Prophecy Development Corp.

Management's Discussion and Analysis of Financial Condition and Results of Operations
For the nine months ended September 30, 2017

(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 November 14, 2017 and was reviewed, approved, and authorized for issue by the Company's Audit Committee. The following discussion of performance, financial condition and future prospects should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company and notes thereto for the three and nine months ended September 30, 2017 prepared in accordance with International Financial Reporting Standards ("**IFRS**"), applicable to the preparation of interim financial statements, including International Accounting Standard ("**IAS**") 34 Interim Financial Reporting, as issued by the International Accounting Standards Board. This MD&A should be read also in conjunction with both the audited annual consolidated financial statements for the year ended December 31, 2016 (prepared in accordance with IFRS) ("**Annual Financial Statements**") and the related annual MD&A ("**Annual MD&A**") dated March 29, 2017, and the 2016 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" 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 coal projects in Mongolia: the Ulaan Ovoo coal property, the Khavtgai Uul and Chandgana Tal coal deposits (together, the "**Chandgana Coal Properties**"), and the Pulacayo Paca silver-lead-zinc property (the "**Pulacayo Project**") in Bolivia. The Company also has a 100% interest in three vanadium projects in North America: the Titan vanadium-titanium-iron project (the "**Titan Project**") in Canada, and the Gibellini vanadium project (the "**Gibellini Project**") and Louie Hill vanadium project (the "**Louie Hill Project**") both, in the United States.

Recently, the Company has actively pursued exposure and leverage to rising vanadium prices by defining and adding attributable vanadium resources in the ground in politically safe jurisdictions, and to build the first vanadium mine in North America by steadily advancing mine permitting, project financing and construction. 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.

General Corporate Information:

At September 30, 2017 and November 14, 2017, Prophecy had: (i) 6,057,216 and 6,191,794 Shares issued and outstanding, respectively; (ii) 822,834 and 824,834 stock options for Shares outstanding, respectively; (iii) 1,894,952 and 1,935,614 warrants for Shares outstanding, respectively; and (iv) 716,013 and 1,139,711 special warrants 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

Head Office and Registered Office
Suite 1610 - 409 Granville Street

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

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

Qualified Persons

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

2. CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of applicable Canadian securities legislation concerning anticipated developments in the Company's continuing and future operations in Canada, the United States, 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 and production of Prophecy's Chandgana power plant, including finalizing of any power purchase agreement; the likelihood of securing project financing; estimated future coal production at the Ulaan Ovoo coal property and the Chandgana Coal Properties; development of the Pulacayo Project and the Company's vanadium projects, 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 coal, silver and other metals, prices for and availability of fuel, parts and equipment and other key supplies remain consistent with current levels; production forecasts meeting *expectations; the accuracy of Prophecy's current mineral resource estimates; labour and materials costs increasing on a basis consistent with Prophecy's current expectations; and any additional required financing will be available on reasonable terms; market developments and trends in global supply and demand for coal, energy, silver and other metals meeting expectations. Prophecy cannot assure you that any of these assumptions will prove to be correct.*

Numerous factors could cause Prophecy's actual results to differ materially from those expressed or implied in the forward-looking statements, including the following risks and uncertainties, which are discussed in greater detail under the heading "Risks and Uncertainties" in this MD&A and "Risk Factors" in Prophecy's most recent Annual Information Form as filed on SEDAR 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 Mongolia and Bolivia, 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; and conflicts of interest.

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

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

3. THIRD QUARTER HIGHLIGHTS AND SIGNIFICANT EVENTS

- On July 13, 2017, the Company acquired through lease, the Louie Hill Project in Nevada, USA, by paying USD 10,000 in cash to an arm's-length, private party (the "**Louie Hill Lessor**") with the intent to carry-out mining operations there. Under the mineral lease agreement, Prophecy will lease the mining claims which constitute the Louie Hill Project by paying to the Louie Hill Lessor, annual advance royalty payments which will be tied, based on an agreed formula (not to exceed USD 28,000 per year), to the average vanadium pentoxide price for the prior year.

  Upon commencement of production, Prophecy will maintain its acquisition through lease of the Louie Hill Project mining claims by paying to the Louie Hill Lessor, a 2.5% NSR of which, 1.5% of the NSR may be purchased at any time by Prophecy for USD 1 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 lease will be for a term of 10 years, which can be extended for an additional 10 years at Prophecy's option.

- On July 21, 2017, the Company announced that it entered into a binding letter agreement (the "**Letter Agreement**") with Fairmont Resources Inc. ("**Fairmont**") to acquire the fully-permitted Buttercup Iron-

Titanium-Vanadium project in Quebec, Canada (the "**Buttercup Project**").

Under the terms of the Letter Agreement, Prophecy will acquire the claims and a lease which constitute the Buttercup Project by paying to Fairmont:

(a) At closing, the equivalent of $1,000,000, up to half of which (i.e. $500,000), may at Prophecy's sole discretion, be paid in Shares, calculated based on the 5-day volume-weighted average trading price of such Shares as of the closing date; and

(b) On the 1-year anniversary date of the closing date, a further $500,000, up to half of which (i.e. $250,000), may at Prophecy's sole discretion, be paid in Shares, calculated based on the 5-day volume-weighted average price of such Shares as of the 1-year anniversary date of the closing date.

The proposed transaction will be subject to Prophecy being satisfied with the results of its due diligence inquiries into the Buttercup Project. The parties have agreed to replace the Letter Agreement with a more comprehensive definitive agreement by November 1, 2017, subject to such due diligence results and other conditions being satisfied.

- On August 25, 2017, the Company announced that as a result of a review by the British Columbia Securities Commission (the "**BCSC**") it retracts certain disclosures related to resources, mining, processing, and economic assessments previously made regarding its Gibellini, Pulacayo and Titan properties. The Company notes that disclosure of economic, assessment, material scientific and technical information were supported by historical estimates only and not supported by NI 43-101 compliant technical reports, and therefore these disclosures are not suitable for public disclosure and should not be relied upon.

- On August 25, 2017, the Company announced that it has entered into a binding letter agreement with an arm's-length party (the **"Seller"**) to acquire the Dabolava gold project located in the Republic of Madagascar (the **"Dabolava Project"**). Under the letter agreement, Prophecy will acquire 6 mining claims covering 375 sq. km and other assets, which together constitute the Dabolava Project, by paying Seller the following:

  a. upon transaction closing $1,000,000;
  b. on the 1-year anniversary of the closing date, $1,000,000;
  c. on the 2-year anniversary of the closing date, $1,000,000;
  d. on Prophecy obtaining its first Dabolava Project mining license, $2,000,000; and
  e. for every troy-ounce of gold reserve that is compliant with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "**JORC Code**") from the Dabolava Project by the dates to be agreed to in a definitive agreement to be executed, a one-time payment of $2 per troy-ounce shall be paid to the Seller. This payment is subject to a minimum cumulative discovery of 1 million ounces.

  The proposed transaction is subject to Prophecy being satisfied with the results of its due diligence inquiries into the Dabolava Project. The Seller and Prophecy have agreed to replace the letter agreement by entering into a more comprehensive definitive agreement by November 30, 2017. The letter agreement includes a break-fee provision and a commitment by the Seller to not solicit, pursue or negotiate alternative offers with other parties for the Dabolava Project. Please see more information about this project in Section 7 - *Proposed Transactions*.

- On August 25, 2017, the Company announced that it is undertaking a non-brokered private placement (the "**Placement**") involving the issuance of up to 888,000 units (each a "**Unit**") at a price of $3.50 per Unit. Each Unit will consist of one Share and one half of one Share purchase warrant (a "**Warrant**"). Each Warrant entitles the holder to acquire an additional Share at a price of $4.00 per Share for a period of three years from the date of issuance. Company management and directors will subscribe for up to $350,000, being the equivalent of up to 100,000 Units of the Placement.

- On September 1, 2017, the Company announced that it intends to increase the size of the Placement previously announced for $3,108,000 on August 25, 2017, now to a maximum of $5,757,360. The Placement as amended, will now involve, in addition to the issuance of up to 888,000 Units, the issuance of up to 900,000 special warrants (the "**Special Warrants**") at a price of $3.50 per Special Warrant. Each Special Warrant will be exercisable for one Unit at no additional cost to the holder provided TSX and shareholder approval for the issuance of the Units underlying the Special Warrants is obtained at a general meeting of shareholders to be called within 60 days after the closing of the Placement. The gross proceeds from the sale of the Special Warrants will be deposited into an escrow account to be held "in trust" pending shareholder approval. On the first business day following receipt of TSX and shareholder approval, each Special Warrant will automatically be exercised to acquire one Unit. If TSX and shareholder approval are not obtained, all of the funds held in escrow will be returned to the subscribers of the Special Warrants.

- September 20, 2017, the Company closed the first tranche of the Placement as amended, raising gross cash proceeds of $4,539,390 through the issuance of 667,968 Units and 716,013 Special Warrants (including 87,013 Special Warrants issued as finder's fees).

Subsequent to period end

- On October 16, 2017, the Company closed the second and final tranche of the Placement as amended (and further amended on October 4, 2017, to further increase the number of Special Warrants issuable under the Placement as amended, to 1,250,000), raising gross cash proceeds of $1,858,325 through the issuance of 116,578 Units and 423,698 Special Warrants (including 9,327 Special Warrants issued as finder's fees).

  The Company also announced that it entered into debt settlement agreements with certain directors and officers of the Company (the "**Debt Settlement Agreements**") pursuant to which, the Company agreed, subject to the approval of the TSX and disinterested shareholders at a special meeting of shareholders to be held on December 15, 2017 (the "**Special Meeting**"), to issue an aggregate of 42,254 Units (the "**Debt Settlement Units**"), in satisfaction of an aggregate of $147,898 of indebtedness currently owed by the Company to such persons. The Debt Settlement Units are comprised of one Share issuable at a deemed price of $3.50 and one half of one Warrant.

  The Company further announced that it entered into a consulting agreement with Skanderbeg Capital Advisors Inc. to explore and evaluate strategic alternatives to maximize value for Prophecy's non-core assets in exchange for the issuance of 98,420 Units (the "**Skanderbeg Units**") provided TSX and shareholder approval for the issuance of the Skanderbeg Units is obtained at the Special Meeting. The Skanderbeg Units are comprised of one Share issuable at a deemed price of $3.50 and one half of one Warrant.

  The Company also further announced that it entered into an advisory agreement with Hillcrest Merchant Partners Inc., who agreed to provide corporate development and financial advisory services related to the Gibellini Project, including equity and debt arrangement, product off-take and merger and acquisition negotiations with any strategic investors in exchange for annual aggregate payments totaling $156,000.

- On November 8, 2017, the Company received and filed an updated technical report, prepared by Mine Development Associates, on its Titan vanadium-iron-titanium property.

  The Company also announced that further to its news release dated July 21, 2017, Fairmont and Prophecy have mutually agreed to terminate the Letter Agreement for Prophecy to acquire the Buttercup Project from Fairmont.

(Expressed in Canadian Dollars, except where indicated)

- Also, subsequent to period end, 15,000 Prophecy warrants at an exercise price of $4.00 per Share were exercised, 3,000 stock options at an exercise price of $2.00 per Share were exercised, 2,625 Prophecy warrants at an exercise price of $7.00 per Share expired without exercise, and 5,000 stock options at an exercise price of $4.75 per Share were issued.

For further information please view the Company's 2017 news releases under the Company's SEDAR profile at www.sedar.com.

4. PROPERTY SUMMARY

Vanadium Projects

Titan Project

In February 2017, Prophecy consolidated its ownership over the Titan Project deposit in Ontario, Canada by acquiring the remaining 20% title interest held by Randsburg International Gold Corp. in the patented claims.

The Titan Project is located in eastern Ontario, approximately 120km east-northeast of Sudbury, and in close proximity to necessary infrastructure such as 8km from a railway station, 18km from a highway, 2.5km from a major transmission line, and 25km from a natural gas pipeline.

