the normal course of dealing with other companies and financial institutions; c) foreign exchange risk as the Company reports its financial statements in Canadian dollars while the Company has significant operations and assets in Mongolia; d) interest rate risk as the company's cash equivalents primarily include highly liquid investments that earn interests at market; and e) other risk factors, including inherent risk of the mineral exploration, political risks, and environmental risk. These and other risks are described in the Company's audited consolidated financial statements, management's discussion and analysis for the year ended December 31, 2009 and note 9 of the consolidated financial statements for period ended June 30, 2010. Readers are encouraged to refer to these documents for a more detailed description of some of the risks and uncertainties inherent in the Company's business.

Management and the Board of Directors continuously assess risks that the Company is exposed to, and attempt to mitigate these risks where practical through a range of risk management strategies.

13. Internal Control over Financial Reporting Procedures

The management of the Company is responsible for establishing and maintaining appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete, reliable and timely. Management is also responsible for establishing adequate internal controls over financial reporting to provide sufficient knowledge to support the representations made in this MD&A and the consolidated financial statements for the three and six months ended June 30, 2010.

The management of the Company has filed the Venture Issuer Basic Certificate with the Interim Filings on SEDAR at www.sedar.com.

In contrast to the certificate required under Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("MI 52-109"), the venture issuer certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in MI52-109. In particular, the certifying officers filing certificates for venture issuers are not making any representations relating to the establishment and maintenance of:

- controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and

- a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's generally accepted accounting principles.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in their certificate(s).

Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in MI 52-109 may result in additional risks to the quality, reliability, transparency, and timeliness of interim and annual filings and other reports provided under securities legislation.

(Expressed in Canadian dollars, unless otherwise stated) AMENDED

14. Additional Disclosure for Venture Issuers without Significant Revenue

The cumulative capitalized exploration and development expenditures incurred at mineral properties as of June 30, 2010 are summarized as follows:

	Ulaan Ovoo	Chandgana Tal	Chandgana Khavtgai	Lynn Lake	Okeover	Titan	Uranium	Red Lithium	ThorRee	Banbury	Total
Notes	5(a)	5(b)	5(c)	5(d)	5(e)	5(f)	5(g)	5(g)	5(g)	5(g)	
Balance, December 31, 2008	$ 12,619,128	$ 1,279,337	$ 1,144,830	$ -	$ -	$ -	$ 74,844	$ -	$ -	$ 1	$ 15,118,139
Acquisition costs	-	-	-	-	-	-	-	290,000	155,000	-	445,000
Deferred exploration and development expenditures	331,089	2,907	27,512	-	-	-	10,599	49,607	34,180	-	455,894
Impairment charges	-	-	-	-	-	-	(85,443)	-	-	-	(85,443)
Balance, December 31, 2009	12,950,217	1,282,244	1,172,342	-	-	-	-	339,607	189,180	1	15,933,590
Acquisition costs	1,570,000	-	-	29,405,964	1,222,119	307,274	-	-	81,459	-	32,586,816
Deferred exploration and development expenditures	203,518	36,547	55,000	50,800	6,241	-	-	-	-	-	352,106
Properties transferred out	-	-	-	-	-	-	-	(339,607)	(270,639)	(1)	(610,246)
Balance, June 30, 2010	**$ 14,723,735**	**$1,318,791**	**$1,227,342**	**$29,456,764**	**$1,228,360**	**$307,274**	**$ -**	**$ -**	**$ -**	**$ -**	**$48,262,266**

15. Off-Balance Sheet Arrangment

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

16. Disclosure of Outstanding Share Data

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

a) Share Capital

Authorized – unlimited number of common shares without par value.

Issued and outstanding – 107,498,977 common shares outstanding with a recorded value of $72,206,853

(Expressed in Canadian dollars, unless otherwise stated) AMENDED

b) Options

The following table summarizes the number of options outstanding as of the date of this MD&A:

Exercise price	Number of options outstanding	Expiry date
$0.25	200,000	February 14, 2012
$0.25	1,337,500	October 29, 2014
$0.38	200,000	November 30, 2014
$0.40	3,001,600	January 23, 2014
$0.40	750,000	January 29, 2015
$0.55	350,000	March 15, 2015
$0.67	2,430,000	May 10, 2015
$1.03	250,000	March 24, 2015
$0.25 to $1.03	**8,519,100**	

c) Warrants

The following table summarizes the number of warrants outstanding as of the date of this MD&A:

Exercise price	Number of warrants outstanding	Expiry date
$0.10	3,250,000	December 31, 2011
$0.40	1,340,750	December 31, 2011
$0.40	1,370,968	January 25, 2012
$0.49	2,990,001	February 17, 2012
$0.50	1,781,533	December 31, 2011
$0.65	759,000	September 1, 2011
$0.77	5,377,932	March 31, 2012
$0.80	3,307,858	March 31, 2012
$0.80	337,750	April 21, 2012
$0.10 to $0.80	**20,515,792**	