(Formerly Prophecy Coal Corp.)

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

For the year ended December 31, 2014

(Expressed in Canadian Dollars)

CONTENTS

1. INTRODUCTION

This Management's Discussion and Analysis ("**MD&A**") of Prophecy Development Corp. and its subsidiaries ("**Prophecy**", or the "**Company**") provides analysis of the Company's financial results for the year ended December 31, 2014. The following information should be read in conjunction with the accompanying December 31, 2014 audited consolidated financial statements and the notes to those financial statements, prepared in accordance with International Financial Reporting Standards ("**IFRS**"), as issued by the International Accounting Standards Board, and the Company's Annual Information Form for the year ended December 31, 2014, all of which are available under the Company's SEDAR profile at www.SEDAR.com. Financial information is expressed in Canadian dollars, unless stated otherwise. This MD&A is current as of March 31, 2015, and was reviewed, approved, and authorized for issue by the Company's Board of Directors. This discussion is intended to supplement and complement Prophecy's audited annual consolidated financial statements for the year ended December 31, 2014 and the notes thereto (the "**Annual Financial Statements**"). Readers are cautioned that this MD&A contains "forward-looking statements" and that actual events may vary from management's expectations. Readers are encouraged to read the cautionary note contained herein regarding such forward-looking statements.

Change of Company Name

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

Description of Business

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

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

General Corporate Information:

At December 31, 2014 and March 31, 2015, Prophecy had: (i) 251,878,634 and 311,878,634 Common shares issued and outstanding, respectively; (ii) 26,563,750 share options for Common shares outstanding, and (iii) 15,766,648 warrants for Common shares outstanding.

Share Information

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

Investor Information

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

Head office

2nd Floor, 342 Water Street
Vancouver, BC, Canada V6B 1B6
Tel:+1-604-569-3661

Transfer Agents and Registrars

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

Contact Information

Investor & Media requests and queries:
Bekzod Kasimov
Tel:+1-604-563-0699
Email:investorrelations@prophecydev.com

Registered office

2nd Floor, 342 Water Street
Vancouver, BC, Canada V6B 1B6
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	

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

Qualified Persons

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

2. CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of applicable Canadian securities legislation concerning anticipated developments in the Company's continuing and future operations in Mongolia and Bolivia, the adequacy of the Company's financial resources and financial projections. Such forward-looking statements include but are not limited to statements regarding the permitting, feasibility, plans for development and production of Prophecy's Chandgana power plant, including finalizing of any power purchase agreement; the likelihood of securing project financing; estimated future coal production at the Ulaan Ovoo coal mineral property and the Chandgana Coal Properties; development of the Pulacayo Project (as herein after defined) and other information concerning possible or assumed future results of operations of Prophecy. See in particular, the section Select Financial and Operational Data under Part 3 – Business Overview and 2014 Outlook descriptions.

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, 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. Prophecy cannot assure that any of these assumptions will prove to be correct.*

Numerous factors could cause Prophecy's actual results to differ materially from those expressed or implied in the forward-looking statements including the following risks and uncertainties, which are discussed in greater detail under the heading "Risk Factors" in this MD&A: Prophecy's history of net losses and lack of foreseeable cash flow; exploration, development and production risks, including risks related to the development of Prophecy's Ulaan Ovoo coal property; Prophecy not having a history of profitable mineral production; commencing mine development production 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; amendments to local Mongolian and Bolivian laws which may have an adverse impact on the Company's operations; the availability and timeliness of various government approvals and licences; the feasibility, funding and development of the Chandgana power plant; protecting title to Prophecy's mineral properties; environmental risks; the competitive nature of the mining business; lack of infrastructure; Prophecy's reliance on key personnel; uninsured risks; commodity price fluctuations; reliance on contractors; Prophecy's need for substantial additional funding and the risk of not securing such funding on reasonable terms or at all; foreign exchange risk; anti-corruption legislation; recent global financial conditions; the payment of dividends; and conflicts of interest.

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

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

3. YEAR 2014 HIGHLIGHTS AND SIGNIFICANT EVENTS

In 2014, the Company announced a number of changes to its Board of Directors including the death of Mr. Michael Deats, appointment of Mr. Masa Igata, as well the resignation of Mr. Chuluunbaatar Baz. The Company also announced senior management changes including the departure of Ms. Patricia Purdy, former Corporate Secretary, appointment of Mr. Tony Wong as Corporate Secretary, and appointment of Mr. Orgil Sukhee as Executive Director of one of the Company's subsidiaries, Red Hill Mongolia LLC.

- On January 7, 2014, the Company issued a second tranche of 1,013,750 Shares related to its 2012 share bonus to certain employees, directors, officers, and consultants of the Company;

- In January and February 2014, the Company granted 250,000, 5,550,000, and 500,000 share purchase options to directors, officers, employees, and consultants of the Company at exercise prices of $0.08, $0.105, and $0.10 per share respectively. All of these options are exercisable for a period of five years and vest at 12.5% per quarter following the date of grant;

- On January 23, 2014, 1,056,800 share purchase options exercisable at $0.28 per share expired.

- In January and February 2014, 14,755,000 share purchase options with exercise prices of $0.25 and $0.28 and expiring between October 29, 2014 and June 18, 2016 were voluntarily surrendered and cancelled.

- During the first quarter 2014, 1,523,881 Common shares of Wellgreen Platinum Ltd. ("**Wellgreen Platinum**") that were reserved and held in-trust by the Company were released back to the Company; and the Company sold its remaining 3,327,261 un-reserved Common shares of Wellgreen Platinum in addition to the 1,523,881 Common shares released from trust for net proceeds of $4,567,901.

- On April 3, 2014, the Company filed on SEDAR a revised NI 43-101 compliant technical report on its Chandgana Tal coal mining licenses in central Mongolia with a reissue date of February 2014 entitled "Technical Report, Coal Resources and Preliminary Economic Assessment, Coal Mine Component, Chandgana Tal Coal Project". This report replaced the technical report on the Chandgana Tal coal project previously filed by the Company on SEDAR on November 30, 2012. See discussion below under Highlights on the Chandgana Coal Properties.

- On May 1, 2014, the Company granted 7,135,000 incentive stock options to various directors, officers, employees and consultants of the Company. The stock options are exercisable at a price of $0.065 per share over a term of five years expiring on May 1, 2019 and vest at 12.5% per quarter over two years following the date of grant.

- On June 19, 2014, the Company issued 2,541,065 units ("**Debt Settlement Units**") as payment for outstanding debt owed by the Company to some of the Company's directors, officers, employees and consultants at a value of $0.075 per Debt Settlement Unit. Each Debt Settlement Unit is comprised of one common share of the Company and one share purchase warrant of the Company entitling the holder to purchase, upon exercise of a warrant, one additional common share of the Company at a price of $0.10 per share for a period of two years from the date of issuance.

- On June 30, 2014, the Company amended, in aggregate, 2,668,750 incentive stock options to replace an equivalent number of incentive stock options previously granted to various consultants, former directors and former officers of the Company, but voluntarily surrendered and cancelled in June 2014 as part of the Company's continuing corporate review. The stock options vest immediately, are exercisable at a price of $0.055 per share until December 31, 2015, and have no rights to purchase Wellgreen Platinum Common shares attached.

- On July 7, 2014 the Company announced an amendment to the terms of 1,064,215 share purchase warrants (the "**Old Warrants**") of the Company held by various investors that were originally issued pursuant to a private placement of 3,831,511 units which closed on October 28, 2010, expiring October 28, 2015 with an exercise price of $0.18 and a right to purchase a fraction of a Common share of Wellgreen Platinum attached.

  These Old Warrants were voluntarily surrendered by holders in June 2014. The Company replaced the Old Warrants by issuing an equivalent number of new warrants to these holders at an exercise price of $0.055, and with no right to purchase any fraction of a Common share of Wellgreen Platinum attached.

- On August 18, 2014, the Company announced that it entered into binding agreements with Cosmo Coal LLC ("**Cosmo**") to:

  1. Consolidate the assets of the Company's wholly-owned subsidiary, Chandgana Coal LLC ("**Chandgana Coal**") with the assets of Tugalgatai Mining LLC ("**Tugalgatai**"), a wholly-owned subsidiary of Cosmo, into: Chandgana Tugalgatai Coal LLC, a newly-incorporated Mongolian company, of which the Company will own 51% and Cosmo will own 49%.

  2. Transfer, for nominal consideration, 34% of the issued and outstanding shares of Prophecy's wholly-owned subsidiary, Prophecy Power Generation LLC ("**Prophecy Power**") to Cosmo.

  3. Accept Cosmo's nomination of one new member to Prophecy's Board of Directors.

Tugalgatai holds two mining licenses of Tugalgatai properties adjacent to Chandgana Coal's properties. The coal resources covered by the respective licenses are contained in the Nyalga Coal Basin located in Khentii Province in central Mongolia.

Further, the Company and Cosmo signed a non-binding intent letter in July 2014 whereby Cosmo agreed to assist Prophecy Power in securing a concession agreement and power purchase agreement, and the Company agreed to use its best efforts to bring to the power plant project equity investors, secure bank financing, and manage the equipment procurement and construction cycle. Management anticipates completing the consolidation of Chandgana Coal and Tugalgatai in Q3 2015.

- On September 19, 2014, the Company announced the approval of the Company's General Development Plan (the "**GDP**") for the Zeltura border port in Selenge province by the Border Ports National Council of Mongolia (the "**BPNC**").

- On November 4, 2014, the Company announced that it had signed a definitive agreement with Apogee Silver Ltd. ("**Apogee**") to acquire the Pulacayo Paca silver-lead-zinc mining project in Bolivia (the "**Pulacayo Project**").

  Under the terms of the transaction, the Company acquired Apogee's subsidiaries: Apogee Minerals Bolivia S.A., ASC Holdings Limited and ASC Bolivia LDC (which in turn, hold ASC Bolivia LDC Sucursal Bolivia, which held Apogee's joint venture interest in the Pulacayo Project) (collectively, the "**Apogee Subsidiaries**") by paying to Apogee $250,000 in cash and issuing to Apogee 60 million Prophecy Shares (the "**Consideration Shares**").

  The Company and Apogee entered into an escrow agreement (the "**Escrow Agreement**") which allows for the release of Consideration Shares from escrow over time, when Prophecy shares trading on the TSX reach certain price levels, or in the face of certain major triggering events. The Company agreed to assume all liabilities of the Apogee Subsidiaries. The Escrow Agreement provides for a standstill on voting of the Consideration Shares while they are held in escrow, and to not vote the released Consideration Shares against the Company's management so long as the Company continues to be engaged in its current business.

- On December 8, 2014, the Company announced a $3,596,000 non-brokered private placement with TBF Capital Management Group (HK) Limited ("**TBF**") at a price of $0.058 per Share (the "**TBF Private Placement**"). Upon closing of the TBF Private Placement, TBF will own approximately 19.24% of the Company's outstanding Shares, calculated on a non-diluted basis. TBF will be entitled to maintain its proportionate ownership percentage pursuant to certain rights granted by the Company under the terms of the subscription agreement between the parties (the "**Subscription Agreement**").

  Pursuant to the terms of the Subscription Agreement, TBF shall be entitled to nominate one member to the Company's Board of Directors for as long as TBF maintains at least a 10% share ownership in the Company, calculated on a non-diluted basis, and the Company has agreed to reimburse TBF's costs in relation to the transaction up to 5% of the total proceeds of the TBF Private Placement.

Subsequent to year end

- On January 2, 2015, the Company acquired the Apogee Subsidiaries and completed its acquisition of a mining joint venture interest in the Pulacayo Project. In consideration, the Company paid Apogee a total of $250,000 and issued to Apogee 60 million Prophecy Shares. The Consideration Shares have been deposited into escrow pursuant to the Escrow Agreement.

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

- On January 20, 2015, the Company announced the approval by the Ministry of Roads and Transportation of Mongolia of the Road Feasibility Study for the construction of a 17 km road to connect Ulaan Ovoo mine to the Zeltura Russian border. The Company intends to work with the Mongolian Customs General Administration for the establishment of a customs inspection and clearance area at its Ulaan Ovoo mine for possible future coal shipment to Russia through the Zeltura border.

- On February 6, 2015 the Company and TBF entered into an amended and restated subscription agreement, an escrow agreement and a voting agreement whereby for two years, among other things, TBF has agreed to not to sell the Consideration Shares and to not vote the released Consideration Shares against the Company's management so long as Prophecy continues to be engaged in its current business.

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

- On March 12, 2015 the Company borrowed by way of a revolving credit facility agreement dated March 12, 2015 (the "**Credit Facility Agreement**") $1,064,280 from Linx Partners Ltd., a personal holding company wholly-owned and controlled by the Company's Interim CEO, in order to meet interim working capital requirements to fund the Company's business operations and financial commitments. The Credit Facility Agreement has a maximum principal amount available for advance of $1.5 million, a one-year term with an option to extend it for any number of subsequent one-year terms, and bears an interest rate of 18% per annum. The Credit Facility Agreement is secured by a promissory note and a general security agreement.

- On March 20, 2015, the TSX's deadline to close the TBF Private Placement expired without the transaction having closed.

4. PROPERTY SUMMARY

Ulaan Ovoo Coal Property - Operating Mine, Mongolia

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

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

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

Establishment of the site at Ulaan Ovoo commenced on July 13, 2010. During October 2010, Prophecy provided 10,000 tonnes of coal as a trial run to power stations in Darkhan and Erdenet, Mongolia's second and third largest cities, respectively, after its capital, Ulaanbaatar. At the request of the Mongolian Ministry of Mineral Resources and Energy, Prophecy commenced pre-commercial mining and trucked the first coal shipment to Sukhbaatar rail station, for transport to Darkhan power plant by rail.
On November 9, 2010, Prophecy received the final permit to commence pre-commercial mining operations at the Ulaan Ovoo mine. On December 16, 2010, Prophecy received an updated prefeasibility study (the "**Ulaan Ovoo**

PFS") on the Ulaan Ovoo coal property. The focus of the Ulaan Ovoo PFS was for the development of low ash coal reserves in the form of a starter pit.

