Prophecy
Coal Corp.

Condensed Interim Consolidated Financial Statements
Unaudited
For the three and six month period ended June 30, 2014
(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
(Expressed in Canadian Dollars) (Unaudited)

As at	Notes		June 30, 2014		December 31, 2013
Assets					
Current assets					
Cash and cash equivalents	5	$	840,655	$	507,996
Receivables			2,681,226		2,648,993
Amount due from related party	11		78,364		78,364
Prepaid expenses			888,762		1,278,914
Inventory			3,195,424		1,758,310
Available-for-sale-investments	6		-		2,295,810
			7,684,431		8,568,387
Non-current assets					
Restricted cash equivalents			34,500		34,500
Reclamation deposits			27,554		27,554
Property and equipment	7		10,220,560		10,758,586
Mineral properties	8		15,347,994		15,053,773
		$	33,315,039	$	34,442,800
Liabilities and Equity					
Current liabilities					
Accounts payable & accrued liabilities		$	1,278,513	$	1,432,238
Line of credit facility, current portion	9		453,093		1,069,400
			1,731,606		2,501,638
Non-current liabilities					
Provision for closure and reclamation			129,552		129,552
Line of credit facility	9		1,015,540		631,925
			2,876,698		3,263,115
Equity					
Share capital	10		147,951,793		147,680,113
Reserves			20,250,497		19,790,089
Accumulated other comprehensive gain			-		399,271
Deficit			(137,763,949)		(136,689,788)
			30,438,341		31,179,685
		$	33,315,039	$	34,442,800

Approved on behalf of the Board:

"John Lee" — John Lee, Director

"Greg Hall" — Greg Hall, Director

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

	Notes	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
General and Administrative Expenses					
Advertising and promotion		$ 13,772	$ 52,601	$ 33,232	$ 111,616
Consulting and management fees		10,503	28,353	33,314	56,405
Depreciation		15,737	21,014	32,198	43,703
Director fees		40,174	50,498	77,045	96,251
Insurance		20,092	43,216	57,698	95,170
Office and administration		27,056	23,828	71,426	35,809
Professional fees		37,912	257,459	126,651	360,023
Salaries and benefits		91,214	124,225	172,266	324,461
Share-based payments	10	240,911	135,347	433,514	335,499
Stock exchange and shareholder services		24,393	22,831	73,926	69,457
Travel and accommodation		29,361	33,907	61,860	59,798
Loss Before Other Items		(551,125)	(793,281)	(1,173,130)	(1,588,194)
Other Items					
Costs in excess of impaired value	7	(465,381)	(712,457)	(2,677,162)	(2,765,560)
Foreign exchange gain (loss)		122,466	72,405	397,931	375,664
Gain on sale of available-for-sale investments	6	15,007	19,545	2,366,913	19,545
Interest expense		-	(632,649)	-	(1,247,743)
Interest income		4,081	4,313	11,287	24,410
Share of net loss of associate		-	(399,930)	-	(872,741)
Deemed disposal loss of associate		-	(1,122,329)	-	(1,122,329)
Net Loss for Period		(874,952)	(3,564,385)	(1,074,161)	(7,176,950)
Fair value gain (loss) on available-for-sale investments		-	(333,639)	-	451,595
Fair value loss on available-for-sale investments of an associate		-	-	-	(3,750)
Comprehensive Loss for Period		$ (874,952)	$ (3,898,023)	$ (1,074,161)	$ (6,729,104)
Loss Per Common Share, basic and diluted		$ (0.00)	$ (0.02)	$ (0.00)	$ (0.03)
Weighted Average Number of Common Shares Outstanding		249,694,731	236,490,814	249,509,065	233,057,495

See accompanying notes to the consolidated financial statements.

