Annual Consolidated Financial Statements
For the years ended December 31, 2017 and 2016
(Expressed in Canadian Dollars)

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

March 29, 2018

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Prophecy Development Corp.

We have audited the accompanying consolidated financial statements of Prophecy Development Corp., which comprise the consolidated statements of financial position as at December 31, 2017 and 2016 and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Prophecy Development Corp. as at December 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Professional Accountants

March 29, 2018

1200 - 609 Granville Street, P.O. Box 10372, Pacific Centre, Vancouver, B.C., Canada V7Y 1G6
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PROPHECY DEVELOPMENT CORP.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

As at	Notes		December 31, 2017		December 31, 2016
Assets					
Current assets					
Cash	8	$	4,100,608	$	21,648
Receivables	9		34,653		91,565
Prepaid expenses	10		140,610		200,526
Available-for-sale investments	11		205,600		176,000
			4,481,471		489,739
Non-current assets					
Restricted cash equivalents	8		34,500		-
Reclamation deposits			21,055		21,055
Equipment	12		531,911		917,607
Mineral properties	13		13,299,906		26,399,708
		$	18,368,843	$	27,828,109
Liabilities and Equity					
Current liabilities					
Accounts payable and accrued liabilities	14	$	1,895,983	$	2,658,018
Credit facility	15		-		1,071,560
			1,895,983		3,729,578
Non-current liabilities					
Provision for closure and reclamation	16		244,323		242,347
Tax provision	26		7,541,016		7,060,691
			9,681,322		11,032,616
Equity					
Share capital	18		165,862,805		156,529,025
Reserves			22,621,202		21,482,133
Accumulated other comprehensive income	11		12,160		-
Deficit			(179,808,646)		(161,215,665)
			8,687,521		16,795,493
		$	18,368,843	$	27,828,109

Approved on behalf of the Board:

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

Commitments (Note 25)
Contingencies (Note 26)
Events after the reporting date (Note 27)
The accompanying notes form an integral part of these consolidated financial statements.

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

	Notes	Year Ended December 31, 2017	2016
General and Administrative Expenses			
Advertising and promotion		$ 101,512	$ 50,125
Consulting and management fees	22	751,612	215,438
Depreciation and accretion		8,823	65,175
Director fees	22	60,600	63,240
Insurance		52,566	55,756
Office and administration		89,808	119,595
Professional fees		194,912	122,230
Salaries and benefits	22	260,710	256,020
Share-based payments	18	599,117	197,889
Stock exchange and shareholder services		163,229	107,045
Travel and accommodation		98,476	81,974
		(2,381,365)	(1,334,487)
Other Items			
Costs in excess of recovered coal		(109,187)	(290,736)
Finance cost	15	(8,111)	(317,056)
Foreign exchange gain/(loss)		(188,464)	6,185
Interest expense	15	(21,066)	(258,640)
(Loss)/gain on sale of available-for-sale investment	11	(22,810)	59,698
Loss on sale of equipment		(1,681)	(67,348)
Loss on debt settlement	18	(752,742)	-
(Impairment)/recovery of mineral property	13	(14,829,267)	195,079
Impairment of prepaid expenses	10	(57,420)	-
Impairment of property and equipment	12	(159,666)	-
Impairment of receivables	9	(61,202)	-
		(16,211,616)	(672,818)
Net Loss for Year		(18,592,981)	(2,007,305)
Fair value gain on available for-sale-investments	11	12,160	-
Comprehensive Loss for Year		$ (18,580,821)	$ (2,007,305)
Loss Per Common Share, basic and diluted		$ (3.33)	$ (0.48)
Weighted Average Number of Common Shares Outstanding		5,576,070	4,212,004

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

PROPHECY DEVELOPMENT CORP.
Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)

	Numbers of Shares Outstanding	Share Capital	Reserves	Accumulated Other Comprehensive Income	Deficit	Total
December 31, 2015	3,427,474	$ 153,281,631	$ 21,205,698	$ -	$ (159,208,360)	$ 15,278,969
Private placements, net of share issue costs	282,735	942,746	10,183	-	-	952,929
Debt Settlements	1,097,444	2,304,648	-	-	-	2,304,648
Share-based payments	-	-	266,252	-	-	266,252
Loss for the year	-	-	-	-	(2,007,305)	(2,007,305)
December 31, 2016	4,807,653	$ 156,529,025	$ 21,482,133	$ -	$ (161,215,665)	$ 16,795,493
December 31, 2016	4,807,653	156,529,025	21,482,133	-	(161,215,665)	16,795,493
Private placements, net of share issue costs	2,077,506	6,527,619	337,190	-	-	6,864,809
Debt Settlements	401,913	2,039,269	-	-	-	2,039,269
Shares issued on acquisition of property	20,000	96,200	-	-	-	96,200
Share bonus to personnel	39,000	190,320	-	-	-	190,320
Share compensation for services	98,420	344,470	-	-		344,470
Exercise of stock options	12,687	65,252	(14,567)	-	-	50,685
Exercise of warrants	15,000	70,650	(10,650)	-		60,000
Share-based payments	-	-	827,096	-	-	827,096
Loss for the year	-	-	-	-	(18,592,981)	(18,592,981)
Unrealized gain on available-for-sale investments	-	-	-	12,160		12,160
December 31, 2017	7,472,179	$ 165,862,805	$ 22,621,202	$ 12,160	$ (179,808,646)	$ 8,687,521

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

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

	Year Ended December 31, 2017	2016
Operating Activities		
Net loss for year	$ (18,592,981)	$ (2,007,305)
Adjustments to reconcile net loss to net cash flows:		
Depreciation and accretion	8,823	65,175
Share-based payments	599,117	197,889
Finance cost	8,111	317,056
Interest costs	21,066	258,640
Unrealized foreign exchange (gain)/loss	480,325	(227,164)
Share compensation for services	344,470	-
Loss on sale of equipment	1,681	67,348
Loss on debt settlement	752,742	-
(Gain)/loss on sale of available-for-sale investment	22,810	(59,698)
Impairment / (recovery) of mineral property	14,829,267	(195,079)
Impairment of prepaid expenses	57,420	-
Impairment of property and equipment	159,666	-
Impairment of receivables	61,202	-
	(1,246,281)	(1,583,138)
Working capital adjustments		
Receivables	(4,290)	308,724
Prepaid expenses and reclamation deposits	2,496	9,231
Accounts payable and accrued liabilities and tax provision	540,844	811,583
	539,050	1,129,538
Cash Used in Operating Activities	(707,231)	(453,600)
Investing Activities		
Cash received from GIC redemption	-	34,500
Purchase of GIC	(34,500)	-
Net (purchases)/proceeds from available-for-sale investments	(40,250)	59,698
Proceeds from sale of property and equipment	-	12,331
Purchase of property and equipment	(515,609)	-
Mineral property acquisition	(58,790)	-
Mineral property expenditures	(1,339,417)	(712,901)
Cash Used in Investing Activities	(1,988,566)	(606,372)
Financing Activities		
Credit facilities paid	(343,076)	(234,714)
Interest paid	(21,066)	(11,253)
Funds borrowed under credit facility	163,405	341,116
Proceeds from share issuance, net of share issue costs	6,864,809	952,929
Proceeds from exercise of options	50,685	-
Proceeds from exercise of warrants	60,000	-
Cash Provided by Financing Activities	6,774,757	1,048,078
Net Increase (Decrease) in Cash	4,078,960	(11,894)
Cash - beginning of year	21,648	33,542
Cash - end of year	$ 4,100,608	$ 21,648

Supplemental cash flow information (Note 24)
The accompanying notes form an integral part of these consolidated financial statements.

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

Prophecy Development Corp. ("**Prophecy**" or the "**Company**") is incorporated under the laws of the province of British Columbia, Canada. The Company's common shares (the "**Shares**") are listed for trading on the Toronto Stock Exchange (the "**TSX**") under the symbol "PCY" and the Frankfurt Stock Exchange under the symbol "1P2N".

The principal business of the Company is the acquisition, exploration and development of mineral and energy projects. The Company owns a 100% interest in the following significant coal projects in Mongolia: the Ulaan Ovoo coal property, the Khavtgai Uul and Chandgana Tal coal deposits (together, the "**Chandgana Coal Properties**"), and the Pulacayo Paca silver-lead-zinc property (the "**Pulacayo Project**") in Bolivia. The Company also has a 100% interest in three vanadium projects in North America: the Titan vanadium-titanium-iron project (the "**Titan Project**") in Canada, and the Gibellini and Louie Hill vanadium projects (the "**Gibellini Project**") both, in the United States.

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

These consolidated audited annual financial statements have been prepared under the assumption that the Company is a going concern. The Company currently does not generate any revenue and is dependent on raising additional funds through of equity, debt, disposition of assets, or some combination thereof, to continue the advancement of the Company's projects. Existing working capital is expected to be sufficient to cover non-discretionary operating expenditures for the next twelve months.

2. BASIS OF PRESENTATION

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

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

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

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

The Annual Consolidated Financial Statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on March 27, 2018.

3. BASIS OF CONSOLIDATION

(a) Subsidiaries

The Annual Financial Statements comprise the financial statements of the Company and its wholly owned and partially-owned subsidiaries as at December 31, 2017. Subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. Effects of transactions between related companies are eliminated on consolidation. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company. Accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

3. BASIS OF CONSOLIDATION (cont'd…)

(a) Subsidiaries (cont'd…)

The Company's most significant subsidiaries at December 31, 2017 are presented in the following table:

Subsidiary	Location	Ownership Interest	Operations and Project Owned
0912601 B.C. Ltd.	Canada	100%	Titan property
Chandgana Coal LLC	Mongolia	100%	Chandgana properties
Prophecy Power Generation LLC	Mongolia	100%	Power plant project
Red Hill Mongolia LLC	Mongolia	100%	Ulaan Ovoo mine
Apogee Minerals Bolivia S. A.	Bolivia	98%	Pulacayo project
ASC Holdings Limited	Bolivia	100%	Pulacayo project
Vanadium Gibellini Company LLC[(1)]	USA	100%	Gibellini project

[(1)] Incorporated on November 8, 2017.

4. CHANGES IN ACCOUNTING POLICIES

The following standards have been published and are mandatory for the Company's annual accounting periods no earlier than January 1, 2018:

- IFRS 9 *'Financial Instruments'* – This standard was published in July 2014 and replaces the existing guidance in IAS39, '*Financial Instruments: Recognition and Measurement'*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect this standard to have a material impact on its financial statements.

- IFRS 15 *'Revenue from Contracts with Customers'* – This standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. This standard is effective for fiscal years beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect this standard to have a material impact on its financial statements.

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

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

5. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

5.1 Significant Judgments

The significant judgments that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimation uncertainties (Annual financial statements 5.2), that have the most significant effect on the amounts recognized in the Annual Financial Statements include, but are not limited to:

(a) Functional currency determination

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment. Management has determined the functional currency of all entities to be the Canadian dollar.

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

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

Management has determined that during the year ended December 31, 2017, none of the Company's silver and vanadium projects have reached technical feasibility and commercial viability and therefore remain within Mineral Properties on the Statement of Financial Position.

(c) Impairment assessment of deferred exploration interests

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

During the year ended December 31, 2017, the Company wrote-off the Chandgana Tal and Khavtgai Uul coal properties and costs associated with purchasing the remaining interest in the Titan property. Due to current market conditions and the difficulty of negotiations with the Mongolian government, as well as Prophecy's inactivity on these properties in recent years, management decided to impair their values at the year ended December 31, 2017 to $Nil. The Company recognized a total impairment of mineral property loss of $14,829,267 on its consolidated statement of operations and comprehensive loss.

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

5.1 Significant Judgments (cont'd...)

(d) Deferred Tax Liability

Judgement is required to determine which types of arrangements are considered to be a tax on income in contrast to an operating cost. Judgement is also required in determining whether deferred tax liabilities are recognised in the statement of financial position. Deferred tax liabilities, including those arising from un-utilised tax gains, require management to assess the likelihood that the Company will generate sufficient taxable losses in future periods, in order to offset recognised deferred tax liabilities. Assumptions about the generation of future taxable losses depend on management's estimates of future cash flows. These estimates of future taxable losses are based on forecast cash flows from operations (which are impacted by production and sales volumes, commodity prices, reserves, operating costs, closure and rehabilitation costs, capital expenditure, and other capital management transactions) and judgement about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable losses differ significantly from estimates, the ability of the Company to offset the net deferred tax liabilities recorded at the reporting date could be impacted.

5.2 Estimates and Assumptions

The Company bases its estimates and assumptions on current and various other factors that it believes to be reasonable under the circumstances. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows. The areas which require management to make significant estimates and assumptions in determining carrying values include, but are not limited to:

(a) Mineral reserves

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

(b) Depreciation

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

(c) Impairment

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

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

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

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

5.2 Estimates and Assumptions (cont'd...)

(d) Allowance for doubtful accounts, and the recoverability of receivables and prepaid expense amounts (cont'd…)

Management has made significant assumptions about the recoverability of receivables and prepaid expense amounts. During the year ended December 31,2017 the Company wrote-off $61,202 of trade receivables which are no longer expected to be recovered and $57,420 of prepaid expenses for which not future benefit is expected to be received.

(e) Provision for closure and reclamation

The Company assesses its mineral properties' rehabilitation provision at each reporting date or when new material information becomes available. Exploration, development and mining activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing, and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. Accounting for reclamation obligations requires management to make estimates of the future costs that the Company will incur to complete the reclamation work required to comply with existing laws and regulations at each location. Actual costs incurred may differ from those amounts estimated.

Also, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for reclamation and remediation. The provision represents management's best estimate of the present value of the future reclamation and remediation obligation. The actual future expenditures may differ from the amounts currently provided.

(f) Share-based payments

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

(g) Contingencies

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

(h) Fair value measurement

The Company measures financial instruments at fair value at each reporting date. The fair values of financial instruments measured at amortized cost are disclosed in Note 20. Also, from time to time, the fair values of non-financial assets and liabilities are required to be determined, e.g., when the entity acquires a business, completes an asset acquisition or where an entity measures the recoverable amount of an asset or cash-generating unit at fair value less costs of disposal. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

5.2 Estimates and Assumptions (cont'd...)

(h) Fair value measurement

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Changes in estimates and assumptions about these inputs could affect the reported fair value.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Restricted cash equivalents

Restricted cash equivalents consist of highly liquid investments pledged as collateral for the Company's credit card and are readily convertible to known amounts of cash.

(b) Mineral properties

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

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

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

(i) Title to mineral properties

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

(ii) Realization of mineral property assets

The investment in and expenditures on mineral property interests comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, and the attainment of successful production from properties or from the proceeds of their disposal. Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into profitable producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

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

(b) Mineral properties (cont'd...)

(ii) Realization of mineral property assets (cont'd...)

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values.

(iii) Environmental

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest.

