Prophecy
Development Corp.

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

For the year ended December 31, 2016

(Currency expressed in Canadian Dollars, except where indicated)

CONTENTS

1. INTRODUCTION

This Management's Discussion and Analysis ("**MD&A**") of Prophecy Development Corp. and its subsidiaries ("**Prophecy**", or the "**Company**") provides analysis of the Company's financial results for the year ended December 31, 2016. The following information should be read in conjunction with the accompanying December 31, 2016 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, 2016, all of which are available under the Company's SEDAR profile at www.SEDAR.com. Financial information is expressed in Canadian dollars, unless stated otherwise. This MD&A is current as of March 29, 2017, 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, 2016 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.

Description of Business

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

The principal business of the Company is the acquisition, exploration and development of mineral, mining and energy projects in Bolivia, Mongolia, 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 (together, the "**Chandgana Coal Properties**"), and the Pulacayo Paca silver-lead-zinc property (the "**Pulacayo Project**") in Bolivia. The Company is focusing on building a successful and profitable intermediate development company. The Company's strategy is to actively pursue growth opportunities by securing financing, further improving operational efficiencies and reducing costs, delivering value through marketing coal and mineral concentrates and marketing power from the Chandgana power plant. The joint venture interest in the Pulacayo Project is the most significant project acquisition in the Company's history and the Company intends to explore and develop this silver district to its full potential.

General Corporate Information:

At December 31, 2016 and March 29, 2017, Prophecy had: (i) 4,807,653 and 5,226,339 Shares issued and outstanding, respectively; (ii) 460,814 and 542,127 stock options for Shares outstanding, and (iii) 1,348,060 and 1,398,059 warrants for Shares outstanding.

Investor and Contact Information

All financial reports, news releases and corporate information can be accessed on our website at www.prophecydev.com
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Directors and Officers

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

Directors	Officers
John Lee, Executive Chairman	John Lee, Interim Chief Executive Officer
Harald Batista	Irina Plavutska, Chief Financial Officer
Greg Hall	Tony Wong, Corporate Secretary
Masa Igata	Bekzod Kasimov, Vice-President, Operations

Audit Committee
Greg Hall (Chair)
Harald Batista
Masa Igata

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

Qualified Persons

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

2. CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of applicable Canadian securities legislation concerning anticipated developments in the Company's continuing and future operations in Mongolia, Bolivia and Canada, the adequacy of the Company's financial resources and financial projections. Such forward-looking statements include but are not limited to statements regarding the permitting, feasibility, plans for development and production of Prophecy's Chandgana power plant, including finalizing of any power purchase agreement; the likelihood of securing project financing; estimated future coal production at the Ulaan Ovoo coal property and the Chandgana Coal Properties; development of the Pulacayo Project and other information concerning possible or assumed future results of operations of Prophecy. See in particular, the sections Select Financial and Operational Data and 2017 Outlook descriptions under Part 4 – Property Summary.

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

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

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

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

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

3. YEAR 2016 HIGHLIGHTS AND SIGNIFICANT EVENTS

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

- On January 25, 2016, the Company closed a non-brokered private placement involving the issuance of the equivalent of 80,000 units at a price of the equivalent of $2.50 per unit. Each unit consists of one Share and one Share purchase warrant. Each warrant entitles the holder to acquire an additional Share at a price of the equivalent of $4.00 per Share for a period of five years from the date of issuance.

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

- On February 24, 2016, the Company entered into an agreement to increase and amend (the "**Second Amendment**") the revolving credit facility agreement dated March 12, 2015, as amended (the "**Credit Facility**"), with Linx Partners Ltd. ("**Linx**") a company controlled by Mr. John Lee, Executive Chairman of Prophecy. The previous maximum principal amount of $1.5 million available to the Company under the Credit Facility will be increased with the Second Amendment to $2.5 million. The Credit Facility, will fund Prophecy's ongoing business operations, and bears interest at a rate of 1.5% per month with unpaid amounts accruing interest on the same terms and is secured by promissory notes and a general security agreement.

  A 5% "drawdown" fee will be applicable to amounts advanced over and above the original and outstanding $1.5 million advanced under the Credit Facility, at the time of advance. In consideration of a bonus of 20% of the total amounts advanced under the Credit Facility, as of November 30, 2015 (the "**Bonus**"), Linx has agreed to postpone any repayments due under the Credit Facility, until the earlier of October 1, 2016, or such time as the Company is in a reasonable financial position to repay all or a portion of the amounts owing, and remove the requirement for the Company to pay any 20% penalties as a result of any future failure to repay any amounts when due under the terms of the Credit Facility. Including the interest on the Bonus and "drawdown" fee, which also bears interest at a rate of 1.5% per month with unpaid amounts accruing interest on the same terms, the Credit Facility, carries an effective annual interest rate of 36.3%.

The "drawdown" fee, the Bonus and all interest payable will be accrued and added to the maximum principal amount as they are incurred.

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

- On May 4, 2016, the Company paid off and closed out the US$1.5 million line of credit facility with the Trade and Development Bank of Mongolia.

- The Annual General Meeting of the Company was held on June 2, 2016. There were no changes to the Company's Board of Directors and officers; all proposed resolutions were approved by the Company's shareholders including the adoption of a new Share-Based Compensation Plan.

- On June 6, 2016, the Company issued the equivalent of 750,000 units at a value of the equivalent of $2.00 per unit to Mr. Lee, in satisfaction of $1,500,000 of indebtedness owed by the Company to Linx under the Credit Facility. Each unit consists of one Share and one share purchase warrant. Each share purchase warrant entitles the holder to acquire an additional Share at a price of the equivalent of $4.00 per Share for a period of five years from the date of issuance.

- On June 7, 2016, the Company completed a consolidation of its issued and outstanding Shares on the basis of 100 pre-consolidation Shares, options and warrants to one (1) post consolidation Share, option and warrant.

- In June 2016, the Company commenced its sampling program at the Paca deposit in Bolivia.

- On August 15, 2016, the Company announced, the assay results for the first group of 40 samples collected from the Paca exploration program at its Pulacayo project.

- On August 29, 2016, the Company closed an oversubscribed non-brokered private placement involving the issuance of 202,735 units at a price of $3.80 per unit as previously announced on August 8, 2016 for gross proceeds of $770,393. Each unit consists of one Share and one half of one Share purchase warrant. Each warrant entitles the holder to acquire an additional Share at a price of $4.40 per Share for a period of five years from the date of issuance.

- On September 22, 2016, the Company sold its 60% interest in the Okeover, copper-molybdenum project located in British Columbia to Lorraine Copper Corp. ("**Lorraine**"). Under the terms of the agreement, Lorraine issued 2,200,000 common shares of Lorraine (valued at $0.08/share) to Prophecy and assumed Prophecy's $19,079 payment obligation to Eastfield Resources Ltd. under such parties' existing joint venture agreement. Prophecy will additionally be entitled to receive 30% of any payments or proceeds resulting from third party agreements related to the project entered into within five years, which payments shall be limited to a maximum amount, payable to Prophecy, of $1,000,000.

- On September 29, 2016, the Company announced its plans for definition drilling and priority objectives at the Pulacayo Project, which are to: 1) study the possibility of commissioning Pulacayo and/or Paca to production at current metal prices, part of which includes definition drilling; and 2) apply modern exploration techniques to the Pulacayo district to test mineralization found during reconnaissance exploration.

- On November 24, 2016, the Company announced the exploration of an additional vein system (the **"AVS"**) at the Pulacayo Project which is within 100 metres of the surface and is accessible via existing tunnels and which was not included in the Pulacayo deposit resource estimate prepared in 2015 by Mercator Geological Services Limited ("**Mercator**"). The Company plans to continue exploration of the AVS to assess whether further exploration is warranted.

- On December 23, 2016, the Company announced the silver, zinc, lead assay results of 22 samples collected from the AVS at the Pulacayo Project.
- On December 28, 2016, the Company announced that it has signed two coal sales and purchase agreements to sell a total of 16,000 tonnes of coal from the existing stock pile at Ulaan Ovoo mine to local customers.

- Throughout the year, the Company issued the equivalent of 347,443 Shares through its Share-Based Compensation Plan at various values between $1.50 to 3.20 per Share, to certain of its directors, officers, employees and consultants to settle various debts owing to them pursuant to the terms of settlement and release agreements entered into with those directors, officers, employees and consultants.

Subsequent to year end

- On January 13, 2017, the Company closed a non-brokered private placement involving the issuance of 49,999 units at a price of $3.00 per unit as previously announced on January 9, 2017. Each unit consists of one Share and one Share purchase warrant. Each warrant entitles the holder to acquire an additional Share at a price of $4.00 per Share for a period of five years from the date of issuance.

- On January 13, 2017, The Company announced that pursuant to the terms of its 2016 Share-Based Compensation Plan it has granted in aggregate, 39,000 bonus Shares at a value of $4.88 per bonus Share and 91,000 incentive stock options to various directors, officers and consultants of the Company. The options are exercisable at a price of $4.88 per Share for a term of five years expiring on January 12, 2022 and vest at 12.5% per quarter for the first two years following the date of grant.