The technical report prepared by Neil Prenn, P. Eng. of Mine Development Associates dated February 26, 2010 was found to not be fully compliant with NI 43-101. The Company engaged Mine Development Associates to prepare a revised mineral resource estimate. The revised technical report dated October 23, 2017 was prepared in compliance with NI 43-101 and reports an inferred resource for the Property as follows:

Resource Class	Tonnes (t)*	Fe_2O_3 (%)**	V (%)**	TiO_2 (%)**
Inferred	46.0 million	48.32	0.24%	14.88

V converted to V_2O_5: 0.24 % V = 0.43% V_2O_5
*The metal content calculated by the Company totals 434 million pounds of vanadium pentoxide content and 6,844 million kgs of titanium dioxide**.*
**Based on resource estimated at cutoff grade of 40% Fe_2O_3 inside an optimized pit.*
***100% metals recovery is assumed.*

The Titan Project's previous operator completed a preliminary metallurgical test on material from one core hole at the facilities of Altairnano Inc. in the USA in 2009, which used a proprietary patented "Altair Hydrochloride Pigment Process" dissolution test on the composites. This process uses hydrochloric acid and hydrochloride gas to dissolve iron, titanium and vanadium metals. The test concluded that 88% of the iron, 96% of the titanium and 80% of the vanadium could be dissolved after 4 hours under this process.

Since then, there has been a few maturing, patented hydrometallurgical technologies developed to extract titanium dioxide, iron, and vanadium from titaniferous vanadiferous deposits.

Prophecy sent samples from the Titan Project to two independent laboratories in Canada for testing. Each batch of samples will undergo bench-scale testing to determine the percentage of metals dissolveable into solution and the recovery rate of metals from solution.

Prophecy has no preference as to a particular recovery technology but rather, seeks the best technology to recover valuable metals from the Titan Project that will be both environmentally friendly and cost effective. Each laboratory has its own proprietary, patented hydrometallurgical process to treat materials similar to those found at the Titan Project. The testing is in progress and results will be announced when they become available.

Gibellini Project

The Gibellini project consists of the Gibellini group of 40 claims and the Louie Hill group of 10 claims. These two groups of claims were previously referred to by the Company as projects. On June 23, 2017, the Company acquired (through lease) the Gibellini group of claims which is located in Eureka County, Nevada, about 25 miles south of the town of Eureka and is easily accessed by a graded, gravel road extending south from US Highway 50. The Gibellini group of claims is comprised of 40 unpatented lode claims totaling approximately 771 acres.

Under the mineral lease agreement, Prophecy leased the mining claims which constitute the Gibellini Project by paying to the Gibellini lessor, annual advance royalty payments which will be tied, based on an agreed formula (not to exceed USD 120,000 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 mining claims by paying to the Gibellini lessor a 2.5% NSR until a total of USD 3 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 July 13, 2017, the Company acquired (through lease) the Louie Hill group of claims located approximately 500 metres south of the Gibellini group of claims. The Louie Hill group of claims is comprised of ten unpatented lode claims totaling approximately 207 gross acres. Opportunities exist to further expand the project beyond its current definition.

Under the mineral lease agreement, Prophecy will lease the mining claims which constitute the Louie Hill Project by paying to the Louie Hill Lessor, annual advance royalty payments which will be tied, based on an agreed formula (not to exceed USD 28,000 per year), to the average vanadium pentoxide price for the prior year.

Upon commencement of production, Prophecy will maintain its acquisition through lease of the Louie Hill mining claims by paying to the Louie Hill Lessor, a 2.5% NSR of which, 1.5% of the NSR may be purchased at any time by Prophecy for USD 1 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 lease will be for a term of 10 years, which can be extended for an additional 10 years at Prophecy's option.

The Louie Hill Project is located in the same formation and lithologic units as the Gibellini Project. The general geology in this area is considered to be similar to the Gibellini Project.

AMEC E&C Services, Inc. (**"AMEC E&C"**) prepared a resource estimate and feasibility study for the Gibellini group of claims for American Vanadium Corp. (**"AVC"**). AMEC E&C prepared a resource estimate for the Louie Hill group of claims as part of the feasibility study commissioned by AVC. The report was recently found by the BCSC to not be fully compliant with the disclosure requirements of NI 43-101. The Company commissioned AMEC Foster Wheeler to prepare a revised mineral resource estimate.

Q3 2017

The Company's activities during the quarter included preparations to re-start the environmental and permitting process (together with the Louie Hill Project), staking of additional claims, review of previous metallurgical work and current metallurgical technologies to plan additional work and revision of the 2011 resource estimate.

During the quarter, the Company incurred total costs of $101,475 for the Gibellini Project including $9,734 for annual maintenance fees, $91,177 for geological consulting, and $564 for general and administrative expenses.

2017 Outlook

The Company intends to continue preparations to re-start the environmental and permitting process (together with the Louie Hill Project), sourcing water, review of previous metallurgical work and current metallurgical technologies to plan additional work and revision of the 2011 resource estimate.

Silver Project

Pulacayo Project

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

Q3 2017

During Q3 2017, the Company supported the Government of Bolivia in its deliberations to allow mining to commence. Other work included refinement of internal mine plans for the Pulacayo and Paca deposits, negotiations with other vendors that provide toll milling services at their ore processing facilities and further discussion with large trading and smelting companies that are interested in purchasing concentrates processed from materials mined from the Pulacayo and Paca deposits. A positive production decision would not be based on a feasibility study of mineral reserves demonstrating economic and technical viability so would carry increased uncertainty and the risk of failure as to the mining method and profitability.

During the quarter, the Company incurred total costs of $107,131 (same period 2016 – $229,540) for the Pulacayo Project including $13,550 (same period 2016 – $30,642) for geological and engineering consulting, and $93,580 (same period 2016 – $198,898) for personnel, legal and general and administrative expenses.

2017 Outlook

The Company plans to continue exploration of an additional vein system (the "**AVS**") to assess whether drilling is warranted. The Company believes the results from the latest Pulacayo chip sampling program announced on December 23, 2016 are encouraging given the AVS is located in the shallow part of the deposit; it exhibits strong zinc and lead anomalies and represents a priority area for further exploration which could potentially add resources to the Pulacayo Project. The Company intends to continue with preparations for mining, processing of ore and sale of concentrate and obtaining authorization to start mine construction and production. The Company intends to announce a production decision in conjunction with a financing plan, should a positive production decision be reached in the near future. A positive production decision would not be based on a feasibility study of mineral reserves demonstrating economic and technical viability so would carry increased uncertainty and the risk of failure as to the mining method and profitability.

Coal Projects

Ulaan Ovoo Coal Property

For highlights of the Ulaan Ovoo coal property, please refer to the relevant section of the Annual MD&A for this information.

Q3 2017

During the third quarter of 2017, the Company continued to maintain the Ulaan Ovoo operations on standby incurring minimal general and administrative costs. As of September 30, 2017, the coal stockpile balance was approximately 60,850 tonnes (September 30, 2016 – 80,700 tonnes).

2017 Outlook

Thermal coal prices remain strong, having increased during the last quarter. Australian seaborne thermal coal is currently trading at USD 96/t FoB port. The Company continues talks to sell coal into the Chinese market with transport by rail south through Mongolia with the goal of restarting Ulaan Ovoo. Mining operations at Ulaan Ovoo may be restarted in short order since pit dewatering requires less than a month and other work needed to restart mining can be completed at the same time. The Company believes contract mining is a viable option for more efficient operation of the mine since a contract mining firm would be responsible for labor agreements, equipment maintenance and other key responsibilities and functions.

The Company intends to continue its efforts to maximize value including evaluation of operating alternatives (e.g. contract mining, electrification, conveyance vs. haul), infrastructure improvement, management changes, higher margin markets and other markets for coal from Ulaan Ovoo, methods to upgrade coal quality and pursuit of financial arrangements including strategic partner or joint venture arrangements or the sale of a portion or the entire project. One of these efforts is to penetrate the urban residential market in Mongolia (total estimated consumption of approximately 700-900 thousand tonnes a year in the cities of Ulaanbaatar, Erdenet, and Darkhan) and further increase coal sales to Russia. Pursuit of the river diversion is also planned to continue. Completion of the diversion would both ensure that the Company retains the licenses and decrease the pumping requirement.

Prophecy intends to continue to pursue government support to open the Zelter border crossing, pave the 136 km Shamaar-Tushig road, as well as to upgrade the 35kV power line from Tsagaannuur soum to Tushig soum to bring power to Ulaan Ovoo. Otherwise, the Company intends to continue with normal license maintenance and environmental obligations.

At the current stage, the Company is unable to determine when conditions may improve and if so, be sustainable such that the full potential value of the coal resource may be realized. Some of these conditions include when, if at all, greater access to Russian or other export coal markets may be realized and the time and degree desired project changes and operational modifications may improve profitability.

Chandgana Coal Properties and Chandgana Power Plant Project

For highlights of the Chandgana Coal Properties and Chandgana power plant project, please refer to the relevant section of the Annual MD&A for this information.

Q3 2017

Discussions with Mongolian authorities on the power purchase agreement and other documents related to the Chandgana power plant project continued. Other activity included discussions with potential financial partners in the Chandgana power plant project, renewal of the detailed environmental impact assessment ("**DEIA**") for the power plant and work to convert the Khavtgai Uul exploration license to a mining license. Normal license maintenance and environmental obligations were satisfied.

2017 Outlook

The activities planned during 2017 for the Khavtgai Uul license include normal license maintenance work and continuation of work to convert the license to a mining license. The exploration and report work to convert the license to a mining license is expected to be completed by the end 2017, before being submitted for review to the Mineral Resources Professional Council by January 2018, with a conclusion of acceptance expected by April 2018. For the Chandgana Tal project, the Company intends to assess the local market for coal to determine the need for mining during the 2017 - 2018 heating season. The Company plans to continue work to update the DEIA and mining feasibility study for the Chandgana Tal project. Normal license maintenance work for the Khavtgai Uul and Chandgana Tal project licenses are expected to be completed also.

The Company intends to continue its activities and consider other activities that could promote the Chandgana power plant project. Such activities include consideration of project financing options such as debt, equity or a combination thereof in addition to joint ventures with international power project developers. Discussions will continue with large-scale, Asian strategic power producers who have expressed interest in investing in the Chandgana power plant project. Other activities include renewal of the DEIA and power plant construction license and regular work to maintain the Chandgana power plant project land use rights. The Company believes since the recent election, that Mongolia will continue its efforts to maintain a more stable government and further greater economic development. The new Mongolian Government has started efforts to attract foreign investment and so Prophecy plans to continue its commitment to the project and is optimistic that material progress can be made during 2017.

The major reasons completion of the Chandgana power plant project would be beneficial to Mongolia include the current and projected electrical power demand exceeding capacity, current importation of approximately 20% of its electric power from Russia and China, and the virtues of the project which are that: the Company is proposing to build a new, modern power plant to provide a stable power supply to Mongolia, with 100% private funding and no up-front payment or subsidies from the Mongolian Government, it would offer a fixed, long-term tariff that is lower than those of foreign imported electrical power that would ease Mongolia's budget, it would create employment and assist in establishing Mongolia's energy independence. The Chandgana power plant and

(Expressed in Canadian Dollars, except where indicated)

Chandgana Tal coal mine would be expected to employ over 600 full-time skilled local staff, cause the start of many new support businesses, and revitalize the Province of Khentii.

The Company believes its mine-mouth power plant, located far from Ulaanbaatar (as opposed to having a power plant located in or near the city) is not only the solution to Mongolia's power shortage, but would eliminate costly coal and ash transportation, preserve the capital city's limited water resources and reduce the severe air pollution in the city. In addition to working with the Mongolian Government and its people to fulfill the growing domestic energy demand, the Company with its experienced partners, looks forward to these future steps to expand the Chandgana power plant in order to transform Mongolia, into a net exporter of electricity to its neighboring countries.