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

	Numbers of shares	Share Capital	Reserves	Accumulated Other Comprehensive Gain (Loss)	Deficit	Total
Balance, December 31, 2012	228,400,956	$ 145,796,591	$ 18,577,859	$ -	$ (113,393,634)	$ 50,980,816
Private placement, share issue costs	12,525,428	1,432,986	-	-	-	1,432,986
Shares issued as financing fees	2,000,000	280,000	-	-	-	280,000
Share-based payments	-	-	387,114	-	-	387,114
Share bonus to personnel	-	-	12,670	-	-	12,670
Loss for the period	-	-	-	-	(7,176,950)	(7,176,950)
Unrealized gain (loss) on available for-sale investments	-	-	-	451,596	-	451,596
associate	-	-	-	(3,750)	-	(3,750)
Balance, June 30, 2013	242,926,384	147,509,578	18,977,643	447,846	(120,570,582)	46,364,484
Balance, December 31, 2013	248,373,819	147,680,113	19,790,089	399,271	(136,689,788)	31,179,685
Share-based payments	-	-	460,408	-	-	460,408
Share bonus to personnel	1,013,750	81,100	-	-	-	81,100
Debt settlement	2,541,065	190,580	-	-	-	190,580
Loss for the period	-	-	-	-	(1,074,161)	(1,074,161)
Sale of available-for-sale-investments	-	-	-	(399,271)	-	(399,271)
Balance, June 30, 2014	251,928,634	$ 147,951,793	$ 20,250,497	$ -	$ (137,763,949)	$ 30,438,341

See accompanying notes to the consolidated financial statements.

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

	Six Months Ended June 30 2014	2013
Operating Activities		
Net loss for the year	$ (1,074,161)	$ (7,176,950)
Adjustments to reconcile net loss to net cash flows:		
Depreciation and accretion	32,198	43,703
Share-based payments	433,514	335,499
Share of loss of an associate	-	872,741
Costs in excess of impaired value	2,677,162	2,765,560
Gain on sale of available-for-sale investments	(2,366,913)	-
Interest costs	-	1,247,743
Interest income	(11,287)	(24,410)
	(309,487)	(1,936,114)
Working capital adjustments		
Receivables	635,481	(133,323)
Prepaid expenses	390,152	(44,726)
Inventory	(1,437,114)	679,470
Accounts payable and accrued liabilities	(1,352,505)	(374,901)
Restricted cash	-	(3,500,000)
	(1,763,986)	(3,373,480)
Cash Used in Operating Activities	(2,073,473)	(5,309,594)
Investing Activities		
Acquisition of property and equipment	(1,726,313)	(548,970)
Mineral property expenditures	(73,135)	(931,759)
Interest received from short term investment	-	24,410
Investment in associate acquisition	-	(140,000)
Proceeds from sale of available-for-sale investments	4,274,739	44,717
Sale of Guaranteed Investment Certificate	-	4,618,184
Cash (Used in) Provided by Investing Activities	2,475,291	3,066,582
Financing Activities		
Deemed disposal loss of associate	-	1,122,331
Credit facility paid	(136,188)	-
Interest paid	(123,551)	(703,892)
Shares issued, net of share issuance costs	-	1,432,986
Debt settlement	190,580	-
Cash (Used in) Provided by Financing Activities	(69,159)	1,851,425
Net (Decrease) Increase in cash and cash equivalents	332,659	(391,587)
Cash and Cash Equivalents - beginning of period	507,996	768,831
Cash and Cash Equivalents - end of period	$ 840,655	$ 377,244

Supplemental cash flow information (Note 14)

See accompanying notes to the consolidated financial statements.

1. NATURE OF BUSINESS

Prophecy Coal Corp. ("**Prophecy Coal**" or the "**Company**") is incorporated under the laws of the province of British Columbia, Canada and maintains its head office at 2nd floor, 342 Water Street, Vancouver, B.C., Canada, V6B 1B6. The Company's focus is on the acquisition, exploration and development of coal properties and the development of its Chandgana Power Plant project in Mongolia. The Company's common shares are listed for trading on the Toronto Stock Exchange ("**TSX**") under the symbol "PCY".

The Company's continued operations, existence and recoverability of the carrying value of mineral properties, and property and equipment is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of stable and profitable operations at the Ulaan Ovoo property, the ability of the Company to raise additional sources of funding, develop the Chandgana Power Plant project including coal feed, control costs of production, and receive the required market price levels for coal, and/or, alternatively, upon the Company's ability to dispose of some or all of its interests on an advantageous basis.

Based on existing capital resources and estimated cash flows from mining operations, the Board of Directors 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 consolidated financial statements have been prepared on a going concern basis and do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

2. BASIS OF PREPARATION

Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting. They do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's Annual Financial Statements as at and for the year ended December 31, 2013. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual consolidated financial statements as at and for the year ended December 31, 2013.

These unaudited condensed interim consolidated financial statements were approved and authorized for issue by the Audit Committee on August 11, 2014.

Judgments and estimates

In preparing these interim financial statements, management makes judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Annual Financial Statements as at and for the year ended December 31, 2013.

