PROPHECY COAL CORP.
(HEREIN "PROPHECY COAL" OR THE "CORPORATION")

ANNUAL INFORMATION FORM

FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2012

April 2, 2013

TABLE OF CONTENTS

1. GENERAL

1.1 Forward Looking Statements

Certain statements contained in this Annual Information Form ("**AIF**") including statements which may contain words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", or similar expressions, and statements related to matters which are not historical facts, are forward-looking information within the meaning of applicable securities laws. Such forward-looking statements, which reflect management's expectations regarding Prophecy Coal's future growth, results of operations, performance, business prospects and opportunities, are based on certain factors and assumptions and involve known and unknown risks and uncertainties which may cause the actual results, performance, or achievements to be materially different from future results, performance, or achievements expressed or implied by such forward-looking statements. These estimates and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies, many of which, with respect to future events, are subject to change and could cause actual results to differ materially from those expressed or implied in any forward-looking statements made by Prophecy Coal.

In making the forward-looking statements in this AIF Prophecy Coal has made several assumptions that it believes are appropriate, including, but not limited to assumptions that: all required third party contractual, regulatory and governmental approvals will be obtained for the development, construction and production of Prophecy Coal's properties and the Chandgana Power Plant; there being no significant disruptions affecting operations, whether due to labour disruptions; currency exchange rates being approximately consistent with current levels; certain price assumptions for coal, prices for and availability of fuel, parts and equipment and other key supplies remain consistent with current levels; production forecasts meeting expectations, the accuracy of Prophecy Coal's current mineral resource estimates; labour and materials costs increasing on a basis consistent with Prophecy Coal's current expectations; and that any additional required financing will be available on reasonable terms. Prophecy Coal cannot assure you that any of these assumptions will prove to be correct.

In light of the risks and uncertainties inherent in all forward-looking statements, the inclusion or incorporation by reference of forward-looking statements in this AIF should not be considered as a representation by Prophecy or any other person that Prophecy Coal's objectives or plans will be achieved. Forward-looking statements in this AIF include, without limitation, statements regarding the permitting, feasibility, plans for development and production of Prophecy Coal's Chandgana Power Plant, including finalizing of any power purchase agreement; the likelihood of securing project financing; estimated future coal production at the Ulaan Ovoo coal mine and the Chandgana Coal properties; and other information concerning possible or assumed future results of operations of Prophecy Coal.

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

These factors should be considered carefully, and readers should not place undue reliance on the Prophecy Coal's forward-looking statements. Prophecy Coal believes that the expectations reflected in the forward-looking statements contained in this AIF and the documents incorporated by reference herein are reasonable, but no assurance can be given that these expectations will prove to be correct. In addition, although Prophecy Coal has attempted to identify important factors that could cause actual actions, events or results to differ materially from

those described in forward looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. Prophecy Coal undertakes no obligation to release publicly any future revisions to forward-looking statements to reflect events or circumstances after the date of this AIF or to reflect the occurrence of unanticipated events, except as expressly required by law.

Unless otherwise stated herein, the information in this AIF is for the fiscal year ended December 31, 2012 but is current as of April 2, 2013 unless otherwise clear from the context.

1.2 Accounting Principles

All financial information in this AIF is prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

1.3 Currency

Unless otherwise indicated all references to "dollar" or "$" are to Canadian dollars and all references to "US dollars" or "US$" are to United States of America dollars.

	Year ended December 31		
	2012	2011	2010
High	$1.0418	$1.0604	$1.0778
Low	0.9710	0.9449	0.9946
Average [(1)]	0.9996	0.9891	1.0299
Closing	0.9949	1.0170	0.9946

(1) Calculated as average of the daily noon rates for each period.

On April 2 2012, the Bank of Canada noon mid-market rate of exchange was US$0.9854 dollars to $1.00.

1.4 Documents Incorporated by Reference

The following documents are incorporated by reference into this AIF:

(a) "Ulaan Ovoo – Pre-Feasibility Study" dated December 10, 2010, prepared by John Sampson, B.Sc. (Hons) and Brian Saul P. Eng. of Wardrop Engineering Inc. ("**Wardrop**") (the "**Ulaan Ovoo Technical Report**" or "**Ulaan Ovoo PFS**"), who is an independent Qualified Person under National Instrument 43-101 – *Standard of Disclosure for Mineral Properties* ("NI 43-101");

(b) "Updated Technical Report on the Coal Resources of the Chandgana Khavtgai Coal Resource Area, Khentii Aimag, Mongolia" dated September 28, 2010, prepared by Christopher M. Kravits, CPG, LPG of Kravits Geological Services, LLC (the "**Chandgana Technical Report**"), who was at the time an independent Qualified Person under NI 43-101 but has since become non-independent by virtue of the fact that the Corporation has become his primary client;

(c) "Technical Report and Resource Estimate on the Wellgreen Prophecy Platinum-Palladium-Nickel-Copper Project, Yukon Canada" dated July 21, 2011, prepared by Todd McCracken, P. Geo. of Wardrop, who is an independent Qualified Person under NI 43-101 (the "**Wellgreen Report**");

(d) "Technical Report on the Lynn Lake Nickel Project, Northern Manitoba, Canada" (the "**Lynn Lake Report**") dated April 14, 2011 and prepared by Todd McCracken, P.Geo. and Lyndsey MacBride, P. Geo. of Wardrop, who are each independent Qualified Persons under NI 43-101;

(e) Material Change Report dated December 14, 2011 which includes a copy of our Energy License granted by the Mongolian Government in connection with our proposed mine-mouth power project at the Chandgana Project;

(f) "Senior Secured Credit Agreement" dated July 16, 2012 between Prophecy Coal Corp and Waterton Global Value, L.P. ("**Waterton**")

(g) Material Change reports dated March 22, 23 and 26, 2012 disclosing an extension of outstanding share purchase warrants and completion of a recent private placement;

(h) Material Change reports dated October 16, 2012 disclosing an extension of outstanding share purchase warrants;

(i) "Technical Report Coal Resources and Preliminary Economic Assessment - Coal Mine Component, Chandgana Tal Coal Project, Khentii Province, Mongolia" (the "**PEA**") dated November 30, 2012 and prepared by John T. Boyd Co. (USA). The lead Qualified Person for the report is Thaddeus J. Sobek, who is an independent Qualified Person under NI 43-101.

The Ulaan Ovoo Technical Report, the Chandgana Technical Report, and the PEA are available for review under the SEDAR profile of Prophecy Coal at www.sedar.com. The Wellgreen Report and the Lynn Lake Report are available for review under the SEDAR profile of Prophecy Coal's associate company, Prophecy Platinum Corp. at www.sedar.com.

2. CORPORATE STRUCTURE

2.1 Name, Address and Incorporation

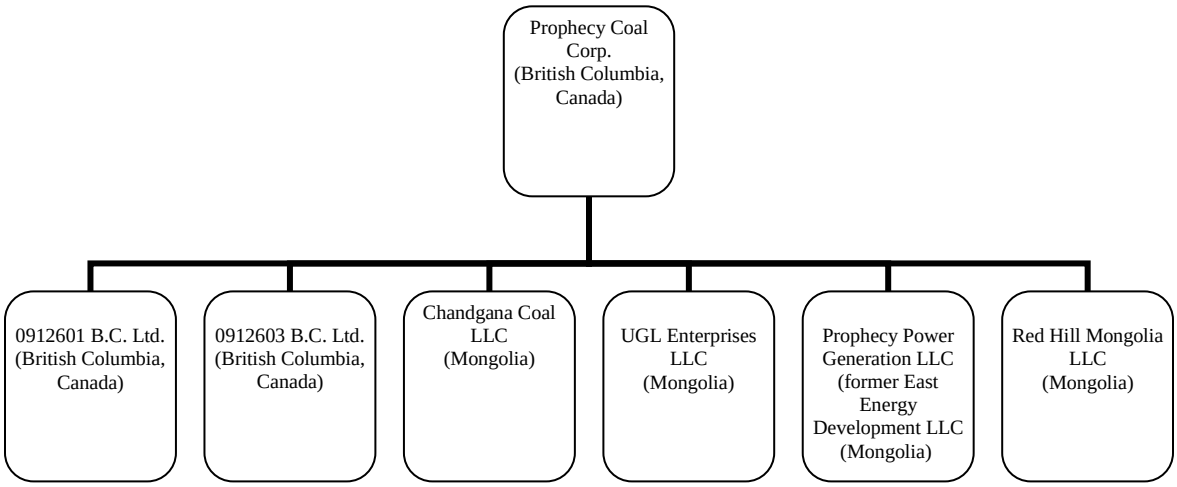
Prophecy Coal Corp. ("**Prophecy Coal**" or the "**Corporation**") in its current form is primarily the product of an April 2010 business combination between Red Hill Energy Ltd. (at the time TSX.V - RH) and a company formed in 2006, Prophecy Resource Corp. ("Old Prophecy"). Under that merger Red Hill was the successor legal entity which is herein referred to as the "Corporation". Under that 2010 business combination Old Prophecy was merged with a subsidiary of Red Hill and then Red Hill's name was changed to Prophecy Resource Corp. and, in 2011, to Prophecy Coal Corp. Red Hill was incorporated on November 6, 1978 under the *Company Act* (British Columbia) under the name "Banbury Gold Mines Ltd." Banbury changed its name to "Enerwaste Minerals Corp." on December 17, 1993, Enerwaste changed its name to "Universal Gun-Loc Industries Ltd.". On April 24, 2002, Universal Gun-Loc changed its name to "UGL Enterprises Ltd." and to Red Hill Energy Inc. on April 16, 2006. On May 10, 2005, the Corporation, as UGL, transitioned under the new (2004) *Business Corporations Act* (British Columbia) ("**BCBCA**") which is the corporate law statute which continues to govern the Corporation. On April 16, 2010, the Corporation (then Red Hill) changed its name to "Prophecy Resource Corp." in conjunction with the Red Hill merger. On June 13, 2011, the Corporation changed its name to "Prophecy Coal Corp." in connection with an asset spin-off to capitalize our controlled at that time affiliate (initially approximately 44% controlled), publicly traded Prophecy Platinum Corp. ("**Prophecy Platinum**"). Since December 1, 2012, the Corporation holds significant influence over Prophecy Platinum by virtue of its ownership of 32.1% of the total outstanding shares of Prophecy Platinum as at December 31, 2012, and its investment was initially recognised on deconsolidation as at November 30, 2012 further described herein.

Prophecy Coal is a reporting issuer in the provinces of British Columbia, Alberta, and Ontario. The Corporation's common shares (the "**Shares**" or "**Prophecy Shares**") are listed for trading on the Toronto Stock Exchange ("**TSX**" or the "**Exchange**") under the symbol "PCY".

Prophecy Coal has a head office at 342 Water Street, 2nd Floor, Vancouver, BC, V6B 1B6 and a registered office at Suite 1700, Park Place, 666 Burrard Street, Vancouver, BC V6C 2X8. The Corporation's website is www.prophecycoal.com.

2.2 Inter-corporate Relationships

Prophecy Coal currently has six wholly-owned subsidiaries (the "**Subsidiaries**"). The following diagram describes the inter-corporate relationships among Prophecy and its 100%-owned Subsidiaries as of the date of this AIF.



3. GENERAL DEVELOPMENT OF THE BUSINESS

Prophecy Coal is an exploration and development stage company engaged in the acquisition, exploration and development of thermal coal properties in Mongolia while Prophecy Platinum is exploring base and precious metal properties in Canada. As of the date of this AIF, the Corporation holds the following interests in its material mineral projects:

- a 100% interest in mining licenses for the Ulaan Ovoo property in Mongolia (the "**Ulaan Ovoo Property**"), which is on care and maintenance since July 2012;

- a 100% interest in the licenses for the Chandgana properties in Mongolia (the "**Chandgana Property**") for which technical and economic studies are underway and a conditional permit or "energy license" to build a 600 MW mine-mouth power plant has been issued and land has been granted by the Mongolian government;

- Prophecy Platinum holds a 100% interest in the Wellgreen nickel and PGM project (the "**Wellgreen Property**") located in Yukon Territory, which is being actively explored;

- Prophecy Platinum holds a 100% interest in the Lynn Lake nickel project (the "**Lynn Lake Property**") located in Northern Manitoba; and

- Prophecy Platinum holds a 100% interest in the nickel, copper and PGM Shakespeare property (the "**Shakespeare Property**") located in north-western Ontario.

3.1 Three Year Corporate Development History

During 2006-2009, the Corporation's business was being pursued through two different public corporations which were merged in April 2010. One of the Corporation's two predecessors, Red Hill Energy Inc., was primarily pursuing development of the Ulaan Ovoo and Chandgana coal deposits in Mongolia. For financial statement purposes, Red Hill carried its mineral properties at approximately $16 million, showed share capital and paid-in surplus of some $38 million and had a cumulative deficit of about $22 million. Ulaan Ovoo had been the subject of a pre-feasibility report and represented the majority of Red Hill's property accounts, at $12.6 million. The Corporation's other predecessor, Prophecy Resource Corp. ("**Old Prophecy**"), was formed in 2006 and was pursuing nickel projects in three Provinces of Canada. Old Prophecy's principal mineral project was the Lynn Lake

(Manitoba) project, described in Part 5 hereof, which is now held by Prophecy Platinum and carried at approximately $33 million. Old Prophecy carried its mineral interests at approximately $2 million and had about $2 million in working capital. The Red Hill/Old Prophecy merger is described in detail in a management Information Circular filed on the Corporation's SEDAR.com continuous disclosure profile dated March 15, 2010.

2010-2012 Business Combination, Asset Spin-Off Transactions, and Loss of Control over Prophecy Platinum

The Corporation's current corporate structure is the result of two corporate mergers and two corporate spin-off transactions over 2010-2011. (Merger in this instance means the combining of two or more corporations and their businesses and spin-off means the division of business assets and their transfer to a different corporation). One merger and one spin-off were completed in April 2010, a second merger was completed in September 2010 and a second spin-off was completed in June, 2011.

April 2010 Arrangement between Red Hill and Old Prophecy, Creation of Elissa Resources

As described above, in April 2010 Red Hill and Old Prophecy were merged to create the Corporation. This merger brought together Red Hill's Mongolian coal assets and Old Prophecy's Canadian nickel projects. In addition, certain non-core assets were spun-off to shareholders by merging an Old Prophecy subsidiary, Prophecy Holdings Inc., with a Red Hill subsidiary, Elissa Resources Ltd. and then listing Elissa on a stock exchange. Under 2010 spin-off, the Corporation 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 in exchange for the issuance of Elissa common shares to the Corporation (which were then distributed to the Corporation's shareholders). Elissa was then listed, and now trades, on the TSX Venture exchange under the symbol ELI.

September 2010 Acquisition of Northern Platinum Ltd. and Consolidation of Ownership of the Wellgreen Property

On September 23, 2010, the Corporation acquired all of the issued and outstanding securities of Northern Platinum Ltd. ("**Northern**") pursuant to a court approved plan of arrangement under the BCBCA (the "**Northern Arrangement**"). Under the Northern Arrangement, Northern amalgamated with a wholly-owned subsidiary of the Corporation and all of the shareholders of Northern exchanged their securities for securities of the Corporation.

The Northern shareholders received warrants to acquire an aggregate of 2,834,164 Shares of the Corporation at an exercise price of $0.80 per Share until March 23, 2012. The Corporation extended these warrants to March 23, 2013. Following the completion of the Northern Arrangement, Northern became a wholly-owned subsidiary of the Corporation and its common shares were delisted from the TSX Venture Exchange.

In connection with the Northern Arrangement, the Corporation signed a definitive agreement, dated June 4, 2010, with Belleterre Quebec Mines Ltd. to acquire its 50% back-in right on Northern's Wellgreen Property. As consideration for the back-in, Prophecy Coal paid $4.2 million to Belleterre Quebec Mines Ltd. with $2.1 million paid in cash and the issuance of 3.56 million Shares at a deemed price of $0.59 per Share. Additionally, Prophecy Coal issued 712,000 warrants to Belleterre Quebec Mines Ltd. with an exercise price of $0.80 and set to expire on April 8, 2012. These warrants are also being extended until April 12, 2013.

June 2011 Asset Spin-Off to Prophecy Platinum Corp.

On June 13, 2011, the Corporation completed a court approved plan of arrangement under the BCBCA with Pacific Coast Nickel Corp. (for simplicity, herein given its subsequent name change, referred to as "Prophecy Platinum" and such arrangement is herein the "**Prophecy Platinum Arrangement**"). As part of the Prophecy Platinum Arrangement, the Corporation transferred the assets comprising the Lynn Lake project and the Wellgreen Property to a newly incorporated subsidiary ("**Spinco**"). Prophecy Platinum then acquired all of the shares of Spinco in exchange for the issuance of 450,000,000 common shares in the capital of Prophecy Platinum (the "Prophecy Platinum Shares"), of which 225,000,000 Prophecy Platinum Shares were retained by the Corporation and 225,000,000 Prophecy Platinum Shares were distributed or reserved for distribution on a *pro rata* basis to holders of Prophecy Shares, on a fully diluted basis.

Immediately prior to the completion of the Prophecy Platinum Arrangement there were 189,973,664 the Corporation Shares and 47,345,588 Prophecy Coal convertible securities issued and outstanding. Following the completion of the Prophecy Platinum Arrangement, Prophecy Platinum consolidated its share capital on a ten old for one basis (the "**Consolidation**") and changed its name to "Prophecy Platinum Corp." As a result of the Consolidation and the Prophecy Platinum Arrangement, each Prophecy Coal Shareholder received 0.094758 of a post-Consolidation Prophecy Platinum Share for each Prophecy Coal Share held as of June 13, 2011. Each option holder and warrant holder of Prophecy Coal will, upon the exercise of their Prophecy Coal options and warrants, as the case may be, receive 0.094758 of a post-Consolidation Prophecy Platinum share, in addition to one common share of Prophecy Coal for each whole option or warrant of Prophecy Coal held, Prophecy Coal reserved 44,176,425 (4,417,642 post consolidation) Prophecy Platinum shares (the "**Reserved Shares**") if these options and warrants are exercised. As a result of the completion of the Prophecy Platinum Arrangement and the Consolidation, Prophecy Coal held 22,500,000 Prophecy Platinum Shares representing 44.4% of the outstanding capital of Prophecy Platinum (40.8% at December 31, 2011) and the Corporation changed its name to "Prophecy Coal Corp." The spin-off is described in detail in a management Information Circular of the Prophecy Coal at www.sedar.com dated May 5, 2011.

November 30 2012 Change from Control to Significant Influence over Prophecy Platinum Corp.

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

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

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

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

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

Summary of Five Principal Mineral Projects

1. Ulaan Ovoo Property – Thermal Coal Resource

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

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

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

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

On November 9, 2010, Prophecy Coal received the final permit to commence mining operations at the Ulaan Ovoo Property and an official mine opening ceremony was held on November 20, 2010. On December 16, 2010, Prophecy Coal received the Ulaan Ovoo PFS, an updated prefeasibility study on the Ulaan Ovoo Property which is incorporated by reference into this AIF. The focus of the Ulaan Ovoo PFS was for the development of low ash coal reserves in the form of a starter pit.

In 2011, the Corporation spent $32.6 million on preparing the Ulaan Ovoo Property for commercial production through development of infrastructure ($2.7 million), purchase of mining and mobile equipment ($16.4 million), transportation ($2.7 million), mine development ($9.3 million), and general working capital ($1.6 million).

In 2012, the Corporation spent additional $15.7 million for the Ulaan Ovoo Property. However, in July 2012, the Company temporarily suspended pre-commercial production at Ulaan Ovoo due to soft market prices for coal and rising costs, and because at that time, Prophecy Coal had sufficient coal inventory to meet anticipated demand for the remainder of 2012. (the stockpile of coal was approximately 187,000 tonnes). A remaining coal stockpile as at October 2012 of 159,000 tonnes has recently supplied modest sales of coal commencing in November 2012, continuing to the present.

Since November 2010, the Corporation removed and stockpiled approximately 2.6 million bank cubic metres of topsoil, overburden and waste, and produced nearly 371,000 tonnes of thermal coal of different grades from the Ulaan Ovoo Property. Of this, the Corporation sold 278,386 tonnes for average proceeds of $20.00 per tonne in 2010 and 2011 and $18.6 per tonne in 2012. The calculations show that during 2012 the Corporation's cost of production and transportation was approximately $37 per tonne of coal.

Impairment Write Down of Ulaan Ovoo Property

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

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

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

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

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

2. Chandgana Coal Properties

The Chandgana properties consist of the Chandgana Tal and Khavtgai Uul (formerly named Chandgana Khavtgai) properties. On November 22, 2006 Prophecy (then Red Hill) entered into a letter agreement with a private Mongolian company that set out the terms to acquire a 100% interest in the Chandgana Tal properties. On August 7, 2007, Prophecy (then Red Hill) entered into a letter agreement with another private Mongolian company that set out the terms to acquire a 100% interest in the property known as Chandgana Khavtgai. The Chandgana Properties consist of exploration and mining licenses, located in the Nyalga coal basin, approximately 280 km east of Ulaan Bataar, and are nine kilometres apart. Under the terms of the Chandgana Khavtgai agreement, Prophecy Coal paid a total of US$570,000.

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

Prophecy Coal received a Detailed Environmental Impact Assessment ("**DEIA**") pertaining to the construction of a pit-mouth 600MW coal fired power plant on the Chandgana Tal property, which DEIA has been approved by the Mongolian Ministry of Nature and the Environment. The DEIA was prepared for Prophecy Coal by an independent Mongolian environmental consulting firm. The DEIA considers social and labour issues, climate and environmental circumstances representative of the proposed power plant. The approved study concluded that there are no major impediments to the project and provided recommendations on best practices for conservation of the environment and the community.

In February 2011, Prophecy Coal received the full mining license from the Mineral Resources Authority of Mongolia for the Chandgana Tal property. On November 21, 2011, the Corporation's wholly-owned Mongolian subsidiary, Prophecy Power Generation LLC (former East Energy Development LLC) ("**Prophecy Power**"), received a construction license from the Mongolian Energy Regulatory Authority ("MEA") to construct a 600 MW power plant at Chandgana Tal. In May 2012, the Corporation entered into a Cooperation Covenant (the "**Covenant**") agreement with the MEA to bring the Chandgana power project online by 2016. Prophecy Coal engaged Leighton Asia LLC to prepare a scoping level mine study for the Chandgana Tal property which was completed in December 2011. A preliminary economic assessment was later prepared by John T. Boyd Co. and received November 2012 for the Chandgana Tal licenses. Prophecy Coal is positioned to apply for a mining permit which may be received as early as 90 days from submittal of the application.

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

Any power plant development would be subject to large financing requirements (in the magnitude of an estimated $800 million) as well as technical studies to confirm the technical and economic feasibility of a power plant supplied by Chandgana Tal coal to produce the power and secure a long-term power purchase contract for the plant's electrical power output.

3. Prophecy Platinum's Wellgreen, Lynn Lake, and Shakespeare Properties

On November 30, 2012, it was determined that Prophecy's control changed to significant influence over Prophecy Platinum due to the culmination of a series of events including: the appointment of Prophecy Platinum's new senior executive management not common to both companies; election of a majority of the Board of Directors not common to both companies; a reduction in shared management and administrative functions between the companies; and the reduction of Prophecy's equity ownership interest from 44.4%, as at the time of acquisition in June 2011, to 32.6% as at November 30, 2012 and is of the view that two of Platinum's properties can be considered material to a Prophecy shareholder, namely the Wellgreen Property, Lynn Lake Property, and Shakespeare Property.

On October 20, 2009, the Corporation (then Old Prophecy) entered into the an option agreement (the "**Lynn Lake Option Agreement**") with Victory Nickel Inc. ("**Victory**), pursuant to which the Corporation was granted the right to earn a 100% interest in the Lynn Lake Property located in northern Manitoba by agreeing to pay Victory an aggregate of $4,000,000 ($3,000,000 paid) over a four year period, agreeing to incur exploration expenditures of an aggregate of $3,000,000 over a three year period on the property, and issuing a total of 2,419,548 of the Corporation shares to Victory. The Lynn Lake Option Agreement also provided Victory with the right to participate in future financings or acquisitions on a pro rata basis so that Victory may maintain its 10% interest in the number of outstanding shares of the Corporation, which participation right has since terminated.

In 2012, the Corporation spent additional $15.7 million for Ulaan Ovoo Property however, in July 2012, the Corporation temporarily suspended pre-commercial production due to soft market prices for coal and rising costs,

and because at that time there was sufficient inventory to meet contractual supply obligation through the balance of 2012 and likely for approximately six months of 2013. A remaining coal stockpile as at October 2012 of 159,000 tonnes has recently supplied modest sales of coal commencing in November 2012, continuing to the present.

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

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

On January 11, 2010, the Corporation entered into a purchase agreement with VMS Ventures Inc. (the "**VMS**"), pursuant to which Prophecy Platinum acquired the Lynn Gabbros Property which, for the purposes of the acquisition shall form part of the Lynn Lake Property, by issuing VMS Lynn Lake an aggregate of 750,000 Prophecy Shares and reimbursing up to $100,000 of expenditure obligations. The Lynn Lake Property is subject to a 3% net smelter return royalty, of which 50% may be purchased for $1,500,000.

Recent Financings

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

In December 2010, the Corporation raised $42 million through the sale of shares at $0.85 each under a short form prospectus offering. As contemplated by the prospectus, these funds were funds primarily expended by the Corporation during 2011 at Ulaan Ovoo to the extent of approximately $31 million.

Secured Credit Facility

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

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

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

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

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

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

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

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

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

3.2 Significant Acquisitions

The significant acquisitions in 2012, 2011, 2010 are described in section 3.1 above.

4. DESCRIPTION OF THE BUSINESS

4.1 General

Prophecy Coal is engaged in exploring and developing coal properties and coal mine-mouth power projects in Mongolia. The Corporation holds a 100% interest in mining licenses in the Ulaan Ovoo Property and Chandgana Property in Mongolia, which have been estimated to host some 1.4 billion tons of measured and indicated low grade subbituminous B rank (ASTM) coal resources.

Market and Marketing

Prophecy's principal product is subbituminous B rank (ASTM) thermal coal from the Ulaan Ovoo deposit which is currently being developed. The low calorific grade of subbituminous coal results in a much lower price than for anthracite or coking coal. Subbituminous coal is usually not shipped long distances as the cost of doing so is prohibitive vis-à-vis its sales value. Its best use is in local thermal applications including heating steam for power generation.

During August 2011, Prophecy Coal signed coal sales agreements with Mongolian and Russian power plants for total sales of 92,000 tonnes of coal. Prophecy Coal sold 133,895 tonnes of coal of two grades - 4,200 GCV and 5,100 GCV (arb) to both Mongolian and Russian companies during 2011. For the year ended December 31, 2012, Prophecy Coal sold 131,719 tonnes of coal to local customers. In July, 2012, the Corporation temporarily suspended pre-commercial production due to soft market prices for coal and rising costs, and because at that time, Prophecy Coal had sufficient coal inventory to meet anticipated coal demand through the balance of 2012. The coal inventory as at December 31, 2012 was 131,899 tonnes.

Prophecy Coal is not able to predict with any certainty what its coal sales will be for 2013 and forward as it has not yet secured any long-term coal purchase contracts.

Competitive Conditions

The mineral exploration and mining industry is generally competitive in all phases of exploration, development and production. Prophecy Coal competes with other mining companies, some of which have greater financial resources and technical facilities, for the acquisition of mineral interests for exploration and development projects.

International coal pricing is generally established in US dollars and the competitive positioning between producers can be significantly affected by fluctuations in exchange rates. The competitiveness of coal producers is significantly determined by the quality of the deposit, production costs and transportation costs relative to other producers. Such costs are largely influenced by the location and nature of coal deposits, mining and processing costs, transportation and port costs, currency exchange rates, operating and management skills, and differing taxation systems between countries.

