Prophecy
Development Corp.

Management's Discussion and Analysis of Financial Condition and Results of Operations
For the six months ended June 30, 2018

(Expressed in Canadian Dollars, except where indicated)

TABLE OF CONTENTS

1. INTRODUCTION

This Management's Discussion and Analysis ("**MD&A**") of Prophecy Development Corp. and its subsidiaries ("**Prophecy**", or the "**Company**") was prepared by management as at August 14, 2018 and was reviewed, approved, and authorized for issue by the Company's Audit Committee. The following discussion of performance, financial condition and future prospects should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company and notes thereto for the three and six months ended June 30, 2018 prepared in accordance with International Financial Reporting Standards ("**IFRS**") applicable to the preparation of interim financial statements, including International Accounting Standard ("**IAS**") 34 Interim Financial Reporting, as issued by the International Accounting Standards Board. This MD&A should also be read in conjunction with both the audited annual consolidated financial statements for the year ended December 31, 2017 (prepared in accordance with IFRS) ("**Annual Financial Statements**") and the related annual MD&A ("**Annual MD&A**") dated March 29, 2018, and the 2017 Annual Information Form ("**AIF**"), all of which are available under the Company's SEDAR profile at www.sedar.com.

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

Description of Business

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

The principal business of the Company is the acquisition, exploration and development of mineral and energy projects. The Company owns a 100% interest in the following significant projects: two vanadium projects located in North America including the Gibellini vanadium project which is comprised of the Gibellini and Louie Hill vanadium deposits and associated claims located in the State of Nevada, USA (the "**Gibellini Project**") and the Titan vanadium-titanium-iron project comprised of the Titan vanadium-titanium-iron deposit and related claims located in the Province of Ontario, Canada (the "**Titan Project**"); the Pulacayo Paca silver-lead-zinc property which is comprised of the Pulacayo and Paca silver-lead-zinc deposits and related concessions located in Bolivia (the "**Pulacayo Project**"); two coal projects located in Mongolia including the Ulaan Ovoo project which is comprised of the Ulaan Ovoo coal deposit, coal leases and Ulaan Ovoo mine and the Khujirt exploration license (the "**Ulaan Ovoo Coal Property**") and the Khavtgai Uul and Chandgana Tal coal deposits, coal leases and Chandgana Tal mine (the "**Chandgana Project**"); and the Chandgana Power Plant project comprised of a land right located in Mongolia.

Prophecy has a focused business strategy to make the Gibellini Project the first operating primary vanadium mine in North America, offering the best quality vanadium pentoxide product that exceeds customer requirements in a variety of high-tech applications such as vanadium redox flow batteries and in the aerospace industry. All of the Gibellini deposit measured and indicated resources are in the oxide and transition zones of the Woodruff Formation black shale where the mineralization has a low content of deleterious elements (less than 1% Fe, Ti, and MgO). The deposit is amenable to open pit mining and the mineralization appears amenable to metal recovery by heap leach followed by solvent extraction methods without an initial roasting step to produce V_2O_5 as a bagged product on site that meets the specifications for high-tech applications. The Company is considering development of its Titan Project and acquisition of other vanadium resources to augment the Gibellini Project and position Prophecy as a major producer of vanadium.

The vanadium resources are part of a portfolio of projects the Company is building that, through their diversity of locations, commodities and products, reduces exposure to adverse regulation and political climates and changes in specific commodity prices. A diverse portfolio of projects from which a variety of minerals are mined and sold provides multiple opportunities to maintain revenue and is one facet of Prophecy's efforts to attain its ultimate objective of stable positive cash flow.

(Expressed in Canadian Dollars, except where indicated)

General Corporate Information:

The Share split described below, under Part 3 - Second Quarter Highlights and Significant Events, has been presented throughout this MD&A retroactively.

At June 30, 2018 and August 14, 2018 Prophecy had: (i) 74,753,040 and 78,814,457 Shares issued and outstanding, respectively; (ii) 10,060,090 and 10,365,090 stock options for Shares outstanding, respectively; and (iii) 26,702,030 and 30,763,447 Share purchase warrants for Shares outstanding, respectively.

Transfer Agent and Registrar
Computershare Trust Company of Canada
3rd Floor, 510 Burrard Street
Vancouver, BC, Canada V6C 3B9
Tel: +1 (604) 661-9400

Investor and Contact Information
All financial reports, news releases and corporate information can be accessed by visiting our website at: www.prophecydev.com
Investor & Media requests and queries:
Bekzod Kasimov
Tel: +1 (888) 513-6286
Email: ir@prophecydev.com

Head Office and Registered Office
Suite 1610 - 409 Granville Street
Vancouver, BC, Canada V6C 1T2
Tel: +1 (604) 569-3661

Directors and Officers

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

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

Qualified Persons

Danniel Oosterman, B.Sc.(Hons), PGeo, is a "qualified person" as defined under NI 43-101. Mr. Oosterman serves as the Company's Vice-President, Exploration and qualified person. He is not considered independent of Prophecy given the large extent that his professional time is dedicated solely to Prophecy. Mr. Oosterman 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 the United States, Canada, Bolivia and Mongolia, and 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 of the Gibellini Project; development of the Pulacayo Project; development and production of *electricity from Prophecy's Chandgana Power Plant, including finalizing of any power purchase agreement; the likelihood of securing project financing; estimated future coal production at the Chandgana Project; and coal production at the Ulaan Ovoo Coal Property, and other information concerning possible or assumed future results of operations of Prophecy. See in particular, Section 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 vanadium, silver, other metals and coal, prices for and availability of fuel, parts and equipment and other key supplies remain consistent with current levels; production forecasts meeting expectations; the accuracy of Prophecy's current mineral resource estimates; labour and materials costs increasing on a basis consistent with Prophecy's current expectations; and any additional required financing will be available on reasonable terms; market developments and trends in global supply and demand for vanadium, silver, other metals, coal and energy 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 "Risks and Uncertainties" in this MD&A and "Risk Factors" in Prophecy's most recent AIF as filed under the Company's SEDAR profile at www.SEDAR.com and posted on Prophecy's website: Prophecy's history of net losses and lack of foreseeable positive cash flow; exploration, development and production risks, including risks related to the development of Prophecy's mineral properties; 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 Bolivia and Mongolia, which are developing countries and being subject to their local laws; the availability and timeliness of various government approvals, permits and licenses; the feasibility, funding and development of Prophecy's projects; 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; conflicts of interest; and reliance on information systems with exposure to cyber-security risks.

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. SECOND QUARTER HIGHLIGHTS AND SIGNIFICANT EVENTS

- On April 18, 2018, the Company announced that it signed an agreement with Monitor Ventures Inc. ("**Monitor**") for the right to access and use information related to the Gibellini Project which was commissioned, compiled and held by Monitor. In consideration, Prophecy paid $7,000 in cash; issued to Monitor the equivalent of 500,000 warrants entitling Monitor to purchase one Share at an exercise price the equivalent of $0.30 for a period of three years, and will, upon approval of the environmental impact statement (the "**EIS**") in connection with the Gibellini Project by the United States Department of the Interior, Bureau of Land Management, Mount Lewis Field Office (the "**BLM**"), pay Monitor, $50,000 in cash.

- On April 23, 2018, the Company announced an amendment to the Gibellini mineral lease agreement dated June 22, 2017 (the "**Gibellini MLA**"), whereby Prophecy has been granted the right to cause the current holder (the "**Gibellini Lessor**") of the Gibellini mineral claims (which Prophecy is currently leasing) to transfer their title to the claims to Prophecy. With the amendment, Prophecy shall have the option to, at any time during the term of the Gibellini MLA, require the Gibellini Lessor to transfer title over all of the leased, unpatented lode mining claims (excluding four claims which will be retained by the Gibellini Lessor for sentimental reasons and which contain minimal resource) (the "**Transferred Claims**") to Prophecy in exchange for USD1,000,000, to be paid as an advance royalty payment (the "**Transfer Payment**"). A credit of USD99,027 in favour of Prophecy towards the Transfer Payment was already paid upon signing of the amendment, with the remaining USD900,973 portion of the Transfer Payment due and payable by Prophecy to the Gibellini Lessor upon completion of transfer of the Transferred Claims from the Gibellini Lessor to Prophecy. The advance royalty obligation and production royalty shall not be affected, reduced or relieved by the transfer of title.

- On April 30, 2018, the Company announced the initiation of preparations for its exploration and verification drilling program on the Gibellini Project in Q2 2018.

  The Company also announced that it entered into separate agreements with Andreas Curkovic of Proconsul Capital Ltd. as well as Karen Michno (Willoughby) to provide investor relations and shareholder communication services for the Company, and it granted in aggregate, the equivalent of 150,000 incentive stock options to various consultants of the Company. The options are exercisable at a price the equivalent of $0.32 per Share for a term of five years expiring on April 27, 2023 and vest at 12.5% per quarter for the first two years following the date of grant.

- On May 9, 2018, the Company announced the submission of its Management's Plan of Operations for the Gibellini vanadium project to the BLM and the Reclamation Permit Application to the Nevada Division of Environmental Protection, Bureau of Mining Regulation and Reclamation.

- On May 29, 2018, the Company announced the results of a positive preliminary economic assessment study (the "**PEA**") for its Gibellini Project. The PEA reported an after tax cumulative cash flow of USD601.5 million, an internal rate of return of 50.8%, a net present value of USD338.3 million at a 7% discount rate and a 1.72 years payback on investment from start-up assuming an average vanadium pentoxide price (V_2O_5) of USD12.73 per pound. The PEA was prepared by Amec Foster Wheeler E&C Services Inc. ("**AMEC**"), part of the Wood Group of companies. The PEA was filed on June 25, 2018 and is available under the Company's profile on SEDAR at www.sedar.com.

- On May 30, 2018, the Company announced that it is undertaking a non-brokered private placement (the "**Placement**") involving the issuance of up to the equivalent of 9,340,000 units (each a "**Unit**") at a price the equivalent of $0.30 per Unit. Each Unit consisted of one Share and one Share purchase warrant entitling the holder thereof to acquire an additional Share at a price the equivalent of $0.40 per Share for a period of three years from the date of issuance. On June 26, 2018, the Company amended the terms of the private placement to involve the issuance of up to the equivalent of 7,000,000 Units at a price the equivalent of $0.28 per Unit. All other terms of the aforementioned private placement remained the same.

- On June 8, 2018, the Company announced that it has secured DTC eligibility for its Shares that are listed for trading on the OTCQX® Best Market under the ticker symbol "PRPCF" in the United States.

- The Annual General Meeting of the Company was held on June 20, 2018. There are no changes to the Company's Board of Directors or officers; all proposed resolutions were approved by the Company's shareholders including the split of the Company's Shares on the basis of 10 new Shares per 1 old Share.

- During the quarter, the Company granted in aggregate, the equivalent of 1,750,000 incentive stock options to various directors, officers and consultants of the Company. The options are exercisable to purchase one Share at prices ranging from the equivalent of $0.28 to $0.32 for a term of five years expiring on between April 6, 2023 and May 1, 2023, and vest at 12.5% per quarter for the first two years following the date of grant.

Subsequent to period end

- On July 6, 2018, the Company closed the first tranche of the Placement and raised gross cash proceeds of $1,081,690 through the issuance of the equivalent of 3,863,180 Units. On August 13, 2018, the Company closed the second and final tranche of the Placement and raised gross cash proceeds of $55,506 through the issuance of 198,237 Units.

- On July 9, 2018, the Company announced that it was in discussions with advisors regarding potential plans to incorporate and spin off a vanadium royalty and streaming subsidiary company.

- On July 19, 2018, the Company announced following conditional acceptance by the TSX, and approval by the Company's shareholders at its Annual General Meeting held on June 20, 2018, that the Company intends to split the issued and outstanding Shares on the basis of ten (10) new Shares for every one (1) old Share outstanding (the "**Split**"). The record date for the Split was July 31, 2018 and the Shares commenced trading on an ex-distribution and post-split basis at market opening on August 8, 2018.

  Further details of the Split are contained in the Company's Management Information Circular dated May 8, 2018 which may be found at www.SEDAR.com.

  As required by IAS 33, *Earnings Per Share,* all information with respect to the number of Shares and issuance prices for the time periods prior to the Split have been restated to reflect the Split.

- On August 14, 2018, the Company announced the appointment of Daniel Fidock as a member of its Board of Directors.

- On August 14, 2018, the Company announced the results from the metallurgical tests conducted by Northwest Nonferrous Metals Mining Group Co., Ltd. (the "**NWME**") on samples collected from the Gibellini Project.

For further information please view the Company's 2018 news releases under the Company's SEDAR profile at www.sedar.com.

4. PROPERTY SUMMARY

Gibellini Project

The Gibellini Project consists of a total of 354 unpatented lode mining claims that include: the Gibellini group of 40 claims, the VC Exploration group of 105 claims, and the Prophecy group of 209 claims. The Gibellini group of claims is referred to by the Company as a "project". All the claims are located in Eureka County, Nevada, approximately 25 miles south of the town of Eureka and are easily accessed from US Highway 50 to a paved road that becomes a graded, gravel road.

The Gibellini group of claims was acquired on June 22, 2017, through lease from the claimant (the Gibellini Lessor) and includes an area of approximately 771 acres. Under the Gibellini MLA, Prophecy leased the Gibellini group of claims which originally constituted the Gibellini Project by among other things, agreeing to pay to the Gibellini Lessor, annual advance royalty payments which will be tied, based on an agreed formula (not to exceed USD120,000 per year), to the average vanadium pentoxide price of the prior year. Upon commencement of production, Prophecy will maintain its acquisition through lease of the Gibellini group of claims by paying to the Gibellini Lessor, a 2.5% NSR until a total of USD3 million is paid. Thereafter, the NSR will be reduced to 2% over the remaining life of the mine (and referred to thereafter, as "production royalty payments"). All advance royalty payments made, will be deducted as credits against future production royalty payments. The lease is for a term of 10 years, which can be extended for an additional 10 years at Prophecy's option.

On April 19, 2018, the Gibellini MLA was amended to grant Prophecy the option, at any time during the term of the agreement, to require the Gibellini Lessor to transfer their title over all of the leased mining claims (excluding four claims which will be retained by the Gibellini Lessor and which contain minimal resource) to Prophecy in exchange for USD1,000,000, to be paid as an advance royalty payment.