- On January 13, 2016, the Company and Linx entered into a Debt Settlement Agreement to settle most of the outstanding balance owing by the Company to Linx under the Credit Facility, by issuing 300,000 Shares to Mr. Lee, in satisfaction of $900,000 of indebtedness owing by the Company under the Credit Facility. The Company also announced that for nominal consideration of $1, Linx has agreed to accrue and postpone the repayment of any principal, interest and fees due under the Credit Facility until the earlier of October 1, 2017, or such time as the Company is in a reasonable financial position to repay all or a portion of the amounts owing.

- On February 10, 2017, the Company acquired the remaining 20% title interest held by Randsburg International Gold Corp. ("**Randsburg**") in the patented claims that comprise the Titan vanadium-titanium-iron project in Ontario, Canada by issuing to parties designated by Randsburg 20,000 Prophecy Common shares, which will be subject to a 4-month hold period.

- On March 14, 2017, the Company announced a non-brokered private placement involving the issuance of 100,000 units at a price of $4.00 per unit. Each unit consists of one Share and one Share purchase warrant. Each warrant entitles the holder to acquire an additional Share at a price of $5.00 per Share for a period of five years from the date of issuance.

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

4. PROPERTY SUMMARY

Pulacayo Project, Bolivia

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

(Expressed in Canadian Dollars, except where indicated)

The Pulacayo Project comprises seven concessions covering an area of approximately 3,550 hectares of contiguous mining concessions centered on the historical Pulacayo mine and town site. The Pulacayo Project is located 18 km east of the town of Uyuni in the Department of Potosi in southwestern Bolivia. It is located 460 km south-southeast of the national capital of La Paz and 150 km southwest of the city of Potosi, which is the administrative capital of the department. Pulacayo is accessible by all season paved and gravel roads from La Paz via Oruro to Uyuni, and by newly paved road from Potosi. The town of Uyuni has a newly developed asphalt airstrip which now accommodates daily scheduled air service from La Paz by two regional carriers. It also has commercial railway connections to the cities of Oruro, Potosi and Villazon, and links to the borders of Argentina and Chile. Railway connections to Chile link to major shipping ports at Antofastago and Porto Mejilliones. The Pulacayo Project is fully permitted with secured social licenses for mining.

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

Exploration and Evaluation

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

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

Table 1. Pulacayo Project - Resources

Pulacayo Deposit Mineral Resources

			Grade [1]			Metal Content		
Resource Class	**Type of Resource**	**Resource (M t)**	**Ag (g/t)**	**Pb (%)**	**Zn (%)**	**Ag (M oz)**	**Pb (t)**	**Zn (t)**
Open Pit Resources [2] (base case, above 4,159 m ASL)								
Indicated	Oxide	1.500	95.9	0.96	0.13	4.626	NA	NA
Inferred	Oxide	0.248	71.2	0.55	0.31	0.569	NA	NA
Indicated	Sulphide	9.283	44.1	0.66	1.32	13.168	67,950	134,770
Inferred	Sulphide	2.572	33.4	0.92	1.36	2.765	25,995	38,440
	Waste Rock (M t)		71.679		Waste: Ore (t:t)		5.3:1	
Underground Resources [3] (below 4,159 m ASL)								
Indicated	Sulphide	6.197	213.6	0.86	1.74	42.547	58,750	118,860
Inferred	Sulphide	0.943	193.1	0.43	1.61	5.853	4,470	21,735
Totals and Weighted Averages								
Indicated	Ox+Sulph	16.980	110.5	0.74	1.49	60.341	126,700	253,630

(Expressed in Canadian Dollars, except where indicated)

Inferred	Ox+Sulph	3.763	75.9	0.79	1.43	9.187	30,465	60,175

Notes:

(1) Contributing 1 m assay composites capped at 1,500 g/t Ag, 15% Pb, and 15% Zn. Specific gravity is based on an interpolated inverse distance squared model.

(2) Average pit wall angle 42º, US$ 13.20 NSR cut-off for sulphide resources and US$ 23.20 for oxide resources. Metal prices used were US$ 25.00/oz of silver, US$ 0.89/lb for lead, and US$ 1.00/lb for zinc. Lead and zinc do not contribute to revenue in the oxide zone.

(3) US$ 58.00 NSR cut-off. Metal prices used were US$ 25.00/oz of silver, US$ 0.89/lb for lead, and US$ 1.00/lb for zinc.

Mineral resources that are not mineral reserves do not have demonstrated economic viability. The estimate of mineral resources may be materially affected by environmental permitting, legal, title, taxation, sociopolitical, marketing, or other relevant issues.

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

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

In January 2013, Apogee disclosed according to the requirements of NI 43-101 an 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.

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

(Expressed in Canadian Dollars, except where indicated)

Table 2. Pulacayo Project – Mineral Reserve Summary - Effective of January 17, 2013

Pulacayo Deposit Mineral Reserves and Related Parameters								
Reserve Class	**Reserve (1) (M t)**	**Grade**			**Metal Content**			
		Ag (g/t)	**Pb (%)**	**Zn (%)**	**Ag (M oz)**	**Ag Eq (2) (M oz)**	**Pb (t)**	**Zn (t)**
Probable	3.558	239.4	1.09	1.91	27.385	35.457	38,927	67,705
		Mining Rate	1,000 t per day		Mine Life	12.5 years		

Notes:

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

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

(2) *Silver equivalent ounces are estimated by the Company. 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 1; where operating costs per oz_{AgEq} are quoted, equivalent ounces refer to equivalent ounces produced after mining and processing modifying factors.*

The Pulacayo reserve estimate is only presented in this AIF as part of the history of the project and is considered historic in nature by the Company. This historical estimate was prepared using currently accepted methods and assumptions as described in the previous paragraph, but the costs and prices assumed are not current. It is considered relevant since surface and underground mining methods were used. It is only considered reliable to the extent that the block model is based on the same geologic model used for the resource estimate otherwise it is not considered reliable because the costs and prices used do not reflect current costs and prices. Besides the assumptions described at the beginning of this section, this historical estimate assumed owner operation in partnership with the Cooperative, processing on site, and smelting off site. The key parameters included metals prices of US$ 28.00/oz Ag, US$ 0.86/lb Pb, and US$ 1.00/lb Zn and a minimum silver grade of US$ 150/t rather than a silver equivalent followed by a minimum net smelter return of US$ 70/t to determine mineable stopes. The key methods included use of inverse distance squared algorithm to estimate grade and use of the Whittle pit shell optimization algorithm. The historical estimate uses the same resource/reserve categories described in Sections 1.2 and 1.3 of NI 43-101. The historical estimate does not include any more recent estimates or data available to the issuer. The work needed to upgrade the historical estimate as current mineral resources is largely to use current costing and metals price figures. A qualified person has not done sufficient work to classify the historical estimate as current reserves. The issuer is not treating the historical estimate as current mineral reserves. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

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

Pre-Production Mining and Processing Operations

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

Paca Deposit

The Paca deposit is located approximately 8 km north of the Pulacayo deposit. Drilling by Apex Silver Company in 2002 identified a zone of significant silver-zinc-lead mineralization (see Apogee's news release dated September 13, 2005 under Apogee's SEDAR profile at www.SEDAR.com).
Subsequent drilling by Apogee in 2006 and 2007, totalling approximately 15,000 metres, delineated a silver-zinc-lead deposit that could potentially be developed by open pit methods. Apogee believed that there is potential for resource expansion at the Paca deposit but current efforts at Pulacayo were taking priority.
This deposit was the subject of an independent estimate of mineral resources prepared according to the CIM Standards by Micon International Limited. The resource estimate was disclosed in a technical report dated March 2007 that meets the disclosure requirements of NI 43-101 and can be found under Apogee's SEDAR profile at www.SEDAR.com. Alternatively, this report is also available on Apogee's website. Apogee had not undertaken diamond drilling on the Paca project since February 2007.

Select Financial and Operational Data:

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

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

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

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

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

(Expressed in Canadian Dollars, except where indicated)

Table 3. Pulacayo Mineral Resource Statement - Effective June 16, 2015 [1]

AgEq. Cut-Off (g/t)	**Category**	**Tonnes [2]**	**Ag** (g/t)	**Pb** (%)	**Zn** (%)	**Ag Eq.** (g/t)
400	Indicated	2,080,000	455	2.18	3.19	594
	Inferred	480,000	406	2.08	3.93	572
500 [3]	**Indicated**	**1,270,000**	**530**	**2.51**	**3.63**	**688**
	Inferred	**350,000**	**419**	**2.47**	**4.58**	**620**
600	Indicated	750,000	608	2.91	4.02	785
	Inferred	170,000	394	3.49	6.75	710

Notes:

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

(2) Tonnes are rounded to nearest 10,000.

(3) Mineral resource statement cut-off value; resource statement values are presented in bolded form.

