Prophecy Development Corp.

(Formerly Prophecy Coal Corp.)

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

For the year ended December 31, 2015

(Expressed in Canadian Dollars, except where indicated)

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 year ended December 31, 2015. The following information should be read in conjunction with the accompanying December 31, 2015 audited consolidated financial statements and the notes to those financial statements, prepared in accordance with International Financial Reporting Standards ("**IFRS**"), as issued by the International Accounting Standards Board, and the Company's Annual Information Form for the year ended December 31, 2015, 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 March 29, 2016, and was reviewed, approved, and authorized for issue by the Company's Board of Directors. This discussion is intended to supplement and complement Prophecy's audited annual consolidated financial statements for the year ended December 31, 2015 and the notes thereto (the "**Annual Financial Statements**"). 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**") are listed for trading on the Toronto Stock Exchange (the "**TSX**") under the symbol "PCY" and the Frankfurt Stock Exchange under the symbol "1P2".

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 Ulaan Ovoo coal property, the Khavtgai Uul and Chandgana Tal coal deposits collectively known as the "**Chandgana Coal Properties**". On January 2, 2015, the Company acquired a joint venture interest in the Pulacayo Project (as hereinafter defined).

General Corporate Information:

At December 31, 2015 and March 29, 2016, Prophecy had: (i) 342,746,784 and 365,570,454 Common shares issued and outstanding, respectively; (ii) 34,374,167 and 30,284,167 stock options for Common shares outstanding, and (iii) 43,650,384 and 52,210,384 warrants for Common shares outstanding.

Share Information

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

Investor Information

All financial reports, news releases and corporate information can be accessed on our web site at www.prophecydev.com

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Directors and Officers

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

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

Qualified Persons

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

2. CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

3. YEAR 2015 HIGHLIGHTS AND SIGNIFICANT EVENTS

For further information please view the Company's 2015 news release under the Company's SEDAR profile at www.SEDAR.com.

- On January 2, 2015, the Company completed, by way of a share purchase agreement, as amended (the "**Acquisition Agreement**") 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 Shares (the "**Consideration Shares**"). The Company also agreed to assume all liabilities of the Apogee Subsidiaries.

  Also pursuant to the terms of the Acquisition Agreement, the Company and Apogee entered into an escrow agreement (the "**Escrow Agreement**") which allows for the release of the Consideration Shares from escrow over time, when Prophecy Shares trading on the TSX reach certain price levels, or in the face of certain major triggering events. The Escrow Agreement provides for a standstill on 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 the Company continues to be engaged in its current business. The Consideration Shares were deposited into escrow pursuant to the Escrow Agreement upon completion of the acquisition.

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

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

The purchase price allocation is as follows:

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

- On January 5, 2015, the Company announced that it has changed its name to "Prophecy Development Corp."

- In February 2015, the Company was notified by the Concession Department of the Mongolian Ministry of Industry that a working group was appointed to work on the power concession projects including one for the Chandgana power plant.

- On March 12, 2015 the Company arranged a revolving credit facility with Linx Partners Ltd. ("**Linx**"), a private company wholly-owned and controlled by John Lee, Director, CEO and Executive Chairman of the Company by entering into an agreement dated March 12, 2015 (the "**Credit Facility**"), in order to meet interim working capital requirements. The Credit Facility 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 is secured by promissory notes and a general security agreement.

- On March 20, 2015, the Company announced that the private placement with TBF Capital Management Group (HK) Limited ("**TBF**") previously announced on December 8, 2014 and February 25, 2015 had not closed by the deadline stipulated by the TSX.

- On April 1, 2015, the Company engaged Cor Capital Inc. ("**Cor Capital**") to provide the Company with investor relations and shareholder communications services. Cor Capital is also engaged to introduce the Company to institutional investors, large asset money managers, investment advisors and high-net worth individuals among other duties.

- On April 2, 2015, the Company announced that it had completed a review of prior technical studies on the Pulacayo Project and engaged Mercator Geological Services Limited of Dartmouth, Nova Scotia ("**Mercator**") to complete an updated mineral resource estimate in accordance with NI 43-101 for the Pulacayo deposit and to develop a future exploration plan and a new mine plan for the Pulacayo Project.

- On April 14, 2015, the Company filed a Notice of Civil Claim in the Supreme Court of British Columbia against TBF for breach and repudiation of an Amended and Restated Subscription Agreement for Shares between the parties dated February 6, 2015.

- On May 5, 2015, the Company, through its wholly-owned subsidiary, Red Hill Mongolia LLC ("**Red Hill**"), entered into a purchase agreement with an arm's-length party in Mongolia to sell substantially all of its mining and transportation equipment at the Company's Ulaan Ovoo mine for total proceeds of approximately $2.34 million. The sale, together with the sale of additional equipment to other arm's-length parties, was completed in June 2015 and the Company received approximately $2.9 million in cash.

The Company received consent to the sales of the equipment, from Linx, and in consideration, John Lee, the beneficial owner of Linx, received 12 million share purchase warrants of the Company exercisable at $0.05 per Share for a period of five years expiring on May 22, 2020.

- On June 18, 2015, the Company announced it received an independent mineral resource estimate for the Pulacayo Project prepared in accordance with the CIM Standards on Mineral Resources and Mineral Reserves (the "**CIM Standards**") referenced in NI 43-101. The estimate was dated June 16, 2015 and prepared by Mercator under the supervision of Michael Cullen, P.Geo., who is an independent Qualified Person under NI 43-101 ("**June 16, 2015 NI Report**").

- On June 22, 2015, the Company appointed Mr. Bekzod Kasimov as Vice-President, Operations of the Company.

- On June 22, 2015, the Company entered into settlement and release agreements with certain of its consultants located in Bolivia to settle various historical debts owing to them when Prophecy acquired its Bolivian subsidiaries on January 2, 2015. Pursuant to the terms of those settlement and release agreements, the Company issued 757,862 Shares, and a further 339,469 Shares on July 27, 2015, at a deemed price of $0.05 per Share through its Share-Based Compensation Plan.

- On June 24, 2015, the Company held its annual general meeting of shareholders at which all resolutions proposed by management of the Company were passed including the issuance of a total of 11,476,819 debt settlement units, consisting of 11,476,819 Shares and 11,476,819 share purchase warrants exercisable at a price of $0.06 per Share for a period of two years from the date of issuance expiring on June 24, 2017, and the adoption of a new shareholder rights plan which was entered into between the Company and Computershare Trust Company of Canada on April 29, 2015.

- 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.

- On July 31, 2015, the Company filed the technical report related to the mineral resource estimate dated June 16, 2015 prepared by 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 dated August 15, 2014, 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.

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

- 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.

- 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 (the "**Paca Report**"), that was prepared in accordance with 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 December 18, 2015, the Company announced the closing 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.

- On December 18, 2015, the Company, through its wholly-owned subsidiary, Prophecy Power Generation LLC ("**PPG**") signed an Engineering, Procurement and Construction ("**EPC**") Agreement, together with PPG, an Equity Investment Agreement, and Share Purchase Agreement (collectively, the "**Agreements**") with China-based Shandong Electrical Power Construction No.2 Company ("**SEPCO2**") to invest in, and build the Company's 600 MW Chandgana power plant in Mongolia.

- On December 22, 2015, the Company signed a non-binding Joint Development Agreement ("**JDA**") with a Chinese partner (the "**Strategic Partner**") to invest in the Chandgana power plant.

- During the year ended December 31, 2015, the Company granted 13,500,000 incentive stock options to directors, officers, employees, and consultants of the Company which are exercisable at a price of $0.05 per Share for a period of five years. During the year ended December 31, 2015, the Company cancelled 2,550,000 stock options due to voluntary surrendering; 3,139,583 stock options expired unexercised.

Subsequent to year end

- On January 25, 2016, the Company closed a non-brokered private placement involving the issuance of 8,000,000 units at a price of $0.025 per unit. Each unit consists of one Common share in the capital of the Company and one Share purchase warrant Each warrant entitles the holder to acquire an additional Share at a price of $0.04 per Share for a period of five years from the date of issuance.

  The Company paid in cash, finder's fees totaling $14,000 and issued 560,000 finder's Common share purchase warrants which are exercisable at a price of $0.04 for a period of two years from the closing of the Placement. Proceeds of this private placement are expected to be used to develop Prophecy's mineral projects and for general working capital purposes.

- The Company entered into settlement and release agreements with certain of its directors, officers, employees and consultants to settle various debts owing to them. Pursuant to the terms of those settlement and release agreements, the Company issued 1,320,643 Common shares at a deemed price of $0.025, 6,138,499 Common shares at a deemed price of $0.03 per Common share and 7,364,528 Common shares at a deemed price of $0.02 per Common share to those directors, officers, employees and consultants through its Share-Based Compensation Plan.

- The Company announced that after a detailed review of the trading volume, costs and administrative requirements related to maintaining the Company's listing on the OTCQX International, it has voluntarily delisted its Common shares from the OTCQX International effective January 29, 2016.

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

  A 5% "drawdown" fee will be applicable to amounts advanced over and above the original and outstanding $1.5 million advanced under the Credit Facility, as amended, at the time of advance. In consideration of a bonus of 20% of the total amounts advanced under the Credit Facility, as amended, as of November 30, 2015 (the "**Bonus**"), Linx has agreed to postpone any repayments due under the Credit Facility, as amended, until the earlier of October 1, 2016, or such time as the Company is in a reasonable financial position to repay all or a portion of the amounts owing, and remove the requirement for the Company to pay any 20% penalties as a result of any future failure to repay any amounts when due under the terms of the Credit Facility, as amended. Including the Bonus and "drawdown" fee, the Credit Facility, as amended, carries an effective annual interest rate of 34.5%. The "drawdown" fee, Bonus and all interest payable will be accrued and added to the maximum principal amount as they are incurred.

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

4. PROPERTY SUMMARY

Pulacayo Project, Bolivia

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 7 concessions covering an area of approximately 3,550 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.

