Prophecy
Development Corp.

Management's Discussion and Analysis of Financial Condition and Results of Operations
For the three and nine months ended September 30, 2016
(Expressed in Canadian Dollars, except where indicated)

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1. INTRODUCTION

This Management's Discussion and Analysis ("**MD&A**") of Prophecy Development Corp. and its subsidiaries ("**Prophecy**", or the "**Company**") was prepared by management as at November 14, 2016 and was reviewed, approved, and authorized for issue by the Company's Audit Committee. The following discussion of performance, financial condition and future prospects should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company and notes thereto for the three and nine months ended September 30, 2016 prepared in accordance with International Financial Reporting Standards ("**IFRS**"), applicable to the preparation of interim financial statements, including International Accounting Standard ("**IAS**") 34 Interim Financial Reporting, as issued by the International Accounting Standards Board. This MD&A should be read also in conjunction with both the audited annual consolidated financial statements for the year ended December 31, 2015 (prepared in accordance with IFRS) ("**Annual Financial Statements**") and the related annual MD&A ("**Annual MD&A**") dated March 29, 2016, and the 2015 Annual Information Form ("**AIF**"), all of which are available under the Company's SEDAR profile at www.sedar.com.

The information provided herein supplements but does not form part of the financial statements. Financial information is expressed in Canadian dollars, unless stated otherwise. Readers are cautioned that this MD&A contains "forward-looking statements" and that actual events may vary from management's expectations. Readers are encouraged to read the cautionary note contained herein regarding such forward-looking statements. Information on risks associated with investing in the Company's securities as well as information about mineral resources and reserves under National Instrument 43-101 are contained in the Company's most recently filed AIF which is available on the Company's website at www.prophecydev.com or on SEDAR at www.sedar.com.

Description of Business

Prophecy is a company amalgamated under the laws of the Province of British Columbia, Canada. The Company's Common shares (the "**Shares**") are listed for trading on the Toronto Stock Exchange (the "**TSX**") under the symbol "PCY", OTCPink under the symbol "PRPCD", and the Frankfurt Stock Exchange under the symbol "1P2N".

The principal business of the Company is the acquisition, exploration and development of mineral, mining and energy projects in Bolivia, Mongolia, and Canada. The Company owns a 100% interest in the following significant coal projects in Mongolia: the Ulaan Ovoo coal property, the Khavtgai Uul and Chandgana Tal coal deposits (together, the "**Chandgana Coal Properties**"), and the Pulacayo Paca silver-lead-zinc property (the "**Pulacayo Project**") in Bolivia. The Company is focusing on building a successful and profitable intermediate development company. The Company's strategy is to actively pursue growth opportunities by securing financing, further improving operational efficiencies and reducing costs, delivering value through marketing coal and mineral concentrates and marketing power from the Chandgana power plant. The joint venture interest in the Pulacayo Project is the most significant project acquisition in the Company's history and the Company intends to explore and develop this silver district to its full potential.

General Corporate Information:

At September 30, 2016 and November 14, 2016, Prophecy had: (i) 4,760,778 Shares issued and outstanding; (ii) 460,814 stock options for Shares outstanding; and (iii) 1,348,060 warrants for Shares outstanding.

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Investor and Contact Information

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Directors and Officers

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

Directors	**Officers**
John Lee, Executive Chairman	John Lee, Interim Chief Executive Officer
Harald Batista	Irina Plavutska, Chief Financial Officer
Greg Hall	Tony Wong, Corporate Secretary
Masa Igata	Bekzod Kasimov, Vice-President, Operations
Audit Committee	***Corporate Governance and Compensation Committee***
Greg Hall (Chair)	Greg Hall (Chair)
Harald Batista	Harald Batista
Masa Igata	Masa Igata

Qualified Persons

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

2. CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of applicable Canadian securities legislation concerning anticipated developments in the Company's continuing and future operations in Mongolia and Bolivia, the adequacy of the Company's financial resources and financial projections. Such forward-looking statements include but are not limited to statements regarding the permitting, feasibility, plans for development and production of Prophecy's Chandgana power plant, including finalizing of any power purchase agreement; the likelihood of securing project financing; estimated future coal production at the Ulaan Ovoo coal property and the Chandgana Coal Properties; development of the Pulacayo Project and other information concerning possible or assumed future results of operations of Prophecy. See in particular, the sections Select Financial and Operational Data and 2016 Outlook descriptions under Part 4 – Property Summary.

Forward-looking statements in this document are frequently identified by words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", "potentially" or similar expressions, or statements that events, conditions or results "will", "may", "would", "could", "should" occur or are "to be" achieved, and statements related to matters which are not historical facts. Information concerning management's expectations regarding Prophecy's future growth, results of operations, performance, business prospects and opportunities may also be deemed to be forward-looking statements, as such information constitutes predictions based on certain factors, estimates and assumptions subject to significant business, economic, competitive and other uncertainties and contingencies, and involve known and unknown risks which may cause the actual results, performance, or achievements to be different from future results, performance, or achievements contained in such forward-looking statements made by Prophecy.

In making the forward-looking statements in this MD&A, Prophecy has made several assumptions that it believes are appropriate, including, but not limited to assumptions that: all required third party contractual, regulatory and governmental approvals will be obtained for the development, construction and production of Prophecy's properties and the Chandgana power plant; there being no significant disruptions affecting operations, whether due to labour disruptions or other causes; currency exchange rates being approximately consistent with current levels; certain price assumptions for coal, silver and other metals, 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 any additional required financing will be available on reasonable terms; market developments and trends in global supply and demand for coal, energy, silver and other metals meeting expectations. 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 this MD&A: Prophecy's history of net losses and lack of foreseeable cash flow; exploration, development and production risks, including risks related to the development of Prophecy's Ulaan Ovoo coal property and Pulacayo Project; Prophecy not having a history of profitable mineral production; commencing mine development without a feasibility study; 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 and Bolivia which are developing countries and being subject to their local laws; the availability and timeliness of various government approvals and licences; the feasibility, funding and development of the Chandgana power plant and Pulacayo Project; protecting 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 risk; anti-corruption legislation; recent global financial conditions; the payment of dividends; the inability of insurance to cover all potential risks associated with mining operations and conflicts of interest.

In light of the risks and uncertainties inherent in all forward-looking statements, the inclusion or incorporation by reference of forward-looking statements in this MD&A should not be considered as a representation by Prophecy or any other person that Prophecy's objectives or plans will be achieved.

These factors should be considered carefully and readers should not place undue reliance on Prophecy's forward-looking statements. The Company believes that the expectations reflected in the forward-looking statements contained in this MD&A and the documents incorporated by reference herein are reasonable, but no assurance can be given that these expectations will prove to be correct. In addition, although the Company 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 publicly update any future revisions to forward-looking statements to reflect events or circumstances after the date of this MD&A or to reflect the occurrence of unanticipated events, except as expressly required by law.

3. THIRD QUARTER HIGHLIGHTS AND SIGNIFICANT EVENTS

For further information please view the Company's 2016 news releases under the Company's SEDAR profile at www.sedar.com.

- On August 12, 2016, the Company announced, further to its press release dated June 16, 2016, the assay results for the first group of 40 samples collected from the Paca exploration program at its Pulacayo project. Assay of the Paca chip samples returned results of up to 1,500g/t silver, 2.49% zinc and 6.72% lead. During the sampling program, 233 samples were collected. However, due to a backlog at the testing laboratory, Prophecy prioritized the 40 most prospective samples for assay. Thus, the assayed samples are not representative of the sample population. These results are taken from the first group of samples Prophecy delivered.

- On August 29, 2016, the Company closed an oversubscribed non-brokered private placement involving the issuance of 202,735 units at a price of $3.80 per unit previously announced on August 8, 2016 for gross proceeds of $770,393 (the **"Placement"**). Each Unit consists of one Share and one half of one Share purchase warrant (a **"Warrant"**). Each Warrant entitles the holder to acquire an additional Share at a price of $4.40 per Share for a period of five years from the date of issuance.

- On September 22, 2016, the Company sold its 60% interest in the Okeover, copper-molybdenum project located in British Columbia to Lorraine Copper Corp. ("**Lorraine**"). Under the terms of the agreement, Lorraine issued 2,200,000 common shares of Lorraine (valued at $0.08/share) to Prophecy and assumed Prophecy's $19,078 payment obligation to Eastfield Resources Ltd. under such parties' existing joint venture agreement. Prophecy will additionally be entitled to receive 30% of any payments or proceeds resulting from third party agreements related to the project entered into within five years, which payments shall be limited to a maximum amount payable to Prophecy, of $1,000,000.

- On September 29, 2016, the Company announced its plans for definition drilling and priority objective at the Pulacayo Project, which is twofold:

    1. Study the possibility of commissioning Pulacayo and/or Paca to production at current metal prices, part of which includes definition drilling; and
    2. Apply modern exploration techniques to the Pulacayo district to test mineralization found during reconnaissance exploration.

Subsequent to period end

- On October 7, 2016, the Company met with César Navarro, Bolivia's Minister of Mining and Metallurgy, his Chief of Cabinet, and Dr. Bernardo Peredo Videa, political and commercial advisor to the Embassy of Canada in Bolivia to discuss recent decrees issued by the State of Bolivia concerning Pulacayo Ltda. Mining Cooperative's mining contracts. Minister Navarro assured the Company that "The aim of the decrees is not harming investors, opposite, to support the investor and ensure the inclusion of cooperative labour in their projects". Dr. Peredo Videa said that the position of the Embassy of Canada is to support "companies that work with Bolivia in the framework of the law". The Canadian delegation invited Bolivia to participate in the annual *Prospectors and Developers Association of Canada (PDAC)* mining trade show to be held in Toronto, Canada in March 2017.

For further information please view the Company's 2016 news releases under the Company's SEDAR profile at www.sedar.com.

4. PROPERTY SUMMARY

Highlights on Pulacayo Project

Please refer to the relevant section of the Annual MD&A for this information.

Select Financial and Operational Data

Q3 2016

On January 2, 2015, pursuant to the terms of the acquisition agreement entered into between the Company and Apogee Silver Ltd. ("**Apogee**"), Prophecy acquired the Pulacayo Project in Bolivia through the acquisition of the issued and outstanding shares of ASC Holdings Limited and ASC Bolivia LDC, which together, hold the issued and outstanding shares of ASC Bolivia LDC Sucursal Bolivia (collectively with Apogee Minerals Bolivia S.A., the "**Apogee Subsidiaries**"). ASC Bolivia LDC Sucursal Bolivia controls the mining rights to the concessions through a separate joint venture agreement with the Pulacayo Ltda. Mining Cooperative who hold the mining rights through a lease agreement with state-owned Mining Corporation of Bolivia, COMIBOL.

The Pulacayo Project comprises seven concessions covering a total area of approximately 3,550 hectares of two groups of contiguous mining concessions, one centered on the historical Pulacayo mine and town site and the other centered on the Paca deposit located 5 km north. The Environmental Impact Assessment for the Pulacayo Project was approved by the Ministry of Environment and Water of Bolivia in October 2013. The approval of the Environmental Impact Assessment allows for mine and concentrator construction with a targeted production rate of up to 560tpd at the Pulacayo Project. The Pulacayo Project is fully permitted with secured social licenses for mining and processing.

On acquisition of the project, the Company implemented its fast-track development schedule of the project. During 2015 through Q3 2016, activities by the Company on the Pulacayo Project included exploration, completion of resource estimates, progress to resolve legacy financial obligations, hiring key personnel, and relinquishment of unnecessary concessions.

