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

For the three months ended March 31, 2013
(Expressed in Canadian Dollars)

CONTENTS

This Interim Management's Discussion and Analysis ("**MD&A**") of Prophecy Coal Corp. and its subsidiaries ("**Prophecy Coal**", or the "**Company**") provides analysis of the Company's financial results for the three months ended March 31, 2013. The following information should be read in conjunction with the accompanying March 31, 2013 unaudited condensed interim consolidated financial statements and the notes to those financial statements, prepared in accordance with International Financial Reporting Standards ("**IFRS**") applicable to the preparation of interim financial statements, including International Accounting Standard ("**IAS**") 34 Interim Financial Reporting, as issued by the International Accounting Standards Board. This MD&A should be read also in conjunction with both the audited annual consolidated financial statements for the year ended December 31, 2012 (prepared in accordance with IFRS) ("**Audited Consolidated Financial Statements**") and the related annual MD&A, all of which are available on the SEDAR website at www.sedar.com .

Financial information is expressed in Canadian dollars, unless stated otherwise. This MD&A is current as of May 15, 2013. Readers are cautioned that this MD&A contains "forward-looking statements" and that actual events may vary from management's expectations. Readers are encouraged to read the cautionary note contained herein regarding such forward-looking statements. This MD&A was reviewed, approved and authorized for issue by the Company's Audit Committee on May 10, 2013.

Cautionary Note Regarding Forward-Looking Statements

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

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

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

Numerous factors could cause Prophecy Coal's actual results to differ materially from those expressed or implied in the forward looking statements, including the following risks and uncertainties, which are discussed in greater detail under the heading "Risk Factors" in this MD&A: Prophecy's history of net losses and lack of foreseeable cash flow; exploration, development and production risks, including risks related to the development of Prophecy Coal's Ulaan Ovoo coal property; Prophecy Coal not having a history of profitable mineral production; the uncertainty of mineral resource and mineral reserve estimates; the capital and operating costs required to bring Prophecy Coal's projects into production and the resulting economic returns from its projects; foreign operations and political conditions, including the legal and political risks of operating in Mongolia, which is a developing jurisdiction; the availability and timeliness of various government approvals and licences; the feasibility, funding and development of the Chandgana Power Plant; title to the Prophecy Coal's mineral properties; environmental risks; the competitive nature of the mining business; lack of infrastructure; Prophecy Coal's reliance on key personnel; uninsured risks; commodity price fluctuations; reliance on contractors; Prophecy Coal's minority interest in Prophecy Platinum Ltd.; Prophecy Coal's need for substantial additional funding and the risk of not securing such funding on reasonable terms or at all; foreign exchange risks; anti-corruption legislation; 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 Prophecy Coal's forward-looking statements. Prophecy Coal believes that the expectations reflected in the forward-looking statements contained in this MD&A and the documents incorporated by reference herein are reasonable, but no assurance can be given that these expectations will prove to be correct. In addition, although Prophecy Coal has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. Prophecy Coal undertakes no obligation to release publicly any future revisions to forward-looking statements to reflect events or circumstances after the date of this MD&A or to reflect the occurrence of unanticipated events, except as expressly required by law.

1. INTRODUCTION

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

General Corporate Information

At March 31, 2013 and May 15, 2013, Prophecy Coal had: (i) 230,400,956 and 234,783,527 common shares issued and outstanding, respectively; (ii) 32,515,550 and 32,515,550 share options for common shares outstanding, respectively; and (iii) 4,169,261 and 7,118,440 warrants for common shares outstanding, respectively.

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

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(Expressed in Canadian Dollars)

Directors and Officers

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

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

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

Qualified Persons

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

2. QUARTER 1 HIGHLIGHTS AND SIGNIFICANT EVENTS

Prophecy Coal Corp.

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

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

- On February 7, 2013, the Company announced that it was undertaking a private placement (the "**Placement**") of up to 60,000,000 units (each a "**Unit**") at a price of $0.14 per Unit to raise gross proceeds of up to $8.4 million. Each Unit consists of one common share (a "**Share**") of the Company and 0.75 of a share purchase warrant (a "**Warrant**"). Each whole Warrant entitles the holder to acquire an additional Share at a price of $0.18 per Share for a period of two years following closing. The Company announced that NewMargin Prophecy Coal Ltd. ("**NewMargin**"), at arms lengths to the Company, had agreed to subscribe for 40 million units of this financing, and that Company insiders may also participate in the Placement. The proceeds of the Placement will be used to advance the Chandgana power plant project and for general working capital purposes.

  Under TSX policy, shareholder approval will be required for (a) the acquisition by NewMargin of over 20% of the Company's issued and outstanding Shares, and (b) for the placement generally, as it will involve the issuance of more than 25% of the Company's issued and outstanding Shares, in each case after giving effect to the exercise of the Warrants. The Company intends to issue a combination of Units and special warrants ("**Special Warrants**") to stay below each of these thresholds. Each Special Warrant will be automatically exercised for one Unit without payment of additional consideration following receipt of shareholder approval, which the Company will seek at its next annual general meeting in July 2013. If such approval is not obtained, the Special Warrants will be cancelled and the portion of the Placement proceeds which relates to their sale will be returned to the subscribers (see Subsequent to period end note below).

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

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

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

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

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

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

Subsequent to period end:

(a) On April 12, 2013, the Company closed the first tranche of the Placement, issuing 4,382,571 Units for gross proceeds of $613,560 (the "**First Tranche Closing**"). Finder's fees of 6% were paid in connection with a portion of the first tranche of the private placement. The foregoing Shares and Warrants and any shares issued upon the exercise of the Warrants comprising the Units sold in the first tranche are subject to a four month resale hold period.

    The balance of the Placement has not yet closed. While the Company received a signed subscription agreement from NewMargin in early February, 2013, NewMargin has yet to provide any subscription funds. The Company remains in discussions with NewMargin respecting the extent to which NewMargin is prepared to participate in the Placement, which makes the timing and the particulars of any second tranche closing of the Placement uncertain. The potential participation of other placees, including possible insiders, in additional closings of the Placement has not been finalized, and is subject to TSX approval.

(b) The following warrants expired unexercised subsequent to March 31, 2013:

    - 337,750 warrants exercisable at $0.80 per share on April 21, 2013.

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

(Expressed in Canadian Dollars)

3. BUSINESS OVERVIEW

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

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

Prophecy Coal is a reporting issuer in the provinces of British Columbia, Alberta, and Ontario. The Company's common shares (the "Shares" or "Prophecy Coal Shares") are listed for trading on the Toronto Stock Exchange ("**TSX**" or the "Exchange") under the symbol "PCY". Prophecy Coal currently has six wholly-owned subsidiaries (the "**Subsidiaries**") and one 32% publicly-traded associate company, Prophecy Platinum.

3.1 Investment in Associate

The investment in associate, Prophecy Platinum, is recorded at its carrying amount of $24,642,349 as at March 31, 2013 ($25,118,910 as at December 31, 2012). Prophecy Coal holds significant influence over Prophecy Platinum by way of its ownership of 32% as at March 31, 2013 (32.1% as at December 31, 2012) of the total issued and outstanding shares of Prophecy Platinum. Its investment was initially recognised on deconsolidation as at November 30, 2012 with ownership of 32.6%. Thereafter, the Company accounted for its share of Prophecy Platinum results under the equity accounting method and will continue to do so for as long as it retains significant influence over Prophecy Platinum (see Note 15 to the Audited Consolidated Financial Statements for the year ended December 31, 2012).

These unaudited condensed interim financial statements include the Company's share of Prophecy Platinum's three months ended March 31, 2013 net loss of $472,811, by way of reducing the Investment in Associate as follows:

		March 31, 2013		December 31, 2012
Investment in Associate				
Opening balance	$	25,118,910	$	-
Initial recognition		-		25,315,871
Share of net loss of associate		(472,811)		(196,961)
Fair value gain (loss) on available-for-sale investments of an associate		(3,750)		-
	$	24,642,349	$	25,118,910

At March 31, 2013, the Company held 22,013,799 Prophecy Platinum common shares, which as of that date were quoted on the Toronto Stock Venture Exchange at $0.69 per share for a total quoted amount of $15,189,521 (December 31, 2012 quoted at $1.01 per share for a total quoted amount of $22,233,937).

As described in Note 15 to the Company's Audited Consolidated Financial Statements for the year ended December 31, 2012, pursuant to the plan of arrangement and consolidation in share capital in the acquisition of Prophecy Platinum shares in June 2011, 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 March 31, 2013 Prophecy Coal held, reserved in-trust, 3,267,934 (December 31, 2012 - 3,267,934) Prophecy Platinum shares contingent on exercise of these June 9, 2011 Options and Warrants. Any Prophecy Platinum shares held in-trust, but not delivered, due to the expiry of unexercised June 9, 2011 Options and Warrants, shall be returned to Prophecy Coal, of which none have been returned to date. Prophecy Platinum common shares held in-trust, for Prophecy Coal June 9, 2011 Options and Warrants outstanding, are excluded from the calculation of Prophecy Coal's ownership percentage in Prophecy Platinum until they are returned, if any at all, to Prophecy Coal due to the expiry of unexercised June 9, 2011 Options and Warrants.

3.2 Mineral Properties

As of March 31, 2013, Prophecy Coal's primary mineral properties included: Ulaan Ovoo coal property (Mongolia), and the Chandgana Khavtgai and Chandgana Tal coal deposits (Mongolia), collectively known as the "Chandgana Coal Properties". The other properties of Prophecy Coal included the Okeover copper-molybdenum project (British Columbia, Canada), Kanichee property (Ontario, Canada), and the Titan project (Ontario, Canada).

Ulaan Ovoo Coal Property, Mongolia

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

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

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

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

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

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

(Expressed in Canadian Dollars)

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

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

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

Operation Statistics:

The mine, which started operations in November 2010 through the mining contractor, Leighton Asia Limited 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. In 2010 – 2011 Prophecy Coal acquired its two fleets of mining equipment for $14.7 million and secured a rail siding at Sukhbaatar with capacity of 40,000 tonnes. During 2011 and 2012, Prophecy Coal trucked 126,359 and 123,213 tonnes of coal from the mine to the rail siding, respectively. Prophecy Coal sold 133,895 tonnes of coal to both Mongolian and Russian companies during 2011 and 121,000 tonnes of coal to Mongolian companies during 2012.

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). Transport of inventory coal from existing coal stockpiles commenced in November 2012. The overall effect of the suspended operations was expected to be modestly cash flow positive, through shipping from the existing stockpile.

On December 31, 2012, the Company recorded a non-cash impairment write down of $47 million on the Ulaan Ovoo property, which was reflected on the consolidated statement of operations. The impairment charge reduced previously capitalized deferred exploration within property and equipment, to a balance of $2 million (Note 16 to the Audited Consolidated Financial Statements).

The determination of impaired value of $2 million for the Ulaan Ovoo property was based on pre-commercial operating results along with capital expenditures and the Ulaan Ovoo PFS. The PFS determined a net present value for the project of US$71 million after capital expenditures of approximately 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 2013 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.