The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. Other than as disclosed in Note 16, the Company is not aware of any existing environmental issues related to any of its current or former properties that may result in material liability to the Company.

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

(c) Equipment

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

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

Computer equipment	45%
Computer software	100%
Furniture and equipment	20%
Leasehold improvement	Straight line / 5 years
Mining equipment	20%
Vehicles	30%

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

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

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

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

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

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU, where the recoverable amount of the CGU is the greater of the CGU's fair value less costs to sell and its value in use to which the assets belong. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

(e) Borrowing costs

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

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

(f) Foreign currency translation

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

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

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

(g) Revenue recognition

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

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

Sales of coal are generated from incidental coal sales and are recorded net of associated costs.

(h) Unit offerings

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

(i) Share-based payments

The Company has a share purchase option plan that is described in Note 18. The Company accounts for share-based payments using a fair value based method with respect to all share-based payments to directors, officers, employees, and service providers. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or if such fair value is not reliably measurable, at the fair value of the equity instruments issued. The fair value is recognized as an expense or capitalized to mineral properties or property and equipment with a corresponding increase in option reserve. This includes a forfeiture estimate, which is revised for actual forfeitures in subsequent periods.

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

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

(j) Loss per share

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

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

(k) Income taxes

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

(l) Provision for closure and reclamation

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

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

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

(m) Financial instruments

(i) Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables or at fair value though profit and loss ("**FVTPL**"). FVTPL comprises derivatives and financial assets acquired principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss. The Company's cash is classified as FVTPL.

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

The Company's investments are classified as available-for-sale.

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method less any provision for impairment. The Company's receivables and restricted cash equivalents are classified as loans and receivables.

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

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

(i) Financial assets (cont'd...)

Held-to-maturity investments: These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's Management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method less any provision for impairment. The Company does not have any held-to-maturity investments.

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

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

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

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

(ii) Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs and subsequently measured at amortized cost using the effective interest rate method. The Company's accounts payable and accrued liabilities and credit facility are classified as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income. The Company has no financial liabilities classified as FVTPL.

Please refer to Note 20 for relevant fair value measurement disclosures.

7. SEGMENTED INFORMATION

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

	December 31, 2017				
	Canada	USA	Mongolia	Bolivia	Total
Reclamation deposits	$ -	$ -	$ 21,055	$ -	$ 21,055
Property and equipment	18,376	-	48,364	465,171	531,911
Mineral properties	-	490,356	-	12,809,550	13,299,906
	$ 18,376	$ 490,356	$ 69,419	$ 13,274,721	$ 13,852,872

	December 31, 2016				
	Canada		Mongolia	Bolivia	Total
Reclamation deposits	$ -	$ -	$ 21,055	$ -	$ 21,055
Property and equipment	22,816	-	329,912	564,879	917,607
Mineral properties	-	-	14,418,765	11,980,943	26,399,708
	$ 22,816	$ -	$ 14,769,732	$ 12,545,822	$ 27,338,370

8. CASH AND RESTRICTED CASH EQUIVALENTS

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

	December 31, 2017	December 31, 2016
Cash	$ 4,100,608	$ 21,648
Cash equivalents	34,500	-
	$ 4,135,108	$ 21,648

Restricted Cash Equivalents

As at December 31, 2017, a guaranteed investment certificate of $34,500 (2016 - $Nil) has been pledged as collateral for the Company's credit card.

9. RECEIVABLES

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

	December 31, 2017	December 31, 2016
Input tax recoverable	$ 10,562	$ 1,388
Trade receivable	24,091	90,177
	$ 34,653	$ 91,565

During the year ended December 31, 2017, the Company wrote-off $61,202 (2016 - $Nil) of trade receivables which are not longer expected to be recovered.

10. PREPAID EXPENSES

	December 31, 2017	December 31, 2016
General	-	57,681
Insurance	41,029	40,969
Environmental and taxes	47,508	40,695
Transportation and fuel	-	23,863
Rent	11,458	37,318
Market advisors	40,615	-
	$ 140,610	$ 200,526

The Company anticipates full recovery of its outstanding prepaid expense amounts in the form of goods and services. During the year ended December 31, 2017, the Company wrote-off $57,420 (2016 - $Nil) of prepaid expenses for which no future benefit is expected to be received.

11. AVAILABLE-FOR-SALE INVESTMENTS

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

As of December 31, 2017, the Company holds 1,409,000 shares of a public company. These shares are marked-to market which resulted in an unrealized gain of $12,160 for the year ended December 31, 2017 (2016 - $Nil).

On September 22, 2016, the Company sold its 60% interest in the Okeover copper-molybdenum project located in British Columbia to Lorraine Copper Corp. ("**Lorraine**"). Under the terms of the agreement, Lorraine issued 2,200,000 common shares of Lorraine (valued at $0.08/share) to Prophecy and assumed Prophecy's $19,079 payment obligation to Eastfield Resources Ltd. under such parties' existing joint venture agreement. The Lorraine shares are subject to a hold period of four months plus one day. The investment in Lorraine of $176,000 was classified as available-for-sale and is measured at fair value with changes in fair value recognized in other comprehensive income. During the year ended December 31, 2017, the Company disposed of 2,200,000 Lorraine shares for proceeds of $153,190 and a realized loss of $22,810.

The following table summarized information regarding the Company's available-for-sale investments as at December 31, 2016 and December 31, 2017.

Available-for-sale investments	December 31, 2017	December 31, 2016
Balance, beginning of year	$ 176,000	$ -
Additions	193,440	176,000
Disposals	(153,190)	-
Realized loss on disposal	(22,810)	-
Unrealized gain on mark-to-market	12,160	-
Balance, end of year	$ 205,600	$ 176,000

11. PROPERTY AND EQUIPMENT

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

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

The impaired value of $nil for deferred development costs at Ulaan Ovoo property at December 31, 2017 remains unchanged. During the year ended December 31, 2017, the Company wrote-off $159,666 (2016 - $Nil) of equipment in Mongolia because it was no longer in use.

12. MINERAL PROPERTIES

	Titan	Chandgana Tal	Khavtgai Uul	Pulacayo	Gibellini	Total
Balance, December 31, 2015	$ -	$ 11,040,916	$ 3,139,891	$ 11,115,403	$ -	$ 25,296,210
Additions:						
Deferred exploration costs:						
Licenses, power plant application	-	93,505	89,184	4,970	-	187,659
Geological core and consulting	-	48,533	-	146,051	-	194,584
Personnel, camp and general	-	3,368	3,368	714,519	-	721,255
	-	145,406	92,552	865,540	-	1,103,498
Balance, December 31, 2016	$ -	$ 11,186,322	$ 3,232,443	$ 11,980,943	$ -	$ 26,399,708
Additions:						
Acquisition cost	$ 96,200	$ -	$ -	$ -	$ 58,790	$ 154,990
Deferred exploration costs:						
Licenses, power plant application	-	27,190	242,766	-	74,876	344,832
Geological core and consulting	-	39,362	-	102,592	272,620	414,574
Personnel, camp and general	-	2,492	2,492	726,015	84,070	815,069
	-	69,044	245,258	828,607	431,566	1,574,475
Impairment	(96,200)	(11,255,366)	(3,477,701)	-	-	(14,829,267)
Balance, December 31, 2017	$ -	$ -	$ -	$ 12,809,550	$ 490,356	$ 13,299,906

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

Chandgana Properties, Mongolia

Chandgana Tal

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

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

Khavtgai Uul Property, Mongolia

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

Impairment of Chandgana Properties

During the year ended December 31, 2017, the Company determined there were several indicators of potential impairment of the carrying value of the Chandgana Tal and Khavtgai Uul properties. The indicators of potential impairment were as follows:

(i) decreased coal demand from local customers;

(ii) no positive decision from the Mongolian Government to construct the Chandgana Power Plant;

(iii) management's decision to suspend further exploration activities; and

(iv) change in the Company primary focus to Gibellini Project.

As result, in accordance with *IFRS 6, Exploration for and Evaluation of Mineral Resources* and *IAS 36, Impairment of Assets*, at December 31, 2017, the Company assessed the recoverable amount of the Chandgana Properties deferred exploration costs and determined that its value in use is $nil. As at December 31, 2017, the recoverable amount of $nil resulted in an impairment charge of $14,733,067 against the value of the deferred exploration costs, which was reflected on the consolidated statement of operations.

Pulacayo Property, Bolivia

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

ASC controls the mining rights to the Pulacayo Project through a joint venture agreement entered into between itself and the Pulacayo Ltda. Mining Cooperative on July 30, 2002 (the "**ASC Joint Venture**"). The ASC Joint Venture has a term of 23 years which commenced the day the ASC Joint Venture was entered into. Pursuant to the ASC Joint Venture, ASC is committed to pay monthly rent of US$1,000 to the state-owned Mining Corporation of Bolivia, COMIBOL and US$1,500 monthly rent to the Pulacayo Ltda. Mining Cooperative until the Pulacayo Project starts commercial production.

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

Pulacayo Property, Bolivia (cont'd...)

COMIBOL retained a 2.5% NSR and the Pulacayo Ltda. Mining Cooperative retained a 1.5% NSR. The Pulacayo Ltda. Mining Cooperative holds the mining rights through a lease agreement entered into with COMIBOL.

Gibellini Project (includes Louie Hill Project), Nevada, United States

Gibellini Project

On June 23, 2017 ("**Execution Date**"), The Company acquired (through lease) the Gibellini Project by paying $46,370 in cash to arm's-length private parties (the "**Lessors**"). The Gibellini Project is comprised of 40 unpatented lode claims totaling approximately 771 acres, located in Eureka County, Nevada, USA.

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

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

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

(c) upon commencement of production, the Company will maintain its acquisition through lease of the Gibellini Project mining claims by paying to the Lessors, a 2.5% net smelter return (**"NSR"**) until a total of USD 3 million is paid. Thereafter, the NSR will be reduced to 2% over the remaining life of the mine (and referred to thereafter, as "production royalty payments"); and

(d) all advance royalty payments made, will be deducted as credits against future production royalty payments. The lease will be for a term of 10 years, which can be extended for an additional 10 years at Prophecy's option.

Louie Hill Project

On July 13, 2017 ("**Execution Date 2**"), the Company acquired (through lease), the Louie Hill Project in Nevada, USA, by paying $12,420 in cash to an arm's-length, private party (the "**Louie Hill Lessor**") with the intent to carry-out mining operations there.

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

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

(b) Annually, on each anniversary of the Execution Date 2, advance royalty payments which will be tied, based on an agreed formula (not to exceed USD 28,000 per year), to the average vanadium pentoxide price for the prior year;

(c) upon commencement of production, Prophecy will maintain its acquisition through lease of the Louie Hill Project mining claims by paying to the Louie Hill Lessor, a 2.5% NSR of which, 1.5% of the NSR may be purchased at any time by Prophecy for USD 1 million leaving the total NSR to be reduced to 1% over the remaining life of the mine (and referred to thereafter, as "production royalty payments");

(d) all advance royalty payments made, will be deducted as credits against future production royalty payments. The lease will be for a term of 10 years, which can be extended for an additional 10 years at Prophecy's option.

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

Previously Impaired Properties

Titan Property, Ontario, Canada

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

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

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

Okeover Property, British Columbia, Canada

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

At December 31, 2014, due to market conditions and the difficulty to raise additional financing, as well as Prophecy's inactivity on the Okeover property in recent years, the Company impaired the value to $nil.

On September 22, 2016, the Company sold its 60% interest in the Okeover property 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. Upon completion of the sale, the Company recorded a mineral property recovery of $195,079 in the statement of operations and comprehensive loss.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	December 31, 2017	December 31, 2016
Trade accounts payable	$ 1,644,995	$ 2,224,134
Accrued liabilities	250,988	433,884
	$ 1,895,983	$ 2,658,018

14. CREDIT FACILITY

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

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

On February 24, 2016, the Company entered into an agreement (the "**Second Amendment**") to increase and amend the Credit Facility. The previous maximum principal amount of $1.5 million has been increased with the Second Amendment to $2.5 million. A 5% "drawdown" fee will be applicable to amounts advanced over and above the original and outstanding $1.5 million advanced under the Credit Facility, at the time of advance. In consideration of a bonus of $300,000 (the "**Bonus**"), Linx has agreed to postpone any repayments due under the Credit Facility, until the earlier of October 1, 2016, or such time as the Company is in a reasonable financial position to repay all or a portion of the amounts owing, and remove the requirement for the Company to pay any 20% penalties as a result of any future failure to repay any amounts when due under the terms of the Credit Facility.

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

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

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

During the year ended December 31, 2017, the Company fully repaid the remaining balance of the Credit Facility by issuing 300,000 Shares (Note 18) to John Lee in satisfaction of $900,000 of indebtedness owing by the Company under the Credit Facility and making cash payments totaling of $364,142. For the year ended December 31, 2017, prior to repaying the full balance , the Company made new drawings of $163,405. For the year ended December 31, 2017, the Company recorded an interest expense of $21,066 and finance cost of $8,111.

As at December 31, 2017, the Company fully repaid and closed out the Credit Facility and has been provided with a discharge of pledges.

15. PROVISION FOR CLOSURE AND RECLAMATION

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

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

16. PROVISION FOR CLOSURE AND RECLAMATION (cont'd…)

Management used a risk-free interest rate of 2.23% (2016 – 1.06%) and a risk premium of 7% (2016 – 7%) in preparing the Company's provision for closure and reclamation. Although the ultimate amount of reclamation costs to be incurred cannot be predicted with certainty, the total undiscounted amount of estimated cash flows required to settle the Company's estimated obligations is $444,000 over the next 7 years. The cash expenditures are expected to occur over a period of time extending several years after the projected mine closure of the mineral properties.

	December 31, 2017	December 31, 2016
Balance, beginning of year	$242,347	$208,993
Accretion	1,976	33,354
Balance, end of year	$244,323	$242,347

16. TAX PROVISION

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

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

		2017		**2016**
Earnings (loss) for the year	$	(18,592,981)	$	(2,007,305)
Expected income tax (recovery)	$	(4,834,000)	$	(522,000)
Change in statutory, foreign tax, foreign exchange rates and other		1,885,000		(1,575,000)
Permanent Difference		450,000		1,869,000
Share issue cost		(25,000)		(87,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses		(118,000)		(34,000)
Change in unrecognized deductible temporary differences		2,642,000		349,000
Total income tax expense (recovery)	**$**	**-**	**$**	**-**

In September 2017, the British Columbia (BC) Government proposed changes to the general corporate income tax rate to increase the rate from 11% to 12% effective January 1, 2018 and onwards. This change in tax rate was substantively enacted on October 26, 2017. The relevant deferred tax balances have been remeasured to reflect the increase in the Company's combined Federal and Provincial (BC) general corporate income tax rate from 26% to 27%.