The Company commenced its sampling program at the Paca deposit. Samples were obtained at one meter intervals from near surface drifts within the Paca mine which appears to have limited historic development. The area of sampled drifts has an estimated dimension of 90 metres length (east to west) and 75 metres width (north to south) and occurs at an average depth of 100 metres. Mineralization mainly consists of silver sulphides (mostly tennantite), galena and sphalerite in the pores of the sedimentary rocks and in breccias. The sampled area is within the Paca resource boundary, but was not included in the block model used to estimate the resources recently disclosed according to NI 43-101.

(Expressed in Canadian Dollars, except where indicated)

On August 12, 2016, the Company announced the assay results for the first group of 40 samples collected from the Paca exploration program at its Pulacayo project. During the sampling program, 233 samples were collected. However, due to a backlog at the testing laboratory, Prophecy prioritized the 40 most prospective samples for assay. Thus, the assayed samples are not representative of the sample population. These results are taken from the first group of samples Prophecy delivered. Samples were obtained by continuous chip channel sampling across the width of the vein mineralization at locations one meter apart.

Sample	Ag (g/t)	Zn (%)	Pb %	Ag Eq (g/t)
P225	>1500	0.82	2.84	>1617
P224	838	1.85	2.18	965.3
P233	866	0.32	0.88	902.0
P206	721	0.10	2.78	802.6
P229	674	0.66	1.19	731.1
P232	639	0.39	1.42	692.9
P192	599	0.07	0.50	615.5
P228	565	0.55	1.04	613.7
P231	502	0.53	1.58	565.1
P230	493	0.60	1.49	556.4
P210	518	0.28	0.69	547.4
P227	469	0.97	0.66	522.1
P186	271	0.83	6.72	489.5
P226	356	2.27	1.37	475.5
P201	373	0.10	3.35	470.7
P184	351	0.76	2.53	449.3
P213	273	2.49	1.74	410.6
P223	289	1.67	1.71	396.5
P180	250	0.84	4.15	396.6
P211	295	0.31	1.43	346.3
P183	250	0.73	2.39	343.1
P222	174	1.78	3.24	328.4
P187	231	0.24	2.20	301.4
P199	242	0.12	1.84	297.9
P185	149	0.80	3.53	276.7
P207	194	0.40	1.78	258.3
P196	128	0.16	2.97	217.1
P190	187	0.10	0.64	208.5

(Expressed in Canadian Dollars, except where indicated)

P189	121	0.29	2.38	198.2
P191	141	0.08	0.73	164.5
P208	97	0.54	1.33	153.0
P188	57	0.20	2.56	135.8
P176	89	0.59	0.88	135.0
P197	83	0.08	1.46	126.8
P198	47	0.17	2.44	122.0
P179	53	0.55	1.89	125.2
P193	79	0.18	0.93	112.1
P182	46	0.59	1.40	106.6
P181	22	0.53	1.00	69.2
P177	15	0.39	0.61	45.7

Silver equivalent (Ag Eq.) calculations are based on the following closing prices as of August 9, 2016: USD$19.79/oz for Ag (www.kitco.com), USD$1.03/lb for Zn and USD$0.81/lb for Pb (London Metals Exchange spot prices). Metal recoveries are assumed to be 100%.

The samples were delivered to ALS Geochemistry Laboratory in Oruro, Bolivia ("**ALS**") for assay and included QA/QC samples. Standard reference, duplicate and blank samples were used – all of which, produced acceptable results. ALS is an independent laboratory and was qualified and accredited by the Colombian Institute of Technical Standards and Certification (ICONTEC) and the Standards Council of Canada for the methods used during the time the samples were prepared and assayed. Records were maintained to document the secure handling of the samples and to verify their identities were maintained.

Chip channel sample P225 returned a silver grade that is greater than the 1,500 g/t detection limit. It is planned to submit the sample for another assay for precious metals content using methods having a greater upper detection limit.

Samples were obtained from shallow depth drifts within the Paca mine which appear to have limited historic development. The area of sampled drifts has an estimated dimension of 90 metres length (east to west) and 75 metres width (north to south) and occurs at an average depth of 100 metres. Mineralization mainly consists of silver sulphides (mostly tennantite), galena and sphalerite in the pores of the sedimentary rocks and in breccias. The sampled area is within the Paca resource boundary, but was not included in the block model used to estimate the resources* recently disclosed according to National Instrument 43-101 ("**NI 43-101**").

***Paca Mineral Resource Statement – Effective September 9, 2015**						
Ag Eq. Cut-Off (g/t)	**Category**	**Tonnes******	**Ag (g/t)**	**Pb (%)**	**Zn (%)**	**Ag Eq. (g/t)**
200	Inferred	2,540,000	256	1.10	1.03	342
300***	Inferred	1,260,000	363	0.98	1.02	444
400	Inferred	650,000	462	0.90	1.00	538
500	Inferred	330,000	558	0.79	1.04	631

**Tonnes are rounded to nearest 10,000
***Base case resources are those reported at the 300 g/t Ag Eq. cut-off
Inferred resources do not have demonstrated economic viability, are speculative, and are not to be relied upon.

The mineral resource estimate was prepared by Mercator Geological Services Limited ("**Mercator**") under the supervision of Michael Cullen, P.Geo., who is an independent Qualified Person as set out in NI 43-101. The Paca mineralization starts from surface, with approximately 95% of the resource existing at the cut-off value of 300 g/t Ag Eq. occurring within 100 metres of surface (please refer to the Company's news release dated September 21, 2015).

After Mercator produced the technical report compliant with NI 43-101 disclosing the resource estimate for the Pulacayo deposit prepared according to the CIM Definition Standards for Mineral Resources and Reserves (the "**CIM Standards**") and filed by the Company on July 31, 2015 which outlined 1.27 million tonnes of indicated resource grading 530g/t Ag, 2.51% Pb and 3.63% Zn and a further 350,000 tonnes of inferred resource grading 419g/t Ag, 2.47% Pb and 4.58% Zn (refer to the Company's news release dated June 18, 2015), the Company had undertaken studies (for production scenarios ranging from 200 to 500 tonnes per day) with the aim to bring Pulacayo into production at minimum capital expense given the current challenging metals market.

During the third quarter 2016, Prophecy continued its discussion with concentrate off-takers based on the results of the 2013 Pulacayo trial mining and has received updated term sheets, possibly reflecting the potential tightening of future zinc-silver and lead-silver concentrate supplies. Prophecy has also received an improved term sheet from a custom milling and processing facility in Potosi, approximately 180km from the Pulacayo project and that is connected by a recently paved highway which is in excellent condition.

The Company continued its study of optimal mining production and processing scenarios with the intention of announcing a production decision at the conclusion of the study in conjunction with a financing plan should a positive production decision be reached. A positive production decision would not be based on a feasibility study of mineral reserves demonstrating economic and technical viability so would carry increased uncertainty and the risk of failure as to the mining method and profitability.

During the three months ending September 30 2016, the Company incurred total costs of $229,540 (same period 2015 – $474,878) for the Pulacayo project including $Nil (same period 2015 – $Nil) for licenses, $30,642 (same period 2015 – $174,103) for geological and engineering consulting, and $198,898 (same period 2015 – $300,775) for personnel, legal and general and administrative expenses.

2016 Outlook

On September 29, 2016, the Company announced its priority objective at the Pulacayo Project, which is twofold:

1. Study the possibility of commissioning Pulacayo and/or Paca to production at current metal prices, part of which includes definition drilling; and
2. Apply modern exploration techniques to the Pulacayo district to test mineralization found during reconnaissance exploration.

In light of this objective, the company reported its plans for definition drilling. The 1,500 meter program, scheduled to commence in fourth quarter 2016, aims to increase the confidence level and size of certain resource blocks already identified in the respective Pulacayo and Paca resource estimates disclosed according to NI 43-101. These resource blocks are characterised by elevated grades and relatively easy access, which make them potentially suitable to be mined first should a decision be made to start mining. The definition drilling program lowers project risk by improving the confidence level in the resources and may reassure concentrate off-takers and financiers of the reliability of their internally prepared production and revenue forecasts.

Proposed drill hole location maps (both plain and cross section for Paca surface drilling and Pulacayo underground drilling) are available at www.prophecydev.com.

Concurrent with the definition drilling, the Company plans a district-wide close-spaced Three Dimensional Induced Polarisation Program ("**3D IP**") geophysical survey program that will use a pole-dipole configuration. Data interpretation will take advantage of the functionality offered by 3D inversion techniques (resistivity and chargeability) that has been successfully used at Pulacayo before. The results are expected in approximately three months, after completion of the surveys. The 3D IP surveys will be carried out in the high priority areas of

Paca North, Pero and Pacamayo where surface mapping and sampling have identified significant surface anomalies.

The results from the detailed 3D IP surveys, the assay results of recent surface and underground sampling, and the prior IP results will be used to identify the most prospective drilling targets. The objective of the 3D IP surveys followed by drilling is to assess the potential of the Pulacayo district for near-surface mineralization.

Prophecy continued its discussions with concentrate off-takers based on the results of the 2013 Pulacayo trial mining and has received updated concentrate off-take term sheets, possibly reflecting the potential tightening of future zinc-silver and lead-silver concentrate supplies. Some off-takers have prepared their own production and revenue forecasts related to the Pulacayo project based on geological, technical and economic information provided by Prophecy. Prophecy has also received an improved term sheet from a custom milling and processing facility in Potosi, approximately 180km from the Pulacayo project and that is connected by a recently paved highway which is in excellent condition. Most recently, the Company is reviewing current operating conditions and concentrate market conditions and hosting site visits by concentrate purchasers and investors. Metal prices have recently risen with silver at US$18.50/oz and zinc at US$1.10/lb (please refer to the Company's news release dated November 2, 2016 and filed on SEDAR or posted on the Company's website).

The Company continues its study of optimal mining production and processing scenarios in light of current conditions and the increase in metal prices and intends to announce a production decision at the conclusion of the study in conjunction with a financing plan should a positive production decision be reached. A positive production decision would not be based on a feasibility study of mineral reserves demonstrating economic and technical viability so would carry increased uncertainty and the risk of failure as to the mining method and profitability.

Highlights on Ulaan Ovoo Coal Property

Please refer to the relevant section of the Annual MD&A for this information.

Select Financial and Operational Data

Q3 2016

During the third quarter of 2016, the Company's wholly owned subsidiary Red Hill Mongolia LLC that owns and operates the Ulaan Ovoo mine continued to maintain the Ulaan Ovoo operations on standby. The mine shipped 85 tonnes (same period 2015 – 4,399 tonnes) of coal to local customers from existing stockpiles. The coal stockpile balance was approximately 80,600 tonnes at September 30, 2016.

The Company continued with work to construct the river diversion in order to retain the mining licenses. The work included applications for environmental and other permits and preparation of a budget to proceed with construction. The preparation work for the repair and paving of the 121km road between the Zelter border crossing, Tushig and the Shaamar was completed. The Government of Mongolia supports the re-opening of the Zelter border crossing and added the paving project to the state concession list and approved a budget to start work during 2017 (please refer to the Company's news release dated November 2, 2016 and filed on SEDAR or posted on the Company's website). Paving of the road would provide direct access to the Russian thermal coal market (and by extension to the Asian seaborne trade) through the Zelter border crossing and reduce transportation costs to Sukhbaatar for the domestic Mongolian market. The Company continued to press for upgrading the line power to Tushig and connection to Ulaan Ovoo with the local electrical power distribution company. Line power to the mine would reduce operating costs and allow for consideration of operational improvements.

During the third quarter of 2016, the Company incurred costs of approximately $150,000 (same period 2015 – $487,000).