5. SUMMARY OF QUARTERLY RESULTS

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

		2017 Q3		2017 Q2		2017 Q1		2016 Q4
Operating expense	$	(484,907)	$	(336,028)	$	(282,923)	$	(473,114)
Net loss		(176,793)		(516,243)		(30,009)		(1,089,282)
Net loss per share, basic and diluted	$	(0.03)	$	(0.10)	$	(0.01)	$	(0.23)
Comprehensive loss		(176,793)		(516,243)		(30,009)		(1,089,282)
Comprehensive loss per share, basic and diluted	$	(0.03)	$	(0.10)	$	(0.01)	$	(0.23)

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

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, 2016 for Prophecy's IFRS accounting policies. For discussion on each project, the reader is encouraged to refer to Section 4 – *Property Summary* of this MD&A.

Three Months Ended September 30, 2017 and 2016 (Q3 2017 and Q3 2016)

Results of operations are summarized as follows:

Operating Expenses		**Three months ended September 30, 2017**		**2016**
Advertising and promotion	$	33,768	$	7,730
Consulting and management fees		47,550		28,983
General and administrative expenses		132,486		140,426
Professional fees		31,160		1,638
Share-based payments		185,562		68,181
Travel and accommodation		54,381		60,385
	$	484,907	$	307,343

The Company had an operating loss of $484,907 for Q3 2017, compared with an operating loss of $307,343 for Q3 2016.

(Expressed in Canadian Dollars, except where indicated)

Of note are the following items:

- Advertising and promotion expenses increased by $26,038 due to increased activities to promote and market the Company in order to raise equity financing;
- Consulting and management fees increased by $18,567 due to increased consulting services in connection with new vanadium projects acquired and considered for acquisition by the Company;
- General and administrative expenses decreased by $7,940 due primarily to decreased office expenses;
- Professional fees increased by $29,522 due to increased legal fees associated with financing and mineral property activities;
- Non-cash share-based payments increased by $117,381 due to a larger number of outstanding options vesting during the 2017 period compared to the 2016 period; and
- Travel and accommodation expenses decreased by $6,004.

For Q3 2017, the Company's "Other Items" amounted to a gain of $308,114 compared to a loss of $343,869 for Q3 2016.

Other Items		**Three months ended September 30,**		
		2017		**2016**
Costs/(income) in excess of recovered coal		87,398		71,776
Finance cost		7,950		1,571
Foreign exchange loss/(gain)		(410,928)		382,865
Interest expense		7,466		45,810
Loss on sale of equipment		-		36,926
Recover on mineral property sale		-		(195,079)
	$	(308,114)	$	343,869

The decrease in other items by $651,983 was mostly due to fluctuations in the value of the Canadian Dollar compared to the Mongolian Tugrik, Bolivian Boliviano, and the United States Dollar.

Nine months Ended September 30, 2017 and 2016

Results of operations are summarized as follows:

Operating Expenses		**Nine Months Ended September 30,**		
		2017		**2016**
Advertising and promotion	$	48,150	$	40,065
Consulting and management fees		137,620		109,938
General and administrative expenses		396,713		493,361
Professional fees		51,251		26,643
Share-based payments		385,916		123,461
Travel and accommodation		84,208		67,904
	$	1,103,858	$	861,372

The increase by $242,486 in operating expenses is the net result of changes to a number of the following items:

- Advertising and promotion expenses increased by 8,085 due to increased activities to promote and market the Company in order to raise equity financing;
- Consulting and management fees increased by $27,682 due to increased consulting services in connection with new vanadium projects acquired and considered for acquisition by the Company;
- General and administrative expenses decreased by $96,648 due primarily to decreased office expenses, salaries, and amortization expense;
- Professional fees increased by $24,608 due to due to increased legal fees associated with financing and

(Expressed in Canadian Dollars, except where indicated)

mineral property activities;
- Non-cash share-based payments increased by $262,455 due to a larger number of outstanding options vesting during the 2017 period compared to the 2016 period. During the nine months ended September 30, 2017, the Company granted 403,000 incentive stock options with a weighted average exercise price of $3.74; and
- Travel and accommodation expenses increased by $16,304 due to increased property site visits.

For the nine months ended September 30, 2017, the Company incurred other expenses classified as "Other Items" amounting to a gain of $380,813 compared to a loss of $56,650 for the same period in 2016.

Other Items		**Nine Months Ended September 30,**		
		2017		**2016**
Costs/(income) in excess of recovered coal	$	104,820	$	205,811
Finance cost		8,111		316,894
Foreign exchange loss/(gain)		(633,820)		(530,962)
Loss/(gain) on sale of available-for-sale investments		22,810		(59,698)
Interest expense		21,066		210,957
Impairment of mineral property		96,200		-
Loss on sale of equipment		-		108,727
Recover on mineral property sale		-		(195,079)
	$	(380,813)	$	56,650

Of note are the following items:

- Costs in excess of recovered coal were reduced by $100,991 due to decreased general and administrative expenses for the Company's Mongolian office;
- Finance cost decreased by $308,783 due to decreased draws from the revolving credit facility agreement dated March 12, 2015, as amended (the "**Credit Facility**"), with Linx Partners Ltd. ("**Linx**") a company controlled by John Lee, Executive Chairman of Prophecy;
- Foreign exchange gain of $633,820 was due to fluctuations in the value of the Canadian Dollar compared to the Mongolian Tugrik, Bolivian Boliviano, and the United States Dollar;
- During the nine months ended September 30, 2017, the Company disposed of 2.2 million Lorraine Copper Corp. shares for proceeds of $153,190 and a realized loss of $22,810. During the same period in 2016, the Company recorded a gain on the sale of total remaining Wellgreen Platinum Ltd. shares released from trust of $59,698;
- Decrease in interest expense by $189,891 was due to a decrease in the outstanding balance of the Credit Facility;
- During the nine months ended September 30, 2016, the Company recorded a loss on disbursement of office furniture and equipment of $108,727; and
- During the nine months ended September 30, 2016, the Company recorded a recovery on sale of its 60% interest in the Okeover project located in British Columbia, to Lorraine Copper Corp. of $195,079.

7. PROPOSED TRANSACTIONS

Acquisition of the Dabolava Project

On August 25, 2017, the Company announced that it entered into a binding letter agreement with an arm's-length party to acquire the Dabolava Project located in the Republic of Madagascar.

Dabolava Project Summary

The Dabolava Project is located approximately 200 km west-southwest of Antananarivo, the capital of Madagascar and is accessed via 400 km of paved highways, a portion of which traverses the property. The Dabolava Project is located 140 km west of the town of Antsirabe that hosts an airport and residents with mining experience. Gold has been mined at the Dabolava Project since 1900 and continues to be mined on a very limited scale.

(Expressed in Canadian Dollars, except where indicated)

The Dabolava Project covers 375 sq. km in 6 permits and consists of several mineralized areas, the most explored being Dabolava East, Takadora, Mountain of Gold, and Anjoma. The exploration included airborne geophysical surveys covering 553 sq. km, approximately 27 sq. km of ground magnetometer survey, 40.4 line km of IP surveys, and 11,349 soil samples. The work was carried out from 2004 to 2008 by Pan African Mining Corp. ("**PAF**") with Sprott Asset Management as a shareholder. PAF only completed 11,863 metres of diamond drilling (97 diamond drill holes) mostly focused on the Dabolava East area before it was acquired in 2008 by a major coal mining company, for approximately $157 million in cash. The Dabolava Project has been placed on care and maintenance since late 2008.

In the Dabolava East, Takadora and Mountain of Gold mineralized areas, the gold occurs in silicified dilational features within a broad ductile shear zone that cuts a tonalite-granodiorite orthogneiss host rock. The zones of mineralized dilational features range from 1 to 15m in drilled width.

Ajoma is a metasediment-hosted bulk-tonnage prospect, where the gold is associated with a post-metamorphism hydrothermal stock work where small quartz veinlets contain disseminated gold between the metamorphic foliations.

<u>Dabolava East (300 metre by 300 metre)</u>

The Dabolava East mineralized area is approximately 300m x 300m based on mapping and soil samples. Gold mineralization intersections from 33 diamond drill holes (5,204m of total drilling) indicated a zone 1 and 15m wide (drilled width) between 30 to 70m depth from surface. The known vertical extension is approximately 50m and is open at depth and to the surface. Prophecy intends to commission a preliminary economic assessment on Dabolava East and potentially facilitate the permitting process to obtain permits in minimal time. A positive production decision would not be based on a feasibility study of mineral reserves demonstrating economic and technical viability so would carry increased uncertainty and the risk of failure as to the mining method and profitability.

Drilling highlights:

Drill Hole Number	Coordinates [1]		Azimuth	Dip	Drilled Depth (m)		Width (m) [2]		Au (g/t)
	Easting	Northing			From	To	Drilled	True	
DE-D-07-035	574757	7827338	323	-47	86.9	98.2	11.4	9.5	12.0
including					88.1	88.6	0.5	0.4	177.0
including					96.4	98.2	1.8	1.5	21.2
DE-D-011	574746	7827333	322	-47	86.3	91.8	5.5	Unk	50.8
including					88.3	90.8	2.5	Unk	106.1
and					97.2	97.6	0.4	Unk	8.7
DE-D-004	574663	7827454	143	-44	44.9	49.4	4.5	Unk	2.0
and					127.1	131.4	4.3	Unk	10.5
including					128.2	128.4	0.2	Unk	139.0
DE-D-023	574774	7827347	344	-45	83.6	91.9	8.3	Unk	14.7
including					83.6	84.8	1.2	Unk	51.5
including					87.5	88.9	1.4	Unk	40.5
DE-D-012	574737	7827489	152	-45	103.7	104.8	1.1	Unk	20.6
DE-D-006	574709	7827459	155	-45	25.7	42.9	17.2	Unk	4.0
including					25.7	26.6	0.9	Unk	13.8
including					30.5	36.2	5.7	Unk	5.1
including					41.3	42.9	1.6	Unk	17.1
DE-D-07-039	574777	7827346	320	-45	86.9	92.9	6.0	5.0	12.4
including					86.9	88.9	2.1	1.7	24.0
DE-D-07-037	574702	7827378	320	-45	80.5	83.3	2.8	2.3	5.1
including					82.8	83.3	0.5	0.4	25.7
DE-D-08-049	574651	7827374	0	-45	43.2	2.2	Unk	14.2	
including					41.0	41.4	0.4	Unk	31.8
including					42.5	43.2	0.7	Unk	26.8
DE-D-016	574772	7827475	165	-55	56.0	61.6	5.6	Unk	9.5
DE-D-017	574792	7827395	343	-55	83.5	84.5	1.0	Unk	7.6
DE-D-08-050	574733	7827360	0	-45	36.4	36.8	0.4	Unk	23.0

(Expressed in Canadian Dollars, except where indicated)

DE-D-08-048	574669	7827376	0	-45	75.6	76.0	0.5	Unk	10.0

(1) Coordinates are in UTM system (metres) Zone 38K WGS84 projection.
(2) Unk=unknown because of insufficient information.

These assay results were previously disclosed by PAF in its May 11, 2005, November 6, 2006, April 25, 2007 and September 11, 2007 news releases. There are no known drilling, sampling, recovery or other factors that could materially affect the accuracy or reliability of the data. Drilling, sampling, and assay methods and information are described in the news releases and considered acceptable. The laboratory was independent of PAF at the time the assays were performed. Drilling, sampling and initial sample preparation was performed and overseen by qualified persons as defined in NI 43-101.

<u>Takodara (1,500 metre x 200 metre)</u>

The Takodara mineralized area is approximately 1,500m x 200m in size based on mapping and soil samples. Gold mineralization was encountered in 15 diamond drill holes (2,029m total drilling) from 40 to 60m depth. The vertical extent of the mineralization to surface and at depth has not yet been tested. Drill holes DE-D-001, DE-D-003, DE-07-033 and DE-D-08-063 were drilled approximately 150m apart along the strike, with no other drill holes in between. Prophecy intends to conduct infill drilling and expansion drilling to test the length and depth of the mineralization.