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

		2017	Expiry dates		2016	Expiry dates
Share issue costs	**$**	**285,000**	2038 to 2042	$	399,000	2037 to 2041
Allowable Capital losses	**$**	**6,549,000**	No expiry	$	6,549,000	No expiry
Non-Capital losses	**$**	**21,402,000**	2030 to 2037	$	16,658,000	2030 to 2036
Property and equipment	**$**	**1,146,000**	No expiry	$	1,067,000	No expiry
Exploration and evaluation assets	**$**	**19,715,000**	No expiry	$	5,016,000	No expiry
Investment tax credits	**$**	**23,000**	2029	$	23,000	2029
Asset retirement obligation	**$**	**244,000**	No expiry	$	209,000	No expiry

17. SHARE CAPITAL

(a) Authorized

The authorized share capital consists of an unlimited number of common shares without par value (the "**Shares**"). There are no authorized preferred shares. At December 31, 2017, the Company had 7,472,179 (December 31, 2016 – 4,807,653) Shares issued and outstanding.

On June 7, 2016, the Company completed a consolidation of its issued and outstanding common shares on the basis of 100 pre-consolidation common shares, options and warrants to one (1) post consolidation common share, option and warrant (the "**Share Consolidation**"). Prior to the Share Consolidation, the Company had 368,521,550 Shares issued and outstanding. Following the Share Consolidation, the Company had 3,685,222 Shares issued and outstanding. The Share Consolidation has been presented throughout the consolidated financial statements retroactively.

(b) Equity issuances

Private Placements

On January 25, 2016, the Company closed a non-brokered private placement (the "**First Placement**") involving the issuance of 80,000 units at a price of $2.50 per unit. Each unit consists of one Share and one share purchase warrant. Each share purchase warrant entitles the holder to acquire an additional Share at a price of $4.00 per Share for a period of five years from the date of issuance. The Company paid in cash, finder's fees totaling $14,000 and issued 5,600 finder's share purchase warrants which are exercisable at a price of $4.00 for a period of two years from the closing of the First Placement. The finder's warrants have been valued at $10,183 based upon the Black-Scholes option pricing model with the following assumptions: (1) a risk-free interest rate of 0.46%; (2) warrant expected life of two years; (3) expected volatility of 134% and (4) dividend yield of nil. The Company has recorded the fair value of the finder's warrants as share issuance costs.

On August 29, 2016, the Company closed a non-brokered private placement (the "**Second Placement**") involving the issuance of 202,735 units at a price of $3.80 per unit. Each unit consists of one Share and one-half share purchase warrant. Each share purchase 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. The warrants will be subject to the following acceleration conditions:

(i) in the event that the closing price of the Shares trading on the TSX exceeds $8.80 per Share; or

(ii) the closing spot price of silver as quoted by KITCO Metals Inc. exceeds USD$28.00 per ounce, in either instance, for a period of over 28 consecutive calendar days, at Prophecy's election, the exercise period may be reduced in which case, Warrant holders will only be entitled to exercise their Warrants for a period of 30 days from the date the Company either disseminates a press release or sends written notice to the Warrant holders advising them of the reduced and accelerated exercise period after which, the Warrants will expire.

The Company paid in cash, total finder's fees of $3,464 in connection with the Second Placement.

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) for gross proceeds of $149,997. Each unit consists of one Share and one share purchase warrant. Each Share purchase warrant entitles the holder to acquire an additional Share at a price of $4.00 per Share for a period of five years from the date of issuance. The Company paid in cash, finder's fees totaling $7,997.

On April 12, 2017, the Company closed a non-brokered private placement involving the issuance of 103,250 units (at a price of $4.00 per unit) for gross proceeds of $413,000. Each unit consists of one Share and one Share purchase warrant. Each Share purchase warrant entitles the holder to acquire an additional Share at a price of $5.00 per Share for a period of five years from the date of issuance. The Company paid in cash, finder's fees totaling $1,280.

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

(b) Equity issuances (cont'd…)

***Private Placements** (cont'd…)*

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

In connection with the first tranche of the Placement, the Company paid finder's fees of $30,606 and issued 87,013 finder's Special Warrants, which were exercisable on identical terms as those Special Warrants issued to subscribers through the first tranche of the Placement.

On October 16, 2017, the Company closed the second and final tranche of the Placement involving the issuance of 116,578 Units and 414,371 Special Warrants at a price of $3.50 per each Unit and Special Warrant and raised gross proceeds of $1,858,325. Each Unit consists of one Share and one half of one Warrant. Each second tranche Warrant entitles the holder to purchase one additional Share of the Company at an exercise price of $4.00 for a period of three years from the date of closing of the second tranche of the Placement.

In connection with the second tranche of the Placement, the Company paid finder's fees of $56,020 and issued 9,327 finder's Special Warrants, which were exercisable on identical terms as those Special Warrants issued to subscribers through the second tranche of the Placement.

The total subscription proceeds of $3,651,800, which were raised from the sale of the Special Warrants under the Placement, were held in an escrow account with the Company's Transfer Agent pending shareholder approval for the issuance of the Units underlying the Special Warrants. TSX and shareholder approval for the issuance of the Units underlying the Special Warrants was obtained on December 15, 2017. On December 18, 2017, the Company issued 1,139,711 Units underlying an equivalent number of Special Warrants previously issued under the Placement. On December 18, 2017, the Special Warrants subscription proceeds, previously held in escrow, were released to the Company.

All Shares attached to the Units issued in connection with the above conversion of the Special Warrants, are subject to a four month and one day hold period beginning on the date of issuance of the overlying Special Warrants.

The finder's Special Warrants have been valued at $3.50 each based upon the concurrent financing price of the Placement to which they relate. The Company has recorded the fair value of the finder's warrants as share issuance costs.

Debt Settlements

On June 6, 2016, the Company issued 750,000 units at a value of $2.00 to Mr. John 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 $4.00 per Share for a period of five years from the date of issuance.

During the year ended December 31, 2016, the Company entered into settlement and release agreements with certain of its directors, officers, employees and consultants to settle various debts owing to them. Pursuant to the terms of those settlement and release agreements, the Company issued in summary 347,443 Shares to those directors, officers, employees and consultants as follows:

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

(b) Equity issuances (cont'd…)

Debt Settlements (cont'd…)

Settlement Date	Number of Shares	Value
January 13, 2016	61,385	$3.00
January 25, 2016	13,206	$2.50
February 29, 2016	73,645	$2.00
March 4, 2016	3,000	$2.00
April 18, 2016	26,511	$1.50
June 2, 2016	122,821	$1.99
November 16, 2016	46,875	$3.20
	347,443	

On January 12, 2017, the Company issued 300,000 Shares with a value of $1,599,000 to Mr. Lee pursuant a Debt Settlement Agreement with Linx to settle $900,000 of the outstanding balance owing by the Company to Linx under the Credit Facility. The Company recorded a loss of $699,000 to account for the difference in the fair value of the Company's shares on the settlement date and the debt settled.

On June 13, 2017, the Company issued 59,659 units ("**Debt Settlement Units1**") with a value of $267,869, to certain of its directors and officers to settle various debts owing to them totalling $238,636 pursuant to the terms of debt settlement agreements entered with those directors and officers. Each Debt Settlement Unit1 is comprised of one Share and one Share purchase warrant of the Company entitling the holder thereof to purchase, upon exercise of a warrant, one additional Share at a price of $5.00 per Share for a period of five years from the date of issuance of the Debt Settlement Units1. The Company recorded a loss of $29,233 to account for the difference in the fair value of the Company's shares on the settlement date and the debt settled.

On December 18, 2017, the Company issued 42,254 units ("**Debt Settlement Units2**") with a value of $172,400, to certain of its directors and officers to settle various debts owing to them totalling $147,891 pursuant to the terms of debt settlement agreements entered with those directors and officers. Each Debt Settlement Unit2 is comprised of one Share and one Share purchase warrant of the Company entitling the holder thereof to purchase, upon exercise of a warrant, one additional Share at a price of $4.00 per Share for a period of three years from the date of issuance of the Debt Settlement Units2. The Company recorded a loss of $24,509 to account for the difference in the fair value of the Company's shares on the settlement date and the implied value from the debt settled.

Shares Issued for Mineral Properties

On February 10, 2017, the Company acquired the remaining 20% title interest of Randsburg (Note 13) in the patented claims that comprise the Titan project by issuing to Randsburg 20,000 Shares at a value of $4.81 per Share.

Share Bonus to Personnel

On January 12, 2017, the Company issued 39,000 Shares with a fair value of $4.88 per Share as a bonus to its directors, officers and consultants.

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

(b) Equity issuances (cont'd...)

Share Compensation for Services

On December 18, 2017, the Company issued 98,420 units with a fair value of $3.50 per unit, to Skanderbeg Capital Advisors Inc. ("**Skanderbeg** (the "**Skanderbeg Units**") The Company entered into a consulting agreement with Skanderbeg to explore and evaluate strategic alternatives to maximize value for Prophecy's non-core assets. Each Skanderbeg 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 $4.00 per Share for a period of three years from the date of issuance.

Exercise of Stock Options and Warrants

During the year ended December 31, 2017, the Company issued 12,687 and 15,000 Shares on the exercise of stock options and warrants respectively for total proceeds of $110,685.

(c) Share-based compensation plan

The Company has a 20% fixed equity-based compensation plan in place (the **"2016 Plan**") under which the Company may grant stock options, bonus shares or stock appreciation rights to acquire the equivalent of a maximum of 887,043 of the Company's Shares. The 2016 Plan was approved the Company's shareholders at the June 2,2016 annual general meeting. All stock options and other share-based awards granted by the Company, or to be granted by the Company, since the implementation of the 2016 Plan will be issued under, and governed by, the terms and conditions of the 2016 Plan.

The stock option vesting terms are determined by the Board of Directors on grant with a maximum allowable stock option life of 10 years.

During the year ended December 31, 2017, the Company granted 408,000 incentive stock options to its directors, officers, employees and consultants. The options are exercisable at an exercise prices ranging from $3.30 to $4.88 per Share and expiry dates ranging from January 12, 2022 to November 6, 2022 and vest at 12.5% per quarter for the first two years following the date of grant.

During the year ended December 31, 2016, the Company granted 160,000 incentive stock options to its directors, officers, employees and consultants. The options are exercisable at a price of $2.00 per Share for a term of five years expiring on June 2, 2021 and vest at 12.5% per quarter for the first two years following the date of grant.

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

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2015	343,742	$10.00
Granted	160,000	$2.00
Expired	(1,000)	$28.00
Forfeited	(37,928)	$21.85
Cancelled	(4,000)	$6.05
Outstanding, December 31, 2016	460,814	$6.42
Granted	408,000	$3.75
Expired	(31,293)	$20.80
Exercised	(12,687)	$4.00
Outstanding, December 31, 2017	824,834	$4.59

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

(c) Share-based compensation plan (cont'd…)

As of December 31, 2017, the following Prophecy share purchase options were outstanding:

Exercise Price	Expiry Date	Options Outstanding December 31, 2017	Options Outstanding December 31, 2016	Exercisable December 31, 2017	Unvested 2017
$4.75	November 6, 2022	5,000	-	-	5,000
$3.30	June 12, 2022	145,000	-	36,250	108,750
$3.50	September 1, 2022	167,000	-	20,875	146,125
$4.88	January 12, 2022	91,000	-	34,125	56,875
$2.00	June 2, 2021	155,750	160,000	116,813	38,937
$5.00	June 22, 2020	32,800	32,800	32,800	-
$5.00	April 7, 2020	82,062	90,500	82,062	-
$6.50	May 1, 2019	54,750	54,750	54,750	-
$10.00	February 3, 2019	5,000	5,000	5,000	-
$10.50	January 27, 2019	51,500	51,500	51,500	-
$12.00	August 16, 2018	32,472	32,472	32,472	-
$13.00	July 22, 2018	2,500	2,500	2,500	-
$18.00	August 16, 2017	-	1,500	-	-
$18.00	September 24, 2017	-	3,750	-	-
$18.00	August 22, 2017	-	17,242	-	-
$25.00	June 1, 2017	-	100	-	-
$28.00	June 18, 2017	-	8,700	-	-
		824,834	460,814	469,147	355,687

Share-based payment expenses resulting from stock options are amortized over the corresponding vesting periods. During the year ended December 31, 2017 and 2016, the share-based payment expenses were calculated using the following weighted average assumptions:

	Year ended December 31 2017	Year ended December 31 2016
Risk-free interest rate	1.23%	1.20%
Expected life of options in years	4.39 years	4.89 years
Expected forfeiture rate	12%	12%
Expected volatility	134.22%	131.45%
Expected dividend yield	Nil	Nil
Weighted average fair value of options granted during the year	$ 3.21	$ 2.25

The expected volatility used in the Black-Scholes option pricing model is based on the historical volatility of the Company's shares. The expected forfeiture rate is based on the historical forfeitures of options issued.

Share-based payments charged to operations and assets were allocated between deferred mineral properties, and general and administrative expenses. Share-based payments are allocated between being either capitalized to deferred exploration costs where related to mineral properties or expensed as general and administrative expenses where otherwise related to the general operations of the Company.

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

(c) Share-based compensation plan (cont'd…)

For the year ended December 31, 2017 and 2016, share-based payments were recorded as follows:

	Year Ended December 31, 2017	2016
Consolidated Statement of Operations		
Share based payments	599,117	197,889
	$ 599,117	$ 197,889
Consolidated Statement of Financial Position		
Chandgana Tal exploration and power plant application	69,515	21,429
Pulacayo exploration	158,464	46,934
	227,979	68,363
Total share-based payments	$ 827,096	$ 266,252

(d) Share purchase warrants

The following is a summary of the changes in Prophecy's share purchase warrants from December 31, 2015 to December 31, 2017:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2015	436,504	$6.00
Issued	936,967	$4.04
Expired	(25,411)	$10.00
Outstanding, December 31, 2016	1,348,060	$4.68
Issued	1,245,368	$4.13
Exercised	(15,000)	$4.00
Expired	(2,625)	$7.00
Outstanding, December 31, 2017	2,575,803	$4.42

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

(d) Share purchase warrants (cont'd...)

As of December 31, 2017, the following Prophecy share purchase warrants were outstanding:

Exercise price	Number of Warrants		Expiry date
	At December 31, 2017	At December 31, 2016	
$4.00	70,335	-	December 18, 2020
$4.00	270,136	-	October 16, 2020
$4.00	691,990	-	September 20, 2020
$5.00	59,659	-	June 13, 2022
$5.00	103,250	-	April 12, 2022
$4.00	49,999	-	January 13, 2022
$4.40	101,367	101,367	August 29, 2021
$4.00	750,000	750,000	June 2, 2021
$4.00	65,000	80,000	January 25, 2021
$7.00	62,500	62,500	November 13, 2020
$7.00	111,200	111,200	September 30, 2020
$6.00	114,767	114,767	June 24, 2020
$5.00	120,000	120,000	May 22, 2020
$4.00	5,600	5,600	January 25, 2018 (1)
$7.00	-	2,625	November 13, 2017
	2,575,803	1,348,060	

(1) Expired subsequent to year end unexercised.

