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**PROPHECY PLATINUM CORP.  
(AN EXPLORATION STAGE COMPANY)**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL  
STATEMENTS**

**FOR THE THREE AND SIX MONTHS ENDED**

**JANUARY 31, 2012**

(Unaudited)

(Expressed in Canadian Dollars)

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## **Notice of No Auditor Review of Condensed Consolidated Interim Financial Statements**

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

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**PROPHECY PLATINUM CORP.** (An exploration company)**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**(Unaudited) (Expressed in Canadian Dollars)

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	As at January 31 2012	As at July 31 2011
<b>ASSETS</b>		
Current		
Cash and cash equivalents <i>[Note 5]</i>	\$ 1,972,527	\$ 2,842,105
Marketable securities <i>[Note 6]</i>	4,146,825	-
Amounts receivable	148,937	91,877
Prepaid expenses <i>[Note 7]</i>	388,790	50,936
	<b>6,657,079</b>	2,984,918
Exploration deposits	118,278	162,125
Loan receivable <i>[Note 8]</i>	809,469	-
Equipment <i>[Note 9]</i>	380,348	7,252
Exploration and evaluation assets <i>[Note 11]</i>	53,337,637	49,916,348
	<b>\$ 61,302,811</b>	<b>\$ 53,070,643</b>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

Current		
Accounts payable and accrued expenses <i>[Note 10]</i>	\$ 411,780	563,896
Due to related parties <i>[Note 14]</i>	-	324,851
<b>Total liabilities</b>	<b>411,780</b>	<b>888,747</b>

**SHAREHOLDERS' EQUITY**

Share capital <i>[Note 12]</i>	64,627,589	54,699,316
Contributed surplus	6,158,872	2,210,576
Accumulated other comprehensive income	121,057	-
Deficit	(10,016,487)	(4,727,996)
	<b>60,891,031</b>	<b>52,181,896</b>
	<b>\$ 61,302,811</b>	<b>\$ 53,070,643</b>

Subsequent events (Note 19)

Approved on behalf of the Board on March 27, 2012:

"John Lee"  
John Lee, Director

"Donald Gee"  
Donald Gee, Director

(The Accompanying Notes are an Integral Part of These Condensed Consolidated Interim Financial Statements)

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**PROPHECY PLATINUM CORP.** (An exploration company)**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**(Unaudited)(Expressed in Canadian Dollars)

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	<b>Three Months Ended January 31</b>		<b>Six Months Ended January 31</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
		<b>(Note 20)</b>		<b>(Note 20)</b>
<b>EXPENSES</b>				
Share-based payments	\$ 1,483,630	\$ 487,548	\$ 3,892,675	\$ 499,841
Business development and promotion	227,550	30,114	506,438	30,114
Consulting	154,000	40,862	211,708	64,020
Office and miscellaneous	209,274	17,411	350,544	26,553
Professional fees	70,024	12,500	206,115	12,980
Conferences	36,817	-	49,568	-
Foreign exchange (recovery)	(16,986)	991	(16,205)	1,304
Transfer agent and filing fees	24,790	15,010	50,148	19,884
Salaries and wages	20,263	10,524	45,630	22,752
Insurance	9,093	-	19,186	-
Depreciation	6,522	49	6,654	98
	<b>2,224,977</b>	615,009	<b>5,322,461</b>	677,546
Loss before other items	<b>(2,224,977)</b>	(615,009)	<b>(5,322,461)</b>	(677,546)
<b>OTHER ITEMS</b>				
Interest income (expense)	15,873	(2,030)	16,676	2,542
Realized gain on marketable securities	-	-	-	8,000
Unrealized gain on marketable securities	-	5,119	-	8,970
Loss before income taxes and other comprehensive income item	<b>(2,209,104)</b>	(611,920)	<b>(5,305,785)</b>	(658,034)
Deferred income tax recovery	17,294	-	17,294	-
Net loss before other comprehensive item	<b>(2,191,810)</b>	(611,920)	<b>(5,288,491)</b>	(658,034)
<b>OTHER COMPREHENSIVE INCOME ITEM</b>				
Unrealized gain on available for sale securities (net of tax)	121,057	-	121,057	-
<b>COMPREHENSIVE LOSS</b>	<b>(2,070,753)</b>	(611,920)	<b>(5,167,434)</b>	(658,034)
<b>LOSS PER COMMON SHARE, BASIC AND DILUTED</b>	\$ (0.04)	\$ (0.12)	\$ (0.10)	\$ (0.14)
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>				
	<b>54,575,270</b>	5,030,767	<b>52,996,915</b>	4,538,376

(The Accompanying Notes are an Integral Part of These Condensed Consolidated Interim Financial Statements)

**PROPHECY PLATINUM CORP.** (An exploration company)**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**

(Unaudited)(Expressed in Canadian Dollars)

	<b>Three Months Ended January 31</b>		<b>Six Months Ended January 31</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>CASH FROM (USED IN):</b>				
<b>OPERATIONS</b>				
Net loss	\$ (2,191,810)	\$ (611,920)	\$ (5,288,491)	\$ (658,034)
Add (deduct) items not affecting cash:				
Deferred income tax recovery	(17,294)	-	(17,294)	-
Unrealized gain on marketable securities	-	(3,851)	-	(4,049)
Share-based payment	1,483,630	487,548	3,892,675	499,841
Depreciation	6,522	49	6,654	98
	<b>(718,952)</b>	<b>(128,174)</b>	<b>(1,406,456)</b>	<b>(162,144)</b>
Changes in non-cash working capital balances:				
Increase in amounts receivable	(17,716)	4,182	(66,529)	(8,589)
Increase in prepaid expenses	(174,623)	20,585	(294,007)	(2,910)
Increase (decrease) in accounts payable	(213,446)	21,793	(152,116)	5,547
	<b>(1,124,737)</b>	<b>(81,614)</b>	<b>(1,919,108)</b>	<b>(168,096)</b>
<b>INVESTING</b>				
Exploration expenditures	(889,322)	(133,671)	(3,153,780)	(315,636)
Acquisition costs	-	(10,000)	-	(10,000)
Purchase of equipment	(363,688)	-	(380,684)	-
Increase in exploration deposit	-	5,000	-	11,863
Loan receivable	(800,000)	-	(800,000)	-
Acquisition of marketable securities	(4,008,474)	(2,948)	(4,008,474)	75,640
	<b>(6,061,484)</b>	<b>(141,619)</b>	<b>(8,342,938)</b>	<b>(238,133)</b>
<b>FINANCING</b>				
Proceeds from share issuance	9,437,320	1,003,223	9,437,320	1,252,888
Proceeds from exercise of options and warrants	15,000	-	258,749	-
Share subscriptions received (applied)	(249,950)	-	21,250	-
Due to related parties	(307,016)	(10,750)	(324,851)	(26,479)
	<b>8,895,354</b>	<b>992,473</b>	<b>9,392,468</b>	<b>1,226,409</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>\$ 1,709,133</b>	<b>\$ 769,240</b>	<b>\$ (869,578)</b>	<b>\$ 820,180</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>\$ 263,394</b>	<b>\$ 556,189</b>	<b>\$ 2,842,105</b>	<b>\$ 505,249</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 1,972,527</b>	<b>\$ 1,325,429</b>	<b>\$ 1,972,527</b>	<b>\$ 1,325,429</b>