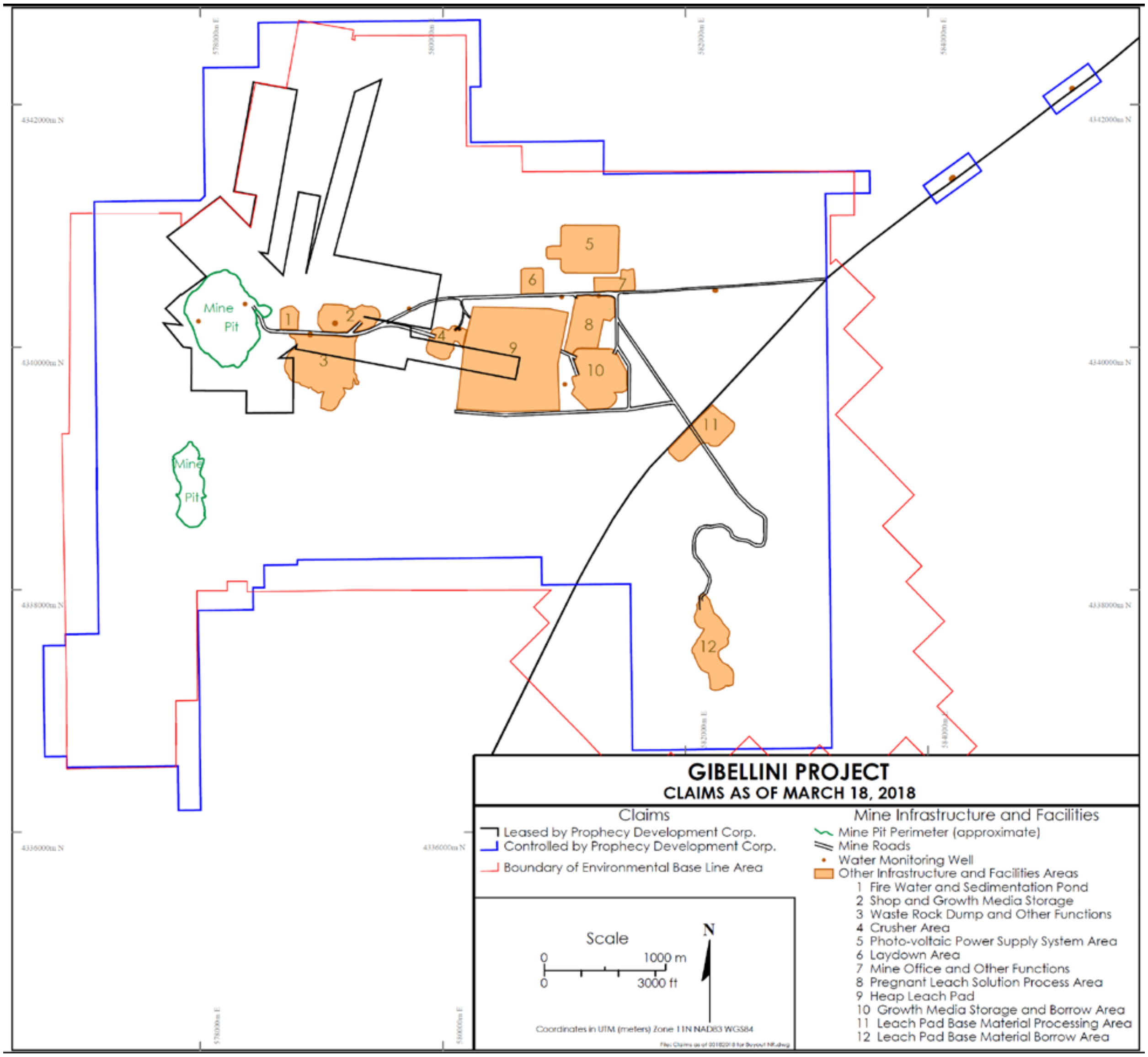
On July 10, 2017, the Company acquired (through lease) from the holders (the "**Former Louie Hill Lessors**") 10 unpatented lode claims totaling approximately 207 gross acres that comprised the Louie Hill group of claims located approximately 500 metres south of the Gibellini group of claims. These claims were subsequently abandoned by the Former Louie Hill Lessors, and on March 11 and 12, 2018, the Company staked the area within and under 17 new claims totaling approximately 340 gross acres which now collectively comprise the expanded Louie Hill group of claims.

The Company is currently negotiating a royalty agreement with the Former Louie Hill Lessors to replace on substantially similar terms, the former Louie Hill Mineral Lease Agreement dated July 10, 2017, wherein Prophecy will pay an advance royalty and a net smelter royalty on vanadium pentoxide produced from the area of the 10 unpatented lode claims originally acquired through lease from the Former Louie Hill Lessors that is now contained within 17 lode claims recently staked by the Company's subsidiaries. The annual advance royalty payments will be tied, based on an agreed formula (the total amount not to exceed USD28,000 per year), to the average vanadium pentoxide price for the prior year.

Upon commencement of production, Prophecy will pay to the Former Louie Hill Lessors, a 2.5% NSR of which, 1.5% of the NSR may be purchased at any time by Prophecy for USD1 million, leaving the total NSR to be reduced to 1% over the remaining life of the mine (and referred to thereafter, as "production royalty payments"). All advance royalty payments made, will be deducted as credits against future production royalty payments. The royalty agreement shall be for an indefinite period and shall be valid and in full force and effect for as long as the Company, its subsidiaries, or any of their permitted successors or assigns holds a valid and enforceable mining concession over the area.

On December 5, 2017, the Company announced that it had significantly expanded the land position at the Gibellini Project, by staking a total of 198 new claims immediately adjacent to the Gibellini Project covering 4091 acres that are sufficient to enable future vanadium mining, processing and extraction. These claims are in the adjudication process as of the date of this MD&A.

On February 15, 2018, the Company indirectly acquired an additional 105 unpatented lode mining claims located adjacent to its existing Gibellini Project in Nevada, USA through the indirect acquisition of VC Exploration (US) Inc, by paying a total of $335,661 in cash and issuing the equivalent of 500,000 Share purchase warrants to arm's-length, private parties.



The Company entered into a technical advisory and cooperation agreement with the NWME to advance the Gibellini Project. The scope of work for NWME includes technical design and engineering of vanadium ore processing facilities to recover vanadium pentoxide at Gibellini with the goal of producing a commercial high grade vanadium pentoxide product on site.

As part of the agreement, NWME reviewed the historic Gibellini feasibility study commissioned by the project's previous operator, including metallurgical studies, prepared by SGS and McClelland Laboratories.

The NWME technical team recently concluded a visit to the Gibellini site and collected representative oxide and transition zone samples. The samples will be used in metallurgical work to enhance heap leaching of the black-shale vanadium ore and process recovery of vanadium from the pregnant leach solution.

On March 28, 2018, the Company announced that following a meeting between the staff of the Battle Mountain District-Mt. Lewis field office of the BLM and the Company on March 23, 2018, the Gibellini Project will be one of the first projects to undergo NEPA review under Secretary of the Interior Order No. 3355 with the following subject: Streamlining National Environmental Policy Reviews and Implementation of Executive Order 13807 (the "**Order**").

(Expressed in Canadian Dollars, except where indicated)

The Order states as one of its intentions to "immediately implement certain improvements to [NEPA] reviews conducted by the Department of the Interior (Department)". Among these improvements which would be of potential benefit to the Company, is the requirement to a complete review of environmental impact statements in less time, and shorter documentation requirements than before.

At the end of the meeting, the BLM and Prophecy tentatively agreed to the following:

1. Prophecy is to revise and submit the baseline studies and Plan of Operation for the Gibellini Project in May 2018 based largely on submissions from the project's previous operator;
2. the BLM and Prophecy will then identify data and studies requiring updates, which Prophecy will engage contractors to perform;
3. in parallel, Prophecy will begin preparing an environmental report relating to the Gibellini Project; and
4. upon acceptance of the baseline studies, Plan of Operation, and environmental report by the BLM, Prophecy expects to trigger a Notice of Intent by the BLM to prepare an EIS for the Gibellini Project, currently expected to be completed in 2019.

Gibellini Deposit

On May 29th, 2018, the Company received an independent technical report providing an updated the resource on the Gibellini project. The report is titled "Gibellini Vanadium Project Eureka County, Nevada, NI 43-101 Technical Report on Preliminary Economic Assessment" prepared by Mr. Kirk Hanson, P.E., Technical Director, Open Pit Mining, Mr. Edward J.C. Orbock III, RM SME, Principal Geologist and US Manager of Consulting, Mr. Edwin Peralta, P.E., Senior Mining Engineer, Mr. Lynton Gormely, P.Eng., Consultant Metallurgist of Amec Foster Wheeler E&C Services Inc.. The report has an effective date of May 29th, 2018.

Gibellini Deposit

The Gibellini Technical Report disclosed an estimated 7.94 million tons at a weighted average grade of 0.314% vanadium pentoxide (V_2O_5) in the Measured category and 15.02 million tons at a weighted average grade of 0.271% V_2O_5 in the Indicated category leading to a total combined Measured and Indicated Mineral Resource of 22.95 million tons at a weighted average grade of 0.286% V_2O_5. Total contained metal content of the Measured and Indicated Mineral Resources is 131.34 million pounds V_2O_5. The Inferred Mineral Resource estimate is 14.97 million tons at a weighted average grade of 0.175% V_2O_5. The total contained metal content of the Inferred Mineral Resource estimate is 52.30 million pounds V_2O_5. The table below contains a summary of the Gibellini deposit resource estimate:

Table 1

Confidence Category	Domain	Cut-off V_2O_5 (%)	Tons (Mt)	Grade V_2O_5 (%)	Contained V_2O_5 (Mlb)
Measured	Oxide	0.101	3.96	0.251	19.87
	Transition	0.086	3.98	0.377	29.98
Indicated	Oxide	0.101	7.83	0.222	34.76
	Transition	0.086	7.19	0.325	46.73
Total Measured and Indicated			***22.95***	***0.286***	***131.34***
Inferred	Oxide	0.101	0.16	0.170	0.55
	Transition	0.086	0.01	0.180	0.03
	Reduced	0.116	14.80	0.175	51.72
Total Inferred			***14.97***	***0.175***	***52.30***

(Expressed in Canadian Dollars, except where indicated)

Notes to accompany Mineral Resource table for Gibellini:

1. The Qualified Person for the estimate is Mr. E.J.C. Orbock III, RM SME, a Wood employee. The Mineral Resources have an effective date of TBA.
2. Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability.
3. Mineral Resources are reported at various cut-off grades for oxide, transition, and reduced material.
4. Mineral Resources are reported within a conceptual pit shell that uses the following assumptions: Mineral Resource V2O5 price: $14.64/lb; mining cost: $2.21/ton mined; process cost: $13.62/ton; general and administrative (G&A) cost: $0.99/ton processed; metallurgical recovery assumptions of 60% for oxide material, 70% for transition material and 52% for reduced material; tonnage factors of 16.86 ft3/ton for oxide material, 16.35 ft3/ton for transition material and 14.18 ft3/ton for reduced material; royalty: 2.5% net smelter return (NSR); shipping and conversion costs: $0.37/lb. An overall 40º pit slope angle assumption was used.
5. Rounding as required by reporting guidelines may result in apparent summation differences between tons, grade and contained metal content. Tonnage and grade measurements are in US units. Grades are reported in percentages.

Louie Hill Deposit

The Louie Hill deposit lies approximately 1,600 ft south of the Gibellini deposit.

The Gibellini Technical Report provides an Inferred Mineral Resource of 7.52 million tons at a weighted average grade of 0.276% vanadium pentoxide (V_2O_5). The oxidation domains were not modeled. The total contained metal content of the estimate is 41.49 million pounds V_2O_5. The table below summarizes the Louie Hill deposit resource estimate:

Table 2

Confidence Category	**Cut-off V_2O_5 (%)**	**Tons (Mt)**	**Grade V_2O_5 (%)**	**Contained V_2O_5 (Mlb)**
Inferred	0.101	7.52	0.276	41.49

Notes to accompany Mineral Resource table for Louie Hill:

1. The Qualified Person for the estimate is Mr. E.J.C. Orbock III, RM SME, a Wood employee. The Mineral Resources have an effective date of TBA. The resource model was prepared by Mr. Mark Hertel, RM SME.
2. Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability.
3. Oxidation state was not modeled.
4. Mineral Resources are reported within a conceptual pit shell that uses the following assumptions: Mineral Resource V2O5 price: $14.64/lb; mining cost: $2.21/ton mined; process cost: $13.62/ton; general and administrative (G&A) cost: $0.99/ton processed; metallurgical recovery assumptions of 60% for mineralized material; tonnage factors of 16.86 ft3/ton for mineralized material, royalty: 2.5% net smelter return (NSR); shipping and conversion costs: $0.37/lb. For the purposes of the resource estimate, an overall 40º slope angle assumption was used.
5. Rounding as required by reporting guidelines may result in apparent summation differences between tons, grade and contained metal content. Tonnage and grade measurements are in US units. Grades are reported in percentages.

A total of 280 drill holes (about 51,265 ft) have been completed on the Gibellini Project since 1946, comprising 16 core holes (4,046 ft), 169 rotary drill holes (25,077 ft; note not all drill holes have footages recorded) and 95 reverse circulation holes (22,142 ft).

The vanadium-host black shale unit ranges from 175 to over 300 ft thick and overlies gray mudstone. The shale has been oxidized to various hues of yellow and orange to a depth of 100 ft. Alteration (oxidation) of the rocks is classified as one of three oxide codes: oxidized, transitional, and reduced.

No work has been conducted on the Gibellini Project since 2011. We have completed no exploration or drilling activities since the Gibellini Project acquisition.

The power supply for the Gibellini Project site is assumed to be at 24.9 kV and supplied from a planned substation to be located near Fish Creek Ranch. This substation would tap and step-down the 69kV supply carried by the line to the Pan Mine to 24.9kV and place it on a line to the Gibellini Project. Negotiations with the power utility, Mt. Wheeler Power, would need to be undertaken to secure any future power supply contract and transmission line to the site.

(Expressed in Canadian Dollars, except where indicated)

On April 18, 2018, the Company announced that it signed an agreement with Monitor for the right to access and use information related to the Gibellini Project which was commissioned, compiled and held by Monitor. In consideration, Prophecy paid $7,000 in cash, issued to Monitor the equivalent of 500,000 warrants entitling Monitor to purchase one Share at an exercise price the equivalent of $0.30 for a period of three years, and will, upon approval of the EIS by BLM, pay Monitor, $50,000 in cash.