(Expressed in Canadian Dollars) (Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Company's Annual Financial Statements as at and for the year ended December 31, 2013. The following changes in accounting policies are also expected to be reflected in the Company's consolidated financial statements as at and for the year ending December 31, 2014.

Changes in accounting policies

The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014:

IFRS 10, IFRS 12 and IAS 27 (2011) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (2011) – Investment Entities
IAS 32 Amendments	Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
IAS 39 Amendments	Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting
IFRIC 21	Levies

These adoptions did not have a material impact on the Company's unaudited condensed interim consolidated financial statements.

IFRIC 20 - *Stripping Costs in the Production Phase of a Surface Mine* ("**IFRS 20**")

As at June 30, 2014, the Company is not in the production stage. The Company is currently assessing the impact of adopting IFRIC 20 on its consolidated financial statements.

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:

Geographical segments

	June 30, 2014 Canada	Mongolia	Total
Reclamation deposits	$ 6,500	$ 21,054	$ 27,554
Property and equipment	160,556	10,060,004	10,220,560
Mineral properties	2,211,461	13,136,533	15,347,994
	$ 2,378,517	$ 23,217,591	$ 25,596,108

	December 31, 2013 Canada	Mongolia	Total
Reclamation deposits	$ 6,500	$ 21,054	$ 27,554
Property and equipment	190,135	10,568,451	10,758,586
Mineral properties	2,203,794	12,849,979	15,053,773
	$ 2,400,429	$ 23,439,484	$ 25,839,913

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:

	June 30, 2014	December 31, 2013
Denominated in Canadian dollars	$ 608,111	$ 259,411
Denominated in US dollars	4,242	1,777
Denominated in Mongolian tugriks	228,302	246,808
	$ 840,655	$ 507,996

6. AVAILABLE FOR SALE INVESTMENTS

Available-for-sale investments consisted of investments in common shares of Wellgreen Platinum Ltd. ("**Wellgreen Platinum**"), and therefore had no fixed maturity date or coupon rate. The fair value of the listed available-for-sale investments were determined directly by reference to published price quotations in an active market.

The Company's activity in its available-for-sale investment for the six months ended June 30, 2014 and the year ended December 31, 2013 was as follows:

(Expressed in Canadian Dollars) (Unaudited)

6. AVAILABLE FOR SALE INVESTMENTS (cont'd...)

	June 30 , 2014	December 31 , 2013
Investment in Wellgreen Platinum Ltd.		
Opening balance	$ 2,295,810	$ 25,118,910
Deemed disposal loss of associate	-	(1,264,472)
Share of net loss of associate	-	(1,397,252)
Acquisitions	1,382,789	140,000
Disposals to market	(3,279,328)	(625,222)
Settlement of debt	-	(474,699)
Private sale	-	(19,596,976)
Fair value loss on available-for-sale investments of an associate	-	(3,750)
Net gain/(loss) transferred to equity	(399,271)	399,271
	$ -	$ 2,295,810

Pursuant to the plan of arrangement and consolidation in share capital in the acquisition of Wellgreen 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 Wellgreen Platinum common share, in addition to one common share of Prophecy Coal for each whole option or warrant of Prophecy Coal held and exercised. Any Wellgreen 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.

During the six months ended June 30, 2014, a total of 1,545,202 of Wellgreen Platinum's reserved held in-trust common shares were released back to the Company due to the forfeiture and expiry of applicable June 9, 2011 Options and Warrants. During the period ended June 30, 2014, the Company sold a total of 4,872,463 Wellgreen Platinum's common shares for net proceeds of $4,274,739 and a realized gain of $2,366,913.

As at June 30, 2014, the Company held reserved in-trust, 771,432 (December 31, 2013- 2,316,634) Wellgreen Platinum common shares contingent upon exercise of these June 9, 2011 Options and Warrants.

(Expressed in Canadian Dollars) (Unaudited)