The estimated resources, reserves, coal quality, and other mine characteristics of the Ulaan Ovoo coal property were estimated by independent consultants. The coal resources are presented in Table 1 and the coal reserves and mining characteristics for the starter pit area are presented in Table 2.

Table 1. Coal resource detail of the Ulaan Ovoo coal property

Coal Resources (million tonnes)		
Measured	Indicated	Total
174.5	34.3	208.8

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

Table 2. Coal reserve detail of the starter pit area of the Ulaan Ovoo coal property

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

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

The Behre Dolbear & Company (USA), Inc. report ("Scoping Study Ulaan-Ovoo Coal Deposit") dated October 2006 was prepared by independent Qualified Person Mr. Gardar G. Dahl, Jr, P. Geo, a senior associate of Behre Dolbear & Company (USA), Inc. (the "**2006 Behre Dolbear Report**"). The Ulaan Ovoo PFS was prepared by John Sampson, B.Sc. (Hons) and Brian Saul P. Eng. who are independent Qualified Persons under NI 43-101. Both of these reports meet the standards of disclosure required by Canadian Securities Administrators NI 43-101 and are filed under the Company's SEDAR profile at www.SEDAR.com.

Select Financial and Operational Data:

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

The Company resumed mining operations in late October 2013. All required mining, safety, and transportation staff were re-hired and the Company's leased-out mining and transportation equipment were recalled and arrived back on site. The Company installed significant water-pumping capacity and dewatered the pit area. Operating costs incurred prior to restarting the Ulaan Ovoo mine totalled approximately US $3,898,000. Operating costs incurred once mining activities resumed totalled approximately US $2,072,500. Capital expenditures related to Ulaan Ovoo totalled approximately US $512,000 for the year which included approximately US $175,000 in dewatering and power generation equipment to prepare the mine for resuming operations.

During the twelve months ending December 31, 2014, the Company produced 151,395 tonnes (during 2013 – 89,085) of coal, 90% of which had a gross calorific value ("**GCV**") greater than 5,000 kcal/kg. As of December 31, 2014, the coal stockpile balance was approximately 115,000 tonnes (December 31, 2013 - 119,900) with a value of approximately $1.5 million (December 31, 2013 - $1.76 million).

During the year, the Company has been faced with challenges, such as significant dewatering of the resource, lack of demand, depressed coal sales prices, and higher than expected operating/transportation costs, resulting in limited production throughout the period. Pit dewatering has become a significant impediment to achieving consistent production, especially following mine standby during the periods of low market demand. Due to the lack of sustained production, management has not sufficiently tested the mine plant and equipment to conclude that the mine has reached the commercial production stage.

During the year, the Company sold 130,145 tonnes (2013 – 124,848 tonnes) of coal with total sales revenue of approximately $3.9 million (2013 - $3.3 million). 50% of sales during the year consisted of coal greater than 5,000 kcal/kg which is consistent with the Company's efforts to drive higher margin sales. As the Company is in the pre-commercial production stages, proceeds from the sale of coal are not recorded as revenue but are rather offset against capitalized deferred exploration costs.

Operating costs incurred during the year totalled approximately US $7 million (2013 - US $6 million). The Company has estimated its average cash cost per tonne, including transportation and administration expenses at approximately US $35.36 per tonne (Q4 2013 - US $29.50 per tonne) and has experienced domestic average sales prices of approximately US $31 per tonne (2013 - US $36 per tonne) for coal with GCV greater than 5,000 kcal/kg.

At December 31, 2014, the Company determined there were several indicators of impairment regarding the Ulaan Ovoo development property, including depressed coal prices, decline of the Russian Ruble, and a history of operating losses combined with a current loss. While management believes that Ulaan Ovoo is a property of merit and warrants continued development, a write down in accordance with *IFRS 6 Exploration for and Evaluation of Mineral Resources* and *IAS 36, Impairment of Assets* of $7,676,337 of previously capitalized deferred exploration costs to $nil and an impairment charge of $3,475,009 on the Ulaan Ovoo mining equipment has been recognized. This non-cash accounting charge does not impact the Company's financial liquidity or any future operations and management believes the adjustment to the book value of this long-lived asset more accurately reflects the Company's current market capitalization.

During the twelve months ended December 31, 2014, the Company has invested approximately $0.8 million in mining and coal beneficiation equipment in order to provide specific coal sizes and to reduce moisture levels in order to consistently produce coal with GCV greater than 5,000 kcal/kg. An excavator and loader were purchased to support mining activities. Coal drying and coal screening equipment were purchased to consistently produce lower cost coal with GCV greater than 5,000 kcal/kg. The coal briquetter (currently being installed) was purchased to enable turning lower grade coal into much more marketable and higher margin briquettes to supply residential coal markets in Ulaanbaatar, Darkhan and Erdenet. With this, the Company's - emphasis on improving its mining and transportation practices, and focusing its marketing efforts on higher margin markets it intends to primarily become a provider of higher grade coal with GCV greater than 5,000 kcal/kg and to capture a greater share of the premium priced coal market. The Company continues to penetrate the premium thermal coal market in the northern and central Mongolia region and sees potential to further expand sales in northern Mongolia and its neighboring Russian region, where higher margins can be obtained.

Further progress was made in opening the Zeltura border crossing. During September 2014, the Company's GDP for the Zeltura border was approved by the Mongolian authorities. Based on Article 17.4.5 of the Mongolian Border Control and Ports of Entry and Customs Law, Provision No. 4.8 of the BPNC Charter and the decision of the 2nd meeting of the BPNC and with the purpose of implementing the 2012-2016 Government Action Plan, Resolution #01 was made on August 26, 2014 by the BPNC to:

1. Approve the GDP for the Zeltura border port in Selenge province, Mongolia; and
2. Instruct the Ports General Authority to take measures immediately to implement the GDP.

In addition, the feasibility study for upgrading the road from the Ulaan Ovoo mine to the Zeltura border has been approved by the Mongolian Ministry of Road and Transportation in January 2015. The Company is also working with the Mongolian Customs General Administration for the establishment of a customs inspection and clearance area at its Ulaan Ovoo mine. Design of the inspection and clearance area was completed and was submitted to the Administration during fourth quarter 2014. While the Company is pleased with the overall progress and appreciates the support from the Mongolian authorities, it cannot offer any certainty or a definitive time frame to start transporting coal to Russia through Zeltura.

2015 Outlook

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

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

Chandgana Coal Properties, Mongolia

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

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

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

Table 3. Coal resource details of the Chandgana Coal Properties

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

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

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

During the year ending December 31 2014, the Company incurred total costs of $800,461 (2013 - $1,350,042) for the Chandgana Tal Property (including power plant application costs) and $60,079 (2013 - $271,822) for the Khavtgai Uul Property.

2015 Outlook

For the Chandgana Tal Property, the Company prepared to register the reserve estimate for one of the licenses and subsequently the registration was approved. This work was needed to maintain the licenses and eventually obtain permission to mine at the rate of 3.6 million tonnes per year.

Work on the Khavtgai Uul license will include exploration and normal license maintenance work in order to retain exploration and mining rights to the license. The Mongolian government recently revised the requirements for exploration and mining licenses with one of the revisions being that the term of exploration licenses was increased. This will assist the Company in assessing ways of obtaining maximum value from these assets for its shareholders.

Prophecy expects regulatory approval of the consolidation of the assets of Chandgana Coal which controls the Chandgana Tal and Khavtgai Uul licenses with the assets of Tugalgatai, as announced in the Company's August 18, 2014 news release in Q3 2015. The assets of Tugalgatai include licenses located between and contiguous to the Chandgana Tal and Khavtgai Uul licenses. Consolidation of the assets of these companies will give the Company control of one of the largest undeveloped coal deposits in Mongolia.

Following the news release dated August 18, 2014, the consolidation between Chandgana Coal and Cosmo has been delayed due to internal restructuring of Cosmo. Both parties continue their dialog on the consolidation. The binding consolidation agreement has a deadline of August 18, 2015.

Chandgana Power Plant Project, Mongolia

The Chandgana power plant project area is next to the Baganuur - Undurkhaan paved road and within 150 kilometres of the Central Mongolian Railroad. The paved road and the railroad can facilitate the transportation of construction equipment, power plant components and mining equipment. The Chandgana power plant project is within 150 kilometres of the Bagaanuur interconnect to the central electricity transmission grid and 50 kilometres to the Undurhaan interconnect to the eastern electricity transmission grid.

On November 15, 2010, Prophecy reported that the Detailed Environmental Impact Assessment pertaining to the construction of the Chandgana power plant project was approved by the Mongolian Ministry of Nature and the Environment. The Detailed Environmental Impact Assessment was prepared by an independent Mongolian environmental consulting firm which considered social and labour issues, climate and environmental circumstances specific to the proposed power plant. According to the study, there are no major impediments to the Chandgana power plant project. On November 15, 2011 Prophecy's wholly-owned Mongolian subsidiary East

Energy Development LLC (now Prophecy Power) received a license certificate from the Mongolian Energy Regulatory Authority (the "**ERA**") to construct a 600 MW (150 MW x 4) power plant at Chandgana. An English translation of the license was filed under the Company's SEDAR profile at www.SEDAR.com on December 14, 2011.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In February 2015, Prophecy Power was notified that a working group was appointed to work on the power concession projects.

2015 Outlook

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

Titan Property, Ontario, Canada

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

Table 4. Titan Property - Resources

Tonnage and Grade			
Category	Tonnes (millions)	V (wt, %)	TiO_2 (wt, %)
Inferred	49.0	0.24	14.82

Metal Content		
Category	V (million kgs)	TiO_2 (million kgs)
Inferred	118	7,259

Prophecy has expended a significant amount on acquisition, tenure maintenance and exploration to date. The Company has done much exploration work including 22 kilometres of line cutting covering over 2.7 square kilometres in 100 metre intervals that extended the current surveyed grid west and southwest of the Titan property. A ground magnetometer survey was completed during the summer of 2010, the results of which expanded the extent of the magnetic anomaly associated with the Titan deposit. This work successfully demonstrated that exploration is warranted outside the previously known limits. The assessment work completed in 2011 was approved. No assessment work was completed during 2013. During 2014, the Company spent $10,254 for land taxes and GPS of the claim posts.

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

Okeover Property, British Columbia, Canada

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

Exploration work completed to date suggests mineralization exists east, west and south of the known mineralized body. In 2006 N.C Carter, Ph. D, P. Eng. calculated an inferred resource for the North Lake Zone of 86.8 million tonnes grading 0.31% Cu and 0.014% MoS_2 (0.009% Mo) at a 0.20% Cu cut-off. The exploration program planned for the summer of 2014 has been completed, 8.2 kilometers of grid was flagged and soil sampled and 169 soil samples were collected. The Company expensed $38,563 on the Okeover project in 2014. The assessment report was filed on November 21, 2014.

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

Pulacayo Project, Bolivia

On January 2, 2015, Prophecy acquired the Pulacayo Project in Bolivia through acquisition of the issued and outstanding shares of ASC Bolivia LDC Sucursal Bolivia, an indirectly held subsidiary of Apogee. ASC Bolivia LDC Sucursal Bolivia controls the mining rights to the concessions through a separate joint venture agreement with the Pulacayo Mining Cooperative who hold the mining rights through a lease agreement with state owned Mining Corporation of Bolivia, COMIBOL.

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

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

Exploration and Evaluation

On January 17, 2013, Apogee reported the results of an independent mineral resource estimate and feasibility study prepared by Professor Jim Porter, FSAIMM, Graeme Farr, Peter Webster, P. Geo, Michael Cullen P. Geo, and Eugene Puritch, P. Eng, independent qualified persons as defined by NI 43-101, on the Pulacayo deposit located in southwestern Bolivia that meets the standards of disclosure required by Canadian Securities Administrators NI 43-101. The updated mineral resource estimate outlined a total of 60.3 million ounces of silver in the Indicated category and a total of 9.2 million ounces of silver in the Inferred category, as detailed in Table 5 below.

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

(Expressed in Canadian Dollars)

Table 5. Pulacayo Project - Resources

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

Notes:

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

The updated mineral resource estimation was completed by Mercator Geological Services Limited of Dartmouth, Nova Scotia that meets the standards of disclosure of the Canadian Securities Administrators described in NI 43-101. The effective date of this mineral resource estimate is September 28, 2012.

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

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

The probable mineral reserve which constitutes 57% of the Underground Indicated Mineral Resource and 21% of the estimated Total Indicated Mineral Resource, is set out in Table 6 below.

(Expressed in Canadian Dollars)

Table 6. Pulacayo Project – Mineral Reserve Summary (effective of January 17, 2013)

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

Notes:

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

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

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

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

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

Pre-Production Mining and Processing Operations

Apogee demonstrated its ability to mine and process ore by the successful trial mining and processing operations conducted in partnership with the Pulacayo Mining Cooperative, and with the support of local communities and other stakeholders. Prophecy will build on this information in the anticipation of successfully restarting the mine and continuing mining and concentrating operations into the future. Prophecy hopes to continue support of the local communities and stakeholders and to receive their support.

Due to the decline in silver price, Apogee terminated its mining activities at the site and aggressively reduced non-essential costs.