2016 Outlook

Prophecy will continue to maintain Ulaan Ovoo on standby and continue with the sale and loading of stockpiled coal with the goal of completing the sale of all remaining coal by the end of 2016. The work to construct the river diversion will continue. The Company will continue to support, where possible the government's efforts to pave the Zelter-Tushig-Shaamar road and continue to pursue upgrading the line power. Both infrastructure initiatives will significantly reduce the operating cost of Prophecy's Ulaan Ovoo operation and increase the likelihood of sustainable mining operations.

The Company will continue its efforts to maximize value including evaluation of operating alternatives (e.g. contract mining, equipment electrification, conveyance vs. haul), further infrastructure improvement, management structure changes, higher margin markets and other markets for Ulaan Ovoo coal, methods to upgrade coal quality and pursuit of financial arrangements including strategic partner or joint venture arrangements or the sale of a portion or the entire project. One of these efforts is to continue the pursuit to penetrate the urban residential market in Mongolia (total estimated consumption of approximately 700 - 900 thousand tonnes a year in the cities of Ulaanbaatar, Erdenet, and Darkhan).

As described in the "Chandgana Power Plant Project" section below, the new Government of Mongolia has taken substantial steps toward improving Mongolia's economy including support of foreign direct investment, infrastructure improvement, and power development. The Company considers the new government and its actions favourable to Ulaan Ovoo. The current benchmark thermal coal price is currently nearly twice that of earlier this year. If this trend persists into 2017, the Company intends to survey potential customers with a view to possibly restarting Ulaan Ovoo in 2017.

At the current stage, the Company is unable to determine whether the improved thermal coal market will be sustainable, when, if at all, improved access to Russian and domestic coal markets will be realized, the extent of project changes and operational modifications required and the time and degree they will improve profitability, and whether the full potential value of the coal resource will be realized.

Highlights on the Chandgana Coal Properties

Please refer to the relevant section of the Annual MD&A for this information.

Select Financial and Operational Data

Q3 2016

During the second quarter of 2016, the Company incurred total general and administrative costs of $30,454 (same period 2015 – $223,719) for the Chandgana Tal and Khavtgai Uul properties (including power plant project).

2016 Outlook

The Company plans to continue normal license maintenance work including payment of fees for the Chandgana Tal and Khavtgai Uul licenses and continue with required environmental work for Chandgana Tal. Other required work on the Khavtgai Uul license will include exploration and preparation of the annual report in order to retain exploration rights to the license. The Company does not plan to mine at Chandgana Tal for the local market.

Chandgana Power Plant Project

The Company met with officials of the new government several times. Prophecy Power Generation LLC, the Company's wholly owned subsidiary that is developing the power plant project submitted its development and investment proposal for the power plant to the Mongolia Ministry of Energy (see the Company's news release dated November 2, 2016). The Company also submitted a letter requesting the project be included in the Ministry of Energy 2016-2020 strategic plan.

2016 Outlook

Recently the Company held high-level meetings with relevant authorities to expedite the negotiations for project concession and power purchase agreements in order to advance the project. The Company continued to discuss the project with large-scale Asian strategic power producers that have expressed interest in investing in the Chandgana power plant project. The Company also continues to actively consider other project financing options including either debt, equity, or a combination thereof. Otherwise regular land use right maintenance work will continue.

(Expressed in Canadian Dollars, except where indicated)

Parliamentary elections were held in Mongolia on June 29, 2016. The Mongolian People's Party ("**MPP**") won a majority of seats in Parliament and the new Government's Plan of Action was passed in September 2016. The MPP has acted on its proposals by efforts to stabilize and improve the economy, including foreign investment, enacting its Economic Stabilization Plan, which includes support of major mining, power and infrastructure projects, and passing new resolutions. The Company considers that with a new, stable government in place and the government's mandate to attract foreign investment and the Company's continued commitment to the project it is optimistic that material progress can be made in 2017.

5. SUMMARY OF QUARTERLY RESULTS

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

		2016 Q3		**2016 Q2**		**2016 Q1**		**2015 Q4**
Operating expense	$	(307,343)	$	(248,333)	$	(305,697)	$	(540,153)
Net loss		(651,212)		(140,392)		(126,419)		(3,884,097)
Net loss per share, basic and diluted	$	(0.14)	$	(0.04)	$	(0.04)	$	(1.15)
Comprehensive loss		(651,212)		(140,392)		(126,419)		(3,884,097)
Comprehensive loss per share, basic and diluted	$	(0.14)	$	(0.04)	$	(0.04)	$	(1.15)

		2015 Q3		**2015 Q2**		**2015 Q1**		**2014 Q4**
Operating expense	$	(481,915)	$	(805,826)	$	(565,716)	$	(908,565)
Net loss		(831,656)		(1,112,025)		(1,994,753)		(12,624,317)
Net loss per share, basic and diluted	$	(0.26)	$	(0.36)	$	(0.64)	$	(5.01)
Comprehensive loss		(831,656)		(1,112,025)		(1,994,753)		(12,624,317)
Comprehensive loss per share, basic and diluted	$	(0.26)	$	(0.36)	$	(0.64)	$	(5.01)

6. DISCUSSION OF OPERATIONS

The reader is encouraged to refer to Note 6 of the Company's Annual Financial Statements for the year ended December 31, 2015 for Prophecy's IFRS accounting policies. For discussion on each project, the reader is encouraged to refer to the "Business Overview" section of this MD&A.

Three Months Ended September 30, 2016 and 2015 (Q3 2016 and Q3 2015)

Results of operations are summarized as follows:

Operating Expenses		**Three months ended September 30, 2016**		**2015**
Advertising and promotion	$	7,730	$	58,899
Consulting and management fees		28,983		77,699
General and administrative expenses		140,426		208,167
Professional fees		1,638		24,513
Share-based payments		68,181		77,469
Travel and accommodation		60,385		35,168
	$	307,343	$	481,915

(Expressed in Canadian Dollars, except where indicated)

The decrease by $174,572 in operating expenses was a result of cost cutting initiatives across the Company. During the three months ended September 30, 2016, travel and accommodation expenses increased by $25,217 due to increased costs of obtaining an equity financing.

For Q3 2016, the Company incurred other expenses classified as "Other Items" amounting to a loss of $343,869 compared to a loss $349,741 for the same period in 2015.

Other Items		**Three months ended September 30,**		
		2016		**2015**
Costs in excess of recovered coal		71,776		470,605
Finance cost		1,571		-
Foreign exchange loss/(gain)		382,865		(169,080)
Interest expense		45,810		63,402
Gain/(loss) on sale of equipment		36,926		(15,186)
Recovery on mineral property sale		(195,079)		-
	$	343,869	$	349,741

Nine Months Ended September 30, 2016 and 2015

Results of operations are summarized as follows:

Operating Expenses		**Nine months ended September 30,**		
		2016		**2015**
Advertising and promotion	$	40,065	$	118,263
Consulting and management fees		109,938		228,264
General and administrative expenses		493,361		737,887
Professional fees		26,643		111,573
Share-based payments		123,461		555,850
Travel and accommodation		67,904		101,620
	$	861,372	$	1,853,457

The decrease by $992,085 in operating expenses was a result of cost cutting initiatives across the Company. Of note are the following items:

- Advertising and promotion expenses decreased by $78,198 mainly due to unfavourable market condition;
- Consulting and management fees decreased by $118,326 mainly due to a reduction in the CEO's compensation;
- General and administrative expenses decreased by $244,526 due primarily to decreased office expenses, insurance cost, salaries, and director fees;
- Professional fees decreased by $84,930 due to lower accounting fees being incurred during the 2016 period;
- Travel and accommodation expenses decreased by $33,716 due to reduced corporate travel costs; and
- Non-cash share-based payments decreased by $432,389 due to a lower number of outstanding options vesting during the 2016 period compared to the 2015 period.

During the nine months ended September30, 2016, the Company incurred other expenses classified as "Other Items" amounting to a loss of $56,650 compared to a loss $2,084,977 for the same period in 2015.

(Expressed in Canadian Dollars, except where indicated)

Other Items		**Nine months ended September 30,**		
		2016		**2015**
Costs in excess of recovered coal	$	205,811	$	1,063,705
Finance cost		316,894		-
Foreign exchange loss/(gain)		(530,962)		801,956
Gain on sale of available-for-sale investment		(59,698)		-
Interest expense		210,957		123,139
Gain/(loss) on sale of equipment		108,727		96,177
Recovery on mineral property sale		(195,079)		-
	$	56,650	$	2,084,977

The decrease by $2,028,327 is the net result of changes to a number of other items. Of note are the following items:

- Costs in excess of recovered coal were reduced by $857,894 due to keeping operations at Ulaan Ovoo mine on standby and reducing general and administrative costs;
- In the nine months ended September 30, 2016, the Company incurred finance cost of $316,894 associated with the revolving credit facility agreement dated March 12, 2015, as amended (the "**Credit Facility**") with Linx Partners Ltd. ("**Linx**");
- Foreign exchange gain of $530,962 was due to fluctuations in the value of the Canadian dollar compared to the Mongolian tugrik, Bolivian boliviano, and the United States dollar;
- In the nine months ended September 30, 2016, the Company recorded a gain on the sale of a total of 335,266 remaining Wellgreen Platinum shares released from trust of $59,698 with no available-for-sale investments to be sold in the nine months ended September 30, 2015;
- Increase in interest expense by $87,818 was due to interest charges related to the Credit Facility;
- During the nine months ended September 30, 2016, the Company recorded a loss on disbursement of equipment of $108,727; and
- On September 22, 2016, the Company sold its 60% interest in the Okeover project located in British Columbia to Lorraine Copper Corp. Under the terms of the agreement, Lorraine issued 2,200,000 common shares of Lorraine (valued at $0.08/share) to Prophecy and assumed Prophecy's $19,078 payment obligation to Eastfield Resources Ltd. under such parties' existing joint venture agreement. At December 31, 2014, due to market conditions, the Company impaired the value of the Okeover property to $Nil. Upon completion of the sale, the Company recorded a mineral property recovery of $195,079 in the statement of operations and comprehensive loss.

7. LIQUIDITY AND CAPITAL RESOURCES

As an exploration and development company, Prophecy has no regular cash in-flow from operations, and the level of operations is principally a function of availability of capital resources. The Company's capital resources are largely determined by the strength of the junior resource markets and by the status of the Company's projects in relation to these markets, and its ability to compete for investor support of its projects. To date, the principal sources of funding have been equity and debt financing. Many factors influence the Company's ability to raise funds, and there is no assurance that the Company will be successful in obtaining adequate financing and at favourable terms for these or other purposes including general working capital purposes.

Liquidity

The Company's working capital deficit at September 30, 2016 was 2.4 million compared to working capital deficit of $3.9 million as at December 31, 2015.

(Expressed in Canadian Dollars, except where indicated)

Cash Flow Highlights

		Nine months ended September 30,		
		2016		**2015**
Cash provided by (used in) operating activities	$	(791,964)	$	(873,747)
Cash provided by (used in) investing activities		(56,206)		211,797
Cash provided by (used in) financing activities		1,080,776		711,812
Increase (decrease) in cash for period		232,606		49,862
Cash balance, beginning of period		33,542		200,994
Cash balance, end of period	$	266,148	$	250,856

Operating activities: Cash used in operating activities during the nine months ended September 30, 2016 was $791,964 compared to cash used of $873,747 during the same period in 2015. The Company will require financing in the near term to fund operations.

