

Prophecy Coal Consolidates Chandgana Nyalga Coal Basin, and Enrolls a Mongolian Shareholder to its Power Subsidiary

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VANCOUVER, BRITISH COLUMBIA--(Marketwired - Aug 18, 2014) - [Prophecy Coal Corp.](#) ("**Prophecy**" or the "**Company**") (TSX:PCY)(OTCQX:PRPCF)(FRANKFURT:1P2) is pleased to announce that it has entered into binding agreements with Cosmo Coal LLC ("**Cosmo**") to:

1. Consolidate the assets of Prophecy's wholly-owned subsidiary, Chandgana Coal LLC ("**Chandgana Coal**") with the assets of Tugalgatai Mining LLC ("**Tugalgatai**"), which is a wholly-owned subsidiary of Cosmo, into: Chandgana Tugalgatai Coal LLC, a newly-incorporated Mongolian company of which, Prophecy will own 51% and Cosmo will own 49%.
2. Transfer, for nominal consideration, 34% of the issued and outstanding shares of Prophecy's wholly-owned subsidiary, Prophecy Power Generation LLC ("**PPG**") to Cosmo.
3. Accept Cosmo's nomination of one new member to Prophecy's Board of Directors.

These actions are collectively referred to below as the "**Transaction**".

Further, Cosmo and Prophecy signed a non-binding intent letter in July whereby Cosmo agreed to assist PPG in securing a concession agreement and power purchase agreement, and Prophecy agreed to use its best efforts to bring to the power plant project equity investors, secure bank financing, and manage the equipment procurement and construction cycle.

Background and Rationale:

Chandgana holds the following exploration and mining licenses (collectively, the "**Chandgana Licenses**"):

| Name | NI43-101 Compliant Resource (million tonnes)* | | |
|--|---|-----------|---------|
| Khavtgai Uul Exploration License XV-011654 | 509 measured, 539 indicated | | |
| Chandgana Tal Mining License MV-016767 | 110.9 measured | | |
| Chandgana Tal Mining License MV-010126 | 13.5 measured | | |
| Chandgana License | Coal Resources | | |
| | Measured | Indicated | Total |
| Chandgana Tal | 124.4 | 0.0 | 124.4 |
| Khavtgai Uul | 509.3 | 538.8 | 1,048.1 |
| Total | 633.7 | 538.8 | 1,172.5 |

Tugalgatai holds the following mining licenses (together, the "**Tugalgatai Licenses**"):

| Name | NI 43-101 Compliant Resource (million tonnes) |
|-------------------------------------|---|
| Tugalgatai Mining License MV-017399 | N/A |
| Tugalgatai Mining License MV-017401 | N/A |

The Tugalgatai Licenses contain an estimated coal resource of 2.33 billion tonnes according to official records from the Minerals Resource Authority of Mongolia. The resource is considered a historic estimate derived from records prepared previously by a wholly-owned subsidiary of [Vale S.A.](#) This historic estimate was prepared to meet the Mongolian classification standard which may differ significantly from the Canadian Institute of Mining standard, was not prepared in accordance with NI 43-101, and uses resource categories that differ from those required under sections 1.2 and 1.3 of NI 43-101. The Company is unaware of the key assumptions, parameters and methods used to prepare the historic estimate and additional work would be required to verify the historic estimate as current mineral resources or reserves in accordance with NI 43-101. Prophecy expects to conduct exploration to prepare an NI 43-101 compliant estimate of the

contained resource covered under the Tugalgatai Licences.

The Chandgana Licenses are contiguous to the Tugalgatai Licenses. The coal resources covered by the respective licenses are contained in the Nyalga Coal Basin located in Khentii Province in central Mongolia (see attached maps). The coal seams are continuous across the basin and outcrop to the north, with the main coal seam measuring up to 60m in thickness. The Chandgana Tal resource covered under mining licenses, located in the northeast part of the basin, is anticipated to be the starter pit with thick average coal seams of 40 meters and a mining strip ratio of 0.7 to 1.

By consolidating the resources of the Nyalga Coal Basin through the Transaction, Prophecy will control one of the largest undeveloped coal deposits in Mongolia. The Nyalga basin contains an abundant source of coal that is situated in an ideal location to develop major power, coal to gas, and coal to liquid projects. Consolidating control of the basin makes for the following positive attributes:

- It is located within only 5kms from the well-paved, trans-Mongolian highway, which should reduce construction and transportation costs;
- It is 135kms from Bagannur, which is connected to Ulaanbaatar via dual 220kv power transmission lines;
- It is located 350kms from the nearest border to China;
- The coal resource consists of thick coal seams under shallow overburden making for favourable mining economics.
- The coal deposit contains low ash (i.e. less than 10%) and sulphur (i.e. less than 1%), with gross heat value of 3,300 to 3,600kcal/kg;
- The resources are located under flat surfaced land with no nearby forests, rivers or other features that would be an environmental concern;
- Approved land use rights are included which cover 5.5 square kms that are designated for power plant and industrial development;
- Approved environmental and construction licenses for the 600MW power plant are included; and
- Prophecy's projects enjoy support from the local and regional communities.

