Prophecy Development Corp.

(Formerly Prophecy Coal Corp.)

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the three and nine months ended September 30, 2015

(Expressed in Canadian Dollars)

CONTENTS

1. INTRODUCTION

This Management's Discussion and Analysis ("**MD&A**") of Prophecy Development Corp. and its subsidiaries ("**Prophecy**", or the "**Company**") provides analysis of the Company's financial results for the three and nine months ended September 30, 2015. The following information should be read in conjunction with the accompanying September 30, 2015 unaudited condensed interim consolidated financial statements and the notes to those financial statements, prepared in accordance with International Financial Reporting Standards ("**IFRS**"), applicable to the preparation of interim financial statements, including International Accounting Standard ("**IAS**") 34 Interim Financial Reporting, as issued by the International Accounting Standards Board. This MD&A should be read also in conjunction with both the audited annual consolidated financial statements for the year ended December 31, 2014 (prepared in accordance with IFRS) ("**Annual Financial Statements**") and the related annual MD&A ("**Annual MD&A**"), all of which are available under the Company's SEDAR profile at www.SEDAR.com.

Financial information is expressed in Canadian dollars, unless stated otherwise. This MD&A is current as of November 13, 2015, and was reviewed, approved, and authorized for issue by the Company's Audit Committee. Readers are cautioned that this MD&A contains "forward-looking statements" and that actual events may vary from management's expectations. Readers are encouraged to read the cautionary note contained herein regarding such forward-looking statements.

Change of Company Name

On January 5, 2015, the Company changed its name from "Prophecy Coal Corp." to "Prophecy Development Corp." to better reflect its various interests in its mining and energy projects in Mongolia, Bolivia and Canada, and to allow for the broadening development and evolution of the Company's business interests as it actively pursues new opportunities.

Description of Business

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

The principal business of the Company is the acquisition, exploration and development of mineral, mining and energy projects in Mongolia, Bolivia and Canada. The Company owns a 100% interest in the following significant coal projects in Mongolia: the Khavtgai Uul and Chandgana Tal coal deposits which are together, known as the "**Chandgana Coal Properties**" and the Ulaan Ovoo coal property. On January 2, 2015, the Company acquired a 100% joint venture interest in the Pulacayo Paca silver-lead-zinc mining project in Bolivia (the "**Pulacayo Project**").

General Corporate Information:

At September 30, 2015 and November 13, 2015, Prophecy had: (i) 335,572,784 and 341,822,784 Common shares issued and outstanding respectively; (ii) 37,938,750 stock options for Common shares outstanding; and (iii) 40,969,396 and 43,652,385 Share purchase warrants for Common shares outstanding respectively.

Share Information

Common shares of Prophecy are listed for trading on: (i) the TSX under the symbol "PCY"; (ii) the OTC-QX under the symbol "PRPCF"; and (iii) on the Frankfurt Stock Exchange under the symbol "1P2".

Investor Information

All financial reports, news releases and corporate information can be accessed on the Company's website at www.prophecydev.com

(Expressed in Canadian Dollars)

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Contact Information

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Directors and Officers

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

Directors	Officers
John Lee, Executive Chairman	John Lee, Interim Chief Executive Officer ("**CEO**")
Harald Batista	Irina Plavutska, Chief Financial Officer
Greg Hall	Tony Wong, Corporate Secretary
Masa Igata	

Audit Committee	***Corporate Governance and Compensation Committee***
Greg Hall (Chair)	Greg Hall (Chair)
Harald Batista	Harald Batista
Masa Igata	Masa Igata

Qualified Persons

Mr. Christopher Kravits, LPG, CPG, is a qualified person as defined under National Instrument 43-101 *Standards of Disclosure for Mineral Projects* ("**NI 43-101**"). Mr. Kravits is not considered independent of Prophecy given he is the Company's General Mining Manager, he is Executive Director of its wholly-owned subsidiary, Chandgana Coal LLC ("**Chandgana**"), and the large extent that his professional time is dedicated solely to Prophecy's interests. Mr. Kravits has reviewed and approved the technical and scientific disclosure regarding the mineral properties of Prophecy contained in this MD&A.

2. CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of applicable Canadian securities legislation concerning anticipated developments in the Company's continuing and future operations in Mongolia and Bolivia, the adequacy of the Company's financial resources and financial projections. Such forward-looking statements include but are not limited to statements regarding the permitting, feasibility, plans for development and production of Prophecy's Chandgana power plant, including finalizing of any power purchase agreement; the likelihood of securing project financing; estimated future coal production at the Ulaan Ovoo coal property and the Chandgana Coal Properties; development of the Pulacayo Project and other information concerning possible or assumed future results of operations of Prophecy. See in particular, the sections Select Financial and Operational Data and 2015 Outlook descriptions under Part 4 – Property Summary.

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

In making the forward-looking statements in this MD&A, Prophecy has made several assumptions that it believes are appropriate, including, but not limited to assumptions that: all required third party contractual, regulatory and governmental approvals will be obtained for the development, construction and production of Prophecy's properties and the Chandgana power plant; there being no significant disruptions affecting operations, whether due to labour disruptions or other causes; currency exchange rates being approximately consistent with current levels; certain price assumptions for coal, silver and other metals, prices for and availability of fuel, parts and equipment and other key supplies remain consistent with current levels; production forecasts meeting expectations; the accuracy of Prophecy's current mineral resource estimates; labour and materials costs increasing on a basis consistent with Prophecy's current expectations; and any additional required financing will be available on reasonable terms; market developments and trends in global supply and demand for coal, energy, silver and other metals meeting expectations. Prophecy cannot assure you that any of these assumptions will prove to be correct.

Numerous factors could cause Prophecy's actual results to differ materially from those expressed or implied in the forward-looking statements including the following risks and uncertainties, which are discussed in greater detail under the heading "Risk Factors" in this MD&A: Prophecy's history of net losses and lack of foreseeable cash flow; exploration, development and production risks, including risks related to the development of Prophecy's Ulaan Ovoo coal property; Prophecy not having a history of profitable mineral production; commencing mine development without a feasibility study; the uncertainty of mineral resource and mineral reserve estimates; the capital and operating costs required to bring Prophecy's projects into production and the resulting economic returns from its projects; foreign operations and political conditions, including the legal and political risks of operating in Mongolia and Bolivia which are developing countries and being subject to their local laws; the availability and timeliness of various government approvals and licences; the feasibility, funding and development of the Chandgana power plant and Pulacayo Project; protecting title to Prophecy's mineral properties; environmental risks; the competitive nature of the mining business; lack of infrastructure; Prophecy's reliance on key personnel; uninsured risks; commodity price fluctuations; reliance on contractors; Prophecy's need for substantial additional funding and the risk of not securing such funding on reasonable terms or at all; foreign exchange risk; anti-corruption legislation; recent global financial conditions; the payment of dividends; and conflicts of interest.

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

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

3. THIRD QUARTER HIGHLIGHTS

- On July 7, 2015, the Company announced commencement of the first phase of systematic district exploration at its Pulacayo Project which was completed in August 2015. For further information please view the Company's news release of July 7, 2015 and August 20, 2015 under the Company's SEDAR profile at www.SEDAR.com.

- On July 31, 2015, the Company filed the technical report related to the mineral resource estimate dated June 16, 2015 prepared by Mercator Geological Services Limited ("**Mercator**") titled "Pulacayo Silver-Zinc-Lead Deposit Mineral Resource Estimate Technical Report, Pulacayo Township, Potosí Department, Antonnio Quijarro Province, Bolivia". A copy of the technical report can be found under the Company's SEDAR profile at www.SEDAR.com.

- On August 19, 2015, the Company announced that Cosmo Coal LLC ("**Cosmo**") was unable to meet the August 18, 2015 deadline for consolidation stipulated in the binding consolidation agreement between Chandgana Coal and Cosmo due to internal restructuring within Cosmo. Prophecy has served Cosmo with notice of termination under the agreement and is thus, free to pursue mergers, acquisitions, and other plans and strategies with other parties as appropriate to commission the Chandgana power plant project. Prophecy does not expect this contract termination to have any material impact on its operations.

- On September 1, 2015, the Company announced a non-brokered private placement (the "**Placement**") involving the issuance of up to 40,000,000 units (each a "**Unit**") at a price of $0.05 per Unit. Each Unit consists of one Share in the capital of the Company and one Share purchase warrant (a "**Warrant**"). Each Warrant entitles the holder to acquire an additional Share at a price of $0.07 per Share for a period of five years from the date of issuance. Cash proceeds of the Placement are expected to be used to develop Prophecy's mineral projects and for general working capital purposes.

- In August and September, 2015, the Company announced assay and preliminary metallurgical test work results of underground and surface group samples collected from the district exploration program at its Pulacayo Project and the receipt of an independent mineral resource estimate for its Paca deposit. For further information please view the Company's news releases of August 27, 2015, September 9, 10, 18 and 21, 2015 under the Company's SEDAR profile at www.SEDAR.com.

- On September 30, 2015, the Company closed a first cash tranche of the Placement which raised gross cash proceeds of $556,000 through the issuance of 11,120,000 Units of Prophecy. Company management and directors subscribed for 7,000,000 Units of the Placement in the first tranche.

  In connection with a portion of the first tranche of the Placement, the Company paid finder's fees in cash of 5% of the subscription proceeds raised by the finder.

Subsequent to period end

- On October 28, 2015, 3,831,511 Share purchase warrants previously issued by the Company, with a weighted average exercise price of $0.15, expired unexercised.

- On November 4, 2015, the Company cancelled the reminder of the Placement.

- On November 5, 2015, the Company filed a technical report prepared in accordance with NI 43-101 related to the independent mineral resource estimate for the Company's Paca deposit, that was prepared in accordance with the CIM Definition Standards on Mineral Resources and Mineral Reserves (the "**CIM Standards**") referenced in NI 43-101 and announced in its news release issued on September 21, 2015.

- On November 12, 2015 the Company announced a non-brokered private placement (the "**New Placement**") involving the issuance of up to 25,000,000 units (each a "**New Unit**") at a price of $0.04 per New Unit. Each New Unit under the New Placement consists of one Share in the capital of the Company and one Warrant. Cash proceeds of the New Placement are expected to be used to develop Prophecy's mineral projects and for general working capital purposes.

On November 13, 2015, the Company announced the closing of a first tranche of the New Placement which raised gross proceeds of $250,000 through the issuance of 6,250,000 Units of Prophecy. Company management and directors subscribed for 2,500,000 Units of the New Placement.