Paca Deposit

The Paca deposit is located approximately 8 km north of the Pulacayo deposit. Drilling by Apex in 2002 identified a zone of significant silver-zinc-lead mineralization (see Apogee's news release dated September 13, 2005 under Apogee's SEDAR profile at www.SEDAR.com).

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

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

(Expressed in Canadian Dollars)

2015 Outlook

Currently the Company is evaluating its options on how to fast-track the development of the Pulacayo Project. The plan for 2015 is to tender for construction of a 500 tpd concentrating operation, negotiate concentrate off take agreement with smelters, continue evaluation of the tailings piles, prepare for and explore the known and potential mineralized areas of the licenses, and seek project financing.

5. SELECTED ANNUAL INFORMATION

	Years ended December 31,		
	2014	2013	2012
Loss before other items and future income tax recovery	$ (2,463,585)	$ (4,094,448)	$ (10,848,277)
Net loss for year	(14,696,041)	(23,296,154)	(61,389,108)
Comprehensive loss for year	(14,696,041)	(22,896,883)	(59,465,339)
Net loss for period attributable to:			
Owners of the Company	(14,696,041)	(23,296,154)	(56,876,372)
Non-controlling interest	-	-	(4,512,736)
	(14,696,041)	(23,296,154)	(61,389,108)
Comprehensive loss for period attributable to:			
Owners of the Company	(14,696,041)	(22,896,883)	(55,033,590)
Non-controlling interest	-	-	(4,431,749)
	(14,696,041)	(22,896,883)	(59,465,339)
Share Information:			
Net loss per share, basic and diluted attributable to:			
Owners of the Company	(0.06)	(0.10)	(0.26)
Non-controlling interest	-	-	(0.02)
Comprehensive loss per share, basic and diluted attributable to:			
Owners of the Company	(0.06)	(0.10)	(0.025)
Non-controlling interest	-	-	(0.02)
Weighted average number of common shares outstanding	251,399,255	236,480,098	222,183,144
Financial Position:			
Current assets	3,169,741	8,568,387	10,294,682
Property and equipment	4,361,982	10,758,586	12,929,342
Mineral properties	13,710,520	15,053,773	13,387,882
Total assets	21,304,297	34,442,800	62,386,558
Non-current liabilities	173,363	761,477	1,247,363
Dividends	$ -	$ -	$ -

For the year ended December 31, 2014, net loss was $14,696,041 or $0.06 per share compared to a net loss of $23,296,154 or $0.10 for the year ended December 31, 2013. For the year ended December 31, 2014, the net loss consisted primarily of operating costs of $2,463,585, impairments recorded on inventory, mineral properties, property and equipment, and receivables totalling, $15,567,341 partially offset by a gain through the sale of Wellgreen Platinum Common shares of $2,654,882, compared to operating costs of $4,094,448, impairment charge of $3,694,446 and costs related to investment in associate of $15,061,247 for the year ended December 31, 2013.

The Company's total assets at December 31, 2014 were $21.3 million compared to $34.4 million at December 31, 2013. The decrease in total assets in 2014 was mainly due to impairment charges to Ulaan Ovoo cash generating unit of $11.2 million, impairment of the Titan and Okeover mineral properties of approximately $2.2 million, and the sale of available for sale investments of $2.3 million during the year.

(Expressed in Canadian Dollars)

The Company's non-current liabilities at December 31, 2014 were $.17 million compared to $.76 million at December 31, 2013. The decrease in non-current liabilities in 2014 was primarily attributable to the reclassification of the line of credit facility from non-current to current liabilities, as the credit facility is due to be repaid by August 2015.

6. SUMMARY OF QUARTERLY RESULTS

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

	2014 Dec-31	2014 Sep-30	2014 Jun-30	2014 Mar-31
Operating expense	$ (908,565)	$ (381,890)	$ (551,125)	$ (622,005)
Loss before other items and deferred income tax	(908,565)	(381,890)	(551,125)	(622,005)
Loss before deferred income tax	(12,624,317)	(997,563)	(874,952)	(199,209)
Net loss	(12,624,317)	(997,563)	(874,952)	(199,209)
Net loss per share, basic and diluted	$ (0.05)	$ (0.00)	$ (0.00)	$ (0.00)
Comprehensive loss	(12,624,317)	(997,563)	(874,952)	(199,209)
Comprehensive loss per share, basic and diluted	$ (0.05)	$ (0.00)	$ (0.00)	$ (0.00)

	2013 Dec-31	2013 Sep-30	2013 Jun-30	2013 Mar-31
Operating expense	$ 225,160	$ (2,731,414)	$ (793,281)	$ (794,913)
Loss before other items and deferred income tax	225,160	(2,731,414)	(793,281)	(794,913)
Loss before deferred income tax	(11,772,035)	(5,300,267)	(3,564,385)	(3,612,567)
Net loss	(10,818,935)	(5,300,267)	(3,564,385)	(3,612,567)
Net loss per share, basic and diluted	$ (0.04)	$ (0.02)	$ 0.02	$ 0.02
Comprehensive loss	(10,665,360)	(5,502,416)	(3,898,023)	(2,831,082)
Comprehensive loss per share, basic and diluted	$ (0.04)	$ (0.02)	$ 0.02	$ (0.01)

The Company's quarterly operating expenses remain relatively stable. Factors causing significant changes between the prior seven quarters have primarily been items such as non-cash share-based payments expense, consulting and management fees, and advertising and promotion expense; however, impairment charges to inventory, mineral property, property and equipment, and receivables have significantly increased the net loss in the most recent quarter of 2014.

7. DISCUSSION OF OPERATIONS

All of the information described below is accounted for in accordance with IFRS. The reader is encouraged to refer to Note 6 of Prophecy's Annual Financial Statements for the year ended December 31, 2014 for Prophecy's IFRS accounting policies. Certain prior period figures have been reclassified to conform to the current year's presentation. Such reclassification is for presentation purposes only and has no effect on previously reported results. For discussion on each project, the reader is encouraged to refer to the "Business Overview" section of this MD&A.

For the year ended December 31, 2014, Prophecy incurred operating expenses of $2,463,585 compared to $4,094,448 incurred for the year ended December 31, 2013.

(Expressed in Canadian Dollars)

Operating Expenses		Year ended December 31, 2014		2013
Advertising and promotion	$	73,552	$	132,779
Consulting and management fees		197,940		198,156
General and administrative expenses		993,205		1,366,239
Professional fees		319,509		974,010
Share-based payments		617,362		1,304,486
Travel and accommodation		262,017		118,778
	$	2,463,585	$	4,094,448

The decrease by $1.6 million in operating expenses was mainly due to the following factors:

- General and administrative consist of general office expenses and administrative services related to maintaining the Company's exchange listing and complying with securities regulations along with insurance, salaries and directors fees. General and administrative expenses decreased by $373,034 mainly due to decrease in insurance and salary and benefits expense.

- Professional fees decreased by $654,501 as a result of decrease in legal fees in comparison to the prior year.

- Share-based payments expense represents the value assigned to the granting of options and incentive-based units under the Company's Share-Based Compensation Plan using the Black-Scholes model. For the year ended December 31, 2014, share-based payments expense decreased by $687,124 compared to the year ended December 31, 2013. The decrease related to a lower number of outstanding options vesting during 2014 as compared to the prior period.

For the year ended December 31, 2014, Prophecy incurred other expenses classified as "Other Items" amounting to $12,232,456 compared to $19,201,706 for the year ended December 31, 2013.

Other Items		Year ended December 31, 2014		2013
Deemed disposal loss of investment in associate		-		1,264,472
Equipment rental revenue		-		(1,338,003)
Finance and transaction costs		-		765,000
Foreign exchange (gain) loss		(663,523)		(251,254)
(Gain) loss on sale of available-for-sale investments		(2,654,882)		(237,137)
Interest expense		-		2,314,438
Interest income		(16,480)		(28,890)
Impairment of inventory		484,288		-
Impairment of mineral property		2,252,610		-
Impairment of property and equipment		11,151,346		3,694,446
Impairment of receivables		1,679,097		-
Loss on debt settlement		-		174,959
Loss on disposal of investment in associate		-		12,399,523
Share of net loss of associate		-		1,397,252
Deferred income tax recovery		-		(953,100)
	$	12,232,456	$	19,201,706

The decrease in other items by $6,969,250 was mainly due to the following factors:

- During the year ended December 31, 2013, the Company's ownership percentage in Wellgreen Platinum decreased to 4% resulting in disposition of investment in associate. As a result, the transaction triggered a deemed disposition for the Company creating a loss to be recognized for the year ended December 31, 2013 of $1,264,472. The Company also recorded a loss on disposal of investment in associate of $12,399,523 for the year ended December 31, 2013.

(Expressed in Canadian Dollars)

- Interest expense was $nil for the year ended December 31, 2014. For the year ended December 31, 2013, the Company recorded interest expense of $2,314,438 related to $10 million Waterton loan which was paid off on November 8, 2013;

- Share of net loss of associate was $nil for the year ended December 31, 2014. For the year ended December 31, 2013, the Company recorded a share of loss of an associate applied to the net loss of Wellgreen Platinum.

- During the year ended December 31, 2014, the Company recorded impairments on the Ulaan Ovoo coal property and equipment of $11,151,346 and the Titan/Okeover mine properties of $2,252,610, compared to $nil during December 31, 2013. Additionally, impairment charges of $1,679,097 and $484,288 to receivables and inventory, respectively, resulted in a significant increase in the loss compared to 2013, where no impairment charges were recognized.

8. FOURTH QUARTER

The following table summarizes Prophecy's consolidated results for the three months ended December 31, 2014 and 2013:

Operating Expenses		Three months ended December 31,		
		2014		2013
Advertising and promotion	$	27,874	$	13,557
Consulting and management fees		155,323		100,503
General and administrative expenses		293,811		324,251
Professional fees		171,065		314,678
Share-based payments		79,204		(1,036,813)
Travel and accommodation		181,288		58,666
	$	908,565	$	(225,158)

In the fourth quarter 2014, the Company's operating expenses increased by $1.1 million compared to operating expenses for the fourth quarter in 2013 primarily due to the increase in share-based payments. Due to the recalculation of the incremental fair value of re-priced and re-issued share purchase options, the Company had a negative balance of $1 million share-based payments in the fourth quarter of 2013.

General and administrative expenses decreased by $30,440 due to decrease in director fees, insurance, and amortization. Professional fees decreased by $143,613 due to decrease in legal fees.

Consulting and management fees, advertising and promotion, and travel and accommodation expenses increased by a total of $191,759 due to the Company's activity in acquiring the Pulacayo Project.

For the fourth quarter of 2014, the Company incurred other expenses classified as "Other Items" amounting to $15,483,438 compared to $11,044,095 for the fourth quarter of 2013.

(Expressed in Canadian Dollars)

Other Items	Three months ended December 31, 2014	2013
Deemed disposal loss of investment in associate	-	142,143
Equipment rental revenue	-	-
Finance and transaction costs	-	375,000
Foreign exchange (gain) loss	(48,748)	(12,084)
Change in value of adjustment warrants	-	146,130
(Gain) loss on sale of available-for-sale investments	(33,252)	(179,349)
Interest expense	-	144,254
Interest income	(1,903)	(1,466)
Impairment of inventory	484,288	-
Impairment of mineral property	2,252,610	-
Impairment of property and equipment	11,151,346	(1,066,843)
Impairment of receivables	1,679,097	-
Loss on debt settlement	-	174,959
Loss on disposal of investment in associate	-	12,076,589
Share of net loss of associate	-	197,862
Deferred income tax recovery	-	(953,100)
	$ 15,483,438	$ 11,044,095

The increase in other items by $4,439,343 was mainly due to the fact that in Q4 2014, the Company recorded an impairment charge of $11,151,346 (Q4 2013 – ($1,066,843)) to property and equipment and impairments to inventory, mineral properties, and receivables totalling $4,415,995 (Q4 2013 - $nil).

9. LIQUIDITY AND CAPITAL RESOURCES

Working Capital

At December 31, 2014 Prophecy had approximately $0.2 million comprised of cash and cash equivalents, representing a decrease of $0.3 million from the $0.5 million held at December 31, 2013. Working capital deficit amounted to $0.9 million at December 31, 2014 compared to working capital surplus of $6.1 million as at December 31 2013. The Company's working capital decreased since the year ended December 31, 2013 by $6.6 million primarily as a result of the disposition of available-for-sale investments, decrease in inventory and receivables, and increase in accounts payable.

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

Subsequent to year end, the Company borrowed by way of the Credit Facility Agreement $1,064,280 from Linx Partners Ltd., a personal holding company wholly owned and controlled by the Company's CEO, in order to meet current working capital requirements. The Credit Facility Agreement has a maximum principal amount available for advance of $1.5 million, a one year term with the option to extend it and bears an interest rate of 18% per annum. The Credit Facility Agreement is secured by a promissory note and a general security agreement.

As at the date of this MD&A, the Company's working capital surplus is approximately $1.0 million. The Company is also exploring other financing alternatives, such as equity financing, and sale and leaseback of capital assets. The Company believes that, based on its current cash position, and cash generated from operations of the Ulaan Ovoo mine, it will have sufficient funds to meet its minimum obligations, including general corporate activities, for at least the next 12 months.

(Expressed in Canadian Dollars)

Cash Flow Highlights

		Year ended December 31,	
		2014	2013
Cash (used in) provided by operating activities	$	(554,178) $	(3,191,812)
Cash (used in) provided by investing activities		886,832	11,756,782
Cash (used in) provided by financing activities		(639,656)	(8,825,805)
Increase (decrease) in cash for period		(307,002)	(260,835)
Cash balance, beginning of year		507,996	768,831
Cash balance, end of year	$	200,994 $	507,996

Operating activities: Cash used in operating activities was $0.6 million during the year ended December 31, 2014 compared to cash used of $3.2 million during the same period of 2013. The decreased outflows in 2014 primarily related to the significantly lower net loss recognized in 2014 compared to 2013. The Company has increased its efforts in managing operating costs in advance of cash flows from operations but will require financing in the near term to fund operations.