Exploration and Evaluation

On January 17, 2013, Apogee reported the results of an independent mineral resource estimate and feasibility study prepared by Professor Jim Porter, FSAIMM, Graeme Farr, Peter Webster, P. Geo, Michael Cullen P. Geo, and Eugene Puritch, P. Eng, independent qualified persons as defined by NI 43-101, on the Pulacayo prepared according to the CIM Standards that meets the standards of disclosure required by *National Instrument 43-101 Standards of Disclosure for Mineral Properties* ("**NI 43-101**"). The updated mineral resource estimate outlined a total of 60.3 million ounces of silver in the Indicated category and a total of 9.2 million ounces of silver in the Inferred category, as detailed in Table 1 below.

(Expressed in Canadian Dollars, except where indicated)

This mineral resource estimate represents an increase in silver in the Indicated resource category of 106% or 30.9 million ounces from the mineral resource estimate dated October 19, 2011, previously filed under Apogee's SEDAR profile at www.SEDAR.com, as set out below. This increase is comprised of a 45% increase in the Indicated category from underground sulphide resources, with an additional 13.2 million ounces of silver from 6.19 million tonnes grading 213.6 grams/tonne silver, 0.86% lead and 1.74% zinc. It also includes an additional 4.63 million ounces of silver in the Indicated category from the oxide zone at Pulacayo, with 1.5 million tonnes grading 95.9 g/t silver and 13.17 million ounces of silver in the Indicated category from open pit sulphide resources with 9.28 million tonnes grading 44.1 grams/tonne silver, 0.66% lead and 1.32 % zinc.

Table 1. Pulacayo Project - Resources

Resource Class	Type	Tonnes	Ag g/t	Pb %	Zn %	Ag (Oz)	Pb (M. lbs.)	Zn (M. lbs.)
Combined Open Pit and Underground Resources including Oxide and Sulphide Zones								
Open Pit Resources (Base case 42^0 Average Pit Wall Slope Angle)								
Open Pit Indicated	Oxide	1,500,000	95.9	0.96	0.13	4,626,000	~	~
Open Pit Inferred	Oxide	248,000	71.2	0.55	0.31	569,000	~	~
Open Pit Indicated	Sulphide	9,283,000	44.1	0.66	1.32	13,168,000	135.90	269.54
Open Pit Inferred	Sulphide	2,572,000	33.4	0.92	1.36	2,765,000	51.99	76.88
Waste Rock			71,679,000			Strip Ratio 5.3 : 1		
Underground Resources (all blocks below 4159 m ASL with NSR > US $58)								
Underground Indicated	Sulphide	6,197,000	213.6	0.86	1.74	42,547,000	117.49	237.72
Underground Inferred	Sulphide	943,000	193.1	0.43	1.61	5,853,000	8.94	43.47
Total Indicated	Oxide + Sulphide	16,980,000	110.5	0.76	1.37	60,341,000	253.39	507.26
Total Inferred	Oxide + Sulphide	3,763,000	75.9	0.77	1.35	9,187,000	60.93	120.35

Notes:

1. *Tonnages have been rounded to the nearest 1,000 tonnes. Average grades may not sum due to rounding.*
2. *Metal prices used were US $25.00/oz silver, US $0.89/lb lead, and US $1.00/lb zinc. Lead and zinc do not contribute to revenue in the oxide zone.*
3. *Open Pit Sulphide Resources are reported at a US $13.20 Net Smelter Revenue ("NSR") cut-off. Underground Sulphide Resources are reported at a US $58 NSR cut-off. Open Pit oxide resources are reported at a US $23.10 revenue/tonne cut-off.*
4. *Contributing 1.0 meter assay composites were capped at 1500 g/t Ag, 15% Pb, and 15% Zn.*
5. *Specific gravity is based on an interpolated inverse distance squared model.*
6. *Mineral resources that are not mineral reserves do not have demonstrated economic viability. The estimate of mineral resources may be materially affected by environmental permitting, legal, title, taxation, sociopolitical, marketing, or other relevant issues.*

The Pulacayo resource estimate is only presented in this MD&A as part of the history of the project and is considered historic in nature by the Company. This historical estimate was prepared using currently accepted methods and assumptions but the costs and prices assumed are not current. It is considered relevant since surface and underground mining methods were used. It is considered reliable to the extent that the block model is based on the same geologic model used for the resource estimate otherwise it is not considered reliable

(Expressed in Canadian Dollars, except where indicated)

because costs and prices used do not reflect current costs and prices. Besides the assumptions described at the beginning of this section, this historical estimate assumed underground and surface mining, owner operation in partnership with the Cooperative, processing on site, and smelting off site. The key parameters included metals prices of US$25.00/oz Ag, US$0.89/lb Pb, and US$1.00/lb Zn and net smelter return cut offs of US$13.20/t for open pit sulphide resources, US$23.20/t for open pit oxide resources, and US$58.00/t for underground resources. The key methods included use of inverse distance squared algorithm to estimate grade and use of the Whittle pit shell optimization algorithm. The historical estimate uses the same resource categories described in Sections 1.2 and 1.3 of the Instrument. The historical estimate does not include any more recent estimates or data available to the issuer. The work needed to upgrade the historical estimate as current mineral resources is largely to use current costing and metals price figures. A qualified person has not done sufficient work to classify the historical estimate as current reserves. The issuer is not treating the historical estimate as current mineral resources. Mineral resources that are not mineral reserves do not have demonstrated economic viability
The updated mineral resource estimation was completed by Mercator Geological Services Limited of Dartmouth, Nova Scotia that meets the standards of disclosure of the Canadian Securities Administrators described in NI 43-101. The effective date of this mineral resource estimate is September 28, 2012.

Apogee filed a technical report entitled "Updated Mineral Resource Technical Report for the Pulacayo Silver-Lead-Zinc Deposit, Pulacayo Township, Potosi District, Quijjaro Province, Bolivia" that meets the standards of disclosure in support of the September 28, 2012 news release which disclosed the results of the updated mineral resource estimate. The report and news release are available under Apogee's SEDAR profile at www.SEDAR.com.

In January 2013, Apogee reported the results of a NI 43-101 compliant independent feasibility study, which included the Updated Mineral Resource Estimation discussed above and additionally a Mineral Reserve Estimation which was prepared by TWP SudAmerica under the supervision of Professor J. Porter, FSAIMM, a qualified person as defined by NI 43-101, on the Pulacayo deposit located in southwestern Bolivia.

The probable mineral reserve which constitutes 57% of the Underground Indicated Mineral Resource and 21% of the estimated Total Indicated Mineral Resource, is set out in Table 2 below.

Table 2. Pulacayo Project – Mineral Reserve Summary (effective of January 17, 2013)

Probable Mineral Reserve (tonnes)	Ag (g/t)	Pb (%)	Zn (%)	Ag (oz)	Ag (oz agEq.)*	Pb (t)	Zn (t)
3,557,683	239	1.09	1.91	27,385,190	35,457,378	38,927	67,905

Notes:

(1) The estimation of the Probable Mineral includes modifying factors including and NSR cutoff of US $70/t, 2% mining dilution, 2% mining loss, 2% lashing loss and 5% void loss due to historical mining. A silver price of US $25/oz, lead US $0.89/lb, and zinc US $0.89/lb was used in the determination of the NSR of mining blocks. Professor Porter is independent of Apogee.

(2) Base silver prices for the feasibility economic study and used in the calculation of this reserve are the three-year trailing average of Ag US$28/oz at Nov 30, 2012. A lead price projection of US$0.89/lb and US$1.00/lb for zinc was used; both projections are based on an independent review conducted by Exen Consulting Services of Ontario, Canada and TWP.

(3) The application of "silver equivalent ounces" (oz_{AgEq}. means the US dollar value of lead and zinc metals divided by the price of silver and added to the pure silver ounces in any applicable category. Unless otherwise indicated, all economic calculations are done using metal prices discussed in Note 2; where operating costs per oz_{AgEq} are quoted, equivalent ounces refer to equivalent ounces produced after mining and processing modifying factors. The calculation for lead equivalent ounces is $Lead_{AgEq}$ = (Lead Tonnes x 2204lbs/t x US$0.89/lb) / US$28oz and for zinc equivalent ounces is $Zinc_{AgEq}$.= (Zinc Tonnes x 2204lbs/t x US$1.00/lb) / US$28oz.

(4) The Company was not aware at the time of the estimate of any imminent undisclosed risk that could materially affect development of the reserve. The development of the mineral reserve nevertheless could be affected by risks including possible delays to environmental permitting, legal risks, lease title rights risks, potential changes to taxation and royalty laws, possible sociopolitical unrest, potential marketing challenges, or other relevant issues.

The Pulacayo reserve estimate is only presented in this AIF as part of the history of the project and is considered historic in nature by the Company. This historical estimate was prepared using currently accepted methods and assumptions as described in the previous paragraph, but the costs and prices assumed are not current. It is considered relevant since surface and underground mining methods were used. It is only considered reliable to the extent that the block model is based on the same geologic model used for the resource estimate otherwise it is not considered reliable because the costs and prices used do not reflect current costs and prices. Besides the assumptions described at the beginning of this section, this historical estimate assumed owner operation in partnership with the Cooperative, processing on site, and smelting off site. The key parameters included metals prices of US$28.00/oz Ag, US$0.86/lb Pb, and US$1.00/lb Zn and a minimum silver grade of US$150/t rather than a silver equivalent followed by a minimum net smelter return of US$70/t to determine mineable stopes. The key methods included use of inverse distance squared algorithm to estimate grade and use of the Whittle pit shell optimization algorithm. The historical estimate uses the same resource/reserve categories described in Sections 1.2 and 1.3 of the Instrument. The historical estimate does not include any more recent estimates or data available to the issuer. The work needed to upgrade the historical estimate as current mineral resources is largely to use current costing and metals price figures. A qualified person has not done sufficient work to classify the historical estimate as current reserves. The issuer is not treating the historical estimate as current mineral reserves. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

Apogee filed a technical report entitled "NI 43-101 Technical Report, Pulacayo Project Feasibility Study" in support of the January 17, 2013 news release which disclosed the results of the reserve estimate and the feasibility study results. This study meets the disclosure requirements of Canadian Securities Administrators NI 43-101. Both the report and news release are available under Apogee's SEDAR profile at www.SEDAR.com.