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

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

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

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

(Expressed in Canadian Dollars, except where indicated)

Table 4. Paca Mineral Resource Statement - Effective September 9, 2015 [(1)]

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

Notes:

(1) *Raw silver assays were capped at 1,050 g/t, raw lead assays were capped at 5% and raw zinc assays were capped at 5%.*
*Silver equivalent Ag Eq. (g/t) = Ag (g/t) + (Pb% * (US$0.94/lb. Pb/14.583 Troy oz./lb./US$16.50 per Troy oz. Ag.)*10,000) + (Zn% * (US$1.00/lb. Zn/14.583 Troy oz./lb./US$16.50 per Troy oz. Ag.)*10,000; 100% metal recoveries are assumed based on lack of comprehensive metallurgical results.*
Metal prices used in the silver equivalent calculation are US$16.50/Troy oz. Ag, US$0.94/lb Pb and US$1.00/lb. Zn and reflect those used in the June 16, 2015 Pulacayo mineral resource estimate by Mercator.
Metal grades were interpolated within wireframed, three dimensional solids using Geovia-Surpac Ver. 6.7 software and inverse distance squared interpolation methods. Block size is 5m (X) by 5m (Z) by 2.5m (Y). Historic mine void space was removed from the model prior to reporting of resources.
The block density factor of 2.26 reflects the average value of 799 density measurements.
The mineral resource is considered to have reasonable expectation for economic development using underground mining methods based on the deposit history, resource amount and metal grades, current metal pricing and comparison to broadly comparable deposits elsewhere.
Mineral resources that are not mineral reserves do not have demonstrated economic viability.

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

(3) *The resource estimate cut-off value is 300 g/t Ag Eq. and resource estimate values are presented in bold type.*

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

Table 5. Contained Metals in September 9, 2015 Paca Mineral Resource Estimate [(1)]

Metal	**Inferred Resource [(2)]**
Silver	14,700,000 oz.
Lead	28,400,000 lbs.
Zinc	27,200,000 lbs.

Notes:

(1) *Estimated by the Company. Based on the resource estimate Ag Eq. cut-off value of 300 g/ and assumed 100% recovery.*

(2) *Figures are rounded to the nearest 100,000 tonnes.*

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

In June 2016, the Company commenced its sampling program at the Paca deposit. Samples were obtained at one metre intervals from near surface drifts within the Paca mine which appears to have limited historic development. The area of sampled drifts has an estimated dimension of 90 metres length (east to west) and 75 metres width (north to south) and occurs at an average depth of 100 metres. Mineralization mainly consists of silver sulphides (mostly tennantite), galena and sphalerite in the pores of the sedimentary rocks and in breccias. The sampled area is within the Paca resource boundary, but was not included in the block model used to estimate the resources recently disclosed according to NI 43-101.

On August 12, 2016, the Company announced the assay results for the first group of 40 samples collected from the Paca exploration program at its Pulacayo project. During the sampling program, 233 samples were collected. However, due to a backlog at the testing laboratory, Prophecy prioritized the 40 most prospective samples for assay. Thus, the assayed samples are not representative of the sample population. These results are taken from the first group of samples Prophecy delivered. Samples were obtained by continuous chip channel sampling across the width of the vein mineralization at locations one metre apart.

(Expressed in Canadian Dollars, except where indicated)

Table 6. Paca Samples Results

Sample	Ag (g/t)	Zn (%)	Pb %	AgEq (g/t)
P225	>1500	0.82	2.84	>1617
P224	838	1.85	2.18	965.3
P233	866	0.32	0.88	902.0
P206	721	0.10	2.78	802.6
P229	674	0.66	1.19	731.1
P232	639	0.39	1.42	692.9
P192	599	0.07	0.50	615.5
P228	565	0.55	1.04	613.7
P231	502	0.53	1.58	565.1
P230	493	0.60	1.49	556.4
P210	518	0.28	0.69	547.4
P227	469	0.97	0.66	522.1
P186	271	0.83	6.72	489.5
P226	356	2.27	1.37	475.5
P201	373	0.10	3.35	470.7
P184	351	0.76	2.53	449.3
P213	273	2.49	1.74	410.6
P223	289	1.67	1.71	396.5
P180	250	0.84	4.15	396.6
P211	295	0.31	1.43	346.3
P183	250	0.73	2.39	343.1
P222	174	1.78	3.24	328.4
P187	231	0.24	2.20	301.4
P199	242	0.12	1.84	297.9
P185	149	0.80	3.53	276.7
P207	194	0.40	1.78	258.3
P196	128	0.16	2.97	217.1
P190	187	0.10	0.64	208.5
P189	121	0.29	2.38	198.2
P191	141	0.08	0.73	164.5
P208	97	0.54	1.33	153.0
P188	57	0.20	2.56	135.8

(Expressed in Canadian Dollars, except where indicated)

P176	89	0.59	0.88	135.0
P197	83	0.08	1.46	126.8
P198	47	0.17	2.44	122.0
P179	53	0.55	1.89	125.2
P193	79	0.18	0.93	112.1
P182	46	0.59	1.40	106.6
P181	22	0.53	1.00	69.2
P177	15	0.39	0.61	45.7

Silver equivalent (AgEq.) calculations are based on the following closing prices as of August 9, 2016: US$19.79/oz for Ag (www.kitco.com), US$1.03/lb for Zn and US$0.81/lb for Pb (London Metals Exchange spot prices). Metal recoveries are assumed to be 100%.

The samples were delivered to ALS Geochemistry Laboratory in Oruro, Bolivia ("**ALS**") for assay and included QA/QC samples. Standard reference, duplicate and blank samples were used – all of which, produced acceptable results. ALS is an independent laboratory and was qualified and accredited by the Colombian Institute of Technical Standards and Certification (ICONTEC) and the Standards Council of Canada for the methods used during the time the samples were prepared and assayed. Records were maintained to document the secure handling of the samples and to verify their identities were maintained.

Chip channel sample P225 returned a silver grade that is greater than the 1,500 g/t detection limit. It is planned to submit the sample for another assay for precious metals content using methods having a greater upper detection limit.

Samples were obtained from shallow depth drifts within the Paca mine which appear to have limited historic development. The area of sampled drifts has an estimated dimension of 90 metres length (east to west) and 75 metres width (north to south) and occurs at an average depth of 100 metres. Mineralization mainly consists of silver sulphides (mostly tennantite), galena and sphalerite in the pores of the sedimentary rocks and in breccias. The sampled area is within the boundary of the Paca resource estimated by Mercator with effective date of September 9, 2015, but was not included in the block model used to estimate the resources because of insufficient information.

The Company has undertaken studies (for production scenarios ranging from 200 to 500 tonnes per day) with the aim to bring Pulacayo into production at minimum capital expense given the current challenging metals market.

On September 29, 2016, the Company announced its two-fold priority objective and plans for definition drilling at the Pulacayo Project. The objective includes: 1) Study the possibility of commissioning Pulacayo and/or Paca to production at current metal prices, part of which includes definition drilling; and 2) Apply modern exploration techniques (District-wide Three Dimensional Induced Polarization Program ("**3D IP**")) to the Pulacayo district to test mineralization found during reconnaissance exploration. The definition drilling to support any decision to commission Pulacayo and/or Paca to production and detailed three-dimensional induced polarization surveys were described. A detailed presentation about the exploration and maps showing prior sample location and assay results and proposed IP line locations are available on Prophecy's website.

The Company has selected a drilling company and expects to start drilling at Pulacayo in Q2 2017 initially targeting near surface resource blocks with elevated silver grades and relatively easy access, which make them potentially suitable to be mined first should a decision be made to start mining.

On November 24, 2016, the Company announced the exploration of an additional vein system (the **"AVS"**) at the Pulacayo Project. The AVS is located approximately 200 metres west of the Rothschild shaft, at a level of 50 metres above the San Leon adit level (level 0, elevation 4128m). The principal vein measures 1.0 to 1.5 metres in width. The strike and vertical extent of the principal vein are unknown. The location of the AVS is approximately 600 metres west of the San Leon adit and passes outside the western boundary of the area where Apogee Silver

(Expressed in Canadian Dollars, except where indicated)

Ltd. conducted 70,000 metres of drilling between 2005 and 2012, and therefore was not included in the Pulacayo deposit resource estimate prepared by Mercator.

This additional vein is within 100 metres of the surface and is accessible via existing tunnels. The AVS was known from historical mining records. Extensive sampling had taken place between 1936 to 1940 by the Hochschild Group (founded by Mauricio Hochschild), which recorded average grades of 180g/t Ag, 9.5% Zn and 2.7% Pb, but had not yet mined the location. Because of insufficient information the AVS was not included in the Mercator 2015 resource estimate. The Company plans to continue exploration of the AVS to assess whether further exploration is warranted.

Assay results of 22 samples collected from the AVS were received in late December 2016. Samples were obtained by continuous chip channel sampling across the width of the vein mineralization at location on metre apart.