Drill Hole Number	Coordinates (1)		Azimuth	Dip	Drilled Depth (m)		Width (m) (2)		Au (g/t)
	Easting	Northing			From	To	Drilled	True	
DE-D-001	575668	7828539	353	-45	57.3	58.2	0.9	Unk	32.3
including					57.8	58.2	0.5	Unk	61.9
DE-D-003	575921	7828572	338	-45	51.0	52.0	1.0	Unk	12.2
including					51.0	51.5	0.5	Unk	22.4
DE-D-07-033	576029	7828665	180	-45	86.3	88.4	2.1	1.1	28.7
DE-D-08-063	575537	7828495	350	-45	66.9	67.8	0.9	Unk	13.2

(1) Coordinates are in UTM system (metres) Zone 38K WGS84 projection.
(2) Unk=unknown because of insufficient information.

The assay results for drill holes DE-D-001, DE-D-003 and DE-D-07-033 were previously disclosed by PAF in its May 11, 2005 and September 11, 2007 news releases. There are no known drilling, sampling, recovery or other factors that could materially affect the accuracy or reliability of the data. Drilling, sampling, and assay methods and information are described in the news releases and considered acceptable. The laboratory was independent of PAF at the time the assays were performed. Drilling, sampling and initial sample preparation was performed and overseen by qualified persons as defined in NI 43- 101.

<u>Mountain of Gold (8,500 metre x 2,000 metre)</u>

The Mountain of Gold mineralized area is approximately 8,500m x 2,000m in size based on mapping and soil samples. Gold mineralization was found in 20 diamond drill holes (1,191m) that tested the southeast corner of the area from 10 to 40m at depth from surface. The vertical extent of mineralization to the surface and to depth is unknown and 95% of the mineralized area has yet to be drilled.

Given the large area of Mountain of Gold, Prophecy intends to review the geophysical, soil sampling, trenching and old workings information to model the mineralization internally to prioritize a number of well qualified drill locations.

Drilling highlights:

Drill Hole Number	Coordinates (1)		Azimuth	Dip	Drilled Depth (m)		Width (m) (2)		Au (g/t)
	Easting	Northing			From	To	Drilled	True	
ADK-B-001	568312	7835063	190	-50	15.1	15.4	0.4	Unk	4.1
and					15.4	15.7	0.3	Unk	26.9
ADK-D-011	568574	7833814	0	-90	20.3	20.6	0.3	Unk	7.1
ADK-D-007	568530	7835192	200	-45	46.8	47.8	1.0		5.3

(1) Coordinates are in UTM system (metres) Zone 38K WGS84 projection.
(2) Unk=unknown because of insufficient information.

(Expressed in Canadian Dollars, except where indicated)

Sampling highlights:

Sample Number	Coordinates		Sample Type	Sampled Area	Au (g/t)
	Easting	Northing			
S-01317	566157	7835561	Grab	rock	71.6
S-02544	564174	7836543	Channel along QV	2 x 50cm	26.1
S-01318	563132	7834767	Grab	40cm x 20cm	25.6
G4303	562151	7835819	Grab	rock	21.5
S-02084	563587	7836459	Grab	20 x 40cm	18.8
S-01649	565785	7836142	Grab	40 x 10cm	14.65
S-01898	563653	7834720	Panel	1m x 1m	14.3
S-01818	566093	7832995	Panel	1 x 0.2m	11.75
S-02461	561834	7836748	Grab	30 x 50 cm	9.64
S-12452	558737	7837190	Channel	5cm x 50cm	9.11
S-12456	564150	7836461	Channel	1m x 2cm	9.08
S-01456	562767	7836406	Panel	1m x 1m	8.15
S-11187	567184	7835580	Channel	10cm x 1m	7.84
S-02131	565768	7833380	Grab	20 x 40 cm	7.28
S-12451	558737	7837190	Grab	30 x 20 cm	7.01
S-02523	564424	7836432	Channel	1cm x 30cm	6.93
S-01309	559470	7832075	Panel	1m x 1m	6.85
S-07244	561932	7834782	Panel	1m x 1m	6.57
S-01204	560799	7834413	Channel	1m x 10cm	6.46
S-01230	563903	7836416	Panel	1m x 1m	6.22
S-11173	567559	7835791	Grab	20cm x 30cm	5.96
S-01944	566625	7829509	Grab	0.15 x 0.2cm	5.94
BT024	568540	7835155	Grab	rock	5.88
S-04721	568139	7835006	Panel	1.5m x 1m	5.85
S-01874	566292	7835516	Panel	1m x 1m	5.25
S-02321	568834	7835000	Grab	20cm x 30 cm	5.08
S-01758	567657	7835467	Panel	1m x 0,5m	5.04

There are no known drilling, sampling, recovery or other factors that could materially affect the accuracy or reliability of the data. The drilling, sampling, and assay methods are considered acceptable by Prophecy. The laboratory was independent of PAF at the time the assays were performed. Drilling, sampling and initial sample preparation was performed and overseen by qualified persons as defined in NI 43-101.

Anjoma (2,000m x 250m)

For the metasediment-hosted prospects, the gold is associated with a post-metamorphism hydrothermal stock work where small quartz veinlets contain disseminated gold between the metamorphic foliations.

The Anjoma prospect has estimated dimensions of 2,000m long and 250m wide based on 95 soil samples. Depth is unknown.

Prophecy intends to review the geophysical and rock sample data then drill test Anjoma as a potential disseminated near-surface gold prospect.

Anjoma rock sample assay highlights:

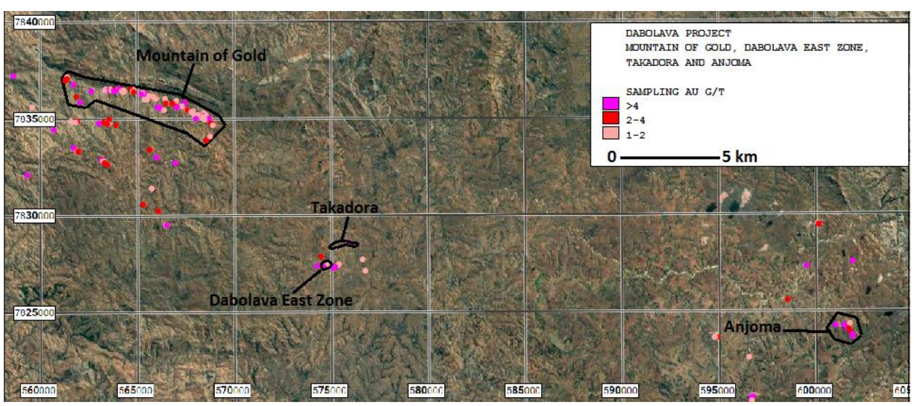
Sample Number	Coordinates[1]		Sample Type	Sampled Area	Au (g/t)
	Easting	Northing			
S-02222	601555	7824429	Grab	20cm x 50cm	42.90
S-03123	600227	7829619	Grab	20cm x 40cm	40.00
S-03129	596768	7820527	Channel	5cm x 50cm	33.20
S-03120	596819	7820733	Grab	20cm x 40cm	26.20
S-02252	601118	7824403	Grab	20cm x 30cm	19.45
S-03118	596838	7820732	Grab	20cm x 40cm	9.85
S-03130	596764	7820526	Channel	5cm x 50cm	6.33
S-02106	602002	7823822	Panel	1m x 50cm	5.18

(Expressed in Canadian Dollars, except where indicated)

M-6	599627	7827488	Grab	Rock	4.62
S-02205	601726	7824237	Grab	20cm x 40cm	4.50
S-02118	601989	7827722	Grab	30cm x 40cm	4.21
S-02109	602005	7823924	Grab	30cm x 40cm	4.20
S-02204	601730	7824224	Grab	20cm x 50cm	4.07
S-03155	595033	7823804	Grab	30cm x 20cm	3.27
S-02207	601949	7823957	Grab	30cm x 50cm	3.20
S-03124	600233	7829613	Grab	20cm x 40cm	3.05
S-03087	600228	7829624	Channel	8cm x 60cm	2.90
S-02211	601799	7824205	Grab	30cm x 40cm	2.81
S-03073	600235	7829605	Grab	15cm x 20cm	2.50
S-03071	598671	7825750	Panel	1m x 50cm	2.33
S-03122	600221	7829642	Grab	20cm x 40cm	1.80
S-02202	601828	7824521	Grab	20cm x 50cm	1.76
S-03131	596790	7820525	Grab	20cm x 50cm	1.69
S-03133	596737	7820531	Grab	20cm x 50cm	1.66
S-03085	600209	7829652	Channel	8cm x 60cm	1.58
S-03152	594937	7823789	Grab	20cm x 30cm	1.40
S-02956	596660	7822774	Channel	3cm x 50cm	1.16
S-03084	596787	7820768	Grab	20cm x 40cm	1.16
S-03145	594845	7823794	Grab	30cm x 20cm	1.09

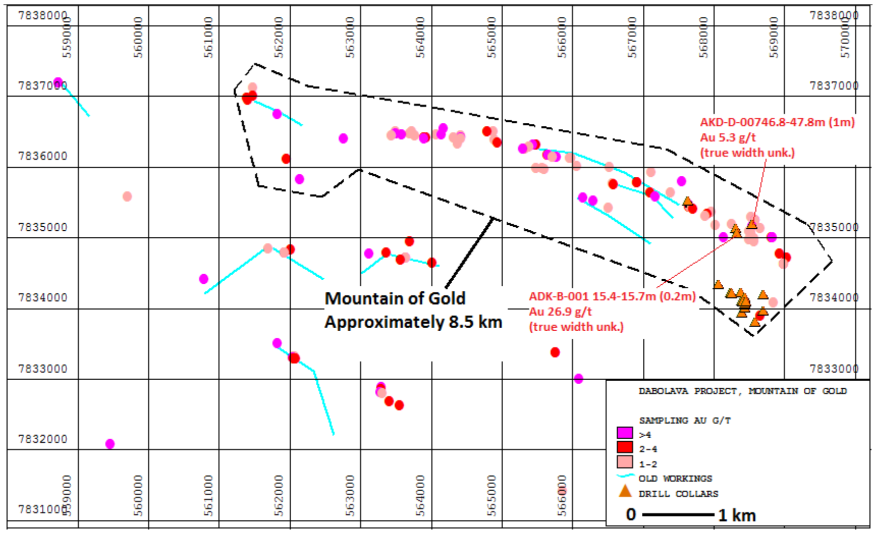
(1) Coordinates are in UTM system (metres) Zone 38K WGS84 projection.

A description of sampling and analytical methods is not known. The following description is based on review of internal reports. Samples were obtained using a hand pick by chipping rock randomly over the sampled area to obtain a representative sample of approximately 2 kg size. Samples were placed in plastic bags and identification information placed on the bag. A chain of custody was used to document sample possession. There is not sufficient information to determine whether sampling factors exist that could materially affect the accuracy or reliability of the data. The raw samples were initially prepared by crushing to – 2 mm and splitting a representative sample for assay at Pan African's laboratory located in Antananarivo, Madagascar. Assays were performed by the ALS Chemex, Johannesburg South Africa laboratory using fire assay with an atomic adsorption spectroscopy (the **"AAS"**) finish (some with inductively coupled plasma (the **"ICP"**) finish) for gold and aqua regia digestion with inductively coupled plasma-atomic emission spectroscopy (the **"ICP-AES"**) finish for a 34-element suite. The laboratory was independent of PAF at the time the assays were performed. Drilling, sampling and initial sample preparation was performed and overseen by qualified persons as defined in NI 43-101.