In connection with a portion of the first tranche of the New Placement, the Company paid finder's fees in cash of 7% of the subscription proceeds raised by the finder and finders warrants equal to 7% of the number of New Units sold to subscribers introduced by the finder. The finder's warrants are identical in all respects to the Warrants attached to the New Units, except that they are exercisable for a period of two years from the date of issuance.

4. PROPERTY SUMMARY

For this quarterly report the property descriptions and selected financial and operating data for this section are not included unless there is a change from the Annual Financial Statements and related Annual MD&A. The reader is referred to the Annual Financial Statements and related Annual MD&A for this information.

Highlights on the Pulacayo Project, Bolivia

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

Select Financial and Operational Data:

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

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

The Pulacayo Project comprises approximately 22,850 hectares of contiguous mining concessions centered on the historical Pulacayo mine and town site. The Pulacayo Project is located 18 km east of the town of Uyuni in the Department of Potosi in southwestern Bolivia. It is located 460 km south-southeast of the national capital of La Paz and 150 km southwest of the city of Potosi, which is the administrative capital of the department. Pulacayo is accessible by all season paved and gravel roads from La Paz via Oruro to Uyuni, and by newly paved road from Potosi. The town of Uyuni has a newly developed asphalt airstrip which now accommodates daily scheduled air service from La Paz by two regional carriers. It also has commercial railway connections to the cities of Oruro, Potosi and Villazon, and links to the borders of Argentina and Chile. Railway connections to Chile link to major shipping ports at Antofastago and Porto Mejilliones. The Pulacayo Project is fully permitted with secured social licenses for mining.

In December 2012, the Environmental Impact Assessment for the Pulacayo Project was submitted to Bolivia's Ministry of Environment and Water and it was approved in October 2013. The submission was the result of over 30 months of technical studies and consultations, including a comprehensive water management plan, the feasibility study, archeological studies, flora and fauna studies, mine closure planning, social baseline studies, and results from two years of public consultations with local communities. The approval of the Environmental Impact Assessment allows for mine and concentrator construction with a targeted production rate of up to 560tpd at the Pulacayo Project.

Paca Deposit

The Paca deposit is located approximately 8 km north of the Pulacayo deposit. Drilling by Apex Silver Company in 2002 identified a zone of significant silver-zinc-lead mineralization (see Apogee's news release dated

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September 13, 2005 under Apogee's SEDAR profile at www.SEDAR.com).

Subsequent drilling by Apogee in 2006 and 2007, totalling approximately 15,000 meters, delineated a silver-lead-zinc deposit that could potentially be developed by open pit methods. Apogee believes that there is potential for resource expansion at the Paca deposit but currently efforts at Pulacayo are taking priority.

This deposit was the subject of an independent estimate of mineral resources prepared by Micon International Limited. The resource estimate was disclosed in a technical report dated March 2007 that meets the disclosure requirements of Canadian Securities Administrators NI 43-101 and can be found under Apogee's SEDAR profile at www.SEDAR.com. Alternatively, this report is also available on Apogee's website. Apogee has not undertaken diamond drilling on the Paca project since February 2007.

Q3 2015

The Company continued its fast-track development schedule of the Pulacayo Project as described in the previous quarterly reports.

On June 16, 2015, the Company received the independent mineral resource estimate for the Pulacayo Project prepared in accordance with the CIM Definition Standards on Mineral Resources and Mineral Reserves referenced in NI 43-101. The estimate was prepared by Mercator under the supervision of Michael Cullen, P. Geo., who is an independent Qualified Person under NI 43-101. The news release dated June 18, 2015 is available under the Company's SEDAR profile at www.SEDAR.com. The reader is referred to the news release for background and conditions under which the resource estimate was prepared.

Results of the mineral resource estimate prepared by Mercator for the Pulacayo Project are presented in the table below.

Pulacayo Mineral Resource Statement - Effective June 16, 2015

Ag Eq. Cut-Off (g/t)	Category	Tonnes**	Ag (g/t)	Pb (%)	Zn (%)	Ag Eq. (g/t)
400	Indicated	2,080,000	455	2.18	3.19	594
	Inferred	480,000	406	2.08	3.93	572
500*	**Indicated**	**1,270,000**	**530**	**2.51**	**3.63**	**688**
	Inferred	**350,000**	**419**	**2.47**	**4.58**	**620**
600	Indicated	750,000	608	2.91	4.02	785
	Inferred	170,000	394	3.49	6.75	710

Notes:
(1) Mineral resources are estimated in conformance the CIM Standards referenced in NI 43-101.
(2) Raw silver assays were capped at 1,700 g/t, raw lead assays were capped at 15% and raw zinc assays were capped at 15%.
*(3) Silver equivalent Ag Eg. (g/t) = Ag (g/t)*89.2% + (Pb% *(US$0.94/ lb. Pb /14.583 Troy oz./lb./US$16.50 per Troy oz. Ag)*10,000*91.9%) + (Zn% *(US$1.00/lb. Zn/14.583 Troy oz./lb./US$16.50 per Troy oz. Ag)*10,000*82.9%).*
(4) Metal prices used in the silver equivalent calculation are US$16.50/Troy oz. Ag, US$0.94/lb Pb and US$1.00/lb Zn. Metal recoveries 89.2% Ag. 91.9% Pb. 82.9% Zn. used in the silver equivalent equation reflect historic metallurgical results disclosed previously by Apogee.
(5) Metal grades were interpolated within wireframed, three dimensional silver domain solids using Geovia-Surpac Ver. 6.6.1 software and inverse distance squared interpolation methods. Block size is 10m(X) by 10m(Z) by 2m(Y). Historic mine void space was removed from the model prior to reporting of resources.
(6) Block density factors reflect three dimensional modeling of drill core density determinations.
(7) Mineral resources are considered to have reasonable expectation for economic development using underground mining methods based on the deposit history, resource amount and metal grades, current metal pricing and comparison to broadly comparable deposits elsewhere.
(8) Rounding of figures may result in apparent differences between tonnes, grade and contained ounces.
(9) Mineral resources that are not mineral reserves do not have demonstrated economic viability.
*(10) *Mineral resource statement cut-off value; resource statement values are presented in bolded form.*

(Expressed in Canadian Dollars)

*(11) **Tonnes are rounded to nearest 10,000.*

A high grade mine plan was developed in-house based on the geologic model prepared by Mercator for the mineral resource estimate. The mine plan includes mining the high grade resources (>500 g/tn Ag Eq) at a rate of 500 tn/day producing a total 1.26 million tonnes. The mine plan has been based on the use of the shrinkage stoping method.

Phase 1 of the exploration program consisting of surface mapping, sampling, trenching and field assaying using a handheld XRF unit started at the end of June, 2015 and was completed in August, 2015. The exploration program focused on four target areas located by previous reconnaissance exploration – El Abra, Pero, Paca, and Pacamayo. The results of this work will be used to plan induced polarization (IP) surveys. The information from the surface mapping, sampling, trenching and field assays will be studied with the new IP survey information and previous IP survey information to develop drilling plans for the exploration targets. Phase 2 will consist of drilling and assays.

Detailed geological mapping and close-spaced sampling from surface trenches and underground tunnels were conducted at these four priority target areas whereby silver, lead, zinc, copper, and antimony anomalies were detected. On August 27, 2015 and September 9, 2015, the Company announced assay results of the first and second group samples from the target areas at the district exploration program. On September 18, 2015, the Company announced the assay results of the three Pacamayo samples where the silver grade was reported as more than 1,500 g/t. These samples have undergone reanalysis using the fire assay and gravimetric finish method which has a greater upper detection limit.

On September 10, 2015, the Company received results from preliminary metallurgical test work conducted on samples collected from various tailing piles at the Pulacayo Project showing up to 64.39% silver recovery.

On September 21, 2015, the Company received an independent mineral resource estimate for the Paca deposit, prepared in accordance with the CIM Definition Standards on Mineral Resources and Mineral Reserves referenced in NI 43-101. The effective date of the mineral resource estimate is September 9, 2015. The mineral resource estimate was prepared by under the supervision of Michael Cullen, P. Geo., who is an independent Qualified Person as set out in NI 43-101.

Results of the mineral resource estimate prepared by Mercator for the Paca deposit are presented in the table below:

Paca Mineral Resource Statement - Effective September 9, 2015

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

Notes:

(1) Raw silver assays were capped at 1,050 g/t, raw lead assays were capped at 5% and raw zinc assays were capped at 5%.

*(2) Silver equivalent Ag Eq. (g/t) = Ag (g/t) + (Pb% * (US$0.94/lb. Pb/14.583 Troy oz./lb./US$16.50 per Troy oz. Ag.)*10,000) + (Zn% * (US$1.00/lb. Zn/14.583 Troy oz./lb./US$16.50 per Troy oz. Ag.)*10,000; 100% metal recoveries are assumed based on lack of comprehensive metallurgical results.*

(3) Metal prices used in the silver equivalent calculation are US$16.50/Troy oz. Ag, US$0.94/lb Pb and US$1.00/lb. Zn and reflect those used in the June 16, 2015 Pulacayo mineral resource estimate by Mercator.

(4) Metal grades were interpolated within wireframed, three dimensional solids using Geovia-Surpac Ver. 6.7 software and inverse distance squared interpolation methods. Block size is 5m (X) by 5m (Z) by 2.5m (Y). Historic mine void space was removed from the model prior to reporting of resources.

(5) The block density factor of 2.26 reflects the average value of 799 density measurements.

(Expressed in Canadian Dollars)

(6) The mineral resource is considered to have reasonable expectation for economic development using underground mining methods based on the deposit history, resource amount and metal grades, current metal pricing and comparison to broadly comparable deposits elsewhere.
(7) Mineral resources that are not mineral reserves do not have demonstrated economic viability.
*(8) *The resource estimate cut-off value is 300 g/t Ag Eq. and resource estimate values are presented in bold type.*
*(9) **Tonnes are rounded to nearest 10,000.*

The contained metals within the September 9, 2015 mineral resource estimate prepared by Mercator are presented the table below:

Contained Metals in September 9, 2015 Paca* Mineral Resource Estimate	
Metal	Inferred Resource
Silver	14,700,000 oz.
Lead	28,400,000 lbs.
Zinc	27,200,000 lbs.

**Based on the resource estimate Ag Eq. cut-off value of 300 g/ and 100% recovery; figures are rounded to the nearest 100,000th increment.*

See the Company's July – September 2015 news releases which are available under the Company's SEDAR profile at www.SEDAR.com.

The Paca deposit is currently undergoing permitting for trial mining at a production rate of 200 tonnes per day. No known legal, political, environmental, or other risks that would materially affect potential future development have been identified by Prophecy as of the effective date of the current mineral resource estimate (September 9, 2015). The trial mining permit is expected to be granted by the end of 2015.