19. CAPITAL RISK MANAGEMENT

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

The properties, to which the Company currently has an interest in, are in the exploration stage; as such, Prophecy is dependent on external financing to fund its activities. In order to carry out the planned exploration and development and pay for administrative costs, Prophecy will spend its existing working capital and raise additional amounts as needed. There were no changes in managements approach to capital management during the year ended December 31, 2017. Neither Prophecy nor its subsidiaries are subject to externally imposed capital requirements.

20. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

Fair Value

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

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

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

Fair Value (cont'd…)

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

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

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

As at December 31, 2017	Level 1	Level 2	Level 3	Total
Financial assets				
Cash	$ 4,100,608	$ -	$ -	$ 4,100,608
	$ 4,100,608	$ -	$ -	$ 4,100,608

As at December 31, 2016	Level 1	Level 2	Level 3	Total
Financial assets				
Cash	$ 21,648	$ -	$ -	$ 21,648
	$ 21,648	$ -	$ -	$ 21,648

The Company considers that the carrying amount of all its financial assets and financial liabilities measure at amortized cost approximates their fair value due to their short term nature. Restricted cash equivalents approximate fair value due to the nature of the instrument. The Company does not offset financial assets with financial liabilities. There were no transfers between Level 1, 2 and 3 for the year ended December 31, 2017.

Categories of financial instruments

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

	December 31, 2017	December 31, 2016
Fair value through profit or loss		
Cash	$ 4,100,608	$ 21,648
Available-for-sale		
Available-for-sale investment	205,600	176,000
Loans and receivables		
Receivables	34,653	91,565
Restricted cash equivalents	34,500	-
	$ 4,375,361	$ 289,213
Other financial liabilities		
Accounts payable and accrued liabilities	$ 1,895,983	$ 2,658,018
Credit facility	-	1,071,560
	$ 1,895,983	$ 3,729,578

21. FINANCIAL RISK MANAGEMENT DISCLOSURES

(a) Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its financial obligations as they fall due. The Company manages liquidity risk by preparing cash flow forecasts of upcoming cash requirements. As at December 31, 2017, the Company had a cash balance of $4,100,608 (December 31, 2016 – $21,648). As at December 31, 2017, the Company had accounts payable and accrued liabilities of $1,895,983 (December 31, 2016 - $2,658,018), which have contractual maturities of 90 days or less and the Credit Facility balance of $Nil (December 31, 2016 - $1,071,560).

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

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

	0 to 6 months	6 to 12 months	Total
As at December 31, 2017			
Accounts payable and accrued liabilities	$ 1,895,983	$ -	$ 1,895,983
Credit facilities	-	-	-
	$ 1,895,983	$ -	$ 1,895,983
As at December 31, 2016			
Accounts payable and accrued liabilities	$ 2,658,018	$ -	$ 2,658,018
Credit facilities	-	1,071,560	1,071,560
	$ 2,658,018	$ 1,071,560	$ 3,729,578

(b) Credit risk

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

(c) Market risk

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

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's cash and restricted cash equivalents primarily include highly liquid investments that earn interest at market rates that are fixed to maturity. Due to the short- term nature of these financial instruments, fluctuations in market rates do not have significant impact on the fair values of the financial instruments as of December 31, 2017. In December 2017, the Company closed out the Credit Facility. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

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

(c) Market risk (cont'd…)

(ii) Foreign currency risk

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

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

Based on the above, net exposures as at December 31, 2017, with other variables unchanged, a 10% (December 31, 2016 – 10%) strengthening (weakening) of the Canadian dollar against the Mongolian tugrik would impact net loss with other variables unchanged by $78,000. A 10% strengthening (weakening) of the Canadian dollar against the Bolivian boliviano would impact net loss with other variables unchanged by $750,000. A 10% strengthening (weakening) of the US dollar against the Canadian dollar would impact net loss with other variables unchanged by $33,000. The Company currently does not use any foreign exchange contracts to hedge this currency risk.

(iii) Commodity and equity price risk

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

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

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

22. 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.

22. RELATED PARTY DISCLOSURES (cont'd…)

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

Related parties		Year Ended December 31, 2017		2016
Directors and officers	$	307,425	$	280,160
Linx Partners Ltd.		363,781		210,000
MaKevCo Consulting Inc.		23,600		22,480
Sophir Asia Ltd.		19,700		20,380
	$	714,506	$	533,020

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

Related parties		Year Ended December 31, 2017		2016
Consulting and management fees	$	247,525	$	153,000
Directors' fees		60,600		63,240
Mineral properties		201,875		117,000
Salaries and benefits		204,506		199,780
	$	714,506	$	533,020

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

- reduce directors' fees by 50% and defer payment of such reduced directors' fees until such time as the Company's cash flow situation permits it to pay such reduced directors fees, and/or to fully or partially restore their directors' fees to their original levels;
- reduce the CEO's consulting fees by 50% and defer payment of such reduced consulting fees until such time as the Company's cash flow situation permits it to pay such reduced consulting fees, and/or to fully or partially restore the CEO's consulting fees to their original level; and
- reduce other executive officers' salaries by 17% – 50% until such time as the Company's cash flow situation permits it to fully or partially restore their salaries to their original levels.

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

- partially restored directors' fees by 15% with no further cash payment deferred;
- fully restored the CEO's consulting fee with 25% of such fully restored consulting fee cash payment deferred until such time as the Company's cash flow situation permits it to fully or partially pay such deferred and accrued consulting fee; and
- fully restored executive officers' salaries or consulting fee with no further cash payment deferred.

As at December 31, 2017, amounts due to related parties totaled of $160,503 including accrued bonuses of $116,000 (December 31, 2016 – $366,269) and was comprised of $7,000 (December 31, 2016 - $14,640) for director fees, $Nil (December 31, 2016 - $54,656) for consulting fees, $Nil (December 31, 2016 - $86,864) for managing mineral properties, $2,503 (December 31, 2016 - $29,280) for salaries and reimbursable expenses. The remaining amounts due relate to deferred consulting fees of $35,000 (December 31, 2016 - $180,829).

The amounts due to related parties are non-interest bearing and are due upon demand. See Notes 15 and 18 for information regarding the Company's credit facility with Linx Partners Ltd.

23. KEY MANAGEMENT PERSONNEL COMPENSATION

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

Key Management Personnel		Year Ended December 31, 2017		2016
Salaries and short term benefits	$	204,506	$	204,079
Share-based payments		596,232		181,990
	$	800,738	$	386,069

24. SUPPLEMENTAL CASH FLOW INFORMATION

		Year Ended December 31, 2017		2016
Supplementary information				
Interest paid	$	21,066	$	11,253
Taxes paid	$	-	$	-
Non-Cash Financing and Investing Activities				
Shares issued to pay Credit Facility	$	900,000	$	1,500,000
Shares issued on acquisition of mineral property	$	96,200	$	-
Shares issued for accrued bonus	$	190,320	$	-
Shares issued to settle debt	$	386,527	$	804,648
Capitalized interest	$	-	$	11,253
Depreciation included in mineral properties	$	216,653	$	278,376
Property & equipment expenditures included in accounts payable	$	580,634	$	1,097,092
Fair value gain on available-for-sale investments	$	12,160	$	-
Mineral property expenditures included in accounts payable	$	753,248	$	962,822
Share-based payments capitalized in mineral properties	$	227,979	$	68,363
Sale of Okeover property for shares and debt settlement		-	$	195,079
Fair value of finders warrants	$	-	$	10,183
Reclassification of contributed surplus on exercise of options	$	14,567	$	-
Reclassification of contributed surplus on exercise of warrants	$	10,650	$	-

25. COMMITMENTS

Except as disclosed elsewhere in these financial statement, the Company has the following financial obligations in the ordinary course of business:

	Payments Due by Year									
		2018		2019		2020		2021		Total
Office Lease Obligations	$	34,929	$	35,449	$	35,895	$	15,034	$	121,307
Hillcrest Merchant Partners Inc.		78,000		-		-		-		78,000
	$	112,929	$	35,449	$	35,895	$	15,034	$	199,307

26. CONTINGENCIES

ASC tax claim

On January 2, 2015, the Company acquired ASC Holdings Limited and ASC Bolivia LDC (which together, hold ASC Bolivia LDC Sucursal Bolivia, which in turn, held Apogee Silver Ltd.'s ("**Apogee**") joint venture interest in the Pulacayo Project) and Apogee Minerals Bolivia S.A. Pursuant to the terms of the Agreement, Prophecy agreed to assume all liabilities of these former Apogee subsidiaries, including legal and tax liabilities associated with the Pulacayo Project. During Apogee's financial year ended June 30, 2014, it received notice from the Servicio de Impuestos Nacionales, the national tax authority in Bolivia, that ASC Bolivia LDC Sucursal Bolivia, now the

Company's wholly-owned subsidiary, owed approximately Bs42,000,000 ($7,541,016) 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 $7,541,016 (2016 - $7,060,690) was classified as non-current liabilities.

Red Hill tax claim

During the year ended December 31, 2014, the Company's wholly-owned subsidiary, Red Hill Mongolia LLC ("**Red Hill**") was issued a letter from the Sukhbaatar District Tax Division notifying it of the results of the Sukhbaatar District Tax Division's VAT inspection of Red Hill's 2009-2013 tax imposition and payments that resulted in validating VAT credits of only MNT235,718,533 from Red Hill's claimed VAT credit of MNT2,654,175,507. Red Hill disagreed with the Sukhbaatar District Tax Division's findings as the tax assessment appeared to the Company to be unfounded. The Company disputed the Sukhbaatar District Tax Division's assessment and submitted a complaint to the Capital City Tax Tribunal. On March 24, 2015, the Capital City Tax Tribunal resolved to refer the matter back to the Sukhbaatar District Tax Division for revision and separation of the action between confirmation of Red Hill's VAT credit, and the imposition of the penalty/deduction for the tax assessment.

The Sukhbaatar District Tax Division appealed the Capital City Tax Tribunal's resolution to the General Tax Tribunal office, but was denied on June 4, 2015 on procedural grounds. As a result, the Sukhbaatar District Tax Division implemented the Capital City Tax Tribunal's resolution on June 25, 2015, finding: (1) with respect to confirmation of Red Hill's VAT credit, that after inspection the amount was to be MNT235,718,533; and (2) with respect to the imposition of the penalty/deduction for the tax assessment, that no penalty was to be issued but that Red Hill's loss to be depreciated and reported was to be MNT1,396,668,549 in 2010 and MNT4,462,083,700 in 2011. The Company continued to dispute the Sukhbaatar District Tax Division's assessment and delivered a complaint to Capital City Tax Tribunal on July 24, 2015. Due to the uncertainty of realizing the VAT balance, the Company has recorded an impairment charge for the full VAT balance in the year ended December 31, 2015.

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

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

As there were no changes from January 1 to December 31, 2017, the impaired value of $Nil for the VAT receivable remains unchanged.

26. EVENTS AFTER THE REPORTING DATE

The following events occurred subsequent to December 31, 2017:

- On February 15, 2018, the Company acquired an additional 105 unpatented lode mining claims located adjacent to its Gibellini Project through the arm's-length acquisition of 1104002 B.C. Ltd., a privately held company incorporated in British Columbia, and its subsidiary, a privately held company incorporated in Nevada. As consideration, the Company paid a total of $335,661 and issued 50,000 Share purchase warrants to arm's-length private parties., in addition to settling $14,339 in debt owed by the acquired parties. Each warrant entitles the holder upon exercise, to acquire one Share of the Company at a price of $5.00 per Share until February 15, 2021.

- On February 27, 2018, the Company announced that its Shares began trading on the OTCQX® Best Market. The ticker symbol is "PRPCF". Investors can find current financial disclosure and Real-Time Level 2 quotes for the Company on www.otcmarkets.com.

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

For the year ended December 31, 2017

(Currency expressed in Canadian Dollars, except where indicated)

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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, 2017. The following information should be read in conjunction with the accompanying December 31, 2017 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 ("**AIF**") for the year ended December 31, 2017, 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, 2018, 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, 2017 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. Information on risks associated with investing in the Company's securities as well as information about mineral resources and reserves under National Instrument 43-101 – Standards of Disclosure for Mineral Projects ("**NI 43-101**") are contained in the Company's AIF.

Description of Business

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

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

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

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

General Corporate Information:

At December 31, 2017 and March 29, 2018, Prophecy had: (i) 7,472,179 Shares issued and outstanding; (ii) 824,834 and 844,834 stock options for Shares outstanding, respectively; (iii) 2,575,803 and 2,620,203 Share purchase warrants for Shares outstanding, respectively.

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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, Business Development
	Michael Drozd, Vice-President, Operations
	Danniel Oosterman, Vice-President, Exploration

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

Qualified Persons

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

Danniel Oosterman, B.Sc.(Hons), PGeo, is a qualified person as defined under NI 43-101. Mr. Oosterman serves as the Company's Vice-President, Exploration and qualified person. He is not considered independent of Prophecy given the large extent that his professional time is dedicated solely to Prophecy. Mr. Oosterman has reviewed and approved the technical and scientific disclosure regarding the mineral properties of Prophecy contained in this MD&A.

2. CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of applicable Canadian securities legislation concerning anticipated developments in the Company's continuing and future operations in the United States, Canada, Bolivia and Mongolia, and the adequacy of the Company's financial resources and financial projections. Such forward-looking statements include but are not limited to statements regarding the permitting, feasibility, plans for development Gibellini Project; development of the Pulacayo Project; 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 Chandgana Project; and coal production at the Ulaan Ovoo Coal Property, and other information concerning possible or assumed future results of operations of Prophecy. See in particular, Section 4 – Property Summary.

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

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

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

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

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

3. YEAR 2017 HIGHLIGHTS AND SIGNIFICANT EVENTS

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

- 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, 2017, the Company and Linx Partners Ltd. ("**Linx**") a company controlled by Mr. John Lee, Executive Chairman of Prophecy, entered into a debt settlement agreement to settle most of the outstanding balance owing by the Company to Linx under the revolving credit facility agreement dated March 12, 2015, as amended (the "**Credit Facility**"), by issuing 300,000 Shares with a value of $1,599,000 to Mr. Lee, in satisfaction of $900,000 of indebtedness owing by the Company under the Credit Facility. The Company recorded a loss of $699,000 to account for the difference in the fair value of the Company's shares on the settlement date and the debt settled. The Company also announced that for nominal consideration of $1, Linx 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 Project by issuing to parties designated by Randsburg 20,000 Shares.

- 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.

- On April 12, 2017, the Company closed an oversubscribed non-brokered private placement involving the issuance of 103,250 units at a price of $4.00 per unit as previously announced on March 14, 2017 for gross proceeds of $413,000.