Pre-Production Mining and Processing Operations

Apogee demonstrated its ability to mine and process ore by the successful trial mining and processing operations conducted in partnership with the Pulacayo Mining Cooperative, and with the support of local communities and other stakeholders. Due to the decline in silver price, Apogee terminated its mining activities at the site and aggressively reduced non-essential costs.

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 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 believed that there is potential for resource expansion at the Paca deposit but current efforts at Pulacayo were taking priority.

This deposit was the subject of an independent estimate of mineral resources prepared according to the CIM Standards by Micon International Limited. The resource estimate was disclosed in a technical report dated March 2007 that meets the disclosure requirements of 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.

Select Financial and Operational Data:

On acquisition of the project, the Company implemented its fast-track development schedule of the project. During 2015 through Q1 2016 activities by the Company on the Pulacayo Project included exploration, completion of resource estimates, progress to resolve legacy financial obligations, hiring key personnel, assessment of options to upgrade utilities, reviewed mining and concentrating options, and relinquishment of concessions. Most of the activity concerned the Pulacayo deposit.

On February 2, 2015, the Company announced the assay results received January 22, 2015 from ALS Minerals Ltda., for samples obtained during the reconnaissance sampling program of tailings piles materials. The tailings piles are the remaining materials from processing ore, extracted from the Pulacayo mining district between approximately 1850 and 1950. The ore was processed by a mill on site which has since been dismantled.

(Expressed in Canadian Dollars, except where indicated)

A total of 12 tailings piles were identified at the start of the mapping and sampling program and a total of 299 samples from the 12 tailings piles were obtained. Samples were obtained at random locations on the top surface of those piles from small holes excavated with an excavator and systematically at 2 meter spacings in the walls (slopes) of the piles from hand dug or excavated trenches, all at depths of 1.2 to 1.5 meters. The samples were then preserved, stored, secured, and transported following industry standard methods. The assay program was performed by ALS Minerals Ltda. of Lima, Perú and included standard QA/QC samples to enforce the validity of the results. The results (see Prophecy's news release dated February 2, 2015) indicate silver grades up to 1200 g/t, gold grades up to 7 g/t and indium grades up to 154.5 g/t. The Pulacayo mine extracted ore mostly from the Tajo Vein System which is a High Sulphidation Epithermal System of 2.5 km wide by 2.7 km long, to minimum depths of 1,000 meters, and was the main source of the historical ore production.

The Company engaged Mercator to complete updated mineral resource estimates in accordance with the CIM Standards and disclosed according to NI 43-101 for the Pulacayo and Paca deposits, work with Prophecy engineering staff to develop new mine plans for these deposits, examine the Pulacayo tailings deposits and associated technical data and prepare a mineral resource estimate in accordance with the CIM Standards and disclosed according to NI 43-101 for these deposits, or a portion thereof; and develop a future exploration plan for the Pulacayo deposit, Paca deposit, and other satellite target anomalies on the properties with the objective of establishing additional high grade mineral resources.

On June 16, 2015, the Company received the Pulacayo Technical Report. The mineral resource estimate contained in the Pulacayo Technical Report is presented in Table 3.

Table 3. 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%). 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.*
(4) 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.
(5) Block density factors reflect three dimensional modeling of drill core density determinations.
(6) 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.
(7) Rounding of figures may result in apparent differences between tonnes, grade and contained ounces.
(8) Mineral resources that are not mineral reserves do not have demonstrated economic viability.
*(9) *Mineral resource statement cut-off value; resource statement values are presented in bolded form.*
*(10) **Tonnes are rounded to nearest 10,000.*

The reader is referred to the news release dated June 18, 2015 and available under the Company's SEDAR profile at www.SEDAR.com. for background and conditions under which the Pulacayo resource estimate was prepared.

(Expressed in Canadian Dollars, except where indicated)

The Company's engineering team reviewed the resources remaining after Apogee's trial mining and found there are areas that appear readily accessible. These areas may be considered in the future for mining and economic studies

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 of samples from the target areas obtained during the district exploration program. On September 18, 2015, the Company announced the assay results of the three Pacamayo samples where the silver grade was initially reported as greater than 1,500 g/t. These samples have undergone reanalysis using the fire assay method with a gravimetric finish that has a greater upper detection limit.

On September 21, 2015 the Company received the Paca Technical Report. The results of the mineral resource estimate are presented in Table 4 below.

Table 4. 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.

(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.*

(Expressed in Canadian Dollars, except where indicated)

The contained metals within the Paca deposit based on the mineral resource estimate are presented in Table 5 below.

Table 5. 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.*

The reader is referred to the news release dated November 5, 2015 and available under the Company's SEDAR profile at www.SEDAR.com. for background and conditions under which the Paca resource estimate was prepared.

An exploration permit application was submitted during early 2015 but as of March 30, 2016 the application was still under review. The exploration permit would allow geophysical work to complete Phase 1 then after review of the Phase 1 information and previous exploration information and planning, completion of Phase 2.

During the year ending December 31 2015, the Company incurred total costs of $1,462,805 for the Pulacayo project including $267,142 for licenses, $797,722 for geological and engineering consulting, and $397,941 for personnel and general expenses.

2016 Outlook

The Company intends to develop the Pulacayo Project which includes assessing the mineral resource potential, mine re-opening and construction of a processing facility on site. Exploration will continue including the exploration to prove the planned stopes, completing the exploration plan to assess the mineral resource potential and tailings, continue with securing approval of the exploration permit, and the required exploration to maintain the concessions. The work toward mine re-opening and construction of a processing facility will continue including assessing infrastructure upgrade needs, consideration of mine production scenarios, assessing mine equipment needs, review of concentrator options, and assessing financing options.

Ulaan Ovoo Coal Property, Mongolia

Prophecy (Red Hill Energy Inc. at the time) entered into a letter of intent, dated November 24, 2005, amended February 19, 2006, with Ochir LLC and a wholly owned subsidiary of Ochir LLC, both privately owned Mongolian companies, which set out the terms to acquire a 100% interest in the Ulaan Ovoo coal property. The purchase price for this 100% interest, together with all equipment, buildings and other facilities, assembled and constructed at the Ulaan Ovoo coal property was US $9,600,000. The purchase price has been paid in full by Prophecy. Ochir LLC retained a 2% royalty on production from the licenses, which was subsequently assigned to a third party.

On November 15, 2006, Prophecy entered into an agreement with a private Mongolian company to purchase 100% of the title and interest in five mineral licenses including licenses that are contiguous and entirely surrounding the Ulaan Ovoo coal property. The aggregate purchase price for these licenses was US $400,000. Under the terms of the agreement the vendor retained a 2% net smelter return royalty on all five mineral licenses. On April 29, 2009, Prophecy announced positive pre-feasibility study results for the Ulaan Ovoo coal property.

On March 11, 2010, Prophecy entered into a royalty purchase agreement, dated for reference as March 5, 2010, with Dunview Services Limited, a private British Virgin Islands company holding a 2% royalty on production from the licenses of the Ulaan Ovoo coal property, to acquire such royalty in full by consideration including US $130,000 and the issuance of 2,000,000 Prophecy Shares. This transaction was completed on April 30, 2010.

Establishment of the site at Ulaan Ovoo commenced on July 13, 2010. During October 2010, Prophecy provided 10,000 tonnes of coal as a trial run to power stations in Darkhan and Erdenet, Mongolia's second and third largest cities, respectively, after its capital, Ulaanbaatar. At the request of the Mongolian Ministry of Mineral Resources and Energy, Prophecy commenced pre-commercial mining and trucked the first coal shipment to Sukhbaatar rail station, for transport to Darkhan power plant by rail.

On November 9, 2010, Prophecy received the final permit to commence pre-commercial mining operations at the Ulaan Ovoo mine. On December 16, 2010, Prophecy received an updated prefeasibility study (the "**Ulaan Ovoo PFS**") on the Ulaan Ovoo coal property. The focus of the Ulaan Ovoo PFS was for the development of low ash coal reserves in the form of a starter pit.

The estimated resources, reserves, coal quality, and other mine characteristics of the Ulaan Ovoo coal property were estimated by independent consultants. The coal resources are presented in Table 6 and the coal reserves and mining characteristics for the starter pit area are presented in Table 7.

Table 6. Coal resource detail of the Ulaan Ovoo coal property

Coal Resources, million tonnes		
Measured	Indicated	Total
174.5	34.3	208.8

Resources are from the 2006 Behre Dolbear Report (as hereinafter defined).

Table 7. Coal reserve detail of the starter pit area of the Ulaan Ovoo coal property

Coal Reserves (million tonnes)			Mining Period (years)	Strip Ratio (Bcm/t)	Coal Quality (arb)			
Proven	Probable	Total			Total Moisture (wt %)	Ash (wt %)	Gross Calorific Value (kcal/kg)	Total Sulfur (wt %)
20.7	0	20.7	10.7	1.8:1	21.7	11.3	5,040	Not det

Reserves, mining period, coal quality, and strip ratio are from the Ulaan Ovoo PFS. This study was prepared for a starter pit and only considered a portion of the resource area north of the Zelter River. Coal reserves and qualities given in the above table are stated on a Run-of-Mine (ROM) basis and take into account mining loss and rock dilution at coal/rock interfaces. Strip ratio is the operating strip ratio. Proven reserves are of Low Ash (high grade) coal.

The Behre Dolbear & Company (USA), Inc. report ("Scoping Study Ulaan-Ovoo Coal Deposit") dated October 2006 was prepared according to the Australian Code for Reporting of Mineral Resources and Ore Reserves (the "JORC Code") September 1999 and the Proposed Revisions to the Code dated 2 June 2004 by independent Qualified Person Mr. Gardar G. Dahl, Jr, P. Geo, a senior associate of Behre Dolbear & Company (USA), Inc. (the "**2006 Behre Dolbear Report**"). The Ulaan Ovoo PFS was prepared by John Sampson, B.Sc. (Hons) and Brian Saul P. Eng. who are independent Qualified Persons under NI 43-101. Both of these reports meet the standards of disclosure required by NI 43-101 and are filed under the Company's SEDAR profile at www.SEDAR.com.