During the nine months ended September 30, 2015, the Company incurred total costs of $1,279,029 for the Pulacayo Project of which a total of $267,142 has been spent for permits and licenses, $321,745 for geological core and consulting, and $690,142 for payroll, legal and general and administrative expenses.

Q4 2015 Outlook

Work will continue to complete an evaluation of the development scenario of Pulacayo project including purchase of a mill equipment and mill construction on site, toll milling, concentrate off-take agreements and project financing, with the goal to make a production decision as soon as possible. If the decision is affirmative, utility upgrade work, mill construction, rehabilitation and development of the Pulacayo underground mine, development of the Paca open pit mine for trial mining including obtaining necessary environmental and government approvals will start. Also the technical report supporting the Paca deposit mineral resource estimate prepared in accordance with the CIM Definition Standards on Mineral Resources and Mineral Reserves referenced in NI 43-101 will be completed and filed on SEDAR.

Highlights on Ulaan Ovoo Mine, Mongolia

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

Select Financial and Operational Data:

Please refer to the relevant section of the Annual MD&A and to Q1 and Q2 interim MD&A for this information.

Q3 2015

The Company decided to keep the Ulaan Ovoo operations on standby but to continue sales from existing stockpiles. The Company executed several coal sale off-take agreements to sell coal from the existing stockpiles.

During the third quarter 2015, the mine shipped approximately 4,399 tonnes (same period 2014 – 24,845 tonnes) of coal to local customers from existing stockpiles. Total coal sales revenue of US$25,070 (same period 2014 – US$848,935) was realized during this period. The coal stockpile balance was approximately 83,600 tonnes with a value of approximately of US$0.95 million at September 30, 2015. During the nine months ended September 30, 2015, the Company incurred operating costs of approximately US$1.1 million.

The feasibility study for upgrading the road from the Ulaan Ovoo mine to the Zeltura border was approved by the Mongolian Ministry of Road and Transportation in January 2015. The Company evaluated options to upgrade the road including the use of a local contractor. While the Company is pleased with the overall progress and appreciates the support from Mongolian authorities, it cannot offer any certainty or a definitive timeframe in which it will start transporting coal to Russia through Zeltura.

Revenue generating, cost reduction and debt reduction efforts continued. Besides sale of stockpiled coal, other revenue generation efforts included sale of a portion of the remaining equipment, parts and supplies and lease of other equipment. Terminating contractors, staff reductions, office relocation, and other actions were completed to reduce costs. Debt reduction efforts included rescheduling and transfer to the Company's debtors.

Both the update of the mine feasibility study and the detailed environmental impact assessment were accepted by the respective government agencies.

Recently passed regulations allow options for those mineral license holders who acquired their licenses before passage of the Law to Prohibit Mineral Exploration and Mining Operations at Headwaters of Rivers, Protected Zones of Water Reservoirs and Forested Areas (the "**Long Named Law**") to retain legally allowed portions of their licenses affected by the law. The Company chose the option of diverting the north branch of the Zelter River in order to retain the licenses. Preliminary work was completed for the river diversion including selection of a location and cost estimation.

The required exploration for the Khujirt license was postponed to Q4 2015. The Company decided to consider sale of the license and approached parties that may be interested.

Q4 2015 Outlook

Prophecy will continue to maintain Ulaan Ovoo on standby and reassess its production decision again in the summer of 2016. The Company will continue with coal loading and complete the sale of its remaining coal stockpile by spring 2016. Placing the mine on standby and selling the equipment is not considered to decrease the likelihood of successfully restarting the mine and continued pre-commercial mining to eventually achieve commercial mining. Open-pit mining operations at Ulaan Ovoo may be restarted in short order by signing with any one of several available third party contract-mining companies in Mongolia that provide turnkey mining capabilities including labor and equipment. The Company believes contract mining is a more efficient way to operate in Mongolia since contract mining firms will be responsible for labor agreements and equipment maintenance.

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

Though management believes the domestic and export long term thermal coal market is improving and is becoming more profitable, the Company is unable to determine when improvement will materialize and if it does, be sustainable, when, if at all, greater access to Russian coal markets will be realized, the extent of project changes and operational modifications required and the time and degree they will improve profitability, and the full potential value of the coal resource will be realized.

Drilling required as part of the annual license diligence is planned for the Khujirt license. The potential sale of the license will continue to be pursued.

Prophecy will continue to pursue support in order to pave the 136km road between the Ulaan Ovoo mine and the Sukhbaatar railway station, as well as to build a 56km 35kv power line from nearby Tsagaannuur soum to bring power to Ulaan Ovoo. Both infrastructure initiatives, if implemented, will significantly reduce the operating cost of Prophecy's Ulaan Ovoo operation and increase the likelihood of sustainable mining operations at Ulaan Ovoo. Pursuit of the river diversion will also continue. Completion of the diversion will ensure that the Company retains the licenses.

Highlights on the Chandgana Coal Properties, Mongolia

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

Q3 2015

The Company decided not to mine coal from the Chandgana Tal licenses because of insufficient demand. Negotiations continued on resolving non-compliance with the Long Named Law concerning one of the Chandgana Tal licenses. A favorable resolution is anticipated but may not be effected until Q4 2015.

The required annual exploration was completed on the Khavtgai Uul license. Six drill holes were completed and provided more information for planning the mine. The Company investigated reducing the size of the Khavtgai Uul license in order to decrease the holding costs. It was decided the license can be reduced without decreasing the resources or mineability.

Consolidation of the assets of Cosmo Coal LLC's wholly-owned subsidiary Tugalgatai Mining LLC ("**Tugalgatai**") and Chandgana was cancelled due to internal restructuring within Cosmo.

During the third quarter 2015, the Company incurred total costs of $78,802 (same period 2014 - $100,489) for the Chandgana Tal property (including power plant consultants and land maintenance costs) and $144,917 (same period 2014 - $3,647) for the Khavtgai Uul property.

Q4 2015 Outlook

Normal license maintenance work will be completed. Resolution of the non-compliance with the Long Named Law will be completed.

Work on the Khavtgai Uul license will include the required exploration report and other license maintenance work in order to retain exploration and mining rights to the licenses. The license reduction application will be submitted.

Chandgana Power Plant Project, Mongolia

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

Q3 2015

During the quarter, Prophecy Power Generation LLC has met with the government appointed working group and revised the concession agreement following their recommendations. Several meetings with key state and local government officials were held to maintain their support and resolve water use concerns. Discussions with investors continued including discussions for funding of some required studies.

Q4 2015 Outlook

The Company actively pursues the remaining agreements, approvals and permits required to proceed with the development of the Chandgana power plant project. The Company intends to conclude three major agreements with the government on the Chandgana power plant – the tariff agreement, power purchase agreement and concession agreement in 2015. Prophecy also continues to actively consider project financing options which include either debt, equity or a combination thereof in addition to joint ventures with international power project developers. Otherwise regular license maintenance work will continue.

(Expressed in Canadian Dollars)

5. SUMMARY OF QUARTERLY RESULTS

The following table summarizes selected financial information for the eight most recently completed quarters, prepared in accordance with IFRS:

		2015 Sep-30		2015 Jun-30		2015 Mar-31		2014 Dec-31
Operating expense		(481,915)	$	(805,826)	$	(565,716)	$	(908,565)
Net loss		(831,656)		(1,112,025)		(1,994,753)		(12,624,317)
Net loss per share, basic and diluted		(0.00)	$	(0.00)	$	(0.01)	$	(0.05)
Comprehensive loss		(831,656)		(1,112,025)		(1,994,753)		(12,624,317)
Comprehensive loss per share, basic and diluted		(0.00)	$	(0.00)	$	(0.01)	$	(0.05)

		2014 Sep-30		2014 Jun-30		2014 Mar-31		2013 Dec-31
Operating expense	$	(381,890)	$	(551,125)	$	(622,005)	$	225,160
Net loss		(997,563)		(874,952)		(199,209)		(10,818,935)
Net loss per share, basic and diluted	$	(0.00)	$	(0.00)	$	(0.00)	$	(0.04)
Comprehensive loss		(997,563)		(874,952)		(199,209)		(10,665,360)
Comprehensive loss per share, basic and diluted	$	(0.00)	$	(0.00)	$	(0.00)	$	(0.04)

The Company's quarterly operating expenses remain relatively stable. Factors causing significant changes between the prior seven quarters have primarily been items such as non-cash share-based payments expense and consulting and management fees. Factors causing significant changes in net loss have been primarily items such as impairment charges, losses on disposal of investment in associate, and sale of available-for-sale investments.

6. DISCUSSION OF OPERATIONS

All of the information described below is accounted for in accordance with IFRS. The reader is encouraged to refer to Note 6 of Prophecy's Annual Financial Statements for Prophecy's IFRS accounting policies. Certain prior period figures have been reclassified to conform to the current year's presentation. Such reclassification is for presentation purposes only and has no effect on previously reported results. For discussion on each project, the reader is encouraged to refer to the "Property Summary" section of this MD&A.

(Expressed in Canadian Dollars)

Three Months Ended September 30, 2015 and 2014 (Q3 2015 and Q3 2014)

Results of operations are summarized as follows:

Operating Expenses		Three months ended September 30,	
		2015	2014
Advertising and promotion	$	58,899	$ 12,446
Consulting and management fees		77,699	9,303
General and administrative expenses		208,167	214,835
Professional fees		24,513	21,793
Share-based payments		77,469	104,644
Travel and accommodation		35,168	18,869
	$	481,915	$ 381,890

The increase by $100,025 in operating expenses was mainly due to the following factors:

- Consulting and management fees increased by $68,396 mainly due to general increase in business activity as a result of the Pulacayo Project acquisition and development; and
- Advertising and promotion expense increased by $46,453 due to more extensive promotion carried out for the Company during the period.

For Q3 2015, the Company incurred other expenses classified as "Other Items" amounting to $0.35 million.