***Investing activities*:** During the nine months ended September 30, 2016, cash used in investing activities totalled $56,206 compared to $211,797 cash provided during the same period in 2015. The Company spent $163,394 on capital additions and received $94,198 from Guaranteed Investment Certificate redemption and sale of Wellgreen Platinum shares released from trust. During the same period in 2015, the Company spent $2,477,456 on capital additions, paid $237,224 to acquire the Apogee Subsidiaries, and received $2,926,477 from the sale of mining equipment.

***Financing activities*:** A total of $1,080,776 was provided by financing activities during the nine months ended September 30, 2016 compared to $711,812 cash provided during the same period in 2015. The Company drew $337,887 from the Credit Facility and received net proceeds of $952,929 from issuing Shares in two private placements. During the nine months ended September 30, 2016, the Company fully repaid the USD$1.5 million line of credit facility with the Trade and Development Bank of Mongolia ("**LOC**") of $198,787 and related interest of $11,253. Also, the Company paid $1,500,000 in the form of Shares toward the Credit Facility outstanding balance. During the same period in 2015, the Company received $1,500,000 from the Credit Facility, paid $1,080,976 toward the LOC outstanding balance, related interest of $255,712, and received net proceeds of $548,500 from the issuance of Shares.

Capital Resources

The Company's major commitments over the next 12 months are repayment of trade and other payables. Given the number of obligations and project tasks the Company has in progress, the current cash balance is inadequate to fund operations. Management believes the Company is able to raise capital by means of equity or debt financing, or through other avenues available to mining companies. Management explores all possible avenues to determine the best course of action to acquire the required funds to meet obligations and to fund operations. Management is aware that market conditions, driven primarily by metal prices, may limit the Company's ability to raise additional funds. The Company is also required to maintain a number of financial covenants as part of its Credit Facility, which may limit the Company's ability to access future funding. These factors, and others, are considered when shaping the Company's capital management strategy.

The consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company's ability to continue as a going concern is dependent upon the continued support from its shareholders, the discovery of economically recoverable reserves, and the ability of the Company to obtain the financing necessary to complete development and achieve profitable operations in the future. The outcome of these matters cannot be predicted at this time.

Contractual Commitments

Prophecy's commitments related to mineral properties are disclosed in Note 14 to the Annual Financial Statements. Prophecy's other commitments are disclosed in Note 26 to the Annual Financial Statements.

Capital Risk Management

Prophecy considers its capital structure to consist of share capital, share 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 exploration and development of its projects and to pursue and support growth opportunities. The Board of Directors does not establish quantitative returns on capital criteria for management. The overall objectives for managing capital remained unchanged in 2016 from the prior comparative period.

Management is aware that market conditions, driven primarily by metal prices, may limit the Company's ability to raise additional funds. The Company is also required to maintain a number of financial covenants as part of its Credit Facility, which may limit the Company's ability to access future funding. These factors, and others, are considered when shaping the Company's capital management strategy.

8. CONTINGENCIES

The Company accrues for liabilities when they are probable and the amount payable can be reasonably estimated.

ASC Tax Claim

Pursuant to the terms of the acquisition agreement, Prophecy agreed to assume all liabilities of the Apogee Subsidiaries, including legal and tax liabilities associated with the Pulacayo Project. During Apogee's financial year ended June 30, 2014, it received notice from the Servicio de Impuestos Nacionales, the national tax authority in Bolivia, alleging that ASC Bolivia LDC Sucursal Bolivia, the Company's wholly-owned subsidiary, owed approximately Bs42,000,000 ($6,905,412) in taxes, interest and penalties relating to a historical tax liability in an amount originally assessed at approximately $760,000 in 2004, prior to Apogee acquiring the subsidiary in 2011. Apogee disputed the assessment and disclosed to the Company that it believed the notice was improperly issued. The Company continued to dispute the assessment and hired local legal counsel to pursue an appeal of the tax authority's assessment on both substantive and procedural grounds.

On May 26, 2015, the Company received a positive Resolution issued by the Bolivian Constitutional Court that among other things, declared null and void the previous Resolution of the Bolivian Supreme Court issued in 2011 (that imposed the tax liability on ASC Bolivia LDC Sucursal Bolivia) and sent the matter back to the Supreme Court to consider and issue a new Resolution. The Company plans to continue to vigorously defend its position and make submissions to the Supreme Court during the new hearing.

Red Hill Tax Claim

During the year ended December 31, 2014, Red Hill was issued a letter from the Sukhbaatar District Tax Division notifying it of the results of the Sukhbaatar District Tax Division's VAT inspection of Red Hill's 2009-2013 tax imposition and payments that resulted in validating a VAT credit of only MNT235,718,533 from Red Hill's claimed VAT credit of MNT2,654,175,507. Red Hill disagreed with the Sukhbaatar District Tax Division's findings as the tax assessment appeared to the Company to be unfounded. The Company disputed the Sukhbaatar District Tax Division's assessment and submitted a complaint to the Capital City Tax Tribunal. On March 24, 2015, the Capital City Tax Tribunal resolved to refer the matter back to the Sukhbaatar District Tax Division for revision and separation of the action between confirmation of Red Hill's VAT credit, and the imposition of the penalty/deduction for the tax assessment. The Sukhbaatar District Tax Division appealed the Capital City Tax Tribunal's resolution to the General Tax Tribunal office, but was denied on June 4, 2015 on procedural grounds. As a result, the Sukhbaatar District Tax Division implemented the Capital City Tax Tribunal's resolution on June 25, 2015, finding: (1) with respect to confirmation of Red Hill's VAT credit, that after inspection the amount was to be MNT235,718,533; and (2) with respect to the imposition of the penalty/deduction for the tax assessment, that no penalty was to be issued but that Red Hill's loss to be depreciated and reported to be MNT1,396,668,549 in 2010 and MNT4,462,083,700 in 2011. The Company continues to dispute the Sukhbaatar District Tax Division's assessment and delivered a complaint to Capital City Tax Tribunal on July 24, 2015. Due to the uncertainty of realizing the VAT balance, the Company has recorded an impairment charge for the full VAT balance at December 31, 2015. As there were no changes from January 1 to September 30, 2016, the impaired value of $Nil for the VAT receivable remains unchanged.

(Expressed in Canadian Dollars, except where indicated)

9. RELATED PARTY DISCLOSURES

Prophecy 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, CEO and Executive Chairman of Prophecy, provides management and consulting services to the Company.
- MaKevCo Consulting Inc., a private company 50% owned by Greg Hall, Director of Prophecy, provides consulting services to the Company.
- Sophir Asia Ltd., a private company controlled by Masa Igata, Director of Prophecy, provides consulting services to the Company.

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

		Three Months Ended September 30,			Nine Months Ended September 30,	
Related parties		**2016**		**2015**		**2016**		**2015**
Directors and officers	$	52,250	$	90,780	$	193,250	$	260,581
Linx Partners Ltd.		52,500		105,000		157,500		323,988
MaKevCo Consulting Inc.		3,800		6,300		13,000		27,019
Sophir Asia Ltd.		3,500		6,000		11,500		24,242
	$	112,050	$	208,080	$	375,250	$	635,830

The amounts due to related parties are non-interest bearing and are due upon demand.

On June 6, 2016, the Company issued 750,000 units at a value of $2.00 each to Mr. Lee, in satisfaction of $1,500,000 of indebtedness owed by the Company to Linx under the Credit Facility (see Note 10 to the interim consolidated financial statements for information regarding the Company's Credit Facility with Linx). Each Unit consists of one Share and one Warrant. Each Warrant entitles the holder to acquire an additional Share at a price of $4.00 per Share for a period of five years from the date of issuance.

On August 29, 2016, Mr. Lee acquired 60,000 units pursuant to the Placement for total consideration of $228,000. As a result of the above units for debt issuance, the Placement, and a further 17,900 Shares purchased through trading on the secondary market, Mr. Lee now beneficially owns and exercises control over an aggregate of 1,099,053 Shares representing an interest of approximately 23.09% of the Company's currently issued and outstanding Shares, 33.85% of the Company's Shares on a partially diluted basis assuming full exercise of all of Mr. Lee's Warrants only, and 34.80% of the Company's Shares on a fully diluted basis assuming exercise of all of the Company's outstanding Warrants.

The securities were acquired by Mr. Lee for investment purposes only, and not for purposes of exercising control or direction over the Company.

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

		Three Months Ended September 30,				Nine Months Ended September 30,		
Related parties		**2016**		**2015**		**2016**		**2015**
Consulting and management fees	$	28,500	$	107,700	$	85,500	$	235,133
Directors' fees		10,800		18,300		36,000		75,502
Mineral properties		39,000		15,300		117,000		124,855
Salaries and benefits		33,750		66,780		136,750		200,340
	$	112,050	$	208,080	$	375,250	$	635,830

On January 13, 2016, the Company's directors and executive management agreed to temporarily:

(Expressed in Canadian Dollars, except where indicated)

- reduce directors fees by 50% and defer payment of such reduced directors fees until such time as the Company's cash flow situation permits it to pay such reduced directors fees, and/or to fully or partially restore their directors fees to their original levels;
- reduce the CEO's consulting fees by 50% and defer payment of such reduced consulting fees until such time as the Company's cash flow situation permits it to pay such reduced consulting fees, and/or to fully or partially restore the CEO's consulting fees to their original level; and
- reduce other executive officers' salaries by 17% – 50% until such time as the Company's cash flow situation permits it to fully or partially restore their salaries to their original levels.

During the nine months ended September 30, 2016, the Company's officers, directors and CEO received a portion of their reduced compensation in the form of Shares (Note 11(b) to the interim consolidated financial statements). During this period, the CEO also received his reduced consulting fees for the month of September 2016 in the form of cash.

As at September 30, 2016, amounts due to related parties (excluding deferred compensation) totaled of $16,559 (December 31, 2015 – $129,891) and was comprised of $Nil (December 31, 2015 - $54,060) for director fees, $15,000 (December 31, 2015 - $2,400) for consulting fees, $Nil (December 31, 2015 - $9,600) for managing mineral properties, $1,559 (December 31, 2015 - $63,831) for salaries and reimbursable expenses.

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

Key Management Personnel	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Salaries and short term benefits	$ 67,500	$ 67,670	$ 136,750	$ 202,667
Share-based payments	107,889	97,118	137,070	523,868
	$ 175,389	$ 164,788	$ 273,819	$ 726,535

10. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's consolidated financial statements are prepared in accordance with IFRS as issued by the IASB. The Company followed the same accounting policies and methods of computation in the Annual Financial Statements for the three and nine months ended September 30, 2016. The significant accounting policies applied and recent accounting pronouncements are described in Notes 4 and 6 to the Annual Financial Statements.

In preparing the condensed consolidated interim financial statements in accordance with IFRS, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Areas requiring the use of estimates include the rates of amortization for property and equipment, the useful life and recoverability of long-lived assets, the recoverability of accounts receivable, determination of environmental obligation provision for closure and reclamation, accounts payable and accrued liabilities, the assumptions used in the determination of the fair value of financial instruments and share-based payments, and the determination of the recoverability of deferred income tax assets bases its estimates and assumptions on current and various other factors that it believes to be reasonable under the circumstances. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

Readers are encouraged to read the significant judgements, estimates and assumptions as described in Note 5 to the Annual Financial Statements.

11. ACCOUNTING CHANGES AND RECENT ACCOUNTING PRONOUNCEMENTS

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its financial statements.

12. FINANCIAL INSTRUMENTS AND RELATED RISKS

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

Financial Instruments

A description of financial instruments is included in Note 21 to the Annual Financial Statements. There were no changes to the method of fair value measurement of financial assets and financial liabilities during the period.