- On May 8, 2017, the Company entered into a binding letter agreement with an arm's-length, private party (the "**Gibellini Lessor**") to acquire through lease, the Gibellini Project. Under the Letter Agreement, Prophecy agreed to lease the Gibellini group of claims which constitute the Gibellini Project by paying to the Gibellini Lessor, annual advance royalty payments which will be tied, based on an agreed formula (not to exceed USD120,000 per year), to the average vanadium pentoxide price of the prior year. Upon commencement of production, Prophecy intends to maintain its acquisition through lease of the Gibellini mining claims by paying to the Gibellini Lessor, a 2.5% net smelter return ("**NSR**") until a total of USD3 million is paid. Thereafter, the NSR will be reduced to 2% over the remaining life of the mine (and referred to thereafter, as "production royalty payments"). All advance royalty payments made, will be deducted as credits against future production royalty payments. The lease is for a term of 10 years, which can be extended for an additional 10 years at Prophecy's option.

- On June 12, 2017, the Company granted in aggregate, 145,000 incentive stock options to various directors, officers and consultants of the Company. The options are exercisable at a price of $3.30 per Share for a term of five years expiring on June 12, 2022 and vest at 12.5% per quarter for the first two years following the date of grant.

- On June 13, 2017, the Company held its Annual General Meeting. There were no changes to the Company's Board of Directors; all proposed resolutions were approved by the Company's shareholders including amendments to the terms of certain issued and outstanding warrants by extending their expiry date, and the Company's Share-Based Compensation Plan to increase the number of Shares available for issuance under the plan.

- On June 13, 2017, the Company issued 59,659 units with a value of $267,869 at a price of $4.00 per unit, to certain of its directors and officers to settle various debts owing to them totalling $238,636 pursuant to the terms of debt settlement agreements entered into with those directors and officers. Each unit consists of one Share and one Share purchase warrant. Each warrant entitles the holder to acquire an additional Share at a value of $5.00 per Share for a period of five years from the date of issuance. The Company recorded a loss of $29,233 to account for the difference in the fair value of the Company's shares on the settlement date and the debt settled.

- On June 23, 2017, the Company announced that it acquired through lease, the Gibellini Project by paying USD35,000 in cash to the Gibellini Lessor with the intent to carry-out mining operations there. Under the Mineral Lease Agreement, the Company will lease the mining claims which constitute the Gibellini Project by paying to the Gibellini Lessor, annual advance royalty payments which will be tied, based on an agreed formula (not to exceed USD$120,000 per year), to the average vanadium pentoxide price of the prior year.

- On July 13, 2017, the Company acquired through lease, the Louie Hill group of claims in Nevada, USA, by paying USD10,000 in cash to arm's-length, private parties (the "**Louie Hill Lessors**") with the intent to carry-out mining operations there. Under the Mineral Lease Agreement, Prophecy will lease the Louie Hill group of claims by paying to the Louie Hill Lessors, annual advance royalty payments which will be tied, based on an agreed formula (not to exceed USD28,000 per year), to the average vanadium pentoxide price for the prior year.

- On July 21, 2017, the Company announced that it entered into a binding letter agreement with Fairmont Resources Inc. to acquire the fully-permitted Buttercup iron-titanium-vanadium project in Quebec, Canada. The parties agreed to replace the letter agreement with a more comprehensive definitive agreement by November 1, 2017, subject to due diligence and other conditions being satisfied.

  Subsequently, on November 8, 2017, the Company announced that it had mutually agreed with Fairmont Resources Inc. to terminate the letter agreement due to Prophecy not completing its due diligence within the timeframe required.

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

- On August 25, 2017, the Company announced that it entered into a binding letter agreement with an arm's-length party (the "**Seller**") to acquire the Dabolava gold project located in the Republic of Madagascar. The Seller and Prophecy agreed to replace the letter agreement by entering into a more comprehensive definitive agreement by November 30, 2017, subject to Prophecy being satisfied with the results of its due diligence inquiries into the Dabolava project.

  Subsequently, on January 31, 2018, the Company announced that due to an ongoing plague epidemic in Madagascar, Prophecy was unable to complete project due diligence and enter into a comprehensive definitive agreement with the Seller before the November 30, 2017 deadline. Subsequently, the Seller and Prophecy mutually agreed to terminate the letter agreement for Prophecy to acquire the Dabolava project.

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

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

- On September 1, 2017 the Company granted in aggregate, 167,000 incentive stock options to various directors, officers and consultants of the Company. The options are exercisable at a price of $3.50 per Share for a term of five years expiring on September 1, 2022 and vest at 12.5% per quarter for the first two years following the date of grant.

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

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

- On October 16, 2017, the Company announced that it entered into debt settlement agreements with certain directors and officers of the Company (the "**Debt Settlement Agreements**") pursuant to which, the Company agreed, subject to the approval of the TSX and disinterested shareholders at a special meeting of shareholders to be held on December 15, 2017 (the "**Special Meeting**"), to issue an aggregate of 42,254 Units (the "**Debt Settlement Units**"), in satisfaction of an aggregate of $147,898 of indebtedness currently owed by the Company to such persons. The Debt Settlement Units are comprised of one Share issuable at a deemed price of $3.50 and one half of one Warrant.

- On October 16, 2017, the Company announced that it entered into a consulting agreement with Skanderbeg Capital Advisors Inc. to explore and evaluate strategic alternatives to maximize value for Prophecy's non-core assets in exchange for the issuance of 98,420 Units (the "**Skanderbeg Units**") provided TSX and disinterested shareholder approval for the issuance of the Skanderbeg Units is obtained at the Special Meeting. The Skanderbeg Units are comprised of one Share issuable at a deemed price of $3.50 and one half of one Warrant.

- On October 16, 2017, the Company announced that it entered into an advisory agreement with Hillcrest Merchant Partners Inc., who agreed to provide corporate development and financial advisory services related to the Gibellini Project, including equity and debt arrangement, product off-take and merger and acquisition negotiations with any strategic investors in exchange for annual aggregate payments totaling $156,000.

- On November 8, 2017, the Company received and filed an updated technical report, prepared by Mine Development Associates and is dated October 23, 2017, on its Titan Project.

- On November 20, 2017, the Company received and filed an independent technical report, prepared by Amec Foster Wheeler E&C Services Inc. ("**Amec E&C**") and is dated November 10, 2017, on its Gibellini Project.

- On November 22, 2017, the Company received and filed an updated independent technical report, prepared by Mercator Geological Services Limited ("**Mercator**"), on its Pulacayo Project.

- On November 28, 2017, the Company closed-out the Credit Facility.

- On December 5, 2017, the Company announced it significantly expanded the land position at its Gibellini Project by staking a total of 198 new claims immediately adjacent to the Gibellini Project covering 4091 acres sufficient to enable future vanadium mining, processing and extraction.

- On December 15, 2017, shareholders of the Company approved all of the proposed resolutions at the Special Meeting. Voting results for all resolutions are reported in the Report on Voting Results as filed under the Company's SEDAR profile at www.SEDAR.com on December 15, 2017.

- On December 18, 2017, following TSX and shareholder approval, the Company issued: (i) 1,139,711 Units underlying an equivalent number of Special Warrants previously issued under the Placement; (ii) 42,254 Debt Settlement Units; and (iii) 98,420 Skanderbeg Units. The value of the shares issued for debt was $172,405. The Company recorded a loss of $24,509 to account for the difference in the fair value of the Company's shares on the settlement date and the debt settled.

- On December 18, 2017, total subscription proceeds of $3,651,800 from the sale of the Special Warrants under the Placement were released to the Company from escrow.

- During the year ended December 31, 2017, the Company issued 12,687 Shares pursuant to the exercise of stock options and 15,000 Shares pursuant to the exercise of Share purchase warrants for total proceeds of $135,902.

Subsequent to year end

- On January 31, 2018, the Company announced positive preliminary metallurgical testing results from samples taken from the Titan Project.

- On February 15, 2018, the Company acquired an additional 105 unpatented lode mining claims located adjacent to its existing Gibellini Project in Nevada, USA, by paying a total of $335,661 in cash and issuing 50,000 Share purchase warrants to arm's-length, private parties with the intent to carry-out mining operations there.

- On February 26, 2018, the Company announced the following executive management appointments:

  Michael Drozd, Vice-President, Operations;
  Danniel Oosterman, Vice-President, Exploration;
  Bekzod Kasimov, Vice-President, Business Development; and
  John Young, Environmental Permitting Consultant.

- On February 27, 2018, the Company announced that its Shares began trading on the OTCQX® Best Market. The ticker symbol is "PRPCF". Investors can find current financial disclosure and Real-Time Level 2 quotes for the Company on www.otcmarkets.com.

- On March 12, 2018, the Company announced that it entered into a technical advisory and cooperation agreement with Northwest Nonferrous Metals Mining Group Co., Ltd. to advance the Gibellini Project. A technical team from Northwest Nonferrous Metals Mining Group Co., Ltd. concluded a visit to the Gibellini site and collected representative oxide and supergene samples.

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

4. PROPERTY SUMMARY

Vanadium Projects

Gibellini Project, Nevada, USA

The Gibellini Project consists of the Gibellini group of 40 claims and the Louie Hill group of 17 claims. These two groups of claims were previously referred to by the Company as projects. On June 22, 2017, the Company acquired (through lease) the Gibellini group of claims which is located in Eureka County, Nevada, about 25 miles south of the town of Eureka and is easily accessed by a graded, gravel road extending south from US Highway 50. The Gibellini group of claims is comprised of 40 unpatented lode claims totaling approximately 771 acres.

Under the Mineral Lease Agreement, Prophecy leased the mining claims which constitute the Gibellini Project by paying to the Gibellini Lessor, annual advance royalty payments which will be tied, based on an agreed formula (not to exceed USD120,000 per year), to the average vanadium pentoxide price of the prior year.

Upon commencement of production, Prophecy will maintain its acquisition through lease of the Gibellini Project mining claims by paying to the Gibellini Lessor, a 2.5% NSR until a total of USD3 million is paid. Thereafter, the NSR will be reduced to 2% over the remaining life of the mine (and referred to thereafter, as "production royalty payments"). All advance royalty payments made, will be deducted as credits against future production royalty payments. The lease will be for a term of 10 years, which can be extended for an additional 10 years at Prophecy's option.

On July 13, 2017, the Company acquired (through lease) 10 unpatented lode claims totaling approximately 207 gross acres that comprised the Louie Hill group of claims located approximately 500 metres south of the Gibellini group of claims. These claims were subsequently abandoned by the holders, and on March 11 and 12, 2018, the Company staked the area within and under 17 new claims totaling approximately 340 gross acres which now collectively comprise the expanded Louie Hill group of claims. Opportunities exist to further expand the project beyond its current definition.

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

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

The 17 recently staked claims are located in the same formation and lithologic units as the Gibellini group of claims. The general geology in this area is considered to be similar to the Gibellini group of claims.

On November 20, 2017, the Company received an independent technical report titled "Gibellini Vanadium Project Nevada, USA NI 43-101 Technical Report" with an effective date of November 10, 2017 (the "**Gibellini Report**") prepared by Amec E&C. The Gibellini Report has been filed under the Company's SEDAR profile at

www.SEDAR.com.

On December 5, 2017, the Company significantly expanded the land position at the Gibellini Project, by staking a total of 198 new claims immediately adjacent to the Gibellini Project covering 4091 acres that are sufficient to enable future vanadium mining, processing and extraction.

Gibellini Deposit

The Gibellini Report has estimated 7.85 million tons at a weighted average grade of 0.316% vanadium pentoxide (V_2O_5) in the Measured category and 14.16 million tons at a weighted average grade of 0.281% V_2O_5 in the Indicated category leading to a total combined Measured and Indicated Mineral Resource of 22.01 million tons at a weighted average grade of 0.294% V_2O_5. Total contained metal content of the Measured and Indicated Mineral Resources is 129.28 million pounds V_2O_5. The Inferred Mineral Resource estimate is 9.82 million tons at a weighted average grade of 0.19% V_2O_5. The total contained metal content of the Inferred Mineral Resource estimate is 37.27 million pounds V_2O_5. Table 1 below contains a summary of the Gibellini deposit resource estimate.

Table 1

Gibellini Deposit Mineral Resource Statement					
Resource Category	Domain	Cut-off V_2O_5 (%)	Tons (Mln)	Grade (%V_2O_5)	Metal Content (Mln lbs V_2O_5)
Measured	Oxide	0.116	3.90	0.253	19.74
	Transition	0.105	3.95	0.379	29.88
Indicated	Oxide	0.116	7.04	0.235	33.12
	Transition	0.105	7.12	0.327	46.55
Total Measured and Indicated			22.01	0.294	129.28
Inferred	Oxide	0.116	0.14	0.179	0.50
	Transition	0.105	0.01	0.179	0.03
	Reduced	0.134	9.68	0.190	36.75
Total Inferred			9.82	0.190	37.27

***Notes** to accompany mineral resource table for Gibellini deposit:*
(1) The Qualified Person for the estimate is Mr. E.J.C. Orbock III, RM SME, an Amec E&C employee. The Mineral Resource estimate has an effective date of 10 November, 2017.
(2) Mineral Resources are reported at various cut-off grades for oxide, transition, and reduced material.
(3) Mineral Resources are reported within a conceptual pit shell that uses the following assumptions: mineral resource V_2O_5 price: $10.81/lb; mining cost: $2.21/ton mined; process cost: $13.14/ton processed; general and administrative (G&A) cost: $0.99/ton processed; metallurgical recovery assumptions of 60% for oxide material, 70% for transition material and 52% for reduced material; tonnage factors of 16.86 ft3/ton for oxide material, 16.35 ft3/ton for transition material and 14.18 ft3/ton for reduced material; royalty: 2.5% NSR; shipping and conversion costs: $0.37/lb. An overall 40º pit slope angle assumption was used.
(4) Rounding as required by reporting guidelines may result in apparent summation differences between tons, grade and contained metal content. Tonnage and grade measurements are in US units. Grades are reported in percentages.

Louie Hill Deposit

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

The Gibellini Report reported an Inferred Mineral Resource of 7.06 million tons at a weighted average grade of 0.284% vanadium pentoxide (V_2O_5). The oxidation domains were not modeled. The total contained metal content

of the deposit is estimated to be 40.16 million pounds V_2O_5. Table 2 below contains a summary of the Louie Hill deposit resource estimate.

