Prophecy
Development Corp.

Annual Consolidated Financial Statements
For the years ended December 31, 2016 and 2015
(Expressed in Canadian Dollars)

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The annual audited consolidated financial statements (the "**Annual Financial Statements**"), the notes thereto, and other financial information contained in the accompanying Management's Discussion and Analysis ("**MD&A**") have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and are the responsibility of the management of Prophecy Development Corp. The financial information presented elsewhere in the MD&A is consistent with the data that is contained in the Annual Financial Statements. The Annual Financial Statements, where necessary, include amounts which are based on the best estimates and judgment of management.

In order to discharge management's responsibility for the integrity of the Annual Financial Statements, the Company maintains a system of internal accounting controls. These controls are designed to provide reasonable assurance that the Company's assets are safeguarded, transactions are executed and recorded in accordance with management's authorization, proper records are maintained and relevant and reliable financial information is produced. These controls include maintaining quality standards in hiring and training of employees, policies and procedures manuals, a corporate code of conduct and ethics and ensuring that there is proper accountability for performance within appropriate and well-defined areas of responsibility. The system of internal controls is further supported by a compliance function, which is designed to ensure that we and our employees comply with securities legislation and conflict of interest rules.

The Board of Directors is responsible for overseeing management's performance of its responsibilities for financial reporting and internal control. The Audit Committee, which is composed of non-executive directors, meets with management as well as the external auditors to ensure that management is properly fulfilling its financial reporting responsibilities to the Board who approve the Annual Financial Statements. The external auditors have full and unrestricted access to the Audit Committee to discuss the scope of their audits and the adequacy of the system of internal controls, and to review financial reporting issues.

The external auditors, Davidson & Company LLP, have been appointed by the Company's shareholders to render their opinion on the Annual Financial Statements and their report is included herein.

"John Lee"	"*Irina Plavutska*"
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John Lee, Interim Chief Executive Officer	Irina Plavutska, Chief Financial Officer
Vancouver, British Columbia	

March 29, 2017

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Prophecy Development Corp.

We have audited the accompanying consolidated financial statements of Prophecy Development Corp., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Prophecy Development Corp. as at December 31, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Prophecy Development Corp.'s ability to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Professional Accountants

March 29, 2017

PROPHECY DEVELOPMENT CORP.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

As at	Notes		December 31, 2016		2015
Assets					
Current assets					
Cash	9	$	21,648	$	33,542
Receivables	10		91,565		400,289
Prepaid expenses	11		200,526		203,258
Available-for-sale investment	12		176,000		-
			489,739		637,089
Non-current assets					
Restricted cash equivalents	9		-		34,500
Reclamation deposits			21,055		27,554
Property and equipment	13		917,607		1,307,483
Mineral properties	14		26,399,708		25,296,210
		$	27,828,109	$	27,302,836
Liabilities and Equity					
Current liabilities					
Accounts payable and accrued liabilities	15	$	2,658,018	$	2,637,557
Credit facilities	16		1,071,560		1,889,462
			3,729,578		4,527,019
Non-current liabilities					
Provision for closure and reclamation	17		242,347		208,993
Tax provision	27		7,060,691		7,287,855
			11,032,616		12,023,867
Equity					
Share capital	19		156,529,025		153,281,631
Reserves			21,482,133		21,205,698
Deficit			(161,215,665)		(159,208,360)
			16,795,493		15,278,969
		$	27,828,109	$	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)
Commitment (Note 26)
Contingencies (Note 27)
Events after the reporting date (Note 28)

See accompanying notes to the consolidated financial statements.

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

	Notes	Year Ended December 31, 2016	2015
General and Administrative Expenses			
Advertising and promotion		$ 50,125	$ 151,301
Consulting and management fees		215,438	299,804
Depreciation and accretion		65,175	128,448
Director fees		63,240	94,002
Insurance		55,756	81,620
Office and administration		119,595	137,834
Professional fees		122,230	225,977
Salaries and benefits		256,020	366,786
Share-based payments	19	197,889	596,260
Stock exchange and shareholder services		107,045	161,466
Travel and accommodation		81,974	150,112
		(1,334,487)	(2,393,610)
Other Items			
Costs in excess of recovered coal		(290,736)	(1,600,978)
Finance cost	16	(317,056)	-
Foreign exchange (loss)/gain		6,185	(1,463,185)
Gain on sale of available-for-sale investment	12	59,698	-
Interest expense	16	(258,640)	(192,349)
Impairment of inventory	13	-	(920,694)
Impairment of receivables and prepaids	10,11	-	(1,152,217)
Loss on sale of equipment	13	(67,348)	(99,498)
Recovery on mineral property sale	14	195,079	-
		(672,818)	(5,428,921)
Net Loss for Year		(2,007,305)	(7,822,531)
Comprehensive Loss for Year		$ (2,007,305)	(7,822,531)
Loss Per Common Share, basic and diluted		$ (0.48)	$ (2.47)
Weighted Average Number of Common Shares Outstanding		4,212,004	3,161,528

See accompanying notes to the consolidated financial statements.

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

	Numbers of shares		Share Capital		Reserves		Deficit		Total
December 31, 2014	2,518,793	$	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	173,700		782,532		5,468				788,000
Debt Settlement	134,981		651,807		-		-		651,807
Share-based payments	-		-		697,345		-		697,345
Loss for the year	-		-		-		(7,822,531)		(7,822,531)
December 31, 2015	3,427,474	$	153,281,631	$	21,205,698	$	(159,208,360)	$	15,278,969
December 31, 2015	3,427,474	$	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	1,097,444		2,304,648		-		-		2,304,648
Share-based payments	-		-		266,252		-		266,252
Loss for the year	-		-		-		(2,007,305)		(2,007,305)
December 31, 2016	4,807,653	$	156,529,025	$	21,482,133	$	(161,215,665)	$	16,795,493

See accompanying notes to the consolidated financial statements

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

	Year Ended December 31, 2016	2015
Operating Activities		
Net loss for year	$ (2,007,305)	$ (7,822,531)
Adjustments to reconcile net loss to net cash flows:		
Depreciation and accretion	343,551	962,409
Share-based payments	197,889	596,260
Gain on sale of available-for-sale investment	(59,698)	-
Impairment of inventory	-	920,694
Impairment of receivables and prepaids	-	1,152,217
Finance cost	317,056	-
Interest costs	258,640	192,349
Loss on sale of equipment	67,348	99,498
Recovery on mineral property sale	(195,079)	-
	(1,077,598)	(3,899,104)
Working capital adjustments		
Receivables	308,724	(506,879)
Prepaid expenses and reclamation deposits	9,231	220,631
Inventory	-	578,537
Accounts payable and accrued liabilities and tax provision	306,043	1,210,856
	623,998	1,503,145
Cash Used in Operating Activities	(453,600)	(2,395,959)
Investing Activities		
Acquisition of Apogee Subsidiaries, net of cash acquired (Note 7)	-	(237,224)
Cash received from GIC redemption	34,500	-
Disposition of property and equipment	-	(33,858)
Proceeds from sale of property and equipment	12,331	2,924,982
Mineral property expenditures	(712,901)	(1,483,334)
Proceeds from sale of available-for-sale investment	59,698	-
Cash Provided by (Used in) Investing Activities	(606,372)	1,170,566
Financing Activities		
Credit facilities paid	(234,714)	(1,089,430)
Funds borrowed under credit facility	341,116	1,500,000
Interest paid	(11,253)	(140,629)
Proceeds from share issuance, net of share issue costs	952,929	788,000
Cash Provided by Financing Activities	1,048,078	1,057,941
Net Decrease in cash	(11,894)	(167,452)
Cash - beginning of year	33,542	200,994
Cash - end of year	$ 21,648	$ 33,542

Supplemental cash flow information (Note 25)

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.