Q1 2013

During the three months ended March 31, 2013, the Company continued 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 property. During the quarter ending March 31, 2013, the Company shipped approximately 40,000 tonnes of coal to local customers, and a modest coal sales revenue from an existing stockpile along with associated costs to deliver the coal occurred during the interim period. As at March 31, 2013, the coal stockpile balance was approximately 92,000 tonnes.

During the quarter, the Company rented out part of its equipment fleet with monthly rental revenues of approximately $162,000. The rental of fleet equipment allows the Company the flexibility to meet revenue targets, either through coal shipments and sales from the existing stockpile or through the rental of its equipment.

During the quarter ending March 31, 2013, the Company incurred expenditures on the Ulaan Ovoo property, classified as costs in excess of impaired value, amounting to $2 million, which is reflected on the condensed interim consolidated statement of operations and comprehensive loss. As there were no benchmark or market changes from January 1, 2013 to March 31, 2013, the impaired value for Ulaan Ovoo within property and equipment, remains unchanged at a balance of $2 million (Note 9 to the unaudited condensed interim consolidated financial statements).

Pre-commercial operations for the period from commencement in November 2010 until the temporary shutdown in July 2012, to which shutdown 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 interim period, including the first three months of 2013, post shutdown, and have been recorded as deferred exploration, within property and equipment. The ending coal stockpile inventory value at March 31, 2013 was $1.6 million ($2.4 million at December 31, 2012).

2013 Outlook: The Company continues to evaluate project operating optimization alternatives for the Ulaan Ovoo property, in addition to investigating potential strategic partner and joint venture arrangements, sale of part or whole of the project, and coal marketing arrangements both domestically and potentially to access higher international coal market prices. However, Prophecy Coal is unable to determine with certainty, how long coal markets will remain depressed, and when, if at all, access to Russian coal markets will be opened, nor the extent of project changes and operational modifications that would be required to more fully realize, beyond its pre-commercial operating history, on the potential value of the existing NI 43-101 coal reserve estimates per the PFS and per the NI 43-101 coal resources as determined by the 2006 Behre Dolbear report.

Chandgana Coal Properties, Mongolia

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

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

(Expressed in Canadian Dollars)

An NI 43-101 technical report ("Technical Report on the Coal Resources of the Chandgana Tal Coal Project Khentii Aimag, Mongolia") dated September 11, 2007 prepared by independent Qualified Person Mr. Gardar G. Dahl, Jr, P. Geo, a senior associate of Behre Dolbear & Company (USA), Inc. (the "**Behre Dolbear Report**") is available on SEDAR at www.sedar.com. On February 8, 2011, Prophecy Coal received a full mining license from the Mineral Resources Authority of Mongolia for the Tal property. Prophecy Coal engaged Leighton Asia LLC to prepare a scoping level mine study for the Tal property which was completed in December 2011. A preliminary economic assessment ("**PEA**") was later prepared by John T. Boyd Co. and received November 2012 for the Tal licenses. Prophecy Coal is positioned to apply for a mining permit which may be received as early as 90 days from submittal of the application.

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

Table 2. Coal resource details of the Chandgana Properties

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

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

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

During Q1 2013, Prophecy Coal incurred total costs of $625,037 (Q1 2012 - $1,835,929) for Chandgana coal properties.

Chandgana Power Plant Project, Mongolia

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

On November 15, 2010, Prophecy Coal reported that a Detailed Environmental Impact Assessment ("**DEIA**") pertaining to the construction of the Power Plant Project has been approved by the Mongolian Ministry of Nature and the Environment. The DEIA was prepared by an independent Mongolian environmental consulting firm which considered social and labour issues, climate and environmental circumstances specific to the proposed power plant. According to the study, there are no major impediments to the Power Plant Project.
On November 15, 2011, Prophecy Coal's wholly-owned Mongolian subsidiary East Energy Development LLC. (now renamed as Prophecy Power Generation LLC),("**Prophecy Power**") received a license certificate from

the Mongolian Energy Regulatory Authority (the "**MEA**") to construct a 600 MW (150 MW x 4) power plant at Chandgana. An English translation of the license was filed on Sedar at www.sedar.com on December 14, 2011.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Tugalgatai Licenses, Mongolia, and Restricted Cash

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

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

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

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

(a) setting aside $3.5 million in escrow for the following purposes:

(Expressed in Canadian Dollars)

3) $1.5 million for the acquisition of the Mongolian Tugalgatai coal assets and
4) $2 million for the full repayment or a partial prepayment of the Loan,

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

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

At March 31, 2013 the Company had $3.5 million set aside in an escrow account, which may be used to decrease the loan payable amount of $10 million, due July 16, 2013, to a balance of $6.5 million.

Titan Property, Ontario, Canada

Prophecy Coal has an 80% interest in the Titan property ("**Titan**"). Prophecy Coal property historic work includes 22 line kilometres of line cutting covering over 2.7 square kilometres in 100 metre intervals that extended the current surveyed grid west and southwest of the Titan property. A ground magnetometer survey was completed during the summer of 2010, the results of which expanded the extent of the magnetic anomaly associated with the Titan deposit, successfully demonstrating exploration potential outside the previously known limits. Modest assessment work is planned for 2013.

Kanichee Property, Ontario, Canada

Prophecy holds a 100% interest in the surface rights of Kanichee located in Streathy Township, 375 km north of Toronto, Ontario. Kanichee consists of 15 mineral claims covering 583 acres that include surface and underground mine workings. The property includes copper and nickel mineralization associated with two dykes. No assessment work is planned.

Okeover Property, British Columbia, Canada

The 60% interest of Okeover, a copper-molybdenum project in south-western British Columbia, Canada, 25 kilometres north of Powell River and 145 kilometres northwest of Vancouver, was acquired through the amalgamation between Red Hill and Prophecy Coal Holdings Inc. in April 2010. Modest assessment work is planned for 2013.

4. SUMMARY OF QUARTERLY RESULTS

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

	2013	2012		
	Mar-31	Dec-31	Sep-30	Jun-30
Operating expense	(794,913)	$ (1,069,354)	$ (2,970,363)	$ (2,474,327)
Loss Before Other Items and Deferred Income Tax	(794,913)	(1,069,354)	(2,970,363)	(2,474,327)
Other items	(2,817,653)	(46,585,365)	(2,328,747)	1,439,189
Loss Before Deferred Income Tax	(3,612,566)	(47,654,718)	(5,299,110)	(1,035,138)
Deferred income tax recovery	-	(1,569,024)	160,247	(68,176)
Net Income (Loss) for Quarter	(3,612,566)	(49,223,742)	(5,138,863)	(1,103,314)
Fair value gain (loss) on available-for-sale investments	781,484	2,476,797	688,744	(2,114,759)
Comprehensive Income (Loss) for Quarter	(2,831,081)	(46,746,945)	(4,450,119)	(3,218,073)

(Expressed in Canadian Dollars)

Net Income (Loss) for Quarter Attributable to:				
Owners of the Company	(3,612,566)	(48,831,202)	(3,242,577)	(289,024)
Non-controlling interest	-	(879,254)	(1,409,573)	(814,290)
	(3,612,566)	(49,710,456)	(4,652,150)	(1,103,314)
Comprehensive Loss for Quarter Attributable to:				
Owners of the Company	(2,831,081)	(44,266,921)	(2,961,989)	(4,638,569)
Non-controlling interest	-	(804,911)	(1,647,892)	(94,856)
	$ (2,831,081)	$ (45,071,832)	$ (4,609,880)	$ (4,733,425)
Share Information				
Net Loss per share, basic and diluted attributable to:				
Owners of the Company	$ (0.02)	$ (0.22)	$ (0.01)	$ (0.00)
Non-controlling interest	-	(0.00)	(0.01)	(0.00)
Comprehensive Loss per share, basic and diluted attributable to:				
Owners of the Company	(0.01)	(0.21)	(0.01)	(0.02)
Non-controlling interest	$ -	$ (0.00)	$ (0.01)	$ (0.00)
Average number of common shares outstanding for quarter, basic and diluted	229,547,023	228,379,503	227,407,328	225,071,203

	2012 Mar-31	Dec-31	2011 Sep-30	Jun-30
Operating expense	$ (4,334,233)	$ (3,206,240)	$ (5,196,343)	$ (2,076,826)
Loss Before Other Items and Deferred Income Tax	(4,334,233)	(3,206,240)	(5,196,343)	(2,076,826)
Other items	(1,710,416)	2,199,362	494,235	119,127
Loss Before Deferred Income Tax	(6,044,649)	(1,006,878)	(4,702,107)	(1,957,699)
Deferred income tax recovery	121,461	448,687	-	-
Net Loss for Quarter	(5,923,188)	(558,191)	(4,702,107)	(1,957,699)
Fair value gain (loss) on available-for-sale investments	872,987	(240,610)	(808,025)	(1,998,493)
Comprehensive Income (Loss) for Quarter	(5,050,201)	(798,801)	(5,510,132)	(3,956,192)
Net Income (Loss) for Quarter Attributable to:				
Owners of the Company	(4,513,569)	567,571	(3,233,347)	(1,915,765)
Non-controlling interest	(1,409,619)	(1,125,761)	(1,468,760)	(41,934)
	(5,923,188)	(558,191)	(4,702,107)	(1,957,699)
Comprehensive Loss for Quarter Attributable to:				
Owners of the Company	(3,166,111)	425,073	(4,041,372)	(3,914,258)
Non-controlling interest	(1,884,090)	(1,223,872)	(1,468,760)	(41,934)
	$ (5,050,201)	$ (798,801)	$ (5,510,132)	$ (3,956,192)
Share Information				
Net Loss per share, basic and diluted attributable to owners of the Company				
Owners of the Company	$ (0.02)	$ 0.00	$ (0.02)	$ (0.01)
Non-controlling interest	(0.01)	(0.01)	(0.01)	0.00
Comprehensive Loss per share, basic and diluted attributable to owners of the Company				
Owners of the Company	(0.02)	0.00	(0.02)	(0.02)
Non-controlling interest	$ (0.01)	$ (0.01)	$ (0.01)	$ 0.00
Average number of common shares outstanding for quarter, basic and diluted	199,587,605	195,035,960	195,008,886	190,228,186

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

(Expressed in Canadian Dollars)

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

The increase in other items in the fourth fiscal quarter of 2012 was mainly due to an impairment loss of 47.1 million, an impairment loss on available-for-sale investments of $2.6 million, a deferred income tax expense of $1.4 million, offset by a gain on deconsolidation of Prophecy Platinum of $4.4 million.

The decrease in operating expense in the first quarter of 2013 was mainly due to a decrease in salaries and benefits, advertising and promotion, and professional fees. For the three month period ended March 31, 2013, the Company recorded $2 million of costs in excess of impaired value on its Ulaan Ovoo property.