On April 30, 2018, the Company announced that it is initiating preparations for its exploration and verification drilling program on the Gibellini vanadium project in Q2 2018. A total of 4,880m of reverse circulation drilling in 64 holes are planned in the following target areas:

Gibellini: 33 holes total 2,740 meters

Thirty-three (33) infill drill holes have been planned to increase the confidence level of a potential near-surface higher-grade starter pit ("**HSP**") with the following historic drilling highlights:

Table 3

Historic drill results on the Gibellini Resource

Hole ID	**From (m)**	**To (m)**	**Meters**	**% V_2O_5**
T-38	3.05	45.72	42.7	0.755
including…	28.96	44.20	15.2	1.399
NG-47	1.52	57.91	56.4	0.533
including…	28.96	39.62	10.7	1.005
NG-6	6.10	70.10	64.0	0.455
T-33	1.52	57.91	56.4	0.462
including…	33.53	41.15	7.6	1.102
T-27	1.52	60.96	59.4	0.419
NG-12	22.86	60.96	38.1	0.652
including…	24.38	45.72	21.3	0.857
IG-2	4.57	53.34	48.8	0.501
NG-4	3.05	56.39	53.3	0.413

Because the drill holes are vertical and the oxidation zones are nearly horizontal the meterage reported is considered true thickness.

Louie Hill: 28 holes total 1,765 meters

A total of 28 holes are planned for infill and expansion which are aimed to increase total resource tonnage, upgrade resource confidence level, and to delineate whether higher grade mineralized intercepts comprise continuous zones, based on the following past drill highlights:

Table 4

Historic drill results from the Louie Hill resource

Hole ID	**From (m)**	**To (m)**	**Meters**	**% V_2O_5**
UC58-1	1.52	24.38	22.86	0.457

(Expressed in Canadian Dollars, except where indicated)

UC58-11	16.76	30.48	13.72	0.489
UC58-13	13.72	25.91	12.19	0.428
UC58-3	0.00	27.43	27.43	0.406
including…	18.29	22.86	4.57	0.877
UC58-46	0.00	9.14	9.14	0.620
UC58-6	0.00	12.19	12.19	0.733
including…	0.00	7.62	7.62	0.936

Because the drill holes are vertical and the oxidation zones are nearly horizontal the meterage reported is considered true thickness.

Middle Earth, Big Sky and Northeast Regional Prospects: 3 holes total 375 meters

Regional prospects are all within a three-kilometer trend of the Gibellini resource and occur within Prophecy's controlled claims. Combined, the three prospects cover 2.5 square kilometers which is over twice the size of Gibellini's foot print.

These prospects contain exposures of the same host rocks found at Gibellini and Louie Hill, known as the Woodruff Formation, which is comprised predominantly of various mudstones and lesser chert.

Over 390 assay results from trenches in the Big Sky and Northeast Trench prospects and core samples from the historic drilling at Middle Earth prospect all demonstrated appreciable vanadium grades. Below are highlights from past trenching and drilling:

Table 5

Historic results from exploration prospects on Gibellini property

Prospect	**Hole ID/Trench**	**From (m)**	**To (m)**	**Meters**	**% V_2O_5**
Middle Earth	UC58-18	0	4.572	4.6	0.567
Middle Earth	UC58-19	0	18.288	18.3	0.337
Northeast	TRENCH Nt3	3.0	60.0	57.0	0.270

Because the drill holes are vertical and the oxidation zones are nearly horizontal the meterage reported is considered true thickness.

A total of three holes making for total drilling of 375 meters are designed to drill test the three regional prospects.

On May 9, 2018, the Company submitted its Management's Plan of Operations (the "**MPO**") to the BLM and the Reclamation Permit Application to the Nevada Division of Environmental Protection, Bureau of Mining Regulation and Reclamation (the "**BMRR**").

The MPO was prepared by SRK Consulting (U.S.) Inc. with over 1,100 pages of detailed development plans for the open pit mining operations and processing facilities to extract and recover vanadium from the Gibellini Project with stated average mine production during the seven-year mine life of 15.7 million tons of ore material containing 120.5 million pounds of vanadium. The primary facilities include the: pit, waste rock disposal facility, mine office, auxiliary facilities such as water and power, crushing facilities and stockpile, heap leach pad, process facility, water ponds, borrow areas, and mine and access roads.

A map of the proposed facilities is available at www.prophecydev.com.

In addition, the MPO includes the following designs along with associated environmental baseline studies:

1. Quality Assurance Plan
2. Storm Water Management Plan
3. Adaptive Waste Rock Management Plan
4. Monitoring Plan
5. Noxious Weed Management Plan
6. Spill Contingency Plan
7. Feasibility Study Level Pit Slope Design
8. Heap Leach and Waste Rock Dump Facility Stability Report
9. Geochemical Characterization Report
10. Water Management Plan
11. Closure and Reclamation Plan
12. Transportation Plan
13. Standardized Reclamation Cost Estimate

The baseline studies supplementing the MPO were completed by the previous operator between 2010 and 2012, and included studies of biological resources, cultural resources, surface water resources, ground water resources, and waste rock geochemical characterization.

The next steps for the Gibellini Project's permitting are:

- the BLM and Prophecy shall identify data and baseline studies requiring updates, which Prophecy will engage contractors to perform;
- Prophecy shall begin preparing an environmental report relating to the Gibellini Project to be submitted to the BLM;
- Prophecy shall begin preparing a Water Pollution Control Permit application to be submitted to the BMRR;
- upon acceptance of the baseline studies, MPO, and environmental report by the BLM, Prophecy expects to trigger a Notice of Intent ("**NOI**") in 2019 by the BLM to prepare an EIS for the Gibellini Project.

As a result of direction from Secretary of the Interior Order No. 3355 (Streamlining National Environmental Policy Reviews and Implementation of Executive Order 13807) Prophecy anticipates the Gibellini EIS will not be more than 150 pages (excluding appendices) and the BLM to complete the Gibellini final EIS within one year from the issuance of the NOI. Should that occur, it means that permitting for the Gibellini Project may potentially be concluded in 2020.

On May 29, 2018, the Company received results of a positive PEA for the Gibellini Project. The PEA reported an after tax cumulative cash flow of $601.5 million, an internal rate of return of 50.8%, a net present value of $338.3 million at a 7% discount rate and a 1.72 years payback on investment from start-up assuming an average vanadium pentoxide price (V_2O_5) of $12.73 per pound. As of May 29, 2018, the price of vanadium pentoxide is $14.20 per pound according to www.asianmetal.com. The PEA was prepared by AMEC and is based on the NI43-101 compliant resource calculations reported above.

Table 6

Highlights of the PEA (after tax)
All dollar values are expressed in US dollars unless otherwise noted

Internal rate of return	50.8%
Net present value (NPV)	$338.3 million at 7% discount rate
Payback period	1.72 years
Average annual production	9.65 million lbs V_2O_5

Average V_2O_5 selling price	\$12.73 per lb
Operating cash cost	\$4.77 per lb V_2O_5
All-in sustaining costs*	\$6.28 per lb V_2O_5
Breakeven price**	\$7.76 per lb V_2O_5
Initial capital cost including 25% contingency	\$116.76 million
Average grade	0.26% V_2O_5
Strip ratio	0.17 waste to leach material
Mining operating rate	3.4 million tons (leach material and waste) per year
Average V_2O_5 recovery through Direct Heap Leaching	62%
Life of mine	13.5 years

**includes selling costs, royalties, operating cash cost, reclamation, exploration and sustaining capital costs.*

***includes selling costs, royalties, operating cash costs, taxes (local, state, and federal), working capital, and sustaining & capital costs.*

The PEA is preliminary in nature, and includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves, and there is no certainty that the PEA will be realized. Mineral resources are not mineral reserves and do not have demonstrated economic viability.

Sensitivity Analysis

The tables below show the sensitivity analysis to the vanadium pentoxide price, grade, and to the PEA capital cost and operating costs. This sensitivity analysis indicates strong project economics even in very challenging conditions, and that the project is well positioned to benefit from the current rising vanadium price environment. A 20% increase in the vanadium price relative to the base case translates to a \$491.3 million after-tax NPV at a 7% discount rate.

Table 7
Sensitivity Analysis
All dollar values are expressed in US dollars unless otherwise noted

V_2O_5 price change	**V_2O_5 price \$/lb**	**After-tax IRR**	**After-tax NPV \$M @ 7%**	**After-tax cashflow \$M**
30%	16.55	69%	568.0	996.0
20%	15.28	63%	491.3	864.4
10%	14.00	57%	415.2	733.2
Base price	12.73	51%	338.3	600.4
-10%	11.46	44%	261.0	467.2
-20%	10.18	36%	183.1	333.2
-30%	8.91	26%	103.9	196.9
V_2O_5 grade change	**V_2O_5 grade**	**After-tax IRR**	**After-tax NPV \$M @ 7%**	**After-tax cashflow \$M**

30%	0.34%	68%	554.4	972.8
20%	0.31%	63%	482.4	849.0
10%	0.28%	57%	410.7	725.4
Base grade	0.26%	51%	338.3	600.4
-10%	0.23%	44%	265.6	475.0
-20%	0.21%	37%	192.2	348.9
-30%	0.18%	28%	118.3	221.6
Capex change	**Capex $M**	**After-tax IRR**	**After-tax NPV $M @ 7%**	**After-tax cashflow $M**
30%	151.8	40%	307.2	564.3
20%	140.1	43%	317.6	576.3
10%	128.4	47%	328.0	588.4
Base Capex	116.8	51%	338.3	600.4
-10%	105.1	55%	348.6	612.5
-20%	93.4	61%	358.9	624.6
-30%	81.7	67%	369.3	636.8
Opex change	**Opex $M**	**After-tax IRR**	**After-tax NPV $M @ 7%**	**After-tax cashflow $M**
30%	6.20	45%	257.9	450.2
20%	5.72	47%	284.8	500.3
10%	5.25	49%	311.6	550.4
Base Capex	4.77	51%	338.3	600.4
-10%	4.29	53%	364.8	650.0
-20%	3.82	55%	390.7	698.4
-30%	3.34	56%	416.0	745.4

Mining & Processing

Mining at the Gibellini and Louie Hill projects is planned to be a conventional open pit mine utilizing a truck and shovel fleet comprised of 100-ton trucks and front end loaders. Average mine production during the 13.5 year mine life is 3.4 million tons of leach material (3 million tons) and waste (0.4 million tonnes) per year at a strip ratio of 0.17. Mining is to be completed through contract, with Prophecy's mining staff overseeing the contracted mining operation and performing the mine engineering and survey work.

Table 8

	Oxide '000 tons	**Transition '000 tons**	**Reduced '000 tons**	**Grade % V_2O_5**	**Metal contained V_2O_5 (Mlb)**	**Metal Produced V_2O_5 (Mlb)**
YR 1	2,600	400	—	0.291	17.440	10.633

(Expressed in Canadian Dollars, except where indicated)

YR 2	2,400	600	—	0.278	16.690	10.480
YR 3	1,760	1,240	—	0.310	18.580	12.067
YR 4	650	2,350	—	0.372	22.320	15.217
YR 5	310	2,680	10	0.366	21.950	15.185
YR 6	2,240	750	10	0.315	18.920	11.928
YR 7	3,000	—	—	0.316	18.980	11.394
YR 8	1,910	700	380	0.189	11.310	7.085
YR 9	690	1,220	1,090	0.216	12.940	8.023
YR 10	110	370	2,520	0.208	12.480	6.898
YR 11	450	360	2,180	0.182	10.910	6.103
YR 12	50	140	2,820	0.166	9.980	5.349
YR 13	390	10	2,600	0.183	10.970	5.839
YR 14	1,710	—	—	0.195	6.670	4.096
Totals:	**18,290**	**10,830**	**11,590**	**0.258**	**210.15**	**130.297**

The processing method envisioned for the project will be to feed leach material from the mine via loader to a hopper that feeds the crushing plant. The leach material will then be fed to the agglomerator where sulfuric acid, flocculent and water will be added to achieve adequate agglomeration. The agglomerated leach material will be transported to a stacker on the leach pad, which will stack the material to a height of 15 feet. Once the material is stacked, solution will be added to the leach heap at a rate of 0.0025 gallons per minute per square foot. The solution will be collected in a pond and this pregnant leach solution will be sent to the process building for metal recovery where it will go through solvent extraction and stripping processes to produce the vanadium pentoxide.

Vanadium Recoveries and Metallurgical Testing

Approximately 130.3 million pounds of V_2O_5 is expected to be produced from Gibellini and Louie Hill leaching operations at an average recovery of 62% (oxide: 60%, transition: 70% and reduced: 52%). The heap leaching is performed at ambient temperature and atmospheric pressure without pre-roasting or other beneficiation process. The pregnant leach solution is continuously collected with leach material undergoing, on average, a 150-day heap-leaching cycle. Table 9 below summarizes the projected metallurgical recoveries used in the PEA for the three defined oxidation-type domains.

Table 9

Mill Feed Material Type	Direct Leaching Recovery
Oxide	60%
Transition	70%
Reduced	52%

The direct heap leach vanadium recovery estimates used in the PEA were based on extensive metallurgical testing work performed by SGS Lakefield Research Laboratories, Dawson Minerals Laboratories, and McClelland Laboratories. Samples were selected from a range of depths within the deposit, representative of the various types and styles of mineralization. Samples were obtained to ensure that tests were performed on sufficient sample mass. The end results demonstrated low acid consumption (less than 100 lb acid consumption per ton leached) and high recovery through direct leaching. Notable test results included the following:

Acid Heap Leach Testing of a Gibellini Bulk Sample, McClelland Laboratories, September 4, 2013 –

(Expressed in Canadian Dollars, except where indicated)

A series of trenches were excavated and approximately 18 tons of material were sent to McClelland Laboratories for pilot testing. The material was air dried and stage crushed to 2" where a column sample was cut for 12" columns and then the leach material was crushed to – ½". A head sample was taken and material for bench marking columns, and a bottle roll test was also taken. The results of the pilot plant testing are shown in Table 10:

Table 10

Crush Size 100% Passing	Test Type	Time (Days)	Head Grade %V*	% Vanadium Recovery	Acid Consumption lbs/st
50 mm (2")	Column, open circuit	123	0.299	76.6%	88
12.5 mm (1/2")	Column, open circuit	123	0.313	80.2%	72
12.5 mm (1/2")	Column, closed circuit	199	0.284	68.3%	84
12.5 mm (1/2")	Column, closed circuit	Column, closed circuit	0.313	74.0%	96
12.5 mm (1/2")	Bottle Roll	4	0.286	67.1%	74
1.7 mm (-10m)	Bottle Roll	4	0.286	66.3%	66
-75µ	Bottle Roll	4	0.279	67.6%	62
-75µ	Bottle Roll	30	0.298	74.2%	54

*to convert V to V_2O_5, multiply V by 1.7852.