Components

All of the raw materials Prophecy Coal requires to carry on its business are available through normal supply or business contracting channels.

Mining Cycles

The mining business is subject to mineral price cycles. Since Prophecy Coal's mining and exploration business is substantially in the development stage, Prophecy Coal is not currently directly affected by changes in commodity demand and prices. Prophecy Coal's ability to fund ongoing exploration is affected by the availability of financing which is, in turn, affected by prices of commodities, the strength of the economy and other general economic factors.

Economic Dependence

Prophecy Coal's business is not substantially dependent on any one contract such as a property option agreement or a contract to sell the major part of its output. It is not expected that Prophecy Coal's business will be affected in the current financial year by the renegotiation or termination of contracts or sub-contracts although it continues to seek Mongolian export approvals in connection with its Ulaan Ovoo production in order to sell output into the higher priced Russian market.

Environmental Conditions

All aspects of Prophecy Coal's field operations will be subject to environmental regulations and generally will require approval by appropriate regulatory authorities prior to commencement. Any failure to comply could result in fines and penalties. With all projects at the exploration and development stage, the financial and operational impact of environmental protection requirements is minimal. Should any projects advance to the production stage, more time and money would be involved in satisfying environmental protection requirements.

Employees

As of December 31, 2012, Prophecy Coal had approximately fifteen employees and two contractors or consultants in Canada and 52 employees and 47 contractors or consultants in Mongolia. Prophecy Coal utilizes consultants and contractors to carry on many of its activities. As Prophecy Coal expands its activities, it is probable that it will hire additional employees and engage additional contractors.

Foreign Operations

Prophecy Coal currently holds an interest in certain exploration stage and development stage mineral resource properties located in Mongolia and, as such, Prophecy Coal's business is exposed to various degrees of political, economic and other risks and uncertainties inherent in any developing economy. Prophecy Coal's operations and investments may be affected by local political and economic developments, including expropriation, nationalization,

invalidation of government orders, permits or agreements pertaining to property rights, political unrest, labour disputes, limitations on repatriation of earnings, limitations on mineral exports, limitations on foreign ownership, inability to obtain or delays in obtaining necessary mining permits, opposition to mining from local, environmental or other non-governmental organizations, government participation, royalties, duties, rates of exchange, high rates of inflation, price controls, exchange controls, currency fluctuations, alleged political and bureaucratic corruption, taxation and changes in laws, regulations or policies as well as by laws and policies of Canada affecting foreign trade, investment and taxation of repatriated earnings, if any.

Lending and Other Investments

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

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

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

In February 2013, Waterton agreed to waive the default, subject to the Corporation completing, to which it has, the following:

(a) setting aside $3.5 million in escrow for the purchase of the Tugalgatai licenses:
    1) $1.5 million for the acquisition of the Mongolian coal assets and
    2) $2 million for the full repayment or a partial prepayment of the 2012 Loan,

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

(c) agreeing to pledge additional security to Waterton in the form of 5,535,000 remaining free trading Prophecy Platinum's common shares).

Prophecy Coal holds for investment purposes 31,409,385 common shares of Victory Nickel (TSX:NI, trades at $0.05/share) acquired in a reciprocal private placement, and 22,013,799 (net of Reserved Shares) common shares of its associate Prophecy Platinum (TSXV:NKL shares trade at about $0.80/share) acquired in connection with the Prophecy Coal Platinum Arrangement in June 2011 and, then, deconsolidated on November 30, 2012. Prophecy Coal does not currently have any material long term liabilities. Prophecy Coal has not adopted any specific policies or restrictions regarding investments or lending, but will ensure any investment or debt activities incurred are in the best interests of Prophecy Coal and its security holders. Prophecy Coal expects that in the immediate future, in order to maintain and develop its mineral properties, it will need to raise additional capital through a combination of debt and equity financing, the availability of which on reasonable terms or at all is not certain.

Bankruptcy and Similar Procedures

There are no bankruptcies, receiverships or similar proceedings against Prophecy Coal, nor is Prophecy Coal aware of any such pending or threatened proceedings. There has not been any voluntary bankruptcy, receivership or similar proceedings by Prophecy Coal during its last three financial years.

Reorganization

Other than the two mergers and two spin-offs described in section 3.1 described above, Prophecy Coal has not completed any reorganizations in the last three financial years.

Social or Environmental Policies

Prophecy Coal has not adopted any specific social or environmental policies that are fundamental to its operations (such as policies regarding its relationship with the environment, with the communities in the vicinity of its mineral exploration and development projects or human rights policies). However, Prophecy Coal's management, with the assistance of its contractors and advisors, ensures its ongoing compliance with local environmental and other laws in the jurisdictions in which it does business.

Prophecy Coal is committed to continually improving the lives of those who work for, partner with and host Prophecy Coal in their communities. Prophecy Coal's goal is to work with community stakeholders to make positive contributions to local economic development. Prophecy Coal places a priority on hiring local workers and assisting in supporting local community development projects, where it can. In Mongolia, Prophecy Coal sponsors a children's charity.

5. MINERAL PROJECTS

The information in this section of this AIF has been extracted fully or where appropriate in part, from the Ulaan Ovoo Technical Report, the Chandgana Technical Report, the Wellgreen Report and the Lynn Lake Report, as applicable. New information is provided where appropriate. Portions of the following excerpts are based on the assumptions, qualifications and procedures set forth in the respective technical reports which are not fully described herein. For a complete description of assumptions, qualifications and procedures associated with the information contained in each technical report, reference should be made to the full text of each technical report available under Prophecy Coal's, or Prophecy Platinum's, profile, as applicable, on www.sedar.com.

5.1 Ulaan Ovoo Property

Property Location, Ownership

The Ulaan Ovoo Property is located in the territory of Tushig soum (sub province) of Selenge aimag (province) in Northern Mongolia. It is 8 kilometres west of the central village of Tushig soum and 17 km away from Mongolian-Russian border port of Zelter.

Figure 1 Location of Ulaan Ovoo Coal Project

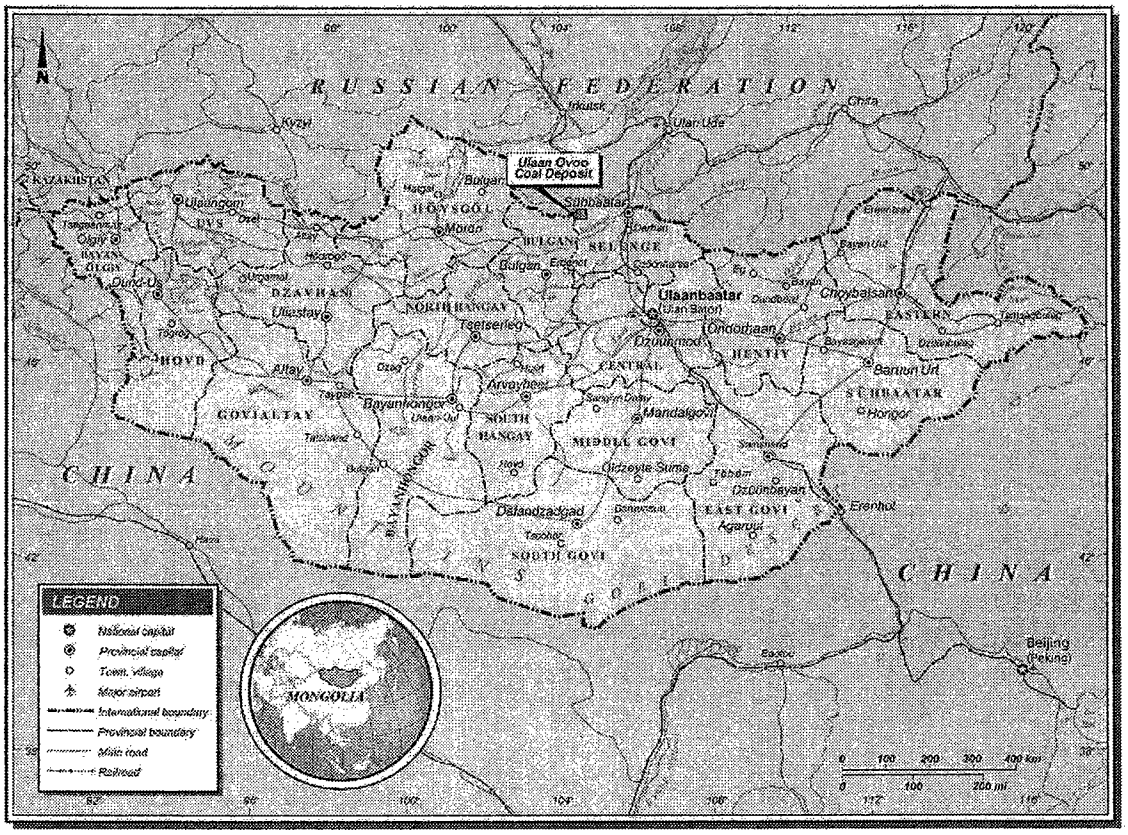


Figure courtesy of Minarco MineConsult

The Ulaan Ovoo Property is situated in the Zelter River valley, which runs between the Zed and Buteel Mountain Ranges in Northern Mongolia. The river flows from southwest to northeast and exits northward into Russia at the Zheltura Border Crossing, 17 km northeast of the project area. Geographically, the district is included in a region having medium-sized mountains, the highest altitude being 1,800 metres. The south half of the deposit underlies the flood plain of the Zelter River and the north half lies on the southern flank of a low hill to the north and above the flood plain. Surface elevations at the project site range from 764 m to 820 m above sea level.

The deposit area covers an area of approximately 790 hectares. Red Hill Mongolia LLC ("**Red Hill**"), which is owned and controlled by Prophecy Coal, holds the Ulaan Ovoo Property under mining licenses MV-1231, which covers an area of 214 ha and mining license MV-14657 with an area of 355 ha. The licences are for a term of 30 years with a 40-year extension option. In November 2006 Red Hill purchased 100% of the title and interest in six exploration licences - 6830, 6831, 6832, 6834, 6837 and 12170 - contiguous to or near MV-1231 and MV-14657.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

Property Access

The Ulaan Ovoo Property is accessible via paved highway, maintained double lane dirt road and then unmaintained road; or by railway followed by unmaintained road. The various means of access are:

- Access by road from Ulaanbaatar (427 km) – Proceed northward from Ulaanbaatar via Altanbulag-Ulaanbaatar highway A0401 to the central village of Shaamar soum (sub-province) (300 km). Then, via a maintained dirt road, which connects Shaamar, Zuunburen, Tsagaannuur and Tushig soums (119 km). This segment of the trip includes crossings of the Orkhon, Selenge and Zelter Rivers by concrete bridges.

The last segment of the trip is via a maintained dirt road from the central village of Tushig soum, to the deposit (8 km);

- Access by railway (498 km) - The Trans-Mongolian railroad runs to Shaamar Soum station from Ulaanbaatar (384 km) from where a maintained dirt road leads to the deposit area as described above (114 km);

- Access by road from Russia (162 km) - Access to the project is via a 120 km concrete road from Galuutnuur village to Petropavlovsk village, then another 25 km on maintained dirt road to the border village of Zheltura port, then another 17 km on dirt road to the project site; and

- Access to market – the Ulaan Ovoo Property is 137 km from year-round Naushki border port and 12 km from Zeltura border port which Prophecy Coal is in process of reopening.

Climate

The Ulaan Ovoo Property has a sharply continental climate with predominately hot summers and cold winters. The area is hot and relatively rainy in summer, with highest temperatures of 35° to 40 degrees Celsius (°C) in June and July and cold in the winter, with lowest temperatures in the range of minus (-)35° to -40°C in December and January. Annual precipitation fluctuates between 100 millimetres (mm) and 500 mm and most (60% to 70%) of it falls as rain in August. Maximum snow depths may reach up to 2m where drifted but averages 10 centimetres (cm) to 20 cm where not drifted. Wind usually blows from northwest to southeast with an average speed of 14 kilometres per hour (km/h) to 24 km/h.

Local Resources & Regional Infrastructure

The Ulaan Ovoo Property is located within the territory of Tushig soum (sub-province) of Selenge aimag (province) and the nearest settlement to the deposit is the soum's central village, also called Tushig, located approximately 7 km to the southeast of the project area. The soum borders the state of Buryatia of Russia to the north, Bugat soum of Bulgan aimag to the west and Tsagaannuur soum of Selenge aimag to the east and south. Tushig soum has a territory of 276 square kilometres (km^2) and a population of 7,500.

Physiography

The Ulaan Ovoo Property is situated in the Zelter River valley, which runs between the Zed and Buteel Mountain Ranges in Northern Mongolia. The river flows from southwest to northeast and exits northward into Russia at the Zheltura Border Crossing, 17 km northeast of the project area. Geographically, the district is included in a region having medium-sized mountains, the highest altitude being 1,800 m. The south half of the deposit underlies the flood plain of the Zelter River and the north half lies on the southern flank of a low hill to the north of and topographically above the flood plain. Surface elevations at the project site range from 764 m to 820 m above sea level.

Mountainous parts of the region have taiga-like forests of conifer and deciduous trees. The southern aspects of the hills in the area tend to be relatively treeless. Braided stream deposits covered with a mixture of small trees and bushes form the Zelter River valley flood plain. The north half of the coal deposit area is treeless and the south half is covered by willows and birch. Fertile soil is up to 4 m thick at the flood plain of the river valley and 20 cm to 30 cm on the adjacent hillsides.

History

Under the Mining law of Mongolia approved in 1994, Erdenet, a Mongolian-Russian state-owned joint venture, was granted Mining License Number (No) 166 for the Ulaan Ovoo Property in Tushig soum, Selenge aimag, on 2nd November 1995, by the Ministry of Energy, Geology and Mining, for a term of 10 years.

After the enactment of the new Minerals Law of Mongolia in July 1997, the Director of the office of Geological and Mining Cadastre granted a revised mining licence certificate No 1231A to the Ulaan Ovoo Property to Erdenet, the Mongolian-Russian joint venture.

Under a decision No. 880 (2002) the director of the Office of Geological and Mining Cadastre and with accordance to Minerals law of Mongolia, the Mining Licence No. 1231A was then transferred to a Mongolian-Chinese joint venture company called Mongolia Mid Asia International (MMAI) on 14th December 2002.

MMAI was restructured into a 100% Mongolian-owned company in 2005. The State Registration Office registered the company and the mining licence of the Ulaan Ovoo Property was renewed and granted to the newly restructured MMAI in compliance with the Minerals Law of Mongolia on 5th June 2005, for a term of 55 years.

Exploration Licence No. 5895X, covering an area adjacent to the licence No. 1231A, was granted by the director of the Office of Geological and Mining Cadastre to MMAI to be an additional portion of Ulaan-Ovoo Property on 6th June 2003.

An option to purchase these properties was entered into between UGL Enterprises LLC, a fully-owned Mongolian subsidiary company of Red Hill, and Ochir LLC, the parent company of Mongolian MMAI, in November 2005.

In November 2005, Red Hill purchased both licences and in November 2006, purchased the 6 exploration licence areas surrounding the deposit.

History of Geological Exploration Work

The first official geological survey work was undertaken by the Russians in 1974-1975. The fact that the Ulaan Ovoo Property had coal was known before this survey because a ravine adjacent to the deposit had been traditionally called the 'coaly ravine'. This study recommended further coal exploration work and drilling.

Between 1979 and 1982, the Russians conducted geological mapping studies in the Selenge and Bulgan aimags. This work integrated stratigraphic, magmatic and regional tectonic data around the Ulaan Ovoo Property and resulted in the first 1:200,000-scale geological map of the area. The exploration work included mapping, trenching and drilling undertaken in 1979.

In-fill drilling and coring was conducted in 1993 through to 1995.

In April 2006, a programme to confirm previous exploration was undertaken by Red Hill. The previous drilling was conducted under the Russian system and there was some question as to whether or not the drilling adequately portrayed the deposit. In all, 11 holes were drilled under the aegis of this new programme.

History of Production

At the request of the authorities of Tushig and Tsagaannuur soums, a small open pit in the sooty (weathered) coal has been exploited since 1998. The open pit or strip mine is 70 m long, 30 m to 35 m wide. The highwall is 5.3 m to 5.6 m high, average mining output 1,500 tonnes per year (**t/a**) to 2,000 t/a. The mining is extremely simple as the sooty coal is loaded by hand shovel onto the consumer's truck and hauled from the site.

The combined consumption of the two soum centres is 1,500 t/a to 2,000 t/a, judging by the extent of the current exploitation. At the beginning of October 2005, the current licence holder, MMAI, signed a contract with the local authority providing that the payment for the coal mined be credited to an environmental protection fund in an account created by the Governor of the Tushig soum. In accordance with the Mineral Law of Mongolia, MMAI prepared a mine plan. Red Hill has paid the Mongolian Government the corresponding mining licence fees since 2006.

In August 2008, approximately 25,000 t of partially oxidised coal were removed from the open pit to a maximum depth of 15 m, as part of the preparation work required to take a bulk sample. The coal was separated from the

overburden and stockpiled south of the pit for easy access. The now much larger pit has been closed to vehicle access and it is expected that the local consumers will have enough stockpiled coal to supply them for several years.

Geology

The Ulaan Ovoo Property is in the Orkhon-Selenge coal district and the Zelter coal basin and is the middle deposit of a series of five coal deposits that trend northeast to southwest and parallel the Zelter River. It is part of the Sharyn Gol formation which is composed of continentally derived tuffaceous-sandstone, tuffaceous-conglomerate, conglomerate, sandstone, siltstone, mudstone and coal.

Sediments in the Sharyn Gol formation are thought to be about 500 m thick and are subdivided into:

- Upper Member: 130 m of shale with ash grey colour, medium-grained grey sandstone and a low hydrocarbon content oil shale;
- Middle Member: 170 m of shale, conglomerate, coal and carbonaceous coal; and
- Lower Member: 200 m of tuffaceous conglomerate and sandstone, andesite basalt, schist and conglomerate.

The northeast outcrop of the coal has burned at the north end of the deposit forming red clinker material. A hill is formed over this more resistant clinker. The Mongolian language words for this red hill are Ulaan Ovoo. It is thought that the coal was set on fire by lightning or some other natural cause.

The structure at the site consists of a gentle to moderate-dipping basin or syncline within the fault blocks. The syncline is 1.5 km wide and 2 km long.

There are high angle normal faults on the east, south and west sides. The fault on the east side trends roughly North (**N**) 10 degrees (º) West (**W**) and the downthrown side is the coal-bearing west side; the fault on the south side is also a high angle normal fault trending N 70º East (**E**) with the downthrown side being to the north and the west fault is a normal fault trending N 10º W with the downthrown side being the east side.

A high angle reverse fault trends northwest-southeast through the centre of the deposit and divides it into north and south (**S**) blocks. Throw on the fault is 10 m - 20 m and the downthrown side is the north. A moderate (20º - 30º), southward dipping coal subcrop on the north side of the deposit. Igneous activity is evidenced by the 137 m of horizontally-bedded basalt. Eleven holes were drilled by Red Hill in 2006.

Exploration

During 2006 Red Hill conducted an exploration drill programme which undertook the drilling of 11 drill holes from surface identifying the presence and delineation of the coal seams present at the site. This exploration programme formed the basis of the Behre Dolbear report supported by non-compliant data gathered during the period from the early 1970's up to 1992. This data was collected by a Russian entity in control of the project at that time.

In Apri1 2010 the Corporation merged with Red Hill as described in section 3.1 and therefore assumed control of the permits and licences under the auspices of Red Hill. During 2010 Red Hill drilled one drill hole to obtain samples for grade control and marketing efforts. During 2011 Red Hill drilled nine drill holes to obtain grade control information and rock mechanics data.

Mineralization

The Ulaan Ovoo Property, which is part of the 520 m thick Sharyn Gol Formation, has two main coal seams that contain five sub-units of coal.

Mod Coal Seam (formerly Coal Seam **1**): This seam is the lower of the two main coal sequences. It merges with the upper and thicker Gol Coal Seam in the north-eastern part of the area and splits to the southwest. It is well developed in the western part of the syncline. Its thickness ranges from 2.0 m to 7.5 m and thins in the south-western part of the deposit. The seam contains up to three partings with thicknesses of 0.56 m to 0.77 m. In the area where it is best developed, the Mod Coal seam is separated from the Gol Coal Seam by a sandstone parting which may exceed 30 m in thickness.

Gol Coal Seam (formerly Coal Seam II): This is the uppermost of the two main coal seams. Because of limited drilling south of the Central fault, it had previously only been clearly defined in the northern half of the syncline. It has relatively consistent thickness in the northern half of the deposit, ranging from 29.8 m to 63.9 m. In the west, the Gol Seam splits into two major sub-seams and its aggregate thickness diminishes where it splits. Further to the west sub-seam the lower split further subdivides into two smaller sub-seams. The Gol seam may contain as many as 11 partings. These partings consist mainly of clayey rocks and coal-bearing mudstone with a thickness of 0.15 m to 1.0 m. With proper design, the thickest of these partings can be removed during the mining process. Consequently, the partings will not represent a serious diminution of coal quality if properly handled.

Several thin coal beds are encountered to the west of the syncline, in the lower part of the middle member of the Sharyn Gol formation (J2-3 chg). Their thickness ranges between 0.9 m and 2.0 m. The extent of these thin seams is not known at this time, but they do not add materially to the coal resource base of the deposit. The cross sections shown in Section 7.0 show the style of splitting of the coal seams across the deposit area.

To date, the following four studies have been completed on the Ulaan Ovoo Property: Russian study completed in 1995; Mongolian University study completed in 1992-1995; Behre Dolbear study completed in 2006; and Minarco study completed in 2009. Each of these studies has produced its own coal seam nomenclature system, as well as criteria for applying nomenclature criteria. In order to not further confuse this issue, it was decided to use the nomenclature developed by Minarco in their 2009 Nl-43-101 report.

Drilling

The Corporation has conducted three drilling programmes on the property. Eleven holes were drilled by Red Hill in 2006 to obtain coal resource and coal quality information. Average core recovery was reported at over 90% for 10 of the holes and over 98% for 6 of the holes. Core recovery for hole UGL-06-002 was less than 35% and the hole was re-drilled as hole UGL-06-003. One drill hole was drilled in 2010 for grade control and marketing efforts. Nine drill holes were drilled in 2011within the mine pit area to obtain grade control information and rock mechanics data. The 2011 drill holes generally had poor core recovery because the drilling was done in the winter.

Sampling & Analysis

Sampling during the 1979 and 1992-1995 programmes focused on determining the quality and calorific value of the coal, its petrography and composition and strength properties of the confining sediments and partings. Coal seams were sampled separately from over, inter and under-burden material. Different tests were run on different coal samples depending upon visual features in the coal.

The sampling from the 2006, 2010 and 2011 Ulaan Ovoo drilling was done at constant intervals to allow for comparison of coal quality. Samples were taken every 0.9 m to 1.2 m for oxidised coal and every 3 m to 5 m for non-oxidised coal. When partings were greater than 0.1 m in thickness, they were sampled separately for analysis.

Security of Samples

The coal sampling undertaken for the 2006 and 2011 drilling programmes followed standard industry procedures. Sampling was conducted in 1 m intervals and at the start and stop of core runs and in a timely fashion after all necessary core descriptions and photography tasks had been completed. The core was then washed to remove contaminants and allowed to drain away from the core. The core was then placed in plastic sleeves (15 micron) and into wooden core boxes for protection.

The criteria used for selecting sample intervals included: Bone coal was sampled in the same way as coal. Partings that were less than 0.3 m thick were included with coal; where partings were encountered between 0.3 m and 1.0 m in thickness they were split into three, the upper and lower splits were sent to the lab and the middle split was archived. For partings over 1.0 m thick, the lower and upper 0.5 m were sampled separately and sent to the lab and the middle split was archived; Where the coal seam is flanked by rock then samples were taken from above and below the coal seam and are referred to as the roof and floor materials. Stray Coal seams greater than or equal to 0.5 m were sampled; and maximum sample intervals were limited to the core barrel length (3.05 m) where coal was not interrupted by partings greater than 0.3 m thickness.

All lab analysis was conducted following ASTM standard procedures by SGS Laboratories in Denver, Colorado and all lab duplicate samples are stored there. All non-lab core is stored in wooden boxes in a secure warehouse on site. All sampling handling used chains of custody to monitor the distribution of the samples.

Data Verification

In March 2010, Wardrop verified the data as part of a study to estimate the reserves and economics of a starter pit. They reviewed the available Ulaan Ovoo digital data, visiting the Property and conducted meetings with Red Hill's geological staff and decided that the following data from the Minarco 2009 study was acceptable and would be used: drill hole data from the 2006 programme; coal seam nomenclature and correlations; gridded surfaces for coal seams and partings; central, east, south and west faults ;coal outcrop, burned coal (clinker) area coal resource classification criteria; and the coal resource area. The coal seam correlations developed by the Minarco 2009 study were correct and the coal resources reported in the Behre Dolbear 2006 and Minarco 2009 reports were considered valid.

Mining

A recommendation was made for the coal deposit to be mined by open pit methods.

A mining contractor is to mine 250,000 tonnes (**t**) of product coal in 2010 and 1.1 million (M) t of product coal in 2011. It is assumed that the contractor will operate the owner's mining equipment in year 2011 on a fee basis. Mining is to be done by an owner- operated mining team starting in year 2012.

Contract mining will be completed using an 85 t backhoe loading 50 t capacity haul trucks. Since the initial mining will be near the surface, the use of drilling and blasting methods is not anticipated. Use of a contractor will allow sufficient time to purchase, manufacture and ship the owner-operated mining fleet to site in 2011 for operation in 2012.

The proposed "owner-operated" mining methodology is to employ conventional drill and blast techniques, using a rotary drill capable of drilling the blast holes in a single pass. A high mining recovery is anticipated. Dilution and losses of 0.10 m and 0.25 m per contact or parting respectively have been factored into the recovered tonnage figures. Loading and hauling will use 11.5 cubic metre (m^3) front end loaders, with 90.9 t rigid frame dump trucks. Track dozers will be used to clean coal-waste interfaces and thus minimise the losses and dilution.

A fleet of support and maintenance equipment has been included to maximise availability. Considerable emphasis has been placed on good design and construction of mine haul roads and other infrastructure to ensure high productivity. Emphasis will have to be placed on training of the local labour force for the unskilled and semi-skilled jobs. It is anticipated that the majority of the managerial, technical and skilled staff will be either ex-patriots or from other regions of Mongolia. Sites adequate for the disposal of waste rock and a suitable stockpile area for the high ash coal exist within the property in the immediate area of the planned open pit.

Mineral Reserves

The material captured within the Mineral Reserve has been categorised as 100% Measured material. The reserve estimation only includes coal contained within the G3, G2, G1a, G1b, G1c, G1d coal seams as set out as the nomenclature for the Gol coal seam.

The other seams present at the Ulaan Ovoo Property do not fall within the pit design and are therefore excluded from the Mineral Reserve estimate. Further exclusions from the Mineral Reserve estimation are any coal occurrences to the south of a 200 m "No Mining Limit" from the northern banks of the Zelter River. Therefore it could be said that the Mineral Reserve estimate considers only the first phase of the project development of the Mineral resources contained in the Ulaan Ovoo Property.

Losses and dilution factors have been applied globally to the partings and the separate coal seams to derive a final Mineral Reserve. The block model created in SURPAC® was prepared and exported for use with the Whittle Optimiser software. The resultant pit shells that were created in Whittle formed the basis of the pit design which was conducted using the GEMS software package. The pit design took account of the assumed slope angles and ramp angles as recommended by he MUST "Summary of Feasibility Study for the Development of Ulaan Ovoo Bituminous Coal Deposit" (2004) conducted on behalf of Red Hill.