5. DISCUSSION OF OPERATIONS

Three Months Ended March 31, 2013 and 2012 (Q1 2013 and Q1 2012)

All of the information described below is accounted for in accordance with IFRS. The reader is encouraged to refer to Note 6 of Prophecy Coal's Audited Consolidated Financial Statements for the year ended December 31, 2012 for Prophecy Coal's IFRS accounting policies.

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

For the three months ended March 31, 2013, Prophecy Coal incurred a net loss of $3.6 million ($0.02 per share) compared to a $5.9 million net loss ($0.03 per share) incurred for the three months ended March 31, 2012. The decrease by $2.3 million in net loss was mainly due to deconsolidation of Prophecy Platinum's results on November 30, 2012.

	March 31, 2013	March 31, 2012	Discussion
Advertising and promotion	$59,015	$719,603	Advertising and promotion expense decreased in Q1 2013 by $660,588, of which $326,542 was attributable to Prophecy Platinum no longer being consolidated as at November 30, 2012. The decrease was also due to a reduction of promotion carried out by the Company in Q1 2013.
Consulting and management fees	$28,052	293,966	Consulting and management fees also include fees charged by officers of the Company and its subsidiaries. In Q1 2013, consulting and management fees decreased by $265,914, of which $103,000 were attributable to Prophecy Platinum no longer being consolidated as at November 30 2012.
Depreciation	$22,689	$69,685	Depreciation decreased by $46,996.
Director fees	$45,753	$69,150	In Q1 2013, director fees decreased by $23,397, of which $11,500 was attributable to Prophecy Platinum no longer being consolidated as at

(Expressed in Canadian Dollars)

			November 30, 2012.
Insurance	$51,954	$51,882	There was no material change in insurance expense.
Office and administration	$11,981	$76,572	In Q1 2013, office and administration decreased by $64,591, of which 50% was attributable to Prophecy Platinum deconsolidated on November 30, 2012.
Professional fees	$102,564	$251,725	In Q1 2013, professional fees decreased by $149,161, $47,566 of which was attributable to Prophecy Platinum no longer being consolidated as at November 30, 2012. The decrease was also due to a reduction of legal expenses.
Salaries and benefits	$200,236	$133,773	The increase in salaries and benefits by $66,463 was mainly due to increase in number employees hired in the second half of 2012.
Share-based payments	$200,152	$2,461,237	It is a non-cash expense and represents the estimated fair value of share options vested during the period. It is accounted for at fair value as determined by the Black-Scholes Option Pricing model and varies from period to period based on the number and valuation of the share options granted during the period, vesting provisions, and amortization schedule of the previously granted share options. In Q1 2013 share-based payment expense decreased by $2,261,085, of which $2,195,271 was attributable to Prophecy Platinum no longer being consolidated as at November 30, 2012. In Q1 2013, Prophecy Coal incurred $200,152 in share-based payment expense which is net of $41,273 that was capitalized to Ulaan Ovoo and PPA.
Stock exchange and shareholder services	$46,626	$108,822	In Q1 2013, stock exchange and shareholder services decreased by $62,196, of which $34,997 was attributable to Prophecy Platinum no longer being consolidated as at November 30, 2012.
Travel and accommodation	$25,891	$97,817	In Q1 2013, travel expense decreased by $71,926, of which $62,942 was attributable to Prophecy Platinum no longer being consolidated as at November 30, 2012.
Costs in excess of impaired value	$2,053,103	$Nil	The Company expensed Ulaan Ovoo property expenditures incurred in the quarter ending March 31, 2013, as costs in excess of impaired value.

(Expressed in Canadian Dollars)

Foreign exchange loss (gain)	($303,259)	$1,756,308	The foreign exchange gain was due primarily to the translation of net monetary assets denominated in Mongolian tugrik to the Canadian dollar. The decrease in loss was due to fluctuations in the value of the Canadian dollar compared to the Mongolian tugrik and the United States dollar.
Interest expense	$615,094	$56,511	The increase in interest expense was mainly due to the interest charges at 25% effective interest rate on the $10 million Waterton loan, which was not outstanding in the comparable 2012 quarter.
Interest income	$20,097	$19,875	Interest income was earned on funds raised during the quarter and invested in short-term interest bearing accounts.
Investment income	$Nil	$82,528	The investment income in Q1 2012 was related to Prophecy Platinum's sale of its ETF investments.
Share of loss of an associate	$472,811	$Nil	The Company's interest in Prophecy Platinum, starting December 1 2012, is reported using the equity accounting method. The share of loss of an associate amount represents the Company's ownership interest applied to the net loss of Prophecy Platinum for the three months ended March 31, 2013 (Note 9 to the condensed interim consolidated financial statements).

6. LIQUIDITY AND CAPITAL RESOURCES

Prophecy Coal as at March 31, 2013 had a working capital deficiency, including restricted cash, of $1.5 million (December 31 2012: working capital surplus of $0.1 million) and will require additional sources of funding for ongoing operations, to continue to develop its Ulaan Ovoo coal property, and potentially to develop the Chandgana Power Plant project. Additional sources of funding, which may not be available at favourable terms, if at all, include: share equity and debt financings; dispositions of Prophecy Platinum Corp. common shares held as an investment in associate (Note 8 to the unaudited condensed interim consolidated financial statements); coal sales from stockpile inventory; equity, debt or property level joint ventures with power project and coal property developers; and sale of interests in existing assets.

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

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

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

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

6.1 Working Capital

As at November 30, 2012, the Company no longer consolidates the operating results of Prophecy Platinum in the Company's statements of operations and statements of cash flows. The statements of financial position line items as at December 31, 2012 and March 31, 2013 exclude the assets and liabilities of Prophecy Platinum, which are consolidated in prior quarters.

At March 31, 2013, Prophecy Coal had approximately $0.4 million, cash and cash equivalents and $1 million comprised of held private placement funds and short term investments in the form of Guaranteed Investment Certificates with the Bank of Montreal. The Company's working capital has decreased by $1.6 million since the year ended December 31, 2012 due to a decrease in current assets by $1.3 million (primarily relates to a decrease in inventories) and increase in current liabilities by $0.3 million.

As at the date of this report, the Company's working capital deficit is approximately $1.9 million.

On February 7, 2013, the Company announced that is undertaking a non-brokered private placement to raise gross proceeds of up to $8.4 million, of which the Company closed a first tranche in April 2013 amounting to $0.6 million (Note 16 to the unaudited condensed interim consolidated financial statements).

In July 2012, Prophecy Coal arranged a Loan of $10 million with Waterton. The Loan has a one year term, due July 16, 2013, and bears interest at 14% per annum payable monthly with an effective interest rate of 25%. In connection with the Loan, a structuring fee of 2.5% ($250,000) was paid to Waterton in cash and legal fees of $189,805 were paid. Pursuant to the terms of the Loan, Prophecy Coal issued for a value of $600,000, 2,735,617 common shares of Prophecy Coal on closing of the Loan at July 16, 2012 (Note 11 to the unaudited condensed interim consolidated financial statements).

Of the purchase price, US $10 million was deposited in escrow in July 2012 and classified as restricted cash. During October 2012 the funds, net of costs, amounting to US $9.9 million were returned to Prophecy Coal on termination of the Tugalgatai Agreement, which occurred due to the elapsing of the initial long stop date for approval of the licences transfer by the Minerals Resource Authority of Mongolia. Under the July 16, 2012 credit agreement between Prophecy Coal and Waterton, the expiry of the original purchase and sales agreement with Tethys constituted a default. Subsequent to the year end, in February 2012 Waterton agreed to waive the default, subject to certain conditions (see Notes 19 and 31 of the annual audited consolidated financial statements) one of which is the Company setting aside $1.5 million in escrow (completed) for the purchase of the Tugalgatai licenses. The full conditions which have been met are as follows:

(a) setting aside $3.5 million in escrow for the following purposes:

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,

(Expressed in Canadian Dollars)

(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, (Notes 19 and 31 to the Audited Consolidated Financial Statements).

At March 31, 2013 the Company had $3.5 million set aside in an escrow account, which may be used to decrease the loan payable amount of $10 million, due July 16, 2013, to a balance of $6.5 million.

Prophecy Coal had no long-term debt outstanding at March 31, 2013, other than provision for closure and reclamation of $0.3 million relating to its Ulaan Ovoo property. The Company has no capital lease obligations, operating leases (other than office leases) or any other long term obligations.

At the date of this MD&A Prophecy Coal holds for investment purposes 31.4 million common shares of Victory Nickel Inc. acquired in a reciprocal private placement and 22 million common shares of its 32% owned associate company, Prophecy Platinum, (TSXV:NKL) acquired in connection with the June 2011 spin out transaction (these common shares were pledged as collateral in connection with the Waterton loan). The aggregate market value of available for sale Prophecy Coal's marketable securities (including the 22 million pledged shares in Prophecy Platinum) is approximately $15 million. The market value of such shares is subject to fluctuation.

6.2 Cash Flow Highlights

		Three months ended March 31,		
		2013		2012
Cash used in operating activities	$	(2,901,675)	$	(1,042,041)
Cash provided by (used in) investing activities		2,464,854		(6,284,216)
Cash provided by financing activities		103,850		10,722,910
Increase (decrease) in cash for period		(332,972)		3,396,653
Cash balance, beginning of period		768,831		3,480,050
Cash balance, end of period	$	435,860	$	6,876,703

6.3 Cash Flows for the three months ended March 31, 2013 and 2012

Operating activities: Cash used in operating activities was $2.9 million in Q1 2013 compared to cash used of $1 million in the same period of 2012. The increase in cash used in operating activities by $1.9 million was mainly due to the transfer of $3.5 million from Guaranteed Investment Certificate account to restricted cash (see Note 6.1) offset by a reduction in general and administration expenses of $1.6 million.

Investing activities: $2.5 million (same period last year – cash used $6.3 million) was generated from investing activities, of which $3.5 million was deposited to restricted cash as per Waterton waiver agreement (see Note 6.1), $0.5 million (same period last year $3 million) was related to the acquisition of property and equipment, $0.6 million (same period last year - $4.5 million) was used for exploration expenditures incurred at Prophecy Coal's mineral properties. In Q1 2012 $1.25 million was received by Prophecy Platinum and Prophecy Coal from sale of available-for-sale investments.

Financing activities: A total of $0.1 million cash was received from financing activities in Q1 2013 compared to $10.7 million received in Q1 2012. An advance of $0.45 million was received from a share subscription in Q1 2013 compared to $10.7 million received from completed subscriptions in the same period of 2012. During Q1 2013, the Company paid $0.35 million interest charges related to the Waterton loan.

6.4 Contractual Commitments

Prophecy Coal's commitments related to the Waterton loan are disclosed in Note 11 to the unaudited condensed interim consolidated financial statement for three months ended March 31, 2013.

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

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

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

(c) pledging additional security to Waterton in the form of 5,535,000 remaining free trading Prophecy Platinum's common shares (Notes 19 and 31 to the Audited Consolidated Financial Statements).