Supplemental cash flow information (Note 18)

(The Accompanying Notes are an Integral Part of These Condensed Consolidated Interim Financial Statements)

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**PROPHECY PLATINUM CORP.** (An exploration company)**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**(Unaudited)(Expressed in Canadian Dollars)

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	<b>Number of Common Shares</b>	<b>Common Shares Amount</b>	<b>Contributed Surplus</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Deficit</b>	<b>Total Equity</b>
<b>As at August 1, 2010</b>	3,489,400	\$ 3,744,875	\$ 1,257,311	\$ –	(3,223,231)	\$ 1,778,955
Shares issued for private placement	2,056,584	1,064,749	–	–	–	1,064,749
Shares issued for mineral properties	25,000	15,000	–	–	–	15,000
Fair value of options granted	–	–	672,781	–	–	672,781
Net loss for the period	–	–	–	–	(658,034)	(658,034)
<b>As at January 31, 2011</b>	<b>5,570,984</b>	<b>\$ 4,824,624</b>	<b>\$ 1,930,092</b>	<b>\$ –</b>	<b>(3,881,265)</b>	<b>\$ 2,873,451</b>
<b>As at July 31, 2011</b>	51,284,321	\$ 54,699,316	\$ 2,210,576	\$ –	(4,727,996)	\$ 52,181,896
Shares issued for private placement	3,709,489	9,437,320	–	–	–	9,437,320
Shares issued on warrants exercised	92,500	92,500	–	–	–	92,500
Shares issued on options exercised	135,000	377,203	(210,954)	–	–	166,249
Shares returned to treasury	(17,767)	–	–	–	–	–
Share subscriptions received	–	21,250	–	–	–	21,250
Fair value of options granted	–	–	4,159,250	–	–	4,159,250
Unrealized gain on marketable securities	–	–	–	121,057	–	121,057
Net loss for the period	–	–	–	–	(5,288,491)	(5,288,491)
<b>As at January 31, 2012</b>	<b>55,203,543</b>	<b>\$ 64,627,589</b>	<b>\$ 6,158,872</b>	<b>\$ 121,057</b>	<b>(10,016,487)</b>	<b>\$ 60,891,031</b>

(The Accompanying Notes are an Integral Part of These Condensed Consolidated Interim Financial Statements)

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**THREE AND SIX MONTHS ENDED JANUARY 31, 2012**

(Unaudited) (Expressed in Canadian Dollars)

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**1. CORPORATE INFORMATION AND NATURE OF OPERATIONS**

Prophecy Platinum Corp. (formerly Pacific Coast Nickel Corp.), incorporated in British Columbia, is a public company listed on the TSX Venture Exchange ("TSX-V") and trades under the symbol NKL. The address of the Company's corporate office and its principal place of business is 342 Water Street, 2<sup>nd</sup> Floor, Vancouver British Columbia, Canada.

The Company is in the exploration stage and its principal business activity is the sourcing and exploration of mineral properties in North America and South America. The Company is in the process of exploring and evaluating its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development and upon future profitable production or proceeds from the disposition thereof.

**2. BASIS OF PREPARATION**

Statement of compliance

These condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* under International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board. These condensed consolidated interim financial statements follow the same accounting policies and methods of application as our condensed consolidated interim financial statements for the three months ended October 31, 2011. Subject to certain IFRS transition elections disclosed in the condensed consolidated interim financial statements for the three month period ended October 31, 2011, the Company has consistently applied the same accounting policies in these condensed consolidated financial statements as if the policies have always been in effect. These condensed consolidated interim financial statements do not contain all of the information required for full annual financial statements. The Company prepared its previous 2011 annual and interim financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and these condensed interim financial statements should be read in conjunction with the Company's 2011 annual financial statements considering the IFRS transition disclosures included in Note 20.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Measurement basis** - These condensed consolidated interim financial statements are prepared on the historical cost basis except for certain financial instruments, which are measured at fair value as explained in the accounting policies set out in Note 3. All amounts are expressed in Canadian dollars unless otherwise stated.

**Consolidation** - The condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiaries PCNC Holdings Corp., Pacific Coast Nickel Corp. USA, 0905144 BC Ltd. and Pacific Nickel Sudamerica Sociedad Anonima, Uruguay. All significant inter-company balances and transactions have been eliminated.

**Cash and cash equivalents** - The Company considers deposits with banks or highly liquid short-term interest bearing securities that are readily convertible to known amounts of cash and those that have maturities of 90 days or less when acquired to be cash equivalents.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**THREE AND SIX MONTHS ENDED JANUARY 31, 2012**

(Unaudited) (Expressed in Canadian Dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Use of estimates** - The preparation of these condensed interim financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the periods reported. Significant areas requiring the use of management estimates include the determination of impairment of exploration and evaluation assets, asset retirement obligations, deferred income tax assets and liabilities, and assumptions used in valuing options and warrants in share-based compensation calculations. Actual results could differ from these estimates.

**Amounts receivable** – Amounts receivable is comprised of Canadian harmonized sales tax.

**Exploration and evaluation assets** - All expenditures related to the cost of exploration and evaluation of mineral resources including acquisition costs for interests in mineral claims are capitalized as mineral properties exploration and are classified as intangible assets. General exploration costs not related to specific mineral properties are expensed as incurred. If economically recoverable reserves are developed, capitalized costs of the related property are reclassified as mining assets and upon commencement of commercial production, are amortized using the units of production method over estimated recoverable reserves. Impairment is assessed at the level of cash-generating units. Management regularly assesses carrying values of non-producing properties and properties for which events and circumstances may indicate possible impairment. Impairment of a property is generally considered to have occurred if one of the following factors are present; the rights to explore have expired or are near to expiry with no expectation of renewal, no further substantive expenditures are planned or budgeted, exploration and evaluation work is discontinued in an area for which commercially viable quantities have not been discovered, indications that in an area with development likely to proceed the carrying amount is unlikely to be recovered in full by development or sale.