Once completed, the phased pit designs were imported into SURPAC and reported from the original block model to derive the in-situ reserves by seam. This data was then compiled in Microsoft Excel to derive a total in-situ reserve estimate. The losses and dilution parameters were applied to the in-situ reserves and the resultant changes can be seen in Table 1.

Table 1
Ulaan Ovoo Coal Reserve Statement

Coal Reserve Statement Description	Amount
Product Coal (kt)	20,724
Waste (kBCM)	37,268
Stripping Ratio (BCM:t)	1.8
Ash Content (%)	11.3
Calorific Value (kcal/kg)	5,040
Moisture (%)	21.7
Mine Life (years)	10.7
Process Rate (kt/a)	2,000

Note: BCM – Bank Cubic Metre

* Coal qualities are stated on an "as-received" basis.

The reserve extraction is considered to be 98.6% as a ratio of In-situ reserve to Saleable Product. The In-situ Reserve calculations were validated by internal checks as part of the Wardrop internal quality control system. A further 720,000 t of High Ash coal will be stockpiled and washed at a later time but cannot be considered within this reserve estimate because it has been assumed that there are no wash plant facilities available on site.

The resource extraction is considered to be 10.7% as a ratio of Saleable Product to Measured & Indicated Mineral Resource. This illustrates the phased approach of Resource Development that has been considered in this study. It is recommended for further project development that more drilling is carried out North and South of the River Zelter and a separate more detailed analysis is carried out to include the engineering and costs to divert the river in order to include more of the Mineral Resource in a more detailed reserve estimate.

The estimated reserve and other mine characteristics are shown in Table 2.

Table 2
Ulaan Ovoo Estimated Reserve Tonnages

Description	Amount
Low Ash Coal (kt) Product	20,724
High Ash Coal (kt) Stockpiled	720
Waste (BCM)	37,268
Stripping Ratio (BCM:t)	1.8
Ash Content (%)	11.3
Calorific Value (kcal/kg)	5,040
Moisture (%)	21.7
Mine Life (years)	10.7
Process Rate (kt/a)	2,000

Coal product tonnages and qualities stated in Table 2 are stated on a Run-of-Mine (ROM) basis and take into account mining loss and rock dilution at coal/rock interfaces. The total proven Mineral Reserve Estimate is 20.7 Mt of Product (Low Ash) Coal.

As there is no coal beneficiation to be undertaken, any high ash coal is to be stockpiled so that it will be available if a wash-plant is built in the future. In general the product coal is G3, G2, G1a, G1b, G1c and G1d. The "Mod" or M series of seams are high ash and are not recovered. Opportunity exists to recover these seams if a wash-plant is constructed at some point in the future.

The southern edge of the pit is defined by the location of the Zelter River plain. Construction of a capital intensive river diversion, water cut-off wall and flood containment berm will be required to prevent water inflow into the pit if the river valley is encroached by the pit limit.

Environmental

Wardrop has not been requested to perform any evaluation or review of the environmental assessments or permits as part of this report. However a detailed Environmental Impact Assessment has been completed and approved by the Mongolian Government in 2008 and an Annual Environmental Protection Plan for 2010 has also been approved by the Mongolian Ministry of Environmental Protection.

Prophecy Coal has supplied Wardrop with details of additional environmental and mining permits approved by the Mongolian authorities. These include the mine plan approval, land use permission, water utilisation permission, emergency response plan, border zone permission and road repair permit. An amount of US $2 M has been included in the financial evaluation for mine reclamation.

Cost Estimates

Operating

The operating cost estimate is summarised in Table 3.

Table 3
Ulaan Ovoo Operating Cost Estimate

Area	Unit Cost (US $/ Product Coal)
Coal Mining	9.40
On-Site Coal Handling	0.35
Administration & Overhead	0.48
Total	**10.23**

The above unit operating cost is the average for life-of-mine including contractor and owner-operated mining. Contractor costs include equipment lease costs.

Capital

Table 4 outlines the estimated initial project capital cost by category. Mobile equipment fleet includes the main production equipment such as loaders, blast-hole drills and haulage trucks as well as support ancillary equipment. Site infrastructure costs include site earthworks, buildings, and services such as water, electrical and sewage. Road transport includes road and bridge refurbishment and road haulage fleet. Project indirect cost includes EPCM (engineering, procurement, construction and management), freight, equipment spares and first fills. Owner's costs include land acquisition and head office costs.

Table 4
Ulaan Ovoo Capital; Initial Capital Summary

Area	**Unit Cost (US $ M)**
Mobile Equipment Fleet	32.3
Site Infrastructure	7.0
Project Indirect	6.4
Owners Cost	0.3
Road Transport	15.5
Reclamation	0.3
Subtotal	61.8
Working Capital	4.0
Contingency	3.9
Total	69.7

Sustaining capital is listed in Table 5. Sustaining capital is for replacement of major mining equipment at the end of life. This includes loaders, haul trucks, dozers and graders. An annual value of U.S. dollars ($US) 500,000 per year is applied for sustaining capital site infrastructure.

Table 5
Capital; Sustaining Capital Summary

Area	**Unit Cost (US $ M)**
Mobile Equipment Fleet	14.0
Site Infrastructure	4.5
Total	**18.5**

Financial Analysis

A financial evaluation of the Ulaan Ovoo Property was prepared by Wardrop based on a post-tax financial model. For the 10.7 year mine life the following pre-tax financial parameters were calculated a 25.5% Internal Rate of Return (IRR); 4.5 years payback on US $ 85.9 M capital and US $ 71.0 M Net Present Value (NPV) at 10% discount value.

Sensitivity analyses were carried out to evaluate the project economics with plus 30%, minus 30% the base case coal price.

Table 6
Ulaan Ovoo Coal Price Scenarios

Scenario	Coal (US $ /t)
Minus 30%	28.0
Minus 20%	32.0
Minus 10%	36.0
Base Case	**40.0**
Plus 10%	44.0
Plus 20%	48.0
Plus 30%	52.0

The post-tax financial model was established on a 100% equity basis, excluding debt financing and loan interest charges. The financial outcomes have been tabulated for NPV, IRR and pay back of capital. Discount rates of 10% were applied to all cases identified by coal price scenario. The results are presented in Table 7.

Table 7
Ulaan Ovoo Summary of Post-Tax NPV, IRR, and Payback

Scenario	NPV 10 (US $ M)	IRR (%)	Payback (Yrs)
Minus 30%	-62.28	-4.4	13.1
Minus 20%	-17.82	6.1	10.7
Minus 10%	26.58	15.8	7.0
Base Case	70.98	25.5	4.5
Plus 10%	115.38	35.7	3.6
Plus 20%	159.77	46.8	3.1
Plus 30%	204.17	59.2	2.7

Conclusions

The financial evaluation indicates that the project should be economically viable given the coal pricing assumption of US$40 per product tonne sold at the Russia/Mongolia border port of Naushki. To date the Corporation's revenue from coal has come from sales prices of less than half to two thirds that figure. Viability of the deposit is contingent on being able to market the Ulaan Ovoo coal at higher prices such as into Russia where these prices can be obtained.

Project Risks and Mitigation

There are a number of project risks which have been mitigated where possible. The regional coal market has been difficult to penetrate and yet earn an acceptable margin on the coal. Though a number of coal contracts have been signed for Ulaan Ovoo coal only a handful are for substantial volumes or have reasonable margins. The market is not fully open where an independent producer has an equal opportunity to compete. Transportation is not always available at the time, in the capacity, or at the cost desired. These risks have been mitigated to some degree by decreasing mining, overhead, and transportation costs which recently appear to have made other markets available. Most recently receivable amounts from the large utility customers have become overdue. The decreased revenues forced temporarily idling the mine.

The Ulaan Ovoo Property does not include a preparation plant risking the production of non-specification coal. To mitigate this situation, high ash coal and partings are separated from the coal in-pit. This is done by the mine geologist identifying these materials, monitoring their removal by trained excavator operators during daylight hours, and constant supervision. Continual grade control sampling and assaying is performed and coal quality predictions made. This work has made for better control of the grades of coal produced.

Groundwater inflow to the pit, especially where recharged by the Zelter River is a risk to mining operations. Pumping water from the mine pit has stopped production at times. Larger capacity pumps were purchased which have partially mitigated this risk. The May 2009 Minarco report recommended construction of a dike to divert the north meander of the Zelter River away from the mine. During 2011 dewater wells were proposed and budgeted to reduce the water inflow. The dewater wells were installed during 2012 and reduced water inflow into the mine.

Operation Statistics

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

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

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

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

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

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

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

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

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

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

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

During August 2011, Prophecy Coal signed coal sales agreements with Mongolian and Russian power plants for total sales of 92,000 tonnes of coal. Prophecy Coal sold 133,895 tonnes of coal of two grades - 4,200 GCV and 5,100 GCV (arb) to both Mongolian and Russian companies during 2011. For the year ended December 31, 2012, Prophecy Coal sold 131,739 tonnes of coal. The coal inventory as at December 31, 2012 was 131,899 tonnes.

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

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

Impairment Write Down of Ulaan Ovoo Property

The impairment write down of Ulaan Ovoo Property is described in the section 3.1 "Summary of Five Principal Mineral Projects" above.

5.2 Chandgana Properties

The Chandgana Properties consist of the Khavtgai Uul and Chandgana Tal licenses. These licenses are approximately 10 kilometers apart and are located in similar physiographic and geologic settings.

Khavtgai Uul Property

Project Description and Location

The Khavtgai Uul Minerals Exploration License held by Chandgana Coal LLC, a subsidiary of Prophecy Coal is one of the Chandgana Properties and is found in the southwest portion of the Nyalga Coal Basin. . The license is located 275 kilometres east of Ulaanbaatar in Moron soum (sub-province) of Khentii aimag (province), Mongolia. The coal-bearing portion comprises approximately 1,636 hectares. The other coal exploration licenses adjacent to the resource area are held to the north by Tethys Mining LLC, a fully-owned subsidiary of Companhia Vale do Rio Doce, and to the west by Adamas Mining LLC. The resource area has a continental climate with short warm summers and longer cold winters and is generally favourable for development of the coal resource.

The resource area is located in the Nyalga Depression within the Khentii Zone of the Khangai-Khentii fold system and is part of the Shorvogo Steppe physiographic province along the northern margin of the Gobi Desert. The topography is relatively featureless with a mean surface elevation of 1,142 metres.

The coal seams belong to the Early Cretaceous age Zuunbayan Formation and are part of the southern end of the headwall portion of a faulted syncline. The coal seams subcrop at and just west of the western border of the license and dip approximately 4.5° to the southeast. The resource area is bounded to the southeast by the Nyalga Basin Fault Zone.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

Accessibility

Access to the Chandgana Property is possible by ground vehicle and helicopter or possibly small airplane. Ground vehicles may enter the resource area by driving the Ulaanbaatar-Ondorhaan highway (A0501) 290 kilometres east then turning south on any of several unpaved roads and driving 16 kilometres to the resource area. The highway is an all-weather road capable of supporting truck traffic. The unpaved roads on the resource area are generally in good condition and drivable throughout the year. However, the dirt roads can only support truck traffic when dry and only on certain sections. Helicopters may fly to the resource area and land almost anywhere. Small airplanes may also fly to the resource area but landing and take-off is only possible on several stretches of unpaved road. The elevation is not too great for helicopters or small planes although winds may be an issue at certain times of the year.

There is no access by railroad or water. The nearest railroad spurs end at Bor-Ondor, 118 kilometres south and the Baganuur Coal Mine, 124 kilometres west of the Chandgana Property and adjacent to the Ulaanbaatar-Ondorhaan highway. The Herlen River is the closest major river and is not navigable.

Climate and Vegetation

The resource area has a continental climate with warm and dry but short summers and cold and dry winters. The area is generally windy with wind direction from the northwest or northeast at speeds of 4-7 m/sec but reaching 20 m/sec in the spring. The warmest temperatures are during June to July with highs around 40° C and the coldest during December to January with lows around -30° C. Snow accumulation averages 10 cm in flat areas but may drift to 1 metre deep. The annual precipitation varies from 10 to 50 cm and most falls as rain in August (Behre Dolbear, 2007).

The surface is predominantly grass-covered although there are some low shrubs on the hills. There are no forested areas in or near the resource area.

Local Resources

Surface water is not readily available in the resource area. The nearest flowing water is the Herlen River 30 kilometres to the southeast. Otherwise surface water may only be available from dry stream courses and ephemeral lakes during the summer wet season. There are no lakes or reservoirs. Groundwater appears to be available because the 2007 exploration drilling encountered an artesian aquifer in three of the seven drill holes and water was observed in other 2007 and 2010 drill holes. 7 The size and production capacity of this aquifer has not been evaluated.

Infrastructure and Population Centres

The only infrastructure within or nearby the Chandgana Property is the Ulaanbaatar-Ondorhaan highway (A0501), a 110 kV power transmission line to the south, a 35 kV distribution line to the Chandgana Coal Mine, and cellular phone coverage. The highway is located 16 kilometres north and is a paved all-weather highway. There are no water or natural gas pipelines, telephone lines, canals, or water retention structures within or nearby the resource area.

Physiography

The resource area is located within an intermontane valley between the Nyalga Depression to the southwest and the Shorvogo Basin to the northeast. The Khentii Mountain Range is northwest and the Hongor Mountains are southeast of the resource area. The physiography of the resource area consists of a broad flat with low hills to the

northwest and east otherwise there are no prominent physiographic features. The drainage bottoms are 1 to 5 metres below the adjacent surface and are usually dry. The bottoms of the ephemeral lakes are 0.5 to 4 metres below the adjacent surface.

The surface elevations of the resource area vary from 1,129 metres to 1,164 metres making for a relief of approximately 35 metres. The low flat areas average 1,135 metres and the hills 1,152 metres in elevation.

History

The Khavtgai Uul Minerals Exploration License was originally granted to Deej Bayalag LLC and issued on April 7, 2007 under registration number 9011039094. No previous licenses are known. The second year license fee was paid on May 22, 2007. The license was transferred to Red Hill on October 12, 2007, under registration number 90190101078 with no change in the size or boundaries. The license was readjusted to decrease its size on April 8, 2009 and it now has an expiration date of April 7, 2012. The holder (issue) of the readjusted license is Chandgana Coal LLC, a subsidiary of Prophecy Coal.

There has been previous exploration for coal near and within the resource area. The former Soviet government explored for coal by drilling and trenching in 1962 and drilling in 1980 in the northern end of the Nyalga Basin (Behre Dolbear, 2007). Red Hill explored the Chandgana Tal coal licenses in the same area during the summers of 2007 and 2011. Eight core holes were drilled the results of which are more fully described by Behre Dolbear (2007). Trenching was performed during 2009 to locate the coal subcrop. RedHill drilled 13 drill holes and performed seismic survey lines during 2010. Red Hill drilled 15 drill holes during the summer of 2011 to better define the resource of the Chandgana Tal licenses. Both Tethys Mining and Adamas Mining conducted coal exploration on their licenses contiguous to Prophecy Coal's license during 2007 and 2008. There is previous and current mining at the Chandgana Property on the portion owned by Berkh-Uul. There has been no petroleum or mineral exploration nor is there any current petroleum or mineral exploration in the Nyalga Basin to the best of my knowledge.

Geological Setting

The resource area is located in the Nyalga Basin which is a portion of the Khentii Zone of the Khangai-Khentii fold system. The Khangai-Khentii fold system is a series of folded Silurian to Cretaceous age sedimentary rocks found in eastern Mongolia (Behre Dolbear, 2007).

Surficial Deposits and Sedimentary Rocks

Surficial materials include surface deposits and sedimentary rocks. Surface deposits appear to be Holocene in age and include alluvium, colluvium and playa deposits and are up to 70 metres thick. Sedimentary rocks are found in small areas at the surface but comprise all the subsurface rocks. These rocks range in age from Silurian to Tertiary and include nonmarine sand, clay, conglomerate, sandstone, siltstone, claystone, shale, and coal. A minimum thickness of 3,350 metres of sedimentary rocks is known.

Resource Area Geology

Unconsolidated Holocene age sediments are found at the surface and no bedrock is exposed. The rocks found immediately below the surficial deposits belong to the nonmarine Early Cretaceous Zuunbayan Formation. The coal resource is found in the Zuunbayan Formation. Igneous dikes and sills have not been found to cut the Zuunbayan Formation.

Structural Geology

The coal resources are found within the southern end of the Nyalga Basin. The basin appears to be a faulted syncline though seismic surveys suggest the coal-bearing rocks continue on the southeast side of the Nyalga Basin Fault Zone. The basin then may extend farther to the southeast than has been considered before. The coal seams subcrop along the western margin of the syncline, strike from N 20° to 65°E, and dip approximately 45° to the southeast.

The wide variation in strike may be a result of faulting but cannot be proven with the information available. Resistivity-IP and seismic lines across the former Nyalga Basin Fault indicate a horst exists at this location. The former Nyalga Basin Fault is the northwest normal fault bounding the horst while another normal fault about 570 metres southeast bounds the horst on the other side. These two faults and possible smaller faults indicated by the seismic survey lines justified renaming the area the Nyalga Basin Fault Zone. The location of the fault zone is also partly supported by the change in lithology of float material, drilling results, apparent slight topographic expression and azimuth of topographic contours, and the change in lithology of the portion of the Zuunbayan Formation penetrated in drill holes on either side of the fault. Displacement along both faults is approximately 300 metres at their north and south ends but appears to decrease at the middle. At this time the Nyalga Basin Fault Zone is considered to have a tectonic origin based on the type of deformation and observations from drill core which also agrees with the structural history of the area. Mass wasting that may affect the reliability of the coal resource estimate or impact coal recoverability has not been found.

The two drill holes southeast of the Nyalga Basin Fault did not encounter coal. These holes were plug drilled with a full face PDC bit to total depth with limited coring in zones of poor circulation. The cuttings and core samples were logged but the holes were not geophysically logged. The holes were plugged with cement upon completion of drilling.

Drilling provided the most reliable information including depth and thickness of coal seams and core samples. This allowed better mapping of the extent, elevation and thickness of the coal seams and better estimation of coal quality. The B Coal Seam is found throughout the resource area and is thick but locally thins in the west central and northeast portions of the area. Otherwise the B Coal Seam was found to be slightly thicker than expected. The other coal seams are thicker and have a greater extent than previously shown though they are found in the same general area. The elevation of the coal seams varies more than previously described suggesting local folds or faults are present. Assays of the coal core samples shows coal quality to be similar to that described previously. The greatest changes are a slight increase in moisture and ash and slight decrease in heaving value.

Exploration

Subsequent to the 2008 technical report much more exploration has been completed. The goals of this exploration were to place all of the resource in the measured and indicated assurance of existence categories, obtain more information on the depth, thickness, and grade of the coal seams, and locate the geologic limits of the resource more accurately. The exploration concept was that commonly used for relatively low dipping stratiform deposits where exploration was planned and executed to obtain information on depth, thickness, continuity, and quality of the resource. This information was obtained by surface mapping, trenching, drilling and geophysical methods. Two shallow trenches were excavated in 2009 for a total length of 189 metres. Approximately 15.7 kilometres of resistivity-induced polarization and 15.7 kilometres of magnetometer lines were run across the Nyalga Basin Fault in 2008. During 2010 Prophecy Coal completed 13 drill holes and ran 11.3 kilometres of reflection seismic lines and 27.8 kilometres of magnetometer lines. This exploration supplemented that completed in 2007 which included remote imagery interpretation, surface mapping, trenching, and seven core drill holes. The new information has placed all of the resource in the measured and indicated assurance of existence categories, enabled more accurate mapping of the geologic limits of the resource area, and made for better characterization of the geology and estimation of coal resources and quality. Three drill holes were drilled during 2011. These drill holes helped to better define the coal seam subcrop and possible faulting. Trenching was performed during 2012 also to better define the coal seam subcrop and possible faulting. No development work or operations are active in the resource area.

Mineralization

Nine coal seams that contain coal resources are found in the resource area. The B Coal Seam contains 80% of the resource, followed by the F Coal Seam (8%) and E Coal Seam (7%) with the remaining coal seams containing smaller portions. The B Coal Seam is found throughout the resource area, has an average resource thickness of 34.2 metres and range from 6.2 to 60.5 metres thick including several, mostly thin partings. The known depth to the B Coal Seam varies from 27.7 to 266.8 metres but is probably even shallower in the northwest corner of the license. Other coal seams (formerly the Upper Coal Seams) are found above the B Coal Seam. These coal seams have a thinner resource thickness (0 to 16.0 metres) and are less extensive yet contain significant resources also. The coal

seams are black, friable, readily slake and have poor competency. The partings are poorly indurated and have a moderate slake potential. The overburden is also poorly indurated with a moderate slake potential but contains few structural discontinuities. The coal seams are moderate grade low rank thermal coals. The thickness-weighted average in-place assay (as-received basis) of the sampled coal seams (A, B and C Coal Seam) within the resource area is 36.5% moisture, 10.1% ash, 3,636 kcal/kg heating value, and 0.6% sulphur. Their agglutinating properties have not been assayed, but the coals are expected to be non-agglutinating. The apparent ASTM rank of the coal is between Subbituminous C and B based on the moist, mineral matter-free gross calorific value of core sample assays.

Table 8

WEIGHTED AVERAGE A, B AND C COAL SEAM QUALITY				
(as-received basis)				
Parameter	Moisture (wt. %)	Ash (wt. %)	Heating Value (kcal/kg)	Total Sulphur (wt. %)
	36.54	10.10	3,636	0.59

Drilling

For the 2007 drilling, Landdrill International Inc. of Ulaanbaatar, Mongolia, was contracted to drill the holes and used a truck-mounted Longyear Model 44 rig. The procedure was to (1) drill with a 132 mm (HWT) full face PDC bit and set conductor casing, (2) drill the overburden to core point with a 96 mm (HQ) full face PDC bit using polymer as a medium, and (3) core from core point to total depth with an HQ-3 core drilling string. Coring was done using HQ rods behind a 96 mm OD diamond core bit with inert polymer as a medium. Wireline coring methods were used with a sleeved 3 metre core barrel assembly. All drilling was done on a 24-hour schedule. The drilling method, drilling procedures, and size of core obtained is considered appropriate for the logistics of the area, goals of the drilling, and type of analyses desired.

Five of the drill holes were drilled northwest of the Nyalga Basin Fault Zone and two southeast of the fault zone. Those in the resource area west of the fault zone were located to maximize characterisation of the resource and the reliability of the resource estimate. These five drill holes penetrated nearly the full thickness of the upper member of the Zuunbayan Formation. The two drill holes southeast of the Nyalga Basin Fault Zone were drilled to confirm the lack of coal and to help locate and characterize the fault zone. The drill hole locations and elevations were obtained by ground survey methods using a theodolide.

Drill cuttings were collected at one metre intervals, described and the lithologic information logged onto forms. The drill core was described in white light and ultraviolet light, the information logged on forms at a scale of 3 cm=0.5 m, and the core photographed with a digital camera. The core information logged includes lithology, rock mechanics, and sampled intervals. Other information was noted during drilling and logging including water and gas encountered and unusual drilling conditions. After completion of the core logging, the core was sampled, placed in plastic sleeves, and the samples noted on the core log. The lithology and rock mechanics information are considered to be logged in acceptable detail.

After reaching total depth, the drill holes in the resource area were geophysically logged. Some of these were logged through the core rods if the hole was not stable. The logging suite included gamma, spontaneous potential, gamma-gamma density, single point resistivity, and caliper. Printed field copies at a scale of 1cm=2 metres and Log ASCII Standard (LAS) electronic files of the logs were provided to Red Hill.

Upon completion of logging the drill holes in the resource area or reaching total depth for the drill holes outside the resource area, the holes were plugged with bentonite chips and capped with 2 to 5 metres of cement. The conductor casing was pulled from some of the drill holes. A marker with drill hole identification information was placed in the top of the cement.

The 2010 drilling was performed by Best Drilling Inc. of Ulaanbaatar, Mongolia using a skid-mounted Longyear Model 44 rig. The drilling procedure was the same as that used in 2007. The drilling method, drilling procedures, and size of core obtained is considered appropriate for the logistics of the area, goals of the drilling, and type of

analyses desired. Geologic data and samples were obtained using the same methods practised during the 2007 drilling. The lithology and rock mechanics information are considered to be logged in acceptable detail. Geophysical logging was performed similar to that performed in 2007 with one exception. The exception is that spontaneous potential was not logged, otherwise natural gamma, gamma-gamma density, single point resistivity, and caliper were logged.

Best Drilling performed the 2011 drilling and followed similar procedures as those in 2010. Geologic data and samples were obtained using methods similar to those of 2010 and the information logged in acceptable detail. This drilling did not change the amount or reliability of the resource estimate or the mineability of the resource..

Summary and Interpretation of Results

The drilling provided the most reliable data to characterise the geology of the resource area, estimate resources and estimate coal quality. The drilling - (1) provided more information on the areal extent and thickness of the coal seams, (2) further defined the structural geology, (3) confirmed the presence of a significant coal resource, (4) placed all of the resource in the measured and indicated assurance-of-existence categories, (5) better defined the geologic boundaries of the resource, (6) better characterized the type, grade and rank of the coal seams, and (7) gave indications of groundwater and mining conditions.

Accurate measurements of the depth and thickness of all the coal seams are now available and the closer spacing between drill holes allows all the coal seams to be correlated more reliably. Nine major coal seams are now known. The A Coal Seam is the stratigraphically lowest coal seam followed, in ascending order by the very thick B Coal Seam then seven (C through I) thinner coal seams. The B Coal Seam is the thickest ranging from 6.2 to 61.1 metres thick, is found at a maximum depth of 311.7 metres, and has the greatest areal extent. The E and F Coal Seams are thinner (0 to 23.5 m) but are found over most of the resource area. The other coal seams are thinner and are less extensive. All the coal seams contain partings that range in thickness from 0.1 to 9.1 metres thick.

The attitude of the rocks and faulting is much better known. The resource area has a more complex geology than previously thought in that there is either folding or faulting though overall dip is still to the southeast. The extent of the basin is slightly larger because the coal seams subcrop farther northwest and the coal-bearing rocks are probably present on the southeast side of the Nyalga Basin Fault Zone. The former Nyalga Basin Fault is now considered to be a fault zone with a central horst.

The drill hole spacing placed all of coal resources in the measured and indicated assurance-of-existence categories. Analyses confirmed the coal to be a moderate grade, low rank thermal coal. Cores allowed visual characterisation of rock properties and provided samples for assay. The overburden and interburden rocks and the coal are weak being poorly to moderately lithified but with few fractures. Finally, the drilling mapped a 33.0 to 42.5 metres thick moderately artesian sandstone aquifer between the B and E Coal Seams.

The 2011 drilling confirmed the subcrop to be outside the license as described in 2010. The location of possible faults was inconclusive.

Sampling & Analysis

In planning the 2007 exploration, exposures in the nearby Chandgana Coal Mine were considered. These exposures suggested that at least one of the coal seams should be very thick, low rank and dip at a low angle to the southeast. Thus, having a thick stratiform deposit and considering that the exploration is the first in the resource area, the approach used was to obtain samples that gave a reliable gross estimate of coal quality. To meet this goal, sampling was planned to (1) obtain samples at widely spaced locations, (2) sample the full thickness of the coal seam, (3) determine the limit of weathered coal, and (4) ensure the samples are representative of the grade and rank of the coal. The desire to obtain samples at widely spaced locations complimented the desire to place as much of the resource in the higher assurance-of-existence categories as possible.

Drilling and trenching were then considered most appropriate for obtaining samples. Large diameter HQ drill cores were obtained using a three metre core barrel. Only the B Coal Seam was cored because the existence of the upper

coal seams was not known. The full thickness of the B Coal Seam was cored where possible. Unfortunately, in some cases a portion of the top of the coal seam was rotary drilled before changing to the core drilling string because the structure of the coal seam was not known.