Dabolava project

(Expressed in Canadian Dollars, except where indicated)



Mountain of Gold mineralized area

8. LIQUIDITY AND CAPITAL RESOURCES

As an exploration and development company, Prophecy has no regular cash in-flow from operations, and the level of operations is principally a function of availability of capital resources. The Company's capital resources are largely determined by the strength of the junior resource markets and by the status of the Company's projects in relation to these markets, and its ability to compete for investor support of its projects. To date, the principal sources of funding have been equity and debt financing. Many factors influence the Company's ability to raise funds, and there is no assurance that the Company will be successful in obtaining adequate financing and at favourable terms for these or other purposes including general working capital purposes. See Section 13 - *Risks and Uncertainties* below.

Liquidity

At September 30, 2017, the Company had cash of $1,704,626 and short period restricted cash of $2,251,550 (see Note 4 to the interim consolidated financial statements) representing an increase of $3,934,528 from $21,648 held at December 31, 2016. The Company's working capital at September 30, 2017 was $2.1 million compared to a working capital deficit of $3.2 million at December 31, 2016. The Company's working capital increased by $5.3 million since the year ended December 31, 2016 as a result of equity financings.

Cash Flow Highlights

		Nine Months Ended September 30,		
		2017		**2016**
Cash Used in Operating Activities	$	(763,764)	$	(791,964)
Cash Used in Investing Activities		(316,736)		(56,206)
Cash Provided by Financing Activities		5,015,028		1,080,776
Increase in cash for period		3,934,528		232,606
Cash balance, beginning of period		21,648		33,542
Cash balance, end of period	$	3,956,176	$	266,148

Operating activities: Cash used in operating activities was $763,764 and $791,964 respectively for the nine month periods ended September 30, 2017 and September 30, 2016.

***Investing activities*:** Cash used in investing activities was $316,736 and 56,206 respectively for the nine month periods ended September 30, 2017 and September 30, 2016. The Company spent $58,790 on the acquisition of the Gibellini and Louie Hill Projects, and $411,136 on mineral property exploration activities. The Company received $153,190 from the sale of available-for-sale investments.

Financing activities**:** A total of $5,015,028 and $1,080,776 respectively was provided by financing activities during the nine month periods ended September 30, 2017 and September 30, 2016. During the nine months ended September 30, 2017, the Company fully repaid the remaining balance of the Credit Facility by issuing 300,000 Shares to John Lee, Executive Chairman of the Company, in satisfaction of $900,000 worth of indebtedness owing by the Company to Mr. Lee's personal holding company, Linx, under the Credit Facility (as defined in the Annual MD&A) and making a cash payment of $343,076. The Company intends to close the Credit Facility out before December 31, 2017. During the nine months ended September 30, 2017, the Company received net proceeds of $5,215,765 (2016 - $952,929) from issuing Units and Special Warrants pursuant to private placements.

After the period end, on October 16, 2017, the Company closed the second and final tranche of the Placement as amended, raising gross cash proceeds of $1,858,325 through the issuance of 116,578 Units and 414,371 Special Warrants at a price of $3.50 each.

Capital Resources

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

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

Contractual Commitments

Prophecy's commitments related to mineral properties are disclosed in Note 14 to the Annual Financial Statements and in Section 4 - *Property Summary* of this MD&A.

Prophecy's other commitments include a rental commitment as at September 30, 2017 of $26,058 on office premises which expires on July 1, 2018.

On October 1, 2017, the Company entered into an advisory agreement with Hillcrest Merchant Partners Inc., who agreed to provide corporate development and financial advisory services related to the Company's Gibellini Project, including equity and debt arrangement, product off-take, merger and acquisition negotiations with any strategic investors in exchange for annual aggregate payments totaling $156,000, of which, $78,000 has been paid, and with the other $78,000 due on April 1, 2018.

Capital Risk Management

Prophecy considers its capital structure to consist of share capital, options, warrants and special 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 nine month period ended September 30, 2017.

9. CONTINGENCIES

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

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 acquisition 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 September 30, 2014, it received notice from the Servicio de Impuestos Nacionales, the national tax authority in Bolivia, alleging that ASC Bolivia LDC Sucursal Bolivia, now the Company's wholly-owned subsidiary, owed approximately Bs42,000,000 ($6,550,294) in taxes, interest and penalties relating to a historical tax liability in an amount originally assessed at approximately $760,000 in 2004, prior to Apogee acquiring the subsidiary in 2011. Apogee disputed the assessment and disclosed to the Company that it believed the notice was improperly issued. The Company continued to dispute the assessment and hired local legal counsel to pursue an appeal of the tax authority's assessment on both substantive and procedural grounds.

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

Red Hill Tax Claim

During the year ended December 31, 2014, 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 credit of only MNT235,718,533 from Red Hill's claimed VAT credit of MNT2,654,175,507. Red Hill disagreed with the Sukhbaatar District Tax Division's findings as the tax assessment appeared to the Company to be unfounded. The Company disputed the Sukhbaatar District Tax Division's assessment and submitted a complaint to the Capital City Tax Tribunal. On March 24, 2015, the Capital City Tax Tribunal resolved to refer the matter back to the Sukhbaatar District Tax Division for revision and separation of the action between confirmation of Red Hill's VAT credit, and the imposition of the penalty/deduction for the tax assessment. The Sukhbaatar District Tax Division appealed the Capital City Tax Tribunal's resolution to the General Tax Tribunal office, but was denied on June 4, 2015 on procedural grounds. As a result, the Sukhbaatar District Tax Division implemented the Capital City Tax Tribunal's resolution on June 25, 2015, finding: (i) with respect to confirmation of Red Hill's VAT credit, that after inspection the amount was to be MNT235,718,533; and (ii) 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 continues to dispute the Sukhbaatar District Tax Division's assessment and delivered a complaint to Capital City Tax Tribunal on July 24, 2015. Due to the uncertainty of realizing the VAT balance, the Company recorded an impairment charge for the full VAT balance in the prior year (see Note 10 to Annual Financial Statements).

(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 September 30,			Nine Months Ended September 30,	
Related parties		**2017**		**2016**	**2017**		**2016**
Directors and officers	$	117,550	$	52,250	$	169,800	$	193,250
Linx Partners Ltd.		122,500		52,500		175,000		157,500
MaKevCo Consulting Inc.		8,700		3,800		14,900		13,000
Sophir Asia Ltd.		7,800		3,500		11,300		11,500
	$	256,550	$	112,050	$	371,000	$	375,250

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

		Three Months Ended September 30,				Nine Months Ended September 30,		
Related parties		**2017**		**2016**		**2017**		**2016**
Consulting and management fees	$	103,000	$	28,500	$	133,900	$	85,500
Directors' fees		24,300		10,800		35,100		36,000
Mineral properties		52,000		39,000		91,000		117,000
Salaries and benefits		77,250		33,750		111,000		136,750
	$	256,550	$	112,050	$	371,000	$	375,250

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

During the nine months ended September 30, 2017, the Company fully repaid the remaining balance of the Credit Facility with Linx Partners Ltd. by issuing 300,000 Shares to John Lee, Executive Chairman of the Company, in satisfaction of $900,000 worth of indebtedness owing by the Company to Mr. Lee's personal holding company, Linx, under the Credit Facility and making a cash payment of $343,076. See Note 9 to the interim consolidated financial statements for more information regarding the Credit Facility with Linx.

(Expressed in Canadian Dollars, except where indicated)

As at the date of this MD&A, Mr. Lee now beneficially owns and exercises control over an aggregate of 1,058,081 Shares representing an interest of approximately 17.09% of the Company's currently issued and outstanding Shares and 32.19% of the Company's Shares on a fully diluted basis assuming the conversion of all of the Special Warrants and exercise of all of the Company's outstanding options and Share purchase warrants. The securities were acquired or disposed of by Mr. Lee for investment purposes only, and not for purposes of exercising control or direction over the Company. Generally, Mr. Lee intends to evaluate his investment in the Company and to increase or decrease his shareholdings as circumstances require, depending on market conditions and other factors, through market transactions, private agreements or otherwise.

As at September 30, 2017, amounts due to related parties totaled $145,025 (December 31, 2016 – $366,269) and was comprised of $3,965 (December 31, 2016 - $14,640) for director fees, $8,750 (December 31, 2016 - $54,656) for consulting fees, $Nil (December 31, 2016 - $86,864) for managing mineral properties, $1,720 (December 31, 2016 - $29,280) for salaries and reimbursable expenses. The remaining amounts due relate to deferred consulting fees, director fees and salaries totaled $130,660 (December 31, 2016 - $80,829).

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

		Three Months Ended September 30,		Nine Months Ended September 30,	
Key Management Personnel		**2017**	**2016**	**2017**	**2016**
Salaries and short term benefits	$	46,359	$ 67,500	$ 115,093	$ 136,750
Share-based payments		168,090	107,889	374,937	137,070
	$	214,449	$ 175,389	$ 490,030	$ 273,820

11. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's consolidated financial statements are prepared in accordance with IFRS as issued by the IASB. The Company followed the same accounting policies and methods of computation in the Annual Financial Statements for the three and nine months ended September 30, 2017. The significant accounting policies applied and recent accounting pronouncements are described in Notes 4 and 6 to the Annual Financial Statements.

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

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

12. ACCOUNTING CHANGES AND RECENT ACCOUNTING PRONOUNCEMENTS

There were no previously undisclosed significant accounting pronouncements issued during the nine months ended September 30, 2017.

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. There were no changes to the method of fair value measurement of financial assets and financial liabilities during the period.

Related Risks

(a) Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its financial obligations as they fall due. The Company manages liquidity risk by preparing cash flow forecasts of upcoming cash requirements. To facilitate its expenditure program, the company raises funds through private equity placements. The Company's liquidity position has strengthened since the beginning of the year due to $5 million financing.

At September 30, 2017, the Company had accounts payable and accrued liabilities of $2,149,733 (December 31, 2016 - $2,658,018), which have contractual maturities of 90 days or less and payment on a line of credit of $Nil (December 31, 2016 - $1,071,560).

(b) Credit risk

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

(c) Market risk

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

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. During the nine months ended September 30, 2017, the Company fully repaid the Credit Facility; therefore fluctuations in market rates have minimal impact on the fair values or future cash flows of the financial instruments as of September 30, 2017. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

(ii) Foreign currency risk

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

Based on the above, net exposures as at September 30, 2017, with other variables unchanged, a 10% (December 31, 2016 – 10%) strengthening (weakening) of the Canadian Dollar against the Mongolian Tugrik would impact net loss with other variables unchanged by $40,600. A 10% strengthening (weakening) of the Canadian Dollar against the Bolivian Boliviano would impact net loss with other variables unchanged by $670,300. A 10% strengthening (weakening) of the US Dollar against the Canadian Dollar would impact net loss with other variables unchanged by $62,800. The Company currently does not use any foreign exchange contracts to hedge this currency risk.

(iii) Commodity and equity price risk

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

14. RISKS AND UNCERTAINTIES

Readers should carefully consider the risks and uncertainties described in the Company's most recently filed AIF on Page 89, under "Risk Factors", which is available under the Company's SEDAR profile at www.sedar.com. Additional risks not currently known to the Company, or that the Company currently deems immaterial, may also impair the Company's operations. If any of the foregoing risks actually occur, the Company's business, financial condition and operating results could be adversely affected.

15. DISCLOSURE CONTROLS AND PROCEDURES

Design of Internal Controls over Financial Reporting

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

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

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

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

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting using the criteria set forth in the *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that the Company's internal control over financial reporting was effective as of September 30, 2017.

Changes in internal control over financial reporting

There have been no changes in the Company's internal control over financial reporting during the period ended September 30, 2017, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations of controls and procedures

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

16. DISCLOSURE OF OUTSTANDING SHARE DATA

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

- 6,191,794 Shares outstanding with recorded value of $161,249,016;

- 824,834 stock options outstanding with a weighted average exercise price of $4.59 and exercisable to purchase one Share at prices ranging from $2.00 to $13.00 and which expire between July 2018 and November 2022;

- 1,935,614 Share purchase warrants outstanding with a weighted average exercise price of $4.50 and exercisable to purchase one Share at prices ranging from $4.00 to $7.00 and which expire between January 2018 and June 2022; and

- 1,139,711 Special Warrants which expire on January 21, 2018 and are exercisable at no additional cost, provided shareholder approval for the issuance of the units (comprised of one Share and one half of one Share purchase warrant, with each Share purchase warrant entitling the holder to purchase one additional Share at an exercise price of $4.00 for a period of three years from the date of issuance) underlying the Special Warrants is obtained.