Table 2

Louie Hill Deposit Mineral Resource Statement					
Resource Category	Domain	Cut-off V_2O_5 (%)	Tons (Mln)	Grade (%V_2O_5)	Metal Content (Mln lbs V_2O_5)
Inferred	Not modeled	0.116	7.06	0.284	40.16

***Notes** to accompany mineral resource table for Louie Hill:*
(1) The Qualified Person for the estimate is Mr. E.J.C. Orbock III, RM SME, an Amec E&C employee. The Mineral Resources have an effective date of 10 November 2017. The resource model was prepared by Mr. Mark Hertel, RM SME.
(2) Oxidation state was not modeled.
(3) Mineral Resources are reported within a conceptual pit shell that uses the following assumptions: mineral resource V_2O_5 price: $10.81/lb; mining cost: $2.21/ton mined; process cost: $13.14/ton processed; general and administrative (G&A) cost: $0.99/ton processed; metallurgical recovery assumptions of 60% for mineralized material; tonnage factors of 16.86 ft3/ton for mineralized material, royalty: 2.5% NSR; shipping and conversion costs: $0.37/lb. For the purposes of the resource estimate, an overall 40° slope angle assumption was used.
(4) Rounding as required by reporting guidelines may result in apparent summation differences between tons, grade and contained metal content. Tonnage and grade measurements are in US units. Grades are reported in percentages.

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

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

Expanding of the Gibellini Project

In December 2017, the Company significantly expanded the land position at its Gibellini Project by staking 198 new claims immediately adjacent to the Gibellini Project covering 4,091 acres that are sufficient to enable future mining and processing.

During the year ended December 31, 2017, the Company incurred total costs of $431,566 for the Gibellini Project including $74,876 for claims registration and annual maintenance fees, $272,620 for geological services, and $84,070 for general and administrative expenses.

2018 Outlook

Prophecy decided to commission an updated preliminary economic assessment for the Gibellini Project in 2018. Contingent upon the results of the updated preliminary economic assessment and obtaining all necessary permits and authorizations for the Gibellini Project, a mine construction decision may be considered by the Company's board of directors, and, if positive, be accompanied by an actionable project financing plan. A plan of operation accompanied by baseline studies are expected to be filed in Q2 2018 along with state permit applications. Because of prior baseline and feasibility work carried out by the Gibellini Project's prior operator, the Company anticipates significant cost and time savings in the preparation of documents and the state permitting process. At the same time, the Company expects to receive an independent economic study in April, 2018. 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. The Company intends to continue preparations to re-start the environmental and permitting process, sourcing water, and review of previous metallurgical work and current metallurgical technologies in order to consider additional work that would enhance the project.

In line with these intentions, the Company met with staff of the Battle Mountain District-Mt. Lewis field office of the BLM on March 23, 2018 to outline needed environmental work. During the meeting the Company was told that the Gibellini Project will be one of the first projects to undergo NEPA review under Secretary of the Interior Order No. 3355 (the "**Order**"). Under the Order environmental impact statements are to undergo a streamlined process wherein the document will have a maximum 150 pages and be completed in 12 months. Please refer to the Company's news release dated March 28, 2018.

Titan Project, Canada

The Company holds a 100% interest in the Titan Project 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. In February 2017, Prophecy consolidated its ownership over the Titan Project by acquiring the remaining 20% title interest held by Randsburg in the 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.

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 a GPS assessment of the claim posts. No exploration work was conducted at Titan during the years of 2015 and 2016.

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

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.

The technical report prepared by Neil Prenn, P. Eng. of Mine Development Associates dated February 26, 2010 was found to not be fully compliant with NI 43-101. The Company engaged Mine Development Associates to prepare a revised mineral resource estimate. The revised technical report dated October 23, 2017 was prepared in compliance with NI 43-101 and reports an inferred resource for the project. A summary of the resource estimate is given in Table 3 below:

Table 3

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

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

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

During 2017, Prophecy sent samples from the Titan Project to two independent laboratories in Canada for testing. Each batch of samples was to undergo bench-scale testing to determine the percentage of metals dissolveable into solution and the recovery rate of metals from solution.
Prophecy has no preference as to a particular recovery technology but rather, seeks the best technology to recover valuable metals from the Titan Project that will be both environmentally friendly and cost effective. Each laboratory has its own proprietary, patented hydrometallurgical process to treat materials similar to those found at the Titan Project.

On January 31, 2018, the Company received the batch metallurgical testing results.

Testing was done on a core sample obtained by NMR360 staff and which remained securely in their possession during transport, storage and through testing. The sample was crushed to -60 mesh. A representative subsample was obtained for a head analysis. The head analysis results is shown below in Table 4.

Table 4

Sample	TiO_2 (wt %)	V_2O5 (wt %)	Fe_2O_3 (wt %)
1	19.2	0.64	62.2
2	19.2	0.63	61.9

Two 200g representative subsamples of -60m material were leached in 800mL of concentrated (33%) hydrochloric acid at two different temperatures (60°C and 90°C).

The results indicate that vanadium dissolution occurred almost instantaneously at both temperatures, with extraction rates >95%. A summary of the acid dissolution results is shown below in Table 5.

Table 5

Temperature (^{0}C)	Time (hr)	Solution (g/L)			Extraction (%)		
		Fe	Ti	V	Fe	Ti	V
60	2	75.6	4.2	0.80	73.1	16.1	96.3
	4	75.5	5.6	0.83	74.6	21.7	96.6
90	2	NA	14.2	0.77		52.9	95.1
	5	NA	18.6	0.82	99.9	74.9	97.7

Note: *Fe extraction for 90°C test calculated on solids analyses only.*

Temperature (^{0}C)	Time (hr)	Residue Fall (%)	Extraction (%)		
			Fe	Ti	V
60	4	47.2	24.1	18.9	0.027
90	5	22.0	14.6	10.4	0.032

These quick tests suggest the possibility of recovering both vanadium and titanium in solution through a simple processing circuit.

The circuit could include a selective vanadium leach (with little accompanying titanium extraction) at lower temperature and short duration, followed by a higher-temperature, longer duration titanium leach.

Prophecy is very encouraged by these positive preliminary results and is considering further work. One scope of work under consideration would involve the testing of a 150kg sample of Titan property material under realistic conditions that would be adequate to generate preliminary engineering and cost data. Simultaneously, such a program would generate samples of vanadium pentoxide (0.5-1.0 kg) and titanium dioxide (10-15 kg) and hematite for end-user evaluation.

Silver-Lead-Zinc Project

Pulacayo Project, Bolivia

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

The Pulacayo Project comprises 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, 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 production rate of up to 560tpd at the Pulacayo 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.

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 under the Company's SEDAR profile at www.SEDAR.com 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.

Phase 1 of the exploration program included surface mapping and sampling and started at the end of June 2015 with completion 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 develop drilling plans for the exploration targets. Phase 2 will consist of drilling and assaying.

Detailed geological mapping and close-spaced sampling from surface 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 were reanalyzed using the fire assay method with a gravimetric finish that has a greater upper detection limit.

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 conducted 70,000 metres of drilling between 2005 and 2012.

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. 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 9. 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.

On November 22, 2017, the Company received an independent technical report with an effective date of October 20, 2017 titled "Updated Mineral Resource Estimate and Technical Report for the Pulacayo Project" (the "**Pulacayo Report**"), prepared by Mercator. The Pulacayo Report has been filed under the Company's SEDAR profile at www.SEDAR.com.

The Pulacayo Report describes resources estimated following the guidelines of the CIM Definition Standards for Mineral Resources and Mineral Reserves ("**CIM Standards**"). Two mineral resource estimates were disclosed according to the requirements of NI 43-101 – one for the Pulacayo deposit and the second for the Paca deposit.

Pulacayo Deposit

The Pulacayo Report outlined 2.08 million tonnes at a weighted average grade of Ag 455 g/t, Pb 2.18%, Zn 3.19% (Ag Eq. 594 g/t) in the indicated category and 0.48 million tonnes at a weighted average grade of Ag 406 g/t, Pb 2.08%, Zn 3.93% (Ag Eq. 572 g/t) in the inferred category. The contained metal content estimated by the Company, of the indicated category resources is 30.4 million ounces of silver, 100.0 million pounds of lead, 146.3 million pounds of zinc. The contained metal content estimated by the Company, of the inferred category resource is 6.3 million ounces of silver, 22.0 million pounds of lead, and 41.6 million pounds of zinc (more resource details in the table below). Results of the mineral resource estimate prepared by Mercator for the Pulacayo deposit are presented below in Table 7.

Table 7. Pulacayo Indicated and Inferred Mineral Resource Statement Details

Pulacayo Mineral Resource Statement – Effective October 20, 2017						
Ag Eq. Cut-Off (g/t)	Category	Tonnes*	Ag (g/t)	Pb (%)	Zn (%)	Ag Eq. (g/t)
400	Indicated	2,080,000	455	2.18	3.19	594
	Inferred	480,000	406	2.08	3.93	572

Notes:
(1) Mineral resources are estimated in conformance with the CIM Standards referenced in NI 43-101.
(2) Raw silver assays were capped at 1,700 g/t, raw lead assays were capped at 15% and raw zinc assays were capped at 15%.
*(3) Silver equivalent Ag Eq. (g/t) = Ag (g/t)*89.2% + (Pb% *(USD0.94/ lb. Pb /14.583 Troy oz./lb./USD16.50 per Troy oz. Ag)*10,000*91.9%) + (Zn% *(USD1.00/lb. Zn/14.583 Troy oz./lb./USD16.50 per Troy oz. Ag)*10,000*82.9%).*
(4) Metal prices used in the silver equivalent calculation are USD16.50/Troy oz. Ag, USD0.94/lb Pb and USD1.00/lb. Zn. Metal recoveries used in the silver equivalent equation reflect historic metallurgical results disclosed by Apogee (Porter et al., 2013).
(5) Metal grades were interpolated within wire-framed, 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.
(6) Block density factors reflect three-dimensional modeling of drill core density determinations.
(7) 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.
(8) Rounding of figures may result in apparent differences between tonnes, grade and contained ounces.
(9) Mineral resources that are not mineral reserves do not have demonstrated economic viability.
(10) Tonnes are rounded to nearest 10,000.

The contained metals estimated by the Company based on in the Pulacayo Report is presented in Table 8 below.

Table 8. Contained Metals Based on the Pulacayo Report**

Metal	Indicated Resource	Inferred Resource
Silver	30.4 million oz.	6.3 million oz.
Lead	100.0 million lbs.	22.0 million lbs.
Zinc	146.3 million lbs.	41.6 million lbs.

***Based on the resource estimate Ag Eq. cut-off value of 400 g/t and 100% recovery; figures are rounded to the nearest 100,000th increment.*

Between 2006 and 2012, a total of 69,739 metres of diamond drilling (226 surface and 42 underground drill holes) was conducted at Pulacayo, results of which support the mineral resource estimate reported in this news release. The Pulacayo site is currently permitted for production at a milling rate of 560 tonnes per day and no known legal, political, environmental, or other risks that would materially affect potential future development have been identified by Prophecy at the effective date (October 20, 2017) of the Pulacayo Report.
Approximately 85% of the resource tonnage identified at the 400 g/t Ag Eq. cut-off value occurs within 150 meters vertical distance from the main San Leon tunnel, which may facilitate future mineral extraction.

Historic Pulacayo production was predominantly from the Tajo vein system which extends over a strike length of more than 2.5 km and to a depth of at least 1,000 meters. Prior resource drilling only covered approximately 20% of the Tajo vein system strike length. With new drilling, Prophecy believes that there is potential to discover additional resources along the Tajo structure.

The Company's research has shown that relatively few silver underground deposits have been defined at resource cut-off values of 400 g/t Ag Eq. or more.

Paca Deposit

The Paca deposit is located in Bolivia approximately 7 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.

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.

On August 12, 2016, the Company announced the assay results for the first group of 40 samples collected from the Paca deposit exploration program at its Pulacayo Project (Table 9). 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.

Table 9. Summary of Paca Sample Results

Number of Samples	Ag (g/t)			Zn (%)			Pb (%)			Ag Eq (g/t)		
	Min	Max	Avg	Min	Max	Avg	Min	Max	Avg	Min	Max	Avg
40	15.0	1500.0	331.2	0.1	2.5	6.0	0.5	6.7	1.9	45.7	1617.0	407.3

Silver assays include one sample assayed at >1500 g/t and used as 1500 g/t in the summary table. Silver equivalent (AgEq.) calculations are based on the following closing prices as of August 9, 2016: USD19.79/oz for Ag (www.kitco.com), USD1.03/lb for Zn and USD0.81/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 for assay and included QA/QC samples. Standard reference, duplicate and blank samples were used – all of which, produced acceptable results. ALS Geochemistry Laboratory is an independent laboratory and was qualified and accredited by the Colombian Institute of Technical Standards and Certification 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.

The Pulacayo Report disclosed results of a mineral resource estimate for the Paca deposit.

The Pulacayo Report outlined a resource of 2.54 million tonnes at a weighted average grade of Ag 256 g/t, Pb 1.03%, Zn 1.10% (Ag Eq. 342 g/t) in the inferred category. The contained metal content estimated by the Company, of the inferred category resources is 20.9 million ounces of silver, 57.7 million pounds of lead and 61.6 million pounds of zinc (a summary of the Paca deposit resource estimate is given in Table 10 below).

Table 10. Paca Inferred Mineral Resource Statement Details

Paca Mineral Resource Statement – Effective October 20, 2017						
Ag Eq. Cut-Off (g/t)	Category	Tonnes*	Ag (g/t)	Pb (%)	Zn (%)	Ag Eq. (g/t)
200	Inferred	2,540,000	256	1.03	1.10	342

Notes:
(1) Mineral resources are estimated in conformance with the CIM Standards referenced in NI 43-101.
(2) 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%.
*(3) Silver equivalent Ag Eq. (g/t) = Ag (g/t) + (Pb% *(USD0.94/ lb. Pb /14.583 Troy oz./lb./USD16.50 per Troy oz. Ag)*10,000) + (Zn% *(USD1.00/lb. Zn/14.583 Troy oz./lb./USD16.50 per Troy oz. Ag)*10,000). 100 % metal recoveries are assumed based on lack of comprehensive metallurgical results.*
(4) Metal prices used in the silver equivalent calculation are USD16.50/Troy oz. Ag, USD0.94/lb Pb and USD1.00/lb Zn and reflect those used for the Pulacayo deposit mineral resource estimate reported above.
(5) Metal grades were interpolated within wire-framed, 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 resources.
(6) A block density factor of 2.26g/cm³ was used and reflects the average of 799 density measurements.

(7) Mineral resources are considered to have reasonable expectation for economic development using combined underground and open pit methods based on the deposit history, resource amount and metal grades, current metal pricing and comparison to broadly comparable deposits elsewhere.
(8) Mineral resources that are not mineral reserves do not have demonstrated economic viability.
*(9) *Tonnes are rounded to nearest 10,000.*

The contained metals estimated by the Company based on the Pulacayo Report is presented in the below table (Table 11).

Table 11. Contained Metals Based on the Pulacayo Report**

Metal	Inferred Resource
Silver	20.9 million oz.
Lead	57.7 million lbs.
Zinc	61.6 million lbs.