<u>Solvent Extraction (SX) Test Work –</u>

The design parameters from this test work are:

- SX Extraction pH Range 1.8 to 2.0
- Di-2-Ethyl Hexyl Phosphoric Acid Concentration 0.45 M (~17.3% by weight) Cytec
- 923 Concentration 0.13 M (~5.4% by weight)
- The Organic Diluent is Orform SX-12 (high purity kerosene)
- SO_2 addition of 1.0 to 1.5 g/l
- Strip Solution Sulfuric Acid Concentration 225 to 250 g/l SX
- Extraction Efficiency ~97%
- SX Strip Efficiency ~98%

<u>Pilot Scale Solvent Extraction Testing on Vanadium Bearing Solutions from Two Gibellini Project Column Leach Tests, McClelland Laboratories, September 16, 2013 –</u>

Solvent extraction ("**SX**") processing was conducted to recover vanadium from sulfuric acid pregnant leach solution (PLS) generated during pilot column testing on bulk leach samples from the Gibellini project. Laboratory scale testing was conducted on select solutions generated during the pilot SX processing, to optimize the SX processing conditions. Additional laboratory scale testing was conducted on the loaded strip solution generated during the pilot SX testing, to evaluate methods for upgrading and purifying it to levels that may be required for sale of a final vanadium bearing product.

The final pregnant strip solution was 6.1% vanadium, 250 g/l sulfuric acid with approximately 2% Fe and Al. The solution was suitable for oxidation using sodium chlorate to convert the V+4 to V+5 which was then precipitated using ammonia to make ammonium metavanadate (AMV). To make a vanadium product for the steel industry, this AMV is calcined (ammonia driven off) and heated to above 700°C (the fusion temperature of V_2O_5). This fused V_2O_5 would then be cooled on a casting wheel, pulverized and packaged. Additionally, using ion exchange resins in conjunction with solvent extraction, strip solution was produced which met or exceeded specifications of electrolyte for vanadium flow batteries.

Capital and Operating Costs

The projected capital costs for the Gibellini vanadium project over a 1 ½ year construction period and mine life average operating costs are summarized in Tables 11 and 12 below. The capital cost includes 25% contingency or USD23.4 million.

Table 11

Pre-Production Capital Cost:

All dollar values are expressed in US dollars unless otherwise noted

Cost Description	**Total ($000s)**
Open Pit Mine	
Open pit mine development	1,412
Gibellini incremental WRSF	212
Mobile equipment	111
Infrastructure-On Site	
Site prep	2,431
Roads	1,391
Water supply	2,007
Sanitary system	61
Electrical – on site	2,052
Communications	165
Contact water ponds	174
Non-process facilities – buildings	7,583
Process Facilities	
Mill feed handling	15,380
Heap leach system	20,037
Process plant	14,441
Off-Site Infrastructure	
Water system	4,495
Electrical supply system	3,227
First fills	860
Subtotal Total Direct Cost	*76,039*
Construction indirect costs	4,254
Sales tax / OH&P	4,236
EPCM	8,879

Total Before Contingency	**93,409**
Contingency (25%)	23,352
Total Project Cost	**116,761**

Table 12
Operating Costs:
All dollar values are expressed in US dollars unless otherwise noted

Total Cash Operating Cost	$ per Ton Leached	$ per lb of V_2O_5 Produced
G&A	0.99	0.31
Mining Cost	2.72	0.85
Total Processing Cost	11.54	3.61
Total	**15.26**	**4.77**

The cash operating costs in the first half of the project covering years 1-7 is USD3.59 per lb of V_2O_5 produced and for the years 8-14 is USD7.12 per lb of V_2O_5 produced, resulting in the weighted average cash cost of USD4.77 per lb of V_2O_5 produced. The cash operating cost is lower in the first half of the project due to processing higher grade material.

During the six months ended June 30, 2018, the Company incurred total costs of $1,157,289 (same period 2017 - $Nil) for the Gibellini Project including for $150,893 for registrations, annual maintenance fees, and taxes, $135,531 of the annual royalty payment to the Gibellini Lessor, $585,547 for geological and engineering services, and $285,318 for personnel, general and administrative expenses.

Outlook

Permitting

Further to our news release dated May 9, 2018, Prophecy achieved a major permitting milestone by submitting its MPO and associated baseline studies with the BLM. Prophecy expects to receive feedback within 60 days and amend the reports as necessary. Upon acceptance of the baseline studies, MPO, and environmental report by the BLM, Prophecy expects to trigger a NOI in 2019 by the BLM, to prepare an EIS for the Gibellini project.

In December 2017, vanadium was listed by the U.S. Geological Survey as one of 23 metals critical to the US economy despite there being no active primary vanadium mines in North America. As a result of direction from Secretary of the Interior Order No. 3355 (Streamlining National Environmental Policy Reviews and Implementation of Executive Order 13807), Prophecy anticipates the Gibellini EIS will not be more than 150 pages (excluding appendices) and the BLM to complete the Gibellini final EIS within one year from the issuance of the NOI. Should that occur, it means that permitting for the Gibellini project may potentially be concluded in 2020.

Engineering Procurement Construction Management ("**EPCM**"):

Prophecy is preparing to tender EPCM contracts with detailed engineering design and cost estimates in 2018. The Company expects to complete this task in 2019, as Prophecy has already received complete basic engineering design drawings for the Gibellini vanadium project prepared by Scotia International of Nevada Inc. which includes hundreds of drawings related to: process flow, crushing, heap leach pad, pregnant leach solution pond, solvent extraction plant, piping and infrastructure (i.e. power, water, and haul road).

To try to minimize technical and implementation risk, the Company is working closely with its chosen technology partner, NWME, to fine tune metallurgy, process design and engineering, and ensure maximum vanadium recovery and high-grade vanadium pentoxide commercial product on site. NWME owns and is currently operating the world's largest black-shale vanadium mine in China with an environmentally friendly, hydrometallurgical leach processing technology without the need of a pre-roasting step. Refer to news release dated March 12, 2018 for more details.

(Expressed in Canadian Dollars, except where indicated)

NWME conducted a Gibellini site visit in March 2018 and analyzed Gibellini samples in its laboratories. The results of this work is discussed in the following section.

Test Results

Samples collected by NWME's technical team during their visit to the Project's site in February 2018 were analyzed at NWME's facility in Xian, China. Approximately 250 kg of material was submitted for analysis. The results are described herein.

98.6% V2O5 Produced on the 1st Run with Simple Conventional Flowsheet

NWME used solvent extraction ("**SX**") processing method to recover vanadium from sulfuric acid pregnant leach solution ("**PLS**") generated by bottle roll and column test acid leaching on Gibellini samples. The solution was reduced and then precipitated using ammonia to make ammonium metavanadate ("**AMV**"). The AMV was calcined and heated then cooled and pulverized. A vanadium pentoxide with 98.56 % purity content was produced. The assay for this work is shown below:

Table 13
Gibellini Vanadium Pentoxide Assay

V2O %	SI %	Fe %	P %	S %	As %	Na2O %	K2O %	Al %	U %
98.56	0.0078	0.88	0.058	0.47	0.0026	0.43	0.052	0.22	0.0001

Uranium content is less than 0.0001% which does not affect the marketability of the product.
The PLS was produced with very low deleterious elements which enabled using an efficient SX process. The PLS V2O5 concentration was 1.15 gram per liter and the Pregnant Strip Solution V2O5 concentration was 39.61 grams per liter.

Overall Vanadium Recovery of Over 60% and Low Acid Consumption

PLS was produced from both bottle roll and column tests. Sulfuric acid was added to the feed material with the bottle rolling for 1 hour, then the open bottle was allowed to cure for 24 hours and water was added to the bottle to attain the desired density (40%). Initial samples were taken at 6 hours, 12 hours, 24 hours, 36 hours, 48 hours and then once a day until the bottle roll was completed.

In column tests, sulfuric acid was added to the feed material and the material was allowed to cure for 24 hours before initiating the leaching. Leaching was conducted by applying 108 grams per liter acid solution over the material. PLS was collected every 24 hours and samples were taken for vanadium analysis. All the tests were performed at room temperature and at atmospheric pressure.

The results of the tests are given in Table 14:

Table 14

Test	Leach Time	Vanadium Recovery %	Sulfuric Acid Consumed kg/t
Column Test	21 days	70.74	100
Bottle Roll Test - investigate the effect of the curing method and increase of sulfuric acid addition on the vanadium recovery	50 hours	62.8	150
Bottle Roll Test - investigate addition of NWME prepared leaching agent on the vanadium recovery	144 hours	66.5	100

(Expressed in Canadian Dollars, except where indicated)

Bottle Roll Test - investigate the leaching of coarse feed (2mm) on the vanadium recovery	216 hours	63.7	100

The results of the bottle roll and column leach tests performed by NWME largely validate the results of previous tests performed by McClelland Laboratories on Gibellini bulk sample in 2013 (18 tons of material).

The NWME test samples were not agglomerated and were on short leach time of 21 days for column tests and 5 days for bottle roll tests. Prophecy studied both the NWME test and McClleland test in detail and believe the results were consistent, whereby 70% recovery can be achieved with longer leach cycle (over 100 days McClelland Laboratories vs 21 days NWME) and less acid consumption (50 kg of acid per tonne of material McClelland Laboratories vs 100 kg of acid per tonne of material NWME)

A summary of acid heap leach tests of a Gibellini bulk sample, completed at McClelland Laboratories, September 4, 2013 is tabulated below:

Table 15

Size	**Test Type**	**Time (Days)**	**Vanadium Recovery %**	**Head Grade % V2O5**	**Sulfuric Acid Consumed kg/t**
50 mm (2")	Column, open circuit	123	76.6	0.53	39.9
12.5 mm (1/2")	Column, open circuit	123	80.2	0.56	32.7
12.5 mm (1/2")	Column, closed circuit	230	68.3	0.51	38.1
12.5 mm (1/2")	Column, closed circuit	198	74.0	0.56	43.5
12.5 mm (1/2")	Bottle Roll	4	67.1	0.51	33.6
1.7 mm (-10m)	Bottle Roll	4	66.3	0.51	29.9
-75µ	Bottle Roll	4	67.6	0.50	28.1
-75µ	Bottle Roll	30	74.2	0.53	24.5

Representative Feed Grade with Benign Test Conditions that Can be Replicated in Commercial Setting

The leaching bottle roll and column tests were performed at room temperature and at atmospheric pressure based on Gibellini's representative grade from grab sampling method across the width of the mineralization at various locations of the Project. These samples are characterized in the following table:

Sample Number	**Sample ID**	**Weight kg**	**Head Grade V2O5 (%)**
1	18-L6-28	17.0	0.665
2	18-L6-29	17.0	0.885
3	18-L6-30	12.5	0.370
4	18-L6-31	18.0	0.210
5	18-L6-32	13.5	0.420

(Expressed in Canadian Dollars, except where indicated)

6	18-L6-33	22.5	0.280
7	18-L6-34	19.0	0.315
8	18-L6-35	20.0	0.185
9	18-L6-36	18.0	0.165
10	18-L6-37	20.0	0.195
Total		177.5	

For the purpose of metallurgical testing, the samples were mixed to produce a composite material with the average grade of 0.30% V2O5 which is representative of Gibellini resource grade. The composite material was ground to -75 µm feed. Prophecy believes the test conditions can easily be replicated in a commercial heap leach setting with low technical and implementation risk.

Unique Vanadium Mineralogy in Achieving Remarkable Recovery at Room Temperature and Atmospheric Pressure

NWME performed detailed mineralogical analysis which included microscope identification using a Carl Zeiss Axioskop, XRD analysis on Bruker D8-A25 XRD, multi-element analysis, electron probe X-ray microanalysis on JEOL JXA 8230, scanning electron microscopy/energy dispersive X-ray spectroscopy analysis on Mineral Liberation Analizer 650 and V element phase analysis. This mineralogical analysis confirmed that the Gibellini resource has a high percentage of independent vanadium minerals ("IVM") such as kazakhstanite, shubnelite, sherwoodite, bokite, which can be leached easily at room temperature and atmospheric pressure within a short time frame.

NWME noted the unique nature of the Gibellini samples with over 45% IVM versus numerous other typical black shale deposits which they have encountered containing less than 10% IVM.

All of the testwork carried out on the material from the Project indicate that there is a two-stage leaching phenomenon in Gibellini ore - about 50% of the vanadium leaches in the first 96 hours (independent vanadium minerals), and the remaining leaching approximately 15 to 20% occurs over a longer time horizon.

Heap leaching is the lowest-cost recovery method compared to roasting, and pressured container VAC leaching, whereby capital costs can compound to multiple times greater for the same throughput. Gibellini's high IVM content is a key competitive differentiator which places the deposit in the top tier of black shale deposits in terms of pre-production capital cost required based on NWME's research.

The mineralogical results of the Gibellini ore as characterized by NWME's testwork is shown in the following table:

Mineral composition		Mineral content %	V content in minerals %	V distribution %
Independent vanadium minerals 45.2% of vanadium content	Kazakhstanite	0.15	40.91	19.77
	Shubnelite	0.13	27.86	11.67
	Sherwoodite	0.08	34.54	8.90
	Bokite	0.03	36.51	3.53
	Melanovanadite	0.01	41.27	1.33
Vanadium-bearing layered aluminosilicate minerals	Sericite	8.59	0.57	14.63
	Illite	5.58	0.28	5.03

(Expressed in Canadian Dollars, except where indicated)

20.8% of vanadium content	Chlorite	0.81	0.44	1.14
	Nacrite-palygorskite	0.70	-	-
Vanadium-bearing layered iron oxide, sulfate 34% of vanadium content	Limonite	1.76	5.48	31.07
	Strengite	0.64	0.49	1.01
	Jarosite	0.48	1.24	1.92
Gangue	Quartz	75.88	-	-
	Apatite	2.83	-	-
	Potassium feldspar	0.73	-	-
	Dolomite	0.66	-	-
	Carbonaceous	0.45	-	-
	Rutile	0.25	-	-
	Barite	0.04	-	-
	Pyrite	0.20	-	-
Total		**100.00**		**100.00**

Low Carbon Content Results in Exceptional Low Acid Consumption

NWME detailed mineralogical analysis which included microscope identification using a Carl Zeiss Axioskop, XRD analysis on Bruker D8-A25 XRD, multi-element analysis, electron probe X-ray microanalysis on JEOL JXA 8230, scanning electron microscopy/energy dispersive X-ray spectroscopy analysis on Mineral Liberation Analyzer 650 and V element phase analysis, confirmed the extremely low carbonaceous content of Gibellini's oxide and transition samples. This explains the low acid consumption (less than 50 kg per tonne) compared to other average black shale deposits of 200 kg to 300 kg per tonne based on extensive NWME data compilation. Given acid cost accounts for approximately 50% of the Project's operating expenses, Gibellini's low carbon content is a key competitive differentiator which places it in the top tier of black shale deposits in terms of processing cost based on NWME's findings.