Select Financial and Operational Data:

Ulaan Ovoo pre-commercial production started in November 2010. In July 2012, the Company temporarily suspended pre-commercial production at Ulaan Ovoo due to soft market prices for coal along with rising costs at a time when the Company had sufficient coal inventory to meet anticipated demand for the remainder of 2012 and into 2013. On December 31, 2012, the Company recorded a non-cash impairment write down of $47 million on the Ulaan Ovoo coal property, which was reflected on the consolidated statement of operations. The impairment charge reduced previously capitalized deferred exploration within property and equipment, to a balance of $2 million.

Mining re-commenced in November 2013. All required mining, safety, and transportation staff were re-hired and the Company's leased-out mining and transportation equipment were recalled. The Company installed significant water-pumping capacity and dewatered the pit area.

During 2014, the Company faced challenges, such as significant dewatering of the resource, lack of demand, depressed coal sales prices, and higher than expected operating/transportation costs, resulting in limited production throughout the period. Pit dewatering has become a significant impediment to achieving consistent production, especially following mine standby during the periods of low market demand. The mine was placed on standby in Spring 2014 but continued coal loading and sales from the existing stockpiles. Due to the lack of sustained production, management has not sufficiently tested the mine plant and equipment to conclude that the mine has reached the commercial production stage. On December 31, 2014, the Company recorded a non-cash impairment of $7.7 million of previously capitalized deferred exploration costs to $nil and an impairment charge of $3.5 million on the Ulaan Ovoo mining equipment has been recognized. This non-cash accounting charge does not impact the Company's financial liquidity or any future operations and management believes the adjustment to the book value of this long-lived asset more accurately reflects the Company's current market capitalization.

As there were no benchmark or market changes from January 1, 2015 to December 31, 2015, the impaired value of $nil for deferred development costs remains unchanged.

During the beginning of 2015, due to minimal increase in coal prices and decreased demand because of a mild winter, the Company decided to maintain operations on standby though coal loading and sales from existing stockpiles continued to customers. The Company decided to sell the mining equipment to generate cash so that operations may continue. 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 a turnkey solution with concerning labor and equipment.

During the year ended December 31, 2015 the Company sold 33,824 tonnes (2014 – 130,145 tonnes) of coal to local customers from existing stockpiles with total sales revenue of approximately $0.9 million (2014 - $3.9 million). Sales revenue has been recorded against costs incurred at the mine, classified as costs in excess of recovered coal of $1,600,978 on the consolidated statement of operations and comprehensive loss.

As of December 31, 2015, the coal stockpile balance was approximately 81,610 tonnes (December 31, 2014 - 115,000). As at December 31, 2015, the Company determined inventory was impaired, because its production cost exceeded its net realizable value and recorded an impairment charge of $920,694 (2014 - $484,288) on the consolidated statement of operations and comprehensive loss.

In April 2015, the Company, through its wholly-owned subsidiary, Red Hill, entered into a purchase agreement with an arm's-length party in Mongolia to sell substantially all of its mining and transportation equipment at the Company's Ulaan Ovoo mine for total proceeds of approximately $2.34 million. The sale of equipment was completed in June 2015. Total proceeds (including the sale of equipment to other arm's-length parties) amounted to $2.9 million in cash.

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 contractor agreements, staff reductions, office relocation, and other actions were completed to reduce costs. Debt reduction efforts included rescheduling of debt and transfer of pending payments 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. During 2015 diversion of the north branch of the Zelter River and construction of a protective dike were evaluated and were discussed with government officials.

The required exploration for the Khujirt license was completed during January 2016. The Company decided to consider sale of the license and approached parties that may be interested but a sale was not completed.

2016 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 the sale and loading of stockpiled coal with the goal of completing the sale of all remaining coal by summer 2016. Placing the mine on standby and selling the equipment is not considered to decrease the likelihood of successfully restarting the open pit mine and continued pre-commercial mining to eventually achieve commercial mining. This is because mining operations at Ulaan Ovoo may be restarted in short order since pit dewatering requires less than a month and no work is needed to continue mining. There are several available third party contract-mining companies in Mongolia that are capable of dewatering and mining and provide turnkey mining services including labor and equipment. The Company believes contract mining is a more efficient way to operate Ulaan Ovoo since a contract mining firm would be made responsible for labor agreements and equipment maintenance.

The Company continues its efforts to maximize value including evaluation of operating alternatives (e.g. contract mining, electrification, conveyance vs. haul), infrastructure improvement, management changes, higher margin markets and other 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. Pursuit of the river diversion will also continue. Completion of the diversion will ensure that Company retains the licenses and decrease the pumping requirement.

Prophecy will continue to pursue government support 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.

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.

At the current stage, 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.

Chandgana Coal Properties, Mongolia

The Chandgana Coal Properties consist of the Chandgana Tal Property and the Khavtgai Uul Property (formerly named Chandgana Khavtgai) which are within nine kilometres of each other in the Nyalga Coal Basin in east central Mongolia which is approximately 280 kilometres east of Ulaanbaatar. On November 22, 2006 Prophecy (then Red Hill Energy Inc.) entered into a letter agreement with a private Mongolian company that set out the terms to acquire a 100% interest in the Chandgana Tal Property. On August 7, 2007, Prophecy (then Red Hill Energy Inc.) entered into a letter agreement with another private Mongolian company that set out the terms to acquire a 100% interest in the Khavtgai Uul Property. Under the terms of the Chandgana Khavtgai agreement, Prophecy paid a total of US $570,000. On February 8, 2011, Prophecy received a full mining license from the Mineral Resources Authority of Mongolia for the Chandgana Tal Property. The license can be updated to allow mining of 3.5 million tonnes per year to meet the demand of the Chandgana power plant within 90 days.

During 2007 Prophecy performed geologic mapping, drilling and geophysical surveys of the Chandgana Tal and Khavtgai Uul Properties. During June, 2010, Prophecy completed a 13 drill hole, 2,373 metre resource expansion drilling program on the Khavtgai Uul Property, including 1,070 metres of core drilling, and five lines of seismic geophysical survey for a total of 7.4 line kilometres. Prophecy completed a 15 drill hole program during June-July 2011 to better define the coal resource of the Chandgana Tal licenses.

A technical report ("Technical Report on the Coal Resources of the Chandgana Tal Coal Project Khentii Aimag, Mongolia") meeting the disclosure requirements of NI 43-101, and dated September 11, 2007 was prepared by independent Qualified Person Mr. Gardar G. Dahl, Jr, P. Geo, a senior associate of Behre Dolbear & Company (USA), Inc. Prophecy engaged Leighton Asia LLC to prepare a scoping level mine study for the Chandgana Tal Property which was completed during December 2011. Later a preliminary economic assessment was prepared by John T. Boyd Co. and received in November 2012 for the Chandgana Tal licenses. A subsequent update to the preliminary economic assessment was approved by regulators and filed on SEDAR April 3, 2014. An updated NI technical report on the Khavtgai Uul Property (the "Updated Technical Report on the Coal Resources of the Chandgana Khavtgai Coal Resource Area, Khentii Aimag, Mongolia") prepared according to the CIM Standards and meeting the disclosure requirements of NI 43-101 and dated September 28, 2010 was completed by Christopher Kravits, CPG, LPG of Kravits Geological Services LLC (the "**Khavtgai Report**"). Mr. Kravits was independent of Prophecy at the time of preparation of the Khavtgai Report but has subsequently become not so, as Prophecy has become his only client. The Khavtgai Report updates the previous independent technical report on the Khavtgai Uul Property prepared by Messrs. Eric Robeck and Kravits dated January 9, 2008. All of these reports, and other reports or studies mentioned in this MD&A are filed under the Company SEDAR profile at www.SEDAR.com. The resource and mining characteristics of the Chandgana Coal Properties are summarized in Table 8:

Table 8. Coal resource details of the Chandgana Coal Properties

Property	Coal Resources (million tonnes)			Life of Mine (years)	Strip Ratio (Bcm/t)	Coal Quality (arb)			
	Measured	Indicated	Total			Total Moisture (wt %)	Ash (wt %)	Gross Calorific Value (kcal/kg)	Total Sulfur (wt %)
Khavtgai	509.3	538.8	1,048.1	Not det	2.2:1	36.5	10.1	3,636	0.6
Tal	124.4	0.0	124.4	35+	0.7:1	40.9	10.8	3,306	0.6
Total/Weighted Avg	633.7	538.8	1,172.5		2.0:1	37.0	10.2	3,601	0.6

Coal quality is for the in-place coal. Strip ratio is the point strip ratio for Khavtgai Uul and operating strip ratio for Chandgana Tal.

The Khavtgai coal resource area contains a significant coal resource. The coal seams are thick and the strip ratio is low such that surface mining methods appear best suited to recover the coal. The coal is of moderate grade and low rank and appears suitable for use as a thermal coal but the large size of the resource and moderate grade suggest the resource may also be suitable for use as a conversion feedstock.

The Company decided not to mine coal from the Chandgana Tal licenses during the 2015-2016 heating season because of insufficient demand. The overlap of a dry lake onto one of the Chandgana Tal licenses as determined under the Long Named Law was resolved. The Company will continue to monitor the developments and ensure that it follows the necessary steps in the Amended Law on Implementation to secure its operations and licenses and is fully compliant with Mongolian law.

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 successfully reduced the size of the Khavtgai Uul license in order to relinquish areas containing dry lakes that caused an overlap situation under the Long Named Law. The license reduction did not affect the coal resources or mineability.

During the year ending December 31 2015, the Company incurred total costs of $266,283 (2014 - $800,461) for the Chandgana Tal Property (including power plant consultants and land maintenance costs) and $204,004 (2014 - $60,079) for the Khavtgai Uul Property.