At March 31, 2013 the Company had $3.5 million set aside in an escrow account, which may be used to decrease the loan payable amount of $10 million, due July 16, 2013, to a balance of $6.5 million.

6.5 Capital Risk Management

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

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

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of Prophecy Coal, is reasonable. There were no changes in Prophecy Coal's approach to capital management during the three months ended March 31, 2013. Neither Prophecy Coal nor its subsidiaries are subject to externally imposed capital requirements. Prophecy Coal's investment policy is to invest its surplus cash in highly liquid short-term interest-bearing investments with maturities of 90 days or less from the original date of acquisition, all held with major Canadian financial institutions.

7. ENVIRONMENT

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

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

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

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

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

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

At March 31, 2013, Prophecy Coal had a provision for closure and reclamation liability of $294,263 (December 31, 2012 - $294,263). The fair value of the closure and reclamation liability is estimated using a present value technique and is based on existing laws, contracts or other policies and current technology and conditions (Note 20 of the Audited Consolidated Financial Statements).

8. RELATED PARTY DISCLOSURES

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

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

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

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

(c) Energy Investment Capital, a private company owned by Jivko Savov, former Director of Prophecy Coal, provided consulting services to the Company.

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

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

(Expressed in Canadian Dollars)

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

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

The Company's related party disclosure includes Prophecy Platinum's related party transactions during the three months ended March 31, 2012. Prior to December 1, 2012, Prophecy Platinum's net assets and operations were consolidated into the financial statements of Prophecy Coal. On November 30, 2012, it was determined that Prophecy Coal's control changed to significant influence over Prophecy Platinum, and therefore, since December 1, 2012, the value of those amounts were reflected as an Investment in Associate using the equity accounting method (Note 8 to the unaudited condensed interim consolidated financial statements).

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

		Three months ended March 31,		
Related parties		2013		2012
Cantech Capital Corp. (a)	$	-	$	2,500
Directors and officers		86,956		78,333
Elysian Enterprises Inc. (b)		-		3,000
Energy Investment Capital (c)		-		26,239
JWL Investments Corp. (d)		-		42,000
Linx Partners Ltd. (e)		105,003		150,000
MaKevCo Consulting Inc. (f)		21,400		44,500
The Energy Gateway (g)		-		32,202
	$	213,359	$	378,774

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

		Three months ended March 31,		
Related parties		2013		2012
Consulting and management fees	$	10,503	$	269,922
Directors' fees		45,752		69,150
Mineral properties		73,500		16,101
Property and equipment		21,000		16,101
Salaries and benefits		62,604		7,500
	$	213,359	$	378,774

As at March 31, 2013, the amount included with accounts payable and accrued liabilities, which was due to related parties, consisted of amounts owing to directors totalling $74,803 (December 31, 2012 – $53,334) which was for director fees, reimbursable expenses, and the managing of mineral properties.

Transactions with subsidiaries and associates

Transactions between the Company and its subsidiaries are eliminated on consolidation; therefore, they are not disclosed as related party transactions. Prophecy Coal shares administrative assistance and office space, and previously shared management with Prophecy Platinum pursuant to a one year Service Agreement for 2012, consisting of fixed monthly fees of $40,000. Prophecy Coal recovers costs for services rendered to Prophecy Platinum and expenses incurred on behalf of Prophecy Platinum. As at March 31, 2013 an amount of $120,000 was due from Prophecy Platinum for shared office costs.

(Expressed in Canadian Dollars)

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

		Three months ended March 31,		
Key Management Personnel		2013		2012
Salaries and short-term employee benefits	$	74,284	$	296,828
Share-based payments		146,505		85,759
	$	220,789	$	382,587

Not included in the key management personnel compensation are John Lee's (interim CEO) compensation payments of $105,003, of which $94,500 was capitalized to the Ulaan Ovoo and Prophecy Power Generation projects for the period of January 1, 2013 – March 31, 2013.

9. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Readers are encouraged to read the significant accounting policies and estimates as described in Prophecy Coal's Audited Consolidated Financial Statements for the year ended December 31, 2012 (Note 5 to the Audited Consolidated Financial Statements). Prophecy Coal's condensed interim consolidated financial statements have been prepared using the going concern assumption see Note 1 to the Company's condensed interim consolidated financial statements.

Significant accounting judgments and estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Areas requiring the use of estimates include the rates of amortization for property and equipment, the useful life and recoverability of long-lived assets, the recoverability of accounts receivable, determination of environmental obligation provision for closure and reclamation, accounts payable and accrued liabilities, the assumptions used in the determination of the fair value of financial instruments and share-based payments, and the determination of the recoverability of deferred income tax assets. Prophecy Coal bases its estimates and assumptions on current and various other factors that it believes to be reasonable under the circumstances. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows. The critical judgments and estimates applied in the preparation of the company's unaudited condensed interim financial statements are consistent with those applied and disclosed in Note 5 to the Audited Consolidated Financial Statements for the year ended December 31, 2012.

a) Same accounting policies as Audited Consolidated Financial Statements

The accounting policies applied in preparation of these unaudited condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company's consolidated financial statements for the year ended December 31, 2012 (Note 6 to the Audited Consolidated Financial Statements).

(Expressed in Canadian Dollars)

New accounting standards

Accounting standards, which become effective in 2013 and 2015, are disclosed in Note 4 to the Company's Audited Consolidated Financial Statements. The Company anticipates that the most significant of these standards relate to the following:

IFRS 10 – *Consolidated Financial Statements* ("IFRS 10"), IFRS 11 – *Joint Arrangements* ("IFRS 11"), IFRS 12 – *Disclosure of Interests in Other Entities* ("IFRS 12") and amendments to IAS 27 – *Separate Financial Statements* ("IAS 27") and IAS 28 – *Investments in Associates and Joint Ventures* ("IAS 28"), effective for annual periods beginning on or after January 1, 2013. The combination of these five new standards establishes control as the basis for consolidation and provides enhanced disclosure requirements for the Company's interests in other entities and the effects of those interests on the Company's consolidated financial statements.

The Company reviewed its investment in Prophecy Platinum at January 1, 2013 and has concluded that that the adoption of IFRS 10 did not result in any change to the investment in an associate balance. The Company does not anticipate the changes to IFRS 11 and the revised IAS 27 and IAS 28 to have a significant impact on the consolidated financial statements.
The requirement of IFRS 12 relates to disclosures only and is applicable for the first annual period after adoption. Accordingly, the Company will include additional disclosures about interests in other entities in its annual consolidated financial statements for the year ended December 31, 2013.

Fair value measurement

The Company adopted IFRS 13, Fair Value Measurement ("IFRS 13") with prospective application from January 1, 2013.

The adoption of IFRS 13 had immaterial effect on the Company's consolidated financial statements for the three months ended March 31, 2013. The disclosure requirements of IFRS 13 will be incorporated in its annual consolidated financial statements for the year ended December 31, 2013.

b) Basis of consolidation

The unaudited condensed interim consolidated financial statements include the accounts of Prophecy Coal and its controlled subsidiaries. All material intercompany balances and transactions have been eliminated.

Details of Prophecy Coal's subsidiaries at the date of these MD&A:

	Principal Activity	Place of incorporation and operation	Ownership interest
0912603 B.C. Ltd.	Exploration/Development	Canada	100%
0912601 B.C. Ltd.	Exploration/Development	Canada	100%
Chandgana Coal LLC	Exploration/Development	Mongolia	100%
Prophecy Power Generation LLC	Exploration/Development	Mongolia	100%
Red Hill Mongolia LLC	Exploration/Development	Mongolia	100%
UGL Enterprises LLC	Inactive	Mongolia	100%

(Expressed in Canadian Dollars)

10. FINANCIAL INSTRUMENTS AND RELATED RISKS

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

10.1 Financial Instruments

Details of the significant accounting policies and methods adopted for financial instruments for each class of financial assets and financial liability are disclosed in Note 5 to the Audited Consolidated Financial Statements for the year ended December 31, 2012.

The following table sets forth Prophecy Coal's financial assets that are measured at fair value on a recurring basis by level within the fair value hierarchy. As at March 31, 2013, those financial assets and liabilities are classified in their entirety based on the level of input that is significant to the fair value measurement.

As at March 31, 2013	Level 1	Level 2	Level 3	Total
Financial assets				
Receivables	$ 787,308	$ -	$ -	$ 787,308
Due from related party	120,000	-	-	120,000
Available-for-sale investments	1,413,422	-	-	1,413,422
	$ 2,320,731	$ -	$ -	$ 2,320,731

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

10.2 Related Risks

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no changes in the risks, objectives, policies or procedures during the three months ended March 31, 2013.

Liquidity risk is the risk that an entity will be unable to meet its financial obligations as they fall due. The Company manages liquidity risk by preparing cash flow forecasts of upcoming cash requirements. At March 31, 2013, the Company had approximately $0.4 million in cash and cash equivalents (December 31, 2012 - $0.8 million) in order to meet short-term business requirements. At March 31, 2013, the Company had accounts payable and accrued liabilities of $1 million (December 31, 2012 - $0.8 million) which have contractual maturities of 90 days or less, and loan payable of $9.4 million (December 31, 2012 – 9.4 million) due on July 16, 2013.

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

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

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Prophecy Coal's cash equivalents primarily include highly liquid investments that earn interest at market rates that are fixed to maturity or at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on the fair values or future cash flows of the financial instruments as of March 31, 2013. Prophecy Coal manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

(b) Foreign currency risk

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

Net exposures as at March 31, 2013, with other variables unchanged, a 1% strengthening (weakening) of the Canadian dollar against the Mongolian tugrug would not have a material impact on earnings with other variables unchanged. A 1% strengthening (weakening) of the US dollar against the Canadian dollar would not have a material impact on net loss. Prophecy Coal currently does not use any foreign exchange contracts to hedge this currency risk.

(c) Commodity and equity price risk

The Company holds investments in available-for-sale that fluctuate in value based on market prices. Based upon the Company's investment position as at March 31, 2013, a 10% increase (decrease) in the market price of the available-for-sale investments held would have resulted in an increase (decrease) to comprehensive income (loss) of approximately $141,000 (December 31, 2012 - $62,800). Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in value may be significant.

11. RISKS AND UNCERTAINTIES

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

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

12. DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by Prophecy Coal in its annual filings, filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by Prophecy Coal in its annual filings, filings or other reports filed or submitted under securities legislation is accumulated and communicated to Prophecy Coal's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of Prophecy Coal's disclosure controls and procedures. As of March 31, 2013, the Chief Executive Officer and Chief Financial Officer have each concluded that Prophecy Coal's disclosure controls and procedures, as defined in NI 52-109 are effective to achieve the purpose for which they have been designed except as follows: Prophecy Coal Corp. management identified two material weaknesses in internal controls regarding 2012 annual reporting, which have continued into 2013; being the consistent application of the Company's accounting policies and procedures during 2012 and for the quarter ending March 31, 2013 by its wholly owned Mongolian subsidiaries and accounting for non-cash stock based compensation, both of which were communicated to the audit committee and the board of directors. To mitigate these issues the Company hired in 2012 an internal auditor to report to the audit committee, increased accounting personnel and time in these two areas, and expanded the review diligence, prior to the finalization of the 2012 year end and first quarter 2013 consolidated financial statements. During Q1 2013 the Company added a financial director to its Mongolian team and evaluated financial reporting software of Mongolian subsidiaries to increase controls. The audit committee and management continue to work on enhancing Company practices and internal controls, in addition to refinements to developing Whistle Blower and Code of Conduct policies.