Other Items		Three months ended September 30,	
		2015	2014
Costs in excess of impaired value	$	470,605	$ 1,090,524
Foreign exchange gain		(169,080)	(216,844)
Gain on sale of available-for-sale investments		-	(254,717)
Interest expense		63,402	-
Interest income		-	(3,290)
Gain on sale of equipment		(15,186)	-
	$	349,741	$ 615,673

Nine Months Ended September 30, 2015 and 2014

For the nine months ended September 30, 2015, the Company incurred operating expenses of $1.85 million compared to the $1.56 million incurred for the nine months ended September 30, 2014. Results of operations are summarized as follows:

Operating Expenses		Nine month ended September 30,	
		2015	2014
Advertising and promotion	$	118,263	$ 45,678
Consulting and management fees		228,264	42,617
General and administrative expenses		737,887	699,394
Professional fees		111,573	148,444
Share-based payments		555,850	538,158
Travel and accommodation		101,620	80,729
	$	1,853,457	$ 1,555,020

(Expressed in Canadian Dollars)

The increase by $298,437 in operating expenses was mainly due to the following factors:

- Consulting and management fees increased by $185,647 mainly due to increase in business and development activities as a result of the acquisition of the Pulacayo Project.
- Advertising and promotion expense increased by $72,585 due to more extensive promotion carried out for the Company during the period.
- General and administrative expenses increased by $38,493. The increase was due primarily to increased stock exchange and shareholders services (by $37,951) and increased salaries (by $ 50,385) partially offset by a decrease in directors fees (by $31,569) and by a decrease in insurance expense (by $17,636).
- Travel and accommodation expense increased by $20,891 due to increased travel in connection with the management of the Company's operations in Bolivia.
- Share-based payments expense represents the value assigned to the granting of options and incentive-based units under the Company's Share-Based Compensation Plan using the Black-Scholes option pricing model and varies from period to period based on the number and valuation of the stock options granted during the period, vesting provisions, and amortization schedule of the previously granted options. During nine months ended September 30, 2015, the Company recorded $555,850 in share-based payments expense which is net of the $78,210 that was capitalized to mineral properties and property and equipment due to granting 13,500,000 stock options and issuing 12,000,000 Share purchase warrants (Note 11 to the unaudited condensed interim consolidated financial statements).

For the nine months ended September 30, 2015, the Company incurred other expenses classified as "Other Items" amounting to $2 million compared to $0.5 million for the same period of 2014.

Other Items	Nine month ended September 30, 2015	Nine month ended September 30, 2014
Costs in excess of impaired value	1,063,705	3,767,686
Foreign exchange loss/(gain)	801,956	(614,775)
Gain on sale of available-for-sale investments	-	(2,621,630)
Interest expense	123,139	-
Interest income	-	(14,577)
Loss on sale of equipment	96,177	-
	$ 2,084,977	$ 516,704

The increase in other items by $1.5 million was mainly due to: (1) the sale of all available-for-sale investments of $2.6 million recorded in 2014, with no available-for-sale investments left to be sold in 2015; (2) an increase in the foreign exchange loss by $1.4 million due to fluctuations in the value of the Canadian dollar compared to the Mongolian tugrik and the United States dollar; (3) a decrease of costs in excess of impaired value of the Ulaan Ovoo property's expenditures by $2.7 million due to the curtailing of mining operations; and (4) an increase in interest expense of $123,139.

7. LIQUIDITY AND CAPITAL RESOURCES

Working Capital

The Company is an exploration and development stage company that has not yet generated revenues or significant cash flows from its operations. To continue operations and to fund future obligations, the Company will be required to raise funds through equity or other financing alternatives. Recent global economic conditions and market uncertainty may have an impact on the Company's ability to raise funds through the equity markets. Management believes that there are sources of financing available; however, there can be no assurance that the Company will be successful in its future.

At September 30, 2015 Prophecy had $250,856 comprised of cash and cash equivalents, representing an increase of $49,862 from the $200,994 held at December 31, 2014. Working capital deficit amounted approximately to $0.2 million at September 30, 2015 compared to working capital deficit of $0.9 million as at December 31, 2014. The increase in working capital was mainly due to the partial repayment of the Company's line of credit with the Trade and Development Bank of Mongolia (the "**LOC**").

Sale of mining equipment - During Q2 and Q3 2015, the Company received approximately $2.9 million in cash from sale of mining and transportation equipment at the Company's Ulaan Ovoo mine. The proceeds are being used to partially repay the Company's LOC and to advance the Company's Pulacayo and Chandgana power plant projects.

Equity financing - On September 30, 2015, the Company closed the first tranche of the Placement which raised gross proceeds of $556,000 through the issuance of 11,120,000 Units of Prophecy to various subscribers including the issuance of 7,000,000 Units of Prophecy to Company management and directors. On November 13, 2015, the Company closed the first tranche of the New Placement which raised gross proceeds of $250,000 through the issuance of 6,250,000 Units of Prophecy to various subscribers including the issuance of 2,500,000 Units of Prophecy to Company management and directors. The proceeds are being used to fund the Company's current operations.

Short-term credit facility – On September 23, 2015, the Company's LOC agreement was amended by extending the maturity date to January 2016 and changing the interest to 17.4% from 15% per annum and the fixed monthly payment against principal to US$47,500 from $100,000. As at the date of this MD&A, the outstanding balance of the LOC was US$142,587.

Long-term credit facility - 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., 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, as amended May 5, 2015 (the "**Credit Facility Agreement**"). The Credit Facility Agreement has a maximum principal amount available for advance of $1.5 million, a two year term with an option to extend it for any number of subsequent one-year terms subject to TSX approval, and bears a simple interest rate of 18% per annum. As at September 30, 2015, the outstanding balance of the Credit Facility Agreement was $1.5 million.

As at the date of this MD&A, the Company had used and was continuing to use, the funds from financings as intended. There has been no impact on the ability of the Company to achieve its business objectives and milestones. The Company's holding of cash balances is kept under constant review. Given the current climate, the Company takes a very risk adverse approach to management of cash resources and management and directors monitor events and associated risks on a continuous basis. The Company relies primarily on equity financing and needs further funds to finance its exploration and development programs and its ongoing operating costs.

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

(Expressed in Canadian Dollars)

Cash Flow Highlights

		Nine months ended September 30, 2015		2014
Cash used in operating activities	$	(873,747)	$	(2,015,185)
Cash provided by investing activities		211,797		2,620,149
Cash (used in) provided by financing activities		711,812		(450,193)
Increase (decrease) in cash for period		49,862		154,771
Cash balance, beginning of period		200,994		507,996
Cash balance, end of period	$	250,856	$	662,767

Operating activities: Cash used in operating activities was approximately $0.9 million during the nine months ended September 30, 2015 compared to cash used of $2 million during the same period in 2014. The Company has increased its efforts in managing operating costs in advance of cash flows from operations but will require financing in the near term to fund operations.

Investing activities: Cash provided by investing activities was approximately $0.2 million during the nine months ended September 30, 2015 compared to $2.6 million cash provided by investing activities during the same period in 2014. In 2014, the Company received $4.5 million from the sale of its Common shares of Wellgreen Platinum Ltd. and used $1.9 million for mineral property and property and equipment expenditures. During the nine months ended September 30, 2015, the Company received $2.9 million from sale of mining and transportation equipment and spent $2.5 million on mineral property and property and equipment expenditures. Also, the Company spent net of $237,224 to acquire the Apogee Subsidiaries.

Financing activities: Cash provided by financing activities was approximately $0.7 million during the nine months ended September 30 2015 compared to $0.45 million cash used in the same period of 2014. In 2015, the Company received $1.5 million from the Credit Facility Agreement and $0.55 million from the issuance of Shares. The Company paid $1 million toward the LOC outstanding balance compared to $0.3 paid in the same period of 2014 and interest paid was $0.26 million in 2015 compared to $0.17 million interest paid in the same period of 2014.

Contractual Commitments

Prophecy's commitments related to mineral properties are disclosed in Note 14 to the Annual Financial Statements and Note 8 to the unaudited condensed interim consolidated financial statements. Prophecy's other commitments are disclosed in Note 27 to the Annual Financial Statements.

Capital Risk Management

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

The properties, to which Prophecy currently has an interest in, are predominantly in the exploration and development stages; as such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. There were no changes in management's approach to capital management during the nine months ended September 30, 2015. Neither Prophecy nor its subsidiaries are subject to externally imposed capital requirements.

8. CONTINGENCIES

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

ASC tax claim

Pursuant to the terms of the acquisition agreement, Prophecy agreed to assume all liabilities of the Apogee Subsidiaries, including legal and tax liabilities associated with the Pulacayo Project. During Apogee's financial year ended June 30, 2014, it received notice from the Servicio de Impuestos Nacionales, the national tax authority in Bolivia, that ASC Bolivia LDC Sucursal Bolivia, the Company's wholly-owned subsidiary, owed approximately Bs42,000,000 ($6,536,326) in taxes, interest and penalties relating to a historical tax liability in an amount originally assessed at approximately $760,000 in 2004, prior to Apogee acquiring the subsidiary in 2011. Apogee disputed the assessment and disclosed to the Company that it believed the notice was improperly issued. The Company continued to dispute the assessment and hired local legal counsel to pursue an appeal of the tax authority's assessment on both substantive and procedural grounds.

On May 26, 2015, the Company received a positive Resolution issued by the Bolivian Constitutional Court that among other things, declared null and void the previous Resolution of the Bolivian Supreme Court issued in 2011 (that imposed the tax liability on ASC Bolivia LDC Sucursal Bolivia) and sent the matter back to the Supreme Court to consider and issue a new Resolution. The Company plans to continue to vigorously defend its position and make submissions to the Supreme Court during the new hearing. Based on these developments, the tax claim amount of $6,491,755 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 credit of only MNT235,718,533 from Red Hill's claimed VAT credit of MNT2,654,175,507. Red Hill disagreed with the Sukhbaatar District Tax Division's findings as the tax assessment appeared to the Company to be unfounded. The Company disputed the Sukhbaatar District Tax Division's assessment and submitted a complaint to the Capital City Tax Tribunal. On March 24, 2015, the Capital City Tax Tribunal resolved to refer the matter back to the Sukhbaatar District Tax Division for revision and separation of the action between confirmation of Red Hill's VAT credit, and the imposition of the penalty/deduction for the tax assessment. The Sukhbaatar District Tax Division appealed the Capital City Tax Tribunal's resolution to the General Tax Tribunal office, but was denied on June 4, 2015 on procedural grounds. As a result, the Sukhbaatar District Tax Division implemented the Capital City Tax Tribunal's resolution on June 25, 2015, finding: (1) with respect to confirmation of Red Hill's VAT credit, that after inspection the amount was to be MNT235,718,533; and (2) with respect to the imposition of the penalty/deduction for the tax assessment, that no penalty was to be issued but that Red Hill's loss to be depreciated and reported to be MNT1,396,668,549 in 2010 and MNT4,462,083,700 in 2011. The Company continues to dispute the Sukhbaatar District Tax Division's assessment and delivered a complaint to Capital City Tax Tribunal on July 24, 2015. In the opinion of Prophecy, at September 30, 2015 a provision for this matter is not required.