The following table is a generalized comparison of Gibellini's deposit to a composite of typical black shale vanadium deposits:

	Gibellini Vanadium Deposit	**Black Shale Series Vanadium Deposits**
Host Rock	Silica State	Carbon Siliceous Rocks with Mudstone
The Mineral Composition	High Silica, Low Aluminium and Low Carbonaceous. SiO2-78.40%; Al2O3 - 4.13%; **T(C) - 0.47%**	High Silica, High Aluminum and High Carbonaceous. SiO2-62-93%; Al2O3 > 7%; **T(C) > 10%**

The next step for NWME will be to investigate the application of NWME's proprietary technology to Gibellini mineral to produce a high purity vanadium pentoxide product with 99.5% V2O5 content. During the Prophecy's team visit to NWME's processing facilities in China in June 2018, NWME commented that its own black-shale vanadium mine produces exclusively 99.5% V2O5 which commands a 15 to 25% pricing premium (compared to benchmark 98% purity) to supply to the vanadium battery, chemical, and aerospace industries. Prophecy has prepared the representative samples from the Project with a total weight of 1.6 tonnes and is ready to ship the samples to China. Prophecy expects to receive the results from the second phase of metallurgical testing by NWME by the end of 2018.

Offtake and project financing:

Prophecy has received unsolicited expressions of interest from various potential investment sources and is currently engaged in discussions with potential cornerstone investors, vanadium product off-takers and banks on potential equity, debt and prepaid off-take financing possibilities. We expect to report material progress in due course.

Pulacayo Project

For details on the Pulacayo Project, please refer to the relevant section of the Annual MD&A and AIF for this information.

During the six months ended June 30, 2018, the Company continued communication and negotiations with the Government of Bolivia on the agreement to develop Pulacayo and Paca projects.

During the six months ended June 30, 2018, the Company incurred a total of $314,584 (same period 2017 - $423,795) including $14,271 for geological core and consulting (same period 2017 - $38,631) and $ 300,313 (same period 2017 - $385,164) for personnel, legal, general and administrative expenses.

Outlook

The Company intends to develop the Pulacayo Project which includes further assessment of 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.

During the period from January 1, 2018 to June 30, 2018, the price of silver decreased from USD17.15/oz to USD16.06/oz (6%), while the price of zinc decreased from USD1.53/lb to USD 1.34/lb (13%). The Company continues to negotiate with the Bolivian Government on the agreement to develop the Pulacayo and Paca projects and continues to study optimal mining production and processing scenarios.

5. SUMMARY OF QUARTERLY RESULTS

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

(Expressed in Canadian Dollars, except where indicated)

		2018 Q2		2018 Q1		2017 Q4		2017 Q3
Operating expense	$	(780,818)	$	(562,918)	$	(1,277,507.00)	$	(484,907.00)
Net loss		(916,247)		(589,219)		(17,869,936)		(176,793)
Net loss per share, basic and diluted	$	(0.01)	$	(0.01)	$	(0.32)	$	(0.00)
Comprehensive loss		(966,787)		(643,219)		(17,857,776)		(176,793)
Comprehensive loss per share, basic and diluted (post split)	$	(0.01)	$	(0.01)	$	(0.32)	$	(0.00)

		2017 Q2		2017 Q1		2016 Q4		2016 Q3
Operating expense	$	(336,028)	$	(282,923)	$	(473,114)	$	(307,343)
Net loss		(516,243)		(30,009)		(1,089,282)		(651,212)
Net loss per share, basic and diluted	$	(0.01)	$	(0.00)	$	(0.02)	$	(0.01)
Comprehensive loss		(516,243)		(30,009)		(1,089,282)		(651,212)
Comprehensive loss per share, basic and diluted	$	(0.01)	$	(0.00)	$	(0.02)	$	(0.01)

6. DISCUSSION OF OPERATIONS

The reader is encouraged to refer to Note 6 of the Company's Annual Financial Statements for the year ended December 31, 2017 for Prophecy's IFRS accounting policies.

Three Months Ended June 30, 2018 and 2017 (Q2 2018 and Q2 2017)

Results of operations are summarized as follows:

Operating Expenses		**Three Months Ended June 30, 2018**		**2017**
Advertising and promotion	$	287,565	$	1,953
Consulting and management fees		58,609		53,640
General and administrative expenses		170,218		111,006
Professional fees		52,569		5,248
Share-based payments		177,068		157,775
Travel and accommodation		34,789		6,406
	$	780,818	$	336,028

The Company had an operating loss of $780,818 for Q2 2018, compared with an operating loss of $336,028 for Q2 2017.

The increase by $444,790 in operating expenses was a result of the overall increased activity levels of the Company. Of note are the following items:

- advertising and promotion expenses increased by $285,612 due to increased promotion efforts in the US and Europe to raise market awareness and to raise equity financing;
- general and administrative fees consisting of general office expenses and administrative services related to maintaining the Company's exchange listings and complying with securities regulations along with insurance, salaries and directors' fees. General and administrative expenses increased by $59,212 in Q2 2018 compared to Q2 2017. The increase was mainly the result of restored and increased salaries for officers of the Company, hiring an employee, increased IT services, and increased stock exchange and shareholder services;
- professional fees increased by $47,321 due to increased legal, accounting and audit services related mainly to the acquisition of certain Gibellini claims in Nevada;

(Expressed in Canadian Dollars, except where indicated)

- travel and accommodation expenses increased by $28,383 due to increased property site visits.

For the three months ended June 30, 2018, the Company incurred other expenses classified as "Other Items" amounting to a loss of $135,429 compared to a loss of $180,215 for the same period in 2017.

Other Items		**Three Months Ended June 30,**		
		2018		**2017**
Costs in excess of recovered coal		46,178		181,370
Finance cost		-		70
Foreign exchange (gain)/loss		67,188		(6,936)
Interest expense		-		5,711
Impairment of mineral property		22,063		-
	$	135,429	$	180,215

Six Months Ended June 30, 2018 and 2017

Results of operations are summarized as follows:

Operating Expenses		**Six Months Ended June 30,**		
		2018		**2017**
Advertising and promotion	$	332,943	$	14,382
Consulting and management fees		126,887		90,070
General and administrative expenses		393,798		264,227
Professional fees		109,064		20,091
Share-based payments		311,996		200,354
Travel and accommodation		69,048		29,827
	$	1,343,736	$	618,951

The increase by $724,785 in operating expenses is the net result of changes to a number of the following items:

- advertising and promotion expenses increased by 318,561 due to increased promotion efforts in the US and Europe to raise market awareness and to raise equity financing;

- consulting and management fees increased by $36,817 due to hiring a new Vice-President, Exploration and restoring the Company CEO's previously reduced consulting fee to its original level;

- general and administrative expenses increased by $129,571 due mainly to the restored and increased salaries for officers of the Company, hiring an employee, increased IT services, and increased stock exchange and shareholder services;

- professional fees increased by $88,973 due to increased legal, accounting and audit services related mainly to the acquisition of certain Gibellini claims in Nevada;

- non-cash Share-based payments expenses increased by $111,642 due to a larger number of outstanding stock options vesting during the six months ended June 30, 2018 compared to the same period in 2017; and

- travel and accommodation expenses increased by $39,221 due to increased property site visits.

For the six months ended June 30, 2018, the Company's "Other Items" amounted to a loss of $161,730 compared to a gain of $72,699 for the same period in 2017.

(Expressed in Canadian Dollars, except where indicated)

Other Items		**Six Months Ended June 30,**		
		2018		**2017**
Costs in excess of recovered coal	$	84,849	$	17,422
Finance cost		-		161
Foreign exchange (gain)/loss		54,818		(222,892)
Interest expense		-		13,600
Loss on sale of marketable securities		-		22,810
Impairment of mineral property		22,063		96,200
	$	161,730	$	(72,699)

7. PROPOSED TRANSACTIONS

As at the date of this MD&A there are no proposed transactions where the Board of Directors or senior management believes that confirmation of the decision by the Board is probable or with which the Board and senior management have decided to proceed.

8. LIQUIDITY AND CAPITAL RESOURCES

Working Capital

The Company utilizes existing cash received from prior issuances of equity instruments to provide liquidity to the Company and finance exploration projects.

At June 30, 2018, the Company had cash flow of $1,931,993 representing a decrease of $2,168,615 from $4,100,608 held at December 31, 2017. The Company's working capital at June 30, 2018 was $1 million compared to working capital of $2.6 million at December 31, 2017. The Company's working capital decreased by $1.6 million since the year ended December 31, 2017 resulting mainly from expenditures incurred related to acquisition and exploration activities for the Gibellini Project. The Company's cash flow highlights are presented in the table below. The Company believes it has sufficient capital to meet its cash needs for the next 12 months, including the costs of compliance with continuing reporting requirements.

Cash Flow Highlights

		Six months ended June 30,		
		2018		**2017**
Cash Used in Operating Activities	$	(1,335,815)	$	(518,567)
Cash Provided by (Used in) Investing Activities		(1,920,740)		7,915
Cash Provided by Financing Activities		1,087,940		544,378
Net Increase (Decrease) in Cash		(2,168,615)		33,726
Cash balance, beginning of period		4,100,608		21,648
Cash balance, end of period	$	1,931,993	$	55,374

Operating activities: Cash used in operating activities was $1,335,815 and $518,567 respectively, for the six-month periods ended June 30, 2018 and 2017. The increased outflows in 2018 primarily related to Gibellini Project activities and to advertising and promotion activities.

***Investing activities*:** Cash used in investing activities was $1,920,740 and cash provided by investing activities was $7,915 respectively, for the six-month periods ended June 30, 2018 and 2017. The Company spent $60,940 on purchasing marketable securities, $26,475 on the purchase of geological equipment, $335.661 on the acquisition of 105 unpatented lode mining claims located adjacent to its Gibellini Project, and $1,497,664 on mineral property exploration activities, mainly on the Gibellini project. For the six months ended June 30, 2017, the Company spent $145,274 on capital additions and received $153,190 from sale of marketable securities.

(Expressed in Canadian Dollars, except where indicated)

***Financing activities*:** Cash provided by financing activities was $1,087,940 and $544,378 respectively, during the six-month periods ended June 30, 2018 and 2017. During the six months ended June 30, 2018, the Company received $6,250 on option exercise and $1,081,690 from Share subscriptions. During the six months ended June 30, 2017, the Company paid $57,300 toward a credit facility and received net proceeds of $598,405 from issuing Shares in private placements.

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.

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

Contractual Commitments

Prophecy's commitments related to mineral properties are disclosed in Note 13 to the Annual Financial Statements and Notes 7 and 16 to the condensed interim consolidated financial statements for the three and six months ended June 30, 2018 and 2017.

Prophecy's other commitments include a rental commitment on the head and Nevada office premises:

	Payments Due by Year				
	2018	2019	2020	2021	Total
Office Lease Obligations	$ 22,058	$ 35,449	$ 35,895	$ 15,034	$ 108,435
	$ 22,058	$ 35,449	$ 35,895	$ 15,034	$ 108,435

Capital Risk Management

Prophecy considers its capital structure to consist of Share capital, stock options and Share purchase warrants. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the 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 Company is not subject to externally imposed capital requirements. There has been no change in the Company's approach to capital management during the six-month period ended June 30, 2018.

Management is aware that market conditions, driven primarily by vanadium, silver, other metal and coal prices, may limit the Company's ability to raise additional funds. These factors, and others, are considered when shaping the Company's capital management strategy.

9. CONTINGENCIES

The Company accrues for liabilities when they are probable and the amount payable can be reasonably estimated. There is no change to the Company contingencies status described in the Annual Financial Statements at the date of this MD&A.

(Expressed in Canadian Dollars, except where indicated)

10. 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 amounts paid or accrued to related parties is as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
Related parties		**2018**		**2017**		**2018**		**2017**
Directors and officers	$	191,068	$	52,750	$	308,231	$	105,000
Linx Partners Ltd.		105,000		52,500		210,012		105,000
MaKevCo Consulting Inc.		4,700		4,600		9,400		10,800
Sophir Asia Ltd.		4,400		4,000		8,800		7,500
	$	305,168	$	113,850	$	536,443	$	228,300

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

	Three Months Ended June 30,				Six Months Ended June 30,			
Related parties		**2018**		**2017**		**2018**		**2017**
Consulting and management fees	$	55,500	$	28,500	$	111,012	$	59,400
Directors' fees		13,500		12,600		27,000		23,400
Mineral properties		164,918		39,000		258,681		78,000
Salaries		71,250		33,750		139,750		67,500
	$	305,168	$	113,850	$	536,443	$	228,300

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

- reduce directors' fees by 50% and defer payment of such reduced directors' fees until such time as the Company's cash flow situation permits it to pay such reduced directors fees, and/or to fully or partially restore their directors' fees to their original levels;

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

- reduce other executive officers' salaries by 17% – 50% until such time as the Company's cash flow situation permits it to fully or partially restore their salaries to their original levels.

Effective September 1, 2017, given the Company's improved financial position, the Company:

- partially restored directors' fees by 15% with no further cash payment deferred;

- fully restored the CEO's consulting fee with 25% of such fully restored consulting fee cash payment deferred until such time as the Company's cash flow situation permits it to fully or partially pay such deferred and accrued consulting fee; and

(Expressed in Canadian Dollars, except where indicated)

- fully restored executive officers' salaries or consulting fee with no further cash payment deferred.

Effective February 20, 2018, given the Company's improved financial position, the Company cancelled any further deferral of 25% of the CEO's fully restored consulting fee cash payment.

As at June 30, 2018, amounts due to related parties totaled $Nil (December 31, 2017 – $160,503).

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. The amounts due to related parties is summarized below:

Key Management Personnel	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Salaries and short term benefits	$ 83,046	$ 34,367	$ 153,958	$ 68,734
Share-based payments	164,391	206,847	296,935	233,171
	$ 247,437	$ 241,214	$ 450,893	$ 301,905

11. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's consolidated financial statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board. The Company followed the same accounting policies and methods of computation in the Annual Financial Statements for the three and six months ended June 30, 2018. The significant accounting policies applied, and recent accounting pronouncements are described in Notes 4 and 6 to the Annual Financial Statements and Note 2(d) to the condensed interim consolidated financial statements for the three and six months ended June 30, 2018.