Prophecy Coal's disclosure committee, is comprised of the Chief Executive Officer and senior members of management and the audit chairman. The disclosure committee's responsibilities include determining whether information is material and ensuring the timely disclosure of material information in accordance with securities laws. The Board of Directors is responsible for reviewing the Company's disclosure policy, procedures and controls to ensure that it addresses the Company's principal business risks, and changes in operations or structure, and facilitates compliance with applicable legislative and regulatory reporting requirements and is working to refine and enhance existing disclosure policies.

Design of Internal Controls over Financial Reporting

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

- pertain to the maintenance of records that, in reasonable detail accurately and fairly reflect the transactions, acquisition and disposition of assets and liabilities;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with IFRS and that receipts and expenditures are being made only in accordance with the authorization of management and directors of Prophecy Coal; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets, and incurrence of liabilities, that could have a material effect on the financial statements.

The Company's management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. There has not been any change in the Company's internal control over financial reporting that occurred during the Company's first fiscal quarter of 2013 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

13. DISCLOSURE OF OUTSTANDING SHARE DATA

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

13.1 Share Capital

Authorized – unlimited number of common shares without par value.

Common shares outstanding 234,783,527 with recorded value of $146,447,733.

Subsequent to March 31, 2013, 4,382,571 common shares at a price of $0.14 per share were issued.

13.2 Stock options

As at the date of this MD&A, 32,515,550 share purchase options are outstanding, 22,786,383 are exercisable at prices ranging from $0.25 to $1.03 and which expire between 2014 and 2017.

13.3 Share Purchase Warrants

During the three months ended March 31, 2013, 6,170,665 warrants expired unexercised at a weighted average exercise price of $0.80. On April 21, 2013, 337,750 warrants expired unexercised at a weighted average exercise price of $0.80.

On April 11, 2013, the Company issued 4,382,571 Units, of which each Unit consists of one Share and 0.75 Share Purchase Warrant at a purchase price of $0.14 per Unit in the first tranche of the non-brokered private placement announced on February 7, 2013 and closed on April 12, 2013. Each Warrant is exercisable into one common share of Prophecy Coal at a price of $0.18, expiring two years from the date of issue. The foregoing Shares, Warrants and any shares issued upon the exercise of the warrants are subject to a hold period which expires August 12, 2013. As at the date of this MD&A, 7,118,440 share purchase warrants are outstanding at $0.18 and which expire in 2015.

14. OFF-BALANCE SHEET ARRANGEMENT

During the three month ended March 31, 2013, Prophecy Coal was not a party to any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources of Prophecy Coal.

Prophecy
Coal Corp.

Condensed Interim Consolidated Financial Statements
Unaudited
For the three months ended March 31, 2013
(Expressed in Canadian Dollars)

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NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

	Notes		March 31 2013		December 31 2012
Assets					
Current assets					
Cash and cash equivalents	5	$	435,860	$	768,831
Restricted cash	5		3,500,000		-
Short term investments	6		1,032,667		5,107,500
Receivables			787,308		456,035
Amount due from associate			120,000		82,500
Prepaid expenses			1,505,207		1,443,282
Inventory			1,585,197		2,436,534
			8,966,239		10,294,682
Non-current assets					
Reclamation deposits			27,554		27,554
Available-for-sale-investments	7		1,413,422		628,188
Investment in associate	8		24,642,349		25,118,910
Property and equipment	9		11,729,363		12,929,342
Mineral properties	10		14,014,821		13,387,882
		$	60,793,748	$	62,386,558
Liabilities and Equity					
Current liabilities					
Accounts payable & accrued liabilities		$	1,044,109	$	766,209
Loan payable	11		9,377,264		9,392,170
			10,421,373		10,158,379
Non-current liabilities					
Provision for closure and reclamation			294,263		294,263
Deferred income tax			953,100		953,100
			11,668,736		11,405,742
Equity					
Share capital	12		146,530,443		145,796,591
Reserves			18,819,284		18,577,859
Accumulated other comprehensive gain	7		781,484		-
Deficit			(117,006,199)		(113,393,634)
Equity attributable to owners of the Company			49,125,012		50,980,816
Total Equity			49,125,012		50,980,816
		$	60,793,748	$	62,386,558

Approved on behalf of the Board:

"John Lee"	"Greg Hall"
Director	Director

Events After the Reporting Date (note 16)

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

	Notes		Three months ended March 31, 2013		2012
General and Administrative Expenses					
Advertising and promotion		$	59,015	$	719,603
Consulting and management fees			28,052		293,966
Depreciation			22,689		69,685
Director fees			45,753		69,150
Insurance			51,954		51,882
Office and administration			11,981		76,572
Professional fees			102,564		251,725
Salaries and benefits			200,236		133,773
Share-based payments	12		200,152		2,461,237
Stock exchange and shareholder services			46,626		108,822
Travel and accommodation			25,891		97,817
Loss Before Other Items and Deferred Income Tax Recovery			(794,913)		(4,334,232)
Other Items					
Costs in excess of impaired value			(2,053,103)		-
Foreign exchange gain (loss)			303,259		(1,756,308)
Interest expense			(615,094)		(56,511)
Interest income			20,097		19,875
Investment income			-		82,528
Share of net loss of associate	8		(472,811)		-
			(2,817,654)		(1,710,416)
Loss Before Deferred Income Tax Recovery			(3,612,567)		(6,044,648)
Deferred income tax recovery			-		121,461
Net Loss for Period			(3,612,567)		(5,923,187)
Fair value gain on available-for-sale investments	7		785,234		872,987
Fair value loss on available-for-sale investments of an associate	7		(3,750)		-
Comprehensive Loss for Period		$	(2,831,082)	$	(5,050,200)
Loss Per Common Share, basic and diluted		$	(0.02)	$	(0.03)
Weighted Average Number of Common Shares Outstanding			229,547,023		199,587,605

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

	Note	Numbers of shares	Share Capital	Reserves	Accumulated Other Comprehensive Gain (Loss)	Deficit	Equity attributable to owners of the Company	Non-controlling Interest	Total
Balance, January 1, 2012		201,109,422	$ 134,492,080	$ 17,138,468	$ (1,842,782)	$ (53,375,529)	$ 96,412,237	$ 32,808,418	$ 129,220,655
Private placement, net of share issue costs		22,363,866	9,594,618	-			9,594,618	-	9,594,618
Options exercised		100,000	82,000	(57,000)	-	-	25,000	-	25,000
Warrants exercised		1,479,509	762,629	(7,232)	-	-	755,397	-	755,397
Share-based payments		-	-	281,468	-	-	281,468	2,196,130	2,477,598
Funding from non-controlling interest, net of dilution		-	-	-	-	2,861,396	2,861,396	(2,516,507)	344,889
Dilution on spin-out transaction		-	-	-	-	3,637,674	3,637,674	-	3,637,674
Loss for the period		-	-	-	-	(4,513,569)	(4,513,569)	(1,409,619)	(5,923,188)
Unrealized gain on available-for-sale-investments		-	-	-	398,517	-	398,517	474,470	872,987
Balance, March 31, 2012		225,052,797	144,931,327	17,355,704	(1,444,265)	(51,390,028)	109,452,738	31,552,892	141,005,630
Balance, January 1, 2013		228,400,956	145,796,592	18,577,859	-	(113,393,632)	50,980,816	-	50,980,816
Common shares subsribed	16	-	536,560	-	-	-	536,560	-	536,560
Share issue cost		-	(82,709)	-	-	-	(82,709)	-	(82,709)
Shares issued as financing fees	11	2,000,000	280,000	-	-	-	280,000	-	280,000
Share-based payments	12	-	-	234,669	-	-	234,669	-	234,669
Share bonus to personnel		-	-	6,756	-	-	6,756	-	6,756
Loss for the period		-	-	-	-	(3,612,567)	(3,612,567)	-	(3,612,567)
Unrealized gain on available-for-sale-investments	7	-	-	-	785,234	-	785,234	-	785,234
Fair value gain (loss) on available-for-sale investments of an associate	8	-	-	-	(3,750)	-	(3,750)	-	(3,750)
Balance, March 31, 2013		230,400,956	$ 146,530,443	$ 18,819,284	$ 781,484	$ (117,006,199)	$ 49,125,012	$ -	$ 49,125,012

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

	Three Months Ended March 31, 2013	2012
Operating Activities		
Net loss for the period	$ (3,612,567)	$ (5,923,188)
Items not involving cash		
Depreciation	22,689	76,487
Share-based payments	200,152	2,461,237
Share of loss of an associate	472,811	-
Costs in excess of impaired value	2,053,103	-
Deferred income tax recovery	-	(121,461)
Gain on sale of investment	-	(82,528)
Interest income	(20,097)	-
	(883,909)	(3,589,452)
Changes in non-cash working capital		
Receivables	(368,773)	(413)
Prepaid expenses	(61,925)	(488,868)
Inventory	851,337	-
Accounts payable and accrued liabilities	446,499	(730,808)
Interest expense	615,094	-
Restricted cash	(3,500,000)	-
Dilution on spinout transaction	-	3,767,501
	(2,017,767)	2,547,412
Cash Used in Operating Activities	(2,901,676)	(1,042,041)
Investing Activities		
Acquisition of property and equipment	(493,226)	(3,034,638)
Mineral property expenditures	(562,017)	(4,498,044)
Sale of available-for-sale investments	-	1,248,465
Sale of Guaranteed Investment Certificate	3,500,000	-
Interest received from short term investment	20,097	-
Cash (Used in) Provided by Investing Activities	2,464,854	(6,284,216)
Financing Activities		
Interest paid	(350,001)	-
Shares issued, net of share issuance costs	453,851	10,722,910
Cash Provided by Financing Activities	103,850	10,722,910
Net (Decrease) Increase in Cash	(332,971)	3,396,653
Cash and Cash Equivalents - beginning of period	768,831	3,480,050
Cash and Cash Equivalents - end of period	$ 435,860	$ 6,876,703

1. NATURE OF OPERATIONS AND GOING CONCERN

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

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

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

The Company has incurred significant losses and negative cash flow from operations in recent years. The Company was in pre-commercial production at its Ulaan Ovoo coal property in Mongolia commencing in November 2010. In July 2012, the Company temporarily suspended pre-commercial production at Ulaan Ovoo due to soft market prices for coal and rising costs, and because at that time, Prophecy Coal had sufficient coal inventory to meet anticipated demand for the remainder of 2012 and into 2013. For the three month period ended March 31, 2013, the Company's net loss amounted to $3.6 million, including the expensing of Ulaan Ovoo property expenditures incurred in the first quarter of 2013, classified as costs-in-excess of impaired value, amounting to $2.1 million. The carrying value of the Ulaan Ovoo property as at December 31, 2012 and March 31, 2013 remains unchanged at its impaired value of $2 million, while the overall cumulative deficit for the Company was $117.0 million, as at March 31, 2013.