***Based on the resource estimate Ag Eq. cut-off value of 200 g/t and 100% recovery; figures are rounded to the nearest 100,000th increment*

The resource estimate is based on results of 97 diamond drill holes and 1 reverse circulation drill hole totaling 18,160 meters completed between 2002 and 2007. The geology of the Paca deposit includes a core zone of feeder-style mineralization associated predominantly with brecciated andesite, plus additional zones of shallowly dipping mantos-style mineralization that are hosted by the surrounding volcano-sedimentary sequence. The Paca deposit remains open at depth and along strike. The Paca mineralization starts from surface and the deposit may be amenable to open-pit mining and this will be evaluated further in the future.

The Company's research has shown that relatively few silver open pit deposits have been defined at resource cut-off values of 200 g/t Ag Eq. or more.

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.

During 2017, the Company continued to support the Government of Bolivia in its deliberations to allow mining to commence. A proposal was presented and submitted that included a description of the project's development, proposed investment and a time line. Other work included completion of detailed internal mine plans for the Paca deposit that initially target near surface mineralization with a low mining strip ratio. The Company renewed the letter of intent to lease mining and transportation equipment, continued negotiations with vendors that provide toll milling services at their ore processing facilities and continued discussion with large trading and smelting companies that are interested in purchasing concentrates processed from materials mined from the Pulacayo and Paca deposits. A positive production decision would not be based on a feasibility study of mineral reserves demonstrating economic and technical viability so would carry increased uncertainty and the risk of failure as to the mining method and profitability.

During the year ended December 31, 2017, the Company incurred total costs of $828,607 (2016 – $865,540) for the Pulacayo Project including $Nil (2016 - $4,970) for licences, $102,592 (2016 – $146,051) for geological and engineering consulting, and $726,015 (2016 – $714,519) for personnel, legal and general and administrative expenses.

2018 Outlook

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

During 2017, the price of silver increased from USD15.88/oz to USD16.90/oz (6%), while the price of zinc increased from USD1.16/lb to USD1.50/lb (29%). 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.

Coal Projects

Ulaan Ovoo Coal Property, Mongolia

The reader is referred to previous MD&A's and AIF for a description of the project and its history through 2016.

During 2017 the Company sold 17,335 tonnes (2016 – 3,015 tonnes) of coal to Erdenet Mining Corporation and Selenge Energo Heat Plant and other local customers from existing stockpiles with total sales revenue of approximately $364,600 (2016 - $65,000). Sales revenue has been recorded against costs incurred at the mine, classified as costs in excess of recovered coal of $109,187 (2016 - $290,736) on the consolidated statement of operations and comprehensive loss. As of December 31, 2017, the coal stockpile balance was approximately 60,000 tonnes (December 31, 2016 – 78,595 tonnes).

Otherwise, the Company continued to maintain the Ulaan Ovoo operations on standby incurring minimal general and administrative costs.

2018 Outlook

Australian seaborne thermal coal was trading at USD102/t FoB port during a portion of 2017 and have receded somewhat but remain strong. The Company continues talks to sell coal into the Chinese market with transport by rail south through Mongolia with the goal of restarting Ulaan Ovoo. Mining operations at Ulaan Ovoo may be restarted in short order since pit dewatering requires less than a month and other work needed to restart mining can be completed at the same time. The Company believes contract mining is a viable option for more efficient operation of the mine since a contract mining firm would be responsible for labor agreements, equipment maintenance and other key responsibilities and functions.

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

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

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

Chandgana Project, Mongolia

The Chandgana Project 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 USD570,000. 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.

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 2017-2018 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 Mongolian Law to Prohibit Mineral Exploration and Mining Operations at Headwaters of Rivers, Protected Zones of Water Reservoirs and Forested Areas (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.

During 2017, preparatory work to convert the Khavtgai Uul exploration license to a mining license was completed. The Company engaged a contractor to prepare the required documents to convert the license to a mining license under which the right to explore is permanent. In 2017, as preparatory work to convert the Khavtgai Uul exploration license to a mining license necessary laboratory analysis work was done such as coal chemical, mineral and element analysis of duplicates of coal samples taken as a result of drilling work in past years as well as radiation analysis of coal ash. A report describing the results of geological and exploration work completed during 2017 was delivered to Geological division of Mineral Resources and Petroleum Authority of Mongolia (the former Mineral Resources Authority of Mongolia (MRAM)). Based on previous years of work a report of the reserves of the licensed area was prepared, and an official letter requesting an expert be appointed were submitted to the Mineral Resources Professional Council in January 2018.

During 2017 activities for the Chandgana Tal project included payment of license fees and environmental sampling and reporting. No exploration was completed on the Chandgana Tal licenses. The Company assessed the local market for coal and found there was not sufficient demand to warrant mining during the 2017-2018 heating seasons. Thus, the annual mining and environmental plans were not filed.

During the year ending December 31, 2017, the Company incurred total costs of $69,044 (2016 - $145,406) for the Chandgana Tal property (including power plant consultants and land maintenance costs) and $245,258 (2016 - $92,552) for the Khavtgai Uul property.

During the year ended December 31, 2017, the Company determined there were several indicators of potential impairment of the carrying value of the Chandgana Project. The indicators of potential impairment were as follows:

(a) a decreased coal demand from local customers;

(b) no positive decision from the Mongolian Government to construct the Chandgana Power Plant;

(c) no further exploration for evaluation in the area planned; and

(d) a change in the Company's primary business focus to the Gibellini Project.

As result, in accordance with *IFRS 6, Exploration for and Evaluation of Mineral Resources* and *IAS 36, Impairment of Assets*, at December 31, 2017, the Company assessed the recoverable amount of the Chandgana Project deferred exploration costs and determined that its value in use is $Nil. As at December 31, 2017, the recoverable amount of $Nil resulted in an impairment charge of $14,733,067 against the value of the deferred exploration costs, which was reflected on the consolidated statement of operations.

2018 Outlook

For the Khavtgai Uul project, the Company intends to continue with work to convert the license to a mining license and complete the requirements to maintain the license. For the Chandgana Tal project, the Company intends to discuss the need to update the detailed environmental impact assessment and mining feasibility study with the relevant ministries and complete the requirements to maintain the licenses.

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 and 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 Chandgana Power Plant from Asian engineering, procurement and construction ("**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 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 Cooperation 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 Cooperation Covenant also addresses the basic rights and obligations of Prophecy, as the seller and the National Electricity Transmission Grid Company of Mongolia 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 the National Electricity Transmission Grid Company of Mongolia 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 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.

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 called 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 was competitive at the time 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 PPA 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 for 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 plant concession project. 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 with SEPCO2 to invest in and build the Chandgana Power Plant.

In parallel, the Company expected 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 with the Strategic Partner to invest in the Chandgana Power Plant. Under the Joint Development Agreement, the companies would create a consortium, whereby the Strategic Partner would provide legal, financial and technical experts to assist the Company to negotiate and finalize the Concession Agreement, PPA and Tariff Agreement with the relevant Mongolian Ministries and Agencies. Upon satisfactorily completing these agreements, the Parties intended to enter into an investment arrangement that would result in the Strategic Partner owning a minimum 51% stake in the Chandgana Power Plant.

Prophecy 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.

During 2017, discussions with Mongolian authorities on the PPA and other documents related to the Chandgana Power Plant project continued. Other activity included discussions with potential financial partners in the Chandgana Power Plant project and renewal of the detailed environmental impact assessment for the power plant. However, negotiation with the government to discuss the conditions for a Concession Agreement have been delayed because of the government's recent policy to limit implementation of coal-fired energy projects due to the deterioration in Mongolia's economic situation and continued reduction in energy consumption growth since 2015.

Due to continued political uncertainty, the Chandgana Power Plant project, with over $14 million invested into to date, has advanced at a slower pace than anticipated. Accordingly, the Company has determined to write-off its Chandgana investment in its 2017 year-end financial statements while continuing to explore strategic alternatives for the Company's Chandgana Khavtgai and Chandgana Tal coal licenses in order to maximize shareholder value.

2018 Outlook

The major reasons completion of the Chandgana Power Plant project would be beneficial to Mongolia include the current and projected long-term 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.

5. SELECTED ANNUAL FINANCIAL INFORMATION

The following table (Table 12) contains selected financial data from the audited consolidated financial statements of the Company for the most recently completed three financial years and was prepared in accordance with IFRS.

Table 12. Selected Annual Financial Data

	Years ended December 31,		
	2017	**2016**	**2015**
Operating expense	$ (2,381,365)	$ (1,334,487)	$ (2,393,610)
Other items	(16,211,616)	(672,818)	(5,428,921)
Net loss	(18,592,981)	(2,007,305)	(7,822,531)
Comprehensive loss	(18,580,821)	(2,007,305)	(7,822,531)
Share Information:			
Loss per share, basic and diluted	$ (3.33)	$ (0.48)	$ (2.47)
Weighted average number of common shares outstanding	5,576,070	4,212,004	3,161,528
Financial Position:			
Current assets	4,481,471	489,739	637,089
Property and equipment	531,911	917,607	1,307,483
Mineral properties	13,299,906	26,399,708	25,296,210
Total assets	18,368,843	27,828,109	27,302,836
Total liabilities	9,681,322	11,032,616	12,023,867
Dividends	$ -	$ -	$ -

Year Ended December 31, 2017 compared with the same period in 2016.

The Company reported a net loss of $18.6 million ($3.33 loss per Share) for the year ended December 31, 2017, which represents an increased loss of $16.6 million when compared to the year 2016. The increase in net loss was primarily due to a $14.8 million write-off on the Company's non-core Mongolian coal properties.

The Company's annual operating expenses increased to $2.4 million in the year 2017 compared to the year 2016, ($1.3 million). The increase was due to increased activities related to the acquisition of vanadium properties in Nevada and equity financings.

The decrease in total assets to $18.4 million in the year 2017 from $27.8 million in the year 2016 was mainly due to the $14.8 write-off of the non-core Mongolian coal properties. The increase in current assets to $4.5 million in the year 2017 compared to the year 2016 (0.5 million) was due to the net equity proceeds raised in Q4 2017.
The Company's total liabilities at December 31, 2017 were $9.7 million compared to $11 million at December 31, 2016. The decrease in liabilities was mainly due to a repayment of the Credit Facility and trade liabilities incurred at the end of 2016 and paid in 2017.

Year Ended December 31, 2016 Compared with the same period in 2015.

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. The increase in total assets in 2016 compared to 2015 was mainly due to mineral property development.

The Company's total liabilities at December 31, 2016 decreased by $1.0 million compared to 2015 due to repayment of the Mongolian credit facility and partial repayment of the Credit Facility.

6. SUMMARY OF QUARTERLY RESULTS

The following table (Table 13) presents summarized selected consolidated financial information for the eight most recently completed quarters:

Table 13. Selected Consolidated Financial Information

	2017 Q4	2017 Q3	2017 Q2	2017 Q1
Operating expense	$ (1,277,507)	(484,907)	$ (336,028)	$ (282,923)
Net loss	(17,869,936)	(176,793)	(516,243)	(30,009)
Net loss per share, basic and diluted	$ (3.20)	(0.03)	$ (0.10)	$ (0.01)
Comprehensive loss	(17,857,776)	(176,793)	(516,243)	(30,009)
Comprehensive loss per share, basic and diluted	$ (3.20)	(0.03)	$ (0.10)	$ (0.01)

	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)

The Company's quarterly operating expenses remained relatively stable until the fourth quarter of 2017. 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 operating loss in the fourth quarter of 2017 was mainly due to increased activities related to acquisition of the Gibellini Project in Nevada. The significant increase in net loss in the fourth quarter of 2017 compared to the third quarter of 2017 was due to a $14.8 million write-off on the Company's non-core Mongolian coal properties. An increase in net loss in the fourth quarter of 2016 compared to the third quarter of 2016 was mainly due 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, 2017 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, 2017, Prophecy incurred operating expenses of $2,381,365 compared to $1,334,487 incurred for the year ended December 31, 2016. Details of the operating expenses is presented in Table 14 below.

Table 14. Operating Expenses

Operating Expenses	Year Ended December 31, 2017	2016
Advertising and promotion	$ 101,512	$ 50,125
Consulting and management fees	751,612	215,438
General and administrative expenses	635,736	666,831
Professional fees	194,912	122,230
Share-based payments	599,117	197,889
Travel and accommodation	98,476	81,974
	$ 2,381,365	$ 1,334,487

The increase by $1 million in operating expenses was a result of the overall increased activity levels of the Company. Of note are the following items:

- advertising and promotion expenses increased by $51,387 due to increased activities to promote and market the Company in order to raise equity financing: (a) hiring an advertising and promotion consultant Mara Strazdins (two-month contract, $10,000); (b) entering into a consulting contract with NorthStar Communications GmbH ($11,590); and (c) entering into a consulting agreement with Bryan Slusarchuk ($48,739 per year) to introduce the Company to strategic European and US investors;

- consulting and management fees increased by $536,174 due to increased external consulting services related to acquiring the Gibellini Project and hiring Skanderbeg Capital Advisors Inc. (consulting contract of $344,470 paid by the issuance of Units) to explore and evaluate strategic alternatives to maximize value for Prophecy's non-core assets. Also, the Company has engaged Hillcrest Merchant Partners Inc., to provide corporate development and financial advisory services related to the Gibellini Project, including equity and debt arrangement, product off-take and merger and acquisition negotiations with any strategic investors in exchange for annual aggregate payments totaling $156,000 ($78,000 paid to date);

- general and administrative fees consisting of general office expenses and administrative services related to maintaining the Company's exchange listings and complying with securities regulations along with insurance, salaries and directors' fees. General and administrative expenses decreased by $31,095 in the year 2017 compared to the year 2016. The decrease was the result of lower insurance premiums, amortization costs and lower office lease expenses as a result of the head office moving to a smaller commercial space;

- professional fees increased by $72,682. The increase was the result of increased legal expenses primarily due to legal fees related to financing and mineral property acquisitions;

- non-cash Share-based payments expenses increased by $401,228 due to a larger number of outstanding stock options vesting during 2017 compared to the prior year. Share-based payments represent the value assigned to the granting of stock options under the Company's Share-Based Compensation Plan using the Black-Scholes model. During the year ended December 31, 2017, the Company granted 408,000 stock options with a fair value of $599,117 (2016 - $197,889) which is recognized over the vesting period of the stock options; and

- travel and accommodation expenses increased by $16,502 due to increased property site visits.

The operating losses reflect the vagaries of a mineral exploration and development company. As the Company has no main source of income, losses are expected to occur.

For the year ended December 31, 2017, the Company incurred other expenses classified as "Other Items" amounting to $16,211,616 compared to $672,818 for the year 2016. Details of these Other Items is presented in Table 15.