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

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

12. ACCOUNTING CHANGES AND RECENT ACCOUNTING PRONOUNCEMENTS

On January 1, 2018, the Company adopted IFRS 9 – Financial Instruments ("**IFRS 9**") which replaced IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking 'expected loss' impairment model. IFRS 9 also includes significant changes to hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018. The Company adopted the standard retrospectively. IFRS 9 did not impact the Company's classification and measurement of financial assets and liabilities.

The following summarizes the significant changes in IFRS 9 compared to the current standard:

- IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments for principal and interest. The change did not impact the carrying amounts of any of the Company's financial assets on the transition date. Prior periods were not restated, and no material changes resulted from adopting this new standard.

(Expressed in Canadian Dollars, except where indicated)

- The adoption of the new "expected credit loss" impairment model under IFRS 9, as opposed to an incurred credit loss model under IAS 39, had no impact on the carrying amounts of our financial assets on the transition date given the Company transacts exclusively with large international financial institutions and other organizations with strong credit ratings.

The Company's financial instruments are accounted for as follows under IFRS 9 as compared to the Company's previous policy in accordance with IAS 39.

	January 1, 2018	
	IAS 39	IFRS 9
Assets		
Cash	Fair value through profit or loss	Fair value through profit or loss
Restricted cash equivalents	Amortized cost	Amortized cost
Receivables	Amortized cost	Amortized cost
Marketable securities	Fair value through other comprehensive income	Fair value through other comprehensive income
Liabilities		
Accounts payable and accrued liabilities	Amortized cost	Amortized cost

Under IFRS 9, the Company's equity marketable securities are designated as financial assets at fair value through other comprehensive income or loss. Upon adoption of IFRS 9, The Company has made an irrevocable election to recognize changes in fair value of marketable securities through other comprehensive income or loss as they are not considered to be held for trading.

IFRS 15 *'Revenue from Contracts with Customers'* ("**IFRS 15**") – Effective January 1, 2018, the Company has adopted IFRS 15. 'This standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The adoption of this standard had no impact on the Company's financial statements.

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

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

13. FINANCIAL INSTRUMENTS AND RELATED RISKS

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

Financial Instruments

A description of financial instruments is included in Note 21 to the Annual Financial Statements and Note 10 to the condensed interim consolidated financial statements for the six months ended June 30, 2018. Effective January 1, 2018, the Company has adopted IFRS 9. The implementation of the new standard resulted in no impact on the measurement of the Company's reported financial results; however additional disclosures have been provided.

Related Risks

(a) Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its financial obligations as they fall due. The Company manages liquidity risk by preparing cash flow forecasts of upcoming cash requirements. As at June 30, 2018, the Company had a cash balance of $1,931,993 (December 31, 2017 – $4,100,608). As at June 30, 2018, the Company had accounts payable and accrued liabilities of $1,272,072 (December 31, 2017 - $1,895,983), which have contractual maturities of 90 days or less.

(b) Credit risk

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

(c) Market risk

The significant market risks to which the Company is exposed are interest rate risk, foreign currency risk, and commodity and equity price risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's cash and restricted cash equivalents primarily include highly liquid investments that earn interest at market rates that are fixed to maturity. Due to the short- term nature of these financial instruments, fluctuations in market rates do not have significant impact on the fair values of the financial instruments as of June 30, 2018.

(ii) Foreign currency risk

The Company is exposed to foreign currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in Canadian dollars.

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

Based on the above, net exposures as at June 30, 2018, with other variables unchanged, a 10% (December 31, 2017 – 10%) strengthening (weakening) of the Canadian dollar against the Mongolian tugrik would impact net loss with other variables unchanged by $76,000. A 10% strengthening (weakening) of the Canadian dollar against the Bolivian boliviano would impact net loss with other variables unchanged by $70,000. A 10% strengthening (weakening) of the US dollar against the Canadian dollar would impact net loss with other variables unchanged by $33,000. The Company currently does not use any foreign exchange contracts to hedge this currency risk. Commodity and equity price risk

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

The Company is also exposed to price risk with regards to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earning due to movements in individual equity prices or general movements in the level of the stock market.

The Company closely monitors commodity prices, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in value may be significant.

14. RISKS AND UNCERTAINTIES

Readers should carefully consider the risks and uncertainties described in the Company's AIF for the year ended December 31, 2017 "Risk Factors" page 82. The AIF is available under the Company's SEDAR profile at www.SEDAR.com.

15. DISCLOSURE CONTROLS AND PROCEDURES

Design of Internal Controls over Financial Reporting

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by Prophecy in its annual filings, interim 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, interim 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 June 30, 2018, 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 June 30, 2018.

16. CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes to the Company's internal control over financial reporting during the six months ended June 30, 2018, 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, on a post Share split basis, the Company had a total of:

- 78,814,457 Shares outstanding with a recorded value of $167,008,000;
- 10,365,090 stock options outstanding with a weighted average exercise price the equivalent of $0.40. The options are exercisable to purchase one Share at prices ranging from the equivalent of $0.20 to $1.30 and expire between August 2018 and July 2023; and
- 30,763,447 Share purchase warrants outstanding with a weighted average exercise price the equivalent of $0.43. The Share purchase warrants are exercisable to purchase one Share at prices ranging from the equivalent of $0.30 to $0.70 and expire between May 2020 and June 2022.

18. OFF-BALANCE SHEET ARRANGEMENTS

During the six months ended June 30, 2018, Prophecy was not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources of Prophecy.

Condensed Interim Consolidated Financial Statements
For the three and six months ended June 30, 2018 and 2017

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

TABLE OF CONTENTS

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

As at	Notes		June 30, 2018		December 31, 2017
Assets					
Current assets					
Cash	4	$	1,931,993	$	4,100,608
Receivables			35,596		34,653
Prepaid expenses			145,410		140,610
Marketable securities	5		162,000		205,600
			2,274,999		4,481,471
Non-current assets					
Restricted cash equivalents	4		34,500		34,500
Reclamation deposits			21,055		21,055
Equipment	6		487,078		531,911
Mineral properties	7		15,197,384		13,299,906
		$	18,015,016	$	18,368,843
Liabilities and Equity					
Current liabilities					
Accounts payable and accrued liabilities	8	$	1,272,072	$	1,895,983
			1,272,072		1,895,983
Non-current liabilities					
Provision for closure and reclamation			244,323		244,323
Tax provision	15		7,827,708		7,541,016
			9,344,103		9,681,322
Equity					
Share capital	9		165,870,805		165,862,805
Subscriptions received in advance	9		1,081,690		-
Reserves			23,124,910		22,621,202
Accumulated other comprehensive income/(loss)	5		(92,380)		12,160
Deficit			(181,314,112)		(179,808,646)
			8,670,913		8,687,521
		$	18,015,016	$	18,368,843

Approved on behalf of the Board:

"John Lee"
John Lee, Director

"Greg Hall"
Greg Hall, Director

Contingencies (Note 15)
Events after the reporting date (Note 16)

The accompanying notes form an integral part of these unaudited condensed interim consolidated financial statements.

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

	Notes	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
General and Administrative Expenses					
Advertising and promotion		$ 287,565	$ 1,953	$ 332,943	$ 14,382
Consulting and management fees	12	58,609	53,640	126,887	90,070
Depreciation and accretion		1,821	2,262	3,744	4,651
Director fees	12	13,500	12,600	27,000	23,400
Insurance		13,031	13,156	26,104	26,254
Office and administration		27,076	13,235	61,869	41,121
Professional fees		52,569	5,248	109,064	20,091
Salaries and benefits	12	93,390	38,153	183,643	80,735
Share-based payments	9	177,068	157,775	311,996	200,354
Stock exchange and shareholder services		21,400	31,600	91,438	88,066
Travel and accommodation		34,789	6,406	69,048	29,827
		(780,818)	(336,028)	(1,343,736)	(618,951)
Other Items					
Costs in excess of recovered coal		(46,178)	(181,370)	(84,849)	(17,422)
Finance cost		-	(70)	-	(161)
Foreign exchange gain/(loss)		(67,188)	6,936	(54,818)	222,892
Interest expense		-	(5,711)	-	(13,600)
Loss on sale of marketable securities	5	-	-	-	(22,810)
Impairment of mineral property	7	(22,063)	-	(22,063)	(96,200)
		(135,429)	(180,215)	(161,730)	72,699
Net Loss for Period		(916,247)	(516,243)	(1,505,466)	(546,252)
Fair value loss on marketable securities	5	(50,540)	-	(104,540)	-
Comprehensive Loss for Period		$ (966,787)	$ (516,243)	$ (1,610,006)	$ (546,252)
Loss Per Common Share, basic and diluted		$ (0.12)	$ (0.10)	$ (0.20)	$ (0.10)
Weighted Average Number of Common Shares Outstanding		7,392,608	5,269,686	7,432,174	5,246,697

The accompanying notes form an integral part of these unaudited condensed interim consolidated financial statements.

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

	Numbers of Shares Outstanding	Share Capital	Subscriptions Received in Advance	Reserves	Accumulated Other Comprehensive Income	Deficit	Total
December 31, 2016	4,807,653	$ 156,529,025	$ -	$ 21,482,133	$ -	$ (161,215,665)	$ 16,795,493
Private placements, net of share issue costs	153,249	553,720	-	-	-	-	553,720
Shares issued on acquisition of property	20,000	96,200	-	-	-	-	96,200
Debt Settlement	359,659	1,138,636	-	-	-	-	1,138,636
Share bonus to personnel	39,000	190,320	-	-	-	-	190,320
Exercise of stock options	9,687	50,372	-	(5,687)	-	-	44,685
Share-based payments	-	-	-	279,740	-	-	279,740
Loss for the period	-	-	-	-	-	(546,252)	(546,252)
June 30, 2017	5,389,248	$ 158,558,273	$ -	$ 21,756,186	$ -	$ (161,761,917)	$ 18,552,542
December 31, 2017	7,472,179	$ 165,862,805	$ -	$ 22,621,202	$ 12,160	$ (179,808,646)	$ 8,687,521
Subscriptions received in advance	-	-	1,081,690	-	-	-	1,081,690
Share-based payments	-	-	-	415,514	-	-	415,514
Warrants issued for mineral property	-	-	-	89,944	-	-	89,944
Exercise of stock options	3,125	8,000	-	(1,750)	-	-	6,250
Loss for the period	-	-	-	-	-	(1,505,466)	(1,505,466)
Unrealized loss on marketable securities	-	-	-	-	(104,540)	-	(104,540)
June 30, 2018	7,475,304	$ 165,870,805	$ 1,081,690	$ 23,124,910	$ (92,380)	$ (181,314,112)	$ 8,670,913

The accompanying notes form an integral part of these unaudited condensed interim consolidated financial statements.

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

	Six months ended June 30, 2018	2017
Operating Activities		
Net loss for period	$ (1,505,466)	$ (546,252)
Adjustments to reconcile net loss to net cash flows:		
Depreciation and accretion	3,744	273,905
Share-based payments	311,996	200,354
Costs in excess of recovered coal	84,849	17,422
Finance cost	-	161
Interest costs	-	13,600
Unrealized foreign exchange (gain)/loss	286,692	-
Loss on sale of marketable securities	-	22,810
Impairment of mineral property	22,063	96,200
	(796,122)	78,200
Working capital adjustments		
Receivables	(943)	(113,934)
Prepaid expenses and reclamation deposits	(4,800)	66,661
Accounts payable and accrued liabilities and tax provision	(533,950)	(549,494)
	(539,693)	(596,767)
Cash Used in Operating Activities	(1,335,815)	(518,567)
Investing Activities		
Net (purchases)/proceeds from marketable secutities	(60,940)	153,190
Purchase of equipment	(26,475)	-
Mineral property acquisition	(335,661)	(46,370)
Mineral property expenditures	(1,497,664)	(98,905)
Cash Provided by (Used in) Investing Activities	(1,920,740)	7,915
Financing Activities		
Funds borrowed under credit facility	-	3,273
Credit facilities paid	-	(57,300)
Proceeds from share issuance, net of share issue costs	6,250	598,405
Receipt of share subscriptions	1,081,690	-
Cash Provided by Financing Activities	1,087,940	544,378
Net Increase (Decrease) in Cash	(2,168,615)	33,726
Cash - beginning of period	4,100,608	21,648
Cash - end of period	$ 1,931,993	$ 55,374

Supplemental cash flow information (Note 14)

The accompanying notes form an integral part of these unaudited condensed interim consolidated financial statements.

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

Prophecy Development Corp. ("**Prophecy**" or the "**Company**") is incorporated 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", the OTCQX® Best Market under the symbol "PRPCF" and the Frankfurt Stock Exchange under the symbol "1P2N".

The principal business of the Company is the acquisition, exploration and development of mineral and energy projects. The Company owns a 100% interest in the following significant projects: two vanadium projects located in North America including the Gibellini vanadium project which is comprised of the Gibellini and Louie Hill vanadium deposits and associated claims located in the State of Nevada, USA (the "**Gibellini Project**") and the Titan vanadium-titanium-iron project comprised of the Titan vanadium-titanium-iron deposit and related claims located in the Province of Ontario, Canada (the "**Titan Project**"); the Pulacayo Paca silver-lead-zinc property which is comprised of the Pulacayo and Paca silver-lead-zinc deposits and related concessions located in Bolivia (the "**Pulacayo Project**"); two coal projects located in Mongolia including the Ulaan Ovoo project which is comprised of the Ulaan Ovoo coal deposit, coal leases and Ulaan Ovoo mine and the Khujirt exploration license (the "**Ulaan Ovoo Coal Property**") and the Khavtgai Uul and Chandgana Tal coal deposits, coal leases and Chandgana Tal mine (the "**Chandgana Project**"); and the Chandgana Power Plant project comprised of a land right located in Mongolia.

The Company maintains its registered and records office at Suite 1610 – 409 Granville Street, Vancouver, British Columbia, Canada, V6C 1T2.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting. They do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at and for the year ended December 31, 2017. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual consolidated financial statements as at and for the year ended December 31, 2017 ("**Annual Financial Statements**").

These unaudited condensed interim consolidated financial statements were approved and authorized for issue by the Audit Committee on August 8, 2018.

(b) Significant accounting policies

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

(c) Use of judgments and estimates

In preparing these interim financial statements, management makes judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

2. BASIS OF PRESENTATION (cont'd…)

(c) Use of judgments and estimates (cont'd…)

The significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Annual Financial Statements.