Investing activities: Cash provided by investing activities was $0.9 million for the year ended December 31, 2014 compared to $11.8 million cash provided by investing activities for the year ended December 31, 2013. In 2014, the Company received $4.6 million from the sale of its Common shares of Wellgreen Platinum. Cash used for property and equipment during the year ended December 31, 2014 was $3.2 million and the cash used for mineral property expenditures was $0.5 million.

Financing activities: A total of $0.6 million was used in financing activities during the year ended December 31, 2014 compared to $8.8 million cash used in the year ended December 31, 2013. The Company paid $0.4 million toward credit facility outstanding balance and related interest of $0.2 million during the year, compared to $11 million in loan repayments and interest payments of $1.0 million during 2013.

Contractual Commitments

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

Capital Risk Management

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

The properties, to which Prophecy currently has an interest in, are predominantly in the exploration and development stages; as such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. There were no changes in management's approach to capital management during the year ended December 31, 2014. Neither Prophecy nor its subsidiaries are subject to externally imposed capital requirements.

Prophecy's investment policy is to invest its surplus cash in highly liquid short-term interest-bearing investments with maturities of 90 days or less from the original date of acquisition, and Guaranteed Investment Certificates with maturities of 365 days of less, all principally held with major Canadian financial institutions.

The Company expects to have sufficient liquidity and capital resources to be able to continue as a going concern until at least December 31, 2015 based on existing capital resources and estimated cash flows from mining operations (Note 1 to the Annual Financial Statements).

10. CONTINGENCIES

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

During the year ended December 31, 2014, Red Hill Mongolia LLC was issued a letter from the Sukhbaatar District Tax division discussing the results of a VAT inspection of the 2009-2013 tax imposition and payments resulted in an imposed VAT payable of MNT 2,654,175,507 (CAD $1,648,556). Red Hill Mongolia LLC disagreed with the findings as the tax assessment appeared to be unfounded. The Company has been advised by its legal counsel that it is only possible, not probable, that the action will succeed. The Company disputes the assessment and submitted a complain to the Capital City Tax Tribunal. The Tribunal's decision is pending.

In the opinion of Prophecy at December 31, 2014, a provision for this matter is not required.

11. ENVIRONMENT

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

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

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

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

The Company established an environmental policy in 2008. The environmental policy affirms the Company's commitment to environmental protection. The Company monitors its operations to ensure that it complies with all applicable environmental requirements, and takes actions to prevent and correct problems if needed.

Closure and reclamation liability results from the development, construction and ordinary operation of mining property, plant and equipment and from environmental regulations set by regulatory authorities. The liability includes costs related to removal and/or demolition of mine equipment, buildings and other infrastructure, removing contaminated soil, protection of abandoned pits and re-vegetation.

At December 31, 2014, the Company had a provision for closure and reclamation liability of $173,363 (December 31, 2013 - $129,552). The fair value of the closure and reclamation liability is estimated using a present value technique and is based on existing laws, contracts or other policies and current technology and conditions (Note 17 to the Annual Financial Statements).

(Expressed in Canadian Dollars)

12. RELATED PARTY DISCLOSURES

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

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

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

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

		Year Ended December 31,		
Related parties		2014		2013
Directors and officers	$	370,462	$	499,817
Linx Partners Ltd.		490,312		525,012
MaKevCo Consulting Inc.		54,200		142,200
	$	914,974	$	1,167,029

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

		Year Ended December 31,		
Related parties		2014		2013
Consulting and management fees	$	169,312	$	153,948
Directors' fees		151,823		246,010
Mineral properties		176,750		320,250
Property and equipment		150,500		162,750
Salaries and benefits		266,589		284,071
	$	914,974	$	1,167,029

As at December 31, 2014, amounts due to related parties totaled of $463,578 (December 31, 2013 – $413,278) and was comprised of $70,845 (December 31, 2013 - $129,060) for director fees, $198,935 (December 31, 2013 - $84,072) for consulting fees, and $157,312 (December 31, 2013 - $200,146) for managing the Ulaan Ovoo mineral properties and power plant project, and $36,486 (December 31, 2013 $Nil) salaries and reimbursable expenses.

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

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

		Year Ended December 31,		
Key Management Personnel		2014		2013
Salaries and short term benefits	$	344,970	$	811,321
Share-based payments		418,850		829,085
	$	763,820	$	1,640,406

(Expressed in Canadian Dollars)

13. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Readers are encouraged to read the significant accounting policies and estimates as described in the Company's Annual Financial Statements for the year ended December 31, 2014 (Notes 4, 5, and 6 to the Annual Financial Statements). Prophecy's Annual Financial Statements have been prepared using the going concern assumption (Note 1 to the Annual Financial Statements).

Significant accounting judgments and estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Areas requiring the use of estimates include the rates of amortization for property and equipment, the useful life and recoverability of long-lived assets, the recoverability of accounts receivable, determination of environmental obligation provision for closure and reclamation, accounts payable and accrued liabilities, the assumptions used in the determination of the fair value of financial instruments and share-based payments, and the determination of the recoverability of for deferred income tax assets. The Company bases its estimates and assumptions on current and various other factors that it believes to be reasonable under the circumstances. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows. See Note 5 to the Annual Financial Statements for further details.

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

Prophecy followed the same accounting policies and methods of computation in the Annual Financial Statements for the year ended December 31, 2014 as followed in the consolidated financial statements for the year ended December 31, 2013.

(b) Basis of consolidation

The Annual Financial Statements include the accounts of the Company and its controlled subsidiaries. All material intercompany balances and transactions have been eliminated. Details of the Company's subsidiaries at the date of these MD&A:

	Principal	Place of incorporation	Ownership
0912603 B.C. Ltd.	Exploration/Development	Canada	100%
0912601 B.C. Ltd.	Exploration/Development	Canada	100%
Chandgana Coal LLC	Exploration/Development	Mongolia	100%
Prophecy Power Generation LLC	Exploration/Development	Mongolia	100%
Red Hill Mongolia LLC	Exploration/Development	Mongolia	100%
UGL Enterprises LLC	Inactive	Mongolia	100%
1420 PSR PTE. LTD	Holding	Singapore	100%

14. FINANCIAL INSTRUMENTS AND RELATED RISKS

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

Financial Instruments (Note 22 to the Annual Financial Statements)

The following table sets forth the Company's financial assets that are measured at fair value on a recurring basis by level within the fair value hierarchy. As at December 31, 2014, those financial assets and liabilities are classified in their entirety based on the level of input that is significant to the fair value measurement.

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

Related Risks

Liquidity risk is the risk that an entity will be unable to meet its financial obligations as they become due. The Company manages liquidity risk by preparing cash flow forecasts of upcoming cash requirements. As at December 31, 2014, the Company had cash of $200,994 (December 31, 2013 – cash and cash equivalents and available-for sale investments of $2,803,806) in order to meet short-term business requirements. At December 31, 2014, the Company had accounts payable and accrued liabilities of $2,778,368 (December 31, 2013 - $1,432,238), which have contractual maturities of 90 days or less and a line of credit facility balance of $1,288,218.

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

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

(a) Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's cash equivalents primarily include highly liquid investments that earn interest at market rates that are fixed to maturity or at variable interest rates. The Company also drew down $1,288,218 on its credit facility bearing an annual coupon rate of 15%, with monthly interest payments. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on the fair values or future cash flows of the financial instruments as of December 31, 2014. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

(b) The Company is exposed to foreign currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in Canadian dollars. The Company has exploration and development projects in Mongolia, and subsequent to the year end, Bolivia, and undertakes transactions in various foreign currencies. The Company is therefore exposed to foreign currency risk arising from transactions denominated in a foreign currency and the translation of financial instruments denominated in US dollars and Mongolian tugrik into its reporting currency, the Canadian dollar.

Based on the above, net exposures as at December 31, 2014, with other variables unchanged, a 10% (December 31, 2013 – 10%) strengthening (weakening) of the Canadian dollar against the Mongolian tugrik would impact earnings with other variables unchanged by $133,835. A 10% (December 31, 2013 – 10% strengthening (weakening) of the US dollar against the Canadian dollar would not have a material impact on net loss. The Company currently does not use any foreign exchange contracts to hedge this currency risk.

(c) Commodity and equity price risk

The Company no longer holds available-for-sale investments. Based upon the Company's investment position as at December 31, 2014, a 10% increase (decrease) in the market price of the available-for-sale investments held would have resulted in an increase (decrease) to comprehensive income (loss) of $nil (December 31, 2013 - $229,600). Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in value may be significant.

15. RISKS AND UNCERTAINTIES

Readers should carefully consider the risks and uncertainties described in the Company's Annual Information Form for the year ended December 31, 2014 "Risk Factors" page 59. The Annual information Form is available under the Company's SEDAR profile at www.SEDAR.com.

16. DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by Prophecy in its annual filings, filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

The Company's management under the supervision of the Chief Executive Officer and Chief Financial Officer has evaluated the effectiveness of the Company's internal controls over financial reporting and has concluded that Prophecy's disclosure controls and procedures, as defined in NI 52-109 are effective to achieve the purpose for which they have been designed.

Prophecy's disclosure committee, is comprised of the Chief Executive Officer and senior members of management. The disclosure committee's responsibilities include determining whether information is material and ensuring the timely disclosure of material information in accordance with securities laws. The board of directors is responsible for reviewing the Company's disclosure policy, procedures and controls to ensure that it addresses the Company's principal business risks, and changes in operations or structure, and facilitates compliance with applicable legislative and regulatory reporting requirements.

Design of Internal Controls over Financial Reporting

Prophecy's internal controls over financial reporting include 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 oversight from the Audit Committee of the Board of Directors, is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. There has not been any change in the Company's internal control over financial reporting that occurred during the Company's the year ended December 31, 2014 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

17. DISCLOSURE OF OUTSTANDING SHARE DATA

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

- 311,828,634 Common shares outstanding with recorded value of $151,842,792;
- 26,563,750 stock options outstanding with a weighted average exercise price of $0.14. Each option is exercisable to purchase one Common share of the Company at prices ranging from $0.055 to $0.67 and which expire between 2015 and 2019; and
- 15,766,648 share purchase warrants outstanding exercisable to purchase one Common share of the Company at any time at prices ranging from $0.055 to $0.18 and which expire between April and October 2015.

18. OFF-BALANCE SHEET ARRANGEMENTS

During the year ended December 31, 2014, Prophecy was not a party to any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources of Prophecy.

Prophecy Development Corp.

(Formerly Prophecy Coal Corp.)

Annual Consolidated Financial Statements
For the years ended December 31, 2014 and 2013
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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

March 31, 2015

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Prophecy Development Corp.

We have audited the accompanying consolidated financial statements of Prophecy Development Corp., which comprise the consolidated statements of financial position as at December 31, 2014 and 2013 and the consolidated statements of operations and comprehensive loss, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

1200 - 609 Granville Street, P.O. Box 10372, Pacific Centre, Vancouver, B.C., Canada V7Y 1G6
Telephone (604) 687-0947 Fax (604) 687-6172

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Prophecy Development Corp. as at December 31, 2014 and 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

"DAVIDSON & COMPANY LLP"

Vancouver, Canada　　Chartered Accountants

March 31, 2015

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

As at	Notes		December 31, 2014		December 31, 2013
Assets					
Current assets					
Cash and cash equivalents	8	$	200,994	$	507,996
Receivables	9		737,434		2,648,993
Amount due from related party	23		-		78,364
Prepaid expenses	10		732,082		1,278,914
Inventory	11		1,499,231		1,758,310
Available-for-sale investments	12		-		2,295,810
			3,169,741		8,568,387
Non-current assets					
Restricted cash equivalents	8		34,500		34,500
Reclamation deposits			27,554		27,554
Property and equipment	13		4,361,982		10,758,586
Mineral properties	14		13,710,520		15,053,773
		$	21,304,297	$	34,442,800
Liabilities and Equity					
Current liabilities					
Accounts payable and accrued liabilities	15	$	2,778,368	$	1,432,238
Line of credit facility, current portion	16		1,288,218		1,069,400
			4,066,586		2,501,638
Non-current liabilities					
Provision for closure and reclamation	17		173,363		129,552
Line of credit facility	16		-		631,925
			4,239,949		3,263,115
Equity					
Share capital	19		147,947,292		147,680,113
Reserves			20,502,885		19,790,089
Accumulated other comprehensive gain			-		399,271
Deficit			(151,385,829)		(136,689,788)
			17,064,348		31,179,685
		$	21,304,297	$	34,442,800

Approved on behalf of the Board:

"John Lee" — John Lee, Director

"Greg Hall" — Greg Hall, Director

Nature of operations and going concern (Note 1)
Commitments (Note 27)
Contingencies (Note 28)
Events after the reporting date (Note 29)

See accompanying notes to the consolidated financial statements.