A similar sampling approach was used for the 2010 drilling. But the stratigraphically higher coal seams were core drilled in two drill holes besides the B Coal Seam. Since the structure of the coal seam was known fairly well core was obtained from all of the targeted coal seams but one where the upper few metres were rotary drilled. The representativeness of the core samples obtained during the 2007 and 2010 drilling was enhanced in several ways. These included (1) selecting large diameter core to increase core recovery, (2) core drilling on a 24 hour schedule to increase core recovery, and (3) using inert drilling fluids when possible to reduce core contamination. The core sampled (including core loss) intervals and analysed intervals are indicated relative to the entire coal seam thickness in Figures 5 and 6.

Trenching with an excavator was primarily done to locate the B Coal Seam subcrop, but secondarily to obtain samples to be assayed. The portion of the coal seam exposed in Trenches C and D were sampled. The representativeness of the trench samples was enhanced by obtaining large samples and placing the sample in plastic bags as soon as possible to preserve in-situ moisture.

The sampling of cores during the 2007, 2010 and 2011 drilling followed the same methods. Sampling was started and completed as soon as possible after lithologic descriptions and photographs were done. The sampling method followed that of ASTM D 5192 where practical. Sample treatment methods included rinsing the core of contaminants and allowing sufficient time for the free water to drain from the core to enhance sample representativeness. Sample preservation included placing the core in 6 mil plastic sleeves to minimize moisture loss then placement on wooden core boxes for protection. The samples were removed from the core tray in lengths up to 1metre depending on the thickness of partings and the beginning and end of core runs.

Security of Samples

All the drill core and trench samples were prepared and assayed in accordance to ASTM International (ASTM), International Organization for Standardization (ISO), or Australian Standards (AS) procedures in the coal laboratories of SGS-CSTC Standard Technical Services Co., Ltd. These laboratories are located in Ulaanbaatar, Mongolia (SGS Mongolia), the test centre in Tianjin, China (SGS Mineral Fuels), and the geochemical and ores laboratory in Tianjin, China (SGS Geochemical and Ores). Sample preservation, security and tracking was established and well maintained from the drill site to reporting of the results for the 2007, 2010, and 2011 drilling.

Sample security was ensured from the drill site to the assay report. A chain of custody form was completed by Mr. Robeck for the 2007 samples and by Mr. Kravits for the 2010 and 2011 samples that gives sufficient information to identify the samples and describes the analyses required. The chain of custody accompanied the samples during shipment from the drill site to the laboratory and was signed by all parties involved in the transport of the samples and SGS Mongolia upon receipt. All the samples were shipped under Red Hill or Prophecy Coal control directly to SGS Mongolia. Upon delivery the samples were jointly inventoried by a Prophecy Coal representative and SGS staff before SGS signed for receipt of the samples. The signed sample chains of custody are on file at Prophecy Coal's Ulaanbaatar office. SGS Mongolia then entered the sample information into their laboratory information management system (LIMS) which generated unique laboratory identification numbers. Sample preparation and laboratory worksheets are then prepared by the LIMS to track each sample to the final report. The laboratory managers review the sample tracking while the samples are in process and review the final assay reports to ensure the correct sample identifying information accompanies the correct assays (Murray, 2007 and Rao, 2010). This responsibility is part of the laboratory accreditation which for the 2007 samples was validated by ISO (Murray, 2007). No assay results were found to have been misidentified.

Once in the custody of SGS, the samples were sealed and stored in a secure lockable location to prevent tampering. The storage conditions are controlled to protect the samples from heat, light and humidity (Rao, 2010). No samples were lost, stolen or tampered with during any of the three years of drilling.

None of the samples were handled by Mr. Robeck, Mr. Kravits, or any contractors, employees, officers or directors of Red Hill or Prophecy Coalafter receipt by SGS and none of these parties were involved in preparation or assay of the samples.

Data Verification

There are five types of data used in this updated technical report: topographic data, stratigraphic data, trench data, geophysical data and assay data. Each type of data was reviewed to verify that it represents the location, depth and/or other descriptive information of its source. The quality of the data was then assessed by a review for accuracy and errors. The methods used vary according to the type of data and were performed using practices common in the coal industry or the industry that produces such data.

The topographic data and the map produced from this data were verified by Mr. Kravits during the site inspection and with information obtained during the inspection (Kravits Geological Services, 2007). This was done by comparing the coordinates and elevation of the drill holes, trenches, and license corners determined with a handheld GPS receiver to the coordinates and elevations on the geologic map.

The stratigraphic data obtained from the 2010 and 2011 drill holes were verified by Mr. Kravits in two ways. These included comparison of the identification, location, and other information of the 2007 drill holes in the stratigraphic database to the information on the geophysical and lithologic log headers and the information obtained during the site inspection and comparison of the interpreted and correlated geophysical logs by Mr. Kravits to those of Mr. Robeck. For the 2010 drill holes this was not necessary because Prophecy Coal geologists and Mr. Kravits located the drill holes with a GPS receiver prior to drilling and the completed drill hole was surveyed by Oyu Survey LLC (Oyu Survey, 2010). The GPS coordinates and surface elevation were placed on the geophysical log headers to better tie the log to the drill hole.

The trench data were verified against observations made and coordinates obtained by Mr. Kravits during the site visit and notes made and pictures obtained by Mr. Robeck during the trenching. The geophysical data were verified by comparison of the contractor supplied coordinates of their activities to evidences of their activity and coordinates obtained by Oyu Survey or Mr. Kravits.

The 2010 and 2011 assay data were verified by comparison of the descriptive information (drill hole number, depth interval, sample number, and lithology) and assay results accompanying the quality data to that of the same information on the core log and chain of custody and the recorded lithology. Transcribed data were reviewed twice for errors.

Mineral Resources and Reserves

The total coal resource within the resource area is 1,048.1 million tonnes of which 509.3 million tonnes are in the measured and 538.8 million tonnes are in the indicated assurance of existence categories. All the coal resources fall within the measured and indicated categories, there is none in the inferred category. The in-place strip ratio averages 2.2:1 over the resource area and varies from a minimum of 0.2:1 at the northwest corner of the license to a maximum of 5.3:1 to the north.

Table 9
Chandgana

COAL SEAM RESOURCES			
	Assurance-of-Existence Category		
Coal Seam	Measured	Indicated	Total
I Coal Seam	0.2	0.1	0.3
H Coal Seam	3.1	4.6	7.7
G Coal Seam	3.9	5.4	9.4
F Coal Seam	41.8	41.0	82.8
E Coal Seam	35.8	39.2	75.0
D Coal Seam	3.2	2.4	5.7
C Coal Seam	15.8	13.7	29.5
B Coal Seam	403.5	430.7	834.3
A Coal Seam	1.9	1.5	3.4
Subtotal	509.3	538.8	1,048.1
Total Measured and Indicated	1,048.1		

Resources are in millions of tonnes

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

Future Exploration and Development

Further exploration, analyses and tests are recommended to better understand the geology in the western portion of the license, map the coal seams above the B Coal Seam and better characterize the quality and utilization characteristics of the coal. This includes reprocessing of the acquired seismic data, rotary and core drilling, bulk sampling and more thorough and detailed analyses and tests of core samples and a bulk sample.

The Corporation is currently exploring the economics and feasibility of using coal from the Chandgana Property in a mine-mouth power plant project which the Mongolian government is supportive of and has issued a conditional permit to Prophecy Coal in respect of.

Chandgana Tal Property

Project Description and Location

The Chandgana Tal property consists of mining licenses MV-016767 and MV-010126. The licenses are held by Chandgana Coal LLC, a subsidiary of Prophecy Coal and are found in the northeast portion of the Nyalga Coal Basin. The licenses are located 285 kilometres east of Ulaanbaatar in Moron soum (sub-province) of Khentii aimag (province), Mongolia. The coal-bearing portion comprises approximately 1,636 hectares. There are coal exploration licenses adjacent to the resource area that are held by Tethys Mining LLC, a fully-owned subsidiary of Companhia Vale do Rio Doce. The resource area has a continental climate with short warm summers and longer cold winters and is generally favourable for development of the coal resource.

The resource area is located in the Nyalga Depression within the Khentii Zone of the Khangai-Khentii fold system and is part of the Shorvogo Steppe physiographic province along the northern margin of the Gobi Desert. The topography is relatively featureless with a mean surface elevation of 1,142 metres.

The coal seams belong to the Early Cretaceous age Zuunbayan Formation and are part of the northern end of the headwall portion of a faulted syncline. The coal seams subcrop in the northern portion of the license and dip approximately 4.5° to the south and southwest. The resource area is bounded to the southeast by the Nyalga Basin Fault Zone.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

Accessibility

Access to the Chandgana Tal licenses is possible by ground vehicle and helicopter or possibly small airplane. Ground vehicles may enter the resource area by driving the Ulaanbaatar-Ondorhaan highway (A0501) 290 kilometres east then turning south on any of several unpaved roads and driving 16 kilometres to the resource area. The highway is an all-weather road capable of supporting truck traffic. The unpaved roads on the resource area are generally in good condition and drivable throughout the year. However, the dirt roads can only support truck traffic when dry and only on certain sections. Helicopters may fly to the resource area and land almost anywhere. Small airplanes may also fly to the resource area but landing and take-off is only possible on several stretches of unpaved road. The elevation is not too great for helicopters or small planes although winds may be an issue at certain times of the year.

There is no access by railroad or water. The nearest railroad spurs end at Bor-Ondor, 118 kilometres south and the Baganuur Coal Mine, 134 kilometres west of the Chandgana Tal licenses and adjacent to the Ulaanbaatar-Ondorhaan highway. The Herlen River is the closest major river and is not navigable.

Climate and Vegetation

The resource area has a continental climate with warm and dry but short summers and cold and dry winters. The area is generally windy with wind direction from the northwest or northeast at speeds of 4-7 m/sec but reaching 20 m/sec in the spring. The warmest temperatures are during June to July with highs around 40° C and the coldest during December to January with lows around -30° C. Snow accumulation averages 10 cm in flat areas but may drift to 1 metre deep. The annual precipitation varies from 10 to 50 cm and most falls as rain in August (Behre Dolbear, 2007).

The surface is predominantly grass-covered although there are some low shrubs on the hills. There are no forested areas in or near the resource area.

Local Resources

Surface water is not readily available in the resource area. The nearest flowing water is the Herlen River 30 kilometres to the southeast. Otherwise surface water may only be available from dry stream courses and ephemeral lakes during the summer wet season. There are no lakes or reservoirs. Groundwater appears to be available because the 2007 and 2011 exploration drilling encountered water in the drill holes. The size and production capacity of the aquifer has not been evaluated.

Infrastructure and Population Centres

The only infrastructure within or nearby the Chandgana Property is the Ulaanbaatar-Ondorhaan highway (A0501), a 110 kV power transmission line to the south, a 35 kV distribution line to the Chandgana Coal Mine, and cellular phone coverage. The highway is located 3 kilometres north and is a paved all-weather highway. There are no water or natural gas pipelines, telephone lines, canals, or water retention structures within or nearby the resource area.

Physiography

The resource area is located within an intermontane valley between the Nyalga Depression to the southwest and the Shorvogo Basin to the northeast. The Khentii Mountain Range is northwest and the Hongor Mountains are southeast of the resource area. The physiography of the resource area consists of a broad flat with low hills to the northwest and east otherwise there are no prominent physiographic features. The drainage bottoms are 1 to 5 metres below the adjacent surface and are usually dry. The bottoms of the ephemeral lakes are 0.5 to 4 metres below the adjacent surface.

The surface elevations of the resource area vary from 1,129 metres to 1,164 metres making for a relief of approximately 35 metres. The low flat areas average 1,135 metres and the hills 1,152 metres in elevation.

History

Mining license MV-016767 was originally granted as an exploration licenses to Belchir LLC and was issued on March 19, 2004. No previous licenses are known. The license was transferred to Tugrug Nuuryn Energy LLC and registered by the head of the Office of Geological and Mining Cadastre in his decision no. 444 of 2005. The exploration license was later transferred to Coal Khentii LLC and registered by the head of the Office of Geological and Mining Cadastre in his decision no. 318 of 2006. Red Hill Energy LLC acquired this license in 2006 with government approval. The license was converted to a mining license January 27, 2011.

Mining license MV-010126 was granted to Tugrug Nuuryn Energy LLC with the right to mine on July 8, 2005. The exploration license was later transferred to Coal Khentii LLC and registered by the head of the Office of Geological and Mining Cadastre in his decision no. 318 of 2006. Red Hill Energy LLC acquired this license in 2006 with government approval.

There has been previous exploration for coal within and near the licenses. The former Soviet government performed survey work during 1926 to describe the coal deposit and during 1958 to assess the resource of radioactive elements. The Soviet government further explored for coal by drilling and trenching in 1962 and drilling in 1980 (Behre Dolbear, 2007). Red Hill explored Chandgana Tal Coal licenses during the summer of 2007. Eight core holes were drilled the results of which are more fully described by Behre Dolbear (2007). Red Hill drilled 15 drill holes during 2011. Tethys Mining conducted coal exploration on their licenses contiguous to Prophecy Coal's license during the years 2007 through 2012. There is previous and current mining at the Chandgana Property on the portion owned by Berkh-Uul.

Geological Setting

The resource area is located in the Nyalga Basin which is a portion of the Khentii Zone of the Khangai-Khentii fold system. The Khangai-Khentii fold system is a series of folded Silurian to Cretaceous age sedimentary rocks found in eastern Mongolia (Behre Dolbear, 2007).

Surficial Deposits and Sedimentary Rocks

Surficial materials include surface deposits and sedimentary rocks. Surface deposits appear to be Holocene in age and include alluvium, colluvium and playa deposits and are up to 70 metres thick. Sedimentary rocks are found in small areas at the surface but comprise all the subsurface rocks. These rocks range in age from Silurian to Tertiary and include nonmarine sand, clay, conglomerate, sandstone, siltstone, claystone, shale, and coal. A minimum thickness of 3,350 metres of sedimentary rocks is known.

Resource Area Geology

Unconsolidated Holocene age sediments are found at the surface and no bedrock is exposed. The rocks found immediately below the surficial deposits belong to the nonmarine Early Cretaceous Zuunbayan Formation. The coal resource is found in the Zuunbayan Formation. Igneous dikes and sills have not been found to cut the Zuunbayan Formation.

Structural Geology

The coal resources are found within the northern end of the Nyalga Basin. The basin appears to be a faulted syncline though seismic surveys suggest the coal-bearing rocks continue on the southeast side of the Nyalga Basin Fault Zone. The basin then may extend farther to the southeast than has been considered before. The coal seams subcrop along the western margin of the syncline, strike from N 20° to 65°E, and dip approximately 4.5° to the southeast. The wide variation in strike may be a result of faulting but cannot be proven with the information available. Resistivity-IP and seismic lines across the former Nyalga Basin Fault indicate a horst exists at this location. The

former Nyalga Basin Fault is the northwest normal fault bounding the horst while another normal fault about 570 metres southeast bounds the horst on the other side. These two faults and possible smaller faults indicated by the seismic survey lines justified renaming the area the Nyalga Basin Fault Zone. The location of the fault zone is also partly supported by the change in lithology of float material, drilling results, apparent slight topographic expression and azimuth of topographic contours, and the change in lithology of the portion of the Zuunbayan Formation penetrated in drill holes on either side of the fault. Displacement along both faults is approximately 300 metres at their north and south ends but appears to decrease at the middle. At this time the Nyalga Basin Fault Zone is considered to have a tectonic origin based on the type of deformation and observations from drill core which also agrees with the structural history of the area. Mass wasting that may affect the reliability of the coal resource estimate or impact coal recoverability has not been found.

The drilling of 2007 and especially later during 2011 provided the most reliable information including depth and thickness of coal seams and core samples. This allowed better mapping of the extent, elevation and thickness of the coal seams and better estimation of coal quality. The S2 Coal Seam is found throughout the resource area and is thick but locally thins. The elevation of the coal seams generally decreases to the southeast.

Exploration

Subsequent to the 2007 technical report much more exploration has been completed. The goals of this exploration were to obtain more information on the depth, thickness, and grade of the coal seams and locate the geologic limits of the resource more accurately. The exploration concept was that commonly used for relatively low dipping stratiform deposits where exploration was planned and executed to obtain information on depth, thickness, continuity, and quality of the resource. This information was obtained by trenching and drilling. Four shallow trenches were excavated in 2009. During 2011 Prophecy Coal completed 15 from which the coal seams were sampld in detail. This exploration supplemented that completed in 2007 which included remote imagery interpretation, surface mapping, trenching, and drilling. The new information made for a much more accurate resource estimate, enabled more accurate mapping of the geologic limits of the resource area, and made for better estimation of coal quality. No development work or operations are active in the resource area.

Mineralization

The S2 coal seam contains most of the coal resources found within the licenses (Boyd Co, 2011). Other thinner coal seams comprise smaller portions of the resource and most are mineable based on thickness. The S2 Coal Seam is found throughout the resource area, has an average resource thickness of 40.7 metres and locally exceeds 60 metres thick including several, mostly thin partings. The known depth to the B Coal Seam varies from 0 to 75. Other coal seams are found above and below the S2 Coal Seam. These coal seams have a thinner resource thickness (0 to 12.0 metres) and are less extensive yet contain mineable resources. The coal seams are black, friable, readily slake and have poor competency. The partings are poorly indurated and have a moderate slake potential. The overburden is also poorly indurated with a moderate slake potential but contains few structural discontinuities. The coal seams are moderate grade low rank thermal coals. The weighted average in-place assay (as-received basis) of the S2 Coal Seam within the resource area is 40.9% moisture, 10.8% ash, 3,306 kcal/kg heating value, and 0.6% sulphur. Their agglutinating properties have not been assayed, but the coals are expected to be non-agglutinating. The apparent ASTM rank of the coal is lignite A based on the moist, mineral matter-free gross calorific value of core sample assays.

Table 10

WEIGHTED AVERAGE S2 COAL SEAM QUALITY				
(as-received basis)				
Parameter	Moisture (wt. %)	Ash (wt. %)	Heating Value (kcal/kg)	Total Sulphur (wt. %)
	40.9	10.80	3,306	0.6

Drilling

For the 2007 drilling, Landdrill International Inc. of Ulaanbaatar, Mongolia, was contracted to drill the holes and used a truck-mounted Longyear Model 44 rig. The procedure was to (1) drill with a 132 mm (HWT) full face PDC bit and set conductor casing, (2) drill the overburden to core point with a 96 mm (HQ) full face PDC bit using polymer as a medium, and (3) core from core point to total depth with an HQ-3 core drilling string. Coring was done using HQ rods behind a 96 mm OD diamond core bit with inert polymer as a medium. Wireline coring methods were used with a sleeved 3 metre core barrel assembly. All drilling was done on a 24-hour schedule. The drilling method, drilling procedures, and size of core obtained is considered appropriate for the logistics of the area, goals of the drilling, and type of analyses desired.

The drill holes were distributed about the licenses. The drill holes penetrated nearly the full thickness of the upper member of the Zuunbayan Formation. The drill hole locations and elevations were obtained by ground survey methods using a theodolide.

Drill cuttings were collected at one metre intervals, described and the lithologic information logged onto forms. The drill core was described in white light and ultraviolet light, the information logged on forms at a scale of 3 cm=0.5 m, and the core photographed with a digital camera. The core information logged includes lithology, rock mechanics, and sampled intervals. Other information was noted during drilling and logging including water and gas encountered and unusual drilling conditions. After completion of the core logging, the core was sampled, placed in plastic sleeves, and the samples noted on the core log. The lithology and rock mechanics information are considered to be logged in acceptable detail.

After reaching total depth, the drill holes in the resource area were geophysically logged. Some of these were logged through the core rods if the hole was not stable. The logging suite included gamma, spontaneous potential, gamma-gamma density, single point resistivity, and caliper. Printed field copies at a scale of 1cm=2 metres and Log ASCII Standard (LAS) electronic files of the logs were provided to Red Hill.

Upon completion of logging the drill holes were plugged with bentonite chips and capped with 2 to 5 metres of cement. The conductor casing was pulled from some of the drill holes. A marker with drill hole identification information was placed in the top of the cement.

The 2011 drilling was performed by Best Drilling Inc. of Ulaanbaatar, Mongolia using a skid-mounted Longyear Model 44 rig. The drilling procedure was the same as that used in 2007. The drilling method, drilling procedures, and size of core obtained is considered appropriate for the logistics of the area, goals of the drilling, and type of analyses desired. Geologic data and samples were obtained using the same methods practised during the 2007 drilling. The lithology and rock mechanics information are considered to be logged in acceptable detail. Geophysical logging was performed similar to that performed in 2007 with one exception. The exception is that spontaneous potential was not logged, otherwise natural gamma, gamma-gamma density, single point resistivity, and caliper were logged.

Best Drilling performed the 2011 drilling and followed similar procedures as those in 2010. Geologic data and samples were obtained using methods similar to those of 2010 and the information logged in acceptable detail. This drilling did not change the amount or reliability of the resource estimate or the mineability of the resource..

Summary and Interpretation of Results

The drilling provided the most reliable data to characterise the geology of the resource area, estimate resources and estimate coal quality. The drilling - (1) provided more information on the areal extent and thickness of the coal seams, (2) further defined the structural geology, (3) confirmed the presence of a significant coal resource, (4) better defined the geologic boundaries of the resource, and (5) better characterized the type, grade and rank of the coal seams.

Accurate measurements of the depth and thickness of all the coal seams are now available and the closer spacing between drill holes allows all the coal seams to be correlated more reliably. Two major coal seams are now known.

The S4 Coal Seam is the stratigraphically lowest coal seam followed, in ascending order by the S3 coal seam. The very thick S2 Coal Seam then two (S3 and S4 coal seams). The combined S2 Coal Seam is the thickest ranging from 15 to 50 metres thick, is found at a maximum depth of 75 metres, and has the greatest areal extent. The E and F Coal Seams are thinner (0 to 23.5 m) but are found over most of the resource area. The other coal seams are thinner and are less extensive. All the coal seams contain partings that range in thickness from 0.1 to 9.1 metres thick.

The attitude of the rocks and faulting is much better known. The resource area has a more complex geology than previously thought in that there is either folding or faulting though overall dip is still to the southeast. The extent of the basin is slightly larger because the coal seams subcrop farther northwest and the coal-bearing rocks are probably present on the southeast side of the Nyalga Basin Fault Zone. The former Nyalga Basin Fault is now considered to be a fault zone with a central horst, low rank thermal coal. Cores allowed visual characterisation of rock properties and provided samples for assay. The overburden and interburden rocks and the coal are weak being poorly to moderately lithified but with few fractures.

The 2012 drilling confirmed the subcrop to be outside the license as described in 2012.

Sampling & Analysis

In planning the 2007 exploration, exposures in the nearby Chandgana Coal Mine were considered. These exposures suggested that at least one of the coal seams should be very thick, low rank and dip at a low angle to the southeast. Thus, having a thick stratiform deposit and considering that the exploration is the first in the resource area, the approach used was to obtain samples that gave a reliable gross estimate of coal quality. To meet this goal, sampling was planned to (1) obtain samples at widely spaced locations, (2) sample the full thickness of the coal seam, (3) determine the limit of weathered coal, and (4) ensure the samples are representative of the grade and rank of the coal. The desire to obtain samples at widely spaced locations complimented the desire to place as much of the resource in the higher assurance-of-existence categories as possible.

Drilling and trenching were then considered most appropriate for obtaining samples. Large diameter HQ drill cores were obtained using a three metre core barrel. Only the S2 Coal Seam was cored because the existence of the upper coal seams was not known. The full thickness of the S2 Coal Seam was cored where possible. Unfortunately, in some cases a portion of the top of the coal seam was rotary drilled before changing to the core drilling string because the structure of the coal seam was not known.

A similar sampling approach was used for the 2010 drilling. But the stratigraphically higher coal seams were core drilled in two drill holes besides the B Coal Seam. Since the structure of the coal seam was known fairly well core was obtained from all of the targeted coal seams but one where the upper few metres were rotary drilled. The representativeness of the core samples obtained during the 2007 and 2010 drilling was enhanced in several ways. These included (1) selecting large diameter core to increase core recovery, (2) core drilling on a 24 hour schedule to increase core recovery, and (3) using inert drilling fluids when possible to reduce core contamination.

Trenching with an excavator was primarily done to locate the S2 Coal Seam subcrop, but secondarily to obtain samples to be assayed. The portion of the coal seam exposed in trenches were sampled. The representativeness of the trench samples was enhanced by obtaining large samples and placing the sample in plastic bags as soon as possible to preserve in-situ moisture.

The sampling of cores during the 2007 and 2011 drilling followed the same methods. Sampling was started and completed as soon as possible after lithologic descriptions and photographs were done. The sampling method followed that of ASTM D 5192 where practical. Sample treatment methods included rinsing the core of contaminants and allowing sufficient time for the free water to drain from the core to enhance sample representativeness. Sample preservation included placing the core in 6 mil plastic sleeves to minimize moisture loss then placement on wooden core boxes for protection. The samples were removed from the core tray in lengths up to one metre depending on the thickness of partings and the beginning and end of core runs.

Security of Samples

All the drill core and trench samples were prepared and assayed in accordance to ASTM International (ASTM), International Organization for Standardization (ISO), or Australian Standards (AS) procedures in the coal laboratories of SGS-CSTC Standard Technical Services Co., Ltd. These laboratories are located in Ulaanbaatar, Mongolia (SGS Mongolia), the test centre in Tianjin, China (SGS Mineral Fuels), and the geochemical and ores laboratory in Tianjin, China (SGS Geochemical and Ores). Sample preservation, security and tracking was established and well maintained from the drill site to reporting of the results for the 2007, 2010, and 2011 drilling.

Sample security was ensured from the drill site to the assay report. A chain of custody form was completed by Mr. Robeck for the 2007 samples and by Mr. Kravits for the 2010 and 2011 samples that gives sufficient information to identify the samples and describes the analyses required. The chain of custody accompanied the samples during shipment from the drill site to the laboratory and was signed by all parties involved in the transport of the samples and SGS Mongolia upon receipt. All the samples were shipped under Red Hill or Prophecy Coal control directly to SGS Mongolia. Upon delivery the samples were jointly inventoried by a Prophecy Coal representative and SGS staff before SGS signed for receipt of the samples. The signed sample chains of custody are on file at Prophecy Coal's Ulaanbaatar office. SGS Mongolia then entered the sample information into their laboratory information management system (LIMS) which generated unique laboratory identification numbers. Sample preparation and laboratory worksheets are then prepared by the LIMS to track each sample to the final report. The laboratory managers review the sample tracking while the samples are in process and review the final assay reports to ensure the correct sample identifying information accompanies the correct assays (Murray, 2007 and Rao, 2010). This responsibility is part of the laboratory accreditation which for the 2007 samples was validated by ISO (Murray, 2007). No assay results were found to have been misidentified.

Once in the custody of SGS, the samples were sealed and stored in a secure lockable location to prevent tampering. The storage conditions are controlled to protect the samples from heat, light and humidity (Rao, 2010). No samples were lost, stolen or tampered with during any of the three years of drilling.

None of the samples were handled by Mr. Robeck, Mr. Kravits, or any contractors, employees, officers or directors of Red Hill or Prophecy Coal after receipt by SGS and none of these parties were involved in preparation or assay of the samples.

Data Verification

There are five types of data used in this updated technical report: topographic data, stratigraphic data, trench data, geophysical data and assay data. Each type of data was reviewed to verify that it represents the location, depth and/or other descriptive information of its source. The quality of the data was then assessed by a review for accuracy and errors. The methods used vary according to the type of data and were performed using practices common in the coal industry or the industry that produces such data.