Related Risks

(a) Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its financial obligations as they fall due. The Company manages liquidity risk by preparing cash flow forecasts of upcoming cash requirements. As at September 30, 2016, the Company had a cash balance of $266,148 (December 31, 2015 – $33,542) in order to meet short-term business requirements.

As at September 30, 2016, the Company had accounts payable and accrued liabilities of $2,061,037 (December 31, 2015 - $2,637,557) which have contractual maturities of 90 days or less, and the Credit Facility payment of $1,056,413 (December 31, 2015 - $1,889,462). The Company is seeking financing in order to be in a position to satisfy its current liabilities.

Additional sources of funding, which may not be available on favourable terms, if at all, include: share equity and debt financings; coal sales from stockpiled inventory; equity, debt or property level joint ventures with power project and coal property developers; and sale of interests in existing assets.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk primarily associated with cash and cash equivalents and receivables, net of allowances. The significant concentration of credit risk is situated in Mongolia. The carrying amount of assets included on the statements of financial position represents the maximum credit exposure.

(c) Market risk

The significant market risks to which the Company is exposed are interest rate risk, foreign currency risk, and commodity and equity price risk.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company drew down $1,056,413 on its Credit Facility, bearing an interest rate of 18% per annum. Due to the short-term nature of these financial instruments, and the fact that the Company's line of credit bears interest at a fixed rate, fluctuations in market rates do not have a significant impact on the fair values or future cash flows of the financial instruments as of September 30, 2016. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

(ii) Foreign currency risk

The Company has exploration and development projects in Mongolia and Bolivia and undertakes transactions in various foreign currencies. The Company is therefore exposed to foreign currency risk arising from transactions denominated in a foreign currency and the translation of financial instruments denominated in US dollars, Mongolian tugrik, and Bolivian boliviano into its functional and reporting currency, the Canadian dollar.

Based on the above, net exposures as at September 30, 2016, with other variables unchanged, a 10% (December 31, 2015 – 10%) strengthening (weakening) of the Canadian dollar against the Mongolian tugrik would impact net loss with other variables unchanged by $93,400. A 10% strengthening (weakening) of the Canadian dollar against the Bolivian boliviano would impact net loss with other variables unchanged by $690,440. A 10% (December 31, 2015 – 10% strengthening (weakening) of the US dollar against the Canadian dollar would impact net loss with other variables unchanged by $40,670. The Company currently does not use any foreign exchange contracts to hedge this currency risk.

(iii) Commodity and equity price risk

Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. Commodity prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for these commodities, the level of interest rates, the rate of inflation, investment decisions by large holders of commodities including governmental reserves and stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments. The Company closely monitors commodity prices, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in value may be significant.

13. RISKS AND UNCERTAINTIES

Readers should carefully consider the risks and uncertainties described in the Company's most recently filed AIF "Risk Factors" page 77 which is available under the Company's SEDAR profile at www.sedar.com. Additional risks not currently known to the Company, or that the Company currently deems immaterial, may also impair the Company's operations. If any of the foregoing risks actually occur, the Company's business, financial condition and operating results could be adversely affected.

14. DISCLOSURE CONTROLS AND PROCEDURES

Design of Internal Controls over Financial Reporting

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail accurately and fairly reflect the transactions, acquisition and disposition of assets and liabilities;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with IFRS and that receipts and expenditures are being made only in accordance with the authorization of management and directors of Prophecy; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets, and incurrence of liabilities, that could have a material effect on the financial statements.

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting using the criteria set forth in the *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the

Treadway Commission. Based on this assessment, management concluded that the Company's internal control over financial reporting was effective as of September 30, 2016.

Changes in internal control over financial reporting

There have been no changes in the Company's internal control over financial reporting during the nine months ended September 30, 2016, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations of controls and procedures

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, believe that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgements in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

15. DISCLOSURE OF OUTSTANDING SHARE DATA

As at the date of this MD&A, the Company had a total of:

- 4,760,778 Shares outstanding with recorded value of $156,379,025;
- 460,814 stock options outstanding with a weighted average exercise price of $6.42 and exercisable to purchase one Share at prices ranging from $2.00 to $28.00 and which expire between June 2017 and June 2021; and
- 1,348,060 Warrants outstanding with a weighted average exercise price of $4.68 and exercisable to purchase one Share at prices ranging from $4.00 to $7.00 and which expire between June 2017 and August 2021.

16. OFF-BALANCE SHEET ARRANGEMENTS

During the nine months ended September 30, 2016, Prophecy was not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources of Prophecy.

Condensed Interim Consolidated Financial Statements For the three and nine month period ended September 30, 2016

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

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

As at	Notes		September 30, 2016		December 31, 2015
Assets					
Current assets					
Cash	5	$	266,148	$	33,542
Receivables			172,513		400,289
Prepaid expenses			136,434		203,258
Available-for-sale investment	6		176,000		-
			751,095		637,089
Non-current assets					
Restricted cash equivalents	5		-		34,500
Reclamation deposits			27,554		27,554
Property and equipment	7		993,146		1,307,483
Mineral properties	8		26,104,441		25,296,210
		$	27,876,236	$	27,302,836
Liabilities and Equity					
Current liabilities					
Accounts payable and accrued liabilities	9	$	2,061,037	$	2,637,557
Credit facilities	10		1,056,413		1,889,462
			3,117,450		4,527,019
Non-current liabilities					
Provision for closure and reclamation			208,993		208,993
Tax provision	17		6,905,413		7,287,855
			10,231,856		12,023,867
Equity					
Share capital	11		156,379,025		153,281,631
Reserves			21,391,737		21,205,698
Deficit			(160,126,382)		(159,208,360)
			17,644,380		15,278,969
		$	27,876,236	$	27,302,836

Approved on behalf of the Board:

"John Lee"	***"Greg Hall"***
John Lee, Director	Greg Hall, Director

Nature of operations and going concern (Note 1)
Contingencies (Note 17)
Events after the reporting date (Note 18)

See accompanying notes to the consolidated financial statements.

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

	Notes	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
General and Administrative Expenses					
Advertising and promotion		$ 7,730	$ 58,899	$ 40,065	$ 118,263
Consulting and management fees		28,983	77,699	109,938	228,264
Depreciation and accretion		2,677	15,506	29,292	44,720
Director fees		10,800	18,300	36,000	74,202
Insurance		14,467	18,551	42,280	64,369
Office and administration		33,233	34,959	99,032	111,071
Professional fees		1,638	24,513	26,643	111,573
Salaries and benefits		66,005	85,368	181,985	301,437
Share-based payments	11	68,181	77,469	123,461	555,850
Stock exchange and shareholder services		13,244	35,483	104,772	142,088
Travel and accommodation		60,385	35,168	67,904	101,620
		(307,343)	(481,915)	(861,372)	(1,853,457)
Other Items					
Costs in excess of recovered coal		(71,776)	(470,605)	(205,811)	(1,063,705)
Finance cost	10	(1,571)	-	(316,894)	-
Foreign exchange gain/(loss)		(382,865)	169,080	530,962	(801,956)
Gain on sale of available-for-sale investment	6	-	-	59,698	-
Interest expense	10	(45,810)	(63,402)	(210,957)	(123,139)
Gain/(loss) on sale of equipment		(36,926)	15,186	(108,727)	(96,177)
Recovery on mineral property sale	8	195,079	-	195,079	-
		(343,869)	(349,741)	(56,650)	(2,084,977)
Net Loss for Period		(651,212)	(831,656)	(918,022)	(3,938,434)
Comprehensive Loss for Period		$ (651,212)	$ (831,656)	$ (918,022)	(3,938,434)
Loss Per Common Share, basic and diluted		$ (0.14)	$ (0.26)	$ (0.23)	$ (1.25)
Weighted Average Number of Common Shares Outstanding	11	4,579,016	3,243,558	4,020,901	3,161,528

See accompanying notes to the consolidated financial statements.

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

	Numbers of shares	Share Capital	Reserves	Deficit	Total
December 31, 2014	2,518,786	$ 147,947,292	$ 20,502,885	$ (151,385,829)	$ 17,064,348
Shares issued for acquisition, net of share issue costs	600,000	3,900,000	-	-	3,900,000
Private placements, net of share issue costs	111,200	548,500			548,500
Debt Settlement	125,742	628,707	-	-	628,707
Share-based payments	-	-	634,060	-	634,060
Loss for the period	-	-	-	(3,938,434)	(3,938,434)
September 30, 2015	3,355,728	$ 153,024,499	$ 21,136,945	$ (155,324,263)	$ 18,837,181
December 31, 2015	3,427,475	$ 153,281,631	$ 21,205,698	$ (159,208,360)	$ 15,278,969
Private placements, net of share issue costs	282,735	942,746	10,183	-	952,929
Debt Settlement	1,050,568	2,154,648	-	-	2,154,648
Share-based payments	-	-	175,856	-	175,856
Loss for the period	-	-	-	(918,022)	(918,022)
September 30, 2016	4,760,778	$ 156,379,025	$ 21,391,737	$ (160,126,382)	$ 17,644,380

See accompanying notes to the consolidated financial statements

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

	Nine Months Ended September 30, 2016	2015
Operating Activities		
Net loss for period	$ (918,022)	$ (3,938,434)
Adjustments to reconcile net loss to net cash flows:		
Depreciation and accretion	192,621	44,720
Share-based payments	123,461	555,850
Costs in excess of recovered coal	205,811	1,063,705
Finance cost	316,894	-
Interest costs	210,957	123,139
Loss on sale of equipment	108,727	96,177
Gain on sale of available-for-sale investment	(59,698)	-
Recovery on mineral property sale	(195,079)	-
	(14,328)	(2,054,843)
Working capital adjustments		
Receivables	227,776	(430,097)
Prepaid expenses	66,824	175,281
Inventory	-	550,502
Accounts payable and accrued liabilities	(1,072,236)	885,410
	(777,636)	1,181,096
Cash Used in Operating Activities	(791,964)	(873,747)
Investing Activities		
Acquisition of Apogee Subsidiaries, net of cash acquired (Note 3)	-	(237,224)
Cash received from GIC redemption	34,500	-
Property and equipment expenditures	-	(1,213,847)
Proceeds from sale of property and equipment	12,990	2,926,477
Mineral property expenditures	(163,394)	(1,263,609)
Proceeds from sale of available-for-sale investment	59,698	-
Cash Provided by Investing Activities	(56,206)	211,797
Financing Activities		
Credit facilities paid	(198,787)	(1,080,976)
Funds borrowed under credit facility	337,887	1,500,000
Interest paid	(11,253)	(255,712)
Proceeds from share issuance, net of share issue costs	952,929	548,500
Cash Provided by (Used in) Financing Activities	1,080,776	711,812
Net Decrease in cash	232,606	49,862
Cash - beginning of period	33,542	200,994
Cash - end of period	$ 266,148	$ 250,856

Supplemental cash flow information (Note 16)

See accompanying notes to the consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

Prophecy Development Corp. ("**Prophecy**" or the "**Company**") is incorporated under the laws of the province of British Columbia, Canada and is engaged in exploring and developing mining properties and energy projects in Bolivia, Mongolia, and Canada. The Company's principal assets are its 100% interest in mining licenses in the Ulaan Ovoo property and Chandgana properties in Mongolia and in the Pulacayo Project in Bolivia.

These unaudited condensed interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. The Company incurred a net loss of $918,022 during the nine months ended September 30, 2016 and as of that date the Company's deficit was $160.1 million.