If the 600MW power plant and coal mine begin operation, PPG and Chandgana are expected (based on current statistics) to be the largest private employer in Khentii province, and the largest private revenue contributor to the province.

The above land use rights, power plant construction and environmental licenses are all held by PPG, of which Cosmo will become a 34% shareholder (with Prophecy retaining 66%) upon completion of the Transaction.

Having a significant Mongolian shareholder in PPG could pave the way to the signing of a concession agreement and power purchase agreement with the Mongolian government.

Prophecy and Cosmo have met representatives from some of the world's largest thermal power plant and coal to gas/coal to liquid developers. It is expected that the Transaction will bring about greater economies of scale, and enable synergies to fast-track the development of these projects.

The Transaction is expected to close by October 2014, subject to regulatory approval. The technical contents of this news release have been reviewed and approved by Christopher M. Kravits, P.Geo, who is a Qualified Person as defined in NI 43-101. Mr. Kravits has 35 years of relevant US and international coal geology experience. He has been working actively in Mongolia since 2007.

* Khavtgai Uul and Chandgana Tal resource estimates are based on:

Updated Technical Report on the Coal Resources of the Chandgana Khavtgai Coal Resource Area, Khentii Aimag, Mongolia prepared by Kravits Geological Services LLC, dated September 28, 2010 *Technical Report Coal Resources and Preliminary Economic Assessment Coal Mine Component Chandgana Tal Coal Project, Khentii Province, Mongolia* prepared by John T. Boyd Co., dated February 2014.

About Prophecy

[Prophecy Coal Corp.](http://www.prophecycoal.com) is a Canadian public company listed on the Toronto Stock Exchange that is engaged in developing energy projects in Mongolia. Further information on Prophecy Coal can be found at www.prophecycoal.com.

About Cosmo

Cosmo Coal LLC is a Mongolian private company that is 100% owned by Mongolian shareholders with significant financial resources and experience in mining.

[Prophecy Coal Corp.](http://www.prophecycoal.com)

ON BEHALF OF THE BOARD

JOHN LEE

Executive Chairman

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Cautionary Note Regarding Forward-Looking Statements

Certain statements contained in this news release, including statements which may contain words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", or similar expressions, and statements related to matters which are not historical facts, are forward-looking information within the meaning of applicable securities laws. Such forward-looking statements, which reflect management's expectations regarding Prophecy's future growth, results of operations, performance, business prospects and opportunities, are based on certain factors and assumptions and involve known and unknown risks and uncertainties which may cause the actual results, performance, or achievements to be materially different from future results, performance, or achievements expressed or implied by such forward-looking statements. These estimates and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies, many of which, with respect to future events, are subject to change and could cause actual results to differ materially from those expressed or implied in any forward-looking statements made by Prophecy. In making forward-looking statements as may be included in this news release, Prophecy has made several assumptions that it believes are appropriate, including, but not limited to assumptions that: there being no significant disruptions affecting operations, such as due to labour disruptions; currency exchange rates being approximately consistent with current levels; certain price assumptions for coal, prices for and availability of fuel, parts and equipment and other key supplies remain consistent with current levels; production forecasts meeting expectations; the accuracy of Prophecy's current mineral resource estimates; labour and materials costs increasing on a basis consistent with Prophecy's current expectations; and that any additional required financing will be available on reasonable terms. Prophecy cannot assure you that any of these assumptions will prove to be correct.

Numerous factors could cause Prophecy's actual results to differ materially from those expressed or implied in the forward looking statements, including the following risks and uncertainties, which are discussed in greater detail under the heading "Risk Factors" in Prophecy's most recent Management Discussion and Analysis and Annual Information Form as filed on SEDAR and posted on Prophecy's website: Prophecy not having a history of profitable mineral production; the uncertainty of mineral resource and mineral reserve estimates; the capital and operating costs required to bring Prophecy's projects into production and the resulting economic returns from its projects; foreign operations and political conditions, including the legal and political risks of operating in Mongolia, which is a developing jurisdiction; title to Prophecy's mineral properties; environmental risks; the competitive nature of the mining business; lack of infrastructure; Prophecy's reliance on key personnel; uninsured risks; commodity price fluctuations; reliance on contractors; Prophecy's need for substantial additional funding and the risk of not securing such funding on reasonable terms or at all; foreign exchange risks; anti-corruption legislation; recent global financial conditions; the payment of dividends; and conflicts of interest.

These factors should be considered carefully, and readers should not place undue reliance on the Prophecy's forward-looking statements. Prophecy believes that the expectations reflected in the forward-looking statements contained in this news release and the documents incorporated by reference herein are reasonable, but no assurance can be given that these expectations will prove to be correct. In addition, although Prophecy has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. Prophecy undertakes no obligation to release publicly any future revisions to forward-looking statements to reflect events or circumstances after the date of this news or to reflect the occurrence of unanticipated events, except as expressly required by law.

To view the maps accompanying this press release please visit the following link:
<http://media3.marketwire.com/docs/PROPMAPS818.pdf>

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