Table 7. AVS Sample Results

ID	Ag (g/t)	Zn (%)	Pb (%)	Area	Width
1912	1,400	18.4	>20.0	UG1	1 m
1920	915	22.7	1.0	UG1	1 m
1908	490	20.0	1.6	UG1	1 m
1907	688	14.7	3.3	UG1	0.6 m
1918	405	21.6	0.4	UG1	1 m
1906	432	15.9	1.8	UG1	1 m
1911	583	8.4	7.0	UG1	1 m
1919	732	7.8	0.3	UG1	1 m
1909	682	6.1	0.8	UG1	1 m
1910	261	11.8	0.7	UG1	1 m
1921	161	8.4	1.6	UG1	1 m
1917	291	6.8	0.4	UG1	1 m
1916	101	9.9	0.3	UG1	1 m
1915	67	5.0	0.3	UG1	1.3 m
1922	54	2.9	0.1	UG1	1 m
1913	62	1.6	0.5	UG1	1 m
1914	39	0.3	0.1	UG1	1 m
1905	392	23.0	12.0	AVS	1 m
1904	284	17.6	6.6	AVS	1 m
1901	250	6.3	6.2	AVS	1 m
1903	96	7.7	2.7	AVS	1.5 m
1902	17	5.7	0.5	AVS	1 m

The Company believes the results are encouraging given the AVS is located in the shallow part of the deposit; it exhibits strong zinc and lead anomaly and represents a priority area for further exploration which could potentially add resources to the Pulacayo project. At UG1, the Company has identified a vein system that is immediately accessible via a 2.5m x 2.5m tunnel. This system exposed visible mineralization that is 4 to 6 metres in width and the sampling grades are consistent with drill results. UG1 is a priority area that is under preparation for mining. A positive production decision would not be based on a feasibility study of mineral reserves demonstrating economic and technical viability so would carry increased uncertainty and the risk of failure as to the mining method and profitability.

Also, the Company has extensive Pulacayo mining records from 1901 to 1957 compiled by the Hochschild Group, detailing historic mining, sampling and stope development at each of 25 individual vertical levels that span 700m in depth and 2.5km in strike. According to the records, there are more than a dozen areas with detailed sampling of mineral grades comparable to those Pulacayo resource grades estimated by Mercator, over appreciable strike (100m) but which had not yet been mined. The AVS sampling results appear to resemble the historic sampling results recorded by the Hochschild Group and the Company intends to closely examine the historic mining records to form exploration targets.

The Company has diligently assessed potential suppliers, service companies and off-takers, and engaged with selected highly-qualified local and international firms through non-binding letters of intent. Please refer to the Company's news releases dated June 16, 2016, November 22, 2016, December 6, 2016 and December 14, 2016 filed on SEDAR and posted on the Company's website for more details.

During the year ending December 31 2016, the Company incurred total costs of $865,540 (2015 - $1,462,805) for the Pulacayo project including $4,970 (2015 - $267,142) for licenses, $146,051 (2015 - $797,722) for geological and engineering consulting, and $714,519 (2015 - $397,941) for personnel and general expenses.

2017 Outlook

The Company intends to develop the Pulacayo Project which includes assessing the mineral resource potential, mine re-opening and construction of a processing facility on site. Exploration will continue including the exploration to prove the planned stopes, completing the exploration plan to assess the mineral resource potential and tailings, continue with securing approval of the exploration permit, and the required exploration to maintain the concessions.

The Company is completing final preparations for underground mining including detailed mine plans, staffing, and securing equipment at Pulacayo.

During 2016, the price of silver increased from US$ 14.00/oz to US$ 18.50/oz (32%), while the price of zinc increased from US$ 0.70/lb to US$ 1.10/lb (57%). Those trends bode well for Pulacayo while the Company continues to study optimal mining production and processing scenarios, and intends to announce a production decision at the conclusion of its study in conjunction with a financing plan, should a positive production decision be reached in the near future. A positive production decision would not be based on a feasibility study of mineral reserves demonstrating economic and technical viability so would carry increased uncertainty and the risk of failure as to the mining method and profitability.

<u>Ulaan Ovoo Coal Property, Mongolia</u>

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 the equivalent of 20,000 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 8 and the coal reserves and mining characteristics for the starter pit area are presented in Table 9.

Table 8. 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 9. Coal reserve detail of the starter pit area of the Ulaan Ovoo coal property

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

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

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

Select Financial and Operational Data:

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

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

During 2014, the Company faced challenges, such as significant dewatering of the resource, lack of demand, depressed coal sales prices, and higher than expected operating/transportation costs, resulting in limited production throughout the period. Pit dewatering has become a significant impediment to achieving consistent production, especially following mine standby during the periods of low market demand. The mine was placed on standby in Spring 2014 but continued coal loading and sales from the existing stockpiles. Due to the lack of sustained production, management has not sufficiently tested the mine plant and equipment to conclude that the mine has reached the commercial production stage.

On December 31, 2014, the Company recorded a non-cash impairment of $7.7 million of previously capitalized deferred exploration costs to $nil and an impairment charge of $3.5 million on the Ulaan Ovoo mining equipment has been recognized. This non-cash accounting charge did 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.

The 2013 Law on Prohibiting Mineral Exploration and Mining Operations at Headwaters of Rivers, Protected Zones of Water Reservoirs and Forested Areas (the "**Long Named Law**") allow options for those mineral license holders who acquired their licenses before passage of the Long Named Law to retain legally allowed portions of their licenses affected by the law. The Company chose the option of diverting the north branch of the Zelter River in order to retain the licenses. During 2015 diversion of the north branch of the Zelter River and construction of a protective dike were evaluated and Discussed with government officials. Because of the national elections during June 2016 the government postponed any action.

During 2015 and 2016, the Company maintained operations on standby, although coal loading and sales from existing stockpiles continued to local customers. During the year ended December 31, 2015, the Company sold most of its mining and transportation equipment for net proceeds of $2.9 million to generate cash so that operations may continue. Revenue generation, cost reduction and debt reduction efforts continued. Besides sales of stockpiled coal, other revenue generation efforts included sale of a portion of the remaining equipment, parts and supplies, and lease of other equipment. Terminating contractor agreements, staff reductions, office relocation, and other actions were completed to reduce costs. On May 4, 2016, the Company fully repaid and closed out a $1.5 million line of credit with the Trade and Development Bank of Mongolia and has been provided with a release/discharge of pledges.

The Company continued monitoring and providing support as and when requested by the Government of Mongolia for the government's work to re-open the Zelter border crossing and pave the Shamaar-Tushig road. The government supports re-opening the Zelter border crossing and in 2016, approved a budget to start paved road construction during 2017.

The Company continued monitoring and support of the government's efforts to upgrade the line power to Tushig soum with sufficient power to be brought to Ulaan Ovoo. Discussions have been held and information provided by the Company previously and support provided from the regional and local governments.

The Company negotiated with a Russian party for the sale of coal and executed sale and purchase agreements with two Mongolian customers during 2016. On December 28, 2016, the Company executed coal sales and purchase agreements to sell a total of 16,000 tonnes of coal to two Mongolian customers. The two purchasers were Erdenet Mining Corporation (for 10,000 tonnes) and Selenge Energo Heat Plant (for 6,000 tonnes). Coal deliveries sourced from existing coal stockpiles began in December 2016 and was completed in February 2017. Please refer to Prophecy's news release dated December 28, 2016 and filed on SEDAR or posted on the Company's website for more information concerning the Mongolian sales.

Normal license maintenance requirements including filings and payment of fees, were completed during 2016 and accepted by the relevant ministries. Environmental requirements were completed during 2016 and accepted by the relevant ministries. The Khujirt exploration license was determined by Company management not to be strategic to the Company. The license was relinquished and the cancellation was accepted September 22, 2016 by the relevant ministry.

During the year ended December 31, 2016, the Company sold 3,015 tonnes (2015 – 33,824 tonnes) of coal to local customers from existing stockpiles with total sales revenue of approximately $65,000 (2015 - $900,000). Sales revenue has been recorded against costs incurred at the mine, classified as costs in excess of recovered coal of $290,736 on the consolidated statement of operations and comprehensive loss. As of December 31, 2016, the coal stockpile balance was approximately 78,595 tonnes (December 31, 2015 - 81,610).

2017 Outlook

The Company intends to continue maintaining the mine facilities in standby mode and monitoring general conditions so that the mine may be restarted in minimal time. Mining operations at Ulaan Ovoo may be restarted in short order since pit dewatering requires less than a month and other work needed to restart mining can be completed at the same time. There are several available third party contract-mining companies in Mongolia that are capable of dewatering and mining and provide turnkey mining services including labor and equipment. The Company believes contract mining is a more efficient way to operate Ulaan Ovoo since a contract mining firm would be made responsible for labor agreements and equipment maintenance.

By late 2016, the benchmark thermal coal price (i.e. Australian thermal coal, 12,000 Btu/lb, FOB Newcastle) had nearly doubled to over US$100/tonne from US$53/tonne in January. With the increase in the benchmark thermal coal price during late 2016, the Company began surveying existing and prospective customers with a view to possibly restarting Ulaan Ovoo in 2017.