At March 31, 2013, Prophecy Coal had approximately $0.4 million in cash and cash equivalents and $1 million comprised of held private placement funds and short term investments in the form of Guaranteed Investment Certificate ("GIC") with the Bank of Montreal. Working capital amounted to a deficit of $1.5 million at March 31, 2013 compared to working capital surplus of $0.1 million as at December 31, 2012.

Additional sources of funding, which may not be available at favourable terms, if at all, include: share equity and debt financings; dispositions of Prophecy Platinum Corp. common shares held as an investment in associate (note 8); coal sales from stockpile inventory; rental of equipment; equity, debt or property level joint ventures with power project and coal property developers; and sale of interests in existing assets. In the event that the Company is not able to obtain adequate additional funding to continue as a going concern, material adjustment would be required to both the carrying value and classification of assets and liabilities on the balance sheet.

On February 7, 2013, the Company announced that is undertaking a non-brokered private placement to raise gross proceeds of up to $8.4 million, of which the Company closed a first tranche in April 2013 amounting to $0.6 million (Note 16).

Management has determined that the Company will be able to continue as a going concern for the foreseeable future and realize its assets and discharge its liabilities and commitments in the normal course of business, and therefore, these quarterly unaudited consolidated financial statements for the three month period ended March 31, 2013 have been prepared on a going concern basis and do not reflect any adjustments that maybe necessary if the Company is unable to continue as a going concern.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting.

The accounting policies applied in preparation of these unaudited condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company's consolidated financial statements for the year ended December 31, 2012 (Note 6 of the annual consolidated financial statements), with the exception of certain new accounting standards issued by the International Accounting Standard Board ("IASB"), which were adopted and applicable from January 1, 2013. These adoptions did not have a significant impact on the Company's unaudited condensed interim consolidated financial statements.

The Company's management makes judgements in its process of applying the Company's accounting policies in the preparation of its unaudited condensed interim consolidated financial statements. In addition, the preparation of the financial data requires that the Company's management to make assumptions and estimates of effects for uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. The critical judgements and estimates applied in the preparation of the Company's unaudited condensed interim consolidated financial statements are consistent with those applied and disclosed in Note 5 of the Company's consolidated financial statements for the year ended December 31, 2012.

(b) Approval of the financial statements

The condensed interim unaudited consolidated financial statements were approved and authorized for issue by the Audit Committee on May 10, 2013.

3. CHANGES IN ACCOUNTING STANDARDS

Accounting standards, which become effective in 2013 and 2015 are disclosed in Note 4 of the Company's consolidated financial statements for the year ended December 31, 2012. The Company anticipates that the most significant of these standards relate to the following:

IFRS 10 – *Consolidated Financial Statements* ("IFRS 10"), IFRS 11 – *Joint Arrangements* ("IFRS 11"), IFRS 12 – *Disclosure of Interests in Other Entities* ("IFRS 12") and amendments to IAS 27 – *Separate Financial Statements* ("IAS 27") and IAS 28 – *Investments in Associates and Joint*

(Unaudited) (Expressed in Canadian Dollars)

Ventures ("IAS 28"), effective for annual periods beginning on or after January 1, 2013. The combination of these five new standards establishes control as the basis for consolidation and provides enhanced disclosure requirements for the Company's interests in other entities and the effects of those interests on the Company's consolidated financial statements.

The Company reviewed its investment in Prophecy Platinum at January 1, 2013 and has concluded that that the adoption of IFRS 10 did not result in any change to the investment in an associate balance. The Company does not anticipate the changes to IFRS 11 and the revised IAS 27 and IAS 28 to have a significant impact on the consolidated financial statements.

The requirement of IFRS 12 relates to disclosures only and is applicable for the first annual period after adoption. Accordingly, the Company will include additional disclosures about interests in other entities in its annual consolidated financial statements for the year ended December 31, 2013.

Fair value measurement

The Company adopted IFRS 13, Fair Value Measurement ("IFRS 13") with prospective application from January 1, 2013.

The adoption of IFRS 13 had immaterial effect on the Company's condensed interim consolidated financial statements for the three months ended March 31, 2013. The disclosure requirements of IFRS 13 will be incorporated in its annual consolidated financial statements for the year ended December 31, 2013.

4. SEGMENTED INFORMATION

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

	March 31, 2013		
	Canada	Mongolia	Total
Reclamation deposits	$ 6,500	$ 21,054	$ 27,554
Property and equipment	257,223	11,472,140	11,729,363
Mineral properties	2,161,668	11,853,153	14,014,821
Investment in associate	24,642,349	-	24,642,349
	$ 27,067,740	$ 23,346,347	$ 50,414,087

	December 31, 2012		
	Canada	Mongolia	Total
Reclamation deposits	$ 6,500	$ 21,054	$ 27,554
Property and equipment	279,045	12,650,297	12,929,342
Mineral properties	2,159,765	11,228,117	13,387,882
Investment in associate	25,118,910	-	25,118,910
	$ 27,564,221	$ 23,899,467	$ 51,463,688

Prior to December 1, 2012, Prophecy Platinum's net assets and operations were consolidated into the financial statements of Prophecy Coal. On November 30, 2012, it was determined that Prophecy Coal's control changed to significant influence over Prophecy Platinum, and therefore, since December 1, 2012, the value of those amounts were reflected as an Investment in Associate using the equity accounting method (note 8).

5. CASH AND CASH EQUIVALENTS

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

		March 31, 2013		December 31, 2012
Cash				
Denominated in Canadian dollars	$	90,639	$	269,246
Denominated in US dollars		3,460		58,484
Denominated in Mongolian tugriks		341,761		441,056
Cash equivalents				
Denominated in Canadian dollars		-		45
	$	435,860	$	768,831

Restricted Cash

In February 2013, the Company transferred $3,500,000 from short-term investment to restricted cash pursuant to Waterton Global Value L.P ("Waterton") loan waiver agreement (note 11). Waterton agreed to waive the default, subject to the Company completing (completed) the following;

(a) setting aside $3.5 million in escrow, designated for the following purposes:
- i) $1.5 million for the acquisition of the Mongolian Tugalgatai coal assets, and
- ii) $2 million for the full repayment or a partial prepayment of the Waterton loan, due July 16, 2013.

6. SHORT TERM INVESTMENTS

		March 31, 2012		December 31, 2012
Short Term Investments				
Denominated in Canadian dollars	$	1,032,667	$	5,107,500
	$	1,032,667	$	5,107,500

The Company's short-term investments consist of a Bank of Montreal savings account containing $472,152 held in respect of the February 7, 2013 announced (closed April 11, 2013) private placement (note 16) and a Guaranteed Investment Certificate of $560,515 earning annual interest at 2.05% and maturing on November 25, 2013.

(Unaudited) (Expressed in Canadian Dollars)

7. AVAILABLE FOR SALE INVESTMENTS

At March 31 2013, the Company owned about 7.0% or 31,409,385 common shares of Victory Nickel Inc.'s issued and outstanding common shares, which were quoted on the Toronto Stock Exchange at $0.045 per share for a total quoted amount of $1,413,422 (December 31, 2012 - $628,188), which represented a $785,234 other comprehensive gain. This gain less a $3,750 accumulated comprehensive loss (note 8) resulting from Prophecy Platinum's marking-to-market the investment in Auriga Gold Corp. shares resulted in a net accumulated other comprehensive gain of $781,484 for the three month period ending March 31, 2013.

8. INVESTMENT IN ASSOCIATE

The investment in associate, Prophecy Platinum Corp. ("Prophecy Platinum"), is recorded at its carrying amount of $24,642,349 as at March 31, 2013 ($25,118,910 as at December 31, 2012). Prophecy Coal holds significant influence over Prophecy Platinum by way of its ownership of 32.0% as at March 31, 2013 (32.1% as at December 31, 2012) of the total issued and outstanding shares of Prophecy Platinum. Its investment was initially recognised on deconsolidation of Prophecy Platinum from the Company's financial statements as at November 30, 2012 with an ownership of 32.6%. Thereafter, the Company accounted for its share of Prophecy Platinum results under the equity accounting method as defined in IAS 28 – Investments in Associates and Joint Ventures and will continue to do so for as long as it retains significant influence over Prophecy Platinum.

These unaudited condensed interim financial statements include the Company's share of Prophecy Platinum's three months ended March 31, 2013 net loss of $472,811, by way of reducing the Investment in Associate as follows:

		March 31, 2013		December 31, 2012
Investment in Associate				
Opening balance	$	25,118,910	$	-
Initial recognition		-		25,315,871
Share of net loss of associate		(472,811)		(196,961)
Fair value gain (loss) on available-for-sale investments of an associate		(3,750)		-
	$	24,642,349	$	25,118,910

At March 31, 2013, the Company held 22,013,799 Prophecy Platinum common shares, which as of that date were quoted on the Toronto Stock Venture Exchange at $0.69 per share for a total quoted amount of $15,189,521 (December 31, 2012 quoted at $1.01 per share for a total quoted amount of $22,233,937).

As described in Note 15 to the Company's annual consolidated financial statements for the year ended December 31, 2012, pursuant to the plan of arrangement and consolidation in share capital in the acquisition of Prophecy Platinum shares in June 2011, 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 March 31, 2013 Prophecy Coal held, reserved in-trust, 3,267,934 (December 31, 2012 - 3,267,934) Prophecy Platinum shares contingent on exercise of these June 9, 2011 Options and Warrants. Any Prophecy Platinum shares held in-trust, but not delivered, due to the expiry of unexercised June 9, 2011 Options and Warrants, shall be returned to

Prophecy Coal, of which none have been returned to date. Prophecy Platinum common shares held in-trust, for Prophecy Coal June 9, 2011 Options and warrants outstanding, are excluded from the calculation of Prophecy Coal's ownership percentage in Prophecy Platinum until they are returned, if any at all, to Prophecy Coal due to the expiry of unexercised June 9, 2011 Options and Warrants.