The business of mineral exploration involves a high degree of risk and there can be no assurance that the Company's current operations, including exploration programs, will result in profitable mining operations. The recoverability of the carrying value of mineral properties, and property and equipment interests and the Company's continued on going existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, the ability of the Company to raise additional sources of funding, and/or, alternatively, upon the Company's ability to dispose of some or all of its interests on an advantageous basis. Additionally, the current capital markets and general economic conditions are significant obstacles to raising the required funds. These conditions may cast significant doubt upon the Company's ability to continue as a going concern.

The Company is actively seeking additional sources of funding, which may not be available at favourable terms, if at all. They include: equity and debt financings; coal sales; equity, debt or property level joint ventures with power project and coal property developers; and sales of interests in existing assets. Because of the Company's need to conserve cash, all discretionary spending has been placed on hold.

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern that these uncertainties are material and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore to realize its assets and discharge its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements. These adjustments could be material.

Share Consolidation

On June 7, 2016, the Company completed a consolidation of its issued and outstanding common shares on the basis of 100 pre-consolidation common shares, options and warrants to one (1) post consolidation common share, option and warrant. All information relating to basic and diluted loss per share, issued and outstanding common shares, share options, and warrants in these consolidated financial statements have been adjusted retrospectively to reflect the share consolidation.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting. 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, 2015. 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, 2015 ("**Annual Financial Statements**").

These unaudited condensed interim consolidated financial statements were approved and authorized for issue by the Audit Committee on November 10, 2016.

(b) Significant accounting policies

These interim financial statements follow the same accounting policies and methods of application as the Annual Financial Statements. Accordingly, they should be read in conjunction with the Annual Financial Statements.

(c) Use of 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.

(d) New accounting standards issued but not yet effective

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its financial statements.

3. ACQUISITION

On January 2, 2015, the Company completed the acquisition of 100% of Apogee Silver Ltd.'s ("**Apogee**") interest in ASC Holdings Limited and ASC Bolivia LDC (which together, hold ASC Bolivia LDC Sucursal Bolivia, which in turn, holds Apogee's joint venture interest in the Pulacayo Paca silver-lead-zinc mining project in Bolivia (the "**Pulacayo Project**")) and Apogee Minerals Bolivia S.A. (collectively, the "**Apogee Subsidiaries**") by paying to Apogee $250,000 in cash and issuing to Apogee 60 million Prophecy Common shares (the "**Consideration Shares**"). The Company also agreed, pursuant to the terms of the share purchase agreement it entered into with Apogee on November 3, 2014, as amended (the "**Agreement**"), to assume all liabilities of the Apogee Subsidiaries. Apogee agreed to forgive, waive and discharge the intercompany debt owing by Apogee Minerals Bolivia S.A. to Apogee pursuant to the terms of the Agreement.

(Expressed in Canadian Dollars) (Unaudited)

3. ACQUISITION (cont'd...)

The Consideration Shares have been deposited into escrow pursuant to an escrow agreement, which allows for the release of the Consideration Shares over time, when the Company's Common shares trading on the Toronto Stock Exchange (the "**TSX**") reach certain price levels or in the face of certain major triggering events. The escrow agreement also provides for a standstill on the voting of the Consideration Shares while they are held in escrow, and to not vote the released Consideration Shares against the Company's management so long as Prophecy continues to be engaged in its current business.

The acquisition of the Apogee Subsidiaries has been accounted for as an asset acquisition as their activities at the time of the acquisition consisted of mineral properties under care and maintenance. The consideration was allocated based on the fair value of the assets acquired and liabilities assumed.

The purchase price of $4,150,000 consisted of the following:

Cash consideration	$	250,000
Fair value of Consideration Shares		3,900,000
Purchase price	$	4,150,000

The purchase price allocation is as follows:

Cash and cash equivalents	$	12,776
Property & equipment		862,900
Mineral properties		9,652,598
Accounts payable		(6,378,274)
Net assets acquired	$	4,150,000

4. SEGMENTED INFORMATION

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

	September 30, 2016			
	Canada	Mongolia	Bolivia	Total
Reclamation deposits	$ 6,500	$ 21,054	$ -	$ 27,554
Property and equipment	24,100	403,953	565,093	993,146
Mineral properties	-	14,298,612	11,805,829	26,104,441
	$ 30,600	$ 14,723,619	$ 12,370,922	$ 27,125,141

	December 31, 2015			
	Canada	Mongolia	Bolivia	Total
Reclamation deposits	$ 6,500	$ 21,054	$ -	$ 27,554
Property and equipment	81,128	557,128	669,227	1,307,483
Mineral properties	-	14,180,807	11,115,403	25,296,210
	$ 87,628	$ 14,758,989	$ 11,784,630	$ 26,631,247

(Expressed in Canadian Dollars) (Unaudited)

5. CASH AND RESTRICTED CASH EQUIVALENTS

Cash and restricted cash equivalents of Prophecy are comprised of bank balances and a guaranteed investment certificate which can be readily converted into cash without significant restrictions, changes in value or penalties. The carrying amounts of cash and cash equivalents approximate fair value.

	September 30, 2016	December 31, 2015
Cash	$ 266,148	$ 33,542
Restricted Cash Equivalents	$ -	$ 34,500

6. AVAILABLE-FOR-SALE INVESTMENTS

Pursuant to the plan of arrangement and consolidation in share capital in the acquisition of Wellgreen Platinum Ltd. shares ("**Wellgreen Platinum**") in June 2011, the Company acquired 22,500,000 and reserved 4,417,643 Wellgreen Platinum's issued and outstanding common shares for distribution to option and warrant holders of the Company. Pursuant to the plan of arrangement each option and warrant holder of Prophecy Development as at June 9, 2011 will, upon the exercise of their Prophecy Development 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 the Company for each whole option or warrant of the Company 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 the Company. During the nine months ended September 30, 2016, a total of 335,266 of remaining Wellgreen Platinum's reserved held in-trust common shares were returned back to the Company due to the expiry of applicable June 9, 2011 Options and Warrants. The Company sold these released Wellgreen Platinum's common shares for proceeds of $59,698 which was reflected on the consolidated statement of operations and comprehensive loss. At September 30, 2016, there were Nil reserved Wellgreen Platinum shares held in-trust.

On September 22, 2016, the Company sold its 60% interest in the Okeover copper-molybdenum project located in British Columbia to Lorraine Copper Corp. ("**Lorraine**"). Under the terms of the agreement, Lorraine issued 2,200,000 common shares of Lorraine (valued at $0.08/share) to Prophecy and assumed Prophecy's $19,078 payment obligation to Eastfield Resources Ltd. under such parties' existing joint venture agreement. The Lorraine shares are subject to a hold period of four months plus one day. The 2,200,000 common shares of Lorraine represented approximately 9.6% of the issued and outstanding common shares of Lorraine at the acquisition date. The investment in Lorraine of $176,000 is classified as available-for-sale and is measured at fair value with changes in fair value recognized in other comprehensive income.

(Expressed in Canadian Dollars) (Unaudited)

7. PROPERTY AND EQUIPMENT

	Computer Equipment	Furniture & Equipment	Vehicles	Computer Software	Leasehold Improvements	Mining Equipment	Total
Cost							
Balance, December 31, 2014	$ 155,837	$ 373,217	$ 787,308	$ 197,813	$ 172,818	$ 6,248,390	$ 7,935,383
Additions	7,716	40,386	33,858	-	-	814,798	896,758
Disposals	(1,594)	(24,670)	(361,937)	-	-	(5,489,090)	(5,877,291)
Balance, December 31, 2015	$ 161,959	$ 388,933	$ 459,229	$ 197,813	$ 172,818	$ 1,574,098	$ 2,954,850
Accumulated depreciation							
Balance, December 31, 2014	$ 115,210	$ 207,303	$ 478,015	$ 135,684	$ 125,653	$ 2,511,536	$ 3,573,401
Depreciation for year	21,641	40,723	89,028	62,129	9,433	$ 703,823	926,777
Disposals	(939)	(17,159)	(236,698)	-	-	(2,598,015)	(2,852,811)
Balance, December 31, 2015	$ 135,912	$ 230,867	$ 330,345	$ 197,813	$ 135,086	$ 617,344	$ 1,647,367
Carrying amount							
At December 31, 2014	$ 40,627	$ 165,914	$ 309,293	$ 62,129	$ 47,165	$ 3,736,854	$ 4,361,982
At December 31, 2015	$ 26,047	$ 158,066	$ 128,884	$ -	$ 37,732	$ 956,754	$ 1,307,483

	Computer Equipment	Furniture & Equipment	Vehicles	Computer Software	Leasehold Improvements	Mining Equipment	Total
Cost							
Balance, December 31, 2015	$ 161,959	$ 388,933	$ 459,229	$ 197,813	$ 172,818	$ 1,574,098	$ 2,954,850
Additions	-	-	-	-	-	-	-
Disposals	(46,349)	(134,279)	-	-	(172,818)	(14,532)	(367,978)
Balance, September 30, 2016	$ 115,610	$ 254,654	$ 459,229	$ 197,813	$ -	$ 1,559,566	$ 2,586,872
Accumulated depreciation					-		
Balance, December 31, 2015	$ 135,912	$ 230,867	$ 330,345	$ 197,813	$ 135,086	$ 617,344	$ 1,647,367
Depreciation for period	6,644	6,521	20,933	-	-	158,523	192,621
Disposals	(38,208)	(62,749)	-	-	(135,086)	(10,219)	(246,262)
Balance, September 30, 2016	$ 104,348	$ 174,639	$ 351,278	$ 197,813	$ -	$ 765,648	$ 1,593,726
Carrying amount							
At December 31, 2015	$ 26,047	$ 158,066	$ 128,884	$ -	$ 37,732	$ 956,754	$ 1,307,483
At September 30, 2016	$ 11,262	$ 80,015	$ 107,950	$ -	$ -	$ 793,918	$ 993,146

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

Ulaan Ovoo Property

In November 2005, Prophecy entered into a letter of intent with Ochir LLC that set out the terms to acquire a 100% interest in the Ulaan Ovoo 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 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 was issued to a third party on the acquisition.

In March 2010, Prophecy 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. In April 2010, Prophecy exercised the option and a total of $1,570,000 was capitalized as acquisition costs of the property.

Pre-commercial operations for the period from commencement in November 2010 until December 31, 2014, along with project exploration and development costs were capitalized to 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. At December 31, 2014, the Company assessed the recoverable amount of the Ulaan Ovoo property and concluded that the deferred exploration costs were impaired and wrote them off.

The Ulaan Ovoo property ceased pre-commercial operations in June 2015. Modest sales of coal from existing stockpiles have been recorded against costs incurred at the mine, classified as costs in excess of recovered coal on the consolidated statement of operations and comprehensive loss.

As there were no benchmark or market changes from January 1 to September 30, 2016, the impaired value of $Nil for deferred development costs remains unchanged.

(Expressed in Canadian Dollars) (Unaudited)

8. MINERAL PROPERTIES

	Chandgana Tal	Khavtgai Uul	Pulacayo	Total
Balance, December 31, 2015	$11,040,916	$3,139,891	$11,115,403	$25,296,210
Additions:				
Acquisition cost	$ -	$ -	$ -	$ -
Deferred exploration costs:				
Licenses, power plant application	53,954	27,561	4,970	86,485
Geological core and consulting	27,809	-	123,335	151,144
Personnel, camp and general	4,241	4,240	562,121	570,602
	86,004	31,801	690,426	808,231
Balance, September 30, 2016	$11,126,920	$3,171,692	$11,805,829	$26,104,441

On September 22, 2016, the Company sold its 60% interest in the OK (Okeover) copper-molybdenum project located in British Columbia to Lorraine Copper Corp. ("**Lorraine**"). Under the terms of the agreement, Lorraine issued 2,200,000 common shares of Lorraine (valued at $0.08/share) to Prophecy and assumed Prophecy's $19,078 payment obligation to Eastfield Resources Ltd. under such parties' existing joint venture agreement. Prophecy will additionally be entitled to receive 30% of any payments or proceeds resulting from third party agreements related to the project entered into within five years, which payments shall be limited to a maximum amount payable to Prophecy, of $1,000,000.