17. OFF-BALANCE SHEET ARRANGEMENTS

During the nine months ended September 30, 2017, Prophecy was not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources of Prophecy.

Prophecy Development Corp.

Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2017 and 2016

(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		September 30, 2017		December 31, 2016
Assets					
Current assets					
Cash	4	$	1,704,626	$	21,648
Restricted Cash	4		2,251,550		-
Receivables			169,293		91,565
Prepaid expenses			119,762		200,526
Available-for-sale investments	5		-		176,000
			4,245,231		489,739
Non-current assets					
Reclamation deposits			21,055		21,055
Property and equipment	6		728,987		917,607
Mineral properties	7		27,197,948		26,399,708
		$	32,193,221	$	27,828,109
Liabilities and Equity					
Current liabilities					
Accounts payable and accrued liabilities	8	$	2,149,733	$	2,658,018
Credit facility	9		-		1,071,560
			2,149,733		3,729,578
Non-current liabilities					
Provision for closure and reclamation			242,347		242,347
Tax provision	16		6,550,294		7,060,691
			8,942,374		11,032,616
Equity					
Share capital	10		160,811,483		156,529,025
Subscriptions received in advance	10		2,310,075		-
Reserves			22,067,999		21,482,133
Deficit			(161,938,710)		(161,215,665)
			23,250,847		16,795,493
		$	32,193,221	$	27,828,109

Approved on behalf of the Board:

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

Nature of operations and going concern (Note 1)
Contingencies (Note 16)
Events after the reporting date (Note 17)

See accompanying notes to the consolidated financial statements.

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

	Notes	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
General and Administrative Expenses					
Advertising and promotion		$ 33,768	$ 7,730	$ 48,150	$ 40,065
Consulting and management fees		47,550	28,983	137,620	109,938
Depreciation and accretion		2,143	2,677	6,794	29,292
Director fees		11,700	10,800	35,100	36,000
Insurance		13,156	14,467	39,410	42,280
Office and administration		26,973	33,233	68,094	99,032
Professional fees		31,160	1,638	51,251	26,643
Salaries and benefits		51,690	66,005	132,425	181,985
Share-based payments	10	185,562	68,181	385,916	123,461
Stock exchange and shareholder services		26,824	13,244	114,890	104,772
Travel and accommodation		54,381	60,385	84,208	67,904
		(484,907)	(307,343)	(1,103,858)	(861,372)
Other Items					
Costs in excess of recovered coal		(87,398)	(71,776)	(104,820)	(205,811)
Finance cost	9	(7,950)	(1,571)	(8,111)	(316,894)
Foreign exchange (loss)/gain		410,928	(382,865)	633,820	530,962
(Loss)/gain on sale of available-for-sale investment	5	-	-	(22,810)	59,698
Loss on sale of equipment	6	-	(36,926)	-	(108,727)
Interest expense	9	(7,466)	(45,810)	(21,066)	(210,957)
Impairment of mineral property	7	-	-	(96,200)	-
Recover on mineral property sale		-	195,079	-	195,079
		308,114	(343,869)	380,813	(56,650)
Net Loss for Period		(176,793)	(651,212)	(723,045)	(918,022)
Comprehensive Loss for Period		$ (176,793)	$ (651,212)	$ (723,045)	(918,022)
Loss Per Common Share, basic and diluted		$ (0.03)	$ (0.14)	$ (0.14)	$ 0.23
Weighted Average Number of Common Shares Outstanding		5,403,274	4,579,016	5,299,985	4,020,901

See accompanying notes to the 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	Number of Shares Issuable	Share Capital	Subsriptions Received in advance	Reserves	Deficit	Total
December 31, 2015	3,427,474	$ -	$ 153,281,631	$ -	$ 21,205,698	$ (159,208,360)	$ 15,278,969
Private placements, net of share issue costs	282,735	-	942,746	-	10,183	-	952,929
Debt Settlement	1,050,569	-	2,154,648	-	-	-	2,154,648
Share-based payments	-	-	-	-	175,856	-	175,856
Loss for the period	-	-	-	-	-	(918,022)	(918,022)
September 30, 2016	4,760,778	$ -	$ 156,379,025	$ -	$ 21,391,737	$ (160,126,382)	$ 17,644,380
December 31, 2016	4,807,653	-	156,529,025	-	21,482,133	(161,215,665)	16,795,493
Shares issued for mineral properties	20,000	-	96,200	-	-	-	96,200
Private placements, net of share issue costs	821,217	660,021	2,806,930	2,310,075	54,075	-	5,171,080
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	-	-	-	-	537,478	-	537,478
Loss for the period	-	-	-	-	-	(723,045)	(723,045)
September 30, 2017	6,057,216	$ 660,021	$ 160,811,483	$ 2,310,075	$ 22,067,999	$ (161,938,710)	$ 23,250,847

See accompanying notes to the consolidated financial statements

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

	Nine Months Ended September 30, 2017	2016
Operating Activities		
Net loss for period	$ (723,045)	$ (918,022)
Adjustments to reconcile net loss to net cash flows:		
Depreciation	186,119	192,621
Share-based payments	385,916	123,461
Costs in excess of recovered coal	104,820	205,811
Finance cost	8,111	316,894
Interest costs	21,066	210,957
Loss on sale of equipment	-	108,727
(Gain)/loss on sale of available-for-sale investment	22,810	(59,698)
Impairment of mineral property	96,200	-
Recovery on mineral property sale	-	(195,079)
	101,997	(14,328)
Working capital adjustments		
Receivables	(77,728)	227,776
Prepaid expenses and reclamation deposits	80,764	66,824
Accounts payable and accrued liabilities and tax provision	(868,797)	(1,072,236)
	(865,761)	(777,636)
Cash Used in Operating Activities	(763,764)	(791,964)
Investing Activities		
Cash received from GIC redemption	-	34,500
Proceeds from sale of property and equipment	-	12,990
Mineral property acquisition	(58,790)	-
Mineral property expenditures	(411,136)	(163,394)
Proceeds from sale of available-for-sale investment	153,190	59,698
Cash Used in Investing Activities	(316,736)	(56,206)
Financing Activities		
Credit facilities paid	(343,076)	(198,787)
Interest paid	(21,066)	(11,253)
Funds borrowed under credit facility	163,405	337,887
Proceeds from share issuance, net of share issue costs	5,215,765	952,929
Cash Provided by Financing Activities	5,015,028	1,080,776
Net Increase (Decrease) in Cash	3,934,528	232,606
Cash - beginning of period	21,648	33,542
Cash - end of period	$ 3,956,176	$ 266,148

Supplemental cash flow information (Note 15)

See accompanying notes to the consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

Prophecy Development Corp. ("**Prophecy**" or the "**Company**") is incorporated under the laws of the province of British Columbia, Canada and is engaged in worldwide mineral and energy exploration and development. The Company owns a 100% interest in the following significant coal projects in Mongolia: the Ulaan Ovoo coal property, the Khavtgai Uul and Chandgana Tal coal deposits (together, the "**Chandgana Coal Properties**"), and the Pulacayo Paca silver-lead-zinc property (the "**Pulacayo Project**") in Bolivia. The Company also has a 100% interest in three vanadium projects in North America: the Titan vanadium-titanium-iron project (the "**Titan Project**") in Canada, and the Gibellini and Louie Hill vanadium projects (the "**Gibellini Project**"), in the United States.

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

These unaudited condensed interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. The Company incurred a net loss of $723,045 during the nine months ended September 30, 2017 and as of that date the Company's deficit was $161.9 million.

The business of mineral exploration involves a high degree of risk and there can be no assurance that the Company's current operations, including exploration programs, will result in profitable mining operations. The recoverability of the carrying value of mineral properties, and property and equipment interests and the Company's continued on going existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, the ability of the Company to raise additional sources of funding, and/or, alternatively, upon the Company's ability to dispose of some or all of its interests on an advantageous basis.

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

2. BASIS OF PRESENTATION

(a) Statement of compliance

These 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, 2016. 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, 2016 ("**Annual Financial Statements**").

(Expressed in Canadian Dollars) (Unaudited)

2. BASIS OF PRESENTATION (cont'd…)

(a) Statement of compliance (cont'd…)

These unaudited condensed interim consolidated financial statements were approved and authorized for issue by the Audit Committee on November 8, 2017.

(b) Significant accounting policies

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

(c) Use of judgments and estimates

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

(d) Changes in accounting standards

There were no previously undisclosed significant accounting pronouncements issued during the nine months ended September 30, 2017.

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:

			September 30, 2017		
	Canada	USA	Mongolia	Bolivia	Total
Reclamation deposits	$ -	$ -	$ 21,055	$ -	$ 21,055
Property and equipment	19,392	-	218,386	491,209	728,987
Mineral properties	-	160,265	14,525,815	12,511,868	27,197,948
	$ 19,392	$ 160,265	$ 14,765,256	$ 13,003,077	$ 27,947,990
			December 31, 2016		
	Canada		Mongolia	Bolivia	Total
Reclamation deposits	$ -	$ -	$ 21,055	$ -	$ 21,055
Property and equipment	22,816	-	329,912	564,879	917,607
Mineral properties	-	-	14,418,765	11,980,943	26,399,708
	$ 22,816	$ -	$ 14,769,732	$ 12,545,822	$ 27,338,370

(Expressed in Canadian Dollars) (Unaudited)

4. CASH

Cash of Prophecy is comprised of bank balances.

	September 30, 2017	December 31, 2016
Cash	$ 1,704,626	$ 21,648
Restricted cash	2,251,550	-
	$ 3,956,176	$ 21,648

Restricted cash

As at September 30, 2017, the Company has $2,251,550 classified as restricted cash which represents subscriptions proceeds received that have been placed into an escrow account with the Company's Transfer Agent. The escrow account has been established for the specific purpose of holding the special warrants subscription proceeds paid by such subscribers pending release to the Company upon the receipt of disinterested shareholder approval for the issuance of the units underlying the special warrants to be obtained at a special meeting of shareholders to be held on December 15, 2017 (see Note 10 (b)).

5. AVAILABLE-FOR-SALE INVESTMENTS

On September 22, 2016, the Company sold its 60% interest in the Okeover copper-molybdenum project located in British Columbia to Lorraine Copper Corp. ("**Lorraine**"). Under the terms of the agreement, Lorraine issued 2,200,000 common shares of Lorraine (valued at $0.08/share) to Prophecy and assumed Prophecy's $19,079 payment obligation to Eastfield Resources Ltd. under such parties' existing joint venture agreement. The Lorraine shares are subject to a hold period of four months plus one day. The 2,200,000 common shares of Lorraine represented approximately 9.6% of the issued and outstanding common shares of Lorraine at the acquisition date. The investment in Lorraine of $176,000 is classified as available-for-sale and is measured at fair value with changes in fair value recognized in other comprehensive income.

During the nine months ended September 30, 2017, the Company disposed of 2,200,000 Lorraine shares for proceeds of $153,190 and a realized loss of $22,810.

As at September 30, 2017, the Company does not have available-for-sale investments.