2016 Outlook

The Company plans to continue normal license maintenance work (payment of fees and environmental work) for Chandgana Tal. Work on the Khavtgai Uul license will include the required exploration report and other license maintenance work in order to retain exploration right to the license.

Chandgana Power Plant Project, Mongolia

The Chandgana power plant project, which has been under development by Prophecy's wholly-owned Mongolian subsidiary, PPG since 2011, has secured a power plant land use right and a construction license, and is included on the Mongolian Government concession list. The Chandgana power plant project area is close to the planned Baganuur-Ondurkhaan transmission line, next to the Baganuur - Undurkhaan paved road and within 150 kilometres of the Central Mongolian Railroad. The paved road and the railroad can facilitate the transportation of construction equipment, power plant components and mining equipment.

On November 15, 2010, Prophecy reported that the Detailed Environmental Impact Assessment pertaining to the construction of the Chandgana power plant project was approved by the Mongolian Ministry of Nature and the Environment. The Detailed Environmental Impact Assessment was prepared by an independent Mongolian environmental consulting firm which considered social and labour issues, climate and environmental circumstances specific to the proposed power plant. According to the study, there are no major impediments to the Chandgana power plant project. On November 15, 2011 Prophecy's wholly-owned Mongolian subsidiary East Energy Development LLC (now PPG) received a license certificate from the Mongolian Energy Regulatory Authority (the "**ERA**") to construct a 600 MW (150 MW x 4) power plant at Chandgana. An English translation of the license was filed under the Company's SEDAR profile at www.SEDAR.com on December 14, 2011.

During late 2011 and early 2012, PPG received requests to be considered for the construction of the power plant from Asian engineering, procurement and construction firms (("**EPC Firms**"). PPG shortlisted the field during June 2012 to three Chinese EPC Firms. The Company then issued the technical specification requirements in July 2012 and received three final tenders in September 2012. Evaluation of the final tenders indicated that the Chandgana power plant project construction costs are within the estimated capital budget of the project.

On May 28, 2012, Prophecy reported that it entered into a cooperation covenant (the "**Covenant**") with the ERA to bring the 600 MW mine-mouth Chandgana power plant project online by 2016. The ERA is the agency which implements governmental policy in the power and energy sector of Mongolia. The Covenant provides for the coventees to support the construction and operation of the Chandgana power plant and its ability to supply the electricity to the central and eastern power grids of Mongolia by 2016. The Covenant also addresses the basic rights and obligations of Prophecy, as the seller and the National Electricity Transmission Grid Company of Mongolia ("**NETGCO"**) as the purchaser of the electrical energy.

On August 7, 2012 Prophecy reported that since PPG obtained the construction licence in November, 2011, Prophecy has been in on-going discussions with the Mongolian government to finalize a Power Purchase Agreement ("**PPA**"). The proposed PPA details the terms under which PPG would supply power to NETGCO and once executed will enable Prophecy to seek project financing and begin construction. Prophecy has also had numerous discussions with the Ministry of Natural Resources and Energy (now Ministry of Energy) to discuss technical and commercial issues. PPG formally submitted its PPA proposal to NETGCO on September 6, 2012 the highlights of which include:

- A designated commercial operations date of the proposed power plant to be determined dependant on signing required agreements, obtaining appropriate approvals and permits, and closure of the power plant projects financing, which are in the process of being obtained;
- A long term power off-take contract to ensure 24/7, uninterrupted dispatch power supply to the Mongolian grid; and
- Capacity and energy charge components in the tariff to cover fixed and variable costs respectively.

PPG has also been in discussions with several private Mongolian companies regarding entering into bilateral power purchase agreements for mining projects (copper, molybdenum and iron ore) and an industrial development complex (cement manufacture and smelter) in Mongolia.

On September 3, 2012, PPG submitted a tariff application to the Energy Regulatory Commission. PPG received official notice outlining the terms of the tariff agreement on May 17, 2013. The tariff includes:

- An initial tariff for the first year of the power plant operation; and
- A weighted average tariff for the remaining 24 years of the power plant operation.

The tariff numbers are in-line with PPG's final proposal submission to the Working Group on February 2013.

On March 5, 2013, the Company announced that PPGhas been granted 532.4 hectares of land to be used for siting the Company's proposed Chandgana power plant (the "**Land Use Right**"). With the Land Use Rights in place, PPG has entered into a contract with Erchim Concern LLC to bring 4MW of temporary power to the Chandgana power plant site from a local 35kV power line. Separately, PPG has issued tenders for the construction of 250 housing units along with a water supply to the Chandgana power plant site.

On June 5, 2013 PPG and Chandgana Coal executed a coal supply agreement. The coal supply agreement calls for Chandgana Coal to supply 3.6 million tonnes of coal per year to PPG for 25 years. The initial coal price is US $17.70 per tonne which is competitive with Mongolian domestic thermal coal prices and is subject to annual price adjustments through indexing using the US Consumer Price Index, Mongolian Wage Index and Mongolian Diesel Price Index. The coal is to be mined from Chandgana Coal's Chandgana Tal mining licenses located two kilometres to the south of the proposed power plant location.

In July 2013, the Company applied for a concession with the Ministry of Economic Development (the "**MoED**") for the power project. After extensive document submissions and discussions, the Mongolian Cabinet approved the Chandgana power plant project as a concession project in January 2014. Subject to negotiations, a concession project may be entitled to stable tax rates, favorable VAT and customs duties, as well as other forms of government subsidies, endorsement and support; all of which can enhance bankability and lead to better financing options for the project. While the Company is pleased with the overall progress and appreciated support from various Mongolian authorities, it cannot offer certainty or a definitive time frame to conclude the concession agreement with the MoED, or the Power Purchase Agreement with the Ministry of Energy.

In February 2014, the Chandgana power plant was approved by the Mongolian Government under amendment to Resolution #317 to be included in the list of concession projects. Prophecy met numerous times with the MoED in 2014 to discuss the Chandgana power plant concession agreement, with the issue centered on whether a public tender is required or whether the project can be qualified under the direct negotiation frame work given that PPG is already in possession of several unique non-transferrable essential elements to the project such as construction license and land use rights. In June 2014, the MoED announced a tender for the Chandgana power plant project and the Baganuur to Onderkhan to Choibalsan Overhead Transmission Lines project with the projects' technical and financial proposal submission deadline set of August 20, 2014. The Company submitted the projects' technical and financial proposals to the MoED on August 20, 2014. The Chandgana power plant tender concluded in September 2014, with no winning bid because no bidder submitted the required US $1.6 million dollar bank guarantee.

In October 2014, PPG received an official invitation letter (#7/2055) from the MoED to directly negotiate the conditions of the Chandgana power plant concession agreement on an exclusive basis under the Mongolian Concession Law Article 15. Upon request by the MoED, PPG submitted a full set of revised agreements (key ones including: a feasibility study, concession agreement, PPA, tariff proposal, coal supply agreement, EPC proposal, EPC contract, Bank term sheet, equity investor memorandum of understanding's and a land use permit) totaling well over 1,000 pages for review.

In December 2014, with a new Mongolian Government in place, the Concession department was transferred from the MoED to the Ministry of Industry. In late January 2015, PPG representatives met with the Minister of Industry, who committed to fast-track a list of advanced and qualified concession projects to signing of concession agreements, including one for the Chandgana power plant.

In February 2015, PPG was notified that a working group was appointed to work on the power concession projects. During the year, the Company has met with the government appointed working group and revised the concession agreement following their recommendations. Discussions with investors continued including discussions for funding of some required studies.

On December 18, 2015, the Company and/or PPG signed an EPC Agreement, Equity Investment Agreement, and Share Purchase Agreement (collectively, the "**Agreements**") with SEPCO2 to invest in, and build the Chandgana power plant.

EPC Agreement

The EPC Agreement is the result of over one year of investigative and research work conducted by both the Company and SEPCO2 according to the set of detailed Owner's Technical Specifications & Requirements considering operating variables such as: coal quality and supply, operating temperatures, auxiliary heat consumption, water consumption, environmental limits and power output, and incorporated detailed cost and performance optimization considerations including shortest transportation routes by most cost-effective transportation carrier, and offers from insurance providers and local construction material and fuel suppliers.

Share Purchase Agreement and Equity Investment Agreement

The Company has agreed to transfer Common shares representing a 5% ownership interest in the capital of PPG (the "**Subject Shares**") to SEPCO2, in consideration for SEPCO2 preparing and delivering any remaining engineering or design studies required by either the Mongolian government or investors to proceed to project financial close. Upon SEPCO2 acquiring the Subject Shares from Prophecy, SEPCO2 has agreed to contribute to the overall expenses of PPG based on SEPCO2's pro rata equity share interest. Such expenses may be offset against the fees payable by PPG to SEPCO2 in relation to the Chandgana power plant under any EPC services agreement entered into by PPG or Prophecy and SEPCO2 or its affiliates or associates. Conditions precedent to the Equity Investment Agreement and Share Purchase Agreement include the parties having obtained all necessary prior approval of relevant authorities.

Project Financing and Financial Close

The total capital investment necessary to complete the Chandgana power plant is expected to be approximately US$1 billion. The proposed investment for Phase 1 (150MW x2) is estimated to be US$600 million; Phase 1 is to be completed within 3 years from the start of construction.

SEPCO2 has extensive international project financing experience for power plant projects in developing countries in the Middle East and Africa, and has expressed confidence in arranging debt financing for the Chandgana power plant. In 2014, SEPCO2 provided Prophecy with a bank financing term sheet for the project which needs to be renewed for 2016, based on a 12-year term with 85% of the total value of the EPC Agreement advanced at the London Interbank Offered Rate (LIBOR) + 5%.

In parallel, the Company expects to partner with the overseas investment subsidiary of the world's largest coal-fired power generation group (the "**Strategic Partner**") to jointly invest in the Chandgana power plant. In May 2015, the Strategic Partner signed an exclusivity agreement with Prophecy whereby the Strategic Partner agreed to focus its development and construction activities in Mongolia solely on the Chandgana power plant for the remainder of 2015.