7. PROPERTY AND EQUIPMENT

	Computer Equipment	Furniture & Equipment	Vehicles	Computer Software	Leasehold Improvements	Ulaan Ovoo Mining Equipment	Ulaan Ovoo Deferred Exploration	Total
Cost								
Balance, December 31, 2012	$ 176,192	$ 377,701	$ 786,946	$ 196,707	$ 172,818	$ 14,459,112	$ 2,000,000	$ 18,169,476
Additions/(disposals)	(4,642)	(5,156)	11,653	(153)	-	612,388	7,970,277	8,584,367
Sale of coal	-	-	-	-	-	-	(3,253,283)	(3,253,283)
Equipment rental revenue	-	-	-	-	-	-	(1,338,003)	(1,338,003)
Costs in excess of impaired value	-	-	-	-	-	-	(3,378,991)	(3,378,991)
Balance, December 31, 2013	$ 171,550	$ 372,545	$ 798,599	$ 196,554	$ 172,818	$ 15,071,500	$ 2,000,000	$ 18,783,567
Accumulated depreciation								
Balance, December 31, 2012	80,515	135,451	288,488	120,433	58,145	4,557,103	-	5,240,135
Depreciation for period	19,357	38,564	116,099	10,895	34,564	2,565,366	1,032,548	3,817,393
Costs in excess of impaired value	-	-	-	-	-	-	(1,032,548)	(1,032,548)
Balance, December 31, 2013	$ 99,872	$ 174,015	$ 404,587	$ 131,328	$ 92,709	$ 7,122,469	$ -	$ 8,024,980
Carrying amount								
At December 31, 2012	$ 95,677	$ 242,250	$ 498,458	$ 76,274	$ 114,673	$ 9,902,009	$ 2,000,000	$ 12,929,342
At December 31, 2013	$ 71,678	$ 198,530	$ 394,012	$ 65,226	$ 80,109	$ 7,949,031	$ 2,000,000	$ 10,758,586
Cost								
Balance, December 31, 2013	$ 171,550	$ 372,545	$ 798,599	$ 196,554	$ 172,818	$ 15,071,500	$ 2,000,000	$ 18,783,566
Additions/(disposals)	(17,323)	672	(11,291)	1,259	-	497,493	5,919,517	6,390,327
Sale of coal	-	-	-	-	-	-	(1,820,750)	(1,820,750)
Costs in excess of impaired value	-	-	-	-	-	-	(4,098,767)	(4,098,767)
Balance, June 30, 2014	$ 154,227	$ 373,217	$ 787,308	$ 197,813	$ 172,818	$ 15,568,993	$ 2,000,000	$ 19,254,376
Accumulated depreciation								
Balance, December 31, 2013	99,872	174,015	404,587	131,328	92,709	7,122,469	-	8,024,980
Depreciation for period	8,271	17,453	39,401	2,235	17,282	924,194	1,421,606	2,430,442
Costs in excess of impaired value	-	-	-	-	-	-	(1,421,606)	(1,421,606)
Balance, June 30, 2014	$ 108,143	$ 191,468	$ 443,988	$ 133,563	$ 109,991	$ 8,046,663	$ -	$ 9,033,816
Carrying amount								
At December 31, 2013	$ 71,678	$ 198,530	$ 394,012	$ 65,226	$ 80,109	$ 7,949,031	$ 2,000,000	$ 10,758,586
At June 30, 2014	$ 46,084	$ 181,749	$ 343,320	$ 64,250	$ 62,827	$ 7,522,330	$ 2,000,000	$ 10,220,560

7. PROPERTY AND EQUIPMENT (cont'd...)

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 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.

Pre-commercial operations for the period from commencement in November 2010 until June 30, 2014, along with project exploration and development costs are capitalized within the category Ulaan Ovoo deferred exploration costs within property and equipment. Coal sales revenue and associated costs to deliver the coal have been recorded against deferred exploration, within property and equipment.

During the six months ended June 30, 2014, the Company incurred expenditures on the Ulaan Ovoo property, classified as costs in excess of impaired value, amounting to $2,677,162 which is reflected on the consolidated statement of operations and comprehensive loss. As there were no benchmark or market changes from January 1, 2014 to June 30, 2014, the impaired value for Ulaan Ovoo within property and equipment, remains unchanged at a balance of $2,000,000. The ending coal stockpile inventory value at June 30, 2014 was $3.2 million ($1.76 million at December 31, 2013).

(Expressed in Canadian Dollars) (Unaudited)

8. MINERAL PROPERTIES

	Chandgana Tal	Chandgana Khavtgai	Titan	Okeover, others	Total
Balance, December 31, 2012	$ 8,624,130	$ 2,603,986	$ 750,628	$ 1,409,138	$ 13,387,882
Additions:					
Acquisition cost	-	-	-	-	-
Deferred exploration costs:					
Licenses, leases, and power plant application	792,392	161,225	-	4,853	958,470
Geological core, engineering, and consulting	271,683	515	-	30,580	302,778
Camp and general	285,967	110,081	-	8,595	404,643
	1,350,042	271,821	-	44,028	1,665,891
Balance, December 31, 2013	$ 9,974,172	$ 2,875,807	$ 750,628	$ 1,453,166	$ 15,053,773
Additions:					
Acquisition cost	-	-	-	-	-
Deferred exploration costs:					
Licenses, leases, and power plant application	167,169	17,250	1,049	1,901	187,369
Geological core, engineering, and consulting	17,063	-	-	1,427	18,490
Camp and general	77,757	7,316	1,500	1,789	88,362
	261,989	24,566	2,549	5,117	294,221
Balance, June 30, 2014	$ 10,236,161	$ 2,900,373	$ 753,177	$ 1,458,283	$ 15,347,994