(Expressed in Canadian Dollars) (Unaudited)

6. PROPERTY AND EQUIPMENT

	Computer Equipment	Furniture & Equipment	Vehicles	Computer Software	Leasehold Improvements	Mining Equipment	Total
Cost							
Balance, December 31, 2015	$ 161,959	$ 388,933	$ 459,229	$ 197,813	$ 172,818	$ 1,574,098	$ 2,954,850
Additions	-	-	-	-	-	-	-
Disposals	(61,738)	(109,720)	(5,375)	-	(172,818)	(39,353)	(389,004)
Balance, December 31, 2016	$ 100,221	$ 279,213	$ 453,854	$ 197,813	$ -	$ 1,534,745	$ 2,565,846
Accumulated depreciation							
Balance, December 31, 2015	$ 135,912	$ 230,867	$ 330,345	$ 197,813	$ 135,086	$ 617,344	$ 1,647,367
Depreciation for year	12,053	29,443	26,129	-	-	242,572	310,197
Disposals	(53,065)	(78,671)	(16,558)	-	(135,086)	(25,945)	(309,325)
Balance, December 31, 2016	$ 94,900	$ 181,639	$ 339,916	$ 197,813	$ -	$ 833,971	$ 1,648,239
Carrying amount							
At December 31, 2015	$ 26,047	$ 158,066	$ 128,884	$ -	$ 37,732	$ 956,754	$ 1,307,483
At December 31, 2016	$ 5,321	$ 97,574	$ 113,938	$ -	$ -	$ 700,774	$ 917,607

Cost							
Balance, December 31, 2016	$ 100,221	$ 279,213	$ 453,854	$ 197,813	$ -	$ 1,534,745	$ 2,565,846
Additions/Disposals	(146)	(2,355)	-	-	-	-	(2,501)
Balance, September 30, 2017	$ 100,075	$ 276,858	$ 453,854	$ 197,813	$ -	$ 1,534,745	$ 2,563,345
Accumulated depreciation					-		
Balance, December 31, 2016	$ 94,900	$ 181,639	$ 339,916	$ 197,813	$ -	$ 833,971	$ 1,648,239
Depreciation for period	1,422	33,283	25,636	-	-	125,778	186,119
Balance, September 30, 2017	$ 96,322	$ 214,922	$ 365,552	$ 197,813	$ -	$ 959,749	$ 1,834,358
Carrying amount							
At December 31, 2016	$ 5,321	$ 97,574	$ 113,938	$ -	$ -	$ 700,774	$ 917,607
At September 30, 2017	$ 3,753	$ 61,936	$ 88,302	$ -	$ -	$ 574,996	$ 728,987

(Expressed in Canadian Dollars) (Unaudited)

7. MINERAL PROPERTIES

	Chandgana Tal	Khavtgai Uul	Pulacayo	Gibellini and Louie Hill	Total
Balance, December 31, 2015	$ 11,040,916	$ 3,139,891	$ 11,115,403	$ -	$ 25,296,210
Additions:					
Deferred exploration costs:					
Licenses, power plant application	93,505	89,184	4,970	-	187,659
Geological core and consulting	48,533	-	146,051	-	194,584
Personnel, camp and general	3,368	3,368	714,519	-	721,255
	145,406	92,552	865,540	-	1,103,498
Balance, December 31, 2016	$ 11,186,322	$ 3,232,443	$ 11,980,943	$ -	$ 26,399,708
Additions:					
Acquisition cost	$ -	$ -	$ -	$ 58,790	$ 58,790
Deferred exploration costs:					
Licenses, power plant application	53,122	24,581	-	9,734	87,437
Geological core and consulting	26,028	-	52,181	91,177	169,386
Personnel, camp and general	1,658	1,661	478,744	564	482,627
	80,808	26,242	530,925	101,475	739,450
Balance, September 30, 2017	$ 11,267,130	$ 3,258,685	$ 12,511,868	$ 160,265	$ 27,197,948

7. MINERAL PROPERTIES (cont'd…)

Gibellini and Louie Hill Projects, Nevada, United States

Gibellini Project

On June 23, 2017, The Company acquired (through lease) the Gibellini vanadium project (the "**Gibellini Project**") by paying $46,370 in cash to arm's-length private parties (the "**Lessors**").

The Gibellini Project is comprised of 40 unpatented lode claims totaling approximately 771 acres, located in Eureka County, Nevada, USA.

Under the terms of the lease agreement, the Company is required to make payments as follows:

(a) Cash payment of USD 35,000 (paid);

(b) annual advance royalty payments which will be tied, based on an agreed formula (not to exceed USD 120,000 per year), to the average vanadium pentoxide price of the prior year;

(c) upon commencement of production, the Company will maintain its acquisition through lease of the Gibellini Project mining claims by paying to the Lessors, a 2.5% net smelter return (**"NSR"**) until a total of USD 3 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");

(d) 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.

Louie Hill Project

On July 13, 2017, the Company acquired (through lease), the Louie Hill Project in Nevada, USA, by paying $12,420 in cash to an arm's-length, private party (the "**Louie Hill Lessor**") with the intent to carry-out mining operations there.

Under the terms of the lease agreement, the Company is required to make payments as follows:

(a) Cash payment of USD 10,000 (paid);

(b) annual advance royalty payments which will be tied, based on an agreed formula (not to exceed USD 28,000 per year), to the average vanadium pentoxide price for the prior year;

(c) upon commencement of production, Prophecy will maintain its acquisition through lease of the Louie Hill Project mining claims by paying to the Louie Hill Lessor, a 2.5% NSR of which, 1.5% of the NSR may be purchased at any time by Prophecy for USD 1 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");

(d) 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.

(Expressed in Canadian Dollars) (Unaudited)

7. MINERAL PROPERTIES (cont'd…)

Titan Project, 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 Prophecy Resource Corp. 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 pre-consolidated 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 Prophecy Shares at a value of $4.81 per Share. As there were no benchmark or market changes from January 1, 2015 to September 30, 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.

	September 30, 2017	December 31, 2016
Trade accounts payable	$ 1,977,604	$ 2,224,134
Accrued liabilities	172,129	433,884
	$ 2,149,733	$ 2,658,018

9. CREDIT FACILITY

In order to meet interim working capital requirements to fund the Company's business operations and financial commitments, the Company arranged a revolving credit facility with Linx Partners Ltd. ("**Linx**"), a private company wholly-owned and controlled by John Lee, Director, CEO and Executive Chairman of the Company by entering into an agreement dated March 12, 2015 (the "**Credit Facility**").

The Credit Facility had a maximum principal amount available for advance of $1.5 million, a two year term (formerly one year, but amended on May 5, 2015 and approved by the TSX) with an option to extend it for any number of subsequent one-year terms and bears interest at a rate of 1.5% per month with unpaid amounts accruing interest on the same terms.

On February 24, 2016, the Company entered into an agreement (the "**Second Amendment**") to increase and amend the Credit Facility. The previous maximum principal amount of $1.5 million has been increased with the Second Amendment to $2.5 million. A 5% "drawdown" fee will be applicable to amounts advanced over and above the original and outstanding $1.5 million advanced under the Credit Facility, at the time of advance.

9. CREDIT FACILITY (cont'd…)

In consideration of a bonus of $300,000 (the "**Bonus**"), Linx has agreed to postpone any repayments due under the Credit Facility, until the earlier of October 1, 2016, or such time as the Company is in a reasonable financial position to repay all or a portion of the amounts owing, and remove the requirement for the Company to pay any 20% penalties as a result of any future failure to repay any amounts when due under the terms of the Credit Facility.

Including the interest on the Bonus and "drawdown" fee, which also bears an interest at a rate of 1.5% per month with unpaid amounts accruing interest on the same terms, the Credit Facility, carries an effective annual interest rate of 36.3%. The "drawdown" fee, Bonus and all interest payable will be accrued and added to the maximum principal amount as they are incurred.

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

On October 28, 2016, the Company paid $35,000 toward the Credit Facility. As at December 31, 2016, the outstanding balance of the Credit Facility was $1,071,560 including interest payable of $448,388. For the year ended December 31, 2016, the Company recorded an interest expense of $258,640 and finance cost of $317,056 which included the Bonus of $300,000 and draw-down fees of $17,056.

During the nine months ended September 30, 2017, the Company fully repaid the remaining balance of the Credit Facility by issuing 300,000 Shares to John Lee in satisfaction of $900,000 of indebtedness owing by the Company under the Credit Facility and making a cash payment of $343,076. For the nine months ended September 30, 2017, the Company recorded an interest expense of $21,066 and finance cost of $8,111.

10. 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 September 30, 2017, the Company had 6,057,216 (September, 30, 2016 – 4,760,778) common shares issued and outstanding.

(b) Equity issuances

On January 12, 2017, the Company, pursuant to the terms of its 2016 Share-Based Compensation Plan, issued 39,000 Shares valued at $4.88 per Share as a bonus to its directors, officers and consultants.

On January 12, 2017, the Company issued 300,000 Shares to Mr. Lee pursuant a Debt Settlement Agreement with Linx to settle $900,000 of the outstanding balance owing by the Company to Linx under the Credit Facility.

10. SHARE CAPITAL (cont'd…)

(b) Equity issuances (cont'd…)

On January 13, 2017, the Company closed a non-brokered private placement involving the issuance of 49,999 units (at a price of $3.00 per unit). Each unit consists of one Share and one share purchase warrant. Each Share purchase warrant entitles the holder to acquire an additional Share at a price of $4.00 per Share for a period of five years from the date of issuance. The Company paid in cash, finder's fees totaling $7,997.

On February 10, 2017, the Company acquired the remaining 20% title interest of Randsburg in the patented claims that comprise the Titan project by issuing to Randsburg 20,000 Shares at a value of $4.81 per Share.

On April 12, 2017, the Company closed a non-brokered private placement involving the issuance of 103,250 units (at a price of $4.00 per unit). Each unit consists of one Share and one Share purchase warrant. Each Share purchase warrant entitles the holder to acquire an additional Share at a price of $5.00 per Share for a period of five years from the date of issuance. The Company paid in cash, finder's fees totaling $1,280.

On June 13, 2017, the Company issued 59,659 units ("**Debt Settlement Units**") at a price of $4.00 per unit, to certain of its directors and officers to settle various debts owing to them pursuant to the terms of debt settlement agreements entered into with those directors and officers. Each Debt Settlement Unit is comprised of one Share and one Share purchase warrant of the Company entitling the holder thereof to purchase, upon exercise of a warrant, one additional Share at a price of $5.00 per Share for a period of five years from the date of issuance of the Debt Settlement Units.

On September 20, 2017, the Company closed the first tranche of a non-brokered private placement involving the issuance of 667,968 units (the "**Units**") and 629,000 special warrants (the "**Special Warrants**") at a price of $3.50 per unit/Special Warrant and received gross proceeds of $4,539,390. Each Unit consists of one Share and one half of one Share purchase warrant (each whole warrant, a "**Warrant**"). Each Warrant entitles the holder to purchase one additional Share of the Company at an exercise price of $4.00 for a period of three years from the closing of the first tranche of the placement. Each Special Warrant will be exercisable for one Unit at no additional cost to the holder provided TSX and shareholder approval for the issuance of the Units underlying the Special Warrants is obtained at a special meeting of shareholders to be held on December 15, 2017.

The Special Warrants proceeds of $2,251,550 (includes proceeds from the first tranche Special Warrants of $2,201,500 and an advance of $50,050 for the second tranche 14,300 Special Warrants) have been placed into an escrow account with the Company's Transfer Agent pending release to the Company upon the receipt of shareholder approval.

As at September 30, 2017, the Company's subscriptions received in advance totalled to $2,310,075 for 643,300 Special Warrants and 16,721 units.

As part of the financing, The Company paid finder's fees of $30,604 and issued 87,013 finder's Special Warrants, which are exercisable on identical terms as those Special Warrants issued to subscribers through the placement. The finder's Special Warrants have a fair value of $54,075, which was determined using the Black-Scholes option pricing model with the following assumptions: volatility - 82%, risk-free rate - 0.70%, expected life - 2 months, dividend rate - Nil %).

(Expressed in Canadian Dollars) (Unaudited)

10. SHARE CAPITAL (cont'd…)

(b) Equity issuances (cont'd…)

During the nine months ended September 30, 2017, the Company issued 9,687 Shares on the exercise of options for total proceeds of $44,685.