On December 22, 2015, the Company announced the signing of a non-binding Joint Development Agreement ("**JDA**") with the Strategic Partner to invest in the Chandgana power plant. Under the JDA, the companies will create a consortium, whereby the Strategic Partner will provide legal, financial and technical experts to assist the Company to negotiate and finalize the Concession Agreement ("**CA**"), PPA and Tariff Agreement with the relevant Mongolian Ministries and Agencies. Upon satisfactorily completing these agreements, the Parties intend to enter into an investment arrangement that will result in the Strategic Partner owning a minimum 51% stake in the Chandgana power plant.

With the signing of the JDA, and the Agreements with SEPCO2, the Company has requested the Mongolian Energy Ministry to expedite the signing of the CA and PPA.

2016 Outlook

Mongolia currently imports approximately 20% of its electric power from Russia and China. The Company is proposing to build a new, modern power plant to provide a stable power supply in Mongolia, with 100% private funding and with no up-front payment or subsidies from the Mongolia government. Prophecy is offering a fixed, long-term tariff that is lower than those of foreign imported electrical power that would ease Mongolia's budget, create employment and assist in establishing its energy independence. The Chandgana power plant and Chandgana coal mine would be expected to employ over 600 full-time skilled local staff, cause the start of many new support businesses, and revitalize Khentii province.

The Company believes having a mine-mouth power plant (as opposed to having a power plant located in or near the city) is the solution to Mongolia's power shortage, eliminates costly coal and ash transportation, preserves the capital city's limited water resources and reduces severe air pollution in the city. In addition to working with the Mongolia government and its people to fulfill growing domestic energy demand, the Company with its experienced partners, looks forward to these future steps to expand the Chandgana power plant in order to transform Mongolia, into a net exporter of electricity to its neighboring countries.

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 2016. 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 land use right maintenance work will continue.

Titan Property, Ontario, Canada

Prophecy has an 80% interest in the Titan iron-titanium property located in Ontario province, Canada. The property contains an inferred resource of 49.0 million tonnes based on a cutoff grade of 40% Fe_2O_3 containing an average 0.24 weight percent vanadium (V) and 14.84 weight percent titanium dioxide (TiO_2). The metal content of the resource is 118 million kilograms vanadium and 7,259 million kilograms TiO_2. The resources and metal content are summarized in Table 4. Titan resource estimate is based on the February 2010 technical report by Mine Development Associates that meets the disclosure requirements of NI 43-101. The report is authored by Neil Prenn, P. Eng, who is an independent Qualified Person under NI 43-101.

Prophecy has expended a significant amount on acquisition, tenure maintenance and exploration to date. The Company has done much exploration work including 22 kilometres of line cutting covering over 2.7 square kilometres in 100 metre intervals that extended the current surveyed grid west and southwest of the Titan property. A ground magnetometer survey was completed during the summer of 2010, the results of which expanded the extent of the magnetic anomaly associated with the Titan deposit. This work successfully demonstrated that exploration is warranted outside the previously known limits. The assessment work completed in 2013 was approved. During 2014, the Company completed GPS assessment of the claim posts. No exploration work was conducted at Titan during the year of 2015.

Due to current market conditions and the difficulty in raising additional financing, as well as Prophecy's inactivity on the Titan property in recent years, management impaired the value to $nil at the year ended December 31, 2014. Prophecy continues to retain its 80% interest and management will continue to evaluate appropriate financing and strategic alternatives to move the project forward. The work planned for the future includes surveying the drill hole locations and project area to obtain more accurate drill hole coordinates and site topography and commissioning the metallurgy testing in preparation for a preliminary assessment of the project.

(Expressed in Canadian Dollars, except where indicated)

Okeover Property, British Columbia, Canada

The 60% interest in the Okeover property, a copper-molybdenum project in south-western British Columbia, Canada, 25 kilometres north of Powell River and 145 kilometres northwest of Vancouver, was acquired through the amalgamation between Red Hill Energy Inc. and Prophecy Development Holdings Inc. in April 2010.

Exploration work completed to date suggests mineralization exists east, west and south of the known mineralized body. In 2006 N.C Carter, Ph. D, P. Eng. calculated an inferred resource for the North Lake Zone of 86.8 million tonnes grading 0.31% Cu and 0.014% MoS_2 (0.009% Mo) at a 0.20% Cu cut-off. In 2014 the Company completed an exploration program including 8.2 kilometers of grid was flagged and soil sampled and 169 soil samples were collected. The assessment report was filed on November 21, 2014. No exploration work was conducted at Okeover during the year of 2015.

Due to current market conditions and the difficulty in raising additional financing, as well as Prophecy's inactivity on the Okeover property in recent years, management impaired the value to $nil at the year ended December 31, 2014. Prophecy continues to retain its 60% interest and management will continue to evaluate appropriate financing and strategic alternatives to move the project forward. The required license maintenance work will be completed and taxes and fees will be paid to keep the licenses in Prophecy's tenure.

5. SELECTED ANNUAL INFORMATION

The following table highlights financial data on the Company for the most recently completed three financial years.

	Years ended December 31,		
	2015	**2014**	**2013**
Loss before other items and future income tax recovery	$ (2,393,610)	$ (2,463,585)	$ (4,094,448)
Net loss	(7,822,531)	(14,696,041)	(23,296,154)
Comprehensive loss	(7,822,531)	(14,696,041)	(22,896,883)
Share Information:			
Loss per share, basic and diluted	(0.02)	(0.06)	(0.10)
Weighted average number of common shares outstanding	316,152,825	251,399,255	236,480,098
Financial Position:			
Current assets	637,089	3,169,741	8,568,387
Property and equipment	1,307,483	4,361,982	10,758,586
Mineral properties	25,296,210	13,710,520	15,053,773
Total assets	27,302,836	21,304,297	34,442,800
Total liabilities	12,023,867	4,239,949	761,477
Dividends	$ -	$ -	$ -

For the year ended December 31, 2015, net loss was $7,822,531 or $0.02 per share compared to a net loss of $14,696,041 or $0.06 for the year ended December 31, 2014. For the year ended December 31, 2015, the net loss consisted of operating costs of $2,393,610 and other items such as costs in excess of recovered coal, foreign exchange loss, interest expense, impairments, and loss on sale of equipment totalling of $5,428,921, compared to operating costs of $2,463,585, and other items of $12,232,456 for the year ended December 31, 2014.

The Company's total assets at December 31, 2015 were $27.3 million compared to $21.3 million at December 31, 2014. The increase in total assets in 2015 compared to 2014 was due to acquisition of Apogee Subsidiaries. The decrease in total assets in 2014 compared to 2013 was mainly due to impairment charges to Ulaan Ovoo cash generating unit of $11.2 million, impairment of the Titan and Okeover mineral properties of approximately $2.2 million.

The Company's total liabilities at December 31, 2015 were $12.0 million compared to $4.2 million at December 31, 2014. The increase in liabilities in 2015 was primarily attributable to the acquisition of Apogee Subsidiaries.

(Expressed in Canadian Dollars, except where indicated)

As part of the transaction, the Company agreed to assume within certain limitations all liabilities associated with the Apogee Subsidiaries and the Pulacayo Project including $7.3 million historical tax liability.

6. SUMMARY OF QUARTERLY RESULTS

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

	2015 Q4	2015 Q3	2015 Q2	2015 Q1
Operating expense	(540,153)	(481,915)	$ (805,826)	$ (565,716)
Net loss	(3,884,097)	(831,656)	(1,112,025)	(1,994,753)
Net loss per share, basic and diluted	(0.01)	(0.00)	$ (0.00)	$ (0.01)
Comprehensive loss	(3,884,097)	(831,656)	(1,112,025)	(1,994,753)
Comprehensive loss per share, basic and diluted	(0.01)	(0.00)	$ (0.00)	$ (0.01)

	2014 Q4	2014 Q3	2014 Q2	2014 Q1
Operating expense	$ (908,565)	$ (381,890)	$ (551,125)	$ (622,005)
Net loss	(12,624,317)	(997,563)	(874,952)	(199,209)
Net loss per share, basic and diluted	$ (0.05)	$ (0.00)	$ (0.00)	$ (0.00)
Comprehensive loss	(12,624,317)	(997,563)	(874,952)	(199,209)
Comprehensive loss per share, basic and diluted	$ (0.05)	$ (0.00)	$ (0.00)	$ (0.00)

The Company's quarterly operating expenses remain relatively stable. Factors causing changes between the quarters have primarily been items such as non-cash share-based payments expense, consulting and management fees, and advertising and promotion expenses. The significant increase in net loss in the fourth quarter 2014 was due primarily to impairment charges to inventory, mineral property, property and equipment, and receivables. An increase in net loss in the fourth quarter of 2015 was due primarily to impairment charges to inventory, receivables and prepaids and to foreign exchange losses.

7. 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 the year ended December 31, 2015 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 "Business Overview" section of this MD&A.

For the year ended December 31, 2015, Prophecy incurred operating expenses of $2,393,610 compared to $2,463,585 incurred for the year ended December 31, 2014.

Operating Expenses	Year ended December 31, 2015	2014
Advertising and promotion	$ 151,301	$ 73,552
Consulting and management fees	299,804	197,940
General and administrative expenses	970,156	993,205
Professional fees	225,977	319,509
Share-based payments	596,260	617,362
Travel and accommodation	150,112	262,017
	$ 2,393,610	$ 2,463,585

(Expressed in Canadian Dollars, except where indicated)

The decrease by $69,975 in operating expenses is the net result of changes to a number of expenses. Of note are the following items:

- Advertising and promotion expense increased by $77,749 due to more extensive promotion carried out for the Company during the period. The Company engaged investor relations consultants and increased its promotion activities like in conference attendance and marketing activities in order to seek financing.
- Consulting and management fees increased by $101,864 due to a higher allocation of the Company senior management costs to the statement of operations and comprehensive loss compared to 2014 where these costs were capitalized to Ulaan Ovoo project.
- General and administrative expenses decreased by $23,049. The decrease was due primarily to decreased director fees and insurance cost.
- Professional fees decreased by $93,532 due to reduced legal and audit costs.
- 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 model. For the year ended December 31, 2015, share-based payments expense decreased by $21,102 compared to the year ended December 31, 2014. The decrease related to a lower number of outstanding options vesting during 2015 as compared to the prior period.
- Travel and accommodation expense decreased by $111,905 due to reduced corporate travel costs.