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

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

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

(Unaudited) (Expressed in Canadian Dollars)

9. PROPERTY AND EQUIPMENT

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

						Ulaan Ovoo		
	Computer Equipment	Furniture & Equipment	Vehicles	Computer Software	Leasehold Improvements	Mining Equipment	Deferred Exploration	Total
Cost								
Balance, January 1, 2013	$ 176,192	$ 377,701	$ 786,946	$ 196,707	$ 172,818	$ 14,459,112	$ 2,000,000	$ 18,169,476
Additions								-
Assets acquired	2,584	-	362	529	-	-	3,682,182	3,685,658
Disposals	-	-	-	-	-	(14,750)	-	(14,750)
Sale of coal	-	-	-	-	-	-	(851,976)	(851,976)
Rental revenue	-	-	-	-	-	-	(486,167)	(486,167)
Costs in excess of impaired value	-	-	-	-	-	-	(2,344,038)	(2,344,038)
Balance, March 31, 2013	$ 178,776	$ 377,701	$ 787,308	$ 197,236	$ 172,818	$ 14,444,362	$ 2,000,000	$ 18,158,203
Accumulated depreciation								
Balance, January 1, 2013	80,515	135,451	288,488	120,433	58,145	4,557,103	-	5,240,135
Depreciation for period	8,037	11,452	37,294	3,893	8,641	1,119,387	290,935	1,479,639
Costs in excess of impaired value	-	-	-	-	-	-	(290,935)	(290,935)
Balance, March 31, 2013	$ 88,552	$ 146,903	$ 325,782	$ 124,326	$ 66,786	$ 5,676,490	$ -	$ 6,428,839
Carrying amount								
At December 31, 2012	$ 95,677	$ 242,250	$ 498,458	$ 76,274	$ 114,673	$ 9,902,009	$ 2,000,000	$ 12,929,341
At March 31, 2013	$ 90,225	$ 230,798	$ 461,526	$ 72,910	$ 106,032	$ 8,767,872	$ 2,000,000	$ 11,729,363

(Unaudited) (Expressed in Canadian Dollars)

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

9. PROPERTY AND EQUIPMENT (Continued)

Prior to December 1, 2012, Prophecy Platinum's net assets and operations were consolidated into the financial statements of Prophecy Coal. On November 30, 2012, it was determined that Prophecy Coal's control changed to significant influence over Prophecy Platinum, and therefore, since December 1, 2012, the value of those amounts were reflected as an Investment in Associate using the equity accounting method (note 8).

Ulaan Ovoo Property

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

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

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

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

Costs in excess of impaired value and impairment write down of Ulaan Ovoo property

During the quarter ending March 31, 2013, the Company incurred expenditures on the Ulaan Ovoo property, classified as costs in excess of impaired value, amounting to $2,053,103, which is reflected on the condensed interim consolidated statement of operations and comprehensive loss. As there were no benchmark or market changes from January 1, 2013 to March 31, 2013, the impaired value for Ulaan Ovoo within property and equipment, remains unchanged at a balance of $2,000,000 (see note 9, table of property and equipment).

Pre-commercial operations for the period from commencement in November 2010 until the temporary shutdown in July 2012, to which shutdown 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 interim period, including the first three months of 2013, post shutdown, and have been recorded as deferred exploration, within property and equipment. The ending coal stockpile inventory value at March 31, 2013 was $1.6 million ($2.4 million at December 31, 2012).

The determined impaired value of $2 million for the Ulaan Ovoo property on as at December 31, 2012, remains unchanged at March 31, 2013. The determination was based on pre-commercial operating results along with capital expenditures and the Ulaan Ovoo-Prefeasibility Study ("PFS") dated December 2010 prepared by the independent engineering firm, Wardrop, a Tetra Tech Company. The PFS determined a net present value for the project of US$71 million after capital expenditures of approximately 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 2013 coal shipments from the coal stockpile inventory, have averaged approximately US$20 per tonne, with only about 20% of the 2012 stockpile sales value above US$28 per tonne. The average lower sales volumes and prices is because of depressed local coal markets and the Company, due to border and export regulations, has been unable to ship coal across the Mongolian border into Russia where coal prices are significantly higher.

The Company continues to evaluate project operating optimization alternatives for the Ulaan Ovoo property, in addition to investigating potential strategic partner and joint venture arrangements, sale of part or whole of the project, and coal marketing arrangements both domestically and to other countries, potentially to access higher international coal market prices. However, Prophecy Coal is unable to determine with certainty, how long coal markets will remain depressed, and when, if at all, access to Russian coal markets will be opened, nor the extent of project changes and operational modifications that would be required to more fully realize, beyond its pre-commercial operating history, on the potential value of the existing NI 43-101 coal reserve estimates per the PFS and per the NI 43-101 coal resources as determined by the 2007 Behre Dolbear report. Based on longer term coal sales prices of $28 per tonne, unit costs approaching the PFS based on higher production levels, the Company determined a book recoverable amount for the Ulaan Ovoo property as at December 31, 2012, and unchanged as at March 31, 2013 at $2,000,000 and expensed, costs in excess of impaired value, of $2,053,103 ($2,344,038 credit to deferred exploration and a $290,935 charge to accumulated amortization) on its Ulaan Ovoo property for the three month period ended March 31, 2013.

(Unaudited) (Expressed in Canadian Dollars)

10. MINERAL PROPERTIES

	Chandgana Tal	Chandgana Khavtgai	Titan	Okeover, others	Total
Notes	17(a)	17(b)	17(c)	17(d)	17(e)
Balance, January 1, 2013	$ 8,624,130	$ 2,603,986	$ 750,628	$ 1,409,138	$ 13,387,882
Q1 2013 Additions:					
Acquisition cost	-	-	-	-	-
Deferred exploration costs:					
Licenses, leases, and power plant application	319,264	145,607	-	1,833	466,704
Geological core, engineering, and consulting	152,578	7,588	-	69	160,235
	471,842	153,195	-	1,902	626,939
Balance, March 31, 2013	**$ 9,095,972**	**$ 2,757,181**	**$ 750,628**	**$ 1,411,040**	**$ 14,014,821**

(Unaudited) (Expressed in Canadian Dollars)

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

	Cerro Chato and others	Las Aguilas	Shakespeare	Baldwin and option	Shining Tree	Stumpy Bay Option	Fox Mountain	Total
Notes	17(i)	17(j)	17(k)	17(l)	17(m)	17(n)	17(o)	
Balance, January 1, 2012	$ 707,450	$ 231,999	$ -	$ -	$ -	$ -	$ -	$ 62,169,481
2012 Additions:								
Acquisition cost	-	198,255	5,989,350	477,114	442,873	318,811	109,373	8,985,776
Deferred exploration costs:								-
Licenses and leases	-	22,361	-	-	-	-	-	2,574,812
Consulting	40,256	-	-	-	-	-	-	4,038,615
Drilling	-	-	-	-	-	-	-	3,945,131
Personnel	-	-	-	-	-	-	-	597,952
Camp and general	-	8,228	-	-	-	-	-	(42,623)
Recovery	803	-	-	-	-	-	-	2,000,780
Impairment	-	(460,843)	-	-	-	-	-	(651,823)
	41,059	-	-	-	-	-	-	12,462,843
Deconsolidation of subsidiary	(748,509)	-	(5,989,350)	(477,114)	(442,873)	(318,811)	(109,373)	(70,230,218)
Balance, December 31, 2012	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 13,387,882**

(Unaudited) (Expressed in Canadian Dollars)

11. LOAN PAYABLE

The outstanding balance of the loan payable as at March 31, 2013 is summarized as follows:

		March 31, 2013		December 31, 2012
Loan payable	$	9,377,264	$	9,392,170
	$	9,377,264	$	9,392,170

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

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

In order to purchase the Tethys property, in July 2012, Prophecy Coal arranged a secured debt facility of $10,000,000 (the “Loan”) with Waterton. The Loan has a one year term, due on July 16, 2013, and bears interest at 14% per annum payable monthly with an effective interest rate of 25%. In connection with the Loan, a structuring fee of 2.5% ($250,000) was paid to Waterton in cash and legal fees of $189,805 were paid. Pursuant to the terms of the Loan, Prophecy Coal issued (for a value of $600,000) 2,735,617 common shares of Prophecy Coal on closing of the Loan at July 16, 2012.

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

As at December 31, 2012 and March 31, 2013, Prophecy Coal had outstanding $10,000,000 of the Loan, which is callable at the option of Waterton in the case of the termination of the Tugalgatai Agreement. Such termination occurred in October 2012 as the initial long stop date for approval of the licence transfers by Minerals Resource Authority of Mongolia had elapsed. Under the Credit Agreement, the expiry of the original purchase and sales agreement with Tethys constituted a default.

In February 2013, Waterton agreed to waive the default, subject to the Company completing (completed) the following;

(a) setting aside $3.5 million of the original $10 million loan in escrow for the following purposes:

i) $1.5 million for the acquisition of the Mongolian Tugalgatai coal assets, and

ii) $2 million for the full repayment or a partial prepayment of the Loan;

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

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

At March 31, 2013 the Company had $3.5 million set aside in an escrow account, which may be used to decrease the loan payable amount of $10 million, due July 16, 2013, to a balance of $6.5 million (note 1).

For the quarter ending March 31, 2013, the Company recorded an interest expense of $615,094.

12. SHARE CAPITAL

(a) Authorized

The authorized share capital consists of an unlimited number of common shares without par value. There are no authorized preferred shares. At March 31, 2013, the Company had 230,400,956 (December 31, 2012 - 228,400,956) common shares issued and outstanding.

(b) Equity issuances

During the three month period ended March 31, 2013, Prophecy Coal had the following common share capital transactions:

(i) On March 15, 2013, Prophecy Coal issued 2,000,000 shares to Waterton at a value of $0.14 per share as a financing fee pursuant to a waiver in relation to $10 million loan, (note 11).

(ii) On January 24, 2013 the Board of Directors approved the grant of 2,197,500 bonus shares to employees, consultants and directors, subject to shareholder approval and subject to the following terms: 50% vest on shareholder approval and 50% vest on January 2, 2014. These bonus shares have been approved by the TSX on March 7, 2013, subject to the shareholder vote, scheduled to take place at the next annual general meeting, in July 2013. As of March 31, 2013 no bonus share expenses have been recorded or accrued, and recorded only upon approval by the shareholders.

(c) Share purchase options

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

During the three months ended March 31, 2013, the Company granted 300,000 share options to a consultant, which under IFRS 2 is treated as employee options, at an exercise price of $0.14 with an expiry date of March 4, 2018.

(Unaudited) (Expressed in Canadian Dollars)

The following is a summary of the changes in Prophecy Coal's share purchase options from January 1, 2013 to March 31, 2013:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2012	32,485,550	$0.70
Granted	300,000	$0.14
Exercised	-	$0.00
Forfeited	(270,000)	$0.30
Cancelled	-	$0.00
Outstanding, March 31, 2013	32,515,550	$0.57
Options exercisable on March 31, 2013	22,786,383	$0.70

Share-based payment expenses are amortized over the corresponding vesting periods. During the three months ended March 31, 2013 and the year ended December 31, 2012, the share-based payment expenses were calculated using the following weighted average assumptions:

	Three months ended March 31, 2013	Year ended December 31, 2012
Risk-free interest rate	1.47%	1.50%
Expected life of options in years	4.28 years	4.46 years
Expected volatility	91.9%	91.0%
Expected dividend yield	Nil	Nil
Expected forfeiture rate	12%	3%

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

The forfeiture rate in the period is greater than the historical due to a rationalization of the workforce.