(c) Equity-based compensation plans

The following is a summary of the changes in Prophecy's stock options from December 31, 2015 to September 30, 2017:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2015	343,742	$10.00
Granted	160,000	$2.00
Expired	(1,000)	$28.00
Forfeited	(37,928)	$21.85
Cancelled	(4,000)	$6.05
Outstanding, December 31, 2016	460,814	$6.42
Granted	403,000	$3.74
Expired	(31,293)	$20.80
Exercised	(9,687)	$4.61
Outstanding, September 30, 2017	822,834	$4.58

As of September 30, 2017, the following Prophecy share purchase options were outstanding:

Exercise Price	Expiry Date	Options Outstanding September 30, 2017	Options Outstanding December 31, 2016	Exercisable September 30, 2017	Unvested September 30, 2017
$3.30	June 12, 2022	145,000	-	18,125	126,875
$3.50	September 1, 2022	167,000	-	-	167,000
$4.88	January 12, 2022	91,000	-	34,125	56,875
$2.00	June 2, 2021	158,750	160,000	99,219	59,531
$5.00	June 22, 2020	32,800	32,800	32,800	-
$5.00	April 7, 2020	82,062	90,500	82,062	-
$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	-
$18.00	September 24, 2017	-	3,750	-	-
		822,834	433,272	412,552	410,281

The nine months ended September 30, 2017, included $385,916 (same period 2016 - $123,461) in share based payment costs related to stock options expensed as general and administrative expenses and $151,562 (same period 2016 – 24,696) capitalized to mineral properties.

(Expressed in Canadian Dollars) (Unaudited)

10. SHARE CAPITAL (cont'd…)

(d) Share purchase warrants

The following is a summary of the changes in Prophecy's share purchase warrants from December 31, 2015 to September 30, 2017 (see Note 10(b)):

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2015	436,504	$6.00
Issued	936,967	$4.04
Expired	(25,411)	$10.00
Outstanding, December 31, 2016	1,348,060	$4.68
Issued	546,892	$4.11
Outstanding, September 30, 2017	1,894,952	$4.52

As of September 30, 2017, the following Prophecy share purchase warrants were outstanding:

Exercise price	Number of Warrants At September 30,	At December 31, 2016	Expiry date
$5.00	59,659	-	June 13, 2022
$4.00	103,250	-	April 12, 2022
$4.00	49,999	-	January 13, 2022
$4.40	101,367	101,367	August 29, 2021
$4.00	750,000	750,000	June 2, 2021
$4.00	80,000	80,000	January 25, 2021
$7.00	62,500	62,500	November 13, 2020
$7.00	111,200	111,200	September 30, 2020
$4.00	333,984	-	September 20, 2020
$6.00	114,768	114,768	June 24, 2020
$5.00	120,000	120,000	May 22, 2020
$4.00	5,600	5,600	January 25, 2018
$7.00	2,625	2,625	November 13, 2017
	1,894,952	1,348,060	

On June 13, 2017, the Company amended the terms of the equivalent of 114,768 warrants previously issued on June 24, 2015 and exercisable at an equivalent price of $6.00 per Common share, by extending their expiry date by three years to June 24, 2020. These warrants were valued at $Nil upon grant using the residual value method, therefore, this modification also resulted in a $Nil fair value.

(e) Special Warrants

On September 20, 2017, the Company issued 716,013 Special Warrants as described in Note 10(b). As of September 30, 2017, the following Special Warrants were outstanding:

(Expressed in Canadian Dollars) (Unaudited)

10. SHARE CAPITAL (cont'd…)

(e) Special Warrants (cont'd…)

Exercise price	Number of Special Warrants	Expiry date
$3.50	716,013	January 21, 2018

11. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

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

	September 30, 2017	December 31, 2016
Fair value through profit or loss		
Cash and Restricted Cash	$ 3,956,176	$ 21,648
Available-for-sale		
Available-for-sale investment	-	176,000
Loans and receivables		
Receivables	169,293	91,565
	$ 4,125,469	$ 289,213
Other financial liabilities		
Accounts payable and accrued liabilities	$ 2,149,733	$ 2,658,018
Credit facility	-	1,071,560
	$ 2,149,733	$ 3,729,578

12. 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. To facilitate its expenditure program, the company raises funds through private equity placements. The Company's liquidity position has strengthened since the beginning of the year due to $5 million financing. At September 30, 2017, the Company had accounts payable and accrued liabilities of $2,149,733 (December 31, 2016 - $2,658,018), which have contractual maturities of 90 days or less and payment on a line of credit of $Nil (December 31, 2016 - $1,071,560).

(b) Credit risk

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

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

(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. During the nine months ended September 30, 2017, the Company fully repaid the Credit Facility; therefore fluctuations in market rates have minimal impact on the fair values or future cash flows of the financial instruments as of September 30, 2017. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

(ii) Foreign currency risk

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

Based on the above, net exposures as at September 30, 2017, with other variables unchanged, a 10% (December 31, 2016 – 10%) strengthening (weakening) of the Canadian dollar against the Mongolian tugrik would impact net loss with other variables unchanged by $40,600. A 10% strengthening (weakening) of the Canadian dollar against the Bolivian boliviano would impact net loss with other variables unchanged by $670,300. A 10% strengthening (weakening) of the US dollar against the Canadian dollar would impact net loss with other variables unchanged by $62,800. The Company currently does not use any foreign exchange contracts to hedge this currency risk.

(iii) Commodity and equity price risk

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

(Expressed in Canadian Dollars) (Unaudited)

13. 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

The amounts due to related parties are non-interest bearing and are due upon demand. See Note 9 for information regarding the Company's credit facility with Linx Partners Ltd.

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

		Three Months Ended September 30,				Nine Months Ended September 30,		
Related parties		2017		2016		2017		2016
Directors and officers	$	117,550	$	52,250	$	169,800	$	193,250
Linx Partners Ltd.		122,500		52,500		175,000		157,500
MaKevCo Consulting Inc.		8,700		3,800		14,900		13,000
Sophir Asia Ltd.		7,800		3,500		11,300		11,500
	$	256,550	$	112,050	$	371,000	$	375,250

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

		Three Months Ended September 30,				Nine Months Ended September 30,		
Related parties		2017		2016		2017		2016
Consulting and management fees	$	103,000	$	28,500	$	133,900	$	85,500
Directors' fees		24,300		10,800		35,100		36,000
Mineral properties		52,000		39,000		91,000		117,000
Salaries and benefits		77,250		33,750		111,000		136,750
	$	256,550	$	112,050	$	371,000	$	375,250

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.

(Expressed in Canadian Dollars) (Unaudited)

13. RELATED PARTY DISCLOSURES (cont'd…)

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

As at September 30, 2017, amounts due to related parties totaled $145,025 (December 31, 2016 – $366,269) and was comprised of $3,965 (December 31, 2016 - $14,640) for director fees, $8,750 (December 31, 2016 - $54,656) for consulting fees, $Nil (December 31, 2016 - $86,864) for managing mineral properties, $1,720 (December 31, 2016 - $29,280) for salaries and reimbursable expenses. The remaining amounts due relate to deferred consulting fees, director fees and salaries totaled $130,660 (December 31, 2016 - $80,829).

14. KEY MANAGEMENT PERSONNEL COMPENSATION

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Key Management Personnel	2017	2016	2017	2016
Salaries and short term benefits	$ 46,359	$ 67,500	$ 115,093	$ 136,750
Share-based payments	168,090	107,889	374,937	137,070
	$ 214,449	$ 175,389	$ 490,030	$ 273,820

15. SUPPLEMENTAL CASH FLOW INFORMATION

	Nine Months Ended September 30,	
	2017	2016
Supplementary information		
Interest paid	$ -	$ 11,253
Non-Cash Financing and Investing Activities		
Shares issued to pay Credit Facility	$ 900,000	$ 1,500,000
Shares issued for mineral properties	$ 96,200	$ -
Share bonus to personnel	$ 190,320	$ -
Shares issued to settle debt	$ 238,636	$ 654,648
Capitalized interest	$ -	$ 11,253
Capitalized depreciation	$ 179,325	$ 246,261
Property & equipment expenditures included in accounts payable	$ 1,851,890	$ 1,955,383
Mineral property expenditures included in accounts payable	$ 1,139,574	$ 1,371,469
Share-based payments capitalized in mineral properties	$ 151,562	$ 52,396

16. 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 ($6,550,294) in taxes, interest and penalties relating to a historical tax liability in an amount originally assessed at approximately $760,000 in 2004, prior to Apogee acquiring the subsidiary in 2011. Apogee disputed the assessment and disclosed to the Company that it believed the notice was improperly issued. The Company continued to dispute the assessment and hired local legal counsel to pursue an appeal of the tax authority's assessment on both substantive and procedural grounds. On May 26, 2015, the Company received a positive Resolution issued by the Bolivian Constitutional Court that among other things, declared null and void the previous Resolution of the Bolivian Supreme Court issued in 2011 (that imposed the tax liability on ASC Bolivia LDC Sucursal Bolivia) and sent the matter back to the Supreme Court to consider and issue a new Resolution. The Company plans to continue to vigorously defend its position and make submissions to the Supreme Court during the new hearing. Based on these developments, the tax claim amount of $6,550,294 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. 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 continues to dispute the Sukhbaatar District Tax Division's assessment and delivered a complaint to Capital City Tax Tribunal on July 24, 2015. Due to the uncertainty of realizing the VAT balance, the Company has recorded an impairment charge for the full VAT balance in the year ended December 31, 2015. As there were no changes from January 1 to September 30, 2017, the impaired value of $Nil for the VAT receivable remains unchanged.

17. EVENTS AFTER THE REPORTING DATE

- On October 16, 2017, the Company has closed the second and final tranche of the Placement previously announced on August 25, 2017 and on September 1, 2017 and October 4, 2017 in order to increase the size of the Placement, raising gross cash proceeds of $1,858,325 through the issuance of 116,578 Units and 423,698 Special Warrants (including 9,327 Special Warrants issued as finder's fees). Each Warrant issued under the second and final tranche of the Placement entitles the holder to purchase one additional Share of the Company at an exercise price of $4.00 until October 16, 2020. Each Special Warrant issued under the second and final tranche of the Placement will be exercisable for one Unit at no additional cost to the holder provided TSX and shareholder approval for the issuance of the units underlying the Special Warrants is obtained at the Special Meeting.

- The Company entered into debt settlement agreements with certain directors and officers of the Company pursuant to which, the Company agreed, subject to the approval of the TSX and disinterested shareholders at the Special Meeting, to issue an aggregate of 42,254 Units (the "**Debt Settlement Units**"), in satisfaction of an aggregate of $147,898 of indebtedness currently owed by the Company to such persons. The Debt Settlement Units are comprised of one Share issuable at a deemed price of $3.50 and one half of one Warrant.

- The Company entered into a consulting agreement with Skanderbeg Capital Advisors Inc. to explore and evaluate strategic alternatives to maximize value for Prophecy's non-core assets in exchange for the issuance of 98,420 units (the "**Skanderbeg Units**") provided TSX and shareholder approval for the issuance of the units is obtained at the Special Meeting. The Skanderbeg Units are comprised of one Share issuable at a deemed price of $3.50 and one half of one Share purchase warrant entitling the holder to purchase an additional Share at a price of $4.00 for a period of three years from the date of issuance.

- The Company entered into an advisory agreement with Hillcrest Merchant Partners Inc., who has agreed to provide corporate development and financial advisory services related to the Gibellini Project, including equity and debt arrangement, product off-take and merger and acquisition negotiations with any strategic investors in exchange for annual aggregate payments totaling $156,000.

- 15,000 Prophecy warrants at an exercise price of $4.00 per Share were exercised, 3,000 stock options at an exercise price of $2.00 per Share were exercised, 2,625 Prophecy warrants at an exercise price of $7.00 per Share expired without exercise, and 5,000 stock options at an exercise price of $4.75 per Share were issued.