9. RELATED PARTY DISCLOSURES

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

- Linx Partners Ltd., a private company wholly-owned and 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.

(Expressed in Canadian Dollars)

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

A summary of amounts paid and accrued to related parties for services provided is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Related parties	2015	2014	2015	2014
Directors and officers	$ 90,780	$ 85,506	$ 260,581	$ 263,812
Linx Partners Ltd.	105,000	103,803	323,988	313,809
MaKevCo Consulting Inc.	6,300	10,000	27,019	35,300
Sophir Asia Ltd.	6,000	-	24,242	-
	$ 208,080	$ 199,309	$ 635,830	$ 612,921

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Related parties	2015	2014	2015	2014
Consulting and management fees	$ 107,700	$ 9,303	$ 235,133	$ 36,560
Directors' fees	18,300	28,726	75,502	105,771
Mineral properties	15,300	47,250	124,855	141,750
Property and equipment	-	47,250	-	141,750
Salaries and benefits	66,780	66,780	200,340	187,090
	$ 208,080	$ 199,309	$ 635,830	$ 612,921

On March 12, 2015, the Company entered into the Credit Facility Agreement with Linx Partners Ltd. which has a maximum principal amount available for advance of $1.5 million, a two year term with an option to extend it for any number of subsequent one-year terms subject to TSX approval, and bears an interest rate of 18% per annum. The Credit Facility Agreement is secured by promissory notes and a general security agreement. As at the date of this MD&A, the outstanding balance of the credit facility is $1.5 million.

On May 22, 2015, the Company issued to John Lee, the beneficial owner of Linx Partners Ltd., 12,000,000 Share purchase warrants, exercisable at a price of $0.05 per Share for a period of five years from the date of issuance, as consideration for receiving his consent for the sale of the Ulaan Ovoo mining equipment. The fair value of $333,811 of the issued Share purchase warrants to Mr. Lee was included in share-based payments expense and determined using the Black-Scholes option pricing (Note 11 (d) to the unaudited condensed interim consolidated financial statements).

As at September 30, 2015, amounts due to related parties totaled of $118,506 (December 31, 2014 – $463,578) and was comprised of $33,920 (December 31, 2014 - $70,845) for directors' fees and $84,586 (December 31, 2014 - $157,312) for consulting and management.

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

(Expressed in Canadian Dollars)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Key Management Personnel	2015	2014	2015	2014
Salaries and short term benefits	$ 67,670	$ 88,309	$ 202,667	$ 266,615
Share-based payments	97,118	106,808	523,868	359,701
	$ 164,788	$ 195,117	$ 726,535	$ 626,316

10. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company's unaudited condensed interim consolidated financial statements are prepared in accordance with IFRS as issued by the IASB. The Company followed the same accounting policies and methods of computation in the Annual Financial Statements for the nine months ended September 30, 2015. The significant accounting policies applied and recent accounting pronouncements are described in Note 6 to the Annual Financial Statements.

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

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

11. FINANCIAL INSTRUMENTS AND RELATED RISKS

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

(Expressed in Canadian Dollars)

Financial Instruments (Note 21 to the Annual Financial Statements)

The following table sets forth the Company's financial assets that are measured at fair value on a recurring basis by level within the fair value hierarchy. As at September 30, 2015 those financial assets and liabilities are classified in their entirety based on the level of input that is significant to the fair value measurement.

As at September 30, 2015	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	$ 250,856	$ -	$ -	$ 250,856
Restricted cash equivalents	34,500	-	-	34,500
	$ 285,356	$ -	$ -	$ 285,356

Related Risks

A description of types of risks that the Company is exposed to and its objectives and policies for managing such risks is included in the Company's Annual MD&A dated March 31, 2015, which is available under the Company's SEDAR profile at www.SEDAR.com. There have been no changes in the risks, objectives, policies or procedures during the nine months ended September 30, 2015.

12. RISKS AND UNCERTAINTIES

Readers should carefully consider the risks and uncertainties described in the Company's Annual Information Form for the year ended December 31, 2014 under the section "Risk Factors" on page 59. The Annual Information Form is available under the Company's SEDAR profile at www.SEDAR.com. Additional risks not currently known to the Company, or that the Company currently deems immaterial, may also impair the Company's operations. If any of the foregoing risks actually occur, the Company's business, financial condition and operating results could be adversely affected.

13. DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, with oversight from the Audit Committee of the Board of Directors, is responsible for establishing and maintaining an adequate system of internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. As a result, even those systems determined to be effective can only provide reasonable assurance with respect to financial statement preparation and presentation and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The Company's management has determined that there has been no change in the Company's internal control over financial reporting during the nine months ended September 30, 2015, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

14. PROPOSED TRANSACTIONS

We do not currently have any proposed transactions; however, the Company from time to time does review potential property acquisitions and divestitures on its assets held for sale, in addition to conducting further exploration work on its properties. The Company releases appropriate public disclosure as it conducts exploration work on its existing properties and if the Company makes an acquisition or divestiture.

15. DISCLOSURE OF OUTSTANDING SHARE DATA

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

- 341,822,784 Common shares outstanding with recorded value of $153,263,999.

- 37,938,750 stock options outstanding with a weighted average exercise price of $0.13. Each option is exercisable to purchase one Common share of the Company at prices ranging from $0.05 to $0.28 and which expire between 2015 and 2020; and

- 43,650,385 Share purchase warrants outstanding exercisable to purchase one Common share of the Company at any time at prices ranging from $0.05 to $0.10 and which expire between 2016 and 2020.

16. OFF-BALANCE SHEET ARRANGEMENTS

During the nine months ended September 30, 2015, Prophecy was not a party to any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources of Prophecy.

Prophecy Development Corp.

(Formerly Prophecy Coal Corp.)

Condensed Interim Consolidated Financial Statements
For the three and nine month period ended September 30, 2015

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

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NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

PROPHECY DEVELOPMENT CORP.
(formerly Prophecy Coal Corp.)
Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian Dollars) (Unaudited)

As at	Notes		September 30, 2015		December 31, 2014
Assets					
Current assets					
Cash and cash equivalents	6	$	250,856	$	200,994
Receivables			1,167,529		737,434
Prepaid expenses			556,801		732,082
Inventory			948,729		1,499,231
			2,923,915		3,169,741
Non-current assets					
Restricted cash equivalents	6		34,500		34,500
Reclamation deposits			27,554		27,554
Property and equipment	7		1,818,567		4,361,982
Mineral properties	8		25,332,512		13,710,520
		$	30,137,048	$	21,304,297
Liabilities and Equity					
Current liabilities					
Accounts payable and accrued liabilities	9	$	2,927,508	$	2,778,368
Credit facility	10		207,241		1,288,218
			3,134,749		4,066,586
Non-current liabilities					
Credit facility	10		1,500,000		-
Provision for closure and reclamation			173,363		173,363
Tax Claim	18		6,491,755		-
			11,299,867		4,239,949
Equity					
Share capital	11		153,024,499		147,947,292
Reserves			21,136,945		20,502,885
Deficit			(155,324,263)		(151,385,829)
			18,837,181		17,064,348
		$	30,137,048	$	21,304,297

Approved on behalf of the Board:

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

Nature of operations and going concern (Note 1)
Commitments (Note 17)
Contingencies (Note 18)
Events after the reporting date (Note 19)

See accompanying notes to the consolidated financial statements.

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

	Notes	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
General and Administrative Expenses					
Advertising and promotion		$ 58,899	$ 12,446	$ 118,263	$ 45,678
Consulting and management fees		77,699	9,303	228,264	42,617
Depreciation		15,506	15,596	44,720	47,794
Director fees		18,300	28,726	74,202	105,771
Insurance		18,551	24,307	64,369	82,005
Office and administration		34,959	37,209	111,071	108,635
Professional fees		24,513	21,793	111,573	148,444
Salaries and benefits		85,368	78,786	301,437	251,052
Share-based payments	11	77,469	104,644	555,850	538,158
Stock exchange and shareholder services		35,483	30,211	142,088	104,137
Travel and accommodation		35,168	18,869	101,620	80,729
		(481,915)	(381,890)	(1,853,457)	(1,555,020)
Other Items					
Costs in excess of impaired value	7	(470,605)	(1,090,524)	(1,063,705)	(3,767,686)
Foreign exchange (loss)/gain		169,080	216,844	(801,956)	614,775
Gain on sale of available-for-sale investments		-	254,717	-	2,621,630
Interest expense	10	(63,402)	-	(123,139)	-
Interest income		-	3,290	-	14,577
Gain/(loss) on sale of equipment	7	15,186	-	(96,177)	-
Net Loss for Period		(831,656)	(997,563)	(3,938,434)	(2,071,724)
Comprehensive Loss for Period		$ (831,656)	$ (997,563)	$ (3,938,434)	$ (2,071,724)
Loss Per Common Share, basic and diluted		$ (0.00)	$ (0.00)	$ (0.01)	$ (0.01)
Weighted Average Number of Common Shares Outstanding		324,355,793	251,879,733	316,152,825	250,311,088

See accompanying notes to the consolidated financial statements.

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

	Numbers of shares		Share Capital		Reserves		Accumulated Other Comprehensive Gain (Loss)		Deficit		Total
Balance, December 31, 2013	248,373,819	$	147,680,113	$	19,790,089	$	399,271	$	(136,689,788)	$	31,179,685
Share bonus to personnel	963,750		76,600		-		-		-		76,600
Debt Settlement	2,541,065		190,580		-		-		-		190,580
Share-based payments	-		-		605,070		-		-		605,070
Loss for the period	-		-		-		-		(2,071,724)		(2,071,724)
Sale of available-for-sale investments	-		-		-		(399,271)		-		(399,271)
Balance, September 30, 2014	251,878,634	$	147,947,293	$	20,395,159	$	-	$	(138,761,512)	$	29,580,940
Balance, December 31, 2014	251,878,634	$	147,947,292	$	20,502,885	$	-	$	(151,385,829)	$	17,064,348
Shares issued for acquisition, net of share issue costs	60,000,000		3,900,000		-		-		-		3,900,000
Private placement, net of share issue costs	11,120,000		548,500		-		-		-		548,500
Debt Settlement	12,574,150		628,707		-		-		-		628,707
Share-based payments	-		-		634,060		-		-		634,060
Loss for the period	-		-		-		-		(3,938,434)		(3,938,434)
Balance, September 30, 2015	335,572,784	$	153,024,499	$	21,136,945	$	-	$	(155,324,263)	$	18,837,181