For the year ended December 31, 2015, the Company incurred other expenses classified as "Other Items" amounting to $5,428,921 compared to $12,232,456 for the same period of 2014.

Other Items		**Year ended December 31,**		
		2015		**2014**
Costs in excess of recovered coal		1,600,978		-
Foreign exchange loss/(gain)		1,463,185		(663,523)
Gain on sale of available-for-sale investments		-		(2,654,882)
Interest expense		192,349		-
Interest income		-		(16,480)
Impairment of inventory		920,694		484,288
Impairment of mineral property		-		2,252,610
Impairment of property and equipment		-		11,151,346
Impairment of receivables and prepaids		1,152,217		1,679,097
Gain on sale of equipment		99,498		-
	$	5,428,921	$	12,232,456

The decrease by $6,591,397 is the net result of changes to a number of other items. Of note are the following items:

- Costs in excess of recovered coal was $1,600,978;
- Foreign exchange loss of $1,463,185 was due to fluctuations in the value of the Canadian dollar compared to the Mongolian tugrik, Bolivian boliviano, and the United States dollar;
- The sale of Wellgreen Platinum shares of $2,654,882 was recorded in 2014, with no available-for-sale investments left to be sold in 2015;
- During the year ended December 31, 2014, the Company recorded impairments on the Ulaan Ovoo coal property and equipment of $11,151,346 and the Titan/Okeover mine properties of $2,252,610. Additionally, impairment charges of $1,679,097 and $484,288 were to receivables and inventory, respectively. During the year ended December 31, 2015, the Company recorded impairment charges of $1,152,217 and $920,694 to receivables and prepaids and to coal inventory respectively;
- Interest expense of $192,349 was due to interest charges related to the Credit Facility;
- During the year ended December 31, 2015, The Company recorded a loss on sale of equipment of $99,498.

The operating losses are a reflection of the Company's status as non-revenue producing mineral exploration company. As the Company has no main source of income, losses are expected to continue for the foreseeable future.

(Expressed in Canadian Dollars, except where indicated)

8. FOURTH QUARTER

The following table summarizes the Company's consolidated results for the three months ended December 31, 2015 and 2014:

Operating Expenses		**Three months ended December 31,**		
		2015		**2014**
Advertising and promotion	$	33,038	$	27,874
Consulting and management fees		71,540		155,323
General and administrative expenses		232,269		293,811
Professional fees		114,404		171,065
Share-based payments		40,410		79,204
Travel and accommodation		48,492		181,288
	$	540,153	$	908,565

Expenses in the fourth quarter of 2015 amounted $540,153 (2014 - $908,565). The Company continues to constrain general and administrative expenses and as a result, most categories of expense were approximately 40% lower compared to prior year's amounts.

Other items in the fourth quarter of 2015 amounted $3,343,944 (2014 - $15,483,438).

Other Items		**Three months ended December 31,**		
		2015		**2014**
Costs in excess of recovered coal	$	537,273	$	-
Foreign exchange loss/(gain)		661,229		(48,748)
Gain on sale of available-for-sale investments		-		(33,252)
Interest expense		69,210		-
Interest income		-		(1,903)
Impairment of inventory		920,694		484,288
Impairment of mineral property		-		2,252,610
Impairment of property and equipment		-		11,151,346
Impairment of receivables and prepaids		1,152,217		1,679,097
Loss on sale of equipment		3,321		-
	$	3,343,944	$	15,483,438

The decrease in other items by $12,139,494 was mainly due to the fact that in Q4 2014, the Company recorded impairment charges totalling of $15,567,341 compared to Q4 2015 impairment charges totalling of $2,072,911.

9. LIQUIDITY AND CAPITAL RESOURCES

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

Working Capital

At December 31, 2015 Prophecy had cash of $33,542, representing a decrease of $167,452 from the $200,994 held at December 31, 2014. Working capital deficit amounted to $3.89 million at December 31, 2015 compared to working capital deficit of $0.9 million as at December 31 2014. The Company's working capital decreased since the year ended December 31, 2014 primarily as a result of decrease in inventory and receivables, and increase in credit facilities.

During the year ended December 31, 2015, the Company raised $0.8 million in equity financing and received $2.9 million from sales of mining equipment. The proceeds are being used to partially repay the Company's line of credit with the Trade and Development Bank of Mongolia ("**LOC**") and to advance the Company's Pulacayo and Chandgana power plant projects.

In 2015, the Company has borrowed $1.5 million under its revolving Credit Facility, as amended, provided by Linx. On March 12, 2016, the Company signed the Amendment where the maximum principal amount available to the Company has been increased to $2.5 million. In consideration of the Bonus of 20% of the total amounts advanced under the Credit Facility, as amended, Linx has agreed to postpone any repayments due under the Credit Facility, as amended, until the earlier of October 1, 2016, or such time as the Company is in a reasonable financial position to repay all or a portion of the amounts owing, and remove the requirement for the Company to pay any 20% penalties as a result of any future failure to repay any amounts when due under the terms of the Credit Facility, as amended. A 5% "drawdown" fee will be applicable to amounts advanced over and above the original and outstanding $1.5 million advanced, at the time of advance. Including the Bonus and "drawdown" fee, the Credit Facility, as amended, carries an effective annual interest rate of 34.5%. The "drawdown" fee, Bonus and all interest payable will be accrued and added to the maximum principal amount as they are incurred.

As at the date of this MD&A, the Company had a total outstanding balance of $2.1 million under the Credit Facility, as amended.

As at the date of this MD&A, the outstanding balance of the LOC was $161,000. Subsequent to year-end, the LOC has been extended to March 25, 2016. On March 28, 2016, the Company applied for another 3-month extension.

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

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

(Expressed in Canadian Dollars, except where indicated)

Cash Flow Highlights

		Years ended December 31, 2015		2014
Cash used in operating activities	$	(2,395,959)	$	(554,178)
Cash provided by (used in) investing activities		1,170,566		886,832
Cash provided by (used in) financing activities		1,057,941		(639,656)
Increase (decrease) in cash for period		(167,452)		(307,002)
Cash balance, beginning of period		200,994		507,996
Cash balance, end of period	$	33,542	$	200,994

Operating activities: Cash used in operating activities was $2.4 million during the year ended December 31, 2015 compared to cash used of $0.6 million during the same period of 2014. The increased outflows in 2015 primarily related to Pulacayo project exploration activities 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 totalled $1.2 million in 2015 compared to $0.9 million cash provided in 2014. The Company spent $1.5 million on capital additions and received $2.9 million from a sale of equipment. In 2014, the Company received $4.6 million from the sale of its shares of Wellgreen Platinum Ltd.; cash outflows from investing activities included spending on capital additions of $3.7 million.

***Financing activities*:** A total of $1.1 million was provided by financing activities during the year ended December 31, 2015 compared to $0.6 million cash used in the year ended December 31, 2014. The Company received $1.5 million from the Credit Facility and $0.8 million from issuing shares in private placements. During the year, the Company paid $1.1 million toward a Mongolian credit facility outstanding balance and related interest of $0.14 million. During the year ended December 31, 2014, the Company paid $0.6 million toward the Mongolian credit facility outstanding balance.

Contractual Commitments

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

Capital Risk Management

Prophecy considers its capital structure to consist of share capital, share options and warrants. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the exploration and development of its projects and to pursue and support growth opportunities. The Board of Directors does not establish quantitative returns on capital criteria for management. The overall objectives for managing capital remained unchanged in 2015 from the prior comparative period

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

10. CONTINGENCIES

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

ASC Tax Claim

Pursuant to the terms of the acquisition agreement, Prophecy agreed to assume all liabilities of the Apogee Subsidiaries, including legal and tax liabilities associated with the Pulacayo Project. During Apogee's financial year ended June 30, 2014, it received notice from the Servicio de Impuestos Nacionales, the national tax authority in Bolivia, alleging that ASC Bolivia LDC Sucursal Bolivia, the Company's wholly-owned subsidiary, owed approximately Bs42,000,000 ($7,287,855) in taxes, interest and penalties relating to a historical tax liability in an amount originally assessed at approximately $760,000 in 2004, prior to Apogee acquiring the subsidiary in 2011. Apogee disputed the assessment and disclosed to the Company that it believed the notice was improperly issued. The Company continued to dispute the assessment and hired local legal counsel to pursue an appeal of the tax authority's assessment on both substantive and procedural grounds.

On May 26, 2015, the Company received a positive Resolution issued by the Bolivian Constitutional Court that among other things, declared null and void the previous Resolution of the Bolivian Supreme Court issued in 2011 (that imposed the tax liability on ASC Bolivia LDC Sucursal Bolivia) and sent the matter back to the Supreme Court to consider and issue a new Resolution. The Company plans to continue to vigorously defend its position and make submissions to the Supreme Court during the new hearing. Based on these developments, the tax claim amount of $7,287,855 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. Due to the uncertainty of realizing the VAT balance, the Company has recorded an impairment charge for the full VAT balance in the current year (see Note 10).

11. ENVIRONMENT

Prophecy is subject to the Environmental Protection Law of Mongolia (the "**EPL**") and has the following duties with respect to environmental protection:

- To comply with the EPL and the decision of the government, local self-governing organizations, local governors and Mongolian state inspectors;
- To comply with environmental standards, limits, legislation and procedures and to supervise their implementation with their organization;
- To keep records on toxic substances, adverse impacts, and waste discharged into the environment; and
- To report on measures taken to reduce or eliminate toxic chemicals, adverse impacts, and waste.