8. MINERAL PROPERTIES (cont'd...)

a) Chandgana Tal Property, Mongolia

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

In March 2011, the Company obtained a mine permit from Ministry of Mineral Resources and Energy for the Chandgana Tal coal project.

b) Chandgana Khavtgai Property, Mongolia

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

c) Titan Property, Ontario, Canada

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

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

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

d) Okeover Property, British Columbia, Canada

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

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

(Expressed in Canadian Dollars) (Unaudited)

9. LINE OF CREDIT FACILITY

In October 2013, Prophecy Coal's wholly-owned Mongolian subsidiary, Red Hill Mongolia LLC ("**Red Hill**") arranged a line of credit for US $1,500,000 ("**LOC**") with the Trade and Development Bank. The line of credit has a 1.5 year term, with the option of extending it, and bears interest at 15% per annum and a commitment rate of 2% per annum payable monthly. The funds will be used for working capital. The credit facility is collateralized by certain equipment and certain mineral and exploration licences. Pursuant to the LOC agreement, Red Hill was scheduled to pay a fixed amount of US $125,000 monthly against the principal starting May 2014.

On June 30, 2014, Red Hill amended the line of credit agreement by extending the maturity date by four months and the repayment schedule of the remaining principal of $1,250,000 after making a payment in the amount of $125,000 on July 1, 2014, commencing November 2, 2014, broken down as follows:

November and December 2014	Monthly payment of US $150,000
January 2015 to March 2015	Monthly payment of US $150,000
April 2015 to August 2015	Monthly payment of US $100,000

Accordingly, the Company has classified $453,093 as the current portion of the LOC payable on its statement of financial position. For the six months ended June 30, 2014, Red Hill recorded interest expense in the amount of $104,049 which has been capitalized to property and equipment.

10. 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 June 30, 2014, the Company had 251,928,634 (December 31, 2013 – 248,373,819) common shares issued and outstanding.

(b) Equity issuances

On January 7, 2014, the Company issued a second tranche of 1,013,750 common shares at a price of $0.08 related to its 2012 share bonus to certain employees, directors, officers, and consultants of the Company. As at June 30, 2014, the Company recorded $81,100 as share bonus expense to personnel.

On June 19, 2014, the Company issued 2,541,065 units ("**Debt Settlement Units**") as payment for outstanding debt owing by the Company to some of the Company's directors, officers, employees and consultants at a deemed price of $0.075 per Debt Settlement Unit. Each Debt Settlement Unit is comprised of one common share of the Company and one share purchase warrant of the Company entitling the holder thereof to purchase, upon exercise of a warrant, one additional common share at a price of $0.10 per common share for a period of two years from the date of issuance of the Debt Settlement Units.

(Expressed in Canadian Dollars) (Unaudited)

10. SHARE CAPITAL (cont'd...)

(c) Equity-based compensation plans

The Company has two equity-based compensation plans in place: (i) a 20% rolling stock option plan that was approved by the Company's shareholders on July 30, 2013 (the "**2013 Option Plan**"); and (ii) a share-based compensation plan ("**Share-Based Compensation Plan**") which provides for the granting of stock options, bonus shares and stock appreciation rights and which was approved by the Company's disinterested shareholders on June 19, 2014. Since the implementation of the Share-Based Compensation Plan, the 2013 Option Plan has remained in force and effect solely to govern the stock options previously granted under the 2013 Option Plan. All stock options and other share-based awards granted by the Company, or to be granted by the Company, since the implementation of the Share-Based Compensation Plan will be issued under, and governed by, the terms and conditions of the Share-Based Compensation Plan.

Subject to the adjustment provisions provided for in the Share-Based Compensation Plan and the applicable rules of the TSX, the aggregate number of common shares issuable under the Share-Based Compensation Plan, plus the aggregate number of common shares issuable pursuant to the exercise of outstanding stock options granted under the 2013 Option Plan, must not exceed 50,080,263, being 20% of the total issued and outstanding common shares of the Company.