(d) Changes in accounting standards

On January 1, 2018, the Company adopted IFRS 9 – Financial Instruments ("**IFRS 9**") which replaced IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking 'expected loss' impairment model. IFRS 9 also includes significant changes to hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018. The Company adopted the standard retrospectively. IFRS 9 did not impact the Company's classification and measurement of financial assets and liabilities.

The following summarizes the significant changes in IFRS 9 compared to the current standard:

- IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments for principal and interest. The change did not impact the carrying amounts of any of the Company's financial assets on the transition date. Prior periods were not restated, and no material changes resulted from adopting this new standard.

- The adoption of the new "expected credit loss" impairment model under IFRS 9, as opposed to an incurred credit loss model under IAS 39, had no impact on the carrying amounts of our financial assets on the transition date given the Company transacts exclusively with large international financial institutions and other organizations with strong credit ratings.

The Company's financial instruments are accounted for as follows under IFRS 9 as compared to the Company's previous policy in accordance with IAS 39.

	January 1, 2018	
	IAS 39	IFRS 9
Assets		
Cash	Fair value through profit or loss	Fair value through profit or loss
Restricted cash equivalents	Amortized cost	Amortized cost
Receivables	Amortized cost	Amortized cost
Marketable securities	Fair value through other comprehensive income	Fair value through other comprehensive income
Liabilities		
Accounts payable and accrued liabilities	Amortized cost	Amortized cost

(Expressed in Canadian Dollars) (Unaudited)

2. BASIS OF PRESENTATION (cont'd…)

(d) Changes in accounting standards (cont'd...)

Under IFRS 9, the Company's equity marketable securities are designated as financial assets at fair value through other comprehensive income or loss. Upon adoption of IFRS 9, The Company has made an irrevocable election to recognize changes in fair value of marketable securities through other comprehensive income or loss as they are not considered to be held for trading.

IFRS 15 *'Revenue from Contracts with Customers'* ("**IFRS 15**") – Effective January 1, 2018, the Company has adopted IFRS 15. 'This standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The adoption of this standard had no impact on the Company's financial statements.

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

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

3. SEGMENTED INFORMATION

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

					June 30, 2018					
		Canada		USA		Mongolia		Bolivia		Total
Reclamation deposits	$	-	$	-	$	21,055	$	-	$	21,055
Equipment		16,508		25,167		38,696		406,707		487,078
Mineral properties		-		2,073,250		-		13,124,134		15,197,384
	$	16,508	$	2,098,417	$	59,751	$	13,530,841	$	15,705,517
					December 31, 2017					
		Canada				Mongolia		Bolivia		Total
Reclamation deposits	$	-	$	-	$	21,055	$	-	$	21,055
Equipment		18,376		-		48,364		465,171		531,911
Mineral properties		-		490,356		-		12,809,550		13,299,906
	$	18,376	$	490,356	$	69,419	$	13,274,721	$	13,852,872

(Expressed in Canadian Dollars) (Unaudited)

4. CASH AND RESTRICTED CASH EQUIVALENTS

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

		June 30, 2018		December 31, 2017
Cash	$	1,931,993	$	4,100,608
Cash equivalents		34,500		34,500
	$	1,966,493	$	4,135,108

Restricted Cash Equivalents

As at June 30, 2018, a guaranteed investment certificate of $34,500 (December 31, 2017 - $34,500) has been pledged as collateral for the Company's credit card.

5. MARKETABLE SECURITIES

Marketable securities consist of investment in common shares of public companies and therefore have no fixed maturity date or coupon rate. The fair value of the listed marketable securities have been determined directly by reference to published price quotation in an active market.

As of June 30, 2018, the Company holds 2,700,000 shares (December 31, 2017 – 1,409,000) of a public company. These shares are marked to market which resulted in an unrealized loss of $104,540 for the six months ended June 30, 2018 (2017 - a gain of $12,160).

The following table summarized information regarding the Company's marketable securities as at December 31, 2017 and June 30, 2018.

Marketable securities		June 30, 2018		December 31, 2017
Balance, beginning of period	$	205,600	$	176,000
Additions		60,940		193,440
Disposals		-		(153,190)
Realized loss on disposal		-		(22,810)
Unrealized gain/(loss) on mark-to-market		(104,540)		12,160
Balance, end of period	$	162,000	$	205,600

(Expressed in Canadian Dollars) (Unaudited)

6. PROPERTY AND EQUIPMENT

	Computer Equipment	Furniture & Equipment	Computer Software	Vehicles	Mining Equipment	Total
Cost						
Balance, December 31, 2016	$ 100,221	$ 279,213	$ 197,813	$ 453,854	$ 1,534,745	$ 2,565,846
Additions	(147)	(2,383)	-	-	-	(2,530)
Impairment charge	-	-	-	(281,162)	(219,916)	(501,078)
Balance, December 31, 2017	$ 100,074	$ 276,830	$ 197,813	$ 172,692	$ 1,314,829	$ 2,062,238
Accumulated depreciation						
Balance, December 31, 2016	$ 94,900	$ 181,639	$ 197,813	$ 339,916	$ 833,971	$ 1,648,239
Depreciation for year	1,795	35,434	-	18,434	167,837	223,500
Impairment charge	-	-	-	(228,508)	(112,904)	(341,412)
Balance, December 31, 2017	$ 96,695	$ 217,073	$ 197,813	$ 129,842	$ 888,904	$ 1,530,327
Carrying amount						
At December 31, 2016	$ 5,321	$ 97,574	$ -	$ 113,938	$ 700,774	$ 917,607
At December 31, 2017	$ 3,379	$ 59,757	$ -	$ 42,850	$ 425,925	$ 531,911

	Computer Equipment	Furniture & Equipment	Computer Software	Vehicles	Mining Equipment	Total
Cost						
Balance, December 31, 2017	$ 100,074	$ 276,830	$ 197,813	$ 172,692	$ 1,314,829	$ 2,062,238
Additions/Disposals	-	1,997	-	-	24,479	26,476
Balance, June 30, 2018	$ 100,074	$ 278,827	$ 197,813	$ 172,692	$ 1,339,308	$ 2,088,714
Accumulated depreciation						
Balance, December 31, 2017	$ 96,695	$ 217,073	$ 197,813	$ 129,842	$ 888,904	$ 1,530,327
Depreciation for period	640	8,393	-	7,497	54,779	71,309
Balance, June 30, 2018	$ 97,335	$ 225,466	$ 197,813	$ 137,339	$ 943,683	$ 1,601,636
Carrying amount						
At December 31, 2017	$ 3,379	$ 59,757	$ -	$ 42,850	$ 425,925	$ 531,911
At June 30, 2018	$ 2,739	$ 53,361	$ -	$ 35,353	$ 395,625	$ 487,078

The impaired value of $nil for deferred development costs at Ulaan Ovoo property at June 30, 2018 remains unchanged. During the year ended December 31, 2017, the Company wrote-off $159,666 of equipment in Mongolia because it was no longer in use.

(Expressed in Canadian Dollars) (Unaudited)

7. MINERAL PROPERTIES

	Titan	Chandgana Tal	Khavtgai Uul	Pulacayo	Gibellini	Total
Balance, December 31, 2016	$ -	$ 11,186,322	$ 3,232,443	$ 11,980,943	$ -	$ 26,399,708
Additions:						
Acquisition cost	$ 96,200	$ -	$ -	$ -	$ 58,790	$ 154,990
Deferred exploration costs:						
Licenses, power plant application	-	27,190	242,766	-	74,876	344,832
Geological core and consulting	-	39,362	-	102,592	272,620	414,574
Personnel, camp and general	-	2,492	2,492	726,015	84,070	815,069
	-	69,044	245,258	828,607	431,566	1,574,475
Impairment	(96,200)	(11,255,366)	(3,477,701)	-	-	(14,829,267)
Balance, December 31, 2017	$ -	$ -	$ -	$ 12,809,550	$ 490,356	$ 13,299,906
Additions:						
Acquisition cost	$ -	$ -	$ -	$ -	$ 425,605	$ 425,605
Deferred exploration costs:						
Licenses, tax, and permits	-	1,271	20,792	-	286,424	308,487
Geological core and consulting	-	-	-	14,271	585,547	599,819
Personnel, camp and general	-	-	-	300,313	285,318	585,631
Impairment	-	(1,271)	(20,792)	-	-	(22,063)
	-	-	-	314,584	1,157,289	1,471,873
Balance, June 30, 2018	$ -	$ -	$ -	$ 13,124,134	$ 2,073,250	$ 15,197,384

The impaired value of $nil for deferred exploration costs at Chandgana Coal and Titan properties at June 30, 2018 remain unchanged.

7. MINERAL PROPERTIES (cont'd…)

Gibellini Project, Nevada, United States

Gibellini Project

The Gibellini Project consists of a total of 354 unpatented lode mining claims that include: the Gibellini group of 40 claims, the VC Exploration group of 105 claims, and the Prophecy group of 209 claims. All the claims are located in Eureka County, Nevada, USA.

The Gibellini group of claims was acquired on June 22, 2017, through lease from the claimant (the "**Gibellini Lessor**") and includes an area of approximately 771 acres. Under the Gibellini Mineral Lease Agreement (the "**Gibellini MLA**") Prophecy leased the Gibellini group of claims which originally constituted the Gibellini Project by among other things, agreeing to pay to the Gibellini Lessor, USD 35,000 (paid), annual advance royalty payments which will be tied, based on an agreed formula (not to exceed USD120,000 per year), to the average vanadium pentoxide price of the prior year. Upon commencement of production, Prophecy will maintain its acquisition through lease of the Gibellini group of claims by paying to the Gibellini Lessor, a 2.5% NSR until a total of USD3,000,000 is paid. Thereafter, the NSR will be reduced to 2% over the remaining life of the mine (and referred to thereafter, as "production royalty payments"). All advance royalty payments made, will be deducted as credits against future production royalty payments. The lease is for a term of 10 years, which can be extended for an additional 10 years at Prophecy's option.

On April 23, 2018, the Company announced an amendment to the Gibellini MLA, whereby Prophecy has been granted the right to cause the Gibellini Lessor of the Gibellini mineral claims to transfer their title to the claims to Prophecy. With the amendment, Prophecy will have the option to, at any time during the term of the Gibellini MLA, require the Gibellini Lessor to transfer title over all of the leased, unpatented lode mining claims (excluding four claims which will be retained by the Gibellini Lessor (the "**Transferred Claims**") to Prophecy in exchange for USD1,000,000, to be paid as an advance royalty payment (the "**Transfer Payment**"). A credit of USD99,027 in favour of Prophecy towards the Transfer Payment is already paid upon signing of the amendment, with the remaining USD900,973 portion of the Transfer Payment due and payable by Prophecy to the Gibellini Lessor upon completion of transfer of the Transferred Claims from the Gibellini Lessor to Prophecy. The advance royalty obligation and production royalty will not be affected, reduced or relieved by the transfer of title.

On June 22, 2018, the Company paid USD101,943 of the annual royalty payment to the Gibellini Lessor.

On July 10, 2017, the Company acquired (through lease) from the holders (the "**Former Louie Hill Lessors**") 10 unpatented lode claims totaling approximately 207 gross acres that comprised the Louie Hill group of claims located approximately 500 metres south of the Gibellini group of claims. These claims were subsequently abandoned by the Former Louie Hill Lessors, and on March 11 and 12, 2018, the Company staked the area within and under 17 new claims totaling approximately 340 gross acres which now collectively comprise the expanded Louie Hill group of claims.

Under the terms of the mineral lease agreement (the "**Louie Hill MLA**"), the Company is required to make payments as follows: cash payment of USD10,000 (paid), annual advance royalty payments which will be tied, based on an agreed formula (not to exceed USD28,000 per year), to the average vanadium pentoxide price for the prior year. Upon commencement of production, Prophecy will pay to the Former Louie Hill Lessors, a 2.5% NSR of which, 1.5% of the NSR may be purchased at any time by Prophecy for USD1,000,000, leaving the total NSR to be reduced to

7. MINERAL PROPERTIES (cont'd…)

Gibellini Project, Nevada, United States (cont'd…)

1% over the remaining life of the mine (and referred to thereafter, as "production royalty payments"). All advance royalty payments made, will be deducted as credits against future production royalty payments. The lease will be for a term of 10 years, which can be extended for an additional 10 years at Prophecy's option.

On December 5, 2017, the Company expanded the land position at the Gibellini Project, by staking a total of 198 new claims immediately adjacent to the Gibellini Project covering 4091 acres.

On February 15, 2018, the Company acquired 105 unpatented lode mining claims located adjacent to its Gibellini Project through the acquisition of 1104002 B.C. Ltd. and its Nevada subsidiary VC Exploration (US) Inc. ("**VC Exploration**") by paying a total of $335,661 in cash and issuing 50,000 Share purchase warrants (valued at $89,944) to arm's-length, private parties. Each warrant entitles the holder upon exercise, to acquire one Share of the Company at a price of $5.00 per Share until February 15, 2021. The acquisition of the VC Exploration has been accounted for as an asset acquisition as their activities at the time of the acquisition consisted of mineral claims only.

Pulacayo Property, Bolivia

The Pulacayo property, a silver-lead-zinc project located in southwestern Bolivia, was acquired on January 2, 2015 through the acquisition of 100% of Apogee's interest in ASC Holdings Limited and ASC Bolivia LDC, which together, hold ASC Bolivia LDC Sucursal Bolivia ("**ASC**"), which in turn, holds a joint venture interest in the Pulacayo Project.

ASC controls the mining rights to the Pulacayo Project through a joint venture agreement entered into between itself and the Pulacayo Ltda. Mining Cooperative on July 30, 2002 (the "**ASC Joint Venture**"). The ASC Joint Venture has a term of 23 years which commenced the day the ASC Joint Venture was entered into. Pursuant to the ASC Joint Venture, ASC is committed to pay monthly rent of USD1,000 to the state-owned Mining Corporation of Bolivia, COMIBOL and USD1,500 monthly rent to the Pulacayo Ltda. Mining Cooperative until the Pulacayo Project starts commercial production.

Previously Impaired Properties

Chandgana Properties, Mongolia

Chandgana Tal

In March 2006, the Company acquired a 100% interest in the Chandgana Tal property, a coal exploration property consisting of two exploration licenses located in the northeast part of the Nyalga coal basin, approximately 290 kilometers east of Ulaanbaatar, Mongolia.

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

Khavtgai Uul Property, Mongolia

In 2007, the Company acquired a 100% interest in the Chandgana Khavtgai property, a coal exploration property consisting of one license located in the northeast part of the Nyalga coal basin.