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

	Notes	Years Ended December 31 2014	2013
General and Administrative Expenses			
Advertising and promotion		$ 73,552	$ 132,779
Consulting and management fees		197,940	198,156
Depreciation		87,434	137,535
Director fees		151,823	247,655
Insurance		98,324	186,128
Office and administration		151,532	141,949
Professional fees		319,509	974,010
Salaries and benefits		373,994	531,355
Share-based payments	19	617,362	1,304,486
Stock exchange and shareholder services		130,098	121,617
Travel and accommodation		262,017	118,778
		(2,463,585)	(4,094,448)
Other Items			
Deemed disposal loss of investment in associate		-	(1,264,472)
Equipment rental revenue		-	1,338,003
Finance and transaction costs		-	(765,000)
Foreign exchange gain		663,523	251,254
Gain on sale of available-for-sale investments	12	2,654,882	237,137
Interest expense		-	(2,314,438)
Interest income		16,480	28,890
Impairment of inventory	11	(484,288)	-
Impairment of mineral property	14	(2,252,610)	-
Impairment of property and equipment	13	(11,151,346)	(3,694,446)
Impairment of receivables	9	(1,679,097)	-
Loss on debt settlement		-	(174,959)
Loss on disposal of investment in associate		-	(12,399,523)
Share of net loss of associate		-	(1,397,252)
		(12,232,456)	(20,154,806)
Loss Before Deferred Tax Recovery		(14,696,041)	(24,249,254)
Deferred income tax recovery	18	-	953,100
Net Loss for Year		(14,696,041)	(23,296,154)
Fair value gain on available-for-sale investments	12	-	399,271
Comprehensive Loss for Year		$ (14,696,041)	$ (22,896,883)
Loss Per Common Share, basic and diluted		$ (0.06)	$ (0.10)
Weighted Average Number of Common Shares Outstanding		251,399,255	236,480,098

See accompanying notes to the consolidated financial statements.

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

	Numbers of shares		Share Capital		Reserves		Accumulated Other Comprehensive Gain (Loss)		Deficit		Total
Balance, December 31, 2012	228,400,956	$	145,796,591	$	18,577,859	$	-	$	(113,393,634)	$	50,980,816
Private placement, net of share issue costs	12,525,428		989,597		-		-		-		989,597
Shares issued as financing fees	2,000,000		280,000		-		-		-		280,000
Warrants exercised	4,175,143		438,390								438,390
Share-based payments	-		-		1,070,305		-		-		1,070,305
Share bonus to personnel	1,272,292		175,535		141,925		-		-		317,460
Loss for the year	-		-		-		-		(23,296,154)		(23,296,154)
Fair value gain on available for-sale investments	-		-		-		399,271		-		399,271
Balance, December 31, 2013	248,373,819	$	147,680,113	$	19,790,089	$	399,271	$	(136,689,788)	$	31,179,685
Balance, December 31, 2013	248,373,819	$	147,680,113	$	19,790,089	$	399,271	$	(136,689,788)	$	31,179,685
Share-based payments	-		-		712,796		-		-		712,796
Share bonus to personnel	1,013,750		81,100		-		-		-		81,100
Debt settlement	2,541,065		190,580		-		-		-		190,580
Return to treasury	(50,000)		(4,501)		-		-		-		(4,501)
Loss for the year	-		-		-		-		(14,696,041)		(14,696,041)
Sale of available-for-sale investments	-		-		-		(399,271)		-		(399,271)
Balance, December 31, 2014	251,878,634	$	147,947,292	$	20,502,885	$	-	$	(151,385,829)	$	17,064,348

See accompanying notes to the consolidated financial statements

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

	Years Ended December 31 2014	2013
Operating Activities		
Net loss for the year	$ (14,696,041)	$ (23,296,154)
Adjustments to reconcile net loss to net cash flows:		
Depreciation	87,434	137,535
Deferred income taxes	-	(953,100)
Deemed loss on investment in associate	-	1,264,472
Equipment rental revenue	-	(1,338,003)
Share-based payments	617,362	1,304,486
Share of loss of an associate	-	1,397,252
Gain on sale of available-for-sale investments	(2,654,882)	(237,137)
Loss on disposal of investment in associate	-	12,399,523
Finance costs	-	390,000
Impairment of inventory	484,288	-
Impairment of mineral property	2,252,610	-
Impairment of property and equipment	11,151,346	3,694,446
Impairment of receivables	1,679,097	-
Interest costs	11,387	2,314,438
Interest income	(16,480)	(28,890)
Unrealized foreign exchange	-	219
	(1,083,879)	(2,950,913)
Working capital adjustments		
Receivables	310,826	(1,509,084)
Prepaid expenses	214,804	164,368
Inventory	(225,209)	678,224
Accounts payable and accrued liabilities	229,280	425,593
	529,701	(240,899)
Cash Used in Operating Activities	(554,178)	(3,191,812)
Investing Activities		
Acquisition of property and equipment	(3,163,902)	(651,554)
Mineral property expenditures	(517,167)	(1,383,594)
Interest received from short term investment	-	28,890
Proceeds from sale of available-for-sale investments	4,567,901	865,325
Proceeds from disposal of investment in associate	-	7,824,715
Restricted cash	-	(34,500)
Short term investment	-	5,107,500
Cash Provided by Investing Activities	886,832	11,756,782
Financing Activities		
Credit facility paid	(639,656)	-
Interest paid	-	(1,026,181)
Mongolian credit facility proceeds	-	1,701,325
Repayment of loan	-	(10,398,936)
Restructuring fees	-	(390,000)
Shares issued, net of share issuance costs	-	1,287,987
Cash Used in Financing Activities	(639,656)	(8,825,805)
Net Decrease in cash and cash equivalents	(307,002)	(260,835)
Cash and Cash Equivalents - beginning of year	507,996	768,831
Cash and Cash Equivalents - end of year	$ 200,994	$ 507,996

Supplemental cash flow information (Note 26)

See accompanying notes to the consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

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

The Company maintains its head office at 2nd floor, 342 Water Street, Vancouver, B.C., Canada, V6B 1B6.

These consolidated audited annual financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. The Company incurred a net loss of $14.7 million for the year ended December 31, 2014 (December 31, 2013 - $23.3 million) and has a deficit of $151 million (December 31, 2013 - $137 million).

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

Additional sources of funding, which may not be available at favourable terms, if at all, include: equity and debt financings; coal sales; equipment rentals; equity, debt or property level joint ventures with power project and coal property developers; and sales of interests in existing assets. In the event that the Company is not able to obtain adequate additional funding to continue as a going concern, material adjustments would be required to be made to both the carrying value and classification of assets and liabilities on the statement of financial position.

2. BASIS OF PRESENTATION

(a) Statement of compliance

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

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

(Expressed in Canadian Dollars)

2. BASIS OF PRESENTATION (cont'd…)

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

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

(b) Approval of the financial statements

The Annual Consolidated Financial Statements were approved and authorized for issue by the Board of Directors on March 24, 2015.

(c) Functional Currency

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

3. BASIS OF CONSOLIDATION

(a) Subsidiaries

The Annual Financial Statements comprise the financial statements of the Company and its wholly owned subsidiaries as at December 31, 2014. Subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. Effects of transactions between related companies are eliminated on consolidation. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company. Accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

Prophecy's subsidiaries at December 31, 2014 are as follows:

	Principal	Place of incorporation	Ownership
0912603 B.C. Ltd.	Exploration/Development	Canada	100%
0912601 B.C. Ltd.	Exploration/Development	Canada	100%
Chandgana Coal LLC	Exploration/Development	Mongolia	100%
Prophecy Power Generation LLC	Exploration/Development	Mongolia	100%
Red Hill Mongolia LLC	Exploration/Development	Mongolia	100%
UGL Enterprises LLC	Inactive	Mongolia	100%
1420 PSR PTE. LTD	Holding	Singapore	100%

(Expressed in Canadian Dollars)

4. CHANGES IN ACCOUNTING POLICIES

The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of January 1, 2014:

IFRS 10, IFRS 12 and IAS 27

(2011) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (2011) – Investment Entities
IAS 32 Amendments	Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
IAS 39 Amendments	Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting
IFRIC 21	Levies
IAS 36 Amendments	The amendments to IAS 36 relate to disclosure changes, specifically: (i) removing the requirement to disclose the recoverable value of a CGU when the CGU contains goodwill or long lived intangible assets not currently subject to impairment, (ii) adding a requirement to disclose the recoverable amount of an asset or CGU when an impairment loss is recognized or reversed, and (iii) adding a requirement to disclose how fair value less disposal costs are measured when an impairment loss is recognized or reversed.

These adoptions did not have a material impact on the Company's Annual Financial Statements.

The following standards have been published and are mandatory for the Company's annual accounting periods no earlier than January 1, 2017:

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

• IFRS 15 *'Revenue from Contracts with Customers'* – This standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

4. CHANGES IN ACCOUNTING POLICIES (cont'd…)

This standard is effective for fiscal years beginning on or after January 1, 2017, with early adoption permitted. The Company does not expect this standard to have a material impact on its financial statements.

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

5. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

5.1 Significant Judgments

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

(a) Functional currency determination

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

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

Prior to reaching operating levels intended by management, costs incurred are capitalized as part of the costs of the related mineral property and proceeds from coal sales are offset against capitalized costs. Depletion of capitalized costs for a mineral property begins when operating levels intended by management have been reached. Management considers several factors in determining when a mineral property has reached the operating levels intended by management. The results of operations of the Company during the year ended December 31, 2014, presented in these Annual Financial Statements, have been impacted by management's determination that its Ulaan Ovoo mineral property, classified within property and equipment on the statement of financial position, did not reach the operating levels intended by management. The Company is unable to determine with certainty the extent of project changes and operational modifications that would be required to more fully realize on the potential value of the existing coal resources (Note 13).

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

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

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

(d) Impairment assessment of deferred exploration interests

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

During the year ended December 31, 2014, the Company wrote-off as a non-cash charge the Titan, Okeover, and Kanichee properties. Due to current market conditions and the difficulty to raise additional financing, as well as Prophecy's inactivity on these properties in recent years, management impaired their values at the year ended December 31, 2014. The Company recognized a total impairment of mineral property loss of $2,252,610 on its consolidated statement of operations and comprehensive loss.

5.2 Estimates and Assumptions

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

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

(a) Mineral reserves

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

(b) Depreciation

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

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

(c) Impairment

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

Due to indications of impairment at December 31, 2014 an impairment analysis was completed on the Company's Ulaan Ovoo property CGU's and an impairment charge of $11,151,346 was taken as at that date and was reflected in the Company's Annual Financial Statements (Note 13).

(d) Inventories

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

Stockpile tonnages are verified by surveys. The allocation of costs to stockpiles and in-process inventories and the determination of net realizable value involve the use of estimates. There can be no assurance that actual results will not differ significantly from estimates used in the determination of the carrying value of inventories.

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

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

Management has made significant assumptions about the recoverability of Mongolian VAT receivable. Management uses all relevant facts available, such as the development of VAT policies in Mongolia, past collectability, and the general economic environment of Mongolia to determine if the VAT is impaired. During the year ended December 31, 2014, the Company recorded an impairment on VAT receivable in the amount of $1,679,097 (Note 9).

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

(f) Provision for closure and reclamation

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

(g) Share-based payments

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

(h) Contingencies

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

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

(i) Deferred Tax Liability

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

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

(j) Fair value measurement

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

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

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

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Associates

Associates are entities, including unincorporated entities such as partnerships, over which the Company has significant influence and that are neither subsidiaries nor interests in joint ventures. Significant influence is the ability to participate in the financial and operating policy decisions of the investee without having control or joint control over those policies.

In general, significant influence is presumed to exist when the Company has between 20% and 50% of voting power. Significant influence may also be evidenced by factors such as the Company's representation on the board of directors, participation in policy-making of the investee, material transactions with the investee, interchange of managerial personnel, or the provision of essential technical information. Associates are equity accounted for from the effective date of commencement of significant influence to the date that the company ceases to have significant influence.

Results of associates are equity accounted for using the results of their most recent annual financial statements or interim financial statements, as applicable. Losses from associates are recognized in the consolidated financial statements until the interest in the associate is written down to $nil. Thereafter, losses are recognized only to the extent that the Company is committed to providing financial support to such associates.

The carrying value of the investment in an associate represents the cost of the investment, including goodwill, a share of the post-acquisition retained earnings and losses accumulated other comprehensive income ("**AOCI**") and any impairment losses. At the end of each reporting period, the Company assesses whether there is any objective evidence that its investments in associates are impaired.

(b) Cash equivalents

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

(c) Short term investment

Short-term investments consist of certificates of deposit and money market instruments, including cashable guaranteed investment certificates, bearer deposit notes and commercial paper with original terms of three months or more, but less than one year.

(d) Available-for-sale investments

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

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

(e) Impairment of financial assets

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

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

(f) Mineral properties

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

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

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

(i) Title to mineral properties

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

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

(f) Mineral properties (cont'd…)

(ii) Realization of mineral property assets

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

(iii) Environmental

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental issues related to any of its current or former properties that may result in material liability to the Company.

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

(g) Property and equipment

(i) Development

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

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

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

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

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

(ii) Equipment

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

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

Computer equipment	45%
Computer software	100%
Exploration equipment	20%
Furniture and equipment	20%
Leasehold improvements	Straight line/5yrs
Mining equipment	20%
Vehicles	30%

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

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

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

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

Leasehold improvements are amortized on a straight-line basis over the term of the lease. Additions during the year are amortized at one-half the annual rates.

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

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

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU, where the recoverable amount of the CGU is the greater of the CGU's fair value less costs to sell and its value in use to which the assets belong.

In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

(i) Borrowing costs

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

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

(i) Borrowing costs (cont'd...)

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

(j) Foreign currency translation

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

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

(k) Revenue recognition

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

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

Revenue from coal sales is credited against construction when generated during commissioning of the plant; to mineral properties or property and equipment when generated from pre-commercial production; and to operations when generated from commercial production.

(l) Unit offerings

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

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

(m) Inventories

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

Stockpile tonnages are verified by surveys.