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

Prophecy will continue to pursue government support to open the Zelter border crossing, pave the 136 km Shamaar-Tushig road, as well as to upgrade the 35kv power line from Tsagaannuur soum to Tushig soum and so bring power to Ulaan Ovoo.

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

<u>Chandgana Coal Properties, Mongolia</u>

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

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

A technical report ("Technical Report on the Coal Resources of the Chandgana Tal Coal Project Khentii Aimag, Mongolia") meeting the disclosure requirements of NI 43-101, and dated September 11, 2007 was prepared by independent Qualified Person Mr. Gardar G. Dahl, Jr, P. Geo, a senior associate of Behre Dolbear & Company (USA), Inc. Prophecy engaged Leighton Asia LLC to prepare a scoping level mine study for the Chandgana Tal Property which was completed during December 2011. Later a preliminary economic assessment was prepared by John T. Boyd Co. and received in November 2012 for the Chandgana Tal licenses. A subsequent update to the preliminary economic assessment was approved by regulators and filed on SEDAR April 3, 2014. An updated NI technical report on the Khavtgai Uul Property (the "Updated Technical Report on the Coal Resources of the Chandgana Khavtgai Coal Resource Area, Khentii Aimag, Mongolia") prepared according to the CIM Standards and meeting the disclosure requirements of NI 43-101 and dated September 28, 2010 was completed by Christopher Kravits, CPG, LPG of Kravits Geological Services LLC (the "**Khavtgai Report**"). Mr. Kravits was independent of Prophecy at the time of preparation of the Khavtgai Report but has subsequently become not so, as Prophecy has become his only client. The Khavtgai Report updates the previous independent technical report on the Khavtgai Uul Property prepared by Messrs. Eric Robeck and Kravits dated January 9, 2008. All of these reports, and other reports or studies mentioned in this MD&A are filed under the Company SEDAR profile at www.SEDAR.com. The resource and mining characteristics of the Chandgana Coal Properties are summarized in Table 10:

Table 10. 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	124.4	35+	0.7:1	40.9	10.8	3,306	0.6
Total/Wtd 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 combined Chandgana properties contain a significant coal resource. The coal seams are thick and the strip ratios are low such that surface mining methods appear best suited to recover the coal. The coal is of moderate grade and low rank and appears suitable for use as a thermal coal but the large size of the resource and moderate grade suggest the resource may also be suitable for use as a conversion feedstock.

The Chandgana Tal property has been mined previously and occasionally during the Company's tenure to meet local demand. The Company decided not to mine during the 2016-2017 heating season because of insufficient demand. A dry lake was determined by the Ministry of Environment to overlap onto one of the Chandgana Tal licenses as determined under the Long Named Law but was resolved without loss to the Company. The Khavtgai Uul property has never been mined. The Ministry of Environment determined that a dry lake overlapped the Khavtgai Uul license as defined under the Long Named Law. This was resolved by removing the lake area from the license while not affecting the coal resource and mineability. The Company will continue to monitor the developments and ensure that it follows the necessary steps in the Amended Law on Implementation to secure its operations and licenses, and is fully compliant with Mongolian law.

The required annual exploration was completed on the Khavtgai Uul license. Two drill holes were completed on the Khavtgai Uul license that confirmed the geologic model and provided more information for resource estimation and planning the mine. No exploration was completed on the Chandgana Tal licenses. Preparatory work was started to convert the Khavtgai Uul license to a mining license. During 2016 activities for the Chandgana Tal project included payment of license fees and environmental sampling and reporting. The Company assessed the local market for coal and found there was not sufficient demand to warrant mining during the 2016 - 2017 heating season. Thus, the annual mining and environmental plans were not filed.

During the year ending December 31 2016, the Company incurred total costs of $145,406 (2015 - $266,283) for the Chandgana Tal Property (including power plant consultants and land maintenance costs) and $92,552 (2015 - $204,004) for the Khavtgai Uul Property.

2017 Outlook

The activities planned during 2017 for the Khavtgai Uul license include normal license maintenance work and start of work to convert the license to a mining license. The exploration and report work to convert the license to a mining license is expected to be completed by the end 2017, then submitted for review by the Mineral Resources Professional Council January 2018 with a conclusion of acceptance expected by April 2018. For the Chandgana Tal project, the Company will assess the local market for coal to determine the need for mining during the 2017 - 2018 heating season. The Company intends to discuss the need to update the detailed environmental impact assessment ("**DEIA**") and mining feasibility study with the relevant ministries.

Chandgana Power Plant Project

The Chandgana power plant project consists of a 600 MW power plant, coal mine and transmission lines. The power plant will be fueled by coal that will be supplied from the Chandgana Tal licenses located 1 km south (mine mouth arrangement) and the power brought to nearby substations by transmission lines. Most of the Company's work has concerned the power plant because much less work and time are needed to bring the mine and transmission lines into operation, so this section will deal mostly with the power plant. The power plant which has been under development by Prophecy's wholly-owned Mongolian subsidiary, Prophecy Power Generation LLC ("**PPG**") since 2011, has secured a power plant land use right and a construction license, and is included on the Mongolian Government concession list. The Chandgana power plant project area is close to the planned Baganuur-Ondurkhaan transmission line, next to the Baganuur - Undurkhaan paved road and within 150 kilometres of the Central Mongolian Railroad. The paved road and the railroad can facilitate the transportation of construction equipment, power plant components and mining equipment.

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

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

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

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

- A designated commercial operations date of the proposed power plant to be determined dependant on signing required agreements, obtaining appropriate approvals and permits, and closure of the power plant projects financing, which are in the process of being obtained;

- A long term power off-take contract to ensure 24/7, uninterrupted dispatch power supply to the Mongolian grid; and
- Capacity and energy charge components in the tariff to cover fixed and variable costs respectively.

PPG has also been in discussions with several private Mongolian companies regarding entering into bilateral power purchase agreements for mining projects (copper, molybdenum and iron ore) and an industrial development complex (cement manufacture and smelter) in Mongolia.
On September 3, 2012, PPG submitted a tariff application to the Energy Regulatory Commission. PPG received official notice outlining the terms of the tariff agreement on May 17, 2013. The tariff includes:

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

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

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

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

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

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

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

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

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

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

EPC Agreement

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

Share Purchase Agreement and Equity Investment Agreement

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

Project Financing and Financial Close

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

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

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

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

Parliamentary elections were held in Mongolia on June 29, 2016. The Mongolian People's Party ("**MPP**") won a majority of seats in Parliament and the new Government's Plan of Action was passed in September 2016. The MPP has acted on its proposals by efforts to stabilize and improve the economy, including foreign investment, enacting its Economic Stabilization Plan, which includes support of major mining, power and infrastructure projects, and passing new resolutions.

Prophecy has submitted its development and investment proposal for the Chandgana Power Plant to the Mongolian Energy Ministry in September 2016 and since then, has held several high-level meetings with relevant authorities to expedite negotiations for project concession and power purchase agreements.

2017 Outlook

For 2017, the Company intends to continue with its 2016 activities and consider other activities that could promote the project. Prophecy intends to continue discussions with large-scale, Asian strategic power producers who have expressed interest in investing in the Chandgana Power Plant. With a new, stable government in place for the next four years and the government's mandate to attract foreign investment and Prophecy's continued commitment to the project, the Company is optimistic that material progress can be made during 2017.

The major reasons completion of the Chandgana power plant project would be beneficial to Mongolia include the current and projected electrical power demand exceeding capacity, current importation of approximately 20% of its electric power from Russia and China and the virtues of the project. The virtues are that the Company is proposing to build a new, modern power plant to provide a stable power supply to Mongolia, with 100% private funding and with no up-front payment or subsidies from the Mongolia government, a fixed, long-term tariff that is lower than those of foreign imported electrical power that would ease Mongolia's budget, the creation of employment and assisting in establishing Mongolia's energy independence. The Chandgana power plant and Chandgana coal mine would be expected to employ over 600 full-time skilled local staff, cause the start of many new support businesses, and revitalize Khentii province.

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

Prophecy continues to actively consider project financing options which include either debt, equity or a combination thereof in addition to joint ventures with international power project developers. Otherwise regular land use right maintenance work will continue.

The Company also plans to hold discussions with the relevant ministries concerning renewal of the DEIA and power plant construction license during 2017.

Titan Property, Ontario, Canada

The Company holds a 100% interest in the Titan vanadium-titanium-iron property ("**Titan**") located in the Province of Ontario, Canada. The Titan project is located in eastern Ontario, approximately 120km northeast of Sudbury, straddling the boundary between Angus and Flett Townships, and has access to water, roads and electrical power. The Titan property consists of 262 contiguous hectares comprising 17 patented claims.

The magnetite, ilmenite, titanium dioxide and vanadium mineralization at Titan occurs in a southeast plunging body in gabbro to leucotroctolite in the northeastern corner of the Fall Lake complex. The Titan deposit is located at the northern end of an aeromagnetic anomaly that is approximately 1,200 metres long by 800 metres wide.