The Company maintains its registered and records office at #1610 – 409 Granville Street, Vancouver, B.C., Canada, V6C 1T2.

During the year ended December 31, 2016, the Company completed a consolidation of its issued and outstanding shares on a basis of 100:1 (Note 19).

These consolidated audited annual 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 $2 million for the year ended December 31, 2016 (December 31, 2015 - $7.8 million) and has a deficit of $161.2 million (December 31, 2015 - $159.2 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 and exploration 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.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards, ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**").

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires the Company's management to exercise judgment in applying the Company's accounting policies. The areas where significant judgments and estimates have been made in preparing these Annual Financial Statements and their effect are disclosed in Note 5.

These Annual Financial Statements have been prepared on a historical cost basis, except for financial instruments classified as available-for-sale and fair value through profit or loss ("**FVTPL**"), which are stated at their fair values. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The accounting policies set out in Note 6 have been applied consistently by the Company and its subsidiaries to all years presented.

(b) Approval of the financial statements

The Annual Consolidated Financial Statements were approved and authorized for issue by the Board of Directors on March 22, 2017.

(c) Functional Currency

The presentation currency is the Canadian dollar and the functional currency of the Company and its subsidiaries is the Canadian dollar, as this is the principal currency of the economic environment in which it operates.

3. BASIS OF CONSOLIDATION

(a) Subsidiaries

The Annual Financial Statements comprise the financial statements of the Company and its wholly owned and partially-owned subsidiaries as at December 31, 2016. Subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. Effects of transactions between related companies are eliminated on consolidation. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company. Accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

(Expressed in Canadian Dollars)

3. BASIS OF CONSOLIDATION (cont'd...)

The Company's the most significant subsidiaries at December 31, 2016 are presented in the following table:

Subsidiary	Location	Ownership Interest	Operations and Project Owned
0912601 B.C. Ltd.	Canada	100%	Titan property
Chandgana Coal LLC	Mongolia	100%	Chandgana properties
Prophecy Power Generation LLC	Mongolia	100%	Power plant project
Red Hill Mongolia LLC	Mongolia	100%	Ulaan Ovoo mine
Apogee Minerals Bolivia S. A.	Bolivia	98%	Pulacayo project
ASC Holdings Limited	Bolivia	100%	Pulacayo project

4. CHANGES IN ACCOUNTING POLICIES

The following standards have been published and are mandatory for the Company's annual accounting periods no earlier than January 1, 2018:

- IFRS 9 *'Financial Instruments'* – This standard was published in July 2014 and replaces the existing guidance in IAS39, '*Financial Instruments: Recognition and Measurement'*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the extent of the impact of the adoption of this standard.

- IFRS 15 *'Revenue from Contracts with Customers'* – This standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. This standard is effective for fiscal years beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect this standard to have a material impact on its financial statements.

- IFRS 16 *Leases* ("IFRS 16") - IFRS 16 replaces IAS 17 and applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to the current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. The Company plans to apply IFRS 16 at the date it becomes effective.

There are other new standards, amendments to standards and interpretations that have been published and are not yet effective. The Company believes they will have no material impact to its annual consolidated financial statements.

5. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of a company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

5.1 Significant Judgments

The significant judgments that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimation uncertainties (Annual financial statements 5.1.2), that have the most significant effect on the amounts recognized in the Annual Financial Statements include, but are not limited to:

(a) Functional currency determination

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

(b) Operating levels intended by management and valuation of property and equipment

Prior to reaching operating levels intended by management, costs incurred are capitalized as part of the costs of the related mineral property and proceeds from coal sales are offset against capitalized costs. Depletion of capitalized costs for a mineral property begins when operating levels intended by management have been reached. Management considers several factors in determining when a mineral property has reached the operating levels intended by management. The results of operations of the Company during the year ended December 31, 2016, presented in these Annual Financial Statements, have been impacted by management's determination that its Ulaan Ovoo mineral property, classified within property and equipment on the statement of financial position, did not reach the operating levels intended by management. The Company is unable to determine with certainty the extent of project changes and operational modifications that would be required to more fully realize on the potential value of the existing coal resources (Note 13).

(c) Economic recoverability and probability of future economic benefits of exploration, evaluation and development costs

Management has determined that exploratory drilling, evaluation, development and related costs incurred which have been capitalized are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping, prefeasibility and feasibility studies, assessable facilities, existing permits and life of mine plans.

Management has determined that during the year ended December 31, 2016, none of the Company's projects have reached technical feasibility and commercial viability and therefore remain within Mineral Properties on the Statement of Financial Position.

5. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS (cont'd...)

5.1 Significant Judgments (cont'd...)

(d) Impairment assessment of deferred exploration interests

The Company considers both external and internal sources of information in assessing whether there are any indications that mineral property interests are impaired. External sources of information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of mineral property interest. Internal sources of information the Company considers include the manner in which mineral properties and plant and equipment are being used or are expected to be used and indications of economic performance of the assets.

The outcome of ongoing exploration and evaluation, and therefore whether the carrying value of mineral properties will ultimately be recovered, is inherently uncertain. Management has assessed the value of the deferred exploration expenditure, and in their opinion, at December 31, 2016, no further impairment is necessary.

5.2 Estimates and Assumptions

The Company bases its estimates and assumptions on current and various other factors that it believes to be reasonable under the circumstances. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

The areas which require management to make significant estimates and assumptions in determining carrying values include, but are not limited to:

(a) Mineral reserves

The recoverability of the carrying value of the exploration and evaluation assets and mineral properties is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest;

(b) Depreciation

Significant judgment is involved in the determination of useful life and residual values for the computation of depreciation, depletion and amortization and no assurance can be given that actual useful lives and residual values will not differ significantly from current assumptions.

(c) Impairment

The carrying value of property and equipment is reviewed each reporting period to determine whether there is any indication of impairment. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired and an impairment loss is recognized in the consolidated statement of operations. The assessment of fair values, including those of the cash generating units (the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflow from other assets or groups of assets) ("**CGUs**") for purposes of testing goodwill, require the use of estimates and assumptions for recoverable production, long-term commodity prices, discount rates, foreign exchange rates, future capital requirements and operating performance. Changes in any of the assumptions or estimates used in determining the fair value of goodwill or other assets could impact the impairment analysis.

5. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS (cont'd...)

5.2 Estimates and Assumptions (cont'd…)

(d) Inventories

Coal stockpiles are valued at the lower of production cost and net realizable value. The costs of inventories are determined on a weighted average basis. Production cost includes direct and indirect labour, operating materials and supplies, transportation costs, and an applicable portion of operating overhead. Net realizable value is the expected average selling price of the finished product less the costs to get the product into saleable form and to the selling location.

Stockpile tonnages are verified by surveys. The allocation of costs to stockpiles and in-process inventories and the determination of net realizable value involve the use of estimates. There can be no assurance that actual results will not differ significantly from estimates used in the determination of the carrying value of inventories. During the year ended December 31, 2015, the Company recorded an impairment on inventory in the amount of $920,694. As there were no benchmark or market changes during the year ended December 31, 2016, the impaired value of $nil for inventory remains unchanged.

(e) Allowance for doubtful accounts, and the recoverability of receivables and prepaid expense amounts.

Significant estimates are involved in the determination of recoverability of receivables and no assurance can be given that actual proceeds will not differ significantly from current estimations. Similarly, significant estimates are involved in the determination of the recoverability of services and/or goods related to the prepaid expense amounts, and actual results could differ significantly from current estimations.

Management has made significant assumptions about the recoverability of Mongolian and Bolivian VAT receivable. Management uses all relevant facts available, such as the development of VAT policies in Mongolia and Bolivia, past collectability, and the general economic environment of jurisdictions to determine if the VAT is impaired. During the year ended December 31, 2015, the Company recorded an impairment on VAT receivable in the amount of $785,505 (Note 10). As there were no benchmark or market changes to the relevant facts above during the year ended December 31, 2016, the impaired value of $nil for VAT remains unchanged.