At December 31, 2014, due to market conditions, the Company impaired the value of the Okeover property to $Nil. Upon completion of the sale, the Company recorded a mineral property recovery of $195,079 in the statement of operations and comprehensive loss.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities of the Company consist of amounts outstanding for trade and other purchases relating to development and exploration, along with administrative activities. The usual credit period taken for trade purchases is between 30 to 90 days.

	September 30, 2016	December 31, 2015
Current liabilities		
Trade accounts payable	$ 1,979,798	$ 2,533,557
Accrued liabilities	81,239	104,000
	$ 2,061,037	$ 2,637,557

10. CREDIT FACILITIES

In order to meet interim working capital requirements to fund the Company's business operations and financial commitments, the Company arranged a revolving credit facility with Linx Partners Ltd. ("**Linx**"), a private company wholly-owned and controlled by John Lee, Director, CEO and Executive Chairman of the Company by entering into an agreement dated March 12, 2015 (the "**Credit Facility**"). The Credit Facility had a maximum principal amount available for advance of $1.5 million, a two year term (formerly one year, but amended on May 5, 2015 and approved by the TSX) with an option to extend it for any number of subsequent one-year terms subject to TSX approval, and bears a simple interest rate of 18% per annum.

10. CREDIT FACILITIES (cont'd…)

On February 24, 2016, the Company entered into an agreement (the "**Second Amendment**") to increase and amend the Credit Facility. The previous maximum principal amount of $1.5 million available to the Company under the Credit Facility will be increased with the Second Amendment to $2.5 million. The Credit Facility, will fund Prophecy's ongoing business operations, bears an interest rate of 1.5% per month and is secured by promissory notes and a general security agreement.

A 5% "drawdown" fee will be applicable to amounts advanced over and above the original and outstanding $1.5 million advanced under the Credit Facility, at the time of advance. In consideration of a bonus of 20% of the total amounts advanced under the Credit Facility, as of November 30, 2015 (the "**Bonus**"), Linx has agreed to postpone any repayments due under the Credit Facility, until the earlier of October 1, 2016, or such time as the Company is in a reasonable financial position to repay all or a portion of the amounts owing, and remove the requirement for the Company to pay any 20% penalties as a result of any future failure to repay any amounts when due under the terms of the Credit Facility.

Including the Bonus and "drawdown" fee, the Credit Facility, carries an effective annual interest rate of 34.5%. The "drawdown" fee, Bonus and all interest payable will be accrued and added to the maximum principal amount as they are incurred.

On March 30, 2016, the Company entered into a Debt Settlement Agreement with Linx and Mr. Lee pursuant to which, the Company agreed, subject to TSX and shareholder approval, which was obtained at the Annual General Meeting on June 2, 2016 to issue 750,000 units (the "**Units**") to Mr. Lee, in satisfaction of $1,500,000 of indebtedness owed by the Company to Linx under the Credit Facility. Each Unit consists of one Common share and one Share purchase warrant (a "**Linx Warrant**"). Each Linx Warrant entitles the holder to acquire an additional Share at a price of $4.00 per Share for a period of five years from the date of issuance.

As at September 30, 2016, the outstanding balance of the Credit Facility was $1,056,413 including interest payable of $401,633. For the nine months ended September 30, 2016, the Company recorded an interest expense of $210,957 and finance cost of $316,894 which included Bonus of $300,000 and draw-down fees of $16,894.

During nine months ended September 30, 2016, the Company fully repaid and closed out the USD $1.5 million line of credit with the Trade and Development Bank of Mongolia ("**LOC**"). As at September 30, 2016, the outstanding balance of the LOC was $Nil (December 31, 2015 - $198,787).

11. SHARE CAPITAL

(a) Authorized

The authorized share capital consists of an unlimited number of common shares without par value (the "**Shares**"). There are no authorized preferred shares. On June 7, 2016, the Company completed a consolidation of its issued and outstanding common shares on the basis of 100 pre-consolidation common shares, options and warrants to one (1) post consolidation common share, option and warrant. Prior to the Share consolidation, the Company had 368,521,550 common shares issued and outstanding. Following the Share

11. SHARE CAPITAL (cont'd…)

(a) Authorized (cont'd…)

consolidation, the Company had 3,685,222 common shares issued and outstanding. The 100:1 share consolidation has been presented throughout the consolidated financial statements retroactively.

The exercise price and the number of common shares issuable under any of the Company's outstanding warrants and stock options have been proportionately adjusted to reflect the Share consolidation in accordance with their respective terms thereof. No fractional common shares were issued pursuant to the consolidation, and any fractional common shares that would otherwise be issued were round down to the nearest whole number.

At September 30, 2016, the Company had 4,760,778 (December 31, 2015 – 3,427,475) (post-consolidated) common shares issued and outstanding.

(b) Equity issuances

On January 25, 2016, the Company closed a non-brokered private placement (the "**First Placement**") involving the issuance of 80,000 units at a price of $2.50 per unit. Each unit consists of one Share and one Share purchase warrant. Each Share purchase warrant entitles the holder to acquire an additional Share at a price of $4.00 per Share for a period of five years from the date of issuance.

The Company paid in cash, finder's fees totaling $14,000 and issued 5,600 finder's Share purchase warrants which are exercisable at a price of $4.00 for a period of two years from the closing of the First Placement. Proceeds of the First Placement were expected to be used to develop Prophecy's mineral projects and for general working capital purposes.

During the nine months ended September 30, 2016, the Company entered into settlement and release agreements with certain of its officers, employees and consultants to settle various debts owing to them. Pursuant to the terms of those settlement and release agreements, the Company issued in summary 300,568 Shares to those officers, employees and consultants.

On June 6, 2016, the Company issued 750,000 Units at a value of $2.00 to Mr. Lee, in satisfaction of $1,500,000 of indebtedness owed by the Company to Linx under the Credit Facility. Each Unit consists of one Common share and one Linx Warrant. Each Linx Warrant entitles the holder to acquire an additional Share at a price of $4.00 per Share for a period of five years from the date of issuance.

On August 29, 2016, the Company closed a non-brokered private placement (the "**Second Placement**") involving the issuance of 202,735 units at a price of $3.80 per unit. Each unit consists of one Share and one half Share purchase warrant. Each Share purchase warrant entitles the holder to acquire an additional Share at a price of $4.40 per Share for a period of five years from the date of issuance. The Warrants will be subject to the following acceleration conditions:

(i) in the event that the closing price of the Shares trading on the TSX exceeds $8.80 per Share; or
(ii) the closing spot price of silver as quoted by KITCO Metals Inc. exceeds USD$28.00 per ounce,

(Expressed in Canadian Dollars) (Unaudited)

11. SHARE CAPITAL (cont'd…)

(b) Equity issuances (cont'd…)

in either instance, for a period of over 28 consecutive calendar days, at Prophecy's election, the exercise period may be reduced in which case, Warrant holders will only be entitled to exercise their Warrants for a period of 30 days from the date the Company either disseminates a press release or sends written notice to the Warrant holders advising them of the reduced and accelerated exercise period after which, the Warrants will expire.

The Shares will be subject to a minimum hold period of four months plus one day from the date of issuance.

The Company paid in cash, total finder's fees of $3,465 in connection with the Second Placement. Proceeds of the Placement are expected to be used to develop Prophecy's mineral projects and for general working capital purposes.

(c) Share purchase options

The following is a summary of the changes in Prophecy's stock options from December 31, 2014 to September 30, 2016:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2014	265,638	$13.00
Granted	135,000	$5.00
Expired	(31,396)	$12.00
Cancelled	(25,500)	$23.00
Outstanding, December 31, 2015	343,742	$10.00
Granted	160,000	$2.00
Expired	(1,000)	$28.00
Forfeited	(37,928)	$21.85
Cancelled	(4,000)	$6.05
Outstanding, September 30, 2016	460,814	$6.42

(Expressed in Canadian Dollars) (Unaudited)

11. SHARE CAPITAL (cont'd…)

(c) Share purchase options (cont'd…)

As of September 30, 2016, the following Prophecy Share purchase options were outstanding:

Exercise Price	Expiry Date	Options Outstanding September 30, 2016	Options Outstanding December 31, 2015	Exercisable September 30, 2016	Unvested September 30, 2016
$2.00	June 2, 2021	160,000	-	20,000	140,000
$5.00	June 22, 2020	32,800	33,500	20,500	12,300
$5.00	April 7, 2020	90,500	92,000	50,906	39,594
$6.50	May 1, 2019	54,750	55,550	54,750	-
$8.00	January 9, 2019	-	1,000	-	-
$10.00	February 3, 2019	5,000	5,000	5,000	-
$10.50	January 27, 2019	51,500	51,500	51,500	-
$12.00	August 16, 2018	32,472	34,500	32,472	-
$13.00	July 22, 2018	2,500	2,500	2,500	-
$18.00	August 16, 2017	1,500	2,300	1,500	-
$18.00	September 24, 2017	3,750	3,750	3,750	-
$18.00	August 22, 2017	17,242	36,542	17,242	-
$25.00	June 1, 2017	100	100	100	-
$28.00	February 14, 2016	-	1,000	-	-
$28.00	June 18, 2017	8,700	24,500	8,700	-
		460,814	343,742	268,920	191,894

At September 30, 2016, the Company had 268,920 exercisable share purchase options outstanding (December 31, 2015 - 229,042) with the weighted average price of $8.84 (December 31, 2015 - $13). The nine months ended September 30, 2016, included $123,461 (2015 - $555,850) in share based payment costs related to stock options expensed as general and administrative expenses and $24,696 (2015 – $78,210) capitalized to mineral properties.

(d) Share purchase warrants

The following is a summary of the changes in Prophecy's share purchase warrants from December 31, 2014 to September 30, 2016 (see Note 11(b)):

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2014	157,666	$15.00
Issued	411,093	$6.00
Expired	(132,255)	$17.00
Outstanding, December 31, 2015	436,504	$6.00
Issued	936,967	$4.04
Expired	(25,411)	$10.00
Outstanding, September 30, 2016	1,348,060	$4.68

(Expressed in Canadian Dollars) (Unaudited)

11. SHARE CAPITAL (cont'd…)

(d) Share purchase warrants (cont'd…)

The value of $10,183 of 5,600 finder's warrants was included in share issue costs and determined using the Black-Scholes option pricing model using the following assumptions: a risk-free rate of 0.46%; warrant expected life of two years; expected volatility of 134%; and dividend yield of nil. No value was assigned to the warrants issued as part of the unit offering.

As of September 30, 2016, the following Prophecy share purchase warrants were outstanding:

Exercise price	Number of Warrants		Expiry date
	At September 30, 2016	At December 31, 2015	
$10.00	-	25,410	June 19, 2016
$7.00	111,200	111,200	September 30, 2020
$7.00	62,500	62,500	November 13, 2020
$7.00	2,625	2,625	November 13, 2017
$6.00	114,768	114,768	June 24, 2017
$5.00	120,000	120,000	May 22, 2020
$4.40	101,367	-	August 29, 2021
$4.00	80,000	-	January 25, 2021
$4.00	5,600	-	January 25, 2018
$4.00	750,000	-	June 2, 2021
	1,348,060	436,503	

12. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

The fair values of financial assets and financial liabilities approximate their carrying amounts in the condensed interim consolidated balance sheet. The Company does not offset financial assets with financial liabilities. There were no changes to the method of fair value measurement during the period.