The recoverability of exploration and evaluation assets is dependent on the existence of economically recoverable reserves, the ability to obtain the necessary financing to complete the development of the reserves, and the profitability of future operations. The Company has not yet determined whether or not any of its future mineral properties contain economically recoverable reserves. Amounts capitalized to exploration and evaluation assets do not necessarily reflect present or future values.

**Impairment of assets** – Mineral properties are regularly reviewed for impairment or whenever events or changes in circumstances indicate that the carrying amount of reserve properties may exceed its recoverable amount. When an impairment review is undertaken, the recoverable amount is assessed by reference to the higher of a value in use (being the present value of expected future cash flows of the relevant cash-generating unit) and fair value less costs to sell. If the carrying amount of an asset exceeds the recoverable amount an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

**Provisions** - Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. At each financial position reporting date presented the Company has not incurred any decommissioning costs related to the exploration and evaluation of its mineral properties and accordingly no provision has been recorded for such site reclamation or abandonment.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**THREE AND SIX MONTHS ENDED JANUARY 31, 2012**

(Unaudited) (Expressed in Canadian Dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Equipment** - Equipment is recorded at cost less accumulated amortization. Amortization is provided over the estimated useful life of the asset using the declining balance method at annual rates of between 20% and 30% with one-half year's amortization recorded in the year of acquisition.

**Marketable securities** – Investments in mutual funds and shares of public companies traded on an active market over which the Company does not have control or exercises significant influence are classified as available for sale investments and accounted for at fair market value, based upon quoted market share prices at the balance sheet date. Unrealized gains or losses on these investments are recorded in other comprehensive income or loss.

**Income taxes** - The Company provides for income taxes using the liability method of tax allocation. Under this method deferred income tax assets and liabilities are determined based on temporary differences between the accounting and tax bases of existing assets and liabilities, and are measured using enacted or substantially enacted tax rates expected to apply when these differences reverse. A valuation allowance is recorded against any deferred income tax asset to the extent that it is not probable the asset will be realized.

**Share-based payments** - The Company records all share-based payments at their fair value. The share-based compensation costs are charged to operations over the stock option vesting period and agents' options and warrants issued in connection with common share placements are recorded at their fair value on the date of issue as share issuance costs. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options expected to vest. On the exercise of stock options and agents' options and warrants, share capital is credited for consideration received and for fair value amounts previously credited to contributed surplus. The Company uses the Black-Scholes option pricing model to estimate the fair value of share-based compensation.

**Loss per share** - Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the period. The Company applies the treasury stock method in calculating diluted loss per share. Diluted loss per share excludes all dilutive potential common shares if their effect is anti-dilutive.

**Share issue costs** - Professional, consulting, regulatory and other costs directly attributable to financing transactions are recorded as deferred share issue costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise they are expensed as incurred. Share issue costs are charged to share capital when the related shares are issued. Deferred share issue costs related to financing transactions that are not completed are charged to expenses.

**Financial instruments** - All financial assets are initially recorded at fair value and classified into one of four categories: held to maturity, available for sale, loans and receivable or at fair value through profit or loss ("FVTPL"). All financial liabilities are initially recorded at fair value and classified as either FVTPL or other financial liabilities. Financial instruments comprise cash and cash equivalents, marketable securities, loan receivable, accounts payable and amounts due to related parties. At initial recognition management has classified financial assets and liabilities as follows:

a) Financial assets

The Company has recognized its cash and cash equivalents at FVTPL. A financial instrument is classified at FVTPL if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Financial instruments at FVTPL are measured at fair value and changes therein are recognized in income. The Company's present investment in marketable securities is classified as available for sale due to management's intention not to trade them for short-term gain. The Company's loan receivable are measured at amortized cost using the effective interest method.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**THREE AND SIX MONTHS ENDED JANUARY 31, 2012**

(Unaudited) (Expressed in Canadian Dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

b) Financial liabilities

The Company has recognized its accounts payable and amounts due to related parties as other financial liabilities. Accounts payable are recognized at the amount required to be paid less, when material, a discount to reduce the payable to fair value. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

**Flow-through shares** - The Company finances some exploration expenditures through the issuance of flow-through shares. The resource expenditure deductions for income tax purposes are renounced to investors in accordance with the appropriate income tax legislation. When the common shares are offered, the difference ("premium") between the amount recognized in common shares and the amount the investors pay for the shares is recognized as a flow-through share related liabilities which is reversed into the statement of loss within other income when the eligible expenditures are incurred. The amount recognized as flow-through share related liabilities represented the difference between the fair value of the common shares and the amount the investor pays for the flow-through shares.

**New accounting standards issued but not yet effective** - Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for future accounting periods which have not yet been adopted. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

**New accounting standards effective April 1, 2013**

**IFRS 10 Consolidated Financial Statements** - IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation - Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*.

**IFRS 11 Joint Arrangements** - IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-monetary Contributions by Venturers*.

**IFRS 12 Disclosure of Interests in Other Entities** - IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

**IFRS 13 Fair Value Measurement** - IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that 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. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**THREE AND SIX MONTHS ENDED JANUARY 31, 2012**

(Unaudited) (Expressed in Canadian Dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Amendments to other standards** - In addition, there have been other amendments to existing standards, including IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 13.

Each of the new standards, IFRS 10 to 13 and the amendments to other standards, is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its condensed interim financial statements or whether to early adopt any of the new requirements.

**New accounting standards effective April 1, 2015**

**IFRS 9 *Financial Instruments*** - IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: Amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at the fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, others gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

IFRS 9 is effective for the Company's annual period beginning on April 1, 2015. The Company has not yet began the process of assessing the impact that IFRS 9 will have on the condensed interim financial statements or whether to early adopt this new requirement.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****THREE AND SIX MONTHS ENDED JANUARY 31, 2012**(Unaudited) (Expressed in Canadian Dollars)

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**4. ACQUISITION OF MINERAL PROPERTIES FROM PROPHECY COAL CORP.**

On June 13, 2011, the Company purchased the Wellgreen and Lynn Lake properties from Prophecy Coal Corp. by a plan of arrangement in consideration for 450,000,000 of the Company's pre-consolidation shares. The balances in acquisition costs for the Wellgreen and Lynn Lake properties represent the estimated fair value of these properties at the time of the acquisition.