(f) Provision for closure and reclamation

The Company assesses its mineral properties' rehabilitation provision at each reporting date or when new material information becomes available. Exploration, development and mining activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. Accounting for reclamation obligations requires management to make estimates of the future costs that the Company will incur to complete the reclamation work required to comply with existing laws and regulations at each location. Actual costs incurred may differ from those amounts estimated. Also, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for reclamation and remediation. The provision represents management's best estimate of the present value of the future reclamation and remediation obligation. The actual future expenditures may differ from the amounts currently provided.

5. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS (cont'd...)

5.2 Estimates and Assumptions (cont'd...)

(g) Share-based payments

Management uses valuation techniques in measuring the fair value of share purchase options granted. The fair value is determined using the Black Scholes option pricing model which requires management to make certain estimates, judgement, and assumptions in relation to the expected life of the share purchase options and share purchase warrants, expected volatility, expected risk-free rate, and expected forfeiture rate. Changes to these assumptions could have a material impact on the Annual Financial Statements.

(h) Contingencies

The assessment of contingencies involves the exercise of significant judgment and estimates of the outcome of future events. In assessing loss contingencies related to legal proceedings that are pending against the Company and that may result in regulatory or government actions that may negatively impact the Company's business or operations, the Company and its legal counsel evaluate the perceived merits of the legal proceeding or unasserted claim or action as well as the perceived merits of the nature and amount of relief sought or expected to be sought, when determining the amount, if any, to recognize as a contingent liability or when assessing the impact on the carrying value of the Company's assets. Contingent assets are not recognized in the Annual Financial Statements.

(i) Deferred Tax Liability

Judgement is required to determine which types of arrangements are considered to be a tax on income in contrast to an operating cost. Judgement is also required in determining whether deferred tax liabilities are recognised in the statement of financial position. Deferred tax liabilities, including those arising from un-utilised tax gains, require management to assess the likelihood that the Company will generate sufficient taxable losses in future periods, in order to offset recognised deferred tax liabilities.

Assumptions about the generation of future taxable losses depend on management's estimates of future cash flows. These estimates of future taxable losses are based on forecast cash flows from operations (which are impacted by production and sales volumes, commodity prices, reserves, operating costs, closure and rehabilitation costs, capital expenditure, and other capital management transactions) and judgement about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable losses differ significantly from estimates, the ability of the Company to offset the net deferred tax liabilities recorded at the reporting date could be impacted.

(j) Fair value measurement

The Company measures financial instruments at fair value at each reporting date. The fair values of financial instruments measured at amortized cost are disclosed in Note 21. Also, from time to time, the fair values of non-financial assets and liabilities are required to be determined, e.g., when the entity acquires a business, completes an asset acquisition (Note 7), or where an entity measures the recoverable amount of an asset or cash-generating unit at fair value less costs of disposal. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

5. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS (cont'd...)

5.2 Estimates and Assumptions (cont'd...)

(j) Fair value measurement (cont'd...)

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Changes in estimates and assumptions about these inputs could affect the reported fair value.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Cash equivalents

Cash equivalents consist of highly liquid, short-term investments with original maturities of three months or less when purchased and are readily convertible to known amounts of cash.

(b) Available-for-sale investments

Available-for-sale equity investments are recorded at fair value with unrealized gains and losses recorded in Other Comprehensive Income. Realized gains and losses are recorded in the consolidated statement of operations when investments are sold and are calculated using the weighted average carrying amount of securities sold.

(c) Impairment of financial assets

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. An evaluation is made as to whether a decline in fair value is significant or prolonged based on an analysis of indicators such as market price of the investment and significant adverse changes in the technological, market, economic or legal environment in which the investee operates.

If a financial asset is impaired, an amount equal to the difference between its carrying value and its current fair value is transferred from AOCI and recognized in the consolidated statement of operations. Reversals of impairment charges in respect of equity instruments classified as available-for-sale are not recognized in the consolidated statement of operations.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

(d) Mineral properties

Costs directly related to the exploration and evaluation of resource properties are capitalized to mineral properties once the legal rights to explore the resource properties are acquired or obtained. When the technical and commercial viability of a mineral resource have been demonstrated and a development decision has been made, the capitalized costs of the related property are transferred to property and equipment assets and depreciated using the units of production method on commencement of commercial production.

If it is determined that capitalized acquisition, exploration and evaluation costs are not recoverable, or the property is abandoned or management has determined an impairment in value, the property is written down to its recoverable amount. Mineral properties are reviewed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount.

From time to time, the Company acquires or disposes of properties pursuant to the terms of option agreements. Options are exercisable entirely at the discretion of the optionee and, accordingly, are recorded as mineral property costs or recoveries when the payments are made or received. After costs are recovered, the balances of the payments received are recorded as a gain on option or disposition of mineral property.

(i) Title to mineral properties

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title, nor has the Company insured title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

(ii) Realization of mineral property assets

The investment in and expenditures on mineral property interests comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, and the attainment of successful production from properties or from the proceeds of their disposal. Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into profitable producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore. The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values.

(iii) Environmental

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

(d) Mineral properties (cont'd...)

(iii) Environmental (cont'd...)

The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. Other than as disclosed in Note 17, the Company is not aware of any existing environmental issues related to any of its current or former properties that may result in material liability to the Company.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

(e) Property and equipment

(i) Development

When economically viable reserves have been determined and the decision to proceed with development has been approved, the expenditures related to development and construction are capitalized as construction-in-progress and, in addition, any pre-commercial production is also capitalized, all of which is classified as a component of property and equipment.

During the development of a mine, prior to the commencement of production, costs incurred to remove overburden and other mine waste materials in order to access the resource body ("**stripping costs**") are classified as a component of property and equipment, and are capitalized to the related property and depleted over the productive life of the mine using the unit-of-production method. During the production phase of a mine, stripping costs are accounted for as variable production costs and included in the cost of inventory produced during the period except for stripping costs incurred to provide access to reserves that will be produced in future periods and would not otherwise have been accessible, which are capitalized to the cost of mineral property interests and depleted on a unit-of-production method over the reserves that directly benefit from the stripping activity.

Road and bridges, classified within mine development and deferred exploration costs, are amortized on a declining balance basis at an annual rate of 20%.

(ii) Equipment

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any. The cost of an item of property and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

(e) Property and equipment (cont'd...)

(ii) Equipment (cont'd...)

Depreciation of equipment is recorded on a declining-balance basis at the following annual rates:

Computer equipment	45%
Computer software	100%
Furniture and equipment	20%
Leasehold improvement	Straight line / 5 years
Mining equipment	20%
Vehicles	30%

When parts of major components of equipment have different useful lives, they are accounted for as a separate item of equipment.

The cost of major overhauls of part of equipment is recognized in the carrying amount of the item if is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of equipment are recognized in profit or loss as incurred.

(f) Impairment of non-current assets and Cash Generating Units ("**CGU**")

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU, where the recoverable amount of the CGU is the greater of the CGU's fair value less costs to sell and its value in use to which the assets belong. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Each project or group of claims or licenses is treated as a CGU. The Company uses its best efforts to fully understand all of the aforementioned to make an informed decision based upon historical and current facts surrounding the projects. Discounted cash flow techniques often require management to make estimates and assumptions concerning reserves and expected future production revenues and expenses, which can vary from actual. Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

(g) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. Where surplus funds are available for a short-term from funds borrowed specifically to finance a project, the income generated from the temporary investment of such amounts is also capitalized and deducted from the total capitalized borrowing cost. Where the funds used to finance a project are from part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during the period. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(h) Foreign currency translation

Transactions in currencies other than the functional currency are recorded at the prevailing exchange rates on the dates of the transactions. At each financial position reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the prevailing exchange rates at the date of the consolidated statement of financial position. Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

Gains and losses arising from this translation are included in the determination of net loss for the year.