The topographic data and the map produced from this data were verified by Mr. Kravits during the site inspection and with information obtained during the inspection (Kravits Geological Services, 2007). This was done by comparing the coordinates and elevation of the drill holes, trenches, and license corners determined with a handheld GPS receiver to the coordinates and elevations on the geologic map.

The stratigraphic data obtained from the 2010 and 2011 drill holes were verified by Mr. Kravits in two ways. These included comparison of the identification, location, and other information of the 2007 drill holes in the stratigraphic database to the information on the geophysical and lithologic log headers and the information obtained during the site inspection and comparison of the interpreted and correlated geophysical logs by Mr. Kravits to those of Mr. Robeck. For the 2012 drill holes this was not necessary because Prophecy Coal geologists and Mr. Kravits located the drill holes with a GPS receiver prior to drilling and the completed drill hole was surveyed by Oyu Survey LLC (Oyu Survey, 2012). The GPS coordinates and surface elevation were placed on the geophysical log headers to better tie the log to the drill hole.

The trench data were verified against observations made and coordinates obtained by Mr. Kravits during the site visit and notes made and pictures obtained by Mr. Robeck and staf geologists during the trenching. The geophysical data were verified by comparison of the contractor supplied coordinates of their activities to evidences of their activity and coordinates obtained by Oyu Survey or Mr. Kravits.

The 2007 and 2011 assay data were verified by comparison of the descriptive information (drill hole number, depth interval, sample number, and lithology) and assay results accompanying the quality data to that of the same information on the core log and chain of custody and the recorded lithology. Transcribed data were reviewed twice for errors.

Mineral Resources and Reserves

The total coal resource within the resource area is 124.4 million tonnes of which all is in the measured assurance of existence category. Since all the coal resources fall within the measured and indicated categories, there is none in the inferred category. The in-place strip ratio averages 0.7:1 over the resource area.

Table 11
Chandgana

COAL SEAM RESOURCES			
	Assurance-of-Existence Category		
Coal Seam	Measured	Indicated	Total
S2 Coal Seam	124.4	0.0	124.4
Total Measured and Indicated	124.4		

Resources are in millions of tonnes

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

Future Exploration and Development

Further exploration, analyses and tests are recommended to better understand the geology in the western portion of the license, map the coal seams above the S2 Coal Seam and better characterize the quality and utilization characteristics of the coal. This includes reprocessing of the acquired seismic data, rotary and core drilling, bulk sampling and more thorough and detailed analyses and tests of core samples and a bulk sample.

The Corporation is currently exploring the economics and feasibility of using coal from the Chandgana Property in a mine-mouth power plant project which the Mongolian government is supportive of and has issued a conditional permit to Prophecy Coal in respect of.

5.3 Wellgreen Property (held by Prophecy Coal's 32.1% Associate Prophecy Platinum)

Property Description and Location

The Wellgreen Property is located approximately 317 km northwest of Whitehorse in south western Yukon at approximate Latitude: 61°28'N, Longitude: 139°32'W on NTS map sheet 115G/05.

The Wellgreen Property claims and leases have been transferred to Prophecy Platinum. This includes a block of 91 claims, nominally 13.7 km2, which incorporates the known Wellgreen deposit. The claims were staked in 1952, 1953, and 1955. Each claim is a Quartz Mining Lease. The expiry date for these claims/leases is December 5, 2020. The Wellgreen Property is not subject to any known environmental liabilities. It is understood that the environmental liabilities of the former Wellgreen Mill site are with the Yukon Government. All permits and license to conduct exploration work in the Wellgreen Property are in place.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

Site Topography, Elevation and Vegetation

The Wellgreen Property is located in the Kluane Ranges, which are a continuous chain of foothills situated along the eastern flank of the St. Elias Mountains. The topography at the Wellgreen Property is relatively rugged. Slopes are usually in the 250 to 300 m range and the highest peaks exceed an elevation of 1,800 m.

The main mineralized zone on the Wellgreen Property lies between elevations 1,300 m and 1,700 m on a moderate to steep un-glaciated south-facing slope. Permafrost is continuous and probably exceeds 30 m in depth from surface.

Vegetation consists of typical alpine grasses and wildflowers on the hill sides with a mixture of pine, spruce and popular trees locating in the lower elevations and creek beds.

Access

The Wellgreen Property is located approximately 311 km northwest of Whitehorse just west of the Yukon Highway 1 (Alaska Hwy) at Kilometre 1788.6. The Alaska Hwy is a paved all-weather highway maintained by the Yukon Government.

Climate

The climate is alpine, but is tempered by the west coast influence. The area has a long winter but the temperatures are less extreme than further east.

Infrastructure

Adequate water supply is available for drilling operations, which is pumped from a number of unnamed creeks that flows down the mountain. Non-potable water was supplied for the camp from Nickel Creek, which flows past the portal to the underground workings. All these creeks freeze solid during the winter months. In order to maintain a year round camp or operation would require the drilling of water wells.

Currently, power on the Wellgreen Property is supplied by generators installed for the exploration programs. Haines Junction is the current limit of the southern grid of Yukon Energy Corporation.

History

The exploration and production history of the Wellgreen Property dates back to its discovery in 1952. Table 12 summarizes the history of the property.

Table 12

Wellgreen Historical Activities

Year	Company	Activities
1952	Wellington Green, C. Aird, & C. Hankins	• Discovered surface showings
1952	HBE&D	• Property optioned from prospectors by subsidiary of HBM&S*
1952	Yukon Mining	• Ownership transferred to HBM&S subsidiary Yukon Mining Company from HBM&S subsidiary HBE&D*
1952	Yukon Mining	• 45,500 m of surface drilling completed
1953	Yukon Mining	• 57,700 m of surface drilling completed

Year	Company	Activities
1954	Yukon Mining	• 60,400 m of surface drilling completed
1955	Hudson Yukon Mining	• Ownership transferred to HBM&S subsidiary Hudson Yukon Mining Company from HBM&S subsidiary Yukon Mining Company
1955	Hudson Yukon Mining	• 32,400 m of surface drilling completed
1953-1956	Yukon Mining/Hudson Yukon Mining	• 4,267 m of underground development on seven levels and two internal shafts. • Metallurgical test work including a pilot plant. • Historical ore reserves estimated at 500,000 tons @ 1.34% Cu and 2.14% Ni
1956-1967	Hudson Yukon Mining	• Idle
1968	Hudson Yukon Mining	• Ground geophysics (magnetics and electromagnetics) Soil survey • 762 m of surface drilling
1966-1970	Hudson Yukon Mining	• Metallurgical work completed at Lakefield Research, HBM&S, Lurgi-Frankfurt, and Sumitomo
1969	Hudson Yukon Mining	• Feasibility Study completed with historical "proven reserves" estimated at 669,150 tonnes @ 2.04% Cu, 1.42% Ni, 0.073% Co, 0.038 oz Pt/ton, 0.027 oz Pd/ton and 0.005 oz Au*/ton
1970	Hudson Yukon Mining	• Property placed in production with concentrate to be shipped to Sumitomo in Japan. • Development consisted of slashing out exploration drifts, development of sub-levels, construction of mine dry, powerhouse, and compressor facility. • Mill with a 600 ton/day concentrator and town site established 11.5 km from mine adjacent to the Alaska Hwy.
1972	Hudson Yukon Mining	• Milling began on site
1973	Hudson Yukon Mining	• Milling suspended due to falling metal prices, excessive dilution and unexpected erratic distribution of massive sulphide lenses. • A total of 171,652 tonnes were milled to produce 33,853 tonnes of concentrate. Grades of the concentrate based on smelter returns was; 2.23% Ni, 1.39% Cu, 1,300 ppb* Pt, 920 ppb Pd, 171 ppb Au, 400 ppb Rh, 420 ppb Ru, 250 ppb Ir, 200 ppb Os, and 200 ppb Re*. • Mine and Mill dismantled and all equipment shipped to Snow Lake, Manitoba.
1981	Foothills Pipelines	• Leased the mill site and town site
1986	All-North/Chevron	• Option to earn 50% interest of the Wellgreen property from Hudson Yukon.

Year	Company	Activities
1987	Galactic Resources	• Purchase 100% interest in Hudson Yukon from HBM&S for $6.8 million and 3% NSR* on the Hudson Yukon portion of base metal and precious metal produced from the Wellgreen Property. • Acquire All-North as a wholly owned subsidiary. Transfer title of the Hudson-Yukon Wellgreen to All-North. Resulting Wellgreen ownership All-North 75% - Chevron 25%
1987	All-North/Galactic	• Conducted 1:2500 geological mapping, 50x100 m spaced soil sampling, 100 x 20 m spaced VLF-electromagnetic and magnetic survey, 15 bulldozer trenching totalling 10,000 m3* • 4,932 m of diamond drilling in 45 holes
1987	Kluane JV	• Joint Venture formed between All-North Resources, Chevron Minerals, Pak-Man Resources and Rockridge Mining to explore on the Arch Joint Venture claims. Operated by Arther Cathro. • 1:10,000 geological mapping and sampling, VLF and magnetic survey, 50 hour of bulldozer trenching.
1988	Kluane JV	• Road construction and bulldozer trenching • Three diamond drill holes totalling 173.5 m
1988	All-North/Chevron	• 4250 level was rehabilitated. • 5,500 m of diamond drilling in 34 holes was completed underground. • 6,073 m of diamond drilling in 37 holes completed on surface. • Klohn Leonoff carried out preliminary engineering surveys to evaluate mill and tailings disposal sites. • Norecol carried out preliminary environmental survey including water quality and wildlife study.
1989	All-North	• All-North acquires Chevron Minerals interest in the Arch Joint Venture and the Wellgreen Property
1989	All-North/Chevron	• Watts, Griffis and McOuat (WGM) complete a historical reserve estimate for both the East and West Zones. • "Probable Reserve": 46,700,000 tons @ 0.34% Cu, 0.36% Ni, 0.015 opt* Pt, 0.010 opt Pd. • "Possible Reserve": 8,500,000 tons @ 0.36% Cu, 0.035% Ni, 0.012 opt Pt, 0.009 opt Pd. • Metallurgical studies conducted at Lakefield Research, Inco tech, and CANMET • Pre-feasibility completed by Watts, Griffis, and McOuat
1993	Galactic Resources	• Files for bankruptcy in Canada
1994	Northern	• Signs option agreement with All-North to earn 80% interest in the property, with a 50% back in right to J.P. Sheridan.
1996	Northern	• 57 4.5 inch rotary percussion drill holes totalling 3,900 m.

Year	Company	Activities
1999	Northern	• Agrees to purchase the remaining interest (20%) of the property from All North
2001	Northern	• Surface drill program discovers the North Shear Zone, located 500 m north of the Wellgreen deposit.
2005	Coronation Minerals	• Entered option agreement with Northern to earn 100% of the property for $25 million.
2006	Coronation Minerals	• Eleven diamond drill holes totalling 2,016 m
2007	Coronation Minerals	• Three underground diamond drill holes totalling 577 m
2008	Coronation Minerals	• Thirteen diamond drill holes totalling 4,654 m. 854 line km of Helicopter-borne aeromagnetic survey. • NI43-101 report completed by WGM. (see section 17.0 of the Wellgreen Report) • Dropped option, returned the property to Northern
2009	Northern	• Ten diamond drill holes totalling 2,058 m
2010	Northern	• Six diamond drill holes totalling 2,138 m
2010	Prophecy Coal	• Acquires Northern • Completed one diamond drill hole totalling 117 m
2011	Prophecy Platinum	• New company created through the sale of Prophecy Coal nickel assets to Pacific Coast Nickel Corp.
2012	Prophecy Platinum	• NI43-101 report completed by Wardrop • NI43 101 Preliminary Economic Assessment completed by Wardrop • Completed 11,000 m diamond drilling program on surface and underground

*HBM&S	Hudson Bay Mining & Smelting
Re	rhenium
ppb	parts per billion
NSR	Net Smelter Return
Au	gold
opt	ounces per short ton
HBE&D	Hudson Bay Exploration & Development
m3	cubic metres

Historical estimates within the table above are considered relevant but not reliable. A qualified person has not done sufficient work to classify the historical estimate as a current mineral resource. Prophecy Platinum is not treating the historical estimates as current resources, and the historical estimates should not be relied upon.

Geological Setting

Regional Geology

The Wellgreen Property is located within the Insular Superterrane. The Insular Superterrane is mainly composed of two older terranes (Wrangellia and Alexander) that were amalgamated about 320 million years. These terranes are composed of island arc and ocean floor volcanic rocks with thick assemblages of overlying oceanic sedimentary rocks that range in age from 400 to 220 million years old. Wrangellia, in particular, has a several-kilometre-thick package of platform-type limestones. The Insular Superterrane hosts a 230-million-year-old package of volcanic rocks (the Nicolai Group) that hosts Wellgreen Property, as well as the Windy Craggy copper cobalt-gold deposit in northernmost British Columbia (Hart, undated).

Property Geology

Israel and Zeyl, 2004 is the most recent geological mapping for the area of the property. Hulbert, 1997 also provides a description and discussion. Detailed geology and interpretation covering the Wellgreen deposit area is available from maps completed by Archer, Cathro and Associates, who compiled and reinterpreted exploration results for the Kluane JV programs carried out on behalf of All-North. These sources are not all consistent with respect to descriptions and classifications of the geological framework for the Wellgreen Property.

These older rocks are unconformably overlain by amygdaloidal flood basalt, volcanic breccias and metasediments of the Upper Triassic Nikolai Group. These rocks are also folded into a series of southeast-northwest trending anticlines and synclines.

The Wellgreen deposit occurs along the lower margin of an Upper Triassic ultramafic-mafic body, which is 20 km long and is known as the Quill Creek Complex, which intrudes along and close to the contact between the Station Creek and Hasen Creek formations. The main mass of this Quill Creek Complex, 4.2 km long and up to 700 m wide, is located on the Northern claim group of the property. A smaller mass of similar intrusive is located along strike to the northwest and southeast. The Quill Creek Complex consists of a main intrusion and an associated group of upright to locally overturned, steeply south dipping sills. These associated sills may be remnants of the main intrusion separated from the main mass by folding and shearing. The intrusions are crudely layered, variably serpentinized, and deformed. The sills locally have a lower gabbroic margin adjacent to a chilled contact with Paleozoic rocks. Mafic-rich skarns occur in the floor rocks adjacent to the marginal facies gabbro, particularly where the metasediment host includes limestone or calcareous rocks. The intrusives are zoned upwards away from the lower gabbroic zone through zones of clinopyroxenite, peridotite and dunite.

Mineralization

Mineralization on the Wellgreen Property occurs within a variably serpentinized, ultramafic–gabbroic body, known as the Quill Creek Complex, which intrudes Permian sedimentary and volcanic rocks. Historic exploration and development programs defined three zones of gabbro-hosted massive and disseminated mineralization known as the East Zone, West Zone, and North Zone.

Of the two main (East and West) gabbro-hosted zones of mineralization, the East Zone has received the most detailed exploration, including 4,267 m of underground development on seven levels, three internal shafts and over 500 surface and underground diamond drill holes. The East Zone is gently west-plunging and moderately to steeply south-dipping and is in contact with Hansen Creek Formation calcareous sediments. At the base of this zone of mineralized peridotite in the marginal gabbro are discontinuous massive sulphide lenses as well as skarn zones in calcareous footwall. The mineralized portion of the East Zone has been outlined by surface and underground diamond drilling over a strike length of 1500 m and an average vertical extent of 700 m.

East of section 3500E, the peridotite unit thicken up considerably with an average of 400 m horizontal width. In around 3500E section, there is a repeated sequence of mineralized peridotite, footwall rocks of the Hansen Creek formation, and mineralized peridotite. This would indicate the potential for some form of thrust faulting. This is also evident in mineralized portion of the peridotite east of section 3500E where mineralized grade profiles in boreholes drop off and then increase. No significant faulting has been observed in the drill core to support this theory.

The East Zone was mined by Hudson-Yukon in 1972 and approximately 171,652 tonnes at 2.23% Ni and 1.39% Cu were extracted.

West Zone

Hudson-Yukon discovered the West Zone and All-North's 1987 drilling program further outlined the zone, which extends over a strike length of 1,300 m and to a vertical depth of about 400 m. This area is along and above the base of the Quill Creek Complex where its trend changes from northwest-southeast to east-west. The majority of the mineralized zones occur in gabbro and in a blanket clinopyroxenite, as is the case in the East Zone; however, mineralization also occurs to a considerable extent in inter-digitated gabbro-clinopyroxenite units. The West Zone has only limited exposure by underground workings, and consists of multiple spatially separated mineralized units;

the basal gabbro unit, the upper clinopyroxenite unit, and a second basal unit which lies to the west of one of the several flatly westerly dipping north-easterly trending cross-faults.

The sill that hosts the West Mineralized Zone appears to have a gabbroic margin on both its north and south contacts. The marginal gabbro magmatic zones up to 110 m thick host the Ni-Cu massive sulphide mineralization that forms the higher grade portions of the various mineralized zones of the Wellgreen deposit. The clinopyroxene magmatic zones, which range up to 100 m in thickness, host disseminated Ni-Cu sulphides and minor net-textured and semi-massive sulphide lenses.

North Zone

The North Zone is located in the east-central portion of a narrow 1,200 m long sill positioned approximately 150 m below the main ultramafic unit and was discovered by Hudson-Yukon in the 1950s and explored by three drill holes in 1987 by All-North. All of these drill holes intersected mineralization, and the best reported intersection was 0.51% Cu, 2.01% Ni, 0.028 oz Pt/ton and 0.019 oz Pd/ton over a core length of 3.4 m. The geology of this zone is similar to both the East and West Zones. Mineralization consists of massive sulphide lenses, disseminations in gabbro and ultramafic rocks, and as fracture fillings in footwall quartzite. The North Zone was tested in 1988 by limited drilling and was determined to have a northerly dip, which will make it difficult to adequately explore from surface by drilling from the south, as has been done with the other zones on the Wellgreen Property. To-date, the North Zone appears to be a thin and discontinuous zone; however, it does represent an interesting area of Ni-Cu mineralization that warrants further work.

Minerals

Tables 7.1 to 7.3 of the Wellgreen Report after Cabri et al., 1993 list the opaque minerals and PGM and PGE bearing minerals found in the deposit. The elevated presence of Rhodium (Rh), Ruthenium (Ru), Iridium (Ir), Rhenium (Re), and Osmium (Os) within the mineral suite provided additional pay metals if recoverable and could enhance the economics of an operation in the district.

Rhodium is present at the Wellgreen Property in anomalous concentrations with comparable to the concentrations found in Noril'sk ores in Russia (Hulbert, 1997).

Exploration

Prophecy Platinum has not conducted any reconnaissance exploration on the Wellgreen Property prior to the date of the Wellgreen Report. The Prophecy Platinum drilling campaigns are described in Section 11.0 Drilling of the Wellgreen Report.

Northern Prophecy Platinum

An underground sampling campaign unreported in previous reports was conducted in 2007. A total of 800 chip samples were taken at two meter intervals along the underground workings.

The samples were analyzed for Prophecy Platinum and palladium at ALS Chemex Labs in Vancouver, B.C. Of these, 174 samples exceeded 1 g/t Prophecy Platinum or palladium, were assayed for gold, rhodium, osmium, iridium, and ruthenium. The 2007 sampling program was overseen by Rory Calhoun, P. Geo., now an employee of Prophecy Platinum. Concentrations of rhodium, osmium, iridium, and ruthenium were present in all of the follow-up samples.

Drilling

Historical Drilling

Considerable surface and underground drilling was completed by Hudson–Yukon, operating subsidiary of HBM&S in the 1950s. More drilling was completed under the auspices of the Kluane Joint Venture (All-North, Chevron and

Galactic) in the 1980s. Drill logs, assay summaries and assay certificates for many of these historic drill holes are available and can be compiled into a database to support any future Mineral Resource estimate. This historic work has not been completely documented. The holes drilled on the Wellgreen Property by Coronation were for the purpose of validating the historical drilling done by the Kluane JV in 1986 and 1987. The program was designed by WGM with a total of 24 holes proposed.

Coronation engaged E. Caron Drilling of Whitehorse, Yukon, as the drill contractor. All of the surface drilling was HQ, were reduced to NQ as the depth increased. The underground drilling was all BTW. The drilling started in late July 2006 and a total of eleven were completed for a total of 2,016 m. Collars were surveyed using a total station system. Acid tests were completed downhole to determine hole inclination. Ten of the holes drilling in 2006 were drilled in order to "twin" historical holes drilled by Hudson Yukon and the Kluane JV.

In 2007, three underground holes were completed totalling 577 m. Two of the holes were designed to "twin" historical holes. In 2008, thirteen additional holes were drilled by Coronation. In 2008, the Wellgreen Property database was updated with the results of the 2006 and 2008 drilling programs.

The drilling conducted by Northern was designed to extend and expand the potential resource of the Wellgreen deposit by targeting up dip of the East zone and east along strike. Drilling was completed by E. Caron drilling of Whitehorse. A total of ten drill holes were completed during the 2009 drill program. All holes were drilled HQ and all drilling run were in 5 foot intervals (1.52 m).

The collars were initially spotted with a hand held GPS or compass and chain, with the final completed collars were again surveyed with a hand held GPS, compass and chain or a total station GPS. Down-hole surveys were completed using the ReflexIt© tool. Survey readings were collected approximately 9 m off the bottom of the hole and at approximately 152 m intervals up the hole. Erroneous directional readings located within the mineralized zones were discarded due to the magnetic influence of the pyrrhotite. Inclination readings were not affected by the magnetic minerals.

Prophecy Platinum Drilling

The drilling conducted by Prophecy Platinum was designed initially to extend and expand the potential resource of the Wellgreen deposit by targeting the East Zone along strike. The focus of the program evolved to test the hanging wall disseminated sulphides located in the ultramafic unit.

Drilling was completed by E. Caron drilling of Whitehorse. A total of seven drill holes were completed during the 2010 drill program from June to October. All holes were drilled HQ and all drilling run were in five foot intervals (1.52 m). The first six holes were completed by Northern prior to the closing of the acquisition of Northern by Prophecy Coal.

Sampling Method and Approach

For sampling in the historical Coronation and Northern programs see the Wellgreen Report.

Prophecy Platinum 2010 Program

After the sample bags were sealed, company personnel would take the samples into the Prophecy Platinum geological office. The samples would be stored there with only the geologist and camp manager having access. When enough samples had accumulated, company personnel would pack them in plastic containers, label, and take the containers to the shipper (Air North) in Whitehorse. Air North would deliver the samples to ALS-Chemex in Vancouver for assaying.

All samples, including field-inserted Standards and Blanks, were sent to ALS Chemex in Vancouver, BC, for assaying.

Copper, nickel, cobalt, gold, Prophecy Platinum, and palladium were the elements assayed for. The following is a brief description of the sample preparation:

1) Samples are sorted into numerical order and then dried.

2) Once dried, the material was crushed using a jaw crusher.

3) The sample is then split to get a 250 g sample for pulverizing.

4) The total 250 g of split sample is pulverized to 85% passing 75 microns.

Gold, Prophecy Platinum, palladium were assayed by fire assay fusion of 30 g with an ICP finish. The resulting values were reported in parts per million. Copper, nickel, and cobalt were assayed by "Four Acid "Near Total" Digestion" atomic absorption spectrometry. If any of the assays returned values above the detection limits, the sample would be re-assayed using a similar method (ICP-AES or AAS). At no time was a Prophecy Platinum employee or designate of the company involved in the preparation or analysis of the samples.

Quality Assurance/ Quality Control Program (QA/QC)

The same QA/QC program was in place for both Coronation, Northern and Prophecy Platinum and is described below. Blanks, standard reference material ("**SRM**"), and duplicates were inserted into the sample stream every 20th sample.

A duplicate sample, would be take every 20th sample of core. The selected sample is sawn in half and then would be sawn in half again. The quartered core was then placed into two different sample bags with different sample numbers and sealed.

The SRMs came from Natural Resources Canada and Analytical Solutions Limited. These were inserted into the sample stream immediately after the second duplicate. The SRMs used are WMS-1a, WPR-1 and WGB-1. The certificates for the SRMs are found in Appendix B of the Wellgreen Report.

Sample Blanks were obtained from two sources; granodiorite from a local road metal quarry, and garden marble from hardware stores in Whitehorse, Yukon. A Blank sample was inserted into the sample stream after the SRM.

Wardrop has not compiled or reviewed the results of the QA/QC programs for either the Coronation or Northern drilling programs and cannot comment on the validity of the result.

In addition to the field-inserted QA/QC program, the laboratories operate their own laboratory QA/QC system. The labs insert quality control materials, Blanks and duplicates on each analytical run.

No secondary laboratory check assaying was completed on the recent drilling programs.

Wardrop believes the sampling practices of Prophecy Platinum meets current industry standards. Wardrop provided Prophecy Platinum with recommendations on ways to improve the current QA/QC program to make it more effective. These recommendations include:

- The company geologist should review the results of the field-inserted QA/QC data and it is also good practice for the geologist to review the laboratory internal QA/QC data.

- A selection of course rejects or pulps samples up to 10% of the data set should be sent to a second laboratory as part of the QA/QC program.

- Maintain the insertion rate of one blank, one duplicate and 1 SRM for every twenty samples.

Mineral Resource and Mineral Reserve Estimates

Geological Interpretation

Three-dimensional wireframe models of mineralization were developed for the West and East Zones based on a nickel equivalent grade of greater than 0.2%.

The Nieq value was assigned to all sample intervals to assist with the geological interpretation of the mineralization of both the West and East Zones. The Nieq value is based on a long range pricing index updated quarterly. At the time the resource models were completed, the following commodity prices were used.

- Nickel - $US9.40 per pound
- Copper - $US2.96 per pound
- Cobalt - $US15.80 per pound
- Gold - $US1200 per troy ounce
- Platinum - $US1938 per troy ounce
- Palladium - $US816 per troy ounce

The equation utilized by Wardrop in the PEA to determine Nieq value is as follows;

Nieq = ((Ni grade x Ni price x 22.04622) + (Cu grade x Cu price x 22.04622) + (Co grade x Co price x 22.04622) + (Au grade x Au price x 0.03215) + (Pt grade x Pt price x 0.03215) + (Pd grade x Pd price x 0.03215)) / (Ni price x 22.04622). Recovery has been assumed to be 100% in-situ on all metals, as there has been no metallurgical recovery testing completed on the targeted material.

Sectional interpretations were digitized in Datamine™ Studio version 3.19.3638.0 software, and these interpretations were linked with tag strings and triangulated to build three dimensional solids. Table 14.6 tabulates the solids and associated volumes. The solids were validated in Datamine and no errors were found. The zones of mineralization interpreted for each area were generally contiguous; however, due to the nature of the mineralization there are portions of the wireframe that have grades less than 0.2%, yet are still within the mineralizing trend.

The non-assayed intervals were assigned void (-) value. Wardrop believes that non-assayed material should not be assigned a zero value, as this does not reflect the true value of the material.

Mineral Resource Tabulation

The resource reported in the August 2012 PEA has been has been tabulated in terms of a nickel equivalent cut-off grade and are summarized in Table 13 and Table 14.

Table 13
Wellgreen Pitshell Indicated Resource Cut-of Table

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

Table 14
Wellgreen Inferred Resource Cut-off Table

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

Validation

The Wellgreen models were validated by three methods:

- Visual comparison of colour-coded block model grades with composite grades on section and plan.
- Comparison of the global mean block grades for ordinary kriging, inverse distance squared, nearest neighbour and composites.
- Swath plots of the East and West Zones in both plan and section views.

The visual comparisons of block model grades with composite grades for each of the two zones show a reasonable correlation between the values. No significant discrepancies were apparent from the sections and plans reviewed, yet grade smoothing is apparent.