(n) Share-based payments

The Company has a share purchase option plan that is described in Note 20. The Company accounts for share-based payments using a fair value based method with respect to all share-based payments to directors, officers, employees, and service providers. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or if such fair value is not reliably measurable, at the fair value of the equity instruments issued. The fair value is recognized as an expense or capitalized to mineral properties or property and equipment with a corresponding increase in option reserve. This includes a forfeiture estimate, which is revised for actual forfeitures in subsequent periods.

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

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

(o) Loss per share

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

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

(p) Income taxes

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

(q) Provision for closure and reclamation

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

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

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

(r) Financial instruments

(i) Financial assets

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

The Company's cash and cash equivalents, and restricted cash equivalents are classified as FVTPL.

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

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

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

The Company's receivables and amount due from related party are classified as loans and receivables.

Held-to-maturity investments: These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's Management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method less any provision for impairment.

The Company does not have any held-to-maturity investments.

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

As at December 31, 2014, the Company does not have any available-for-sale investments.

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

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

(ii) Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. The Company's accounts payable and accrued liabilities, loan payable and line of credit facility are classified as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments.

Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income. The Company has no financial liabilities classified as FVTPL.

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

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

(s) Comparative figures

Certain comparative figures from the year ended December 31, 2013 have been re-classified during the year ended December 31, 2014. Equipment rental revenue of $1,338,003 has been re-classified in the consolidated statement of operations and comprehensive loss as a separate line and the property and equipment impairment expense adjusted accordingly to reflect the re-classification.

7. SEGMENTED INFORMATION

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

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

	December 31, 2013		
	Canada	Mongolia	Total
Reclamation deposits	$ 6,500	$ 21,054	$ 27,554
Property and equipment	190,135	10,568,451	10,758,586
Mineral properties	2,203,794	12,849,979	15,053,773
	$ 2,400,429	$ 23,439,484	$ 25,839,913

8. CASH AND CASH EQUIVALENTS

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

	December 31, 2014	December 31, 2013
Denominated in Canadian dollars	$ 154,592	$ 259,411
Denominated in US dollars	3,642	1,777
Denominated in Mongolian tugriks	42,760	246,808
	$ 200,994	$ 507,996

(Expressed in Canadian Dollars)

8. CASH AND CASH EQUIVALENTS (cont'd...)

Restricted Cash Equivalents

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

9. RECEIVABLES

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

		December 31, 2014		December 31, 2013
Current assets				
Input tax recoverable	$	5,987	$	1,838,683
Trade receivable		652,675		679,738
Other receivable		78,772		130,572
	$	737,434	$	2,648,993

During the year ended December 31, 2014 the Company determined that the Mongolian VAT receivable was not collectible and has recorded an impairment charge of $1,679,097 on the consolidated statement of operations and comprehensive loss.

10. PREPAID EXPENSES

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

		December 31, 2014		December 31, 2013
Advertising and promotion	$	-	$	2,902
Mining and exploration		385,538		251,255
Business acquisition		125,000		-
General		7,949		113,946
Insurance		43,489		11,825
Capital expenses		27,577		335,657
Power plant application		-		398,650
Environmental and taxes		72,967		46,904
Listing fees		-		15,715
Transportation and fuel		8,370		32,094
Rent		61,192		69,966
	$	732,082	$	1,278,914

(Expressed in Canadian Dollars)

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

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

11. INVENTORY

		December 31, 2014		December 31, 2013
Coal Inventory	$	1,499,231	$	1,758,310
	$	1,499,231	$	1,758,310

As at December 31, 2014, the Company determined inventory was impaired and recorded an impairment charge of $484,288 on the consolidated statement of operations and comprehensive loss.

12. AVAILABLE FOR SALE INVESTMENTS

As of December 31, 2014 the Company does not hold available-for sale investment (December 31, 2013 – $2,295,810).

Pursuant to the plan of arrangement and consolidation in share capital in the acquisition of Wellgreen Platinum Ltd. shares ("**Wellgreen Platinum**") in June 2011, the Company acquired 22,500,000 and reserved 4,417,643 Wellgreen Platinum's issued and outstanding common shares for distribution to option and warrant holders of the Company. Pursuant to the plan of arrangement each option and warrant holder of Prophecy Development as at June 9, 2011 will, upon the exercise of their Prophecy Development options and warrants, ("**June 9, 2011 Options and Warrants**") receive 0.094758 of a Wellgreen Platinum common share, in addition to one common share of the Company for each whole option or warrant of the Company held and exercised. Any Wellgreen Platinum shares held in-trust, but not delivered, due to the expiry of unexercised June 9, 2011 Options and Warrants, shall be returned to the Company.

During the year ended December 31, 2014, a total of 1,981,368 of Wellgreen Platinum's reserved held in-trust common shares were released back to the Company due to the forfeiture and expiry of applicable June 9, 2011 Options and Warrants. During the year ended December 31, 2014, the Company sold a total of 5,308,629 Wellgreen Platinum's common shares for gross proceeds of $4,567,901 and a realized gain of $2,654,882.

As at December 31, 2014, the Company held reserved in-trust, 335,265 (December 31, 2013- 2,316,634) Wellgreen Platinum common shares contingent upon exercise of these June 9, 2011 Options and Warrants.

(Expressed in Canadian Dollars)

12. AVAILABLE FOR SALE INVESTMENTS (cont'd...)

The Company's activity in itsavailable-for-sale investment for the year ending December 31, 2014 and December 31, 2013 was as follows:

	December 31, 2014	December 31, 2013
Investment in Wellgreen Platinum Ltd.		
Opening balance	$ 2,295,810	$ 25,118,910
Deemed disposal loss of associate	-	(1,264,472)
Share of net loss of associate	-	(1,397,252)
Acquisitions	411,825	140,000
Disposals to market	(2,308,364)	(625,222)
Settlement of debt	-	(474,699)
Private sale	-	(19,596,976)
Fair value loss on available-for-sale investments of an associate	-	(3,750)
Net gain/(loss) transferred to/from equity	(399,271)	399,271
	$ -	$ 2,295,810

(Expressed in Canadian Dollars)

13. PROPERTY AND EQUIPMENT

						Ulaan Ovoo		
	Computer Equipment	Furniture & Equipment	Vehicles	Computer Software	Leasehold Improvements	Mining Equipment	Deferred Exploration	Total
Cost								
Balance, December 31, 2012	$ 176,192	$ 377,701	$ 786,946	$ 196,707	$ 172,818	$ 14,459,112	$ 2,000,000	$ 18,169,476
Additions/(disposals)	(4,642)	(5,156)	11,653	(153)	-	612,388	-	614,090
Sale of coal	-	-	-	-	-	-	(3,253,283)	(3,253,283)
Cost of coal production	-	-	-	-	-	-	7,347,729	7,347,729
Impairment charge	-	-	-	-	-	-	(4,094,446)	(4,094,446)
Balance, December 31, 2013	$ 171,550	$ 372,545	$ 798,599	$ 196,554	$ 172,818	$ 15,071,500	$ 2,000,000	$ 18,783,566
Accumulated depreciation								
Balance, December 31, 2012	$ 80,515	$ 135,451	$ 288,488	$ 120,433	$ 58,145	$ 4,557,103	$ -	$ 5,240,135
Depreciation for year	19,357	38,564	116,099	10,895	34,564	2,565,366	400,000	3,184,845
Impairment charge	-	-	-	-	-	-	(400,000)	(400,000)
Balance, December 31, 2013	$ 99,872	$ 174,015	$ 404,587	$ 131,328	$ 92,709	$ 7,122,469	$ -	$ 8,024,980
Carrying amount								
At December 31, 2012	$ 95,677	$ 242,250	$ 498,458	$ 76,274	$ 114,673	$ 9,902,009	$ 2,000,000	$ 12,929,342
At December 31, 2013	$ 71,678	$ 198,530	$ 394,012	$ 65,226	$ 80,109	$ 7,949,031	$ 2,000,000	$ 10,758,586
Cost								
Balance, December 31, 2013	$ 171,550	$ 372,545	$ 798,599	$ 196,554	$ 172,818	$ 15,071,500	$ 2,000,000	$ 18,783,566
Additions	4,411	672	-	1,259	-	927,423	-	933,765
Disposals	(20,124)	-	(11,291)	-	-	-	(33,899)	(65,314)
Sale of coal	-	-	-	-	-	-	(3,935,612)	(3,935,612)
Cost of coal production	-	-	-	-	-	-	10,045,848	10,045,848
Impairment charge	-	-	-	-	-	(9,750,533)	(8,076,337)	(17,826,870)
Balance, December 31, 2014	$ 155,837	$ 373,217	$ 787,308	$ 197,813	$ 172,818	$ 6,248,390	$ -	$ 7,935,383
Accumulated depreciation								
Balance, December 31, 2013	$ 99,872	$ 174,015	$ 404,587	$ 131,328	$ 92,709	$ 7,122,469	$ -	$ 8,024,980
Depreciation for year	15,338	33,288	73,428	4,356	32,944	1,664,591	400,000	2,223,945
Impairment charge	-	-	-	-	-	(6,275,524)	(400,000)	(6,675,524)
Balance, December 31, 2014	$ 115,210	$ 207,303	$ 478,015	$ 135,684	$ 125,653	$ 2,511,536	$ -	$ 3,573,401
Carrying amount								
At December 31, 2013	$ 71,678	$ 198,530	$ 394,012	$ 65,226	$ 80,109	$ 7,949,031	$ 2,000,000	$ 10,758,586
At December 31, 2014	$ 40,627	$ 165,914	$ 309,293	$ 62,129	$ 47,165	$ 3,736,854	$ -	$ 4,361,982

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

Ulaan Ovoo Property

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

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

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

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

Pre-commercial operations for the period from commencement in November 2010 until December 31, 2014, along with project exploration and development costs were capitalized to Ulaan Ovoo deferred exploration costs within property and equipment. Modest coal sales revenue and associated costs to deliver the coal during the fiscal 2014 have been recorded against deferred exploration, within property and equipment.

Impairment

During the year ended December 31, 2014, the Company determined there were several indicators of potential impairment of the carrying value of the Company's long-lived assets. The indicators of potential impairment were as follows:

(i) The book value of the Company's net assets exceeded the market capitalization of the Company;

(ii) The Ulaan Ovoo property re-commenced pre-commercial productions during the year ended December 31, 2013. During the year ended December 31, 2014, production targets were not met;

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

Impairment (cont'd...)

(iii) Coal prices have been volatile and have experienced declines throughout the year ended December 31, 2014; and

(iv) The Company's history of operating losses, combined with current losses and the inability to reduce operating costs to an acceptable level relating to the Ulaan Ovoo property.

As result, in accordance with *IFRS 6, Exploration for and Evaluation of Mineral Resources* and *IAS 36, Impairment of Assets,*at December 31, 2014, the Company assessed the recoverable amount of the Ulaan Ovoo property, which consists of the deferred development costs and the mine equipment, which have both been identified as separate CGU's.

Mining Equipment

The recoverable amount of the mining equipment was determined as Fair Value Less Costs to Sell ("**FVLCTS**") because the FVLCTS is considered to be the higher amount between Value-in-Use and FVLCTS, which is based upon the equipment's estimated replacement cost, less a discount for costs to sell. Under the premise of continuous use, replacement cost is determined on the basis of the current market value of the assets if they are to be re-acquired and commissioned. Through an on-site inspection and technical analysis, a residual amount is determined which is used in calculating the estimated value. Management's estimate of the FVLCTS is classified as level 3 in the fair value hierarchy. At December 31, 2014, the recoverable amount of $3,736,854 was lower than the carrying value of the CGU and therefore the Company recorded an impairment charge of $3,475,009 against the value of the mining equipment.

Deferred development costs

The Company determined the recoverable amount of the deferred development cost based on its expected value-in-use. As a result of the Company not meeting its production targets, as well as negative net cash flows realized from the Ulaan Ovoo property, there are no expected net cash flows from the project, resulting in a value in use of $nil. As at December 31, 2014, the recoverable amount of $nil resulted in an impairment charge of $ 7,676,337 against the value of the deferred development costs.

(Expressed in Canadian Dollars)

14. MINERAL PROPERTIES

	Chandgana Tal	Khavtgai Uul	Titan	Okeover, others	Total
Balance, December 31, 2012	$ 8,624,130	$ 2,603,986	$ 750,628	$ 1,409,138	$ 13,387,882
Additions:					
Acquisition cost	-	-	-	-	-
Deferred exploration costs:					
Licenses, leases, and power plant application	792,392	161,226	-	4,852	958,470
Geological core, engineering, and consulting	271,683	515	-	30,580	302,778
Camp and general	285,967	110,081	-	8,595	404,643
	1,350,042	271,822	-	44,027	1,665,891
Balance, December 31, 2013	$ 9,974,172	$ 2,875,808	$ 750,628	$ 1,453,165	$ 15,053,773
Additions:					
Acquisition cost	$ -	$ -	$ -	$ -	$ -
Deferred exploration costs:					
Licenses, leases, and power plant application	664,437	41,299	1,049	5,864	712,649
Geological core, engineering, and consulting	23,560	-	7,705	30,910	62,175
Camp and general	112,464	18,780	1,500	1,789	134,533
Impairment of mineral property	-	- -	760,882	(1,491,728)	(2,252,610)
	800,461	60,079	(750,628)	(1,453,165)	(1,343,253)
Balance, December 31, 2014	$ 10,774,633	$ 2,935,887	$ -	$ -	$ 13,710,520

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

(a) Chandgana Tal Property, Mongolia

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

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

(b) Khavtgai Uul Property, Mongolia

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

(c) Titan Property, Ontario, Canada

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

In January 2010, the Company entered into an option agreement with Randsburg International Gold Corp. ("**Randsburg**") whereby 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 shares of the Company. The Titan property is subject to a 3% NSR that may be purchased for $20,000.