(i) Revenue recognition

The Company recognizes interest income on its cash on an accrual basis at the stated rates over the term to maturity.

Sales of coal are recognized when the risks and rewards of ownership pass to the customer and the price can be measured reliably. Sales contracts and revenue is recognized based on the terms of the contract. Revenue is measured at the fair value of the consideration received, excluding discounts and rebates. Royalties related to production are recorded in cost of sales.

Revenue from coal sales is credited against construction when generated during commissioning of the plant; to mineral properties or property and equipment when generated from pre-commercial production; and to operations when generated from commercial production. Revenues generated from incidental coal sales when the mine is on care and maintenance are recorded net of associated costs.

(j) Unit offerings

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are priced, and any excess is allocated to warrants.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

(k) Inventories

Net realisable value tests are performed at each year end reporting date and represent the estimated future sales price of the product the entity expects to realise when the product is processed and sold, less estimated costs to complete production and bring the product to sale. This value is compared to the cost of producing coal, with the lower of the net realisable value or the cost being recorded.

Stockpile tonnages are verified by surveys.

(l) Share-based payments

The Company has a share purchase option plan that is described in Note 19. The Company accounts for share-based payments using a fair value based method with respect to all share-based payments to directors, officers, employees, and service providers. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or if such fair value is not reliably measurable, at the fair value of the equity instruments issued. The fair value is recognized as an expense or capitalized to mineral properties or property and equipment with a corresponding increase in option reserve. This includes a forfeiture estimate, which is revised for actual forfeitures in subsequent periods.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated statement of comprehensive income over the remaining vesting period.

Upon the exercise of the share purchase option, the consideration received and the related amount transferred from option reserve are recorded as share capital.

(m) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options and warrants. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options and warrants. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(n) Income taxes

The Company uses the asset and liability method to account for income taxes. Deferred income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax basis on the statement of financial position date. Deferred income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on deferred income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantively enacted. The amount of deferred income tax assets recognized is limited to the amount of the benefit that is probable upon recovery.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

(o) Provision for closure and reclamation

The Company assesses its property, equipment and mineral property rehabilitation provision at each reporting date. Changes to estimated future costs are recognized in the statement of financial position by either increasing or decreasing the rehabilitation liability and asset to which it relates if the initial estimate was originally recognized as part of an asset measured in accordance with IAS 16 *Property, Plant and Equipment*.

The Company records the present value of estimated costs of legal and constructive obligations required to restore operations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures; rehabilitating mineral properties; dismantling operating facilities; closure of plant and waste sites; and restoration, reclamation and vegetation of affected areas.

Present value is used where the effect of the time value of money is material. The related liability is adjusted each period for the unwinding of the discount rate and for changes in estimates, changes to the current market-based discount rate, and the amount or timing of the underlying cash flows needed to settle the obligation.

(p) Financial instruments

(i) Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables or at FVTPL. This category comprises derivatives and financial assets acquired principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss. The Company's cash and restricted cash equivalents are classified as FVTPL.

Available-for-sale: Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from accumulated other comprehensive income and recognized in profit or loss.

The Company's investments are classified as available-for-sale.

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method less any provision for impairment. The Company's receivables are classified as loans and receivables.

Held-to-maturity investments: These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's Management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method less any provision for impairment. The Company does not have any held-to-maturity investments. The Company does not have any available-for-sale investments.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

(p) Financial instruments (cont'd...)

(i) Financial assets (cont'd...)

All financial assets except those measured at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying

(ii) Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs and subsequently measured at amortized cost using the effective interest rate method. The Company's accounts payable and accrued liabilities, and line of credit facility are classified as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income. The Company has no financial liabilities classified as FVTPL.

Please refer to Note 21 for relevant fair value measurement disclosures.

7. 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 600,000 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.

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

(Expressed in Canadian Dollars)

7. ACQUISITION (cont'd…)

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 consists 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

8. 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:

	December 31, 2016			
	Canada	Mongolia	Bolivia	Total
Reclamation deposits	$ -	$ 21,055	$ -	$ 21,055
Property and equipment	22,816	329,912	564,879	917,607
Mineral properties	-	14,418,765	11,980,943	26,399,708
	$ 22,816	$ 14,769,732	$ 12,545,822	$ 27,338,370

	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)

9. 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.

	December 31, 2016	December 31, 2015
Cash	$ 21,648	$ 33,542
Restricted Cash Equivalents	$ -	$ 34,500

Restricted Cash Equivalents

As at December 31, 2015, a guaranteed investment certificate of $34,500 has been pledged as collateral for the Company's credit card.

10. RECEIVABLES

Trade receivables are non-interest-bearing and are generally on terms of 30 to 90 days. The Company anticipates full recovery of its outstanding trade and other receivables, net of any allowances.

	December 31, 2016	December 31, 2015
Input tax recoverable	$ 1,388	$ 8,233
Trade receivable	90,177	392,056
	$ 91,565	$ 400,289

During the year ended December 31, 2015 the Company determined that the Mongolian and Bolivian VAT receivable was not collectible and has recorded an impairment charge of $785,505 on the consolidated statement of operations and comprehensive loss. During the year ended December 31, 2015, the Company determined certain trade and other receivables were no longer recoverable and has recorded an impairment charge of $58,519 on the consolidated statement of operations and comprehensive loss.

11. PREPAID EXPENSES

Prepaid expenses correspond to expenses paid during the year that relate to the subsequent year are as follows:

	December 31, 2016	December 31, 2015
General	57,681	14,982
Insurance	40,969	44,805
Capital expenses	-	48,364
Environmental and taxes	40,695	44,354
Transportation and fuel	23,863	3,969
Rent	37,318	46,784
	$ 200,526	$ 203,258

(Expressed in Canadian Dollars)

11. PREPAID EXPENSES (cont'd...)

The Company anticipates full recovery of its outstanding prepaid expense amounts in the form of goods and services.

During the year ended December 31, 2015, the Company determined certain prepaid expenses were no longer recoverable and has recorded an impairment charge of $308,193 (2014 - $nil) on the consolidated statement of operations and comprehensive loss.

12. 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 year ended December 31, 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 December 31, 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 $19,079 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.

Available-for-sale investments		December 31, 2016		December 31, 2015
Lorraine Copper Corp.	$	176,000	$	-
	$	176,000	$	-

(Expressed in Canadian Dollars)

13. 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	(61,738)	(109,720)	(5,375)	-	(172,818)	(39,353)	(389,004)
Balance, December 31, 2016	$ 100,221	$ 279,213	$ 453,854	$ 197,813	$ -	$ 1,534,745	$ 2,565,846
Accumulated depreciation					-		
Balance, December 31, 2015	$ 135,912	$ 230,867	$ 330,345	$ 197,813	$ 135,086	$ 617,344	$ 1,647,367
Depreciation for year	12,053	29,443	26,129	-	-	242,572	310,197
Disposals	(53,065)	(78,671)	(16,558)	-	(135,086)	(25,945)	(309,325)
Balance, December 31, 2016	$ 94,900	$ 181,639	$ 339,916	$ 197,813	$ -	$ 833,971	$ 1,648,239
Carrying amount							
At December 31, 2015	$ 26,047	$ 158,066	$ 128,884	$ -	$ 37,732	$ 956,754	$ 1,307,483
At December 31, 2016	$ 5,321	$ 97,574	$ 113,938	$ -	$ -	$ 700,774	$ 917,607

13. 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 20,000 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.