Under the arrangement, Prophecy Coal Corp. spun out its Wellgreen and Lynn Lake mineral properties along with \$2,000,000 cash into a newly incorporated company named 0905144 BC Ltd. Prophecy Coal Corp then transferred all the issued and outstanding shares of 0905144 BC Ltd shares to the Company in consideration for 450,000,000 of the Company's pre-consolidation shares. Subsequent to the transaction the Company changed its name to Prophecy Platinum Corp. and consolidated its share capital for 10 old for 1 new basis. This transaction has been accounted for as an acquisition of assets rather than a business combination because the acquisition does not meet the definition of a business as outlined in the IFRS 3, Business Combinations. The operations of 0905144 BC Ltd. have been included in these consolidated financial statements from the date of acquisition.

The following is a summary of the acquisition cost allocation at the date of purchase based upon the estimated fair values of the assets acquired and liabilities assumed:

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Purchase price of 450,000,000 (45,000,000 post share-consolidation) common shares issued	\$ 49,007,724
Transaction costs	126,730
<b>Acquisition</b>	<b>\$ 49,134,454</b>
<hr/>	
Purchase price allocation:	
Cash	\$ 2,000,000
Mineral properties – Wellgreen	14,783,596
Mineral properties – Lynn Lake	32,350,858
<b>Assets acquired</b>	<b>\$ 49,134,454</b>

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**5. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents of the Company are comprised of bank balances and short term money market instruments with original maturities of three months or less.

The Company's cash and cash equivalents broken down as follows:

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	<b>January 31, 2012</b>	<b>July 31, 2011</b>
Cash	\$ 968,142	\$ 2,709,605
Short-term deposits	1,004,385	132,500
	<b>1,972,527</b>	<b>2,842,105</b>

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**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****THREE AND SIX MONTHS ENDED JANUARY 31, 2012**(Unaudited) (Expressed in Canadian Dollars)

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**6. MARKETABLE SECURITIES**

In December 2011, the Company purchased platinum and palladium ETFs from BMO Nesbitt Burns in the amounts of \$1,969,407 USD (\$2,004,211 CAD) and \$1,969,234 USD (\$2,004,263 CAD) respectively. These investments are classified as available-for-sale financial instruments and are detailed as follows:

<b>Available for sale investments</b>	<b>Cost</b>	<b>Fair value adjustment January 31, 2012</b>	<b>Balance, January 31, 2012</b>
Platinum ETF	\$ 2,004,211	\$ 37,689	\$ 2,041,900
Palladium ETF	2,004,263	100,662	2,104,925
<b>Balance, January 31, 2012</b>	<b>4,008,474</b>	<b>138,351</b>	<b>4,146,825</b>

**7. PREPAID EXPENSES**

	<b>January 31, 2012</b>	<b>July 31, 2011</b>
Prepaid insurance	\$ 16,669	\$ -
Prepaid geological study contracts	177,597	-
Other prepaid expenses	194,524	50,936
	<b>388,790</b>	<b>50,936</b>

**8. LOAN RECEIVABLE**

On December 13, 2011, the Company and Prophecy Coal Corp., a related party with common officers and directors, entered into a loan facility whereby each company can request a loan from the other company up to \$2 million at an interest rate of 14.4% per annum, compounded annually. The facility would allow either company to provide and request short term funding from the other, provided that such loans would be due 60 days after demand. As at January 31, 2012, Prophecy Coal has drawn down \$800,000 of the loan facility and accrued interest payable to the Company of \$9,649.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****THREE AND SIX MONTHS ENDED JANUARY 31, 2012**(Unaudited) (Expressed in Canadian Dollars)

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**9. EQUIPMENT**

	<b>Computer equipment</b>	<b>Exploration equipment</b>	<b>Portables</b>	<b>Total</b>
<b>Cost</b>				
Balance, August 1, 2010 and July 31, 2011	\$ 1,572	\$ 23,304	–	\$ 24,876
Additions for the period	–	55,684	325,000	380,684
<b>Balance, January 31, 2012</b>	<b>1,572</b>	<b>78,988</b>	<b>325,000</b>	<b>405,560</b>
<b>Accumulated depreciation</b>				
Balance, August 1, 2010	(917)	(14,812)	–	(15,729)
Depreciation for the year	(196)	(1,699)	–	(1,895)
Balance, July 31, 2011	(1,113)	(16,511)	–	(17,624)
Depreciation for the period	(98)	(7,490)	–	(7,588)
<b>Balance, January 31, 2012</b>	<b>(1,211)</b>	<b>(24,001)</b>	<b>–</b>	<b>(25,212)</b>
<b>Total</b>	<b>\$ 361</b>	<b>54,987</b>	<b>325,000</b>	<b>380,348</b>

**10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

	<b>January 31, 2012</b>	<b>July 31, 2011</b>
Trade accounts payable	\$ 380,763	\$ 488,467
Accrued liabilities	31,017	75,429
	<b>411,780</b>	<b>563,896</b>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

THREE AND SIX MONTHS ENDED JANUARY 31, 2012

(Unaudited) (Expressed in Canadian Dollars)

11. EXPLORATION AND EVALUATION ASSETS

	Wellgreen	Lynn Lake	Burwash	Cerro Chato, Molles North, Molles South, Quebracho and Polanco, Uruguay
<b>Acquisition costs</b>				
Balance, August 1, 2010	\$ –	\$ –	\$ 97,500	\$ 7,048
Option payment	–	–	29,000	–
Acquisition from Prophecy Coal (Note 4)	14,783,596	32,350,858	–	–
Balance, July 31, 2011	14,783,596	32,350,858	126,500	7,048
Option payment	–	–	1,000,000	–
Balance, January 31, 2012	14,783,596	32,350,858	1,126,500	7,048
<b>Exploration and evaluation</b>				
Balance, August 1, 2010	–	–	547,215	540,727
Amortization	–	–	177	1,522
Assay	–	–	168	–
Camp and general	141,223	31,471	–	–
Consulting	–	–	10,483	45,578
Drilling	627,953	–	–	–
Field expenses	–	–	5,617	501
Geophysical	87,626	32,713	180,914	–
Leases and licensing	14,511	–	2,766	–
Legal	–	–	750	28,820
Property fees	–	–	–	55,894
Share-based compensation	22,907	4,821	–	27,728
Travel	–	–	–	2,137
Wages	43,673	–	7,117	–
Balance, July 31, 2011	937,893	69,005	755,207	675,179
Amortization	–	–	158	775
Assay	–	–	–	–
Camp and general (recovery)	172,386	(37,925)	–	–
Claims	10,080	29,892	–	–
Drilling	586,870	243,219	–	–
Field expenses	–	–	–	135
Geophysical	505,244	75,199	1,200	25,012
Leases and licensing	1,591	–	–	–
Legal	79,691	–	–	2,165
Mapping	13,975	–	–	–
Share-based compensation	255,753	10,822	–	–
Survey & estimates	198,726	–	–	–
Travel	32,788	11,211	–	336
Wages	180,503	–	–	–
Balance, January 31, 2012	2,975,500	401,423	756,565	703,602
<b>Total</b>	<b>\$ 17,759,096</b>	<b>\$32,752,281</b>	<b>\$ 1,883,065</b>	<b>\$ 710,650</b>