The global block model statistics for the ordinary kriging model were compared to the global inverse distance squared and nearest neighbour model values as well as the composite capped drillhole data. Table 14.15 of the Wellgreen Report shows this comparison of the global estimates for the three estimation method calculations. In general, there is agreement between the OK model and ID2 model and NN model. Larger discrepancies are reflected as a result of lower drill density in some portions of the model. There is a degree of smoothing apparent when compared to the diamond drill statistics. Comparisons were made using all blocks at a 0 % cut-off.

Swath plots were generated for nickel, copper, cobalt, gold, Prophecy Platinum and palladium for easting's and elevation's respectively, at 20 m intervals. These plots are comparing the OK estimates with the NN and ID2 estimates.

Interpretation and Conclusions

The Wellgreen Property is ideally situated, hosting approximately 10 km of strike length and 22.1 km2 of the Quill Creek Ultramafic intrusion. The Quill Creek Ultramafic intrusion is one of several ultramafic intrusions found within the Wrangellia terrane.

The Quill Creek Ultramafic intrusion has similar characteristics to the Noril'sk deposit in Russia, containing zones and layered mineralized of massive, semi-massive and disseminated Ni-Cu sulphides with elevated PGE associated with the sulphides.

Two main zones of mineralization have been drill outlined on the property, the East Zone and the West Zone. The highest grade mineralization in the East Zone occurs in massive sulphide pods and lenses along the base of the ultramafic body, whereas the best grades in the West Zone are found in inter-digitated gabbro and clinopyroxenite. A total of 171,652 tons assaying 2.23% Ni, 1.39% Cu, 0.065 oz Pt/ton and 0.073% Co were mined and milled in 1972 and 1973 by Hudson-Yukon.

The Wellgreen Property database is relatively up to date with the current results of the 2009 drilling program. In general, the twin hole drilling program completed by Coronation was successful in confirming past results. Therefore, the author is of the opinion that using the historic drilling is appropriate for any future resource estimate, although some additional analysis would be required before a definitive conclusion can be reached.

The 2010 Prophecy Platinum drilling confirmed the presences of a substantial mineralized system located in the hanging wall of the semi-massive sulphide pods previously targeted as the Wellgreen Property.

The resource estimation at a 0.2% Nieq cut-off resulted in an Indicated Resource of 14.4 million tonnes at grades of 0.68% Ni, 0.62% Cu and1.71 g/t PtEq (Pt + Pd + Au). An additional Inferred Resource of 446.6 million tonnes at grades of 0.31% Ni, 0.25% Cu and 0.64 g/t PtEq.

There is good potential to expand the potential quantity and grade of mineralization on the Wellgreen Property to cover the entire Quill Creek Ultramafic intrusive. The Quill Creek intrusive has been outline by an aeromagnetic survey and drilling on the adjacent Burwash claims held by Prophecy Platinum and indicates that the mineralizing system has the potential to continue along the entire strike length of the intrusion, which is in excess of 10 km of strike length.

Exploration to date has concentrated on the lower gabbroic section of the ultramafic body. Recent exploration has concentrated on the evaluation of the potential of the Wellgreen Property to host larger, but lower grade, tonnages of PGM enriched Ni-Cu mineralization for potential open pit extraction. The occurrences of higher grade pockets of semi-massive sulphides (>1% Cu and Ni and >2 g/t Pt) as historically mined by Hudson Yukon are expected to continue to be located through exploration efforts. These higher grade pockets, although not continuous, could be targeted in a potential open pit operation in order to accelerate the project's pay back.

A large portion of the drill data set does not include Pt, Pd assay as well as the Rh, Ru, Re, Ir, and Os which would potential enhance any sort of economic evaluation of the Wellgreen Property.

Wardrop believes further exploration is warranted to advance the project to move toward a PEA.

Environmental Liabilities

Prophecy Platinum's interest in the Wellgreen Property consists of one surface lease issued by the Government of Canada and administered by the Yukon Government, plus 139 mineral claims. The lease covers a 69.754 hectare parcel of land located at approximately Mile 1111 of the Alaska Highway (the "**Mine Site**") on which historic

exploration activities have been conducted since approximately the 1950's by various operators, and where exploration activities have been carried out by Northern since the late 1990's. The lease was held by Northern from approximately the early 1990's until October 31, 2011. Prior to the expiry of the Mine Site lease, the lease was assigned to Prophecy Platinum which applied for the Mine Site lease to be renewed. Prophecy Platinum is expecting to receive a renewal notice concerning the Mine Site lease in due course.

In addition, with the knowledge and consent of the Yukon Government, Prophecy Platinum also occupies a 62.56 hectare parcel of land located approximately 1 km from the Mine Site and adjacent to the Alaska Highway (the "**Mill Site**") in which Northern held a leasehold interest from approximately the late 1990's until October 31, 2011. The Mill Site was operated by an entity unrelated to Northern, Prophecy Coal or Prophecy Platinum in the early 1970's for approximately one year as a mill site and tailings impoundment (the "**Mill Site**"). Since approximately the late 1990's, Northern has used the Mill Site for its core shack and in order to access the Mine Site. Pursuant to the requirements of the lease for the Mill Site, Northern finalized a reclamation plan (the "**Reclamation Plan**") for the Mill Site which was approved by the Yukon Government in early 2010. Prophecy Platinum took an assignment from Northern of the Mill Site lease prior to its expiry on October 31, 2011. Pursuant to the Reclamation Plan and in accordance with requirements of the lease for the Mill Site, Prophecy Platinum is cleaning up surface debris at the Mill Site and some contaminated soils pursuant to the terms of the Mile Site lease. Such clean-up activities began in 2009 and are ongoing at a total cost of approximately CAD $141,000 - $192,000. The Yukon Government has taken the position that Prophecy Platinum must carry out reclamation activities in relation to the historic tailings impoundment, the former mill infrastructure and related alleged impacts at the Mill Site (the "Historic Liabilities"). In August 2010, Prophecy Platinum advised the Yukon Government that it is not legally responsible or liable for the Historic Liabilities. Prophecy Platinum and the Yukon Government are in discussions concerning responsibility for the Historic Liabilities. A determination of responsibility and liability as well as an investigation of the Historic Liabilities and design of a reclamation plan would be necessary before any final determination could be made of the Historic Liabilities and accordingly same cannot reasonably be determined at this stage.

Prophecy Platinum is working with the Yukon Government toward concluding a lease agreement by which it will obtain a leasehold interest in a portion of the Mill Site, excluding the area containing the Historic Liabilities. Lease negotiations are in process. During the interim period until the finalization of a new surface lease for the Mill Site, the Yukon Government has agreed not to (a) proceed with any enforcement actions against Prophecy Platinum under the Territorial Lands (Yukon Act) relating to its current occupation or use of the lands in the Mill Site, (b) sell, lease or dispose of the Mill Site area without prior reasonable notice to Prophecy Platinum; (c) alter the use of the Mill Site that is being made by Prophecy Platinum without prior reasonable notice or (d) grant any other surface land use rights to persons other than Prophecy Platinum without prior reasonable notice to Prophecy Platinum.

On September 6, 2011, Prophecy Platinum reported that it had prepared and shipped 150kg samples to SGS Minerals Services ("**SGS**") to initiate a metallurgical and mineralogy study on the Wellgreen deposit. The study will focus on optimizing recoveries through conventional flotation to produce a PGM Nickel Copper concentrate. The mineralogy study will facilitate flowsheet conceptualization while closed circuit locked-cycle testing will be conducted to potentially enhance recoveries. The second part of the study will examine downstream treatment options involving pressure oxidation and leaching using the Platsol process, with which companies exploring in the Minnesota Duluth complex have demonstrated success.

Approximately 2,300 meters of drilling was completed on the Wellgreen Property in the 2011 exploration season. Prophecy Platinum is continuing with its drilling program and intends to release results as assays are completed.

Recent Exploration Activities

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

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

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

Furthermore, there is no certainty that the PEA results will be realized. Mineral resources that are not mineral reserve do not have demonstrated economic viability. Prophecy Platinum advises that investors should continually refer to correspondence issued by the Company on an as-required basis. Results based on EMCF pricing assumptions are provided as a sensitivity analysis. Further sensitivity analyses may be found in the PEA executive summary included in the written report filed on SEDAR at www.sedar.com.

5.4 Lynn Lake Property (held by Prophecy Coal's 32.1% Associate Prophecy Platinum)

Property Description and Location

The Lynn Lake Property is located in the historic mining town of Lynn Lake, in northern Manitoba approximately 320 km by road access northwest of the Thompson mining camp. The Lynn Lake Property is located at 56° 51' north latitude, 101° 3' west longitude (UTM 6302600N/375900E on Transverse Mercator Projection, NAD 83 Datum, Zone 14V) which is part of The Pas Mining District, NTS 64C 14.

The Lynn Lake Property is the former Sherritt producing mine site known as the Lynn Lake A mine and Farley mine. Victory holds 30 historic mineral leases covering an area of 590 hectares (ha). The leases are part of the original Sherritt Gordon mining package, which was surveyed during the 1940's. The mineral leases are in good standing and are maintained at a rental fee of $8.00 per hectare, or $150.00 per annum (whichever is greater).

Prophecy Coal (now Prophecy Platinum) has entered into the Lynn Lake Option Agreement with Victory on October 21, 2009, whereby Prophecy has the right to acquire a 100% interest in the Lynn Lake Property. Under the Lynn Lake Option Agreement, Prophecy Platinum may earn a 100% interest in the Lynn Lake property by paying Victory Nickel an aggregate of $4 million, including $1 million due on March 1, 2013 and by incurring an aggregate of $3 million in exploration expenditures on the Lynn Lake property, and by issuing 2,419,548 common shares to Victory Nickel (issued by Prophecy Coal). The October 2009 Option Agreement also provided Victory Nickel with a right to participate in future financings or acquisitions on a pro-rata basis so that Victory Nickel may maintain its 10% interest in the number of outstanding shares of Prophecy Platinum and Prophecy Platinum is subject to a 3% net smelter return royalty.

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

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

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

The Lynn Lake Property contains ten mined out historic zones and other mineralized zones of exploration potential. The resource is contained in the N and O zones were partially developed and partially mined.

Wardrop is not aware of any action that has been taken by any owner, tenant, licensor or occupier of any of the surface rights relating to the Lynn Lake Property (other than ongoing environmental remediation activities being carried out by the Manitoba Government and prior owners) that will in any way encumber, limit, restrict or cause interference with any exploration or mining operations to be carried out by Prophecy Platinum. Moreover, the company does not incur any liability for the existing site contamination as proclaimed by the Provincial Government of Manitoba.

In accordance with the Mines and Minerals Act of Manitoba, a valid prospector's license is required to perform mineral exploration in the Province of Manitoba and any such licensee may perform duties under the Act on behalf of a corporation, syndicate, partnership or limited partnership. No other permits are required prior to advanced exploration while the permitting is underway.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

The Lynn Lake Property was a historic mining area and the site is readily accessible year-round from the Town of Lynn Lake. Lynn Lake is approximately 320 km from Thompson, Manitoba along Provincial Highway 391. Lynn Lake has a population of 714 (Statistics Canada, 2006). There is an airport at Lynn Lake, which is serviced by Calm Air and Perimeter Air. Perimeter Air maintains a regular air schedule into Lynn Lake from Winnipeg with stops in regional communities. A railway line is located at Lynn Lake, which extends south to Flin Flon, Manitoba and from there to the rest of Canada.

Lynn Lake has an annual average temperature of -3 degrees Celsius (°C). The average summer temperature is +22°C with an average winter temperature of -20°C. Annual precipitation averages approximately 530 millimetres (Community Profile, Manitoba).

The climate and vegetation in the Lynn Lake area is typical of northern Manitoba. Most of the area is covered by northern boreal forest, consisting chiefly of jack pine, black spruce and balsam with a few stands of birch and poplar. The Lynn Lake Property consists of patches of northern boreal forest around the former mine infrastructure buildings, mine tailings, waste rock piles, former Farley headframe, core storage areas and five ponds and associated dikes to the north and northwest of Farley shaft. The majority of the property has been levelled by waste rock, tailings and gravel sand mixture material. The relief is low lying consisting of scattered marsh or moss-covered swampy areas.

The previous long existing mining at Lynn Lake and in northern Manitoba confirms the area has adequate resources for a mining operation.

History

The history of mining and exploration on the Lynn Lake Property is summarized in Table 15.

Table 15
History of Mining and Exploration of the Lynn Lake Nickel Mine Property[(1)]

Year	
1941	Austin McVeigh located the discovery outcrop.
1945-1946	Sherritt Gordon (Sherritt) staked 353 claims and conducted exploration (magnetometer surveys and drilling) to outline a 6.8 million ton historic resource averaging 1.74% nickel and 0.75% copper in the A, B, E and EL zones[(1)] In the absence of further clarification from historic documents, these would have to be considered as equivalent to "inferred" resources under CIM terminology

Year	
1948-1950	Sherritt began sinking the A shaft. This, along with geophysical exploration and drilling increased the resource to 14 million tons averaging 1.22% nickel and 0.62% copper [(1)]
1953-1976	Sherritt operated the Lynn Lake Nickel Mine from 1953-1976. During this time they discovered/developed additional zones and commissioned the Farley Shaft in 1961. The mine produced over 22 million tons of ore at a grade of 1.023% Ni and 0.535% copper [(1)]
1977 -1987	Sherrgold Inc., a subsidiary of Sherrit Gordon, acquired ownership of the Property.
1988-1989	LynnGold Resources Inc., owned by Hayes Resources Inc., conducted an assessment of Sherritt's stated a historic reserve of 19.3 million tons grading 0.61% nickel and 0.32% copper (Goodwin, 1988)[(1)] These would probably be equivalent to "proven and probable" reserves under CIM terminology
1989-1992	DCC Equities Hayes Resources Inc. acquired ownership of the Property following the bankruptcy of LynnGold Resources.
1993-2005	Black Hawk Mining Inc. used the Property mill from 1993-2000 to process ore from the Farley Lake open pit gold mine, approximately 36 km east of Lynn Lake. The gold tailings were pumped into the B pit and then into open stopes of the abandoned underground workings on the property and the Farley shaft.
2005-2008	Independent Nickel conducted the following exploration activities: re-established the historic mine grid at 1000 foot intervals, linecutting of 41.75 total line kilometres, an electromagnetic (EM) ground survey, a ground magnetometer survey, borehole EM surveys, an induced polarization (IP) survey, drilled 87 boreholes totalling >28 000 m. Independent Nickel filed a Preliminary Economic Assessment and filed a Pre-Feasibility Study. Both studies are available on SEDAR.
2009	Victory Nickel Inc. acquired Independent Nickel Inc.
2009-present	Prophecy Coal entered into an agreement with Victory Nickel Inc. to acquire the Lynn Lake Nickel Property.
2010	Prophecy Coal completed induced polarization survey and six diamond drill holes totalling 3,330 m.

(1) The preceding historical estimates are disclosed using the historical terminology and summarized by Pinsent, 1980 unless otherwise cited. Wardrop considers the historical estimates relevant and produced within industry standards of the time, though not necessarily reliable.

A qualified person has not done sufficient work to classify the historical estimates as current mineral resources or mineral reserves. Neither Wardrop, nor Prophecy Platinum are treating the historical estimate as current mineral resources or mineral reserves as defined in Sections 1.2 and 1.3 of NI 43-101; and the historical estimate should not be relied upon.

Historic Data Compilation

Wardrop compiled historic data (pre-1976) from the Lynn Lake nickel mine into a digital format as part of a Preliminary Economic Assessment completed in 2006. A total of 3,709 drill holes out of a complete list of greater than 7,800 had their collar positions, surveys, assays, lithologies and other pertinent information manually entered into an Access database. In addition, a total of 395 drawings of sections and plans have been scanned from historic data from the Manitoba Mines Branch and data received from Lynn Lake Nickel. Subsequently these scans were digitized inhouse at Wardrop's Toronto office. This data has been used to create 3D geological solids using Datamine software.

The historic data from the N, O, G, P, and Upper D zones appears to be accurate and complete to the mine closure in 1976. The remaining zones and zones of A, Upper and Lower B, Lower D, E, F, J, K, B-K and M lacked information in more than one of the key areas of drill hole information, mined out areas being identified or geological interpretation. The Lower D zone, however appeared to be only lacking in the area of mined out information and a decision was made not to include any historic in-situ resource from this area at this time.

Comparison of the new model to the historic sectional and plan interpretations indicates a good correlation with historic figures.

Pre-1976 Drilling

The Lynn Lake Property historically was drilled systematically from the main underground levels of 800, 950 (12th level of A mine), 14th Diesel Haulage, 2,000 and 3,000 foot levels with horizontal drill holes spaced laterally every 400 feet out to or near the contact between the intrusive plug and the metavolcanics or metasediments. Unless large amounts of consistent mineralization were intersected in these horizontal drill holes no additional drilling by Sherritt was conducted. When considerable lengths of mineralization and grade were intersected, generally drilling was conducted systematically on 50 foot and then 25 foot intervals and designated an alpha zone or zone identification.

Historic information indicates that the majority of drilling was carried out from underground using either EXT or BM diameter core drilling equipment.

2006-2008 Drilling

Independent Nickel conducted a drill program to test for exploration targets. A total of 87 drill holes were drilled totaling approximately >28,000 metres. All drill planning was done in historic mine grid coordinates and azimuth. Drilling was completed in 3 to 6 meter runs, pulling NQ-size drill core through NW-sized casing. Borehole depth ranged from less than 100 metres to 1,600 metres in core length. Due to the genetic uncertainty and massive character of the A-plug gabbro, true-thicknesses and orientation of mineralized intercepts is not known. Wedged holes were recognized by an alphabetic designation after the original departure hole.

Pre-1976 Sampling Method

Details of the sampling methodologies used by Sherritt during the early years from 1945 initial mine production in 1953 and throughout the mine life to 1976 are not currently available to Wardrop.

Wardrop commented on 23 drill hole core reviewed during a pervious site visit from July 26 to 28, 2005 on the property. The core review objective was to confirm the historical logging and identify any discrepancies from the logging to a visual review.

2006-2008 Sampling Method

Wardrop had not completed a detailed reviewed the data from the 2006 to 2008 diamond drill programs completed by Independent Nickel. Independent Nickel geologists used the sampling procedures outlined below.

Sampling was conducted on logged core in geologically pertinent intervals. These predominantly included intervals containing sulphide mineralization of appreciable semi-quantitative content, typically 5% or greater, plus unmineralized or sparsely mineralized “shoulders.” The geologist exercises discretion in all sampling and shoulder sizes. Sample length was never less than 10 centimetres and did not exceed 2 metres. Sample parsing was based on rock type, mineral occurrence, alteration and uniformity of sulphide content.

Geological Setting

Regional Geology

The Lynn Lake Greenstone Belt of northern Manitoba, hosting the nickel and copper deposits, is part of the deformed Precambrian metasedimentary and metavolcanic rocks belonging to the Wasekwan Group (Bateman, 1945) as shown in Figure 7.1 of the Lynn Lake Report.

The Wasekwan Group is divided into two east-trending belts, referred to as the northern and southern Lynn Lake belts (Park et al, 2002). The northern portion of the belt is overlain by Ralph Lake conglomerate and Zed Lake greywacke and the southern portion is overlain by a metasedimentary succession, known as the Sickle Group. The

belt is bounded to the south by the Kisseynew metasedimentary domain and to the north by the Southern Indian Domain and stretches from the Manitoba- Saskatchewan border in the west to Southern Indian Lake in the east.

The Lynn Lake nickel and copper deposits, mined from 1953 to 1976, occur within two adjacent mafic to ultramafic intrusive igneous plutons of the Lynn Lake Greenstone Belt known as the Wasekwan Group that is overlain by the Sickle Group.

The following sections on geological setting have been extracted from "Nickel- Copper Mineralization in the Lynn Lake Gabbro" (Pinsent, 1980).

The relationship between the Sickle and the Wasekwan group, from a structural and stratigraphic viewpoint, show little discordance between the northern and southern portion of the belt. Sickle Group metaconglomerates unconformably overlie the Wasekwan Group metavolcanic and post-date the Wasekwan tonalite intrusion within the belt.

Three sub-circular intermediate to acid igneous plutonic complexes divide the Greenstone Belt into northern and southern belts along an east to west access. The igneous plugs of gabbroic composition have intruded these Wasekwan Group metavolcanic north and south of this axis.

The Wasekwan Group at Lynn Lake consists of a homoclinal sequence of metavolcanic and metasedimentary rocks. A thicker body of felsic volcanic rocks then underlies a mafic to felsic succession of interlayered metavolcanic flows of tuffs and breccias. This is further overlain by a fine to coarse-grained metasediments and a mafic to intermediate metavolcanic flows and breccias that locally show iron formation occurrences. This diverse lowermost metavolcanic unit in the Town of Lynn Lake may represent proximity to a volcanic centre. Stratigraphy of Lynn Lake is steeply dipping or vertical to the northwest with a strike of 065° azimuth. Metamorphism of staurolite subfacies of the lower amphibolite facies is the regional metamorphism of the stratigraphy.

Local Geology and Property Geology

The Lynn Lake A plug mafic to ultramafic igneous pluton of nickel and copper mineralization as been identified in the following alpha nomenclature by Sherritt as A, B, C, D, E-J, F-K, G, M-N, O and P zones. The near vertical pluton with a size of three kilometres by 1.5 kilometres intruded the Wasekwan metasediments and metavolcanics near parallel to the structural trend of the Greenstone rocks at a northeast to southwest strike. The contact of the pluton and Greenstone Belt intersects a thick unit of brecciated to massive rhyolite flows on the northwest contact and a unit of interlayered tuff flows of intermediate to mafic composition on the southeast contact. The igneous pluton and volcanic contact is sheared and has been cut-off by the Lynn Lake fault or Griffith shear on the southern end of the plug with a trend of 315° and a dip of 50° to the northeast.

Currently, the discovery outcrop adjacent to and southeast of the A shaft is the only area that has not been covered by waste rock from open pit mining or by mill tailings.

The known zones occur in the western half of the A plug associated with more mafic to ultramafic rock types of gabbro, amphibolite and peridotite in three main centres within the pluton (MaCauley, 1962) as follows (see also Figure 7.2 of the Lynn Lake Report):

- A, C, Upper D, Lower D, E and J zones at the north end of the plug situated around the A shaft area.
- B, F, K and B-K zones that lie west of the Farley shaft in the middle of the A plug, O, N and P zones at the south end of the A plug.

An assemblage of intermixed amphibolite, gabbro containing peridotite bodies, mottled quartz-biotite diorite, quartz hornblende diorite and mineralized rock types define the A plug geology.

The Lynn Lake fault or Griffith shear defines the southern contact of the A plug and the O fault disrupts and offsets the O and N zones. These two major reverse faults strike northwest and dip moderately to the northeast. The reverse

movement on the O fault has caused sections of the O and N zones to be thrusted southwest over the Wasekwan Group country rock below the 3,500 foot level. The Lynn Lake fault with a similar sense of movement has moved the weakly mineralized portions of the O and N to the southwest over the Wasekwan. The mineralized portions of the N and O zone lie between the two faults from the 1,600 and 3,500 foot levels. If the known weakly mineralized M zone, which lies at surface, is the thrusted hangingwall equivalent of the N zone the offset of the faulting is on the order of 500 to 600 metres. The O zone pipe thrusted hanging wall extension has not been located or the footwall truncated portion of the Lower O zone.

The Lynn Lake fault has not shown evidence of intersecting or truncating the B, K, or B-K zones and may possibly steepen at depth. The A zone has been truncated to the west due to movement on the footwall A fault at the 15th and 18th levels of the A Mine, which strikes north and dips to the east. The C zone has been displaced in similar fashion to the A zone due to the C fault on the 14th level and may also have offset the E and J zones. Movement on the C zone has similar displacement as the A fault.

All the zones appear to be affected somewhat by faulting, causing successively higher sections of the A, C, E and J zones to be thrusted to the east. In general, the few in number easterly dipping reverse faults exhibit appreciable movement, while the westerly dipping imbricate reverse faults are more abundant with little disruption and deformation of the zones. The faulting probably continued throughout the plug evolution, while the easterly dipping faults appear to predate the westerly dipping faults, with the age of faulting being uncertain. Mafic dykes, which are associated with the fault planes, have been metamorphosed while deformation pre-dates the final phase of metamorphism.

Mineralization

The Lynn Lake Property contains ten zones of mineralization; A, B, C, D (Upper and Lower), EJ, F-K, G, M-N, O, and P and several areas of sub-economic mineralization. The relative location of the mineralized zones is illustrated in Figure 4.3 of the Lynn Lake Report.

Of the ten zones, only the Upper and Lower N, O, and G zones are the subject of the Lynn Lake Report. They are the main targets for development, as they were lower grade at the time of mine closure and remain either selectively mined or undeveloped. The nickel and copper mineralization of the A Plug pipes and zones consists primarily of pyrrhotite, pentlandite and chalcopyrite and minor amounts of pyrite and trace of sphalerite, magnetite and ilmenite.

Drilling

Historical Drilling

The Lynn Lake Property historically was drilled systematically from the main underground levels of 800, 950 (12th level of A mine), 14th Diesel Haulage, 2,000 and 3,000 ft levels with horizontal drill holes spaced laterally every 400 ft out to or near the contact between the intrusive plug and the metavolcanics or metasediments. Unless large amounts of consistent mineralization were intersected in these horizontal drill holes no additional drilling by Sherritt was conducted. When considerable lengths of mineralization and grade were intersected, generally drilling was conducted systematically on 50 foot and then 25 foot intervals and designated an alpha orebody or zone identification.

Historic information indicates that the majority of drilling was carried out from underground using either EXT or BM diameter core drilling equipment.

Between 2006 and 2008, Independent Nickel conducted a drill program to test for exploration targets. A total of 87 drill holes were drilled (LLN-001 to LLN-087) totalling approximately 28,000 m.

All drill was done in historic mine grid coordinates and azimuth. Drilling was completed in 3 to 6 m runs, pulling NQ-size drillcore through NW-sized casing. Borehole depth ranges from less than 100 m to 1,600 m in core length. Due to the genetic uncertainty and massive character of the A-plug gabbro, true-thicknesses and orientation of mineralized intercepts is not known.

Prophecy Platinum Drilling

Prophecy Platinum completed six diamond drill holes in 2010 totalling approximately 3,330 m. All drill was done in historic mine grid coordinates and azimuth. Drilling was done by Foraco Drilling, an international drilling company with several offices in Canada. Drilling was completed in 3 to 6 m runs, pulling NQ-size drillcore through NW-sized casing. Borehole depth ranges from 400 m to 700 m in core length.

Length is displayed in terms of core length. Due to the variability of the mineralized zones and the various orientations at which the drillholes cut the zone, true widths cannot be determined.

Sampling Method and Security

Prophecy Platinum is using sampling procedures outlined below. Sampling is conducted on logged core in geologically pertinent intervals. These predominantly include intervals containing sulphide mineralization of appreciable semi-quantitative content, typically 5% or greater, plus un-mineralized or sparsely mineralized "shoulders." The geologist exercises discretion in all sampling and shoulder sizes. Samples lengths were never less than 10 cm and did not exceed 2 m. Sample parsing was based on rock type, mineral occurrence, alteration and uniformity of sulphide content.

The predominant rock type in the 'A'-plug is a mafic intrusive, typically as gabbros, norites, and amphibolites. Mineralization rarely occurs in rocks outside these fields. Peridotite is known to occur in the main mass of the intrusion but is not common, and its location is well defined in the historic drill data.

Details of the sample preparation, analyses and security of the pre-1976 data are not known to Wardrop. However, during the period of mine operation, the samples were prepared and analyses were completed at the mine Property sill complex. During the 2006-2008 drill programs, Independent Nickel geologists used the sample preparation outlined below:

Samples were prepared by an employee and sawn in half on site at a designated logging facility located in Lynn Lake, Manitoba. Upon splitting, samples were removed from the cutting room to a separate area for bagging. Standard and blank samples were inserted every 20th and 21st sample respectively. Standard material used was from the Certified Chemical Reference Materials Project (CCRMP) as managed by the Natural Resources Canada (NRCAN). Each sample was bagged and sealed with ties to ensure no interaction between samples before they were sent by freight to the laboratory for analyses.