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

Pre-commercial operations for the period from commencement in November 2010 until 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. The Ulaan Ovoo property ceased pre-commercial operations in June 2015 and remains on care and maintenance as at December 31, 2016.

In accordance with *IFRS 6, Exploration for and Evaluation of Mineral Resources* and *IAS 36, Impairment of Assets,* at December 31, 2014, the Company assessed the recoverable amount of the Ulaan Ovoo property, which consists of the deferred development costs and the mine equipment, which have both been identified as separate CGU's. The Company determined the recoverable amount of the deferred development cost based on its expected value-in-use. As a result of the Company not meeting its production targets, as well as negative net cash flows realized from the Ulaan Ovoo property, there are no expected net cash flows from the project, resulting in a value in use of $nil. As there were no benchmark or market changes from January 1, 2015 to December 31, 2016, the impaired value of $nil for deferred development costs remains unchanged.

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

Ulaan Ovoo Property (cont'd...)

Mining Equipment

The recoverable amount of the mining equipment was determined as Fair Value Less Costs to Sell ("**FVLCTS**") because the FVLCTS is considered to be the higher amount between Value-in-Use and FVLCTS, which is based upon the equipment's estimated replacement cost, less a discount for costs to sell. Under the premise of continuous use, replacement cost is determined on the basis of the current market value of the assets if they are to be re-acquired and commissioned. Through an on-site inspection and technical analysis, a residual amount is determined which is used in calculating the estimated value.

Management's estimate of the FVLCTS is classified as level 3 in the fair value hierarchy. At December 31, 2014, the recoverable amount of $3,736,854 was lower than the carrying value of the CGU and therefore the Company recorded an impairment charge of $3,475,009 against the value of the mining equipment.

During the year ended December 31, 2015, the Company sold most of its mining and transportation equipment at Ulaan Ovoo mine for net proceeds of $2,924,982 and recorded a loss on sale of equipment of $99,498 which was reflected on the consolidated statement of operations and comprehensive loss.

During the year ended December 31, 2016, the Company sold equipment with a book value of $79,679 for proceeds of $12,331 and recorded a loss of $67,348 on the sale.

Inventory

As at December 31, 2015, the Company determined inventory was impaired, because its production cost exceeded its net realizable value, and recorded an impairment charge of $920,694 on the consolidated statement of operations and comprehensive loss.

(Expressed in Canadian Dollars)

14. MINERAL PROPERTIES

	Chandgana Tal	Khavtgai Uul	Pulacayo	Total
Balance, December 31, 2014	$ 10,774,633	$ 2,935,887	$ -	$ 13,710,520
Additions:				
Acquisition cost (Note 7)	-	-	9,652,598	9,652,598
Deferred exploration costs:				
Licenses, power plant application	201,391	192,799	267,142	661,331
Geological core and consulting	54,672	986	797,722	853,381
Personnel, camp and general	10,220	10,219	397,941	418,380
	266,283	204,004	1,462,805	1,933,092
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	93,505	89,184	4,970	187,659
Geological core and consulting	48,533	-	146,051	194,584
Personnel, camp and general	3,368	3,368	714,519	721,255
	145,406	92,552	865,540	1,103,498
Balance, December 31, 2016	$ 11,186,322	$ 3,232,443	$ 11,980,943	$ 26,399,708

Chandgana Tal Property, Mongolia

In March 2006, the Company acquired a 100% interest in the Chandgana Tal property, a coal exploration property consisting of two exploration licenses located in the northeast part of the Nyalga coal basin, approximately 290 kilometers east of Ulaanbaatar, Mongolia, by cash payment of US$400,000 and the issuance of 2,500 Common shares of the Company valued at $120 per Common share. A total of $814,334, which included a finder's fee of 500 Common shares of the Company issued to a third party, was capitalized as acquisition costs of the Chandgana Tal property.

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

Khavtgai Uul Property, Mongolia

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

Pulacayo Property, Bolivia

The Pulacayo property, a silver-lead-zinc project located in southwestern Bolivia, was acquired on January 2, 2015 through the acquisition of 100% of Apogee's interest in ASC Holdings Limited and ASC Bolivia LDC, which together, hold ASC Bolivia LDC Sucursal Bolivia ("**ASC**"), which in turn, holds a joint venture interest in the Pulacayo Project, by paying to Apogee $250,000 in cash and issuing to Apogee 600,000 Prophecy Common shares (see Note 7).

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

Pulacayo Property, Bolivia (cont'd…)

ASC controls the mining rights to the Pulacayo Project through a joint venture agreement entered into between itself and the Pulacayo Ltda. Mining Cooperative on July 30, 2002 (the "**ASC Joint Venture**"). The ASC Joint Venture has a term of 23 years which commenced the day the ASC Joint Venture was entered into. Pursuant to the ASC Joint Venture, ASC is committed to pay monthly rent of US$1,000 to the state-owned Mining Corporation of Bolivia, COMIBOL and US$1,500 monthly rent to the Pulacayo Ltda. Mining Cooperative until the Pulacayo Project starts commercial production. COMIBOL retained a 2.5% NSR and the Pulacayo Ltda. Mining Cooperative retained a 1.5% NSR. The Pulacayo Ltda. Mining Cooperative holds the mining rights through a lease agreement entered into with COMIBOL.

Impaired Properties

Titan Property, Ontario, Canada

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

At December 31, 2014, due to market conditions and the difficulty to raise additional financing, as well as Prophecy's inactivity on the Titan property in recent years, the Company impaired the value of $760,882 to $nil. Prophecy continues to retain its 80% interest and management will continue to evaluate appropriate financing and strategic alternatives to move the project forward.
Subsequent to year end, the Company has acquired the remaining 20% title interest in Titan property (Note 28).

Okeover Property, British Columbia, Canada

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

At December 31, 2014, due to market conditions and the difficulty to raise additional financing, as well as Prophecy's inactivity on the Okeover property in recent years, the Company impaired the value to $nil.

On September 22, 2016, the Company sold its 60% interest in the Okeover property 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 $19,079 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. Upon completion of the sale, the Company recorded a mineral property recovery of $195,079 in the statement of operations and comprehensive loss.

15. 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.

(Expressed in Canadian Dollars)

15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (cont'd…)

	December 31, 2016	December 31, 2015
Trade accounts payable	$ 2,224,134	$ 2,533,557
Accrued liabilities	433,884	104,000
	$ 2,658,018	$ 2,637,557

16. CREDIT FACILITIES

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

On June 30, 2014, Red Hill amended the LOC agreement by extending the maturity date to August 2015 and changing the fixed monthly payment against principal to US$100,000. On September 23, 2015, Red Hill again amended the LOC agreement by extending the maturity date to January 2016 and changing the interest to 17.4% per annum and the fixed monthly payment against principal to US$47,500.

On May 4, 2016, the Company fully repaid and closed out the LOC and has been provided with a release/discharge of pledges. As at December 31, 2016, the outstanding balance of the LOC was $Nil (December 31, 2015 - $198,787). For the year ended December 31, 2016, Red Hill recorded an interest expense of $11,253 (December 31, 2015 - $130,492) and interest paid of $11,253 (December 31, 2015 - $140,629).

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 and bears an interest at a rate of 1.5% per month with unpaid amounts accruing interest on the same terms.

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 has been increased with the Second Amendment to $2.5 million. 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 $300,000 (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.

(Expressed in Canadian Dollars)

16. CREDIT FACILITIES (cont'd...)

Including the interest on the Bonus and "drawdown" fee, which also bears an interest at a rate of 1.5% per month with unpaid amounts accruing interest on the same terms, the Credit Facility, carries an effective annual interest rate of 36.3%. 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 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. 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 October 28, 2016, the Company paid $35,000 toward the Credit Facility. As at December 31, 2016, the outstanding balance of the Credit Facility was $1,071,560 including interest payable of $448,388. For the year ended December 31, 2016, the Company recorded an interest expense of $258,640 and finance cost of $317,056 which included the Bonus of $300,000 and draw-down fees of $17,056.