A total of 4,898 assayed intervals are recorded from 38 core holes drilled by Randsburg on the property. Drilling highlights reported by Randsburg included 142 metres of 0.27% vanadium (0.48% vanadium pentoxide) from hole RA-5-21, and 174 metres of 0.26% vanadium (0.46% vanadium pentoxide) from hole RA-5-10. The mineralization starts from surface to an open vertical depth of 500 metres. The complete horizontal and vertical extent of the deposit is still to be determined.

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 14.82 weight percent titanium dioxide (TiO_2). The metal content of the resource is 118 million kilograms vanadium and 7,259 million kilograms TiO_2. Titan resource estimate is based on the February 2010 technical report by Mine Development Associates that meets the disclosure requirements of NI 43-101. The report is authored by Neil Prenn, P. Eng, who is an independent Qualified Person under NI 43-101.

Prophecy has expended a significant amount on acquisition, tenure maintenance and exploration to date. The Company has done much exploration work including 22 kilometres of line cutting covering over 2.7 square kilometres in 100 metre intervals that extended the current surveyed grid west and southwest of the Titan property. A ground magnetometer survey was completed during the summer of 2010, the results of which expanded the extent of the magnetic anomaly associated with the Titan deposit. This work successfully demonstrated that exploration is warranted outside the previously known limits. The assessment work completed in 2013 was approved. During 2014, the Company completed GPS assessment of the claim posts. No exploration work was conducted at Titan during the years of 2015 and 2016.

Due to 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 of the property to $nil at the year ended December 31, 2014. Management continues 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.

On February 10, 2017, the Company acquired the remaining 20% title interest held by Randsburg in the patented claims that comprise the Titan project. As consideration, the Company issued 20,000 Shares to parties designated by Randsburg. Prophecy looks forward to developing and exploring Titan to its full potential now that the Company's interest has been successfully consolidated.

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 (0.008% Mo) at a 0.20% Cu cut-off. In 2014 the Company completed an exploration program including 8.2 kilometres of grid was flagged and soil sampled and 169 soil samples were collected. The assessment report was filed on November 21, 2014. No exploration work was conducted at Okeover during the year of 2015 and 2016.

Due to market conditions and the difficulty in raising additional financing, as well as Prophecy's inactivity on the

(Expressed in Canadian Dollars, except where indicated)

Okeover property in recent years, management impaired the value to $nil at the year ended December 31, 2014.

On September 22, 2016, the Company sold its 60% interest in Okeover to Lorraine. Under the terms of the agreement, Lorraine issued 2,200,000 common shares of Lorraine (valued at $0.08/share) to Prophecy and assumed Prophecy's $19,078 payment obligation to Eastfield Resources Ltd. under such parties' existing joint venture agreement. Prophecy will additionally be entitled to receive 30% of any payments or proceeds resulting from third party agreements related to the project entered into within five years, which payments shall be limited to a maximum amount payable to Prophecy of $1,000,000.

5. SELECTED ANNUAL INFORMATION

The following are selected financial data from the audited consolidated financial statements of the Company for the most recently completed three financial years.

	Years ended December 31,		
	2016	**2015**	**2014**
Operating expense	$ (1,334,487)	$ (2,393,610)	$ (2,463,585)
Other items	(672,818)	(5,428,921)	(12,232,456)
Net loss	(2,007,305)	(7,822,531)	(14,696,041)
Comprehensive loss	(2,007,305)	(7,822,531)	(14,696,041)
Share Information:			
Loss per share, basic and diluted	$ (0.48)	$ (2.47)	$ (5.85)
Weighted average number of common shares outstanding	4,212,004	3,161,528	2,513,992
Financial Position:			
Current assets	489,739	637,089	3,169,741
Property and equipment	917,607	1,307,483	4,361,982
Mineral properties	26,399,708	25,296,210	13,710,520
Total assets	27,828,109	27,302,836	21,304,297
Total liabilities	11,032,616	12,023,867	4,239,949
Dividends	$ -	$ -	$ -

The Company's annual operating expenses decreased in 2016 compared to 2015, due mostly to a decrease in the level of activity related to the operation of the business. Factors causing significant changes between the year ended 2016 and 2015 have been items such as advertising and promotion, general and administrative expenses, professional fees and travel.

The Company's total assets at December 31, 2016 were 27.8 million compared to $27.3 million at December 31, 2015 and $21.3 million at December 31, 2014. The increase in total assets in 2015 compared to 2014 was due to the acquisition of the Pulacayo Project in Bolivia. The increase in total assets in 2016 compared to 2015 was mainly due to mineral property developments.

The Company's total liabilities at December 31, 2016 were $11.0 million compared to $12.0 million at December 31, 2014 and $4.2 million at December 31, 2014. The Company's total liabilities at December 31, 2016 decreased by $1.0 million due to a repayment of the Mongolian credit facility and partial repayment of the Linx Credit Facility. The increase in liabilities in 2015 was primarily attributable to the acquisition of the Apogee Subsidiaries. As part of the transaction, the Company agreed to assume within certain limitations all liabilities associated with the Apogee Subsidiaries and the Pulacayo Project including a $7.3 million historical tax liability.

(Expressed in Canadian Dollars, except where indicated)

6. SUMMARY OF QUARTERLY RESULTS

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

		2016 Q4		2016 Q3		2016 Q2		2016 Q1
Operating expense	$	(473,114)	$	(307,343)	$	(248,333)	$	(305,697)
Net loss		(1,089,282)		(651,212)		(140,392)		(126,419)
Net loss per share, basic and diluted	$	(0.23)	$	(0.14)	$	(0.04)	$	(0.04)
Comprehensive loss		(1,089,282)		(651,212)		(140,392)		(126,419)
Comprehensive loss per share, basic and diluted	$	(0.23)	$	(0.14)	$	(0.04)	$	(0.04)

		2015 Q4		2015 Q3		2015 Q2		2015 Q1
Operating expense	$	(540,153)	$	(481,915)	$	(805,826)	$	(565,716)
Net loss		(3,884,097)		(831,656)		(1,112,025)		(1,994,753)
Net loss per share, basic and diluted	$	(1.15)	$	(0.26)	$	(0.36)	$	(0.64)
Comprehensive loss		(3,884,097)		(831,656)		(1,112,025)		(1,994,753)
Comprehensive loss per share, basic and diluted	$	(1.15)	$	(0.26)	$	(0.36)	$	(0.64)

The Company's quarterly operating expenses remain relatively stable. Factors causing changes between the quarters have primarily been items such as non-cash share-based payments expense, consulting and management fees, and advertising and promotion expenses. The increase in net loss in the fourth quarter for 2016 was mainly to foreign exchange losses. The significant increase in net loss in the fourth quarter 2015 was due primarily to impairment charges to inventory, mineral property, property and equipment, and receivables. An increase in net loss in the fourth quarter of 2015 was due primarily to impairment charges to inventory, receivables and prepaids and to foreign exchange losses.

7. DISCUSSION OF OPERATIONS

All of the information described below is accounted for in accordance with IFRS. The reader is encouraged to refer to Note 6 of Prophecy's Annual Financial Statements for the year ended December 31, 2016 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, 2016, Prophecy incurred operating expenses of $1,334,487 compared to $2,393,610 incurred for the year ended December 31, 2015.

Operating Expenses		**Year ended December 31, 2016**		**2015**
Advertising and promotion	$	50,125	$	151,301
Consulting and management fees		215,438		299,804
General and administrative expenses		666,831		970,156
Professional fees		122,230		225,977
Share-based payments		197,889		596,260
Travel and accommodation		81,974		150,112
	$	1,334,487	$	2,393,610

The decrease by $1.1 million in operating expenses was a result of cost cutting initiatives across the Company. Of note are the following items:

(Expressed in Canadian Dollars, except where indicated)

- Advertising and promotion expense decreased by $101,176 due to less extensive promotion carried out for the Company during 2016;
- Consulting and management fees decreased by $84,366 due to a reduction of executive management compensation (Note 12);
- General and administrative expenses decreased by $303,325. The decrease was the result of decreased salaries and director fees, lower insurance premiums, and lower office lease expenses as a result of the head office moving to a smaller commercial space;
- Professional fees decreased by $103,747. The decrease was the result of significantly lower legal and audit fees during 2016;
- Share-based payments expenses 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, 2016, share-based payments expense decreased by $398,371 compared to the year ended December 31, 2015. The decrease related to a lower number of outstanding options vesting during 2016 as compared to the prior period. In 2016, the Company granted 160,000 stock options;
- Travel and accommodation expenses decreased by $68,138 due to reduced corporate travel.

For the year ended December 31, 2016, the Company incurred other expenses classified as "Other Items" amounting to $672,818 compared to $5,428,921 for the same period of 2015.