Table 15. Details of Other Items

Other Items		Year Ended December 31, 2017		2016
Costs in excess of recovered coal	$	109,187	$	290,736
Finance cost		8,111		317,056
Foreign exchange (gain)/loss		188,464		(6,185)
Interest expense		21,066		258,640
Loss/(gain) on sale of available-for-sale investment		22,810		(59,698)
Loss on sale of equipment		1,681		67,348
Loss on debt settlement		752,742		-
Impairment/(recovery) of mineral property		14,829,267		(195,079)
Impairment of prepaid expenses		57,420		-
Impairment of property and equipment		159,666		-
Impairment of receivables		61,202		-
	$	16,211,616	$	672,818

The increase by $15,538,798 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 $181,549 due to keeping operations at the Ulaan Ovoo mine on standby and reducing general and administrative costs;

- finance costs decreased by $308,945 due to decreased draws from the Credit Facility;

- foreign exchange loss increased by $194,649 due to fluctuations in the value of the Canadian dollar compared to the United States dollar, Bolivian boliviano and Mongolian tugrik;

- in the year 2017, the Company disposed of 2.2 million Lorraine Copper Corp. shares for proceeds of $153,190 and a realized loss of $22,810. In the year 2016, the Company recorded a gain on the sale of Wellgreen Platinum Ltd. shares released from trust of $59,698;

- decrease in interest expenses by $237,574 was due to a decrease in the outstanding balance of the Credit Facility;

- in the year 2017, the Company recorded a loss on disbursement of office furniture and equipment of $1,681 (2016 – $67,348);

- in the year 2017, the Company recorded a loss on debt settlements of $752,742 to account for the difference in the fair value of the Shares on the settlement date and the debt settled; and

- in the year 2017, the Company recorded an impairment charge of $14,829,267 on its non-core Mongolian coal properties, an impairment charge of $57,420 on prepaid expenses related to the impaired Mongolian properties, an impairment charge of $159,666 on property and equipment, and an impairment charge of $61,202 on receivables. In the year 2016, the Company recorded a recovery on sale of its 60% interest in the Okeover project, to Lorraine Copper Corp. of $195,079.

8. FOURTH QUARTER

Table 16 presents a summary of the Company's consolidated results for the three months ended December 31, 2017 and 2016:

Table 16. Summary of Consolidated Results

Operating Expenses	Three months ended December 31, 2017	2016
Advertising and promotion	$ 53,362	$ 10,060
Consulting and management fees	613,992	105,500
General and administrative expenses	239,023	173,470
Professional fees	143,661	95,587
Share-based payments	213,201	74,428
Travel and accommodation	14,268	14,070
	$ 1,277,507	$ 473,115

Expenses in the fourth quarter of 2017 amounted $1,277,507 (2016 - $473,115).

Of note are the following items:

- advertising and promotion expenses increased by $43,302 due to increased activities in Q4 2017 to promote and market the Company in order to raise equity financing (see the details above);
- consulting and management fees increased by $508,492 due to increased external consulting services related to acquiring the Gibellini Project (see the details above) and hiring Skanderbeg Capital Advisors Inc. (Consulting contract of $344,470 paid by Units) to explore and evaluate strategic alternatives to maximize value for Prophecy's non-core assets;
- general and administrative expenses increased by $65,553 due primarily to increased transfer agent and stock exchange filing fees related to equity financing, the Special Meeting held in December 2017 and higher salary related expenses due to a new hire and salary increases;
- professional fees increased by $48,074 due to increased legal fees associated with mineral property activities;
- non-cash Share-based payments increased by $138,773 due to a larger number of outstanding stock options vesting during the 2017 period compared to the 2016 period; and
- travel and accommodation expenses increased by $198.

Other items in the fourth quarter of 2017 amounted to $16,592,429 (2016 - $616,168). A summary is presented below in Table 17.

Table 17. Summary of Other Items

Other Items	Three months ended December 31,			
		2017		2016
Costs in excess of recovered coal		4,367		84,925
Finance cost		-		162
Foreign exchange loss		822,284		524,777
Loss on sale of available-for-sale investments		-		-
Loss/(gain) on sale of equipment		1,681		(41,379)
Loss on debt settlement		752,742		-
Interest expense		-		47,683
Impairment of mineral property		14,733,067		-
Impairment of prepaid expenses		57,420		-
Impairment of property and equipment		159,666		-
Impairment of receivables		61,202		-
	$	16,592,429	$	616,168

The increase in other items by $15,976,261 was mainly due to the fact that the Company recorded an impairment charge of $14,733,167 on its mineral properties.

9. PROPOSED TRANSACTIONS

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

10. LIQUIDITY AND CAPITAL RESOURCES

Working Capital

At December 31, 2017, the Company had cash flow of $4,100,608 representing an increase of $4,078,960 from $21,648 held at December 31, 2016. The Company's working capital at December 31, 2017 was $2.6 million compared to a working capital deficit of $3.2 million at December 31, 2016. The Company's working capital increased by $5.8 million since the year ended December 31, 2016 resulting from the increase in current assets and decrease in current liabilities. The Company's cash flow highlights are presented in Table 18 below.

The Company believes it has sufficient capital to meet its cash needs for the next 12 months, including the costs of compliance with continuing reporting requirements.

Table 18. Cash Flow Highlights

	Year Ended December 31,			
		2017		2016
Cash Used in Operating Activities	$	(707,231)	$	(453,600)
Cash Used in Investing Activities		(1,988,566)		(606,372)
Cash Provided by Financing Activities		6,774,757		1,048,078
Increase in cash for period		4,078,960		(11,894)
Cash balance, beginning of period		21,648		33,542
Cash balance, end of period	$	4,100,608	$	21,648

During the year ended December 31, 2017, cash used in operating activities was $707,231 compared to $453,600 cash used in the prior year. The increased outflows in 2017 primarily related to Gibellini project activities.

During the year ended December 31, 2017, the Company used $1,988,566 in investing activities (2016 – $606,372). The Company spent $34,500 investing in GIC, $58,790 on the acquisition of the Gibellini Project, and $1,339,417 (2016 - $712,901) on mineral properties expenditures. In 2017, the Company spent $193,440 and received $153,190 (2016 - $59,698) from the purchase and sale of available-for-sale investments respectively.

A total of $6,774,757 was provided by financing activities during the year ended December 31, 2017 (2016 – $1,048,078). The Company fully repaid and closed out the Credit Facility by issuing 300,000 Shares to John Lee in satisfaction of $900,000 worth of indebtedness owing by the Company to Mr. Lee's personal holding company, Linx, under the Credit Facility and making cash payments totaling $364,142. Funds borrowed under the Credit Facility in the year 2017 were $163,405 (2016 - $341,116). During the year ended December 31, 2017, the Company received net proceeds of $6,864,809 (2016 - $952,929) from issuing units pursuant to private placements, $50,685 (2016 - $Nil) from exercise of stock options, and $60,000 (2016 - $Nil) from exercise of Share purchase warrants.

Capital Resources

The Company has sufficient financial resources to keep its landholdings in good standing through for at least next 12 months.

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

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

Contractual Commitments

Prophecy's commitments related to mineral properties are disclosed in Note 13 to the Annual Financial Statements. 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, stock options for Shares and Share purchase warrants. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the exploration and development of its projects and to pursue and support growth opportunities. The Board of Directors does not establish quantitative returns on capital criteria for management. The overall objectives for managing capital remained unchanged in 2017 from the prior comparative period.

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

11. 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 ($7,541,016) 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 $7,541,016 (2016 - $7,060,690) 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 continued to dispute the Sukhbaatar District Tax Division's assessment and delivered a complaint to Capital City Tax Tribunal on July 24, 2015. Due to the uncertainty of realizing the VAT balance, the Company has recorded an impairment charge for the full VAT balance in the year ended December 31, 2015. As there were no changes from January 1, 2016 to December 31, 2017, the impaired value of $Nil for the VAT receivable remains unchanged.

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

Red Hill is working with its external legal counsel to provide additional documents to the City tax tribunal before the hearing to solidify its case.

12. ENVIRONMENT

Prophecy is subject to the Environmental Protection Law of Mongolia and has the following duties with respect to environmental protection:

- to comply with the Environmental Protection Law of Mongolia and the decision of the government, local self-governing organizations, local governors and Mongolian state inspectors;

- to comply with environmental standards, limits, legislation and procedures and to supervise their implementation with their organization;

- to keep records on toxic substances, adverse impacts, and waste discharged into the environment; and

- to report on measures taken to reduce or eliminate toxic chemicals, adverse impacts, and waste.

In addition to those duties imposed on them by the Environmental Protection Law of Mongolia, 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, 2017, the Company had a provision for closure and reclamation liability of $244,323 (2016 - $242,347). 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).

13. RELATED PARTY DISCLOSURES

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

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

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

- 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 presented in Table 19 as follows:

Table 19. Related Party Transactions

Related parties		Year Ended December 31, 2017		2016
Directors and officers	$	307,425	$	280,160
Linx Partners Ltd.		363,781		210,000
MaKevCo Consulting Inc.		23,600		22,480
Sophir Asia Ltd.		19,700		20,380
	$	714,506	$	533,020

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

Related parties		Year Ended December 31, 2017		2016
Consulting and management fees	$	247,525	$	153,000
Directors' fees		60,600		63,240
Mineral properties		201,875		117,000
Salaries and benefits		204,506		199,780
	$	714,506	$	533,020

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

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

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

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

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

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

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

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

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

As at December 31, 2017, amounts due to related parties totaled of $160,503 including accrued bonuses of $116,000 (December 31, 2016 – $366,269) and was comprised of $7,000 (December 31, 2016 - $14,640) for director fees, $Nil (December 31, 2016 - $54,656) for consulting fees, $Nil (December 31, 2016 - $86,864) for managing mineral properties, $2,503 (December 31, 2016 - $29,280) for salaries and reimbursable expenses. The remaining amounts due relate to deferred consulting fees of $35,000 (December 31, 2016 - $180,829).

The amounts due to related parties are non-interest bearing and are due upon demand. See Note 15 to Annual Financial Statements for information regarding the Company's Credit Facility with Linx.

As at the date of this MD&A, Mr. Lee beneficially owns and exercises control over an aggregate of 1,210,370 Shares representing an interest of approximately 16.20% of the Company's currently issued and outstanding Shares, and 23.52% of the 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.

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. The amounts due to related parties is summarized below in Table 20.

Table 20. Amounts Due to Related Parties

Key Management Personnel		Year Ended December 31, 2017		2016
Salaries and short term benefits	$	204,506	$	204,079
Share-based payments		596,232		181,990
	$	800,738	$	386,069

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, 2017 (Notes 4, 5, and 6 to the Annual Financial Statements). Prophecy's Annual Financial Statements have been prepared using the going concern assumption.

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) Critical estimates

Management has identified: (i) Impairment of mineral property interests and (ii) Share-based payments as the critical estimates for the following discussion:

(i) Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, closure and rehabilitation costs, exploration potential, reserves and in-situ value of the property. These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs. Fair value or value in use is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties.

(ii) The Company accounts for stock options granted to employees, officers, directors, and consultants using the fair value method. The fair value of stock options granted to employees, officers, and directors is determined using the Black-Scholes option pricing model with market related inputs as of the date of grant. The fair value of stock options granted to consultants is measured at the fair value of the services delivered. Market related inputs using the Black-Scholes option pricing model are subject to estimation and includes risk free interest rate, expected life of option, expected volatility, expected dividend yield, and estimated forfeiture rate.

(b) 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, 2017 as followed in the consolidated financial statements for the year ended December 31, 2016.

(c) 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 Table 21:

Table 21. Subsidiaries of the Company

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
Vanadium Gibellini Company LLC	USA	100%	Consolidated	Gibellini Project
VC Exploration (US) Inc.	USA	100%	Consolidated	Gibellini 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 20 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, 2017, those financial assets and liabilities are classified

in their entirety based on the level of input that is significant to the fair value measurement. A summary of the Company's financial assets is presented below in Table 22.

Table 22. Financial Assets

As at December 31, 2017	Level 1	Level 2	Level 3	Total
Financial assets				
Cash	$ 4,100,608	$ -	$ -	$ 4,100,608
	$ 4,100,608	$ -	$ -	$ 4,100,608

Related Risks

Liquidity risk is the risk that an entity will be unable to meet its financial obligations as they fall due. The Company has a history of losses and no operating revenues from its operations. The Company manages liquidity risk by preparing cash flow forecasts of upcoming cash requirements. As at December 31, 2017, the Company had a cash balance of $4,100,608 (December 31, 2016 – $21,648). As at December 31, 2017, the Company had accounts payable and accrued liabilities of $1,895,983 (December 31, 2016 - $2,658,018), which have contractual maturities of 90 days or less. The Company has sufficient cash resources to meet the Company's short-term financial liabilities and its planned exploration expenditures on its vanadium and silver projects for the foreseeable future, for, but not limited to, the next 12 months.

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. 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. Despite some signs of improvement, market challenges for commodities and mining sector equities continued during the first part of the year. These economic conditions create uncertainty particularly over the price of silver and coal, the exchange rate between Canadian and US dollars and the timing of any further recovery remains uncertain.

(a) Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's cash and cash equivalents primarily include highly liquid investments that earn interest at market rates that are fixed to maturity. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have significant impact on the fair values of the financial instruments as of December 31, 2017. In December 2017, the Company closed out the Credit Facility. 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 Bolivia and Mongolia and undertakes transactions in various foreign currencies. The Company is therefore exposed to foreign currency risk arising from transactions denominated in a foreign currency and the translation of financial instruments denominated in US dollar, Bolivian boliviano and Mongolian tugrik into its reporting currency, the Canadian dollar.

Based on the above, net exposures as at December 31, 2017, with other variables unchanged, a 10% (December 31, 2016 – 10%) strengthening (weakening) of the US dollar against the Canadian dollar would impact net loss with other variables unchanged by $33,000. A 10% strengthening (weakening) of the Canadian dollar against the Bolivian boliviano would impact net loss with other variables unchanged by $750,000. A 10 % strengthening (weakening) of the Canadian dollar against the Mongolian tugrik would impact net loss with other variables unchanged by $78,000. The Company currently does not use any foreign exchange contracts to hedge this currency risk.

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

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

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

15. RISKS AND UNCERTAINTIES

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

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

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

The Chief Executive Officer and Chief Financial Officer, after participating with the Company's management in evaluating the effectiveness of the Company's disclosure controls and procedures have concluded that as of December 31, 2017, 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, 2017.

17. CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes to the Company's internal control over financial reporting during the year ended December 31, 2017, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations of controls and procedures

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

18. DISCLOSURE OF OUTSTANDING SHARE DATA

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

- 7,472,179 Shares outstanding with recorded value of $165,287,037;
- 844,834 stock options outstanding with a weighted average exercise price of $4.36. Each option is exercisable to purchase one Share of the Company at prices ranging from $2 to $13 and which expire between July 2018 and February 2023; and
- 2,620,203 Share purchase warrants outstanding with a weighted average exercise price of $4.39. Each warrant is exercisable to purchase one Share of the Company at prices ranging from $4 to $7 and which expire between May 2020 and June 2022.

19. OFF-BALANCE SHEET ARRANGEMENTS

During the year ended December 31, 2017, Prophecy was not a party to any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources of Prophecy.

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