Subsequent to year end, the Company issued 300,000 Shares to Linx in satisfaction of $900,000 of indebtedness owing by the Company under the Credit Facility. Linx also has agreed for a nominal consideration of $1, to accrue and postpone the repayment of any principal, interest and fees due until the earlier of October 1, 2017, or such time as the Company is in a reasonable financial position to repay all or a portion of the amounts owing (Note 28).

17. PROVISION FOR CLOSURE AND RECLAMATION

The Company's closure and reclamation costs consists of costs accrued based on the current best estimate of mine closure and reclamation activities that will be required at the Ulaan Ovoo site upon completion of mining activity. These activities include costs for earthworks, including land re-contouring and re-vegetation, water treatment and demolition. The Company's provision for future site closure and reclamation costs is based on the level of known disturbance at the reporting date, known legal requirements and estimates prepared by a third party specialist.

It is not currently possible to estimate the impact on operating results, if any, of future legislative or regulatory developments.

Management used a risk-free interest rate of 1.06% and a risk premium of 7% in preparing the Company's provision for closure and reclamation. Although the ultimate amount of reclamation costs to be incurred cannot be predicted with certainty, the total undiscounted amount of estimated cash flows required to settle the Company's estimated obligations is $440,000 over the next 8 years. The cash expenditures are expected to occur over a period of time extending several years after the projected mine closure of the mineral properties.

	December 31, 2016	December 31, 2015
Balance, beginning of year	$208,993	$173,363
Accretion	33,354	35,630
Balance, end of year	$242,347	$208,993

(Expressed in Canadian Dollars)

18. TAX PROVISION

Prophecy's operations are, in part, subject to foreign tax laws where interpretations, regulations and legislation are complex and continually changing. As a result, there are usually some tax matters in question that may, upon resolution in the future, result in adjustments to the amount of deferred income tax assets and liabilities, and those adjustments may be material to the Company's financial position and results of operations.

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2016	2015
Earnings (loss) for the year	$ (2,007,305)	$ (7,822,531)
Expected income tax (recovery)	$ (522,000)	$ (2,034,000)
Change in statutory, foreign tax, foreign exchange rates and other	(1,575,000)	59,000
Permanent Difference	1,869,000	1,470,000
Share issue cost	(87,000)	(5,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	(34,000)	(1,658,000)
Change in unrecognized deductible temporary differences	349,000	2,168,000
Total income tax expense (recovery)	$ -	$ -

Significant components of deductible and taxable temporary differences, unused tax losses and unused tax credits that have not been included on the consolidated statements of financial position are as follows:

		2016	Expiry dates		2015	Expiry dates
Share issue costs	**$**	**422,000**	2037 to 2040	$	399,000	2036 to 2039
Allowable Capital losses	**$**	**6,549,000**	No expiry	$	6,549,000	No expiry
Non-Capital losses	**$**	**18,524,000**	2030 to 2036	$	16,658,000	2030 to 2035
Property and equipment	**$**	**422,000**	No expiry	$	1,067,000	No expiry
Exploration and evaluation assets	**$**	**5,017,000**	No expiry	$	5,016,000	No expiry
Investment tax credits	**$**	**23,000**	2029	$	23,000	2029
Asset retirement obligation	**$**	**242,000**	No expiry	$	209,000	No expiry

19. 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. At December 31, 2016, the Company had 4,807,653 (December 31, 2015 – 3,427,474) Shares issued and outstanding.

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 (the "**Share Consolidation**"). Prior to the Share Consolidation, the Company had 368,521,550 Shares issued and outstanding. Following the Share Consolidation, the Company had 3,685,222 Shares issued and outstanding. The Share Consolidation has been presented throughout the consolidated financial statements retroactively.

(Expressed in Canadian Dollars)

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

(a) Authorized (cont'd...)

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.

(b) Equity issuances

During the year ended December 31, 2016, Prophecy had the following Share capital transactions:

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. The finder's warrants have been valued at $10,183 based upon the Black-Scholes option pricing model with the following assumptions: (1) a risk-free interest rate of 0.46%; (2) warrant expected life of two years; (3) expected volatility of 134% and (4) dividend yield of nil. The Company has recorded the fair value of the finder's warrants as share issuance costs.

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

During the year ended December 31, 2016, the Company entered into settlement and release agreements with certain of its directors, 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 347,443 Shares to those directors, officers, employees and consultants as follows:

Settlement Date	Amount of Shares	Value
January 13, 2016	61,385	$3.00
January 25, 2016	13,206	$2.50
February 29, 2016	73,645	$2.00
March 4, 2016	3,000	$2.00
April 18, 2016	26,511	$1.50
June 2, 2016	122,821	$1.99
November 16, 2016	46,875	$3.20
	347,443	

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

(b) Equity issuances (cont'd…)

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, 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 Company paid in cash, total finder's fees of $3,464 in connection with the Second Placement.

During the year ended December 31, 2015, Prophecy had the following Share capital transactions:

On January 2, 2015, the Company issued 600,000 Shares in relation with Apogee Subsidiaries acquisition (Note 7).

On June 22, 2015 the Company issued 7,578 Shares at a value of $5.00 per Share as a partial payment for outstanding severance owing by the Company to certain of its consultants located in Bolivia to settle various historical debts owing to them when Prophecy acquired the Apogee Subsidiaries.

On June 24, 2015, the Company issued 114,768 units ("**Debt Settlement Units**") as payment for outstanding debt owing by the Company to some of the Company's directors, officers, employees and consultants at a value of $5.00 per Debt Settlement Unit. Each Debt Settlement Unit is comprised of one Share of the Company and one share purchase warrant of the Company entitling the holder thereof to purchase, upon exercise, one additional Share at a price of $6.00 per Share until June 24, 2017. This unit issue was approved at the Company's Annual General Meeting on June 24, 2015.

On July 27, 2015, the Company issued 3,395 Shares at a value of $5.00 per Share as a partial payment for outstanding severance owing by the Company to certain of its consultants located in Bolivia to settle various historical debts owing to them when Prophecy acquired the Apogee Subsidiaries.

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

(b) Equity issuances (cont'd…)

On September 30, 2015, the Company closed a non-brokered private placement (the "**Placement**") involving the issuance of 111,200 units (each a "**Placement Unit**") at a price of $5.00 per Placement Unit. Each Placement Unit consists of one Share in the capital of the Company and one share purchase warrant. Each share purchase warrant entitles the holder to acquire an additional Common share at a price of $7.00 per Share for a period of five years from the date of issuance. The Placement raised gross proceeds of $556,000. The Company paid in cash, total finder's fees of $7,500 in connection with the Placement.

On December 18, 2015 the Company closed a non-brokered private placement (the "**New Placement**") involving the issuance of 62,500 units (each a "**New Unit**") at a price of $4.00 per New Unit. Each New Unit under the New Placement consists of one Share in the capital of the Company and one Warrant. Each Warrant entitles the holder to acquire an additional Share at a price of $7.00 per Common share for a period of five years from the date of issuance. New Placement raised gross proceeds of $250,000.

In connection with the New Placement, the Company paid finder's fees in cash of $10,500 equal to 7% of the subscription proceeds raised by the finder and issued 2,625 share purchase warrants equal to 7% of the number of New Units sold to subscribers introduced by the finder. Each finder's warrant entitles the holder to purchase one Share at a price of $7.00 expiring on November 13, 2017.

The finder's warrants have been valued at $5,468 based upon the Black-Scholes option pricing model with the following assumptions: (1) a risk-free interest rate of 0.5%; (2) warrant expected life of two years; (3) expected volatility of 126% and (4) dividend yield of nil. The Company has recorded the fair value of the Finder's Warrants as share issuance costs.