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**THREE AND SIX MONTHS ENDED JANUARY 31, 2012**

(Unaudited) (Expressed in Canadian Dollars)

**11. EXPLORATION AND EVALUATION ASSETS (Continued)**

	<b>Las Aguilas, Argentina</b>	<b>Total</b>
<b>Acquisition costs</b>		
Balance, August 1, 2010	\$ —	\$ 104,548
Option payment	81,868	110,868
Acquisition from Prophecy Coal (Note 4)	—	47,134,454
	—	—
Balance, July 31, 2011	81,868	47,349,870
Option payment	—	1,000,000
Balance, January 31, 2012	81,868	48,349,870
<b>Exploration and evaluation</b>		
Balance, August 1, 2010	—	1,087,942
Amortization	—	1,699
Assay	53,484	53,652
Camp and general	—	172,694
Consulting	40,063	96,124
Drilling	—	627,953
Field expenses	—	6,118
Geophysical	—	301,253
Leases and licensing	—	17,277
Legal	—	29,570
Property fees	—	55,894
Share-based compensation	—	27,728
Travel	35,647	37,784
Wages	—	50,790
Balance, July 31, 2011	129,194	2,566,478
Amortization	—	933
Assay	14,271	14,271
Camp and general	—	134,461
Claims	—	39,972
Drilling	—	830,089
Field expenses	—	135
Geophysical	—	606,655
Leases and licensing	—	1,591
Legal	7,212	89,068
Mapping	—	13,975
Share-based compensation	—	266,575
Survey and estimates	—	198,726
Travel	—	44,335
Wages	—	180,503
Balance, January 31, 2012	150,677	4,987,767
<b>Total</b>	<b>\$ 232,545</b>	<b>\$ 53,337,637</b>

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**THREE AND SIX MONTHS ENDED JANUARY 31, 2012**

(Unaudited) (Expressed in Canadian Dollars)

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**11. EXPLORATION AND EVALUATION ASSETS (Continued)**

Burwash Property, Canada

On August 4, 2011 the company entered into a letter agreement with Strategic Metals Ltd. to acquire a 100% interest in the Burwash property for \$1,000,000 (paid). The agreement replaces the Burwash option agreement dated February 23, 2010 and letter agreement entered into on April 1, 2011.

Cerro Chato, Molles North, Molles South, Quebracho and Polanco, Uruguay

The Company has received five prospecting licences in Uruguay and has begun an exploration program on these properties. To date the company has spent \$710,650 on the properties and intends to continue exploration work.

Las Aguilas Property, Argentina

On December 10, 2010, further amended March 13, 2011 the Company entered into a letter agreement with Marifil Mines Limited ("Marifil") with an option to acquire up to a 70% interest in the Las Aguilas Nickel-Copper-PGM property located in San Luis Province, Argentina. The agreement with Marifil provides for payments and work commitments to earn a 49% interest in the property as follows:

Cash and shares

- \$25,000 upon signing and 250,000 shares (paid and issued)
- \$75,000 and 250,000 shares on or before April 1, 2012
- \$100,000 and 250,000 shares on or before April 1, 2013
- \$100,000 and 250,000 shares on or before April 1, 2014

Work Commitments

- On or before 3 months from the agreement date complete a resource estimate (completed)
- On or before April 1, 2012 incur \$500,000 in exploration expenditures,
- On or before April 1, 2013 incur \$500,000 in exploration expenditures,
- On or before April 1, 2014 incur \$1,000,000 in exploration expenditures,

The agreement also provides for the Company to earn an additional 11% by preparing a pre-feasibility study on the property and issuing an aggregate of 2,000,000 shares from April 1, 2014 to April 1, 2015. A further 10% can be earned by completing a feasibility study on the property, making cash payment of \$100,000 and issuing an aggregate of 1,000,000 shares from April 1, 2015 to April 1, 2016.

The agreement also provides for granting of a 3% NSR to Marifil of which 0.5% can purchased for \$1,000,000 and a further 0.5% of the royalty at any time upon the payment of a further \$2,000,000. The Company retains the option of buying Marifil's 30% interest for \$5,000,000

Wellgreen Property, Canada

The Wellgreen property, a nickel-copper and platinum group metals project located in southwestern Yukon Territory, Canada, was acquired from Prophecy Coal Corp. through the June 2011 acquisition, see Note 4. The Wellgreen property is located approximately 35 km northwest of Burwash Landing in the Yukon, and about 400 Km from Alaska's deep sea port at Haines. The Wellgreen property is a platinum group metal (PGM)-rich, nickel (Ni)-copper (Cu) project located in the south-western Yukon Territory.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**THREE AND SIX MONTHS ENDED JANUARY 31, 2012**

(Unaudited) (Expressed in Canadian Dollars)

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**11. EXPLORATION AND EVALUATION ASSETS (Continued)**

Lynn Lake Property

The Company has an option to acquire 100% of the Lynn Lake property which is a nickel project located in northern Manitoba, Canada. In June 2011 the Company purchased the Lynn Lake option from Prophecy Coal Corp. in the June 2011 acquisition (See Note 4). The Company has assumed the original terms of the October 20, 2009 option agreement that Prophecy Coal Corp. entered into with Victory Nickel Inc. ("Victory")

The Company has the right to earn a 100% interest in Lynn Lake by paying Victory an aggregate of \$4,000,000 and by incurring an aggregate of \$3,000,000 exploration expenditures at Lynn Lake and by issuing 2,419,548 shares to Victory (issued by Prophecy Coal Corp.). The option agreement also provided Victory with a right to participate in future financings or acquisitions on a pro-rata basis so that Victory may maintain its 10% interest in the number of outstanding shares of the Company. Pursuant to the option agreement, the Company is subject to a 3% net smelter return royalty.

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

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

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

- (i) \$500,000 on or before November 1, 2010 (incurred);
- (ii) an aggregate of \$1,500,000 on or before November 1, 2011 (incurred by October 31, 2011); and
- (iii) an aggregate of \$3,000,000 on or before November 1, 2012.