See accompanying notes to the consolidated financial statements

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

	Nine Months Ended September 30, 2015	2014
Operating Activities		
Net loss for the year	$ (3,938,434)	$ (2,071,724)
Adjustments to reconcile net loss to net cash flows:		
Depreciation	44,720	47,794
Share-based payments	555,850	538,158
Gain on sale of available-for-sale investments	-	(2,621,630)
Loss on sale of equipment	96,177	-
Costs in excess of impaired value	1,063,705	3,767,686
Interest income	-	(14,577)
Interest costs	123,139	-
	(2,054,843)	(354,293)
Working capital adjustments		
Receivables	(430,097)	589,998
Prepaid expenses	175,281	74,707
Inventory	550,502	(973,026)
Accounts payable and accrued liabilities	885,410	(1,320,070)
	1,181,096	(1,628,391)
Cash Used in Operating Activities	(873,747)	(1,982,684)
Investing Activities		
Acquisition of Apogee Subsidiaries, net of cash acquired (Note 4)	(237,224)	-
Property and equipment expenditures	(1,213,847)	(1,877,369)
Proceeds from sale of property and equipment	2,926,477	-
Mineral property expenditures	(1,263,609)	(35,228)
Proceeds from sale of available-for-sale investments	-	4,532,746
Cash Provided by Investing Activities	211,797	2,620,149
Financing Activities		
Credit facility paid	(1,080,976)	(277,315)
Proceeds from credit facility	1,500,000	-
Interest paid	(255,712)	(172,878)
Shares issued, net of share issuance costs	548,500	-
Cash Provided by (Used in) Financing Activities	711,812	(450,193)
Net Decrease in cash and cash equivalents	49,862	187,271
Net foreign exchange difference	-	(32,500)
Cash and Cash Equivalents - beginning of period	200,994	507,996
Cash and Cash Equivalents - end of period	$ 250,856	$ 662,767

Supplemental cash flow information (Note 16)

See accompanying notes to the consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

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

The Company maintains its registered and records as well as head office at 2nd Floor, 342 Water Street, Vancouver, BC, Canada, V6B 1B6.

These unaudited condensed interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. The Company incurred a net loss of $3.9 million during the nine months ended September 30, 2015 and as of that date the Company's deficit was $155.3 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. These conditions may cast significant doubt upon the Company's ability to continue as a going concern.

Additional sources of funding, which may not be available at favourable terms, if at all, include: equity and debt financings; coal sales; equity, debt or property level joint ventures with power plant project and coal property developers; and sales 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 adjustments would be required to be made to both the carrying value and classification of assets and liabilities on the statement of financial position.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting. They do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at and for the year ended December 31, 2014. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual consolidated financial statements as at and for the year ended December 31, 2014 ("**Annual Financial Statements**").

These unaudited condensed interim consolidated financial statements were approved and authorized for issue by the Audit Committee on November 12, 2015.

2. BASIS OF PRESENTATION (cont'd…)

(b) Significant accounting policies

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

(c) Judgments and estimates

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

(d) Comparative figures

Certain prior year figures have been reclassified to conform to the current year's presentation. Such reclassifications are for presentation purposes only and has no effect on previously reported results.

3. 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.

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 unaudited consolidated interim financial statements.

(Expressed in Canadian Dollars) (Unaudited)

4. ACQUISITION

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

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

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

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

Cash consideration:	$	250,000
Fair value of Common shares issued:		3,900,000
Purchase price:	$	4,150,000

The preliminary purchase price allocation is as follows:

Cash and cash equivalents:	$	12,776
Plant & equipment:		862,900
Mineral properties:		9,940,134
Accounts payable:		(6,665,810)
Net assets acquired:	$	4,150,000

5. SEGMENTED INFORMATION

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

	September 30, 2015			
	Canada	Mongolia	Bolivia	Total
Reclamation deposits	$ 6,500	$ 21,054	$ -	$ 27,554
Property and equipment	94,587	1,004,206	719,774	1,818,567
Mineral properties	-	14,113,349	11,219,163	25,332,512
	$ 101,087	$ 15,138,609	$ 11,938,937	$ 27,178,633

	December 31, 2014			
	Canada	Mongolia	Bolivia	Total
Reclamation deposits	$ 6,500	$ 21,054	$ -	$ 27,554
Property and equipment	131,863	4,230,119	-	4,361,982
Mineral properties	-	13,710,520	-	13,710,520
	$ 138,363	$ 17,961,693	$ -	$ 18,100,056

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents of Prophecy are comprised of bank balances and short-term money market instruments with original maturities of three months or less. The carrying amounts of cash and cash equivalents approximate fair value. Prophecy's cash and cash equivalents are denominated in the following currencies:

	September 30, 2015	December 31, 2014
Denominated in Canadian dollars	$ 153,228	$ 154,592
Denominated in US dollars	77,458	3,642
Denominated in Mongolian tugriks	8,074	42,760
Denominated in Bolivian Boliviano	12,096	-
	$ 250,856	$ 200,994

Restricted Cash Equivalents

A guaranteed investment certificate of $34,500 has been pledged as collateral for the Company's credit card.

(Expressed in Canadian Dollars) (Unaudited)

7. PROPERTY AND EQUIPMENT

	Computer Equipment	Furniture & Equipment	Vehicles	Computer Software	Leasehold Improvements	Mining Equipment	Ulaan Ovoo Deferred Exploration	Total
Cost								
Balance, December 31, 2013	$ 171,550	$ 372,545	$ 798,599	$ 196,554	$ 172,818	$ 15,071,500	$ 2,000,000	$ 18,783,566
Additions/(disposals)	(15,713)	672	(11,291)	1,259	-	927,423	(33,899)	868,451
Sale of coal	-	-	-	-	-	-	(3,935,612)	(3,935,612)
Cost of coal production	-	-	-	-	-	-	10,045,848	10,045,848
Impairment charge	-	-	-	-	-	(9,750,533)	(8,076,337)	(17,826,870)
Balance, December 31, 2014	$ 155,837	$ 373,217	$ 787,308	$ 197,813	$ 172,818	$ 6,248,390	$ -	$ 7,935,383
Accumulated depreciation								
Balance, December 31, 2013	$ 99,872	$ 174,015	$ 404,587	$ 131,328	$ 92,709	$ 7,122,469	$ -	$ 8,024,980
Depreciation for year	15,338	33,288	73,428	4,356	32,944	1,664,591	400,000	2,223,945
Impairment charge	-	-	-	-	-	(6,275,524)	(400,000)	(6,675,524)
Balance, December 31, 2014	$ 115,210	$ 207,303	$ 478,015	$ 135,684	$ 125,653	$ 2,511,536	$ -	$ 3,573,401
Carrying amount								
At December 31, 2013	$ 71,678	$ 198,530	$ 394,012	$ 65,226	$ 80,109	$ 7,949,031	$ 2,000,000	$ 10,758,587
At December 31, 2014	$ 40,627	$ 165,914	$ 309,293	$ 62,129	$ 47,165	$ 3,736,854	$ -	$ 4,361,982

	Computer Equipment	Furniture & Equipment	Vehicles	Computer Software	Leasehold Improvements	Mining Equipment	Ulaan Ovoo Deferred Exploration	Total
Cost								
Balance, December 31, 2014	$ 155,837	$ 373,217	$ 787,308	$ 197,813	$ 172,818	$ 6,248,390	$ -	$ 7,935,383
Additions	151,046	87,784	33,877	-	-	1,317,931	2,683,544	4,274,182
Disposals			(411,926)			(5,229,103)	-	(5,641,029)
Sale of coal	-	-	-	-	-	-	(692,901)	(692,901)
Costs in excess of impaired value	-	-	-	-	-	-	(1,990,643)	(1,990,643)
Balance, September 30, 2015	$ 306,883	$ 461,001	$ 409,259	$ 197,813	$ 172,818	$ 2,337,218	$ -	$ 3,884,992
Accumulated depreciation								
Balance, December 31, 2014	$ 115,210	$ 207,303	$ 478,015	$ 135,684	$ 125,653	$ 2,511,536	$ -	$ 3,573,401
Depreciation for period	151,007	46,730	3,852	1,577	26,192	643,081	926,938	1,799,377
Disposals	-	-	(183,159)	-	-	(2,196,256)	-	(2,379,415)
Costs in excess of impaired value	-	-	-	-	-	-	(926,938)	(926,938)
Balance, September 30, 2015	$ 266,217	$ 254,033	$ 298,708	$ 137,261	$ 151,845	$ 958,361	$ -	$ 2,066,425
Carrying amount								
At December 31, 2014	$ 40,627	$ 165,914	$ 309,293	$ 62,129	$ 47,165	$ 3,736,854	$ -	$ 4,361,982
At September 30, 2015	$ 40,666	$ 206,968	$ 110,551	$ 60,552	$ 20,973	$ 1,378,857	$ -	$ 1,818,567

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

Ulaan Ovoo Property

In November 2005, Prophecy entered into a letter of intent with Ochir LLC that set out the terms to acquire a 100% interest in the Ulaan Ovoo property. The Ulaan Ovoo property is located in Selenge province, Mongolia. It is held by Ochir LLC under a transferable, 55-year mining license with a 45-year option for extension granted by the Government of Mongolia. The purchase price for the 100% interest, together with all equipment, buildings, and other facilities assembled and constructed at the property, was US$9,600,000. Under the terms of the agreement, Ochir LLC retained a 2% net smelter return royalty ("**NSR**").

In November 2006, Prophecy entered into an agreement with a private Mongolian corporation to purchase 100% title and interest in five mineral licenses including licenses that are contiguous and entirely surrounding the Ulaan Ovoo property. The aggregate purchase price for the licenses was US$400,000. Under the terms of the agreement the vendor retained a 2% NSR. A finder's fee of 58,500 Common shares of Prophecy was issued to a third party on the acquisition.

In March 2010, Prophecy was granted an option to purchase a 2% NSR on the Ulaan Ovoo property from Dunview Services Ltd., a private British Virgin Islands company, with a cash payment of US$130,000 and issuance of 2,000,000 Common shares of Prophecy. In April 2010, Prophecy exercised the option and a total of $1,570,000 was capitalized as acquisition costs of the property.

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.

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. As result, at December 31, 2014, the Company recorded an impairment charge of $3,475,009 against the value of the mining equipment and an impairment charge of $7,676,337 against the value of the deferred development costs.

As there were no benchmark or market changes from January 1, 2015 to September 30, 2015, the impaired value of $nil for deferred development costs remains unchanged.

During the nine months ended September 30, 2015, the Company sold most of its mining and transporation equipment at Ulaan Ovoo mine for net proceeds of $2,926,477 and recorded a loss on sale of equipment of $96,177 which is reflected on the consolidated statement of operations and comprehensive loss.