On December 22, 2015 the Company issued 9,240 Shares at a value of $2.50 per Share as a partial payment for outstanding consulting fee and bonus owing by the Company to certain of its consultants located in Bolivia.

(c) Share-based compensation plan

The Company has a share-based compensation plan ("**Share-Based Compensation Plan**") in place which provides for the granting of stock options, bonus shares and stock appreciation rights which was approved by the Company's disinterested shareholders on June 2, 2016. All stock options and other share-based awards granted by the Company, or to be granted by the Company, since the implementation of the Share-Based Compensation Plan will be issued under, and governed by, the terms and conditions of the Share-Based Compensation Plan.

Subject to the adjustment provisions provided for in the Share-Based Compensation Plan and the applicable rules of the TSX, the aggregate number of common shares issuable under the Share-Based Compensation Plan, plus the aggregate number of common shares issuable pursuant to the exercise of outstanding stock options granted under the 2014 Share-Based Compensation Plan, must not exceed 881,741. The stock option vesting terms are determined by the Board of Directors on grant with a maximum allowable stock option life of 10 years.

(Expressed in Canadian Dollars)

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

(c) Share-based compensation plan (cont'd…)

During the year ended December 31, 2016, the Company granted 160,000 incentive stock options to its directors, officers, employees and consultants. The options are exercisable at a price of $2.00 per Share for a term of five years expiring on June 2, 2021 and vest at 12.5% per quarter for the first two years following the date of grant.

During the year ended December 31, 2015, the Company granted 135,000 stock options to its directors, officers, employees and consultants with a weighted average exercise price of $5.00 and expire dates ranging from April 4, 2020 to June 22, 2020.

The following is a summary of the changes in Prophecy's stock options from December 31, 2014 to December 31, 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)	$6.00
Outstanding, December 31, 2015	343,742	$10.00
Granted	160,000	$2.00
Expired	(1,000)	$28.00
Cancelled	(4,000)	$6.05
Forfeited	(37,928)	$21.85
Outstanding, December 31, 2016	460,814	$6.42

As of December 31, 2016, the following Prophecy share purchase options were outstanding:

Exercise Price	Expiry Date	Options Outstanding December 31, 2016	Options Outstanding December 31, 2015	Exercisable December 31, 2016	Unvested December 31, 2016
$2.00	June 2, 2021	160,000	-	46,600	113,400
$5.00	June 22, 2020	32,800	33,500	25,010	7,790
$5.00	April 7, 2020	90,500	92,000	76,586	13,914
$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	325,710	135,104

(Expressed in Canadian Dollars)

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

(c) Share-based compensation plan (cont'd…)

Share-based payment expenses resulting from stock options are amortized over the corresponding vesting periods. During the year ended December 31, 2016, the share-based payment expenses were calculated using the following weighted average assumptions:

	Year ended December 31	
	2016	2015
Risk-free interest rate	1.20%	1.71%
Expected life of options in years	4.89 years	4.33 years
Expected volatility	131.45%	95.4%
Expected dividend yield	Nil	Nil
Weighted average fair value of options granted during the period	$ 2.25	$ 3.00

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

Share-based payments charged to operations and assets were allocated between deferred mineral properties, and general and administrative expenses. Share-based payments are allocated between being either capitalized to property and equipment where related to Ulaan Ovoo, to deferred exploration costs where related to other mineral properties, or expensed as general and administrative expenses where otherwise related to the general operations of the Company.

For the year ended December 31, 2016 and 2015, share-based payments were recorded as follows:

	Year Ended December	
	2016	2015
Consolidated Statement of Operations		
Share based payments	$ 197,889	$ 596,260
	197,889	596,260
Consolidated Statement of Financial Position		
Chandgana Tal exploration and power plant application	21,429	35,214
Pulacayo exploration	46,934	43,906
Ulaan Ovoo exploration	-	21,965
	68,363	101,085
Total share-based payments	$ 266,252	$ 697,345

(d) Share purchase warrants

During the year ended December 31, 2016, Prophecy had the following share purchase warrant transactions:

On January 25, 2016, the Company issued 80,000 share purchase warrants as a part of the First Placement exercisable at a price of $4.00 per Common share for a period of five year from the date of issuance (Note 19 (b)).

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

(d) Share purchase warrants (cont'd...)

On January 25, 2016, the Company issued 5,600 share purchase finders warrants fee in connection with the First Placement at a price of $4.00 per Common share for a period of two years from the date of issuance (Note 19 (b)).

On June 2, 2016, the Company issued 750,000 share purchase warrants to Mr. John Lee, in connection with the partial settlement of the Credit Facility (Note 16). 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.

On August 29, 2016, the Company issued 101,367 share purchase warrants as a part of the Second Placement exercisable at a price of $4.40 per Share for a period of five years from the date of issuance (Note 19 (b)).

During the year ended December 31, 2015, Prophecy had the following share purchase warrant transactions:

On May 22, 2015 the Company issued 120,000 share purchase warrants, exercisable at a price of $5.00 per Share for a period of 5 years from the date of issuance, to the Company's creditor, Linx Partners Ltd., which holds a general security interest over all of the Company's properties (Note 14) as a consideration for receiving his consent for the sale of mining equipment which belonged to the Company's wholly-owned subsidiary Red Hill. The fair value of $333,811 of the share purchase warrants issued to Linx was included in share-based payments expense and determined using the Black-Scholes option pricing model using the following assumptions: (1) a risk-free interest rate of 0.80%; (2) warrant expected life of five years; (3) expected volatility of 97%' and (4) dividend yield of nil.

On June 24, 2015, the Company issued 114,768 share purchase warrants as a part of Debt Settlement Units exercisable at a price of $6.00 per Share for a period of two years from the date of issuance (Note 20 (b)).

On September 30, 2015, the Company issued 111,200 share purchase warrants as a part of the Placement exercisable at a price of $7.00 per Share for a period of five years from the date of issuance (Note 19 (b)).

On November 13, 2015, the Company issued 62,500 share purchase warrants as a part of the New Placement exercisable at a price of $7.00 per Common share for a period of five year from the date of issuance (Note 19 (b)).

On November 13, 2015, the Company issued 2,625 share purchase finders warrants fee in connection with the New Placement at a price of $7.00 per Common share for a period of two years from the date of issuance (Note 19 (b)).

The following is a summary of the changes in Prophecy's share purchase warrants from December 31, 2014 to December 31, 2016:

(Expressed in Canadian Dollars)

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

(d) Share purchase warrants (cont'd...)

	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, December 31, 2016	1,348,060	$4.68

As of December 31, 2016, the following Prophecy share purchase warrants were outstanding:

Exercise price	Number of Warrants 2016	Number of Warrants December 31, 2015	Expiry date
$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	

20. CAPITAL RISK MANAGEMENT

Management considers its capital structure to consist of share capital, share purchase options and warrants. Prophecy manages its capital structure and makes adjustments to it, based on the funds available to, and required by the Company in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative returns on capital criteria for management. In order to facilitate the management of its capital requirement, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors. The annual and updated budgets are approved by the Board of Directors.

The properties, to which the Company currently has an interest in, are in the development and exploration stage; as such, Prophecy is dependent on external financing to fund its activities. In order to carry out the planned exploration and development and pay for administrative costs, Prophecy will spend its existing working capital and raise additional amounts as needed. There were no changes in managements approach to capital management during the year ended December 31, 2016. Neither Prophecy nor its subsidiaries are subject to externally imposed capital requirements.