**12. SHARE CAPITAL**

The Company has authorized share capital of an unlimited number of common voting shares without par value. Disclosures on any common shares issued are provided in the Statements of Changes in Shareholders' Equity.

At January 31, 2012, there were 16,821,936 common shares held in escrow. All escrowed shares will be fully released by December 13, 2012.

On June 13, 2011, the Company enacted a one for ten common share consolidation and all share amounts presented have been retroactively restated.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**THREE AND SIX MONTHS ENDED JANUARY 31, 2012**

(Unaudited) (Expressed in Canadian Dollars)

**13. STOCK OPTION PLAN AND SHARE-BASED PAYMENTS**

The Company has a stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10,120,695 common shares of the Company. The options can be granted for a maximum term of five years and vest at the discretion of the Board of Directors. The following table summarizes the stock option plan transactions to October 31, 2011

	Number	Weighted Average Exercise Price	Expiry
Outstanding, August 1, 2010	255,000	\$ 1.10	
Granted	25,000	1.00	November 9, 2015
Granted	175,000	1.40	December 13, 2015
Granted	50,000	2.00	January 11, 2016
Granted	5,670,000	0.90	June 20, 2016
Exercised	(92,500)		
Forfeited	(63,750)		
Outstanding, July 31, 2011	6,018,750	0.92	
Granted	450,000	5.59	August 30, 2016
Granted	840,000	2.25	December 12, 2016
Granted	90,000	2.40	January 9, 2017
Exercised	(25,000)	2.00	
Exercised	(82,500)	1.00	
Exercised	(12,500)	1.50	
Exercised	(15,000)	1.00	
Forfeited	(72,500)		
Forfeited	(125,000)		
Outstanding, January 31, 2012	7,066,250	1.36	

The following table summarizes the stock options outstanding and exercisable at January 31, 2012:

Price	Number Outstanding	Number Exercisable	Expiry Date
\$1.60	3,750	3,750	January 7, 2013
\$1.00	12,500	12,500	November 6, 2014
\$1.40	175,000	175,000	December 13, 2015
\$0.90	5,545,000	3,800,000	June 20, 2016
\$5.59	400,000	-	August 30, 2016
\$2.25	840,000	-	December 12, 2016
\$2.40	90,000	-	January 9, 2017
	7,066,250	3,991,250	

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****THREE AND SIX MONTHS ENDED JANUARY 31, 2012**(Unaudited) (Expressed in Canadian Dollars)

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**13. STOCK OPTION PLAN AND SHARE-BASED PAYMENTS (continued)**

During the six months ended January 31, 2012, the Company granted a total of 1,380,000 options (6 months ended January 31, 2011 – 2,750,000 options) to employees, officers and consultants of the Company. 50% of the options vest in year one and 50% in year two. For the six months ended January 31, 2012, the Company charged \$3,892,675 to operations as share-based compensation and capitalized \$266,575 to mineral properties. The weighted average assumptions used in calculating the fair value of options were as follows:

	<u>2012</u>	<u>2011</u>
Expected dividend yield	0.00%	0.00%
Expected volatility	74%	160%
Risk-free interest rate	1.68%	2.37%
Expected term in years	4.99 years	5.00 years

The aggregate number of shares issuable pursuant to options granted under the plan is limited to 10% of the Company's issued shares at the time the options are granted. The aggregate number of options granted to any one optionee in a 12-month period is limited to 5% of the issued shares of the corporation.

A summary of the Company's stock options for the period ended January 31, 2012 is presented below:

	<b>Number</b>	<b>Weighted Average Exercise Price</b>
Outstanding, January 31, 2012	7,066,250	\$ 1.36

**Warrants**

The following table summarizes the warrant transactions to January 31, 2012"

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	<b>Number</b>	<b>Weighted Average Exercise Price</b>	<b>Expiry</b>
Outstanding, August 1, 2010	-	\$ -	
Granted	329,500	1.00	August 3, 2012
Granted	1,581,000	1.00	January 6, 2013
Exercised	(601,000)	1.00	
Outstanding, July 31, 2011	1,309,500	\$ 1.00	
Exercised	(92,500)	1.00	
Outstanding, January 31, 2012	1,217,000	1.00	

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**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****THREE AND SIX MONTHS ENDED JANUARY 31, 2012**(Unaudited) (Expressed in Canadian Dollars)

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**13. STOCK OPTION PLAN AND SHARE-BASED PAYMENTS (continued)****Warrants (continued)**

At January 31, 2012, there were 1,217,000 (July 31, 2011 – 1,309,000) warrants outstanding enabling holders to acquire common shares of the company at \$1.00 per share.

Price	Number Outstanding	Number Exercisable	Expiry Date
\$1.00	327,000	327,000	August 3, 2012
\$1.00	890,000	890,000	January 6, 2013
	1,217,000	1,217,000	

**14. RELATED PARTY TRANSACTIONS**

- a) The Company has identified its directors and certain senior officers as its key management personnel and the compensation costs for key management personnel and companies related to them were recorded at their exchange amounts as agreed upon by transacting parties and on terms and conditions similar to non-related parties as follows:

During the six month period ended January 31, 2012:

- i) The Company incurred consulting fees of \$211,708 (2011 – \$64,020). This includes \$75,000 (2011 - \$Nil) paid to Linx Partners Ltd., a company controlled by the Chairman of the Company, \$36,000 (2011 - \$Nil) paid to Joseph Li, director, \$25,000 (2011 - \$Nil) paid to Greg Hall, director, \$25,500 (2011 - \$Nil) paid to MaKevco Consulting Inc., a company with a common director and \$Nil (2011 - \$64,020) paid to James Walchuck, former President and CEO.
- ii) The Company incurred director fees of \$17,693 (2011 - \$19,740) to various directors of the Company
- iii) The Company incurred accounting fees of \$14,800 (2011 - \$Nil) paid to Irina Plavutska, interim Chief Financial Officer.
- iv) The Company incurred rent expense of \$Nil (2011 - \$5,700) paid to Encato Potash Corp., a company controlled by James Walchuck, former President and CEO.
- v) The Company incurred rent and general office expense of \$180,000 (2011 - \$Nil) paid to Prophecy Coal Corp., a company with common directors and officers.
- vi) The Company incurred share-based compensation of \$3,892,675 (2011 - \$499,841). This includes \$2,116,900 (2011 - \$490,954) to key management personnel.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

THREE AND SIX MONTHS ENDED JANUARY 31, 2012

(Unaudited) (Expressed in Canadian Dollars)

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**14. RELATED PARTY TRANSACTIONS (continued)**

- b) At January 31, 2012, due to related parties include \$Nil (July 31, 2011 - \$306,338) for reimbursable expenses to Prophecy Coal Corp., a company with common directors and officers.
- c) At January 31, 2012, loan receivables includes \$800,000 drawn by Prophecy Coal pursuant to the loan facility the Company has with Prophecy Coal as described in Note 8 plus \$9,649 in accrued interest.
- d) At January 31, 2012, accounts payable and accrued liabilities include \$16,790 (July 31, 2011 - \$18,512 recorded in due to related parties) owing to directors for director fees.