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

	As at September 30, 2016	As at December 31, 2015
Fair value through profit or loss		
Cash	$ 266,148	$ 33,542
Restricted cash equivalents	-	34,500
Receivables	172,513	400,289
Available-for-sale investment	176,000	-
	$ 614,661	$ 468,331
Other financial liabilities		
Accounts payable and accrued liabilities	$ 2,061,037	$ 2,637,557
Credit facility	1,056,413	1,889,462
	$ 3,117,450	$ 4,527,019

13. FINANCIAL RISK MANAGEMENT DISCLOSURES

(a) Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its financial obligations as they fall due. The Company manages liquidity risk by preparing cash flow forecasts of upcoming cash requirements. As at September 30, 2016, the Company had a cash balance of $266,148 (December 31, 2015 – $33,542) in order to meet short-term business requirements.

At September 30, 2016, the Company had accounts payable and accrued liabilities of $2,061,037 (December 31, 2015 - $2,637,557), which have contractual maturities of 90 days or less and the Credit Facility payment of $1,056,413 (December 31, 2015 - $1,889,462). The Company is seeking financing in order to be in a position to satisfy its current liabilities.

Additional sources of funding, which may not be available on favourable terms, if at all, include: share equity and debt financings; coal sales from stockpiled inventory; equity, debt or property level joint ventures with power project and coal property developers; and sale of interests in existing assets. In the event that the Company is not able to obtain adequate additional funding to continue as a going concern, material adjustment would be required to both the carrying value and classification of assets and liabilities on the statement of financial position (Note 1).

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk primarily associated to cash and cash equivalents and receivables, net of allowances. The significant concentration of credit risk is situated in Mongolia. The carrying amount of assets included on the statements of financial position represents the maximum credit exposure.

(c) Market risk

The significant market risks to which the Company is exposed are interest rate risk, foreign currency risk, and commodity and equity price risk.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company drew down $1,056,413 on its Credit Facility, bearing an interest rate of 18% per annum. Due to the short-term nature of these financial instruments, and that the Company's line of credit bears interest at a fixed rate, fluctuations in market rates do not have a significant impact on the fair values or future cash flows of the financial instruments as of September 30, 2016. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

(ii) Foreign currency risk

The Company has exploration and development projects in Mongolia and Bolivia and undertakes transactions in various foreign currencies. The Company is therefore exposed to foreign currency risk arising from transactions denominated in a foreign currency and the translation of financial instruments denominated in US dollars,

13. FINANCIAL RISK MANAGEMENT DISCLOSURES (cont'd…)

(c) Market risk (cont'd…)

(ii) Foreign currency risk (cont'd…)

Mongolian tugrik, and Bolivian boliviano into its functional and reporting currency, the Canadian dollar.

Based on the above, net exposures as at September 30, 2016, with other variables unchanged, a 10% (December 31, 2015 – 10%) strengthening (weakening) of the Canadian dollar against the Mongolian tugrik would impact net loss with other variables unchanged by $93,400. A 10% strengthening (weakening) of the Canadian dollar against the Bolivian boliviano would impact net loss with other variables unchanged by $690,440. A 10% (December 31, 2015 – 10% strengthening (weakening) of the US dollar against the Canadian dollar would impact net loss with other variables unchanged by $40,670. The Company currently does not use any foreign exchange contracts to hedge this currency risk.

(iii) Commodity and equity price risk

Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. Commodity prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for these commodities, the level of interest rates, the rate of inflation, investment decisions by large holders of commodities including governmental reserves and stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments. The Company closely monitors commodity prices, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in value may be significant.

14. RELATED PARTY DISCLOSURES

Prophecy 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, CEO and Executive Chairman of Prophecy, provides management and consulting services to the Company.

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

- Sophir Asia Ltd., a private company controlled by Masa Igata, Director of Prophecy, provides consulting services to the Company

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

(Expressed in Canadian Dollars) (Unaudited)

14. RELATED PARTY DISCLOSURES (cont'd…)

Related parties	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Directors and officers	$ 52,250	$ 90,780	$ 193,250	$ 260,581
Linx Partners Ltd.	52,500	105,000	157,500	323,988
MaKevCo Consulting Inc.	3,800	6,300	13,000	27,019
Sophir Asia Ltd.	3,500	6,000	11,500	24,242
	$ 112,050	$ 208,080	$ 375,250	$ 635,830

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

Related parties	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Consulting and management fees	$ 28,500	$ 107,700	$ 85,500	$ 235,133
Directors' fees	10,800	18,300	36,000	75,502
Mineral properties	39,000	15,300	117,000	124,855
Salaries and benefits	33,750	66,780	136,750	200,340
	$ 112,050	$ 208,080	$ 375,250	$ 635,830

On January 13, 2016, the Company's directors and executive management agreed to temporarily:

- reduce directors fees by 50% and defer payment of such reduced directors fees until such time as the Company's cash flow situation permits it to pay such reduced directors fees, and/or to fully or partially restore their directors fees to their original levels;
- reduce the CEO's consulting fees by 50% and defer payment of such reduced consulting fees until such time as the Company's cash flow situation permits it to pay such reduced consulting fees, and/or to fully or partially restore the CEO's consulting fees to their original level;
- reduce other executive officers' salaries by 17% – 50% until such time as the Company's cash flow situation permits it to fully or partially restore their salaries to their original levels.

During the nine months ended September 30, 2016, the Company's officers, directors and CEO received a portion of their reduced compensation in the form of Shares (Note 11(b)). During this period, the CEO also received his reduced consulting fees for the month of September 2016 in the form of cash.

On June 6, 2016, the Company issued 750,000 Units at a value of $2.00 to Mr. Lee, in satisfaction of $1,500,000 of indebtedness owed by the Company to Linx under the Credit Facility (Note 10).

On August 29, 2016, Mr. Lee acquired 60,000 units pursuant to the Second Placement for total consideration of $228,000. As a result of the above units for debt issuance, the Second Placement, and a further 1,000 Shares purchased through trading on the secondary market, Mr. Lee now beneficially owns and exercises control over an aggregate of 1,070,953 Shares representing an interest of approximately 22.50% of the Company's currently issued and outstanding Shares, 33.85% of the Company's Shares on a partially diluted basis assuming full exercise of all of Mr. Lee's Warrants only, and 34.34% of the Company's Shares on a fully diluted basis assuming exercise of all of the Company's outstanding Warrants.

(Expressed in Canadian Dollars) (Unaudited)

14. RELATED PARTY DISCLOSURES (cont'd…)

As at September 30, 2016, amounts due to related parties (excluding deferred compensation) totaled of $16,559 (December 31, 2015 – $129,891) and was comprised of $Nil (December 31, 2015 - $54,060) for director fees, $15,000 (December 31, 2015 - $2,400) for consulting fees, $Nil (December 31, 2015 - $9,600) for managing mineral properties, $1,559 (December 31, 2015 - $63,831) for salaries and reimbursable expenses.

15. 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 September 30,		Nine Months Ended September 30,	
Key Management Personnel	2016	2015	2016	2015
Salaries and short term benefits	$ 67,500	$ 67,670	$ 136,750	$ 202,667
Share-based payments	107,889	97,118	137,070	523,868
	$ 175,389	$ 164,788	$ 273,819	$ 726,535

16. SUPPLEMENTAL CASH FLOW INFORMATION

	Nine Months Ended September 30,	
	2016	2015
Supplementary information		
Interest paid	$ 11,253	$ 255,712
Non-Cash Financing and Investing Activities		
Shares issued for assets acquisition	$ -	3,900,000
Shares issued to pay Credit Facility	$ 1,500,000	-
Shares issued to settle debt	$ 654,648	$ 628,707
Capitalized depreciation	$ (246,261)	$ 1,462,256
Capitalized interest	$ 11,253	$ 115,602
Property & equipment expenditures included in accounts payable	$ 1,955,383	$ 1,282,451
Mineral property expenditures included in accounts payable	$ 1,371,469	$ 627,623
Share-based payments capitalized in property and equipment	$ -	17,633
Share-based payments capitalized in mineral properties	$ 52,396	$ 60,577

17. CONTINGENCIES

ASC tax claim

Pursuant to the terms of the Agreement, Prophecy agreed to assume all liabilities of the Apogee Subsidiaries, including legal and tax liabilities associated with the Pulacayo Project. During Apogee's financial year ended September 30, 2014, it received notice from the Servicio de Impuestos Nacionales, the national tax authority in Bolivia, that ASC Bolivia LDC Sucursal Bolivia, the Company's wholly-owned subsidiary, owed approximately Bs42,000,000 ($6,905,412)

17. CONTINGENCIES (cont'd…)

in taxes, interest and penalties relating to a historical tax liability in an amount originally assessed at approximately $760,000 in 2004, prior to Apogee acquiring the subsidiary in 2011. Apogee disputed the assessment and disclosed to the Company that it believed the notice was improperly issued. The Company continued to dispute the assessment and hired local legal counsel to pursue an appeal of the tax authority's assessment on both substantive and procedural grounds.

On May 26, 2015, the Company received a positive Resolution issued by the Bolivian Constitutional Court that among other things, declared null and void the previous Resolution of the Bolivian Supreme Court issued in 2011 (that imposed the tax liability on ASC Bolivia LDC Sucursal Bolivia) and sent the matter back to the Supreme Court to consider and issue a new Resolution.

The Company plans to continue to vigorously defend its position and make submissions to the Supreme Court during the new hearing. Based on these developments, the tax claim amount of $6,905,412 was classified as non-current liabilities.

Red Hill tax claim

During the year ended December 31, 2014, Red Hill was issued a letter from the Sukhbaatar District Tax Division notifying it of the results of the Sukhbaatar District Tax Division's VAT inspection of Red Hill's 2009-2013 tax imposition and payments that resulted in validating VAT credits of only MNT235,718,533 from Red Hill's claimed a VAT credit of MNT2,654,175,507. Red Hill disagreed with the Sukhbaatar District Tax Division's findings as the tax assessment appeared to the Company to be unfounded. The Company disputed the Sukhbaatar District Tax Division's assessment and submitted a complaint to the Capital City Tax Tribunal. On March 24, 2015, the Capital City Tax Tribunal resolved to refer the matter back to the Sukhbaatar District Tax Division for revision and separation of the action between confirmation of Red Hill's VAT credit, and the imposition of the penalty/deduction for the tax assessment. The Sukhbaatar District Tax Division appealed the Capital City Tax Tribunal's resolution to the General Tax Tribunal office, but was denied on June 4, 2015 on procedural grounds. As a result, the Sukhbaatar District Tax Division implemented the Capital City Tax Tribunal's resolution on June 25, 2015, finding: (1) with respect to confirmation of Red Hill's VAT credit, that after inspection the amount was to be MNT235,718,533; and (2) with respect to the imposition of the penalty/deduction for the tax assessment, that no penalty was to be issued but that Red Hill's loss to be depreciated and reported to be MNT1,396,668,549 in 2010 and MNT4,462,083,700 in 2011. The Company continues to dispute the Sukhbaatar District Tax Division's assessment and delivered a complaint to Capital City Tax Tribunal on July 24, 2015. Due to the uncertainty of realizing the VAT balance, the Company has recorded an impairment charge for the full VAT balance at December 31, 2015. As there were no changes from January 1 to September 30, 2016, the impaired value of $Nil for the VAT receivable remains unchanged.

18. EVENTS AFTER THE REPORTING DATE

There were no significant events have occurred after September 30, 2016 to disclose.