(Expressed in Canadian Dollars)

21. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

Fair Value

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

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

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

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

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

As at December 31, 2016	Level 1	Level 2	Level 3	Total
Financial assets				
Cash	$ 21,648	$ -	$ -	$ 21,648
	$ 21,648	$ -	$ -	$ 21,648

As at December 31, 2015	Level 1	Level 2	Level 3	Total
Financial assets				
Cash	$ 33,542	$ -	$ -	$ 33,542
Restricted cash equivalents	34,500	-	-	34,500
	$ 68,042	$ -	$ -	$ 68,042

The Company considers that the carrying amount of all its financial assets and financial liabilities measure at amortized cost approximates their fair value due to their short term nature. The Company does not offset financial assets with financial liabilities. There were no transfers between Level 1, 2 and 3 for the year ended December 31, 2016.

(Expressed in Canadian Dollars)

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

Categories of financial instruments

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

	December 31, 2016	December 31, 2015
Fair value through profit or loss		
Cash	$ 21,648	$ 33,542
Restricted cash equivalents	-	34,500
Available-for-sale		
Available-for-sale investment	176,000	-
Loans and receivables		
Receivables	91,565	400,289
	$ 289,213	$ 468,331
Other financial liabilities		
Accounts payable and accrued liabilities	$ 2,658,018	$ 2,637,557
Credit facilities	1,071,560	1,889,462
	$ 3,729,578	$ 4,527,019

22. 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 December 31, 2016, the Company had a cash balance of $21,648 (December 31, 2015 – $33,542). As at December 31, 2016, the Company had accounts payable and accrued liabilities of $2,658,018 (December 31, 2015 - $2,637,557), which have contractual maturities of 90 days or less and the Credit Facility balance of $1,071,560 (December 31, 2015 - $1,889,462). The Company is seeking financing in order to be in a position to satisfy its current liabilities (Note 28).

The Company has a planning and budgeting process in place by which it anticipates and determines the funds required to support normal operation requirements as well as the growth and development of its mineral property interests. The Company coordinates this planning and budgeting process with its financing activities through the capital management process in normal circumstances.

The following table details the Company's current and expected remaining contractual maturities for its financial liabilities with agreed repayment periods. The table is based on the undiscounted cash flows of financial liabilities.

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

(a) Liquidity risk (cont'd…)

		0 to 6 months		6 to 12 months		Total
As at December 31, 2016						
Accounts payable and accrued liabilities	$	2,658,018	$	-	$	2,658,018
Credit facilities		-		1,071,560		1,071,560
	$	2,658,018	$	1,071,560	$	3,729,578
As at December 31, 2015						
Accounts payable and accrued liabilities	$	2,637,557	$	-	$	2,637,557
Credit facilities		1,889,462		-		1,889,462
	$	4,527,019	$	-	$	4,527,019

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. During the year ended December 31, 2016, the Company drew down $341,116 on its Credit Facility with an outstanding balance of $1,071,560 as at December 31, 2016. Due to the short-term nature of these financial instruments, and that the Company's Credit Facility 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 December 31, 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 is exposed to foreign currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in Canadian dollars.

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

(c) Market risk (cont'd…)

(ii) Foreign currency risk (cont'd…)

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 December 31, 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 $120,000. A 10% strengthening (weakening) of the Canadian dollar against the Bolivian boliviano would impact net loss with other variables unchanged by $705,000. A 10% strengthening (weakening) of the US dollar against the Canadian dollar would impact net loss with other variables unchanged by $41,000. 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.

23. 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.

(Expressed in Canadian Dollars)

23. RELATED PARTY DISCLOSURES (cont'd…)

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

	Year Ended December 31,	
Related parties	2016	2015
Directors and officers	$ 280,160	$ 332,487
Linx Partners Ltd.	210,000	428,988
MaKevCo Consulting Inc.	22,480	33,519
Sophir Asia Ltd.	20,380	31,241
	$ 533,020	$ 826,235

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

	Year Ended December 31,	
Related parties	2016	2015
Consulting and management fees	$ 153,000	$ 278,992
Directors' fees	63,240	96,002
Mineral properties	117,000	203,996
Salaries and benefits	199,780	247,245
	$ 533,020	$ 826,235

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.

As at December 31, 2016, amounts due to related parties totaled of $366,269 including accrued bonuses of $185,440 (December 31, 2015 – $129,891) and was comprised of $14,640 (December 31, 2015 - $54,060) for director fees, $54,656 (December 31, 2015 - $2,400) for consulting fees, $86,864 (December 31, 2015 - $9,600) for managing mineral properties, $29,280 (December 31, 2015 - $63,831) for salaries and reimbursable expenses. The remaining amounts due relate to deferred consulting fees, director fees and salaries totaled $180,829 (December 31, 2015 - $Nil).

The amounts due to related parties are non-interest bearing and are due upon demand. See Note 16 for information regarding the Company's credit facility with Linx Partners Ltd.

(Expressed in Canadian Dollars)

24. 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.

		Year Ended December 31,		
Key Management Personnel		**2016**		**2015**
Salaries and short term benefits	$	204,079	$	249,572
Share-based payments		181,990		516,249
	$	386,069	$	765,821

25. SUPPLEMENTAL CASH FLOW INFORMATION

	Year Ended December 31,			
		2016		2015
Supplementary information				
Interest paid	$	11,253	$	140,629
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	$	804,648	$	651,807
Capitalized interest	$	11,253	$	138,954
Property & equipment expenditures included in accounts payable	$	1,749,571	$	1,760,824
Mineral property expenditures included in accounts payable	$	962,822	$	640,588
Share-based payments capitalized in property and equipment	$	-	$	21,965
Share-based payments capitalized in mineral properties	$	68,363	$	79,119
Sale of Okeover property for shares and debt settlement	$	195,079	$	-
Fair value of finders' warrants	$	10,183	$	-

See Note 7 for additional non-cash transactions related to the acquisition of Apogee Subsidiaries.

26. COMMITMENTS

Commitments, not disclosed elsewhere in these Annual Financial Statements, are as follows:

Office rental commitments		
Year		Amount
2017		36,480
2018		21,280
	$	57,760

27. 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 June 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 ($7,060,691) 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 $7,060,691 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 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 in the year ended December 31, 2015 (see Note 10).

28. EVENTS AFTER THE REPORTING DATE

The following events occurred subsequent to December 31, 2016:

- On January 13, 2017, the Company closed a non-brokered private placement involving the issuance of 49,999 units (at a price of $3.00 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 $8,000.

- On January 13, 2017, The Company announced that pursuant to the terms of its 2016 Share-Based Compensation Plan which was approved by shareholders at the Company's last annual general meeting of shareholders held on June 2, 2016, it has granted in aggregate, 39,000 bonus shares valued at $4.88 per bonus share and 91,000 incentive stock options to various directors, officers and consultants of the Company. The options are exercisable at a price of $4.88 per Common share for a term of five years expiring on January 12, 2022 and vest at 12.5% per quarter for the first two years following the date of grant.

- On January 13, 2016, the Company and Linx have entered into a Debt Settlement Agreement to settle $900,000 of the outstanding balance owing by the Company to Linx under the Credit Facility, by issuing 300,000 Shares to Mr. Lee. The Company also announced that for nominal consideration of $1, Linx Partners Ltd. has agreed to accrue and postpone the repayment of any principal, interest and fees due under the $2.5 million Credit Facility until the earlier of October 1, 2017, or such time as the Company is in a reasonable financial position to repay all or a portion of the amounts owing.

- On February 10, 2017, the Company acquired the remaining 20% title interest of Randsburg in the patented claims that comprise the Titan project by issuing to Randsburg 20,000 Prophecy Common shares, which will be subject to a 4-month hold period.

- On March 14, 2017, the Company announced a non-brokered private placement involving the issuance of 100,000 units at a price of $4.00 per unit. Each unit consists of one Share and one Share purchase warrant. Each warrant entitles the holder to acquire an additional Share at a price of $5.00 per Share for a period of five years from the date of issuance.