**15. FINANCIAL INSTRUMENTS**

**Fair Value** – The estimated fair values of cash and cash equivalent, accounts payable and due to related parties approximate their respective carrying values due to the immediate or short period to maturity. The marketable securities are carried at fair values based on quoted market prices.

The Company utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value as follows:

Level 1 - Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - Significant unobservable inputs which are supported by little or no market activity.

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Jan 31, 2012 Total
Cash and cash equivalents	\$ 1,972,527	\$ -	\$ -	\$ 1,972,527
Marketable securities	4,146,825	-	-	4,146,825
	\$ 6,119,352	\$ -	\$ -	\$ 6,119,352

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**THREE AND SIX MONTHS ENDED JANUARY 31, 2012**

(Unaudited) (Expressed in Canadian Dollars)

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**15. FINANCIAL INSTRUMENTS (continued)**

**Credit Risk** - The Company does not currently generate any revenues from sales to customers nor does it hold derivative type instruments that would require a counterparty to fulfil a contractual obligation. The Company does not have any asset-backed commercial instruments. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents. To minimize the credit risk the Company places these instruments with a high credit quality financial institution.

**Liquidity Risk** - Liquidity risk is the risk that the Company cannot meet its financial obligations. The Company manages liquidity risk by maintaining sufficient cash and cash equivalent balances. Liquidity requirements are managed based on expected cash flow to ensure that there is sufficient capital in order to meet short term obligations.

**Foreign Exchange Risk** - The Company has operations in Canada, Argentina and in Uruguay and undertakes transactions in various foreign currencies. The Company is therefore exposed to foreign currency risk arising from transactions denominated in a foreign currency. The Company's reporting and functional currency is Canadian dollars. Based on the above, a 5% strengthening (weakening) of the Argentine peso and Uruguayan peso will have an insignificant impact on total assets and loss. The Company's marketable securities are denominated in USD. A 5% strengthening (weakening) of the USD will increase (decrease) total assets by approximately \$207,000 Canadian dollars respectively. The Company currently does not use any foreign exchange contracts to hedge this currency risk.

**Interest Rate Risk** - The Company manages its interest rate risk by obtaining the best commercial deposit interest rates available in the market by the major Canadian financial institutions on its cash and cash equivalents.

**Market risk** - Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate due to changes in market prices. The sale of the financial instruments can be affected by changes in interest rates, foreign exchange rates, and equity prices. The Company is exposed to market risk in trading its investments, and unfavourable market conditions could result in dispositions of investments at less than favourable prices. The Company's investments are accounted for at estimated fair values and are sensitive to changes in market prices, such that changes in market prices result in a proportionate change in the carrying value of the Company's investments. The Company's ability to raise capital to fund mineral resource exploration is subject to risks associated with fluctuations in mineral resource prices. Management closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

**16. CAPITAL RISK MANAGEMENT**

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

The properties in which the Company currently has an interest are in the exploration stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and development and pay for administrative costs, the Company 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 the Company, is reasonable. There were no changes in the Company's approach to capital management during the six months ended January 31, 2012. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements. The Company'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 within major Canadian financial institutions

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****THREE AND SIX MONTHS ENDED JANUARY 31, 2012**(Unaudited) (Expressed in Canadian Dollars)

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**17. OPERATING SEGMENT INFORMATION**

The Company's operations are limited to a single industry segment being the acquisition, exploration and development of mineral properties. The Company has mineral properties located in Canada in the and South America.

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<i>January 31, 2012</i>	Canada	South America	Total
Current assets	6,645,647	11,432	6,657,079
Non-current assets	54,093,836	551,896	54,645,732
Total assets	60,739,483	563,328	61,302,811
Current liabilities	406,751	5,029	411,780
Non-current liabilities	-	-	-
Total liabilities	406,751	5,029	411,780

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<i>July 31, 2011</i>	Canada	South America	Total
Current assets	2,828,708	156,210	2,984,918
Non-current assets	49,677,591	408,134	50,085,725
Total assets	52,506,299	564,344	53,070,643
Current liabilities	868,450	20,297	888,747
Total liabilities	868,450	20,297	888,747

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<i>Three months ended January 31, 2012</i>	Canada	South America	Total
Expenses	(2,253,691)	28,714	(2,224,977)
Other items	15,873	-	15,873
Net loss before income taxes and other comprehensive item	(2,237,818)	28,714	(2,209,104)
Deferred income tax recovery	17,294	-	17,294
Loss before other comprehensive item	(2,220,524)	28,714	(2,191,810)
Unrealized gain on available for sale securities	121,057	-	121,057
Net loss and comprehensive loss	(2,099,467)	28,714	(2,070,753)

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**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****THREE AND SIX MONTHS ENDED JANUARY 31, 2012**(Unaudited) (Expressed in Canadian Dollars)

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**17. OPERATING SEGMENT INFORMATION (continued)**

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<i>Six months ended January 31, 2012</i>	Canada	South America	Total
Expenses	(5,351,175)	28,714	(5,322,461)
Other items	16,676	-	16,676
Net loss before income taxes and other comprehensive item	(5,334,499)	28,714	(5,305,785)
Deferred income tax recovery	17,294	-	17,294
Loss before other comprehensive item	(5,317,205)	28,714	(5,288,491)
Unrealized gain on available for sale securities	121,057	-	121,057
Net loss and comprehensive loss	(5,196,148)	28,714	(5,167,434)

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**18. SUPPLEMENTAL CASH FLOW INFORMATION**

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	Three Months Ended January 31		Six Months Ended January 31	
	2012	2011	2012	2011
<b>Cash paid for:</b>				
Interest	\$ 173	\$ -	\$ 2,155	\$ -
Non-cash Financing and Investing Activities				
Capitalized amortization of equipment	425	424	933	849
Capitalized share-based compensation	204,356	-	266,575	-

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**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**THREE AND SIX MONTHS ENDED JANUARY 31, 2012**

(Unaudited) (Expressed in Canadian Dollars)

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**19. SUBSEQUENT EVENTS**

Subsequent to period end, 170,000 stock options were granted to a director and consultants of the Company and vest 50% at the end of each year for two years.