During the six months ended June 30, 2014, 14,980,000 of the June 9, 2011 Options and Warrants granted to various directors, officers, employees and consultants of the Company were voluntary surrendered (see Note 6).

During the six months ended June 30, 2014, the Company granted 13,435,000 stock options to directors, officers, employees and consultants at exercise prices ranging from $0.065 to $0.105 with expiry dates ranging from January 9, 2019 to May 1, 2019.

On June 30, 2014, the Company also modified 2,668,750 stock options granted to various consultants, former directors and former officers of the Company to replace an equivalent number of June 9, 2011 Options and Warrants which they voluntarily surrendered in June 2014. The modified stock options vest immediately and are exercisable at $0.055 per share until December 31, 2015. The incremental fair value of these modified options determined using the Black-Scholes option pricing model was $42,676 and was recorded as share based payment expense during the three months ended June 30, 2014.

The following is a summary of the changes in Prophecy Coal's stock options from December 31, 2012 to June 30, 2014:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2013	31,565,550	$0.26
Granted	13,435,000	$0.08
Expired	(1,056,800)	$0.28
Forfeited	(14,980,000)	$0.29
Cancelled	(1,200,000)	$0.02
Outstanding, June 30, 2014	27,763,750	$0.14
Options exercisable on June 30, 2014	9,669,167	$0.18

(Expressed in Canadian Dollars) (Unaudited)

10. SHARE CAPITAL (cont'd...)

As of June 30, 2014, the following Prophecy Coal stock options were outstanding:

June 30, 2014		December 31, 2013		Expiry	At June 30, 2014	
Exercise Price	Options Outstanding	Exercise Price	Options Outstanding	Date	Exercisable	Unvested
						-
$0.055	2,468,750	$ -	-	December 31, 2015	2,468,750	-
$0.065	7,135,000	$ -	-	May 1, 2019	-	7,135,000
$0.08	250,000	$ -	-	January 9, 2019	31,250	218,750
$0.10	500,000	$ -	-	February 3, 2019	62,500	437,500
$0.11	5,150,000	$ -	-	January 27, 2019	643,750	4,506,250
$0.12	3,650,000	$ 0.12	3,900,000	August 15, 2018	1,368,750	2,281,250
$0.13	250,000	$ 0.13	250,000	July 22, 2018	93,750	156,250
$0.18	375,000	$ 0.18	375,000	September 24, 2017	187,500	187,500
$0.18	230,000	$ 0.18	230,000	August 16, 2017	115,000	115,000
$0.18	3,654,167	$ 0.18	3,804,167	August 22, 2017	1,827,084	1,827,084
$0.25	-	$ 0.25	975,000	October 29, 2014	-	-
$0.25	10,000	$ 0.25	10,000	June 1, 2017	5,000	5,000
$0.28	2,450,000	$ 0.28	3,050,000	June 18, 2017	1,225,000	1,225,000
$0.28	-	$ 0.38	200,000	November 30, 2014	-	-
$0.28	-	$ 0.28	1,056,800	January 23, 2014	-	-
$0.28	-	$ 0.28	281,250	January 29, 2015	-	-
$0.28	50,000	$ 0.28	525,000	September 21, 2015	50,000	-
$0.28	350,000	$ 0.28	350,000	March 10, 2015	350,000	-
$0.28	175,000	$ 0.28	175,000	July 17, 2014	175,000	-
$0.28	-	$ 0.28	65,000	September 21, 2014	-	-
$0.28	70,000	$ 0.28	1,340,000	May 10, 2015	70,000	-
$0.28		$ 0.28	75,000	October 15, 2015	-	-
$0.28	445,833	$ 0.28	2,050,000	December 24, 2015	445,833	-
$0.28	-	$ 0.28	9,000,000	December 10, 2015	-	-
$0.28	50,000	$ 0.28	75,000	April 30, 2015	50,000	-
$0.28	-	$ 0.28	100,000	September 23, 2015	-	-
$0.28	-	$ 0.28	120,000	January 4, 2016	-	-
$0.28	-	$ 0.28	2,170,833	December 24, 2015	-	-
$0.28	-	$ 0.28	50,000	January 6, 2016	-	-
$0.28	100,000	$ 0.28	100,000	February 14, 2016	100,000	-
$0.40	-	$ 0.40	100,000	January 29, 2015	-	-
$0.54	-	$ 0.54	125,000	September 21, 2015	-	-
$0.67	150,000	$ 0.67	262,500	May 10, 2015	150,000	-
$0.67	-	$ 0.67	100,000	October 15, 2015	-	-
$0.77	50,000	$ 0.77	50,000	December 24, 2015	50,000	-
$0.80	100,000	$ 0.80	400,000	April 30, 2015	100,000	-
$0.93	100,000	$ 0.93	50,000	December 24, 2015	100,000	-
$1.03	-	$ 1.03	150,000	March 24, 2015	-	-
	27,763,750		31,565,550		9,669,167	18,094,584