Other Items		**Year ended December 31,**		
		2016		**2015**
Costs in excess of recovered coal	$	290,736	$	1,600,978
Finance cost		317,056		-
Foreign exchange loss/(gain)		(6,185)		1,463,185
Gain on sale of available-for-sale investment		(59,698)		-
Interest expense		258,640		192,349
Impairment of inventory		-		920,694
Impairment of receivables and prepaids		-		1,152,217
Loss on sale of equipment		67,348		99,498
Recovery on mineral property sale		(195,079)		-
	$	672,818	$	5,428,921

The decrease by $4,756,103 is the net result of changes to a number of other items. Of note are the following items:

- Costs in excess of recovered coal for Ulaan Ovoo decreased by $1,310,242 due to keeping operations at Ulaan Ovoo mine on standby and reducing general and administrative costs;
- Finance cost was $317,056 (2015 - $nil) associated with the Credit Facility (Note 16 to Annual Financial Statements);
- Foreign exchange loss decreased by $1,469,370 due to fluctuations in the value of the Canadian dollar compared to the Mongolian tugrik, Bolivian boliviano, and the United States dollar;
- During the year ended December 31, 2016, a total of 335,266 remaining Wellgreen Platinum common shares reserved and held in-trust were returned to the Company. The Company sold these released Wellgreen Platinum common shares for proceeds of $59,698;
- Interest expenses increased by $66,291 due to interest charges related to the Credit Facility;
- During the year ended December 31, 2016, the Company recorded a loss on disbursement of equipment of $67,348;
- During the year ended December 31, 2016, the Company sold its 60% interest in the Okeover project located in British Columbia (previously impaired to $nil) and recorded a recovery on mineral property of $195,079 (Note 14 to Annual Financial Statements).

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

(Expressed in Canadian Dollars, except where indicated)

8. FOURTH QUARTER

The following table summarizes the Company's consolidated results for the three months ended December 31, 2016 and 2015:

Operating Expenses		**Three months ended December 31, 2016**		**2015**
Advertising and promotion	$	10,060	$	33,038
Consulting and management fees		105,500		71,540
General and administrative expenses		173,470		232,269
Professional fees		95,587		114,404
Share-based payments		74,428		40,410
Travel and accommodation		14,070		48,492
	$	473,115	$	540,153

Expenses in the fourth quarter of 2016 amounted $473,115 (2015 - $540,153). The Company continues to constrain general and administrative expenses and as a result, the operating expenses were approximately 12% lower compared to the prior year's amounts.

Other items in the fourth quarter of 2016 amounted to $616,168 (2015 - $3,343,944).

Other Items		**Three months ended December 31, 2016**		**2015**
Costs in excess of recovered coal		84,925		537,273
Finance cost		162		-
Foreign exchange loss/(gain)		524,777		661,229
Loss/(gain) on sale of equipment		(41,379)		3,321
Gain on sale of available-for-sale investment		-		-
Interest expense		47,683		69,210
Impairment of inventory		-		920,694
Impairment of receivables and prepaids		-		1,152,217
	$	616,168	$	3,343,944

The decrease in other items by $2,727,776 was mainly due to the fact that in Q4 2015, the Company recorded impairment charges totalling of $2,072,911 compared to $nil impairment charges in Q4 2016. Costs in excess of recovered coal were reduced by $452,348 due to keeping operations at Ulaan Ovoo mine on standby and reducing general and administrative costs.

9. LIQUIDITY AND CAPITAL RESOURCES

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

Working Capital

At December 31, 2016 Prophecy had cash of $21,648 representing a decrease of $11,894 from the $33,542 held at December 31, 2015. Working capital deficit amounted to $3.2 million at December 31, 2016 compared to working capital deficit of $3.89 million as at December 31 2015. The Company's working capital deficit decreased since the year ended December 31, 2015 primarily as a result of the decrease in credit facilities.

During the year ended December 31, 2016, the Company raised $0.94 million in equity financing. The proceeds were used to fully repay the Company's line of credit with the Trade and Development Bank of Mongolia ("**LOC**") and to advance the Company's Pulacayo project.

Credit Facility

On February 24, 2016, the Company signed the Second Amendment whereby the maximum principal amount available to the Company was increased to $2.5 million. In consideration of the Bonus of 20% of the total amounts advanced under the Credit Facility, Linx agreed to postpone any repayments due under the Credit Facility, until the earlier of October 1, 2016, or such time as the Company is in a reasonable financial position to repay all or a portion of the amounts owing, and remove the requirement for the Company to pay any 20% penalties as a result of any future failure to repay any amounts when due under the terms of the Credit Facility. A 5% "drawdown" fee will be applicable to amounts advanced over and above the original and outstanding $1.5 million advanced, at the time of advance including the interest on the Bonus and "drawdown" fee, which also bears interest at a rate of 1.5% per month with unpaid amounts accruing interest on the same terms. The Credit Facility carries an effective annual interest rate of 36.3%.

Subsequent to year end, Linx agreed for the nominal consideration of $1, to accrue and postpone the repayment of any principal, interest and fees due under the Credit Facility until the earlier of October 1, 2017, or such time as the Company is in a reasonable financial position to repay all or a portion of the amounts owing.

In 2016, the Company borrowed $0.34 million under the Credit Facility. The Company repaid $35,000 in cash and $1.5 million in Shares toward the Credit Facility outstanding balance during 2016, and $900,000 in Shares in January 2017.

As of the date of this MD&A, the Company had a total outstanding balance of $177,000 under the Credit Facility.

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

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

(Expressed in Canadian Dollars, except where indicated)

Cash Flow Highlights

		Year ended December 31, 2016		2015
Cash provided by (used in) operating activities	$	(453,600)	$	(2,395,959)
Cash provided by (used in) investing activities		(606,372)		1,170,566
Cash provided by (used in) financing activities		1,048,078		1,057,941
Increase (decrease) in cash for period		(11,894)		(167,452)
Cash balance, beginning of period		33,542		200,994
Cash balance, end of period	$	21,648	$	33,542

Operating activities: Cash used in operating activities was $0.45 million during the year ended December 31, 2016 compared to cash used of $2.4 million during the same period of 2015. The decreased outflows in 2016 were attributable to lower administrative and compensation expenses discussed in section 7 above. 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 used in investing activities totalled $0.6 million in 2016 compared to $1.17 million cash provided in 2015. During 2016, the Company spent $712,901 on capital additions and received $94,198 from Guaranteed Investment Certificate redemption and sale of Wellgreen Platinum shares released from trust. During 2015, the Company spent $1,517,192 on capital additions, paid $237,224 to acquire the Apogee Subsidiaries, and received $2,924,982 from the sale of mining equipment.

***Financing activities*:** A total of $1 million was provided by financing activities during the year ended December 31, 2016 and December 31, 2015. In 2016, the Company drew $341,116 from the Credit Facility and received net proceeds of $952,929 from issuing Shares in two private placements. The Company fully repaid the USD$1.5 million LOC of $199,714 and paid $35,000 in cash and $1,500,000 in the form of Shares toward the Credit Facility outstanding balance. In 2015, Company received $1,500,000 from the Credit Facility and $788,000 from issuing shares in private placements. During 2015, the Company paid $1,089,430 toward the LOC and related interest of $140,629.

Contractual Commitments

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

Capital Risk Management

Prophecy considers its capital structure to consist of share capital, share options and warrants. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the exploration and development of its projects and to pursue and support growth opportunities. The Board of Directors does not establish quantitative returns on capital criteria for management. The overall objectives for managing capital remained unchanged in 2016 from the prior comparative period

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

10. CONTINGENCIES

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

ASC Tax Claim

Pursuant to the terms of the acquisition agreement, Prophecy agreed to assume all liabilities of the Apogee Subsidiaries, including legal and tax liabilities associated with the Pulacayo Project. During Apogee's financial year ended June 30, 2014, it received notice from the Servicio de Impuestos Nacionales, the national tax authority in Bolivia, alleging that ASC Bolivia LDC Sucursal Bolivia, the Company's wholly-owned subsidiary, owed approximately Bs42,000,000 ($7,060,691) in taxes, interest and penalties relating to a historical tax liability in an amount originally assessed at approximately $760,000 in 2004, prior to Apogee acquiring the subsidiary in 2011. Apogee disputed the assessment and disclosed to the Company that it believed the notice was improperly issued. The Company continued to dispute the assessment and hired local legal counsel to pursue an appeal of the tax authority's assessment on both substantive and procedural grounds.

On May 26, 2015, the Company received a positive Resolution issued by the Bolivian Constitutional Court that among other things, declared null and void the previous Resolution of the Bolivian Supreme Court issued in 2011 (that imposed the tax liability on ASC Bolivia LDC Sucursal Bolivia) and sent the matter back to the Supreme Court to consider and issue a new Resolution. The Company plans to continue to vigorously defend its position and make submissions to the Supreme Court during the new hearing. Based on these developments, the tax claim amount of $7,060,691 was classified as non-current liabilities.