Subsequent to period end, 70,000 stock options was granted to an employee of the Company and vest 50% fifteen months from grant date, and the remaining 50% vest twenty-seven months from the grant date.

Subsequent to period end, the Company paid \$1,000,000 to Victory Nickel Corp. pursuant to the terms of the option agreement as described in Note 11.

Subsequent to period end, Prophecy Coal Corp. repaid the \$800,000 loan due to the Company, pursuant to the loan facility agreement as described in Note 8, plus \$15,189 in interest income, and subsequently cancelled the loan facility agreement.

Subsequent to period end, 150,000 stock options were exercised for \$135,000.

Subsequent to period end, the Company and Ursa Major Minerals Incorporated ("Ursa") (TSX: UML) entered into a letter of agreement ("Letter of Agreement") whereby the Company will acquire all of the issued and outstanding shares of Ursa in exchange for shares of the Company on the basis of 25 shares of Ursa for 1 share of the Company. As a result of the Letter of Agreement, all existing warrants, options and other rights to acquire common shares of Ursa will be exchanged for options and warrants of the Company such that each former Ursa option and warrant will be exchanged for an option or warrant of the Company, respectively, exercisable for that number of the Company's shares that is equal to the number of Ursa shares that would otherwise have been issuable thereunder. In connection with the Letter of Agreement, the Company will subscribe for 16,666,667 common shares of Ursa at gross proceeds \$0.06 per share for gross proceeds of \$1,000,000. The use of the proceeds shall be confined to payment of current accounts payable, general working capital purposes and expenditures on the mineral properties of Ursa for the purposes of developing such properties. Subsequent to period end, the \$1,000,000 has been paid. The acquisition of Ursa has not yet closed and is subject to the approval of the TSX Venture and Ursa's shareholders.

Subsequent to period end, the Company sold 1,560 units of platinum ETFs and 3,700 units of palladium ETFs with an average cost of \$237,241 USD and \$236,257 USD respectively for total proceeds of \$497,959 USD for a realized gain of \$24,461.

Subsequent to period end, the Company changed its year end from July 31 to March 31 to coincide with Prophecy Coal Corp.'s ("Coal") quarterly periods. Coal is a significant shareholder of the Company with common officers and directors and the Company's financial statements are consolidated with Coal.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****THREE AND SIX MONTHS ENDED JANUARY 31, 2012**(Unaudited) (Expressed in Canadian Dollars)

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**20. TRANSITION TO IFRS**

## a) Transition to IFRS

The Company has adopted IFRS effective August 1, 2011 with a transition date of August 1, 2010. Prior to the adoption of IFRS the Company prepared its financial statements in accordance with Canadian GAAP.

The comparative information presented in these condensed consolidated interim financial statements for the three months and six months ended January 31, 2011 and year ended July 31, 2011 have been prepared in accordance with the accounting policies referenced in Note 3. For disclosures and reconciliations related to the first time adoption of IFRS refer to the Company's condense consolidated interim financial statements for the three months ended October 31, 2011.

## b) Reconciliation between Canadian GAAP and IFRS

In preparing the Company's statement of financial position for January 31, 2011 period presented for comparative purposes, management noted that adjustments related to flow-through shares was necessary to be made by the Company previously in its financial statements prepared in accordance with previous Canadian GAAP.

Flow-through shares – The Company finances some exploration expenditures through the issuance of flow-through shares. The resource expenditure deductions for income tax purposes are renounced to investors in accordance with the appropriate income tax legislation. When the common shares are offered, the difference ("premium") between the amount recognized in common shares and the amount the investors pay for the shares is recognized as a flow-through share related liabilities which is reversed into the statement of loss within other income when the eligible expenditures are incurred. The amount recognized as flow-through share related liabilities represented the difference between the fair value of the common shares and the amount the investor pays for the flow-through shares. The cumulative premium and renunciation adjustment as at August 1, 2010 related to flow-through shares issued before August 1, 2010 is \$120,000.

The January 31, 2011 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

<b>Statement of Financial Position</b>	<b>January 31, 2011 Canadian GAAP</b>	<b>Effect of IFRS Transition</b>	<b>January 31, 2011 IFRS</b>
Total Assets	\$ 2,959,093	\$ –	\$ 2,959,093
Total Liabilities	\$ 85,642	\$ –	\$ 85,642
Shareholders' Equity			
Share capital (Note 17 (d)(i))	4,704,624	120,000	4,824,624
Contributed surplus	1,930,092	–	1,930,092
Deficit (Note 17 (d)(i))	(3,761,265)	(120,000)	(3,881,265)
Total Shareholders' Equity	2,873,451	–	2,873,451
Total Liabilities and Shareholders' Equity	\$ 2,959,093	\$ –	\$ 2,959,093

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****THREE AND SIX MONTHS ENDED JANUARY 31, 2012**(Unaudited) (Expressed in Canadian Dollars)

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**20. TRANSITION TO IFRS (continued)**

The six months ended January 31, 2011 Canadian GAAP consolidated statement of operations and comprehensive loss has been reconciled to IFRS as follows:

<b>Statement of Operations and Comprehensive Loss</b>	<b>6 months ended January 31, 2011 Canadian GAAP</b>	<b>Effect of IFRS Transition</b>	<b>6 months ended January 31, 2011 IFRS</b>
Revenue	\$ –	\$ –	\$ –
Total expenses	\$ (677,546)	\$ –	\$ (677,546)
Total other items	19,512	–	19,512
Net Loss and comprehensive loss	\$ (658,034)	\$ –	\$ (658,034)

The three months ended January 31, 2011 Canadian GAAP consolidated statement of operations and comprehensive loss has been reconciled to IFRS as follows:

<b>Statement of Operations and Comprehensive Loss</b>	<b>3 months ended January 31, 2011 Canadian GAAP</b>	<b>Effect of IFRS Transition</b>	<b>3 months ended January 31, 2011 IFRS</b>
Revenue	\$ –	\$ –	\$ –
Total expenses	\$ (615,009)	\$ –	\$ (615,009)
Total other items	3,089	–	3,089
Net Loss and comprehensive loss	\$ (611,920)	\$ –	\$ (611,920)

There is no effect of transition from Canadian GAAP to IFRS on the cash flow. Therefore, a reconciliation of cash flows has not been presented.