(Expressed in Canadian Dollars) (Unaudited)

10. SHARE CAPITAL (cont'd...)

At June 30, 2014, the Company had 9,669,167 exercisable stock options outstanding (December 31, 2013 – 24,199,717).

The fair value of stock options granted are recorded using the Black Scholes model. Share-based payment expenses resulting from stock options are amortized over the corresponding vesting periods. During the six months ended June 30, 2014, the share-based payment expenses were calculated using the following weighted average assumptions:

Risk-free interest rate	1.6%
Expected life of options	4.35 years
Expected volatility	86.5%
Expected dividend yield	Nil
Weighted average fair value	$ 0.05

Share-based payments are allocated between being either capitalized to property and equipment where related to Ulaan Ovoo, to deferred exploration costs where related to other mineral properties, or expensed as general and administrative expenses where otherwise related to the general operations of the Company. For the six months ended June 30, 2014 and 2013, share-based payments were allocated as follows:

	Three Months Ended June 30		Six Months Ended June 3(	
	2014	2013	2014	2013
Consolidated Statement of Operations				
Share based payments	$ 240,911	$ 135,347	$ 433,514	$ 335,499
Consolidated Statement of Financial Position				
Ulaan Ovoo exploration	41,494	18,229	72,657	50,542
Power Plant application	18,579	4,783	35,337	13,743
	60,073	23,012	107,994	64,285
Total share-based payments	$ 300,984	$ 158,359	$ 541,508	$ 399,784

(d) Share purchase warrants

The following is a summary of the changes in the Company's share purchase warrants from December 31, 2012 to June 30, 2014:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2012	10,339,926	$0.57
Issued	9,394,072	$0.18
Expired	(6,508,415)	$0.80
Outstanding, December 31, 2013	13,225,583	$0.18
Issued	2,541,065	$0.10
Outstanding, June 30, 2014	15,766,648	$0.17

(Expressed in Canadian Dollars) (Unaudited)

10. SHARE CAPITAL (cont'd...)

As at June 30, 2014 and December 31, 2013, the following Prophecy Coal warrants were outstanding:

Exercise price	Number of Warrants		Expiry date
	At June 30, 2014	At December 31, 2013	
$0.18	3,286,929	3,286,929	April 11, 2015
$0.18	6,107,143	6,107,143	June 4, 2015
$0.18	3,831,511	3,831,511	October 28, 2015
$0.10	2,541,065	-	June 19, 2016
	15,766,648	13,225,583	

11. RELATED PARTY DISCLOSURES

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

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

- MaKevCo Consulting Inc., a private company 50% owned by Greg Hall, Director of Prophecy Coal, provides consulting services to the Company.

A summary of related party transactions by related party are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Related parties	2014	2013	2014	2013
Directors and officers	94,054	79,271	178,306	166,227
Linx Partners Ltd.	105,003	105,003	210,006	210,006
MaKevCo Consulting Inc.	12,900	17,900	25,300	39,300
	$ 211,957	$ 202,174	$ 413,612	$ 415,533

A summary of the transactions by nature among the related parties are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Related parties	2014	2013	2014	2013
Consulting and management fees	$ 10,503	$ 10,503	$ 27,257	$ 21,006
Directors' fees	40,174	50,471	77,045	96,223
Mineral properties	47,250	73,500	94,500	147,000
Property and equipment	47,250	21,000	94,500	42,000
Salaries and benefits	66,780	46,700	120,310	109,304
	$ 211,957	$ 202,174	$ 413,612	$ 415,533

(Expressed in Canadian Dollars) (Unaudited)

11. RELATED PARTY DISCLOSURES (cont'd...)

As at June 30, 2014, the amount included within accounts payable and accrued liabilities, which was due to related parties totalling $184,255 (December 31, 2013 – $413,278), consisted of amounts owing for directors fees of $23,081 (December 31, 2013 - $129,060), for consulting fees of $15,917 (December 31, 2013 - $84,072), and for management of property, equipment, mineral properties and the power plant project of $143,257 (December 31, 2013 - $200,146).