Red Hill Tax Claim

During the year ended December 31, 2014, Red Hill was issued a letter from the Sukhbaatar District Tax Division notifying it of the results of the Sukhbaatar District Tax Division's VAT inspection of Red Hill's 2009-2013 tax imposition and payments that resulted in validating VAT credit of only MNT235,718,533 from Red Hill's claimed VAT credit of MNT2,654,175,507. Red Hill disagreed with the Sukhbaatar District Tax Division's findings as the tax assessment appeared to the Company to be unfounded. The Company disputed the Sukhbaatar District Tax Division's assessment and submitted a complaint to the Capital City Tax Tribunal. On March 24, 2015, the Capital City Tax Tribunal resolved to refer the matter back to the Sukhbaatar District Tax Division for revision and separation of the action between confirmation of Red Hill's VAT credit, and the imposition of the penalty/deduction for the tax assessment. The Sukhbaatar District Tax Division appealed the Capital City Tax Tribunal's resolution to the General Tax Tribunal office, but was denied on June 4, 2015 on procedural grounds. As a result, the Sukhbaatar District Tax Division implemented the Capital City Tax Tribunal's resolution on June 25, 2015, finding: (1) with respect to confirmation of Red Hill's VAT credit, that after inspection the amount was to be MNT235,718,533; and (2) with respect to the imposition of the penalty/deduction for the tax assessment, that no penalty was to be issued but that Red Hill's loss to be depreciated and reported to be MNT1,396,668,549 in 2010 and MNT4,462,083,700 in 2011. The Company continues to dispute the Sukhbaatar District Tax Division's assessment and delivered a complaint to Capital City Tax Tribunal on July 24, 2015. Due to the uncertainty of realizing the VAT balance, the Company recorded an impairment charge for the full VAT balance in the prior year (see Note 10 to Annual Financial Statements).

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

(Expressed in Canadian Dollars, except where indicated)

- 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 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, 2016, the Company had a provision for closure and reclamation liability of $242,347 (December 31, 2015 - $208,992). The fair value of the closure and reclamation liability is estimated using a present value technique and is based on existing laws, contracts or other policies and current technology and conditions (Note 17 to the Annual Financial Statements).

12. RELATED PARTY DISCLOSURES

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

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

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

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

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

		Year Ended December 31,	
Related parties		**2016**	**2015**
Directors and officers	$	280,160	$ 332,487
Linx Partners Ltd.		210,000	428,988
MaKevCo Consulting Inc.		22,480	33,519
Sophir Asia Ltd.		20,380	31,241
	$	533,020	$ 826,235

(Expressed in Canadian Dollars, except where indicated)

The Company arranged the Credit Facility with a maximum principal amount available to the Company of $2.5 million (Note 16 to the Annual Financial Statements for information regarding the Company's Credit Facility with Linx).

On June 6, 2016, the Company issued the equivalent of 750,000 units at a value of the equivalent of $2.00 each to Mr. Lee, in satisfaction of $1,500,000 of indebtedness owed by the Company to Linx under the Credit Facility. Each unit consists of one Share and one Share purchase warrant. Each warrant entitles the holder to acquire an additional Share at a price of the equivalent of $4.00 per Share for a period of five years from the date of issuance.

On August 29, 2016, Mr. Lee acquired 60,000 units for total consideration of $228,000 pursuant to a non-brokered private placement of 202,735 units at a price of $3.80 per unit.

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

Subsequent to year end, the Company issued 300,000 Shares to Linx in satisfaction of $900,000 worth of indebtedness owing by the Company under the Credit Facility. Linx also agreed for the nominal consideration of $1, to accrue and postpone the repayment of any principal, interest and fees due until the earlier of October 1, 2017, or such time as the Company is in a reasonable financial position to repay all or a portion of the amounts owing.
As at the date of this MD&A, Mr. Lee beneficially owns and exercises control over an aggregate of 995,253 shares representing an interest of approximately 19.12% of the Company's currently issued and outstanding shares, and 30.62% of the Company's shares on a fully diluted basis assuming exercise of all of the Company's outstanding share purchase warrants. The securities were acquired or disposed of by Mr. Lee for investment purposes only, and not for purposes of exercising control or direction over the Company. Generally, Mr. Lee intends to evaluate his investment in the Company and to increase or decrease his shareholdings as circumstances require, depending on market conditions and other factors, through market transactions, private agreements or otherwise.

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

		Year Ended December 31,	
Related parties		**2016**	**2015**
Consulting and management fees	$	153,000 $	278,992
Directors' fees		63,240	96,002
Mineral properties		117,000	203,996
Salaries and benefits		199,780	247,245
	$	533,020 $	826,235

As at December 31, 2016, amounts due to related parties totaled of $366,269 including accrued bonuses of $185,440 (December 31, 2015 – $129,891) and was comprised of $14,640 (December 31, 2015 - $54,060) for director fees, $54,656 (December 31, 2015 - $2,400) for consulting fees, $86,864 (December 31, 2015 - $9,600) for managing mineral properties, $29,280 (December 31, 2015 - $63,831) for salaries and reimbursable expenses. The remaining amounts due relate to deferred consulting fees, director fees and salaries totaled $180,829 (December 31, 2015 - $Nil).

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.

(Expressed in Canadian Dollars, except where indicated)

		Year Ended December 31,	
Key Management Personnel		**2016**	**2015**
Salaries and short term benefits	$	204,079 $	249,572
Share-based payments		181,990	516,249
	$	386,069 $	765,821

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, 2016 (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

The Company followed the same accounting policies and methods of computation in the Annual Financial Statements for the year ended December 31, 2016 as followed in the consolidated financial statements for the year ended December 31, 2015.

(b) Basis of consolidation

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

(Expressed in Canadian Dollars, except where indicated)

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

14. FINANCIAL INSTRUMENTS AND RELATED RISKS

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

Financial Instruments (Note 21 to the Annual Financial Statements)

The following table sets forth the Company's financial assets that are measured at fair value on a recurring basis by level within the fair value hierarchy. As at December 31, 2016, 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, 2016	Level 1	Level 2	Level 3	Total
Financial assets				
Cash	$ 21,648	$ -	$ -	$ 21,648
	$ 21,648	$ -	$ -	$ 21,648

Related Risks

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, 2016, the Company had a cash balance of $21,648 (December 31, 2015 – $33,542). As at December 31, 2016, the Company had accounts payable and accrued liabilities of $2,658,018 (December 31, 2015 - $2,637,557), which have contractual maturities of 90 days or less and the Credit Facility balance of $1,071,560 (December 31, 2015 - $1,889,462).

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

Market risk - The significant market risks to which the Company is exposed are interest rate risk, foreign currency risk, and commodity and equity price risk. Market challenges for commodities and mining sector equities continued during the year. The current economic conditions do create uncertainty particularly over the price of silver and coal, the exchange rate between Canadian and US dollars and the timing of a recovery remains uncertain.

(a) Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. During the year ended December 31, 2016, the Company drew down $341,116 on its Credit Facility with an outstanding balance of $1,071,560 as at December 31, 2016. Due to the short-term nature of these financial instruments, and that the Company's Credit Facility bears interest at a 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, 2016. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

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

Based on the above, net exposures as at December 31, 2016, with other variables unchanged, a 10% (December 31, 2015 – 10%) strengthening (weakening) of the Canadian dollar against the Mongolian tugrik would impact net loss with other variables unchanged by $120,000. A 10% strengthening (weakening) of the Canadian dollar against the Bolivian boliviano would impact net loss with other variables unchanged by $705,000. A 10% strengthening (weakening) of the US dollar against the Canadian dollar would impact net loss with other variables unchanged by $41,000. The Company currently does not use any foreign exchange contracts to hedge this currency risk.

(c) 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, 2016 "Risk Factors" page 89. The Annual information Form is available under the Company's SEDAR profile at www.SEDAR.com.

16. DISCLOSURE CONTROLS AND PROCEDURES

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

The Chief Executive Officer and Chief Financial Officer, after participating with the Company's management in evaluating the effectiveness of the Company's disclosure controls and procedures have concluded that as of December 31, 2016, the Company's disclosure controls and procedures were effective.

Design of Internal Controls over Financial Reporting

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

- pertain to the maintenance of records that, in reasonable detail accurately and fairly reflect the transactions, acquisition and disposition of assets and liabilities;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with IFRS and that receipts and expenditures are being made only in accordance with the authorization of management and directors of Prophecy; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets, and incurrence of liabilities, that could have a material effect on the financial statements.

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting using the criteria set forth in the *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2016.

Changes in internal control over financial reporting

There have been no changes in the Company's internal control over financial reporting during the year ended December 31, 2016, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations of controls and procedures

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

17. DISCLOSURE OF OUTSTANDING SHARE DATA

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

- 5,226,339 Common shares outstanding with recorded value of $157,811,717;
- 542,127 stock options outstanding with a weighted average exercise price of $6.45. Each option is exercisable to purchase one Share of the Company at prices ranging from $2 to $28 and which expire between June 2017 and January 2022; and
- 1,398,059 Share purchase warrants outstanding with a weighted average exercise price of $4.66. Each warrant is exercisable to purchase one Share of the Company at prices ranging from $4 to $7 and which expire between June 2017 and January 2022.

18. OFF-BALANCE SHEET ARRANGEMENTS

During the year ended December 31, 2016, 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.