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

Due to current market conditions and the difficulty to raise additional financing, as well as Prophecy's inactivity on the Titan property in recent years, management impaired the value at the year ended December 31, 2014. Prophecy continues to retain its 80% interest and management will continue to evaluate appropriate financing and strategic alternatives to move the project forward. The Company recognized an impairment loss $760,882 on its consolidated statement of operations and comprehensive loss

(d) Okeover Property, British Columbia, Canada

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

(Expressed in Canadian Dollars)

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

Due to current market conditions and the difficulty to raise additional financing, as well as Prophecy's inactivity on the Okeover property in recent years, management impaired the value at the year ended December 31, 2014. Prophecy continues to retain its 60% interest and management will continue to evaluate appropriate financing and strategic alternatives to move the project forward. The Company recognized an impairment loss $1,453,897 on its consolidated statement of operations and comprehensive loss.

(e) Kanichee Property, Ontario, Canada

During the year ended December 31, 2014, the Company wrote-off as a non-cash charge the Kanichee property since management determined that the property does not fit the Company's core strategy. The Company recognized an impairment loss of $37,832 on its consolidated statement of operations and comprehensive loss.

15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

		December 31, 2014		December 31, 2013
Trade accounts payable	$	2,347,888	$	992,253
Accrued liabilities		430,480		439,985
	$	2,778,368	$	1,432,238

16. LINE OF CREDIT FACILITY

In October 2013, Prophecy Coal's wholly-owned Mongolian subsidiary, Red Hill Mongolia LLC ("**Red Hill**") arranged a line of credit for US $1,500,000 ("**LOC**") with the Trade and Development Bank. The line of credit has a 1.5 year term, with the option of extending it, and bears interest at 15% per annum and a commitment rate of 2% per annum payable monthly. The funds will be used for working capital. The credit facility is collateralized by certain equipment and certain mineral and exploration licences. Pursuant to the LOC agreement, Red Hill was scheduled to pay a fixed amount of US $125,000 monthly against the principal starting May 2014. Interest expense related to the LOC is capitalized to the Ulaan Ovoo asset totaling $226,549.

On June 30, 2014, Red Hill amended the line of credit agreement by extending the maturity date by four months and the repayment schedule of the remaining principal of US $1,250,000 commencing November 2, 2014, broken down as follows:

November and December 2014	Monthly payment of US $150,000
January 2015 to March 2015	Monthly payment of US $150,000
April 2015 to August 2015	Monthly payment of US $100,000

As at December 31, 2014, Red Hill had drawn down $1,288,218 of the LOC. For the year ended December 31, 2014, Red Hill recorded an interest expense of $226,549, interest paid of $224,871 and interest payable of $16,391. The Company is currently not in compliance with the above payment schedule.

(Expressed in Canadian Dollars)

17. PROVISION OF CLOSURE AND RECLAMATION

		December 31, 2014		December 31, 2013
Balance, beginning of year	$	129,552	$	294,263
Additions (reductions)		32,424		(193,460)
Accretion		11,387		28,749
Balance, end of year	$	173,363	$	129,552

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

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

Management used a risk-free interest rate of 1.79% and a risk premium of 7% in preparing the Company's provision for closure and reclamation. Although the ultimate amount of reclamation costs to be incurred cannot be predicted with certainty, the total undiscounted amount of estimated cash flows required to settle the Company's estimated obligations is $2,000,000 over the next 9.7 years. The cash expenditures are expected to occur over a period of time extending several years after the projected mine closure of the mineral properties. The decrease from the prior year is due to revised figures used to calculate the volume of the disturbed pit area relative to the prior year.

18. DEFERRED INCOME TAXES

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

(Expressed in Canadian Dollars)

18. DEFERRED INCOME TAXES (cont'd...)

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

		2014		2013
Earnings (loss) for the year	$	(14,696,041)	$	(24,249,254)
Expected income tax (recovery)	$	(3,821,000)	$	(6,244,000)
Change in statutory, foreign tax, foreign exchange rates and other		217,000		(41,100)
Permanent Difference		3,528,000		5,160,000
Share issue cost		-		(84,000)
Adjustment to prior years provision versus statutory tax returns and		(1,819,000)		(518,000)
Change in unrecognized deductible temporary differences		1,895,000		774,000
Total income tax expense (recovery)	**$**	**-**	**$**	**(953,100)**

The Canadian income tax rate declined/increased during the year due to changes in the law that reduced/increased corporate income tax rates in Canada/British Columbia.

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

		2014	Expiry dates		2013	Expiry dates
Share issue costs	**$**	**768,000**	2035 to 2037	$	1,531,000	2034 to 2037
Allowable Capital losses	**$**	**4,943,000**	No expiry	$	538,000	No expiry
Non-Capital losses	**$**	**14,491,000**	2030 to 2034	$	8,524,000	2030 to 2033
Property and equipment	**$**	**1,047,000**	No expiry	$	995,000	No expiry
Exploration and evaluation assets	**$**	**140,000**	No expiry	$	104,000	No expiry
Investment tax credits	**$**	**23,000**	2029	$	22,000	2029
Asset retirement obligation	**$**	**173,000**	No expiry	$	294,000	No expiry

19. SHARE CAPITAL

(a) Authorized

The authorized share capital consists of an unlimited number of common shares without par value. There are no authorized preferred shares. At December 31, 2014, the Company had 251,878,634 (December 31, 2013 – 248,373,819) common shares issued and outstanding.

(b) Equity issuances

During the year ended December 31, 2014, Prophecy had the following common share capital transactions:

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

On January 7, 2014, the Company issued a second tranche of 1,013,750 common shares at a value of $0.08 related to its 2012 share bonus to certain employees, directors, officers, and consultants of the Company. The Company recorded $81,100 as share bonus expense to personnel. On July 3, 2014, 50,000 common shares (at value of $4,501) of the Company were returned to treasury at no cost to the Company.

On June 19, 2014, the Company issued 2,541,065 units ("**Debt Settlement Units**") as payment for outstanding debt owing by the Company to some of the Company's directors, officers, employees and consultants at a value of $0.075 per Debt Settlement Unit. Each Debt Settlement Unit is comprised of one common share of the Company and one share purchase warrant of the Company entitling the holder thereof to purchase, upon exercise of a warrant, one additional common share at a price of $0.10 per common share for a period of two years from the date of issuance of the Debt Settlement Units.

During the year ended December 31, 2013, Prophecy had the following common share capital transactions:

On March 15, 2013, Prophecy issued 2,000,000 shares to Waterton at a value of $0.14 per share, amounting to $280,000, as a financing fee pursuant to $10 million loan and related waiver.

On April 12, 2013, the Company closed the first tranche of a non-brokered private placement announced on February 7, 2013 (the "**Private Placement**"), issuing 4,382,571 units (each a "Unit") of the Company, of which each Unit consists of one common share (a "**Share**") and 0.75 common share purchase warrant (a "**Warrant**"), at a purchase price of $0.14 per Unit for aggregate consideration of $613,560. Each whole Warrant is exercisable into one common share of Prophecy at a price of $0.18, expiring two years from the date of issue. Each Unit sold in the first tranche also included, subject to shareholder approval, which was obtained at the AGM on July 30, 2013, an adjustment warrant ("**Adjustment Warrant**") entitling the holder to acquire additional common shares of the Company. Finder's fees of 6% were paid in connection with a portion of the first tranche of the private placement.

On June 6, 2013, the Company closed a second and final tranche of the Private Placement with the issuance of 8,142,857 units (each a "**Unit**") of the Company for aggregate consideration of $1,140,000. Each Unit consists of one common share and $0.75 of a common share purchase Warrant at a purchase price of $0.14 per Unit. Each whole Warrant is exercisable for one common share of Prophecy at a price of $0.18, expiring two years from the date of issue. Each Unit sold in the second tranche also included an Adjustment Warrant entitling the holder to acquire additional common shares of the Company. Finder's fees of 6% were paid on the second tranche of the Private Placement.

The Company amended the first and second tranche of the Private Placement to include an additional Adjustment Warrant in each Unit sold in the Private Placement. Each Adjustment Warrant may be exercised for no additional consideration for a period of 12 months following the closing of the final tranche of the private placement, for a fraction of a common share of Prophecy. The fraction will be calculated by first dividing the Unit subscription price of $0.14 by the market price (subject to a floor market price of $0.105) at the time of exercise, then subtracting one (1) from that resulting number to determine the fraction. Market price is defined as the 20 day moving average price for the Company's common shares. The Adjustment Warrants must be exercised in their entirety and may not be exercised in part, and the holder of

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

Adjustment Warrants may not sell any securities of the Company within 20 days prior to exercise. Adjustment Warrants may also only be exercised to the extent that the holder continues to hold the shares and warrants comprising the Units of which the Adjustment Warrants were attached.

A total of 12,525,428 Adjustment warrants were issued and subsequently exercised resulting in the Company issuing 4,175,143 common shares on October 4, 2013.

On January 24, 2013, the Board of Directors approved the grant of 2,027,500 bonus shares to employees, consultants and directors. Pursuant to shareholder approval granted at the Company's 2013 Annual General Meeting held on July 30, 2013, the Company issued a first tranche of 1,013,750 Prophecy common shares on October 4, 2013. On July 3, 2013, the Company issued 258,542 common shares as the second tranche of 2011 stock bonus. As at December 31, 2013, the Company recorded $317,460 stock bonus expense.

(c) Equity-based compensation plans

The Company has two equity-based compensation plans in place: (i) a 20% rolling stock option plan that was approved by the Company's shareholders on July 30, 2013 (the "**2013 Option Plan**"); and (ii) a share-based compensation plan ("**Share-Based Compensation Plan**") which provides for the granting of stock options, bonus shares and stock appreciation rights and which was approved by the Company's disinterested shareholders on June 19, 2014. Since the implementation of the Share-Based Compensation Plan, the 2013 Option Plan has remained in force and effect solely to govern the stock options previously granted under the 2013 Option Plan. All stock options and other share-based awards granted by the Company, or to be granted by the Company, since the implementation of the Share-Based Compensation Plan will be issued under, and governed by, the terms and conditions of the Share-Based Compensation Plan.

Subject to the adjustment provisions provided for in the Share-Based Compensation Plan and the applicable rules of the TSX, the aggregate number of common shares issuable under the Share-Based Compensation Plan, plus the aggregate number of common shares issuable pursuant to the exercise of outstanding stock options granted under the 2013 Option Plan, must not exceed 50,080,263, being 20% of the total issued and outstanding common shares of the Company (as of June 19, 2014). The stock option vesting terms are determined by the Board of Directors on grant with a maximum allowable stock option life of 10 years.

During the year ended December 31, 2014, the Company granted 13,535,000 stock options to directors, officers, employees and consultants with a weighted average exercise price of $0.08 and expiry dates ranging from January 9, 2019 to October 21, 2019.

On June 30, 2014, the Company also modified 2,668,750 stock options granted to various consultants, former directors and former officers of the Company to replace an equivalent number of June 9, 2011 Options and Warrants which they voluntarily surrendered in June 2014. The modified stock options vest immediately and are exercisable at $0.055 per share until December 31, 2015. The incremental fair value of these modified options determined using the Black-Scholes option pricing model was $42,676 and was recorded as share-based payment expense during the year ended December 31, 2014.

(Expressed in Canadian Dollars)

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

During the year ended December 31, 2013, the Company granted 4,800,000 share purchase options to employees, directors, officers and consultants, with a weighted average exercise price of $0.12 and expiry dates ranging from March 4, 2018 to August 16, 2018.

The following is a summary of the changes in Prophecy's stock options from December 31, 2012 to December 31, 2014:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2012	32,485,550	$0.57
Granted	4,800,000	$0.12
Forfeited	(5,720,000)	$0.20
Outstanding, December 31, 2013	31,565,550	$0.26
Granted	13,535,000	$0.08
Expired	(1,231,800)	$0.28
Forfeited	(14,980,000)	$0.29
Cancelled	(2,325,000)	$0.23
Outstanding, December 31, 2014	26,563,750	$0.13
Options exercisable on December 31, 2014	20,463,750	$0.14

As of December 31, 2014, the following Prophecyshare purchase options were outstanding:

			At December 31, 2014	
Exercise Price	Options Outstanding	Expiry Date	Exercisable	Unvested
$ 0.055	2,468,750	December 31, 2015	2,468,750	-
$ 0.055	100,000	October 21, 2019	-	100,000
$ 0.065	7,055,000	May 1, 2019	4,880,000	2,175,000
$ 0.08	100,000	January 9, 2019	50,000	50,000
$ 0.10	500,000	February 3, 2019	250,000	250,000
$ 0.105	5,150,000	January 27, 2019	2,575,000	2,575,000
$ 0.12	3,450,000	August 16, 2018	2,562,500	887,500
$ 0.13	250,000	July 22, 2018	187,500	62,500
$ 0.18	230,000	August 16, 2017	230,000	-
$ 0.18	3,654,167	August 22, 2017	3,654,167	-
$ 0.18	375,000	September 24, 2017	375,000	-
$ 0.25	10,000	June 1, 2017	10,000	-
$ 0.28	2,450,000	June 18, 2017	2,450,000	-
$ 0.28	25,000	September 21, 2015	25,000	-
$ 0.28	50,000	May 10, 2015	50,000	-
$ 0.28	445,833	December 24, 2015	445,833	-
$ 0.28	50,000	April 30, 2015	50,000	-
$ 0.28	100,000	February 14, 2016	100,000	-
$ 0.67	100,000	May 10, 2015	100,000	-
	26,563,750		20,463,750	6,100,000

(Expressed in Canadian Dollars)

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

At December 31, 2014, the Company had 20,463,750 exercisable share purchase options outstanding (December 31, 2013– 24,199,717).