Transactions between the Company and its subsidiaries are eliminated on consolidation therefore, they are not disclosed as related party transactions. The amounts due to related parties are non-interest bearing and are due upon demand.

As at June 30, 2014 an estimated amount of $78,364 was due from Wellgreen Platinum, for shared office costs. The Company shared office space, administrative resources and management with Wellgreen Platinum in 2013.

12. 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
Key Management Personnel	2014	2013	2014	2013
Salaries and short term benefits	$ 93,030	$ 153,432	$ 178,306	$ 323,008
Share-based payments	129,200	84,843	252,893	204,407
	$ 222,230	$ 238,275	$ 431,199	$ 527,415

13. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Prophecy Coal utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value as follows:

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

Level 2 – inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means; and

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

(Expressed in Canadian Dollars) (Unaudited)

13. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS (cont'd...)

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The following table sets forth Prophecy Coal's financial assets measured at fair value by level within the fair value hierarchy:

As at June 30, 2014		Level 1		Level 2		Level 3		Total
Financial assets								
Cash and cash equivalents	$	840,655	$	-	$	-	$	840,655
Restricted cash equivalents	$	34,500		-		-		34,500
Available-for-sale investments	$	-		-		-		-
	$	875,155	$	-	$	-	$	875,155

As at December 31, 2013		Level 1		Level 2		Level 3		Total
Financial assets								
Cash and cash equivalents	$	507,996	$	-	$	-	$	507,996
Restricted cash equivalents	$	34,500		-		-		34,500
Available-for-sale investments	$	2,295,810		-		-		2,295,810
	$	2,838,306	$	-	$	-	$	2,838,306

The Company considers that the carrying amount of all its financial assets and financial liabilities measure at amortized cost approximates their fair value. The Company does not offset financial assets with financial liabilities. There were no transfers between Level 1, 2 and 3 for the six months ended June 30, 2014.

Categories of financial instruments

The Company's financial assets and financial liabilities are categorized as follows:

		As at June 30, 2014		As at December 31, 2013
Fair value through profit or loss				
Cash and cash equivalents	$	840,655	$	507,996
Restricted cash equivalents		34,500		34,500
Loans and receivables				
Trade receivable		667,714		679,738
Due from related party		78,364		78,364
Available-for-sale investments		-		2,295,810
	$	1,621,233	$	3,596,408
Other financial liabilities				
Accounts payable and accrued liabilities	$	1,278,513	$	1,432,238
Line of credit facility, current portion		453,093		1,069,400
	$	1,731,606	$	2,501,638

(Expressed in Canadian Dollars) (Unaudited)

14. SUPPLEMENTAL CASH FLOW INFORMATION

		Six Months Ended June 30, 2014		2013
Supplementary information				
Interest paid	$	123,551	$	703,891
Non-Cash Financing and Investing Activities				
Shares issued as financing fees	$	-	$	280,000
Share bonuses to personnel	$	81,100	$	-
Capitalized depreciation of fixed assets	$	976,639	$	2,381,790
Property & equipment expenditures included in accounts payable	$	1,013,031	$	339,300
Mineral property expenditures included in accounts payable	$	185,749	$	129,492
Share-based payments capitalized in property and equipment	$	72,657	$	50,542
Share-based payments capitalized in mineral properties	$	35,337	$	13,743

15. COMMITMENTS

Commitments, not disclosed elsewhere in these interim financial statements, are as follows:

Office rental commitments		
Year		Amount
2014	$	31,821
2015		63,641
2016		21,214
	$	116,676

16. CONTINGENCIES

The Company accrues for contingent liabilities when they are probable and the amount payable can be reasonably estimated. As at June 30, 2014 no contingent amounts have been accrued.

17. EVENTS AFTER THE REPORTING DATE

On July 7, 2014 the Company announced an amendment of the terms of 1,064,215 share purchase warrants (the "**Old Warrants**") of the Company held by various investors that were originally issued pursuant to a private placement of 3,831,511 units which closed on October 28, 2010, expiring October 28, 2015 with an exercise price of $0.18 and had a right to purchase a fraction of a share of Wellgreen Platinum attached.

These Old Warrants were voluntarily surrendered by holders in June 2014. The Company replaced the Old Warrants by issuing an equivalent number of new warrants to these holders at an exercise price of $0.055, and no longer have a right to purchase a fraction of Wellgreen Platinum shares attached.