Samples were shipped to the ALS Chemex preparation laboratory in Thunder Bay, Ontario where each sample was weighed, crushed to > 70% -2 millimetres, split off and pulverized up to 250 grams to > 85% - 75 micron before being shipped to an analytical laboratory in Vancouver, British Columbia. Samples were assayed for nickel, copper and cobalt, using an atomic absorption method (AA) for up two analyses depending on results. Nickel and cobalt have a 2-10,000 parts per million detection limit and 1-10,000 parts per million detection limit for copper. Samples that exceed 10,000 parts per million were further analyzed and reported as a percent. Prophecy Platinum, palladium and gold analyses were conducted using ICP-AES method.

All standard material (SRM) data were verified using scatter and Thompson-Howarth quality control plots. Wardrop have not reviewed the results of the SRM data and cannot comment on the validity of the results. Diamond drill core and metallurgical samples are stored on site and are generally in good condition.

Wardrop is of the opinion that the samples preparation, security and analytical procedures used during the 2006 to 2008 drill programs meet industry standards at the time and are reliable.

Prophecy Platinum Drilling

The 2010 drilling conducted by Prophecy Platinum followed the same sample preparation and analysis procedures as conducted by Independent Nickel from 2006 to 2008. Wardrop is of the opinion that the samples preparation,

security and analytical procedures used during the 2010 drill programs meet industry standards at the time and are reliable.

Mineral Resource and Mineral Reserve Estimate

The mineral resource for the Lynn Lake Nickel Project is tabulated using NIEQ greater than 0.3% and displaying every 0.1% to an upper bound of greater than 1.0% NIEQ.

Based on the previous work completed on the project, a 0.4% NiEQ cut-off was used to tabulate the total within the various categories. Table 16 summaries the resource estimate at the 0.4% NiEQ cut-off.

Table 16
Resource Totals

Zone	Category	NiEQ% Cut-off	Tons	Nickel %	Copper %	GMV US$	NiEQ%	Ni lbs	Cu lbs
Measured & Indicated Resource									
N	MEAS	>=0.4	461,496	0.84	0.41	151.82	1.05	7,753,133	3,784,267
O	MEAS	>=0.4	556,062	0.70	0.32	125.94	0.87	7,784,868	3,558,797
Total	**MEAS**	**>=0.4**	**1,017,558**	**0.76**	**0.36**	**137.68**	**0.95**	**15,538,001**	**7,343,064**
N	IND	>=0.4	12,680,895	0.56	0.31	102.80	0.71	142,026,024	78,621,549
O	IND	>=0.4	9,203,226	0.57	0.28	103.06	0.71	104,916,776	51,538,066
Total	**IND**	**>=0.4**	**21,884,121**	**0.56**	**0.30**	**102.91**	**0.71**	**246,942,800**	**130,159,615**
Total	**MEAS+IND**		**22,901,679**	**0.57**	**0.30**	**104.45**	**0.72**	**262,480,801**	**137,502,679**
Inferred Resource									
N	INF	>=0.4	6,948,371	0.49	0.28	90.38	0.63	68,094,036	38,910,878
O	INF	>=0.4	703,658	0.50	0.26	91.21	0.63	7,036,580	3,659,022
G	INF	>=0.4	422,990	0.76	0.36	137.16	0.95	6,429,448	3,045,528
Total	**INF**		**8,075,019**	**0.51**	**0.28**	**92.90**	**0.65**	**81,560,064**	**45,615,427**

Interpretation and Conclusions

Based on the drill hole density and historical production within the zones estimated, the data is sufficiently reliable to support the resource estimate generated for the N, O and G zones.

At a nickel equivalent cut-off grade of 0.4% NiEQ, the N and O zones contain a Measured and Indicated Resource of about 22.9 million tons with an average grade of 0.57% nickel and 0.30% copper. The Inferred Resource totals 8.1 million tons with an average grade of 0.51% nickel and 0.28% copper in the N, O and G zones.

The tonnage factor values derived from computed calculations are based on a limited amount of sampled information, which may reflect a lack of precision with respect to the resource tonnages.

The geological interpretation completed was based on nickel-equivalent cut-off of 0.3% and did not establish hard or soft boundaries between various lithological units. These boundaries were not established due to inconsistencies in the drill hole logging throughout the 24 year mine life. Note that cut-offs essentially create great contacts in generally a mineralized rock, that is dilution is essentially at the cut-off grade but, the mineralization is not necessarily always contained along lithological boundaries due to fracturing and faulting and the remobilized nature of the deposit.

5.5 Shakespeare Property (held by Prophecy Coal's 32.1% Associate Prophecy Platinum)

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

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

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

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

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

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

On May 27, 2010, URSA declared commercial production at the Shakespeare open pit property, and direct shipping of mineralized material to a third party mill (Strathcona) for toll processing; to which open pit production was for twenty months until January 27, 2012. On December 13, 2011, URSA announced that it had limited operations at the Shakespeare property to crushing of existing broken ore, ore sampling and trucking operations as a consequence of reduced base metals prices. On February 3, 2012, URSA announced it had temporarily suspended operations at the Shakespeare property following the expiration, on December 31, 2011, of the toll milling agreement in place with Xstrata, which has not been extended.

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

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

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

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

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

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

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

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

Notes:

- CIM definitions were followed for Mineral Resources.
- The Qualified Persons for this Mineral Resource estimate are: Richard Routledge, M.Sc. (Applied), P.Geo., Eugene Puritch, P.Eng, and Antoine Yassa, P. Geo.
- Mineral Resources are estimated by conventional 3D block modeling based on wire framing at a $50/tonne NSR cut-off and ordinary kriging grade interpolation.
- Metal prices for the estimate are: US$3.69/lb Cu, US$9.46/lb Ni, US$1,595/oz Pt, US$590/oz Pd, US$1,396/oz Au and US$18.50/lb Co based on a three-year trailing average as of July 31, 2012.
- A uniform bulk density of 3.01 tonnes/m3 has been applied for volume to tonnes conversion.
- Underground Mineral Resources are estimated beneath the bottom of the 2006 feasibility study pit at approximately 80 m elevation (258 m depth) to the -294 m elevation (632 m depth).
- Mineral Resources are classified as Indicated and Inferred based on drill hole spacing and geologic continuity.
- Overall revenue contribution expected from payable metals in the NSR calculation is 30% Cu, 52% Ni and 18% for combined Co, Au, Pt and Pd.
- Mineral resources, which are not mineral reserves, do not have demonstrated economic viability. The

estimate of mineral resources may be materially affected by environmental, permitting, legal, title, taxation, socio-political, marketing, or other relevant issues. There is no certainty that all or any part of the Inferred Mineral Resource will be upgraded to an Indicated or Measured Mineral Resource as a result of continued exploration.

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

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

During Q4,2012, exploration consisted of two additional step-out drilling holes between the East and West Zones followed by a down the hole UTEM electro-magnetic geophysics program. Drill hole 137 was completed to a depth of 597 metres and drill hole 134 to a depth of 714 metres. The sampling / assay program as well as the interpretation of the geophysics data is expected to be completed in Q1 2013.

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

6. RISK FACTORS

The Corporation is in the business of acquiring, exploring and developing mineral properties, and is exposed to a number of risks and uncertainties that are common to other junior mineral exploration companies in the same business. The mining industry is capital intensive at all stages and is subjected to variations in commodity prices, market sentiment, exchange rates for currency, inflation and other risks. The Corporation currently has no other source of revenue other than interest on cash balances. The Corporation will rely mainly on equity financing to fund its exploration and development activities.

History of Net Losses; No Foreseeable Positive Cash Flow

The Corporation has not received any material revenue or net profit to date from the exploitation activities on its Ulaan Ovoo Property. Exploration and development of mineral properties requires large amounts of capital and usually results in accounting losses for many years before profitability is achieved, if ever. The Corporation has incurred losses and negative operating cash flow during its most recently completed financial year and for the current financial year to date. The Corporation believes that commercial mining activity is warranted on its Ulaan Ovoo Property but has not made this determination for any of its other properties. Even if the Corporation undertakes further development activity on its Ulaan Ovoo Property or any of its other properties, there is no certainty that the Corporation will produce revenue, operate profitably or provide a return on investment in the future.

The exploration of the Corporation's properties depends on the Corporation's ability to obtain additional required financing. There is no assurance that the Corporation will be successful in obtaining the required financing, which could cause it to postpone its exploration plans or result in the loss or substantial dilution of its interest in its properties.

Exploration, Development and Production Risks

The exploration for and development of minerals involves significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate. Few properties which are explored are ultimately developed into producing mines. There can be no guarantee that the estimates of quantities and qualities of minerals disclosed will be economically recoverable. With all mining operations there is uncertainty and, therefore, risk associated with operating parameters and costs resulting from the scaling up of extraction methods tested in pilot

conditions. Mineral exploration is speculative in nature and there can be no assurance that any minerals discovered will result in an increase in the Corporation's resource base.

The Corporation's operations are subject to all of the hazards and risks normally encountered in the exploration, development and production of minerals. These include unusual and unexpected geological formations, rock falls, seismic activity, flooding and other conditions involved in the extraction of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although precautions to minimize risk will be taken, operations are subject to hazards that may result in environmental pollution, and consequent liability that could have a material adverse impact on the business, operations and financial performance of the Corporation.

Substantial expenditures are required to establish ore reserves through drilling, to develop metallurgical processes to extract the metal from the ore and, in the case of new properties, to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained on a timely basis. The economics of developing coal, nickel and other mineral properties is affected by many factors including the cost of operations, variations in the grade of ore mined, fluctuations in metal markets, costs of processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. The remoteness and restrictions on access of properties in which Prophecy Coal will have has an interest will have an adverse effect on profitability as a result of higher infrastructure costs. There are also physical risks to the exploration personnel working in the terrain in which Prophecy Coal's properties are located, often in poor climate conditions.

The long-term commercial success of Prophecy Coal depends on its ability to find, acquire, develop and commercially produce coal. No assurance can be given that Prophecy Coal will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, Prophecy Coal may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic.

No History of Profitable Mineral Production

The Corporation has no history of commercially producing metals from its mineral exploration properties and there can be no assurance that it will successfully establish mining operations or profitably produce coal or other base and precious metals.

None of the Corporation's properties, other than the Ulaan Ovoo Property, are currently under development. The future development of any properties found to be economically feasible will require the construction and operation of mines, processing plants and related infrastructure. As a result, the Corporation is subject to all of the risks associated with establishing new mining operations and business enterprises, including:

- the timing and cost of the construction of mining and processing facilities;
- the availability and costs of skilled labour and mining equipment;
- the availability and cost of appropriate smelting and/or refining arrangements;
- the need to obtain necessary environmental and other governmental approvals and permits and the timing of those approvals and permits; and
- the availability of funds to finance construction and development activities.

The costs, timing and complexities of mine construction and development are increased by the remote location of Prophecy Coal's mining properties. It is common in new mining operations to experience unexpected problems and delays during development, construction and mine start-up. In addition, delays in the commencement of mineral

production often occur. Accordingly, there are no assurances that Prophecy Coal's activities will result in profitable mining operations or that Prophecy Coal will successfully establish mining operations or profitably produce coal or other metals at any of its properties.

Commencing Mine Development Activities without a Feasibility Study

The Corporation commenced mining development activities on the Ulaan Ovoo Property without having completed a feasibility study on the Ulaan Ovoo Property. There are certain risks and uncertainties associated with commencing production without a feasibility study. The deposit may lack all geological, engineering, legal, operating, economic, social, environmental, and other relevant factors which may be required to serve as a reasonable basis for a financial institution to finance the development of the deposit for mineral production. Additionally, the outcome of the feasibility study may not be positive or optimal for the production scale being initiated.

Mineral Resources and Reserves

Apart from Ulaan Ovoo, all of the properties in which the Corporation holds an interest are considered to be in the exploration or development stage only and do not contain a known body of commercial minerals. The figures for the Corporation's resources and reserves are estimates based on interpretation and assumptions and may yield less mineral production under actual conditions than is currently estimated. Unless otherwise indicated, mineralization figures presented in this AIF and in the Corporation's other filings with securities regulatory authorities, press releases and other public statements that may be made from time to time are based upon estimates made by the Corporation's personnel and independent geologists. These estimates are imprecise and depend upon geological interpretation and statistical inferences drawn from drilling and sampling analysis, which may prove to be unreliable. There can be no assurance that:

- these estimates will be accurate;
- resource or other mineralization figures will be accurate; or
- this mineralization could be mined or processed profitably.

Because the Corporation has not commenced production at any of its properties, other than Ulaan Ovoo, and has not defined or delineated any proven or probable reserves on any of its properties, other than Ulaan Ovoo, mineralization estimates for Prophecy Coal's properties may require adjustments or downward revisions based upon further exploration or development work or actual production experience. In addition, the grade of ore ultimately mined, if any, may differ from that indicated by drilling results. There can be no assurance that minerals recovered in small-scale tests will be duplicated in large-scale tests under on-site conditions or in production scale.

The resource and reserve estimates contained in this AIF and in the documents incorporated herein by reference have been determined and valued based on assumed future prices, cut-off grades and operating costs that may prove to be inaccurate. Extended declines in market prices for coal or other metals may render portions of Prophecy Coal's mineralization uneconomic and result in reduced reported mineralization. Any material reductions in estimates of mineralization, or of Prophecy Coal's ability to extract this mineralization, could have a material adverse effect on Prophecy Coal's results of operations or financial condition.

The Corporation has not established the presence of any proven and probable reserves at any of its mineral properties other than the Ulaan Ovoo Property. There can be no assurance that subsequent testing or future studies will establish proven and probable reserves at any of Prophecy Coal's properties. The failure to establish proven and probable reserves could restrict Prophecy Coal's ability to successfully implement its strategies for long-term growth.

Capital Costs, Operating Costs, Production and Economic Returns

Actual capital costs, operating costs, production and economic returns may differ significantly from those the Corporation has anticipated and there are no assurances that any future development activities will result in profitable mining operations. The capital costs required to take the Corporation's projects into production may be significantly higher than anticipated.

None of the Corporation's mineral properties, including the Ulaan Ovoo Property, have sufficient operating history upon which the Corporation can base estimates of future operating costs. Decisions about the development of these and other mineral properties will ultimately be based upon feasibility studies. Feasibility studies derive estimates of cash operating costs based upon, among other things:

- anticipated tonnage, grades and metallurgical characteristics of the ore to be mined and processed;
- anticipated recovery rates metals from the ore;
- cash operating costs of comparable facilities and equipment; and
- anticipated climatic conditions.

Cash operating costs, production and economic returns, and other estimates contained in studies or estimates prepared by or for the Corporation, including the Ulaan Ovoo pre-feasibility study or other feasibility studies, if prepared, may differ significantly from those anticipated by the Corporation's current studies and estimates, and there can be no assurance that Prophecy Coal's actual operating costs will not be higher than currently anticipated.

Foreign Operations and Political Conditions

The Corporation's current principal exploration properties are located in Mongolia and those of its 32.1% associate company, Prophecy Platinum, Canada. In Mongolia, its operations may be exposed to various levels of political, economic, and other risks and uncertainties. These risks and uncertainties include, but are not limited to political and bureaucratic corruption and uncertainty, terrorism; hostage taking; military repression; fluctuations in currency exchange rates; high rates of inflation; labour unrest; the risks of civil unrest; expropriation and nationalization; renegotiation or nullification of existing concessions, licenses, permits and contracts; illegal mining; changes in taxation policies; restrictions on foreign exchange and repatriation; and changing political conditions, currency controls, and governmental regulations that favour or require the awarding of contracts to local contractors, or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

Future political and economic conditions may result in a government adopting different policies with respect to foreign development and ownership of mineral resources. Any changes in policy may result in changes in laws affecting ownership of assets, foreign investment, taxation, rates of exchange, resource sales, environmental protection, labour relations, price controls, repatriation of income, and return of capital which may affect both the ability of the Corporation to undertake exploration and development activities in respect of future properties in the manner currently contemplated, as well as its ability to continue to explore, dev elop, and operate those properties to which it has rights relating to exploration, development, and operations.

The Corporation's Ability to Carry On Business in Mongolian is Subject to Legal and Political Risk

Currently, the Corporation is materially dependent upon its foreign operations in Mongolia. Any changes in regulations or shifts in political attitudes in Mongolia are beyond the control of the Corporation and may adversely affect its business, financial condition and prospects. The Mongolian legal system shares several of the qualitative characteristics typically found in a developing country and many of its laws, particularly with respect to matters of taxation, are still evolving. A transaction or business structure that would likely be regarded under a more established legal system as appropriate and relatively straightforward might be regarded in Mongolia as outside the scope of existing Mongolian law, regulation or legal precedent. As the legal framework in Mongolia is in many instances based on recent political reforms or newly enacted legislation which may not be consistent with long-

standing conventions and customs, certain business arrangements or structures and certain tax planning mechanisms may carry significant risks. In particular, when business objectives and practicalities dictate the use of arrangements and structures that, while not necessarily contrary to settled Mongolian law, are sufficiently novel within a Mongolian legal context, it is possible that such arrangements may be invalidated.

The legal system in Mongolia has inherent uncertainties that could limit the legal protections available to the Corporation, which include (i) inconsistencies between laws; (ii) limited judicial and administrative guidance on interpreting Mongolian legislation; (iii) substantial gaps in the regulatory structure due to delay or absence of implementing regulations; (iv) the lack of established interpretations of new principles of Mongolian legislation, particularly those relating to business, corporate and securities laws; (v) a lack of judicial independence from political, social and commercial forces; and (vi) bankruptcy procedures that are not well developed and are subject to abuse. The Mongolian judicial system has relative little experience in enforcing the laws and regulations that currently exist, leading to a degree of uncertainty as to the outcome of any litigation, it may be difficult to obtain swift and equitable enforcement, or to obtain enforcement of a judgment by a court of another jurisdiction.

In addition, while legislation has been enacted to protect private property against expropriation and nationalisation, due to the lack of experience in enforcing these provisions and political factors, these protections may not be enforced in the event of an attempted expropriation or nationalisation. Whether legitimate or not, expropriation or nationalisation of any of Prophecy Coal's assets, or portions thereof, potentially without adequate or any compensation, could materially and adversely affect its business and results of operations. In addition, there can be no assurance that neighbouring countries' political and economic policies in relation to Mongolia will not have adverse economic effects on Prophecy Coal's business, including its ability to transport and sell its product and access construction labour, supplies and materials.

Recent and future amendments to Mongolian laws could adversely affect the Corporation's mining rights in the Ulaan Ovoo Project or its other projects, or make it more difficult to expensive to develop such projects and carry our mining.

The Government of Mongolia has, in the past, expressed its desire to foster, and has to date protected the development of, an enabling environment for foreign direct investment. However, there are political constituencies within Mongolia that have espoused ideas which would not be regarded by the international mining industry as conducive to foreign investment if they were to become law or official government policy. There can be no assurance that future political and economic conditions in Mongolia will not result in the Mongolian Government adopting different policies in relation to foreign development and ownership of mineral resources. Any such changes in government or policy may result in changes in laws affecting ownership of assets, environmental protection, labour relations, repatriation of income, return of capital, investment agreements, income tax laws, royalty regulation, government incentive and other areas, each of which may materially and adversely affect Prophecy Coal's ability to undertake exploration and development activities in the manner currently contemplated.

In 2006, the Mongolian Government enacted a new minerals law. The 2006 Minerals Law, which preserves, to a limited extent, some of the substance of the former minerals legislation of 1997 minerals legislation, was drafted with the assistance of legal experts in the area of mining legislation and was widely regarded as progressive, internally consistent and effective legislation. However, the 2006 Minerals Law contains new provisions that have increased the potential for political interference and weakened the rights and security of title holders of mineral tenures in Mongolia. Certain provisions of the 2006 Minerals Law are ambiguous and it is unclear how they will be interpreted and applied in practice. Examples of such provisions include those relating to the designation of a mineral deposit as a Mineral Deposit of Strategic Importance. The Mongolian Government could determine that any one or more of the Corporation's projects in Mongolia is a Mineral Deposit of Strategic Importance.

On July 16, 2009, Parliament enacted a new law (the "**Prohibition Law**") that prohibits minerals exploration and mining in areas such as headwaters of rivers and lakes, forest areas as defined in the Forest Law of Mongolia and areas adjacent to rivers and lakes as defined in the Law on Water of Mongolia. Pursuant to the Prohibition Law, the Mongolian government was instructed to define the boundaries of the areas in which exploration and mining would be prohibited. New exploration licenses and mining licenses overlapping the defined prohibited areas will not be granted —and previously granted licences that overlap the defined prohibited areas will be terminated within five

months following the adoption of the law. The Prohibition Law provides that affected licence holders shall be compensated, but there are no specifics as to the way such compensation will be determined.

The Mineral Resources Authority of Mongolia ("**MRAM**") has prepared a draft list of licences that overlap with the prohibited areas described in the Prohibition Law. Six of the Corporation's exploration licenses included on MRAM's draft list of licenses may be included on the final list published by the Mongolian Government. This could potentially affect the status of those licenses. Specifically, on July 16, 2010, the Corporation received a notice from MRAM of the potential revocation of these licenses. However, on October 12, 2010, the Corporation received a further notice from MRAM invalidating its prior notice of potential revocation.

On November 18, 2010 the Mongolian Government announced its intention to initiate the revocation of licenses under the Prohibition Law on a staged basis, beginning with the revocation of 254 mineral licenses. None of the licenses held by the Corporation is on this list

Lastly, any restrictions imposed, or Mongolian Government charges levied or raised (including royalty fees), under Mongolian law for the export of coal could harm the Corporation's competitiveness.

Permits and Licenses

The Corporation's activities are subject to government approvals, various laws governing prospecting, development, land resumptions, production taxes, labour standards and occupational health, mine safety, toxic substances and other matters, including issues affecting local native populations. Although the Corporation believes that its activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development. Amendments to current laws and regulations governing operations and activities of exploration and mining, or more stringent implementation thereof, could have a material adverse impact on the business, operations and financial performance of the Corporation. Further, the mining licenses and permits issued in respect of its projects may be subject to conditions which, if not satisfied, may lead to the revocation of such licenses. In the event of revocation, the value of the Corporation's investments in such projects may decline.

In Mongolia, the Corporation's exploration licences are subject to periodic renewal and may only be renewed a limited number of times for a limited period of time. While the Corporation anticipates that renewals will be issued as and when they are sought, there is no assurance that such renewals will be given as a matter of course and there is no assurance that new conditions will not be imposed in connection therewith. The Corporation's business objectives may also be impeded by the costs of holding and/or renewing the exploration licences in Mongolia. Licence fees for exploration licences increase substantially upon the passage of time from the original issuance of each individual exploration licence. The Corporation needs to assess continually the mineral potential of each exploration licence, particularly at the time of renewal, to determine if the costs of maintaining the exploration licences are justified by the exploration results to date, and may elect to let some of its exploration licences lapse. Furthermore, the Corporation will require mining licences and permits to mine in order to conduct mining operations in Mongolia. There can be no assurance, however, that such licences and permits will be obtained on terms favourable to it or at all for the Corporation's future intended mining and/or exploration targets in Mongolia.

Chandgana Power Plant Project Challenges

Prophecy Coal has been in discussions with the Mongolian government to finalize the PPA that will enable Prophecy Coal to seek project financing and begin construction of a power plant at Chandgana. Prophecy Coal has also had discussions with the Mongolian Ministry to discuss technical and commercial issues relating to the Chandgana power plan. On September 6, 2012, Prophecy Power, formally submitted its PPA proposal to NETGCO. The proposed PPA details the terms under which Prophecy Power would be prepared to supply power to NETGCO.

In addition to entering into a PAA and obtaining all required licences and permits for the construction and operation of the Chandgana power plant, any power plant development would be subject to large financing requirements (in the magnitude of an estimated $800 million) as well as technical studies to confirm the technical and economic

feasibility of a power plant supplied by Chandgana Tal coal to produce the power and secure a long-term power purchase contract for the proposed plant's electrical power output. There can be no assurance that such financing can be obtained on favourable terms or at all, that such technical studies will yield positive results. Prophecy Coal also does not have experience constructing or operating coal fired power plants or qualified personnel to do so, and will have to rely on contractors or potential partners to supply such expertise.

Title to Mineral Properties

Title to mineral properties, as well as the location of boundaries on the grounds may be disputed. Moreover, additional amounts may be required to be paid to surface right owners in connection with any mining development. At all of such properties where there are current or planned exploration activities, the Corporation believes that it has either contractual, statutory, or common law rights to make such use of the surface as is reasonably necessary in connection with those activities. Although the Corporation believes it has taken reasonable measures to ensure proper title to its properties, there is no guarantee that title to its properties will not be challenged or impaired. Successful challenges to the title of the Corporation's properties could impair the development of operations on those properties.

Environmental Risks

All phases of the mining business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions, and state and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills and releases or emissions of various substances produced in association with mining operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Corporation and cause increases in capital expenditures, production costs or reduction in levels of production at producing properties, or require abandonment or delays in the development of new mining properties.

Competition

The mining industry in general is intensely competitive and there is no assurance that, even if commercial quantities of ore are discovered, a ready market will exist for the sale of same. Marketability of natural resources which may be discovered by Prophecy Coal will be affected by numerous factors beyond the control of Prophecy Coal, such as market fluctuations, the proximity and capacity of natural resource markets and processing equipment, government regulations including regulations relating to prices, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of such factors cannot be predicted but they may result in Prophecy Coal not receiving an adequate return on its capital.

Lack of Infrastructure

The Corporation has projects located in extremely remote areas which currently lack basic infrastructure, including sources of electric power, water, housing, food and transport necessary to develop and operate a major mining project. While the Corporation has established the limited infrastructure necessary to conduct its exploration and development activities in Mongolia, substantially greater source of power, water, physical plant and transport infrastructure in the area will need to be established before the Corporation can conduct mining operations. Lack of availability of the means and inputs necessary to establish such infrastructure may adversely affect mining feasibility. Establishing such infrastructure will, in any event, require significant financing, identification of adequate sources of raw materials and supplies and necessary approvals from national and regional governments, none of which can be assured.

Key Personnel

The Corporation depends on a number of key personnel, including its directors and executive officers, the loss of any one of whom could have an adverse effect on the Corporation's operations. The Corporation has employment contracts with several key personnel and does not have key man life insurance.

The Corporation's ability to manage growth effectively will require it to continue to implement and improve management systems and to recruit and train new employees. The Corporation cannot assure that it will be successful in attracting and retaining skilled and experienced personnel.

Uninsured Risks

The Corporation's business is subject to a number of risks and hazards, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to the Corporation's properties or the properties of others, delays in development or mining, monetary losses and possible legal liability.

Although the Corporation maintains insurance to protect against certain risks in amounts that it considers reasonable, its insurance will not cover all the potential risks associated with its operations. The Corporation may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Corporation or to other companies in the mining industry on acceptable terms. The Corporation may also become subject to liability for pollution or other hazards which may not be insured against or which the Corporation may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Corporation to incur significant costs that could have a material adverse effect upon its financial performance, results of operations and business outlook.

Fluctuating Market Prices

The Corporation's revenues, if any, are expected to be in large part derived from the mining and sale of coal and other minerals. The prices of those commodities has fluctuated widely, particularly in recent years, and are affected by numerous factors beyond the Corporation's control including international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and increased production due to new mine developments and improved mining and production methods.