(Expressed in Canadian Dollars) (Unaudited)

8. MINERAL PROPERTIES

	Chandgana Tal (a)	Khavtgai Uul (b)	Titan (c)	Okeover, others (d)	Pulacayo (e)	Total
Balance, December 31, 2013	$ 9,974,172	$ 2,875,808	$ 750,628	$ 1,453,165	$ -	$15,053,773
Additions:						
Acquisition cost	-	-	-	-	-	-
Deferred exploration costs:						
Licenses, leases, and power plant application	664,437	41,299	1,049	5,864	-	712,649
Geological core, engineering, and consulting	23,560	-	7,705	30,910	-	62,175
Personnel, camp and general	112,464	18,780	1,500	1,789	-	134,533
Impairment of mineral property	-	-	(760,882)	(1,491,728)	-	(2,252,610)
	800,461	60,079	(750,628)	(1,453,165)	-	(1,343,253)
Balance, December 31, 2014	$10,774,633	$ 2,935,887	$ -	$ -	$ -	$13,710,520
Additions:						
Acquisition cost (Note 4)	$ -	$ -	$ -	$ -	$ 9,940,134	$ 9,940,134
Deferred exploration costs:						
Licenses, leases, and power plant application	143,933	192,482	-	-	267,142	603,557
Geological core, engineering, and consulting	50,103	986	-	-	321,745	372,834
Personnel, camp and general	7,663	7,662	-	-	690,142	705,467
	201,699	201,130	-	-	1,279,029	1,681,858
Balance, September 30, 2015	$10,976,332	$ 3,137,017	$ -	$ -	$11,219,163	$25,332,512

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

(a) Chandgana Tal Property, Mongolia

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

(b) 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.

(c) Titan Property, Ontario, Canada

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

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

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

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.

(Expressed in Canadian Dollars) (Unaudited)

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

(d) Okeover Property, British Columbia, Canada

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

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 of $1,453,897 to $nil. Prophecy continues to retain its 60% interest and management will continue to evaluate appropriate financing and strategic alternatives to move the project forward.

(e) 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 60 million Prophecy Common shares (see Note 4).

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.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

		September 30, 2015		December 31, 2014
Current liabilities				
Trade accounts payable	$	2,927,508	$	2,347,888
Accrued liabilities		-		430,480
	$	2,927,508	$	2,778,368

10. 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 licences.

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.

As at September 30, 2015, the outstanding balance of the LOC was $207,241. For the nine months ended September 30, 2015, Red Hill recorded an interest expense of $115,602 (capitalized), interest paid of $132,573 and interest payable of $3,886.

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., 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 Agreement**"). The Credit Facility Agreement has a maximum principal amount available for advance of $1.5 million, a two year term (formerly one year, but amended on May 5, 2015 and approved by the TSX) with an option to extend it for any number of subsequent one-year terms subject to TSX approval, and bears a simple interest rate of 18% per annum. The Credit Facility Agreement is secured by promissory notes and a general security agreement.

As at September 30, 2015, the outstanding balance of the Credit Facility Agreement was $1.5 million. For the nine months ended September 30, 2015, the Company recorded and paid interest of $123,139.

11. SHARE CAPITAL

(a) Authorized

The authorized share capital of the Company consists of an unlimited number of Common shares without par value. There are no authorized preferred shares. At September 30, 2015, the Company had 335,572,784 (December 31, 2014 – 251,878,634) Common shares issued and outstanding.

(b) Equity issuances

During the nine months ended September 30, 2015, Prophecy had the following Common share capital transactions:

On January 2, 2015, the Company issued 60,000,000 Common shares in relation with Apogee Subsidiaries acquisition (Note 4).

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

(b) Equity issuances (cont'd…)

On June 22, 2015 the Company issued 757,862 Common shares at a value of $0.05 per Common 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 11,476,819 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 $0.05 per Debt Settlement Unit. Each Debt Settlement Unit is comprised of one Common share of the Company and one share purchase warrant of the Company entitling the holder thereof to purchase, upon exercise, one additional Common share at a price of $0.06 per Common share until June 24, 2017.

On July 27, 2015, the Company issued 339,469 Common shares at a value of $0.05 per Common 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 September 30, 2015, the Company closed the first tranche of a $2,000,000 non-brokered private placement (the "**Placement**") announced on September 1, 2015 involving the issuance of up to 40,000,000 units (each a "**Placement Unit**") at a price of $0.05 per Placement Unit. Each Placement Unit consists of one Common 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 $0.07 per Common share for a period of five years from the date of issuance. The first tranche of the Placement raised gross proceeds of $556,000 through the issuance of 11,120,000 Placement Units of Prophecy to various subscribers including the issuance of 7,000,000 Placement Units of Prophecy to Company management and directors.

In connection with a portion of the first tranche of the Placement, the Company paid finder's fees in cash of 5% of the subscription proceeds raised by the finder.

(c) Equity-based compensation plans

During the nine months ended September 30, 2015, the Company granted 13,500,000 stock options to its directors, officers, employees and consultants with a weighted average exercise price of $0.05 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, 2013 to September 30, 2015:

(Expressed in Canadian Dollars) (Unaudited)

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

(c) Equity-based compensation plans (cont'd…)

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2013	31,565,550	$0.26
Granted	13,535,000	$0.08
Expired	(1,231,800)	$0.28
Forfeited	(14,980,000)	$0.29
Cancelled	(2,325,000)	$0.23
Outstanding, December 31, 2014	26,563,750	$0.13
Granted	13,500,000	$0.05
Expired	(225,000)	$0.48
Cancelled	(1,900,000)	$0.06
Outstanding, September 30, 2015	37,938,750	$0.10
Options exercisable on September 30, 2015	22,868,125	$0.13

As of September 30, 2015, the following Prophecy stock options were outstanding:

September 30, 2015		December 31, 2014		Expiry	At September 30, 2015	
Exercise Price	Options Outstanding	Exercise Price	Options Outstanding	Date	Exercisable	Unvested
$ 0.050	3,500,000	$ -	-	June 22, 2020	437,500	3,062,500
$ 0.050	9,700,000	$ -	-	April 7, 2020	1,212,500	8,487,500
$ 0.055	-	$ 0.055	100,000	October 21, 2019	-	-
$ 0.055	2,468,750	$ 0.055	2,468,750	December 31, 2015	2,468,750	-
$ 0.065	5,555,000	$ 0.065	7,055,000	May 1, 2019	3,471,875	2,083,125
$ 0.08	100,000	$ 0.080	100,000	January 9, 2019	75,000	25,000
$ 0.10	500,000	$ 0.100	500,000	February 3, 2019	375,000	125,000
$ 0.105	5,150,000	$ 0.105	5,150,000	January 27, 2019	3,862,500	1,287,500
$ 0.12	3,450,000	$ 0.120	3,450,000	August 16, 2018	3,450,000	-
$ 0.13	250,000	$ 0.130	250,000	July 22, 2018	250,000	-
$ 0.18	230,000	$ 0.180	230,000	August 16, 2017	230,000	-
$ 0.18	375,000	$ 0.180	375,000	September 24, 2017	375,000	-
$ 0.18	3,654,167	$ 0.180	3,654,167	August 22, 2017	3,654,167	-
$ 0.25	10,000	$ 0.250	10,000	June 1, 2017	10,000	-
$ 0.28	-	$ 0.280	25,000	September 21, 2015	-	-
$ 0.28	100,000	$ 0.280	100,000	February 14, 2016	100,000	-
$ 0.28	445,833	$ 0.280	445,833	December 24, 2015	445,833	-
$ 0.28	2,450,000	$ 0.280	2,450,000	June 18, 2017	2,450,000	-
$ -	-	$ 0.280	50,000	April 30, 2015	-	-
$ -	-	$ 0.280	50,000	May 10, 2015	-	-
$ -	-	$ 0.670	100,000	May 10, 2015	-	-
	37,938,750		26,563,750		22,868,125	15,070,625

(Expressed in Canadian Dollars) (Unaudited)

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

(c) Equity-based compensation plans (cont'd…)

The fair value of stock options granted are recorded using the Black Scholes model. Share-based payment expenses resulting from stock options are amortized over the corresponding vesting periods. During the nine months ended September 30, 2015, the share-based payment expenses were calculated using the following weighted average assumptions:

	Period ended September 30	
	2015	2014
Risk-free interest rate	1.41%	1.67%
Expected life of options in years	4.49 years	4.35 years
Expected volatility	96.6%	84.0%
Expected dividend yield	Nil	Nil
Weighted average fair value of options granted during the period	$ 0.05	$ 0.05

Share-based payment expenses resulting from stock options are amortized over the corresponding vesting periods. 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 nine and three months ended September 30, 2015 and 2014, share-based payments were allocated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Consolidated Statement of Operations				
Share based payments	$ 77,469	$ 104,644	$ 555,850	$ 538,158
	$ 77,469	$ 104,644	$ 555,850	538,158
Consolidated Statement of Financial Position				
Chandgana Tal exploration	3,969	-	5,953	-
Power Plant application	9,613	13,466	22,675	48,803
Pulacayo exploration	21,084	-	31,949	-
Ulaan Ovoo exploration	11,553	22,052	17,633	94,709
	46,219	35,518	78,210	143,512
Total share-based payments	$ 123,688	$ 140,162	$ 634,060	$ 681,670

(d) Share purchase warrants

On May 22, 2015 the Company issued 12,000,000 share purchase warrants, exercisable at a price of $0.05 per Common 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 10) as a consideration for receiving his consent for the sale of

(Expressed in Canadian Dollars) (Unaudited)

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

(d) Share purchase warrants (cont'd…)

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 Partners Ltd. 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 11,476,819 share purchase warrants as a part of Debt Settlement Units exercisable at a price of $0.06 per Common share for a period of two years from the date of issuance (Note 11 (b)).

On September 30, 2015, the Company issued 11,120,000 share purchase warrants as a part of the Placement exercisable at a price of $0.07 per Common share for a period of five years from the date of issuance (Note 11 (b)).