Share-based payment expenses resulting from stock options are amortized over the corresponding vesting periods. During the year ended December 31, 2014, the share-based payment expenses were calculated using the following weighted average assumptions:

	Year ended December 31, 2014	
	2014	2013
Risk-free interest rate	1.62%	1.85%
Expected life of options in years	4.90 years	5 years
Expected volatility	84.3%	74.6%
Expected dividend yield	Nil	Nil

The expected volatility used in the Black-Scholes option pricing model is based on the historical volatility of the Company's shares. The weighted average fair-value of options granted during the year ended December 31, 2014 was $0.05 (December 31, 2013 - $0.07).

Share-based payments charged to operations and assets were allocated between capitalization as property and equipment for Ulaan Ovoo and other deferred mineral properties, and general and administrative expenses. For the year ended December 31, 2014 and 2013, share-based payments were recorded as follows:

	Year Ended December 31,	
	2014	2013
Consolidated Statement of Operations		
Share based payments	$ 617,362	$ 1,304,486
	617,362	1,304,486
Consolidated Statement of Financial Position		
Ulaan Ovoo exploration	112,650	68,487
Power Plant application	59,383	14,792
	172,033	83,279
Total share-based payments	$ 789,395	$ 1,387,765

(Expressed in Canadian Dollars)

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

(d) Share purchase warrants

The following is a summary of the changes in Prophecy's warrants and adjustment warrants from December 31, 2012 to December 31, 2014:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2012	10,339,926	$0.57
Issued	9,394,072	$0.18
Expired	(6,508,415)	$0.80
Outstanding, December 31, 2013	13,225,583	$0.18
Issued	2,541,065	$0.10
Outstanding, December 31, 2014	15,766,648	$0.15

	Number of Adjustment Warrants	Weighted Average Exercise Price
Outstanding, January 1, 2013	-	-
Issued adjustment warrants	12,525,428	**
Exercised	(12,525,428)	-
Outstanding, December 31, 2013 and 2014	-	-

** Adjustment warrants see Note 19 (b)

On July 7, 2014 the Company announced an amendment of the terms of 1,064,215 share purchase warrants (the "**Old Warrants**") of the Company held by various investors that were originally issued pursuant to a private placement of 3,831,511 units which closed on October 28, 2010, expiring October 28, 2015 with an exercise price of $0.18 and had a right to purchase a fraction of a share of Wellgreen Platinum attached.

The Old Warrants were voluntarily surrendered by holders in June 2014. The Company replaced the Old Warrants by issuing an equivalent number of new warrants to these holders at an exercise price of $0.055, and no longer have a right to purchase a fraction of Wellgreen Platinum shares attached. The incremental fair value of $14,789 of the modified warrants was included in share based payments expense and determined using the Black-Scholes option pricing model using the following assumptions:1) a risk-free interest rate of 0.99%, 2) warrant expected life of 1.27 years, 3) expected volatility of 109%, 4)dividend yield of nil.

(Expressed in Canadian Dollars)

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

(d) Share purchase warrants (cont'd…)

On October 4, 2013, the Company issued 4,175,143 common shares pursuant to the exercise of 12,525,420 adjustment warrants accordingly to adjustment warrant terms described in Note 19 (b) at no consideration.

Exercise price	Number of Warrants		Expiry date
	At December 31, 2014	At December 31, 2013	
$0.18	3,286,929	3,286,929	April 11, 2015
$0.18	6,107,143	6,107,143	June 4, 2015
$0.18	2,767,296	3,831,511	October 28, 2015
$0.055	1,064,215	-	October 28, 2015
$0.10	2,541,065	-	June 19, 2016
	15,766,648	13,225,583	

20. CAPITAL RISK MANAGEMENT

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

The properties, to which the Company currently has an interest in, are in the development and exploration stage; as such, Prophecy is dependent on external financing to fund its activities. In order to carry out the planned exploration and development and pay for administrative costs, Prophecy will spend its existing working capital and raise additional amounts as needed. There were no changes in managements approach to capital management during the year ended December 31, 2014. Neither Prophecy nor its subsidiaries are subject to externally imposed capital requirements.

21. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

Fair Value

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

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

Level 2 – inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or

(Expressed in Canadian Dollars)

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

liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means; and

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

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

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

As at December 31, 2013	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	$ 507,996	$ -	$ -	$ 507,996
Restricted cash equivalents	34,500	-	-	34,500
Available-for-sale investments	2,295,810	-	-	2,295,810
	$2,838,306	$ -	$ -	$ 2,838,306

The Company considers that the carrying amount of all its financial assets and financial liabilities measure at amortized cost approximates their fair value. The Company does not offset financial assets with financial liabilities. There were no transfers between Level 1, 2 and 3 for the year ended December 31, 2014.

Valuation Techniques

Available-for-sale investments

The fair value of available-for-sale investments is determined based on the closing price of each investment at the date of the statement of financial position. The closing price is a quoted market price obtained from the exchange that is the principal active market for the particular security, and therefore available-for-sale investment are classified within Level 1 of the fair value hierarchy. The fair value of the Company's former investment in the shares of Wellgreen Platinum is determined using this methodology.

(Expressed in Canadian Dollars)

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

Categories of financial instruments

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

	As at December 31, 2014	As at December 31, 2013
Fair value through profit or loss		
Cash and cash equivalents	$ 200,994	$ 507,996
Restricted cash equivalents	34,500	34,500
Loans and receivables		
Trade receivable and other	731,447	679,738
VAT receivable	1,679,097	1,813,502
Due from related party	-	78,364
Available-for-sale investments	-	2,295,810
	$ 2,646,038	$ 5,409,910
Other financial liabilities		
Accounts payable and accrued liabilities	$ 2,778,368	$ 1,432,238
Line of credit facility	1,288,218	1,701,325
	$ 4,066,586	$ 3,133,563

22. FINANCIAL RISK MANAGEMENT DISCLOSURES

(a) Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its financial obligations as they fall due. The Company manages liquidity risk by preparing cash flow forecasts of upcoming cash requirements. As at December 31, 2014, the Company had a cash and cash equivalents balance of $200,994 (at December 31, 2013 – cash and cash equivalents and available-for-sale investments of $2,803,806), in order to meet short-term business requirements. At December 31, 2014, the Company had accounts payable and accrued liabilities $2,778,368 (December 31, 2013 - $1,432,238), which have contractual maturities of 90 days or less and short-term line of credit payments of $1,288,218. The Company is seeking financing in order to be in a position to satisfy its current liabilities.

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

(Expressed in Canadian Dollars)

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

(a) Liquidity risk (cont'd…)

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

	0 to 6 months	6 to 12 months	Total
As at December 31, 2014			
Trade accounts payable	$ 2,347,888	$ -	$ 2,347,888
Line of credit facility, current portion	1,055,678	232,540	1,288,218
	$ 3,403,566	$ 232,540	$ 3,636,106
As at December 31, 2013			
Trade accounts payable	$ 992,253	$ -	$ 992,253
Loans payable	267,350	805,050	1,072,400
	$ 1,259,603	$ 805,050	$ 2,064,653

Additional sources of funding, which may not be available on favourable terms, if at all, include: share equity and debt financings; coal sales from stockpiled inventory; equity, debt or property level joint ventures with power project and coal property developers; and sale of interests in existing assets. In the event that the Company is not able to obtain adequate additional funding to continue as a going concern, material adjustment would be required to both the carrying value and classification of assets and liabilities on the statement of financial position (Note 1).

(b) Credit risk

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

(c) Market risk

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

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

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's cash equivalents primarily include highly liquid investments that earn interest at market rates that are fixed to maturity or at variable interest rates. The Company also drew down $1,288,218 on its credit facility bearing an annual coupon rate of 15%, with monthly interest payments. Due to the short-term nature of these financial instruments, and that the Company's line of credit beers interest at fixed rate, fluctuations in market rates do not have a significant impact on the fair values or future cash flows of the financial instruments as of December 31, 2014. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

(ii) Foreign currency risk

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

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

Based on the above, net exposures as at December 31, 2014, with other variables unchanged, a 10% (December 31, 2013 - 10%) strengthening (weakening) of the Canadian dollar against the Mongolian tugrik would impact earnings with other variables unchanged by $133,835. A 10% (December 31, 2013 - 10%) strengthening (weakening) of the US dollar against the Canadian dollar would have a trivial impact on net loss. 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)

24. 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.

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

	Year Ended December 31,	
Related parties	2014	2013
Directors and officers	$ 370,462	$ 499,817
Linx Partners Ltd.	490,312	525,012
MaKevCo Consulting Inc.	54,200	142,200
	$ 914,974	$ 1,167,029

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

	Year Ended December 31,	
Related parties	2014	2013
Consulting and management fees	$ 169,312	$ 153,948
Directors' fees	151,823	246,010
Mineral properties	176,750	320,250
Property and equipment	150,500	162,750
Salaries and benefits	266,589	284,071
	$ 914,974	$ 1,167,029

As at December 31, 2014, amounts due to related parties totaled of $463,578 (December 31, 2013 – $413,278) and was comprised of $70,845 (December 31, 2013 - $129,060) for director fees, $198,935 (December 31, 2013 - $84,072) for consulting fees, and $157,312 (December 31, 2013 - $200,146) for managing the Ulaan Ovoo mineral properties and power plant project, and $36,486 (December 31, 2013 - $Nil) for salaries and reimbursable expenses.

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

25. 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.

(Expressed in Canadian Dollars)

		Year Ended December 31,		
Key Management Personnel		2014		2013
Salaries and short term benefits	$	344,970	$	811,321
Share-based payments		418,850		829,085
	$	763,820	$	1,640,406

26. SUPPLEMENTAL CASH FLOW INFORMATION

		Year Ended December 31,		
		2014		2013
Supplementary information				
Interest paid	$	224,871	$	1,052,160
Non-Cash Financing and Investing Activities				
Application of prepaid expense to mineral property	$	332,028	$	-
Shares issued as financing fees	$	-	$	280,000
Shares issued as bonus shares	$	81,100	$	175,535
Shares returned to treasury	$	4,501	$	-
Shares issued to settle debt	$	190,580	$	-
Shares issued in exchange for Wellgreen shares	$	-	$	140,000
Non-cash disposition of Wellgreen shares to settle debt	$	-	$	474,699
Revision in provision for closure and reclamation	$	-	$	(193,460)
Capitalized depreciation	$	2,136,511	$	3,708,606
Capitalized interest	$	226,549	$	42,900
Property & equipment expenditures included in accounts payable	$	1,921,741	$	615,090
Mineral property expenditures included in accounts payable	$	269,950	$	269,171
Share-based payments capitalized in property and equipment	$	112,650	$	68,487
Share-based payments capitalized in mineral properties	$	59,383	$	14,792

27. COMMITMENTS

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

Office rental commitments		
Year		Amount
2015	$	63,641
2016		21,214
	$	84,855

28. CONTINGENCIES

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

During the year ended December 31, 2014, Red Hill Mongolia LLC was issued a letter from the Sukhbaatar district Tax division discussing the results of VAT inspection of the 2009-2013 tax imposition and payments resulted in an imposed VAT payable of MNT 2,654,175,507

(CAD$1,648,556). Red Hill disagreed with the findings as the tax assessment appeared to be unfounded. The Company has been advised by its legal counsel that it is only possible, but not probable, that the action will succeed. The Company disputes the assessment and submitted a complaint to the Capital City Tax Tribunal. The Tribunal's decision is pending.

In the opinion of Prophecy, at December 31, 2014 a provision for this matter is not required.

29. EVENTS AFTER THE REPORTING DATE

The following events occurred subsequent to December 31, 2014:

- On November 4, 2014, the Company announced that it has signed a definitive agreement (the "**Definitive Agreement**") with Apogee Silver Ltd. ("**Apogee**") in connection with the proposed transaction to acquire the Pulacayo-Paca silver-lead-zinc mining project in Bolivia (the "**Pulacayo Project**").

  Under the terms of the transaction, the Company will acquire Apogee's subsidiaries: Apogee Minerals Bolivia S.A. and ASC Bolivia LDC (which in turn, holds ASC Bolivia LDC Sucursal Bolivia, which holds Apogee's joint venture interest in the Pulacayo-Paca project) (collectively, the "**Apogee Subsidiaries**") by paying to Apogee $250,000 in cash and issuing to Apogee 60 million Prophecy common shares (the "**Consideration Shares**").

  On January 2, 2015, the Company successfully completed the acquisition of Apogee Subsidiaries and acquisition of mining joint venture interest in the Pulacayo-Paca Project. In consideration, the Company has paid Apogee $250,000 and issued to Apogee 60 million common shares. The Consideration Shares have been deposited into escrow pursuant to an escrow agreement, which allows for the release of the Consideration Shares over time, when the Company's shares trading on the TSX reach certain price levels or in the face of certain major triggering events. The Company has also agreed to assume all liabilities of the Apogee Subsidiaries. The escrow agreement also provides for a standstill on the voting of the Consideration Shares while they are held in escrow, and the voting of all released Consideration Shares in support of the Company's management so long as Prophecy continues to be engaged in its current business. The transaction has been accounted for as an asset acquisition.

- Subsequent to year end, the Company borrowed by way of a revolving credit facility agreement dated March 12, 2015 (the "**Credit Facility Agreement**") $1,064,280 from Linx Partners Ltd., a personal holding company wholly-owned and controlled by the Company's CEO, in order to meet interim working capital requirements to fund the Company's business operations and financial commitments. The Credit Facility Agreement has a maximum principal amount available for advance of $1.5 million, a one-year term with an option to extend it for any number of subsequent one-year terms, and bears an interest rate of 18% per annum. The Credit Facility Agreement is secured by a promissory note and a general security agreement.