(Expressed in Canadian Dollars) (Unaudited)

7. MINERAL PROPERTIES (cont'd…)

***Previously Impaired Properties** (*cont'd…)

***Chandgana Properties, Mongolia** (*cont'd…)

At December 31, 2017, due to market conditions, the Company impaired the value of the Chandgana Properties deferred exploration costs to $nil. As at December 31, 2017, the recoverable amount of $nil resulted in an impairment charge of $14,733,067 against the value of the deferred exploration costs, which was reflected on the consolidated statement of operations and comprehensive loss.

As at June 30, 2018, the Company recorded an impairment charge of $22,063 (licenses fees) against the value of the deferred exploration costs, which was reflected on the consolidated statement of operations and comprehensive loss.

Titan Property, Ontario, Canada

The Company has a 100% interest in the Titan property, a vanadium-titanium-iron project located in Ontario, Canada.

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

At December 31, 2014, due to market conditions, the Company impaired the value of the property to $nil. On February 10, 2017, the Company negotiated with Randsburg to acquire the remaining 20% title interest of Randsburg in the Titan project by issuing to Randsburg 20,000 Shares at a value of $4.81 per Share. As there were no benchmark or market changes from January 1, 2015 to December 31, 2017, the impaired value of $nil for Titan property remains unchanged. Therefore, the Company recorded an impairment loss of $96,200 on the acquisition of the remaining title interest in Titan which was reflected on the consolidated statement of operations and comprehensive loss.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	June 30, 2018	December 31, 2017
Trade accounts payable	$ 1,261,335	$ 1,644,995
Accrued liabilities	10,737	250,988
	$ 1,272,072	$ 1,895,983

(Expressed in Canadian Dollars) (Unaudited)

9. SHARE CAPITAL

(a) Authorized

The authorized share capital consists of an unlimited number of common shares without par value (the “**Shares**”). There are no authorized preferred shares. At June 30, 2018, the Company had 7,475,304 (December 31, 2017 – 7,472,179) common shares issued and outstanding.

After the period end, the Company completed a Share split on the basis of ten (10) new Shares for every one (1) old Share outstanding (see Note 16).

(b) Equity issuances

During six months ended June 30, 2018, the Company issued 3,125 Shares on the exercise of options for total proceeds of $6,250.

(c) Share subscriptions

In June 2017, the Company has received $1,081,690 pursuant to share subscription agreements for 386,318 Shares. These Shares were issued after the period end (Note 16).

(d) Equity-based compensation plans

The following is a summary of the changes in Prophecy’s stock options from December 31, 2016 to June 30, 2018:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2016	460,814	$6.42
Granted	408,000	$3.75
Expired	(31,293)	$20.80
Exercised	(12,687)	$4.00
Outstanding, December 31, 2017	824,834	$4.59
Granted	195,000	$2.89
Cancelled	(10,700)	$3.60
Exercised	(3,125)	$2.00
Outstanding, June 30, 2018	1,006,009	$4.12

(Expressed in Canadian Dollars) (Unaudited)

9. SHARE CAPITAL (cont'd…)

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

As of June 30, 2018, the following Prophecy share purchase options were outstanding:

Exercise Price	Expiry Date	Options Outstanding June 30, 2018	Options Outstanding December 31, 2017	Exercisable June 30, 2018	Unvested June 30, 2018
$3.10	May 1, 2023	20,000	-		20,000
$3.15	April 27, 2023	15,000	-		15,000
$2.80	April 6, 2023	140,000	-	-	140,000
$3.10	February 20, 2023	20,000	-	2,500	17,500
$4.75	November 6, 2022	5,000	5,000	1,250	3,750
$3.30	June 12, 2022	167,000	145,000	83,500	83,500
$3.50	September 1, 2022	145,000	167,000	54,375	90,625
$3.10	January 12, 2022	147,625	91,000	92,266	55,359
$2.00	June 2, 2021	91,000	155,750	91,000	-
$5.00	June 22, 2020	31,100	32,800	31,100	-
$5.00	April 7, 2020	78,062	82,062	78,062	-
$6.50	May 1, 2019	54,750	54,750	54,750	-
$10.00	February 3, 2019	5,000	5,000	5,000	-
$10.50	January 27, 2019	51,500	51,500	51,500	-
$12.00	August 16, 2018	32,472	32,472	32,472	-
$13.00	July 22, 2018	2,500	2,500	2,500	-
		1,006,009	824,834	580,275	425,734

During the six months ended June 30, 2018, the Company recognised $415,514 (same period 2017 - $279,739) in share based payments which included $311,996 (same period 2017 - $200,354) costs related to stock options expensed as general and administrative expenses and $103,518 (same period 2017 – $79,385) capitalized to mineral properties.

(e) Share purchase warrants

The following is a summary of the changes in Prophecy's Share purchase warrants from December 31, 2016 to June 30, 2018.

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2016	1,348,060	$4.68
Issued	1,245,368	$4.13
Exercised	(15,000)	$4.00
Expired	(2,625)	$7.00
Outstanding, December 31, 2017	2,575,803	$4.42
Issued	100,000	$4.00
Expired	(5,600)	$4.00
Outstanding, June 30, 2018	2,670,203	$4.40

(Expressed in Canadian Dollars) (Unaudited)

9. SHARE CAPITAL (cont'd…)

(e) Share purchase warrants (cont'd…)

On February 15, 2018, the Company issued 50,000 Share purchase warrants as a part of consideration for mining claims acquisition (Note 7). The fair value of $89,944 of the issued warrants determined using the Black-Scholes option pricing model using the following assumptions: (1) a risk-free interest rate of 1.9%; (2) warrant expected life of three years; (3) expected volatility of 116%' and (4) dividend yield of nil.

As of June 30, 2018, the following Share purchase warrants were outstanding:

Exercise price	Expiry date	Number of Warrants	
		At June 30, 2018	At December 31, 2017
$5.00	June 13, 2022	59,659	59,659
$5.00	April 12, 2022	103,250	103,250
$4.00	January 13, 2022	49,999	49,999
$4.40	August 29, 2021	101,367	101,367
$4.00	June 2, 2021	750,000	750,000
$3.00	April 23, 2021	50,000	-
$5.00	February 15, 2021	50,000	-
$4.00	January 25, 2021	65,000	65,000
$4.00	December 18, 2020	70,335	70,335
$7.00	November 13, 2020	62,500	62,500
$4.00	October 16, 2020	270,136	270,136
$7.00	September 30, 2020	111,200	111,200
$4.00	September 20, 2020	691,990	333,984
$6.00	June 24, 2020	114,768	114,768
$5.00	May 22, 2020	120,000	120,000
$4.00	January 25,2018	-	5,600
		2,670,203	2,217,797

10. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

Fair Value Measurements

Fair value hierarchy

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

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

(Expressed in Canadian Dollars) (Unaudited)

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

Fair Value Measurements (cont'd…)

Fair value hierarchy (cont'd…)

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

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

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

As at June 30, 2018	Level 1	Level 2	Level 3	Total
Financial assets				
Cash	$ 1,931,993	$ -	$ -	$ 1,931,993
Marketable securities	$ 162,000	$ -	$ -	$ 162,000
	$ 2,093,993	$ -	$ -	$ 2,093,993

Categories of financial instruments

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

	June 30, 2018	December 31, 2017
Fair value through profit or loss		
Cash	$ 1,931,993	$ 4,100,608
Fair value through orther comprehensive income or loss		
Marketable securities	162,000	205,600
Amortized cost		
Receivables	35,596	34,653
Restricted cash equivalents	34,500	34,500
	$ 2,164,089	$ 4,375,361
Other Liabilities		
Accounts payable and accrued liabilities	$ 1,272,072	$ 1,895,983
	$ 1,272,072	$ 1,895,983

11. FINANCIAL RISK MANAGEMENT DISCLOSURES

(a) Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its financial obligations as they fall due. The Company manages liquidity risk by preparing cash flow forecasts of upcoming cash requirements. As at June 30, 2018, the Company had a cash balance of $1,931,993 (December 31, 2017 – $4,100,608). As at June 30, 2018, the Company had accounts payable and accrued liabilities of $1,272,072 (December 31, 2017 - $1,895,983), which have contractual maturities of 90 days or less.

(b) Credit risk

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

(c) Market risk

The significant market risks to which the Company is exposed are interest rate risk, foreign currency risk, and commodity and equity price risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's cash and restricted cash equivalents primarily include highly liquid investments that earn interest at market rates that are fixed to maturity. Due to the short- term nature of these financial instruments, fluctuations in market rates do not have significant impact on the fair values of the financial instruments as of June 30, 2018.

(ii) Foreign currency risk

The Company is exposed to foreign currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in Canadian dollars.

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

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

(c) Market risk (cont'd…)

(ii) Foreign currency risk (cont'd…)

Based on the above, net exposures as at June 30, 2018, with other variables unchanged, a 10% (December 31, 2017 – 10%) strengthening (weakening) of the Canadian dollar against the Mongolian tugrik would impact net loss with other variables unchanged by $76,000. A 10% strengthening (weakening) of the Canadian dollar against the Bolivian boliviano would impact net loss with other variables unchanged by $70,000. A 10% strengthening (weakening) of the US dollar against the Canadian dollar would impact net loss with other variables unchanged by $33,000. The Company currently does not use any foreign exchange contracts to hedge this currency risk.

(iii) Commodity and equity price risk

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

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.

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.

(Expressed in Canadian Dollars) (Unaudited)

12. RELATED PARTY DISCLOSURES

A summary of amounts paid or accrued to related parties is as follows:

Related parties	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Directors and officers	$ 191,068	$ 52,750	$ 308,231	$ 105,000
Linx Partners Ltd.	105,000	52,500	210,012	105,000
MaKevCo Consulting Inc.	4,700	4,600	9,400	10,800
Sophir Asia Ltd.	4,400	4,000	8,800	7,500
	$ 305,168	$ 113,850	$ 536,443	$ 228,300

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

Related parties	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Consulting and management fees	$ 69,986	$ 28,500	$ 125,498	$ 59,400
Directors' fees	13,500	12,600	27,000	23,400
Mineral properties	150,431	39,000	244,194	78,000
Salaries	71,250	33,750	139,750	67,500
	$ 305,168	$ 113,850	$ 536,443	$ 228,300

As at June 30, 2018, amounts due to related parties totaled $Nil (December 31, 2017 – $160,503).

13. KEY MANAGEMENT PERSONNEL COMPENSATION

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

Key Management Personnel	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Salaries and short term benefits	$ 83,046	$ 34,367	$ 153,958	$ 68,734
Share-based payments	164,391	206,847	296,935	233,171
	$ 247,437	$ 241,214	$ 450,893	$ 301,905

(Expressed in Canadian Dollars) (Unaudited)

14. SUPPLEMENTAL CASH FLOW INFORMATION

		Six months ended June 30, 2018		2017
Supplementary information				
Non-Cash Financing and Investing Activities				
Shares issued to pay Credit Facility	$	-	$	900,000
Shares issued on acquisition of mineral property	$	-	$	96,200
Shares issued for accrued bonus	$	-	$	190,320
Shares issued to settle debt	$	-	$	238,636
Warrants issued on acquisition of mineral property	$	89,944	$	-
Depreciation included in mineral property	$	58,464	$	106,225
Equipment expenditures included in accounts payable	$	513,070	$	1,747,070
Fair value loss on available-for-sale investments	$	104,540	$	-
Mineral property expenditures included in accounts payable	$	646,002	$	1,283,489
Share-based payments capitalized in mineral properties	$	103,518	$	79,385

15. CONTINGENCIES

ASC tax claim

On January 2, 2015, the Company acquired ASC Holdings Limited and ASC Bolivia LDC (which together, hold ASC Bolivia LDC Sucursal Bolivia, which in turn, held Apogee Silver Ltd.'s ("**Apogee**") joint venture interest in the Pulacayo Project) and Apogee Minerals Bolivia S.A. Pursuant to the terms of the Agreement, Prophecy agreed to assume all liabilities of these former Apogee subsidiaries, including legal and tax liabilities associated with the Pulacayo Project. During Apogee's financial year ended June 30, 2014, it received notice from the Servicio de Impuestos Nacionales, the national tax authority in Bolivia, that ASC Bolivia LDC Sucursal Bolivia, now the Company's wholly-owned subsidiary, owed approximately Bs42,000,000 ($7,827,708 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 $7,827,708 (2017 - $7,541,016) was classified as non-current liabilities.

Red Hill tax claim

During the year ended December 31, 2014, the Company's wholly-owned subsidiary, Red Hill Mongolia LLC ("**Red Hill**") was issued a letter from the Sukhbaatar District Tax Division notifying it of the results of the Sukhbaatar District Tax Division's VAT inspection of Red Hill's 2009-2013 tax imposition and payments that resulted in validating VAT credits of only MNT235,718,533 from Red Hill's claimed VAT credit of MNT2,654,175,507. Red Hill disagreed with the Sukhbaatar District Tax Division's findings as the tax assessment appeared to the Company to be unfounded.

15. CONTINGENCIES (cont'd…)

Red Hill tax claim (cont'd…)

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 was to be MNT1,396,668,549 in 2010 and MNT4,462,083,700 in 2011. The Company continued to dispute the Sukhbaatar District Tax Division's assessment and delivered a complaint to Capital City Tax Tribunal on July 24, 2015. Due to the uncertainty of realizing the VAT balance, the Company has recorded an impairment charge for the full VAT balance in the year ended December 31, 2015.

At this time there is no change in the VAT claim. Red Hill has submitted a complaint concerning this long delay to the General Tax office and the Ministry of Finance. Following the submittal, the City tax tribunal officer responded and informed Red Hill that a hearing will be scheduled soon.

Red Hill is working with its external lawyer to give additional documents to the City tax tribunal before the hearing to solidify the case.

As there were no changes from January 1 to June 30, 2018, the impaired value of $Nil for the VAT receivable remains unchanged.

16. EVENTS AFTER THE REPORTING DATE

- On August 8, the Company completed a common share split the basis of ten (10) new Shares for every one (1) old Share outstanding (the "**Split**"). As required by IAS 33, *Earnings Per Share,* all information with respect to the number of Shares and issuance prices for the time periods prior to the Split will be restated to reflect the Split.

- The Company closed of its non-brokered private placement previously announced on May 30, 2018 and amended on June 26, 2016 (the "**Placement**"), raised gross cash proceeds of $1,137,196 through the issuance of 4,061,417 units (post the Split) (the **"Units"**) of Prophecy. Each Unit is comprised of one Share and one Share purchase warrant (the **"Warrants"**). Each Warrant entitles the holder to purchase one additional Share of the Company at an exercise price of $0.40 for a period of three years from the closing of the first tranche of the placement.