For the three months ended March 31, 2013 and 2012, share-based payments were recorded as follows:

	Three Month Period Ended March 31, 2013	March 31, 2012
Consolidated Statement of Operations		
Share based payments	$ 200,152	$ 2,461,237
Consolidated Statement of Financial Position		
Ulaan Ovoo exploration	32,313	15,502
Power Plant application	8,960	-
Wellgreen exploration	-	859
	41,273	16,361
Total share-based payments	$ 241,425	$ 2,477,598

(Unaudited) (Expressed in Canadian Dollars)

For the comparative three months ended March 31, 2012, Prophecy Platinum's share-based payments were consolidated into the statement of operations. On November 30, 2012, it was determined that Prophecy Coal's control changed to significant influence over Prophecy Platinum, and therefore, since December 1, 2012, the value of those amounts were reflected as an Investment in Associate using the equity accounting method (note 8).

As of March 31, 2013 and December 31, 2012, the following Prophecy Coal share options were outstanding:

March 31, 2013		December 31, 2012		Expiry	Exercisable	Unvested
Exercise Price	Options Outstanding	Exercise Price	Options Outstanding	Date	At March 31, 2013	At March 31, 2013
$0.14	1,500,000	$ 0.14	1,500,000	November 2, 2017	-	1,500,000
$0.14	300,000	$ -	-	March 4, 2018	-	300,000
$0.15	150,000	$ 0.15	150,000	November 5, 2017	-	150,000
$0.18	375,000	$ 0.18	375,000	September 24, 2017	-	375,000
$0.18	230,000	$ 0.18	230,000	August 16, 2017	-	230,000
$0.18	4,994,167	$ 0.18	5,044,167	August 22, 2017	-	4,994,167
$0.18	-	$ 0.18	100,000	September 20, 2017	-	-
$0.25	975,000	$ 0.25	975,000	October 29, 2014	975,000	-
$0.25	10,000	$ 0.25	10,000	June 1, 2017	-	10,000
$0.38	200,000	$ 0.38	200,000	November 30, 2014	200,000	-
$0.40	1,056,800	$ 0.40	1,056,800	January 23, 2014	1,056,800	-
$0.40	381,250	$ 0.40	381,250	January 29, 2015	381,250	-
$0.43	-	$ 0.43	80,000	January 9, 2017	-	-
$0.49	2,515,000	$ 0.49	2,555,000	March 22, 2017	1,257,500	1,257,500
$0.54	850,000	$ 0.54	850,000	September 21, 2015	850,000	-
$0.55	350,000	$ 0.55	350,000	March 11, 2015	350,000	-
$0.60	175,000	$ 0.60	175,000	July 17, 2014	175,000	-
$0.60	65,000	$ 0.60	65,000	September 21, 2014	65,000	-
$0.63	1,615,000	$ 0.63	1,615,000	June 13, 2016	807,500	807,500
$0.67	1,722,500	$ 0.67	1,722,500	May 10, 2015	1,722,500	-
$0.67	175,000	$ 0.67	175,000	October 15, 2015	175,000	-
$0.77	2,050,000	$ 0.77	2,050,000	December 24, 2015	2,050,000	-
$0.77	210,000	$ 0.77	210,000	August 30, 2016	105,000	105,000
$0.77	9,000,000	$ 0.77	9,000,000	December 10, 2015	9,000,000	-
$0.80	475,000	$ 0.80	475,000	April 30, 2015	475,000	-
$0.80	100,000	$ 0.80	100,000	September 23, 2015	100,000	-
$0.80	120,000	$ 0.80	120,000	January 4, 2016	120,000	-
$0.93	2,590,833	$ 0.93	2,590,833	December 24, 2015	2,590,833	-
$0.93	50,000	$ 0.93	50,000	January 6, 2016	50,000	-
$0.98	130,000	$ 0.98	130,000	February 14, 2016	130,000	-
$1.03	150,000	$ 1.03	150,000	March 24, 2015	150,000	-
	32,515,550		32,485,550		22,786,383	9,729,167

(Unaudited) (Expressed in Canadian Dollars)

(d) Share purchase warrants

The following is a summary of the changes in Prophecy Coal's warrants from January 1, 2013 to March 31, 2013:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, January 1, 2013	10,339,926	$0.57
Expired	(6,170,665)	$0.80
Outstanding, March 31, 2013	4,169,261	$0.23

As at March 31, 2013 and December 31, 2012, the following Prophecy Coal warrants were outstanding:

Exercise price	At March 31, 2013 Number of Warrants	At December 31, 2012 Number of Warrants	Expiry date
$0.18	3,831,511	3,831,511	October 28, 2015
$0.77	-	551,968	March 31, 2013
$0.80	-	2,964,730	March 31, 2013
$0.80	337,750	337,750	April 21, 2013
$0.80	-	2,653,967	March 23, 2013
$0.18 to $0.80	4,169,261	10,339,926	

Subsequent to March 31, 2013, on April 21, 2013, 337,750 warrants expired unexercised (note 16 b).

13. RELATED PARTY DISCLOSURES

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

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

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

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

(c) Energy Investment Capital, a private company owned by Jivko Savov, former Director of Prophecy Coal, provided consulting services to the Company.

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

(Unaudited) (Expressed in Canadian Dollars)

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

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

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

The Company's related party disclosure includes Prophecy Platinum's related party transactions during the three months ended March 31, 2012. Prior to December 1, 2012, Prophecy Platinum's net assets and operations were consolidated into the financial statements of Prophecy Coal. On November 30, 2012, it was determined that Prophecy Coal's control changed to significant influence over Prophecy Platinum, and therefore, since December 1, 2012, the value of those amounts were reflected as an Investment in Associate using the equity accounting method (note 8).

A summary of related party expenses is as follows:

	Three months ended March 31, 2013	2012
Related parties	2013	2012
Cantech Capital Corp. (a)	$ -	$ 2,500
Directors and officers	86,956	78,333
Elysian Enterprises Inc. (b)	-	3,000
Energy Investment Capital (c)	-	26,239
JWL Investments Corp. (d)	-	42,000
Linx Partners Ltd. (e)	105,003	150,000
MaKevCo Consulting Inc. (f)	21,400	44,500
The Energy Gateway (g)	-	32,202
	$ 213,359	$ 378,774

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

	Three months ended March 31, 2013	2012
Related parties	2013	2012
Consulting and management fees	$ 10,503	$ 269,922
Directors' fees	45,752	69,150
Mineral properties	73,500	16,101
Property and equipment	21,000	16,101
Salaries and benefits	62,604	7,500
	$ 213,359	$ 378,774

As at March 31, 2013, the amount included with accounts payable and accrued liabilities, which was due to related parties, consisted of amounts owing to directors totalling $74,803 (December 31, 2012 – $53,334) which was for director fees, reimbursable expenses, and the managing of mineral properties.

(Unaudited) (Expressed in Canadian Dollars)

Transactions with subsidiaries and associates

Transactions between the Company and its subsidiaries are eliminated on consolidation; therefore, they are not disclosed as related party transactions. Transactions between the Company and its associate, Prophecy Platinum, are disclosed as follows:

Prophecy Coal shares administrative assistance and office space, and previously shared management with Prophecy Platinum pursuant to a one year Service Agreement for 2012, consisting of fixed monthly fees of $40,000. Prophecy Coal recovers costs for services rendered to Prophecy Platinum and expenses incurred on behalf of Prophecy Platinum. As at March 31, 2013 an amount of $120,000 was due from Prophecy Platinum for shared office costs.

14. KEY MANAGEMENT PERSONNEL COMPENSATION

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

Key Management Personnel	Three months ended March 31, 2013	2012
Salaries and short-term employee benefits	$ 74,284	$ 296,828
Share-based payments	146,505	85,759
	$ 220,789	$ 382,587

Not included in the key management personnel compensation are John Lee's (interim CEO) compensation payments of $105,003, of which $94,500 was capitalized to the Ulaan Ovoo and Prophecy Power Generation projects for the period of January 1, 2013 – March 31, 2013.

15. KEY SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended March 31, 2013	2012
Supplementary information		
Interest paid	$ 350,001	$ 56,511
Non-Cash Financing and Investing Activities		
Shares issued as financing fees	$ 280,000	$ -
Capitalized depreciation of fixed assets	$ 1,479,639	$ 893,197
Property & equipment expenditures included in accounts payable	$ 350,275	$ 45,364
Mineral property expenditures included in accounts payable	$ 55,962	$ 271,504
Share-based payments capitalized in property and equipment	$ 32,313	$ 11,434
Share-based payments capitalized in mineral properties	$ 8,960	$ 85,772

16. EVENTS AFTER THE REPORTING DATE

The following events occurred subsequent to March 31, 2013:

(a) On February 7, 2013, the Company announced that it was undertaking a private placement (the "Placement") of up to 60,000,000 units (each a "Unit") at a price of $0.14 per Unit to raise gross proceeds of up to $8.4 million. Each Unit consists of one common share (a "Share") of the Company and 0.75 of a share purchase warrant (a "Warrant"). Each whole Warrant entitles the holder to acquire an additional Share at a price of $0.18 per Share for a period of two years following closing. The Company announced that NewMargin Prophecy Coal Ltd. ("NewMargin"), at arms lengths to the Company, had agreed to subscribe for 40 million units of this financing, and that Company insiders may also participate in the Placement. The proceeds of the Placement will be used to advance the Chandgana power plant project and for general working capital purposes.

Under TSX policy, shareholder approval will be required for (a) the acquisition by NewMargin of over 20% of the Company's issued and outstanding Shares, and (b) for the placement generally, as it will involve the issuance of more than 25% of the Company's issued and outstanding Shares, in each case after giving effect to the exercise of the Warrants. The Company intends to issue a combination of Units and special warrants ("Special Warrants") to stay below each of these thresholds. Each Special Warrant will be automatically exercised for one Unit without payment of additional consideration following receipt of shareholder approval, which the Company will seek at its next annual general meeting in July 2013. If such approval is not obtained, the Special Warrants will be cancelled and the portion of the Placement proceeds which relates to their sale will be returned to the subscribers.

On April 12, 2013, the Company closed the first tranche of the Placement, issuing 4,382,571 Units for gross proceeds of $613,560, of which $536,560 was received as at March 31, 2013 (the "First Tranche Closing"). Finder's fees of 6% were paid in connection with a portion of the first tranche of the private placement. The foregoing Shares and Warrants and any shares issued upon the exercise of the Warrants comprising the Units sold in the first tranche are subject to a four month resale hold period.

The balance of the Placement has not yet closed. While the Company received a signed subscription agreement from NewMargin in early February, 2013, NewMargin has yet to provide any subscription funds. The Company remains in discussions with NewMargin respecting the extent to which NewMargin is prepared to participate in the Placement, which makes the timing and the particulars of any second tranche closing of the Placement uncertain. The potential participation of other placees, including possible insiders, in additional closings of the Placement has not been finalized, and is subject to TSX approval.

(b) Subsequent to March 31, 2013, 337,750 warrants exercisable at $0.80 per share on April 21, 2013 expired unexercised (note 12).