The following is a summary of the changes in Prophecy's share purchase warrants from December 31, 2014 to September 30, 2015:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2014	15,766,648	$0.15
Issued	34,596,819	$0.06
Expired	(9,394,071)	$0.18
Outstanding, September 30, 2015	40,969,396	$0.07

As of September 30, 2015, the following Prophecy share purchase warrants were outstanding:

Exercise price	Number of Warrants At September 30, 2015	At December 31, 2014	Expiry date
$0.18	-	3,286,929	April 11, 2015
$0.18	-	6,107,143	June 4, 2015
$0.18	2,767,296	2,767,296	October 28, 2015
$0.055	1,064,215	1,064,215	October 28, 2015
$0.10	2,541,065	2,541,065	June 19, 2016
$0.05	12,000,000	-	May 22, 2020
$0.06	11,476,819	-	June 24, 2017
$0.07	11,120,000	-	September 30, 2020
	40,969,396	15,766,648	

(Expressed in Canadian Dollars) (Unaudited)

12. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Prophecy 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 September 30, 2015	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	$ 250,856	$ -	$ -	$ 250,856
Restricted cash equivalents	34,500	-	-	34,500
	$ 285,356	$ -	$ -	$ 285,356

As at December 31, 2014	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	$ 200,994	$ -	$ -	$ 200,994
Restricted cash equivalents	34,500	-	-	34,500
	$ 235,494	$ -	$ -	$ 235,494

The Company considers that the carrying amount of all its financial assets and financial liabilities measured at amortized cost approximates their fair value. The Company does not offset financial assets with financial liabilities. There were no transfers between Level 1, 2 and 3 for the periods presented.

(Expressed in Canadian Dollars) (Unaudited)

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

Categories of financial instruments

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

		As at September 30, 2015		As at December 31, 2014
Fair value through profit or loss				
Cash and cash equivalents	$	250,856	$	200,994
Restricted cash equivalents		34,500		34,500
Loans and receivables				
Trade receivable and other		634,671		731,447
VAT receivable		532,858		-
	$	1,452,884	$	966,941
Other financial liabilities				
Accounts payable and accrued liabilities	$	2,927,508	$	2,778,368
Credit facility		207,241		1,288,218
	$	3,134,749	$	4,066,586

13. FINANCIAL RISK MANAGEMENT DISCLOSURES

(a) Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its financial obligations as they fall due. The Company manages liquidity risk by preparing cash flow forecasts of upcoming cash requirements. As at September 30, 2015, the Company had a cash and cash equivalents balance of $250,856 (at December 31, 2014 – $200,994) in order to meet short-term business requirements. At September 30, 2015, the Company had trade accounts payable and accrued liabilities $2,927,508 (December 31, 2014 - $2,778,368), which have contractual maturities of 90 days or less and short-term line of credit payments of $207,241 (December 31, 2014 - $1,288,218). The Company is seeking financings in order to be in a position to satisfy its current liabilities.

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.

(Expressed in Canadian Dollars) (Unaudited)

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

(a) Liquidity risk (cont'd…)

	0 to 6 months	6 to 12 months	Total
As at September 30, 2015			
Trade accounts payable	$ 2,927,508	$ -	$ 2,927,508
Credit facilities	207,241	-	207,241
	$ 3,134,749	$ -	$ 3,134,749
As at December 31, 2014			
Trade accounts payable	$ 2,347,888	$ -	$ 2,347,888
Credit facilities	1,055,678	232,540	1,288,218
	$ 3,403,566	$ 232,540	$ 3,636,106

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 plant project and coal property developers; and sale of interests in existing assets. In the event that the Company is not able to obtain adequate additional funding to continue as a going concern, material adjustment would be required to both the carrying value and classification of assets and liabilities on the statement of financial position (Note 1).

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk primarily associated to cash and cash equivalents and receivables, net of allowances.

The significant concentration of credit risk is situated in Mongolia. The carrying amount of assets included on the statements of financial position represents the maximum credit exposure.

(c) Market risk

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

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's cash equivalents primarily include highly liquid investments that earn interest at market rates that are fixed to maturity or at variable interest rates. The Company also drew down $1,707,241 on its credit facilities bearing an annual coupon rate of 17.4%, and 18% with monthly interest payments. Due to the short-term nature of these financial instruments, and that the Company's credit facilities bear interest at fixed rates, fluctuations in market rates do not have a significant impact on the fair values or future cash flows of the financial instruments as of September 30, 2015.

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

(c) Market risk (cont'd…)

(i) Interest rate risk (cont'd…)

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. 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 and Mongolia tugrik into its functional and reporting currency, the Canadian dollar.

Based on the above, net exposures as at September 30, 2015, with other variables unchanged, a 10% (December 31, 2014 - 10%) strengthening (weakening) of the Canadian dollar against the Mongolian tugrik would impact earnings with other variables unchanged by $349,734. A 10% (December 31, 2014 - 10%) strengthening (weakening) of the US dollar against the Canadian dollar would impact earnings with other variables unchanged by $411,250. 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.

(Expressed in Canadian Dollars) (Unaudited)

14. RELATED PARTY DISCLOSURES

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

- Linx Partners Ltd., a private company wholly-owned and 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 wholly-owned and controlled by Masa Igata, Director of Prophecy, provides consulting services to the Company.

A summary of amounts paid and accrued to related parties for services provided is as follows:

Related parties	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Directors and officers	$ 90,780	$ 85,506	$ 260,581	$ 263,812
Linx Partners Ltd.	105,000	103,803	323,988	313,809
MaKevCo Consulting Inc.	6,300	10,000	27,019	35,300
Sophir Asia Ltd.	6,000	-	24,242	-
	$ 208,080	$ 199,309	$ 635,830	$ 612,921

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

Related parties	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Consulting and management fees	$ 107,700	$ 9,303	$ 235,133	$ 36,560
Directors' fees	18,300	28,726	75,502	105,771
Mineral properties	15,300	47,250	124,855	141,750
Property and equipment	-	47,250	-	141,750
Salaries and benefits	66,780	66,780	200,340	187,090
	$ 208,080	$ 199,309	$ 635,830	$ 612,921

As at September 30, 2015, amounts due to related parties totaled of $118,506 (December 31, 2014 – $463,578) and was comprised of $33,920 (December 31, 2014 - $70,845) for directors' fees and $84,586 (December 31, 2014 - $157,312) for consulting and management.

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

(Expressed in Canadian Dollars) (Unaudited)

15. KEY MANAGEMENT PERSONNEL COMPENSATION

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

Key Management Personnel	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Salaries and short term benefits	$ 67,670	$ 88,309	$ 202,667	$ 266,615
Share-based payments	97,118	106,808	523,868	359,701
	$ 164,788	$ 195,117	$ 726,535	$ 626,316

16. SUPPLEMENTAL CASH FLOW INFORMATION

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Supplementary information		
Interest paid	$ 255,712	$ 172,878
Non-Cash Financing and Investing Activities		
Shares issued as bonus shares	$ -	$ 76,600
Shares issued for business acquisition	$ 3,900,000	$ -
Shares issued to settle debt	$ 628,707	$ 190,581
Shares issued in private placement		
Capitalized depreciation	$ 1,462,256	$ 1,393,603
Capitalized interest	$ 115,602	$ 172,878
Property & equipment expenditures included in accounts payable	$ 1,282,451	$ 961,236
Mineral property expenditures included in accounts payable	$ 627,623	$ 351,401
Share-based payments capitalized in property and equipment	$ 17,633	$ 94,709
Share-based payments capitalized in mineral properties	$ 60,577	$ 48,803

17. COMMITMENTS

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

Office rental commitments Year	Amount
2015	$ 26,330
2016	21,214
	$ 47,544

18. CONTINGENCIES

The Company accrues for liabilities when both a liability is probable and the amount payable can be reasonably estimated.

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 ($6,536,326) in taxes, interest and penalties relating to a historical tax liability in an amount originally assessed at approximately $760,000 in 2004, prior to Apogee acquiring the subsidiary in 2011. Apogee disputed the assessment and disclosed to the Company that it believed the notice was improperly issued. The Company continued to dispute the assessment and hired local legal counsel to pursue an appeal of the tax authority's assessment on both substantive and procedural grounds.

On May 26, 2015, the Company received a positive Resolution issued by the Bolivian Constitutional Court that among other things, declared null and void the previous Resolution of the Bolivian Supreme Court issued in 2011 (that imposed the tax liability on ASC Bolivia LDC Sucursal Bolivia) and sent the matter back to the Supreme Court to consider and issue a new Resolution. The Company plans to continue to vigorously defend its position and make submissions to the Supreme Court during the new hearing. Based on these developments, the tax claim amount of $6,491,755 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 credit of only MNT235,718,533 from Red Hill's claimed VAT credit of MNT2,654,175,507. Red Hill disagreed with the Sukhbaatar District Tax Division's findings as the tax assessment appeared to the Company to be unfounded. The Company disputed the Sukhbaatar District Tax Division's assessment and submitted a complaint to the Capital City Tax Tribunal. On March 24, 2015, the Capital City Tax Tribunal resolved to refer the matter back to the Sukhbaatar District Tax Division for revision and separation of the action between confirmation of Red Hill's VAT credit, and the imposition of the penalty/deduction for the tax assessment. The Sukhbaatar District Tax Division appealed the Capital City Tax Tribunal's resolution to the General Tax Tribunal office, but was denied on June 4, 2015 on procedural grounds. As a result, the Sukhbaatar District Tax Division implemented the Capital City Tax Tribunal's resolution on June 25, 2015, finding: (1) with respect to confirmation of Red Hill's VAT credit, that after inspection the amount was to be MNT235,718,533; and (2) with respect to the imposition of the penalty/deduction for the tax assessment, that no penalty was to be issued but that Red Hill's loss to be depreciated and reported to be MNT1,396,668,549 in 2010 and MNT4,462,083,700 in 2011. The Company continues to dispute the Sukhbaatar District Tax Division's assessment and delivered a complaint to Capital City Tax Tribunal on July 24, 2015. In the opinion of Prophecy, at September 30, 2015 a provision for this matter is not required.

18. EVENTS AFTER THE REPORTING DATE

On October 28, 2015, 3,831,511 share purchase warrants previously issued by the Company, with a weighted average exercise price of $0.15, expired unexercised.

On November 13, 2015, the Company closed the first tranche of a $1,000,000 non-brokered private placement (the "**New Placement**") announced on November 12, 2015 involving the issuance of up to 25,000,000 units (each a "**New Placement Unit**") at a price of $0.04 per New Placement Unit. Each New Placement Unit consists of one Common 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 $0.07 per Common share for a period of five years from the date of issuance. The first tranche of the New Placement raised gross proceeds of $250,000 through the issuance of 6,250,000 New Placement Units of Prophecy to various subscribers including the issuance of 2,500,000 New Placement Units of Prophecy to Company management and directors.

In connection with a portion of the first tranche of the New Placement, the Company paid finder's fees in cash of 7% of the subscription proceeds raised by the finder and finders warrants equal to 7% of the number of New Placement Units sold to subscribers introduced by the finder. The finder's warrants are identical in all respects to the share purchase warrants attached to the New Placement Units, except that they are exercisable for a period of two years from the date of issuance.