The price of coal may have a significant influence on the market price of Prophecy Coal's shares and the value of Prophecy Coal's mineral properties. The effect of these factors on the price of coal, and therefore the viability of Prophecy Coal's exploration projects, cannot be accurately predicted. If silver and metals prices were to decline significantly or for an extended period of time, Prophecy Coal may be unable to continue operations, develop the

properties or fulfill obligations under agreements with Prophecy Coal's joint venture partners or under its permits or licenses.

The Corporation will be Heavily Reliant Upon its Contractors.

During the development of large scale projects, companies are often measured and evaluated by the behaviour and performance of their representatives, including in large part their contractors. The Corporation works hard to build in controls and mechanisms to choose and retain employees and contractors with similar values as the Corporation; however these controls may not always be effective. Sound judgment, safe work practices and ethical behaviour is expected from the Corporation's contractors both on and off-site. Any work disruptions, labour disputes, regulatory breach or irresponsible behaviour of the Corporation's contractors could reflect poorly on the Corporation and could lead to loss of social license, delays in production and schedule, unsafe work practices and accidents and reputational harm.

Minority Interest in Prophecy Platinum

While the Corporation retains a significant interest in Prophecy Platinum, it is a minority interest, and the value of the Corporation's investment in Prophecy Platinum depends on the directors and management of Prophecy Platinum. As a non-controlling minority shareholder, the Corporation does not have control or direction over Prophecy Platinum's activities, and is dependent on Prophecy Platinum for the disclosure of information respecting its activities and prospects.

Additional Financing

The Corporation estimates that its current financial resources are sufficient to undertake presently planned exploration and development programs. Further exploration on and development and construction of the Corporation's mineral properties may require additional capital. One source of future funds presently available to the Corporation is through the sale of equity capital. There is no assurance that this source will continue to be available as required or at all. If it is available, future equity financings may result in substantial dilution to shareholders. Another alternative for the financing of further exploration would be the offering by the Corporation of an interest in its mineral properties to be earned by another party or parties carrying out further exploration or development thereof. There can be no assurance that the Corporation will be able to conclude any such agreements on favourable terms or at all.

Any failure of the Corporation to obtain the required financing on acceptable terms could have a material adverse effect on the Corporation's financial condition, results of operations and liquidity and may require the Corporation to cancel or postpone planned capital investments.

Foreign Exchange

In the past, Prophecy Coal has raised its equity and maintained its accounts in Canadian dollars. Foreign operations carried out in U.S. or local Mongolian currency could subject Prophecy Coal to foreign currency fluctuations that may materially and adversely affect Prophecy Coal's financial position.

The Corporation is Subject to Anti-Corruption Legislation

Prophecy Coal is subject to the Corruption of Foreign Public Officials Act (Canada) and other similar acts (collectively "Anti-Corruption Legislation"), which prohibit Prophecy Coal or any officer, director, employee or agent of Prophecy Coal or any stockholder of Prophecy Coal acting on its behalf from paying, offering to pay or authorizing the payment of anything of value to any foreign government official, government staff member, political party or political candidate in an attempt to obtain or retain business or to otherwise influence a person working in an office capacity. The Anti-Corruption Legislation also requires public companies to make and keep books and records that accurately and fairly reflect their transactions and to devise and maintain an adequate system of internal accounting controls. Prophecy Coal's international activities create the risk of unauthorized payments or offers of payments by its employees, consultants or agents, even though they may not always be subject to its control. The

Corporation strictly prohibits these practices by its employees and agents. However, Prophecy Coal's existing safeguards and any future improvements may provide to be less than effective, and its employees, consultants and agents may engage in conduct for which Prophecy Coal may be held responsible. Any failure by Prophecy Coal to adopt appropriate compliance procedures and to ensure that its employees and agents comply with Anti-Corruption Legislation and applicable laws and regulations in foreign jurisdictions could result in substantial penalties or restrictions on its ability to conduct its business, which may have a material adverse impact of Prophecy Coal or its share price.

Recent Global Financial Conditions

Access to financing has been negatively impacted by many factors as a result of the global financial crisis. This may impact Prophecy Coal's ability to obtain debt or equity financing in the future on terms favourable to Prophecy Coal and Prophecy Coal's ability to attain strategic partnerships or enter into joint venture arrangements which may further negatively impact the timeline for commencement of commercial production. Additionally, global economic conditions may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. If such volatility and market turmoil continue, Prophecy Coal's business and financial condition could be adversely impacted.

Dividends

To date, the Corporation has not paid any dividends on its outstanding shares and this is unlikely to occur in the foreseeable future.. Any decision to pay dividends on the shares of the Corporation will be made by its board of directors on the basis of its earnings, financial requirements and other conditions.

Prophecy Coal Does Not Insure Against All Risks.

Prophecy Coal's insurance will not cover all the potential risks associated with a mining company's operations. Prophecy Coal may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to Prophecy Coal or to other companies in the mining industry on acceptable terms. Prophecy Coal might also become subject to liability for pollution or other hazards which may not be insured against or which Prophecy Coal may elect not to insure against because of premium costs or other reasons. Losses from these events may cause Prophecy Coal to incur significant costs that could have a material adverse effect upon its financial condition and results of operations.

Conflicts of Interest

Conflicts of interest may arise as a result of the directors, officers and promoters of the Corporation also holding positions as directors and/ or officers of other companies. Some of those persons who will be directors and officers of the Corporation have and will continue to be engaged in the identification and evaluation of assets and businesses and companies on their own behalf and on behalf of other companies, and situations may arise where the directors and officers will be in direct competition with Prophecy Coal. Such conflicts, if any, will be subject to the procedures and remedies under the *Business Corporations Act* (British Columbia).

7. DIVIDENDS

The Corporation has not paid any dividends on its Shares and it is not contemplated that the Corporation will pay any dividends in the immediate or foreseeable future. It is the Corporation's intention to use all available cash flow to finance further operations and exploration of its resource properties. Holders of Prophecy Coal Shares will be entitled to receive dividends, if, as and when declared by the Corporation's board of directors out of profits, capital or otherwise.

There are no restrictions that could prevent the Corporation from paying dividends on the Shares except that the Corporation may not pay dividends if that payment would render it insolvent.

8. DESCRIPTION OF CAPITAL STRUCTURE

8.1 General Description of Capital Structure

The authorized capital of Prophecy Coal consists of an unlimited number of Shares without par value. As of the date of this AIF, there are 230,400,956 Prophecy Coal Shares issued and outstanding. The holders of Prophecy Coal Shares are entitled to vote at all meetings of shareholders of Prophecy Coal to receive dividends if, as and when declared by the Board and to participate rateably in any distribution of property or assets upon the liquidation, winding-up or other dissolution of Prophecy Coal. The Shares carry no pre-emptive rights, conversion or exchange rights, redemption, retraction, repurchase, sinking fund or purchase fund provisions. There are no provisions requiring the holders of the Shares to contribute additional capital and there are no restrictions on the issuance of additional securities by Prophecy Coal. There are no restrictions on the repurchase or redemption of the Shares by the Corporation except to the extent that any such repurchase or redemption would render Prophecy Coal insolvent pursuant to the BCBCA.

As of the date hereof, the Corporation also has Options outstanding to purchase up to 32,785,550 Shares with each Option exercisable to purchase one Prophecy Coal Share at exercise prices ranging from $0.17 to $0.98 and having expiry dates ranging from January 23, 2014 to November 5, 2017.

As of the date hereof, the Corporation has Warrants outstanding to purchase up to 4,169,261 Shares with each Warrant exercisable to purchase one Share at exercise prices ranging from $0.18 to $0.80 and having expiry dates ranging from April 21, 2013 to October 28, 2015.

Stock Option Plan

The Board has adopted a fixed stock option plan (the "**Stock Option Plan**"). The purpose of the Stock Option Plan is to allow the Corporation to grant Options to directors, officers, employees and consultants, as additional compensation, and as an opportunity to participate in the success of Prophecy Coal. The granting of Options is intended to align the interests of such persons with that of the Corporation's Shareholders. Options are exercisable for up to 10 years or as determined by the Board and are required to have exercise prices no less than the Discounted Market Price (as defined by the Exchange). However, it is the practice of Prophecy Coal to set Option exercise prices equal to or greater than the Market Price (as defined by the Exchange based on the closing market price of the Shares prevailing on the day that Options are granted). Pursuant to the Stock Option Plan, the Board may from time to time authorize the issue of Options to directors, officers, employees and consultants of Prophecy Coal or employees of companies providing management or consulting services to Prophecy Coal. The maximum number of Shares which may be issued pursuant to Options granted under the Stock Option Plan is 38,165,342 Shares.

In addition, the number of Shares which may be reserved for issuance:

(a) to all optionees under the Stock Option Plan in aggregate shall not exceed 20%;

(b) to all Insiders (as defined by the Exchange) as a group may not exceed 20%; and

(c) to any one individual may not exceed:

  (i) 5% of the issued Shares on a yearly basis;

  (ii) an aggregate of 2% of the issued Shares on a yearly basis if the optionees are engaged in investor relations activities; and

  (iii) 2% of the issued Shares to any one consultant.

Any Options granted under the Stock Option Plan vest on the date of grant unless determined otherwise by the Board, except for investor relations Options. The Stock Option Plan provides that if a change of control, as defined therein, occurs, all Shares subject to Option shall immediately become vested and may thereupon be exercised in whole or in part by the Option holder.

9. MARKET FOR SECURITIES

9.1 Trading Price and Volume

The Corporation's Shares trade on the TSX under the symbol "PCY". Prior to October 19, 2011, the Corporation's common shares traded on the TSX Venture Exchange. The following table shows the high and low trading prices and average daily trading volume of the Shares of the Corporation on the TSX and TSX Venture Exchange, as applicable, for the periods listed.

MONTH	HIGH ($)	LOW ($)	VOLUME
TSX			
April 2, 2013[1]	0.14	0.13	91,000
March 2013	0.15	0.13	148,000
February 2013	0.17	0.13	535,400
January 2013	0.18	0.12	287,000
December 2012	0.15	0.11	215,800
November 2012	0.17	0.13	297,400
October 2012	0.16	0.13	283,000
September 2012	0.19	0.15	409,600
August 2012	0.20	0.16	369,800
July 2012	0.27	0.16	393,400
June 2012	0.33	0.23	449,100
May 2012	0.38	0.22	510,000
April 2012	0.44	0.33	215,800
March 2012	0.54	0.42	432,000
February 2012	0.55	0.43	751,400
January 2012	0.48	0.40	719,600
December 2011	0.49	0.39	297,600
November 2011	0.63	0.46	291,400
October 2011[2]	0.58	0.39	285,500
TSX Venture Exchange			
September 2011	0.74	0.46	440,600
August, 2011	0.77	0.54	1,130,600
July, 2011	1.00	0.50	2,145,700
June, 2011	0.76	0.57	164,900
May, 2011	0.85	0.61	694,700
April, 2011	0.99	0.83	402,600
March, 2011	1.12	0.87	539,500
February, 2011	1.11	0.88	735,600
January, 2011	1.17	0.91	1,078,700

(1) Up to and including the date of the AIF.

(2) Trading on TSX began October 19, 2011.

9.2 Prior Sales of Unlisted Securities

The Corporation has no class of securities that is outstanding but not listed or quoted on a market place.

9.3 Escrowed Securities

As of the date of this AIF, no Shares of the Corporation are being held in escrow.

10. DIRECTORS AND OFFICERS

10.1 Name, Occupation and Security Holding

The following table sets forth the names and residencies of all directors and executive officers of the Corporation, the positions and offices with the Corporation held by such persons and their principal occupations. As of the date of this AIF, the directors and executive officers of the Corporation, as a group, beneficially own, or control or direct, directly or indirectly approximately 5.04% of the Corporation's Shares.

Name, Jurisdiction of Residence, Offices	Principal Occupation During Last Five Years[4]	Director/Officer Since	Number of Common Shares Beneficially Owned, Controlled or Directed, Directly or Indirectly[5]
John Lee, Taipei Taiwan, President, CEO, Chairman and Director	President, Mau Capital Management LLC (private investor relations firm) from 2004 to present, President and CEO of Prophecy Coal from October 2009 to Present	April 12, 2010	9,130,170
D. Greg Hall, West Vancouver, B.C., Director[1][2][3]	Self-employed businessman; Director of Silvercorp Metals Inc. from March 2005 to September 2010; Chairman and Director Ivory Energy Inc., (junior oil and gas issuer listed on the TSX-V Exchange) June 2006 to March 2009; former Executive Vice-President, Leede Financial Markets Inc. (investment brokerage house), February 2004 to February, 2005; Secretary and Director, Makevco Consulting Inc. (private consulting company), March 2000 to present	April 12, 2010	1,440,000
Michael Deats, Gauteng, South Africa, Director [1][2][3]	Director of Pro Africa Group Ltd. and Chairman of its subsidiary PAG Resources Management (Pty) Ltd. (companies focused on facilitating Africa-based infrastructure projects) from April 2000 to present; Associate with Pro Africa Group Ltd. and Independent Mining Consultant from 2002 to 2009.	December 7, 2010	25,000
Chuluunbaatar Baz Ulaanbaatar, Mongolia Director	President and CEO of Monnis International from 1998 to Present	March 17, 2011	1,000,000

Name, Jurisdiction of Residence, Offices	Principal Occupation During Last Five Years[4]	Director/Officer Since	Number of Common Shares Beneficially Owned, Controlled or Directed, Directly or Indirectly[5]
Harald Batista, Brazil, Director[1][2][3]	Co-Founder, consult at Bayesco from August 2012 to present, Power Messaging Coach at Corporate Visions Inc. from 2008 to present	July 27, 2012	Nil
Jeffrey Mason, Vancouver, BC, Chief Financial Officer	CFO of Prophecy Coal Corp from November 2012 to present; CFO of Prophecy Platinum Corp from November 2012 to present; Director of Amarc Resources Ltd from 1994 to present; Director of Coastal Contacts Inc. from 2006 to present ; Director of Red Eagle Mining Corporation from June 2011 to present and Director of Slater Mining Corporation from June 2008 to present	November 2, 2013	Nil
Charmaine Chan, Vancouver, BC, Corporate Secretary	Student at University of British Columbia; Joined Prophecy Coal Corp. in July 2012	February 3, 2013	Nil

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Corporate Governance Committee
(4) The information as to principal occupation, business or employment and shares beneficially owned or controlled is not within the knowledge of the management of Prophecy **Coal** and has been furnished by the respective individuals. Each director or officer has held the same or similar principal occupation with the organization indicated or a predecessor thereof for the last five years.
(5) The approximate number of Shares in all circumstances beneficially owned directly or indirectly, or over which control or direction is exercised by each proposed nominee as at the date hereof is based on information furnished by the named persons.

11. PROMOTERS

Other than its directors and officers, there is no person who is or who has been within the two years immediately preceding the date of this AIF, a promoter of Prophecy Coal as defined under applicable Canadian securities laws.

12. LEGAL PROCEEDINGS

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

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

Prophecy Platinum is currently reviewing a potential financial liability for the reclamation of land related to mining conducted on the Wellgreen property prior to Prophecy Platinum's acquisition of the property. They are in discussions with the Yukon Government and the third party involved in the prior operation of the property, to determine the plan for assessing the reclamation work that will need to be conducted. Once an assessment is conducted, there is a potential that a portion of the financial cost for reclamation will need to be incurred by

Prophecy Platinum. The financial effect and timing of the reclamation work is indeterminable at the current time, and no amounts have been accrued.

13. INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Except as otherwise disclosed in this AIF the Corporation is not aware of any material interest, direct or indirect, of any director or executive officer of the Corporation, any person or company beneficially owning or controlling, directly or indirectly, more than 10% of the Shares of the Corporation or any associate or affiliate of any such person in any transaction entered into by the Corporation in the most recently completed financial years that has materially affected or is reasonably expected to materially affect the Corporation.

John Lee, Harald Batista, Greg Hall, and Jeffrey Mason, who are directors and/or officers of the Corporation, are also directors and/or officers of Prophecy Platinum. Messrs. Hall and Lee abstained from voting as directors of Prophecy Coal and of Prophecy Platinum in respect of the Prophecy Platinum Arrangement described in section 3.1. Prophecy Coal securities held by Messrs. Hall and Lee were treated in the same manner under the Prophecy Platinum Arrangement as Prophecy Coal securities held by any other Prophecy Coal security holder.

Baz Chuluunbaatar is president, director and a control person of Monnis International LLC, a private company from which Prophecy Coal acquired mining equipment for the Ulaan Ovoo Property. Transactions with Monnis are negotiated at fair market value and Mr. Chuluunbaatar abstains from voting as a director of Prophecy Coal in respect of such transactions. For additional details concerning Prophecy Coal's transaction with Monnis International LLC, please review its most recently filed financial statements, as filed on SEDAR at www.sedar.com.

14. REGISTRAR AND TRANSFER AGENT

The Registrar and Transfer Agent for the Corporation is Comuptershare Investor Services Inc., 3rd Floor, 510 Burrard Street, Vancouver, British Columbia, V6C 3B9.

15. MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the only contracts entered into by the Corporation in the three years immediately prior to the date of this AIF that can reasonably be regarded as presently material to the Corporation are:

(a) the arrangement agreement dated March 3, 2010 between the Corporation and Red Hill concerning the Elissa Arrangement;

(b) the arrangement agreement dated July 16, 2010 between Prophecy Coal and Northern Platinum Ltd. (a predecessor issuer of Northern) concerning the Northern Arrangement;

(c) the arrangement agreement dated March 30, 2011 between the Prophecy Coal and Prophecy Platinum concerning the Prophecy Platinum Arrangement;

(d) the credit agreement dated July 16, 2012 between Prophecy Coal and Waterton Global Value, L.P. concerning the $10 million Loan.

Prophecy Platinum

(a) the option agreement dated October 20, 2009 between the Corporation and Victory Nickel Inc. concerning the acquisition of a 100% interest in the Lynn Lake Project, as assigned to Prophecy Platinum effective June 13, 2011.

(b) the Amending Option Agreement with Victory Nickel Inc. dated February 27, 2013 concerning option payments.

The material contracts specified above are available under Prophecy Coal's SEDAR profile at www.sedar.com.

16. INTERESTS OF EXPERTS

Prophecy Coal retained Wardrop Engineering Inc. to prepare an independent NI 43-101 pre-feasibility report on the Ulaan Ovoo Property located in Mongolia and an independent report on the Wellgreen Property. The Ulaan Ovoo Technical Report and the Wellgreen Report are referenced in Section 1.5 of this AIF - *Documents Incorporated by Reference*.

Prophecy Coal retained Kravits Geological Services, LLC to prepare an independent NI 43-101 report on the Chandgana Property located in Mongolia. The Chandgana Technical Report is referenced in Section 1.5 of this AIF - *Documents Incorporated by Reference*.

Ernst & Young LLP, Chartered Accountants prepared the auditor's report for the audited annual financial statements of Prophecy Coal for the year ended December 31, 2012. Ernst & Young LLP is an independent auditor in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia.

Smythe Ratcliffe LLP, Chartered Accountants, prepared the auditor's report for the audited annual financial statements of Prophecy Coal for the year ended December 31, 2011. Smythe Ratcliffe LLP is an independent auditor in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia.

To the best knowledge of the Corporation, none of the above mentioned experts or their respective associates or affiliates, beneficially owns, directly or indirectly, any securities of Prophecy Coal, has received or will receive any direct or indirect interests in the property of Prophecy Coal or is expected to be elected, appointed or employed as a director, officer or employee of Prophecy Coal or any associate or affiliate thereof.

17. ADDITIONAL INFORMATION

18. Corporate Governance

18.1 Audit Committee

The Company has an Audit Committee comprised of directors D. Greg Hall (Chair), Harald Batista and Michael Deats, each of whom is an independent directors and financially literate within the meaning of National Instrument NI 52-101 "Audit Committees".

The education and experience of each member of the Audit Committee relevant to the performance of his responsibilities as an Audit Committee member is as follows:

D. Greg Hall – Mr. Hall is a seasoned financial market professional with over 25 years of experience as a broker, senior executive officer and founder of a number of successful brokerage firms. Mr. Hall has also had extensive experience as a board member and executive director for a number of Canadian and United States public and private companies. He is a graduate of the SME Board program at the Rotman School of Management, University of Toronto, and a member of the Institute of Corporate Directors.

Harald Batista – Mr. Batista is an accomplished entrepreneur with over two decades of international sales and marketing experience. He holds an MBA degree from Santa Clara University in California.

Michael Deats – Mr. Deats is a mining engineer with a diverse background that includes leadership roles in major energy and mining operations. During his tenure with Eskom, the South African electricity public utility, he was

responsible for the management/direction of Eskom's primary energy acquisition, later taking over direction of the entire power generation function. He is also an elected trustee with BP Southern Africa Pension Fund and the Arcelor-Mittal Pension Fund.

The Audit Committee's mandate and responsibilities are detailed in its charter, a copy of which is attached as Appendix "A" hereto,

Pre-Approval Policies and Procedures

Under paragraph 4 of the Audit and Risk Committee Charter, the Audit Committee must review and pre-approve all audit and audit-related services and the fees and other compensation related thereto, and any non-audit services, provided by the Corporation's external auditors. However, the Audit Committee has not adopted any specific policies or procedures for the engagement of non-audit services.

External Auditor Service Fees (By Category)

The aggregate fees billed by the Corporation's external auditors in each of the last two fiscal years for audit fees are as follows:

Financial Year Ending	Audit Fees[(1)]	Audit Related Fees[(2)]	Tax Fees[(3)]	All Other Fees[(4)]
December 31, 2012	$169,700	$50,000	$41,000	$0
December 31, 2011	$187,000	$11,000	$31,000	$0

Note:

(1) "**Audit Fees**" include fees necessary to perform the annual audit and quarterly reviews of the Corporation's financial statements and includes the fees of the Corporation's auditor, Ernst & Young LLP, for the fiscal year of 2012 and Smythe Ratcliffe LLP, for the fiscal year of 2011. Audit fees also include fees for review of tax provisions and for accounting consultations on matters reflected in the financial statements. Audit Fees also include audit or other attest services required by legislation or regulation, such as comfort letters, consents, reviews of securities filings and statutory audits.

(2) "**Audit-Related Fees**" include services that are traditionally performed by the auditor. These audit-related services include employee benefit audits, due diligence assistance, accounting consultations on proposed transactions, internal control reviews and audit or attest services not required by legislation or regulation.

(3) "**Tax Fees**" include fees for all tax services other than those included in "**Audit Fees**" and "**Audit-Related Fees**". This category includes fees for tax compliance, tax planning and tax advice. Tax planning and tax advice includes assistance with tax audits and appeals, tax advice related to mergers and acquisitions, and requests for rulings or technical advice from tax authorities.

(4) "**All Other Fees**" include all other non-audit service.

18.1 Additional Information

Additional information relating to the Corporation:

(a) may be found under the Corporation's profile on SEDAR at www.sedar.com;

(b) including directors and officers remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans is contained in the Information Circular for the Corporation's most recent annual meeting of shareholders; and

(c) is provided in the Corporation's financial statements and management discussion and analysis for its most recently completed financial year.

(3) "**Tax Fees**" include fees for all tax services other than those included in "**Audit Fees**" and "**Audit-Related Fees**". This category includes fees for tax compliance, tax planning and tax advice. Tax planning and tax advice includes assistance

with tax audits and appeals, tax advice related to mergers and acquisitions, and requests for rulings or technical advice from tax authorities.

(4) "**All Other Fees**" include all other non-audit service.

APPENDIX "A"

AUDIT COMMITTEE CHARTER

1.0 Purpose of the Committee

1.1 The Audit Committee represents the Prophecy Coal Board in discharging its responsibility relating to the accounting, reporting and financial practices of Prophecy Coal and its subsidiaries, and has general responsibility for oversight of internal controls, accounting and auditing activities and legal compliance of Prophecy Coal and its subsidiaries.

2.0 Members of the Committee

2.1 The Audit Committee shall consist of no less than three directors a majority of whom shall be "independent" as defined under NI 52-110, while Prophecy Coal is in the developmental stage of its business. The members of the Audit Committee shall be selected annually by the Prophecy Board and shall serve at the pleasure of the Prophecy Coal Board.

2.2 All members of the Audit Committee must be "financially literate" as defined under NI 52-110, having sufficient accounting or related financial management expertise to read and understand a set of financial statements, including the related notes, that present a breadth and level of complexity of the accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by Prophecy Coal's financial statements.

3.0 Meeting Requirements

3.1 The Audit Committee will, where possible, meet on a regular basis at least once every quarter, and will hold special meetings as it deems necessary or appropriate in its judgment. Meetings may be held in person or telephonically, and shall be at such times and places as the Audit Committee determines. Without meeting, the Audit Committee may act by unanimous written consent of all members which shall constitute a meeting for the purposes of this charter.

3.2 A majority of the members of the Audit Committee shall constitute a quorum.

4.0 Duties and Responsibilities

The Audit Committee's function is one of oversight only and shall not relieve Prophecy Coal's management of its responsibilities for preparing financial statements which accurately and fairly present Prophecy Coal's financial results and conditions or the responsibilities of the external auditors relating to the audit or review of financial statements.

Specifically, the Audit Committee will:

(a) have the authority with respect to the appointment, retention or discharge of the independent public accountants as auditors of Prophecy Coal (the "auditors") who perform the annual audit in accordance with applicable securities laws, and who shall be ultimately accountable to the Prophecy Coal Board through the Audit Committee;

(b) review with the auditors the scope of the audit and the results of the annual audit examination by the auditors, including any reports of the auditors prepared in connection with the annual audit;

(c) review information, including written statements from the auditors, concerning any relationships between the auditors and Prophecy Coal or any other relationships that may adversely affect the independence of the auditors and assess the independence of the auditors;

(d) review and discuss with management and the auditors Prophecy Coal's audited financial statements and accompanying MD&A, including a discussion with the auditors of their judgments as to the quality of Prophecy Coal's accounting principles and report on them to the Prophecy Board;

(e) review and discuss with management Prophecy Coal's interim financial statements and interim MD&A and report on them to the Prophecy Coal Board;

(f) pre-approve all auditing services and non-audit services provided to Prophecy Coal by the auditors to the extent and in the manner required by applicable law or regulation. In no circumstances shall the auditors provide any non-audit services to Prophecy Coal that are prohibited by applicable law or regulation;

(g) evaluate the external auditor's performance for the preceding fiscal year, reviewing their fees and making recommendations to the Prophecy Coal Board;

(h) periodically review the adequacy of Prophecy Coal's internal controls and ensure that such internal controls are effective;

(i) review changes in the accounting policies of Prophecy Coal and accounting and financial reporting proposals that are provided by the auditors that may have a significant impact on Prophecy Coal's financial reports, and report on them to the Prophecy Coal Board;

(j) oversee and annually review Prophecy Coal's Code of Business Conduct and Ethics;

(k) approve material contracts where the Prophecy Coal Board determines that it has a conflict;

(l) establish procedures for the receipt, retention and treatment of complaints received by Prophecy Coal regarding the audit or other accounting matters;

(m) where unanimously considered necessary by the Audit Committee, engage independent counsel and/or other advisors at Prophecy Coal's expense to advise on material issues affecting Prophecy which the Audit Committee considers are not appropriate for the full Prophecy Coal Board;

(n) satisfy itself that management has put into place procedures that facilitate compliance with the provisions of applicable securities laws and regulation relating to insider trading, continuous disclosure and financial reporting;

(o) review and monitor all related party transactions which may be entered into by Prophecy Coal; and

(p) periodically review the adequacy of its charter and recommending any changes thereto to the Prophecy Coal Board.

5.0 Miscellaneous

5.1 Nothing contained in this Charter is intended to extend applicable standards of liability under statutory or regulatory requirements for the directors of Prophecy Coal or members of the Audit Committee. The purposes and responsibilities outlined in this Charter are meant to serve as guidelines rather than as inflexible rules and the Audit Committee is encouraged to adopt such additional procedures and standards as it deems necessary from time to time to fulfill its responsibilities.