(Expressed in Canadian Dollars, except where indicated)

In addition to those duties imposed on them by the EPL, mining license holders are required to prepare an initial environment impact assessment analysis before the mine comes into production. The mining license holders must also annually develop and implement an environmental protection plan (including reclamation measures) in co-operation with the Ministry of Nature, Environment and Tourism which should take into account the results of the environmental impact assessment.

The Company received approval of its detailed Environmental Impact Assessment and Environmental Protection Plan from the Mongolian Ministry of Nature and Environment for mining operations at its Ulaan Ovoo mine in 2010. The Company has implemented a number of internal policies to embrace responsibility for the impact of its business activities on the environment. By conducting studies, carefully designing mine plans, implementing pollution control recommendations from internal and external sources, monitoring the effects of mining on mining areas and carefully designing mine closure plans, the Company seeks to minimize the impact of our activities on the environment.

The Company established an environmental policy in 2008. The environmental policy affirms the Company's commitment to environmental protection. The Company monitors its operations to ensure that it complies with all applicable environmental requirements, and takes actions to prevent and correct problems if needed.
Closure and reclamation liability results from the development, construction and ordinary operation of mining property, plant and equipment and from environmental regulations set by regulatory authorities. The liability includes costs related to removal and/or demolition of mine equipment, buildings and other infrastructure, removing contaminated soil, protection of abandoned pits and re-vegetation.
At December 31, 2015, the Company had a provision for closure and reclamation liability of $208,992 (December 31, 2014 - $173,363). The fair value of the closure and reclamation liability is estimated using a present value technique and is based on existing laws, contracts or other policies and current technology and conditions (Note 17 to the Annual Financial Statements).

12. RELATED PARTY DISCLOSURES

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

- Linx Partners Ltd., a private company controlled by John Lee, Director, CEO and Executive Chairman of Prophecy, provides management and consulting services to the Company.

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

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

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

	Year Ended December 31,	
Related parties	**2015**	**2014**
Directors and officers	$ 332,487	$ 338,088
Linx Partners Ltd.	428,988	490,312
MaKevCo Consulting Inc.	33,519	54,200
Sophir Asia Ltd.	31,241	32,374
	$ 826,235	$ 914,974

In order to meet interim working capital requirements to fund the Company's business operations and financial commitments, the Company arranged the Credit Facility with Linx dated March 12, 2015. The Credit Facility, as amended, has a maximum principal amount available for advance of $1.5 million, a two year term (formerly one year under the Credit Facility, 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%

(Expressed in Canadian Dollars, except where indicated)

per annum. The Credit Facility, as amended, is secured by promissory notes and a general security agreement.

On March 12, 2016, the Credit Facility, as amended, was further amended. As per the Amendment, the maximum principal amount available to the Company has been increased to $2.5 million. In consideration of a bonus of 20% of the total amounts advanced under the Credit Facility, as amended, as of November 30, 2015, Linx has agreed to postpone any repayments due under the Credit Facility, as amended, until the earlier of October 1, 2016, or such time as the Company is in a reasonable financial position to repay all or a portion of the amounts owing, and remove the requirement for the Company to pay any 20% penalties as a result of any future failure to repay any amounts when due under the terms of the Credit Facility, as amended. A 5% "drawdown" fee will be applicable to amounts advanced over and above the original and outstanding $1.5 million advanced, at the time of advance. Including the Bonus and "drawdown" fee, the Credit Facility, as amended, carries an effective annual interest rate of 34.5%. The "drawdown" fee, Bonus and all interest payable will be accrued and added to the maximum principal amount as they are incurred.

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

		Year Ended December 31,		
Related parties		**2015**		**2014**
Consulting and management fees	$	278,992	$	169,312
Directors' fees		96,002		151,823
Mineral properties		203,996		176,750
Property and equipment		-		150,500
Salaries and benefits		247,245		266,589
	$	826,235	$	914,974

As at December 31, 2015, amounts due to related parties totaled of $129,891 (December 31, 2014 – $463,578) and was comprised of $54,060 (December 31, 2014 - $70,845) for director fees, $2,400 (December 31, 2014 - $198,935) for consulting fees, $9,600 (December 31, 2014 - $157,312) for managing mineral properties, $63,831 (December 31, 2014 - $36,486) for salaries and reimbursable expenses.

Transactions with related parties have been measured at the fair value of services rendered.

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

		Year Ended December 31,		
Key Management Personnel		**2015**		**2014**
Salaries and short term benefits	$	249,572	$	344,970
Share-based payments		516,249		418,850
	$	765,821	$	763,820

13. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Critical accounting estimates used in the preparation of the Annual Financial Statements include determining the carrying value of mineral properties exploration and evaluation projects and property and equipment, assessing the impairment of long-lived assets, determination of environmental obligation provision for closure and reclamation, determining deferred income taxes, and the valuation of share-based payments. These estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control.

Readers are encouraged to read the significant accounting policies and estimates as described in the Company's Annual Financial Statements for the year ended December 31, 2015 (Notes 4, 5, and 6 to the Annual Financial Statements). Prophecy's Annual Financial Statements have been prepared using the going concern assumption (Note 1 to the Annual Financial Statements).

(Expressed in Canadian Dollars, except where indicated)

Significant Accounting Judgments and Estimates

The preparation of financial statements in conformity with IFRS requires management 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 for deferred income tax assets. The Company bases its estimates and assumptions on current and various other factors that it believes to be reasonable under the circumstances. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows. See Note 5 to the Annual Financial Statements for further details.

(a) Same accounting policies as annual audited consolidated financial statements

The Company followed the same accounting policies and methods of computation in the Annual Financial Statements for the year ended December 31, 2015 as followed in the consolidated financial statements for the year ended December 31, 2014.

(b) Basis of consolidation

The Annual Financial Statements include the accounts of the Company and its controlled subsidiaries. All material intercompany balances and transactions have been eliminated. The Company's the most significant subsidiaries at the date of these MD&A are presented in the following table:

Subsidiary	Location	Ownership interest	Status	Operations and Projects Owned
0912601 B.C. Ltd.	Canada	100%	Consolidated	Titan, Okeover properties
Chandgana Coal LLC	Mongolia	100%	Consolidated	Chandgana properties
Prophecy Power Generation LLC	Mongolia	100%	Consolidated	Power Plant Project
Red Hill Mongolia LLC	Mongolia	100%	Consolidated	Ulaan Ovoo mine
Apogee Minerals Bolivia S. A.	Bolivia	98%	Consolidated	Pulacayo Project
ASC Holdings Limited	Bolivia	100%	Consolidated	Pulacayo Project

14. FINANCIAL INSTRUMENTS AND RELATED RISKS

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

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

Related Risks

Liquidity risk is the risk that an entity will be unable to meet its financial obligations as they become due. The Company manages liquidity risk by preparing cash flow forecasts of upcoming cash requirements. As at December 31, 2015, the Company had cash of $33,542 (December 31, 2014 – $200,994) in order to meet short-term business requirements. At December 31, 2015, the Company had accounts payable and accrued liabilities of $2,637,557 (December 31, 2014 - $2,778,368), which have contractual maturities of 90 days or less and credit facilities balance of $1,889,462.

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 carrying amount of assets included on the statements of financial position represents the maximum credit exposure.

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. Market challenges for commodities and mining sector equities continued during the year. The current economic conditions do create uncertainty particularly over the price of silver and coal, the exchange rate between Canadian and US dollars and the timing of a recovery remains uncertain.

(a) 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 $1,500,000 on its Credit Facility, as amended, bearing a simple interest rate of 18% per annum and has an outstanding balance of $198,787 of LOC facility bearing an annual coupon rate of 17.4% with monthly interest payments. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on the fair values or future cash flows of the financial instruments as of December 31, 2015. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

(b) 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 dollar, Mongolian tugrik, and Bolivian boliviano into its reporting currency, the Canadian dollar.

Based on the above, net exposures as at December 31, 2015, with other variables unchanged, a 10% (December 31, 2014 – 10%) strengthening (weakening) of the Canadian dollar against the Mongolian tugrik would impact net loss with other variables unchanged by $93,000. A 10% strengthening (weakening) of the Canadian dollar against the Bolivian boliviano would impact net loss with other variables unchanged by $728,000. A 10% (December 31, 2014 – 10% strengthening (weakening) of the US dollar against the Canadian dollar would impact net loss with other variables unchanged by $69,000. The Company currently does not use any foreign exchange contracts to hedge this currency risk.

(c) 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. 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.

15. 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, 2015 "Risk Factors" page 77. The Annual information Form is available under the Company's SEDAR profile at www.SEDAR.com.

16. DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by Prophecy in its annual filings, filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.
Prophecy's disclosure committee, is comprised of the Chief Executive Officer and senior members of management. The disclosure committee's responsibilities include determining whether information is material and ensuring the timely disclosure of material information in accordance with securities laws. The board of directors is responsible for reviewing the Company's disclosure policy, procedures and controls to ensure that it addresses the Company's principal business risks, and changes in operations or structure, and facilitates compliance with applicable legislative and regulatory reporting requirements.

The Chief Executive Officer and Chief Financial Officer, after participating with the Company's management in evaluating the effectiveness of the Company's disclosure controls and procedures have concluded that as of December 31, 2015, the Company's disclosure controls and procedures were effective.

Design of Internal Controls over Financial Reporting

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

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

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

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

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting using the criteria set forth in the *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2015.

Changes in internal control over financial reporting

There have been no changes in the Company's internal control over financial reporting during the year ended December 31, 2015, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations of controls and procedures

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

17. DISCLOSURE OF OUTSTANDING SHARE DATA

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

- 365,570,454 Common shares outstanding with recorded value of $153,632,093;
- 30,284,167 stock options outstanding with a weighted average exercise price of $0.09. 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 2017 and 2020; and
- 52,210,384 share purchase warrants outstanding exercisable to purchase one Common share of the Company at any time at prices ranging from $0.04 to $0.10 and which expire between June 2016 and January 2021.

18. OFF-BALANCE SHEET ARRANGEMENTS

During the year ended December 31, 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.