Annual Consolidated Financial Statements
For the years ended December 31, 2018, 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"

John Lee, Interim Chief Executive Officer
Vancouver, British Columbia

"*Irina Plavutska*"

Irina Plavutska, Chief Financial Officer

March 29, 2019

Report of Independent Registered Public Accounting Firm

To the Shareholders and Directors of
Prophecy Development Corp.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of Prophecy Development Corp. (the "Company"), as of December 31, 2018, 2017 and 2016, and the related consolidated statements of operations and comprehensive loss, changes in equity, and cash flows for the years ended December 31, 2018, 2017 and 2016, and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, 2017 and 2016,, and the results of its operations and its cash flows for the years ended December 31, 2018, 2017 and 2016 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatements of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2013.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Professional Accountants

March 29, 2019

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

As at	Notes	December 31, 2018	December 31, 2017	December 31, 2016
Assets				
Current assets				
Cash and cash equivalents	8	$ 5,304,097	$ 4,100,608	$ 21,648
Receivables	9	36,399	34,653	91,565
Prepaid expenses	10	123,272	140,610	200,526
Marketable securities	11	-	205,600	176,000
		5,463,768	4,481,471	489,739
Non-current assets				
Restricted cash equivalents	8	34,500	34,500	-
Reclamation deposits		21,055	21,055	21,055
Equipment	12	101,162	531,911	917,607
Mineral properties	13	3,643,720	13,299,906	26,399,708
		$ 9,264,205	$ 18,368,843	$ 27,828,109
Liabilities and Equity				
Current liabilities				
Accounts payable and accrued liabilities	14	$ 1,636,786	$ 1,895,983	$ 2,658,018
Credit facility	15	-	-	1,071,560
		1,636,786	1,895,983	3,729,578
Non-current liabilities				
Provision for closure and reclamation	16	265,239	244,323	242,347
Tax provision	17	8,121,918	7,541,016	7,060,691
		10,023,943	9,681,322	11,032,616
Equity				
Share capital	18	173,819,546	165,862,805	156,529,025
Reserves		23,413,830	22,621,202	21,482,133
Accumulated other comprehensive income/(loss)		-	12,160	-
Deficit		(197,993,114)	(179,808,646)	(161,215,665)
		(759,738)	8,687,521	16,795,493
		$ 9,264,205	$ 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)

			Years Ended December 31,	
	Notes	**2018**	**2017**	**2016**
General and Administrative Expenses				
Advertising and promotion		$ 471,230	$ 101,512	$ 50,125
Consulting and management fees	22	255,610	751,612	215,438
Depreciation and accretion		28,024	8,823	65,175
Director fees	22	70,378	60,600	63,240
Insurance		55,546	52,566	55,756
Office and administration		137,289	89,808	119,595
Professional fees		428,884	194,912	122,230
Salaries and benefits	22	827,168	260,710	256,020
Share-based payments	18	553,430	599,117	197,889
Stock exchange and shareholder services		239,319	163,229	107,045
Travel and accommodation		231,505	98,476	81,974
		(3,298,383)	(2,381,365)	(1,334,487)
Other Items				
Costs in excess of recovered coal		(94,335)	(109,187)	(290,736)
Finance cost		-	(8,111)	(317,056)
Foreign exchange gain/(loss)		(412,663)	(188,464)	6,185
Interest expense		-	(21,066)	(258,640)
(Impairment)/recovery of mineral property	13	(13,994,970)	(14,829,267)	195,079
Impairment of prepaid expenses	10	(26,234)	(57,420)	-
Impairment of equipment	12	(425,925)	(159,666)	-
Impairment of receivables	9	(21,004)	(61,202)	-
(Loss)/gain on sale of marketable securities	11	(91,890)	(22,810)	59,698
Loss on sale of equipment		-	(1,681)	(67,348)
(Loss)/gain on debt settlement	22, 18	50,000	(752,742)	-
Other income	12	130,936	-	-
		(14,886,085)	(16,211,616)	(672,818)
Net Loss for Year		(18,184,468)	(18,592,981)	(2,007,305)
Fair value gain/(loss) on marketable securities	11	(81,000)	12,160	-
Reclassification adjustment for realized loss on marketable securities	11	68,840	-	-
Comprehensive Loss for Year		$ (18,196,628)	$ (18,580,821)	$ (2,007,305)
Loss Per Common Share, basic and diluted		$ (0.23)	$ (0.33)	$ (0.05)
Weighted Average Number of Common Shares Outstanding		78,445,396	55,760,700	42,120,040

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)

	Number of Shares		Share Capital		Reserves		Accumulated Other Comprehensive Income		Deficit		Total
Balance, December 31, 2015	34,274,743	$	153,281,631	$	21,205,698	$	-	$	(159,208,360)	$	15,278,969
Private placements, net of share issue costs	2,827,350		942,746		10,183		-		-		952,929
Debt Settlements	10,974,437		2,304,648		-		-		-		2,304,648
Share-based payments	-		-		266,252		-		-		266,252
Loss for the year	-		-		-		-		(2,007,305)		(2,007,305)
Balance, December 31, 2016	**48,076,530**	**$**	**156,529,025**	**$**	**21,482,133**	**$**	**-**	**$**	**(161,215,665)**	**$**	**16,795,493**
Private placements, net of share issue costs	20,775,060		6,527,619		337,190		-		-		6,864,809
Shares issued on acquisition of property	200,000		96,200		-		-		-		96,200
Debt Settlements	4,019,130		2,039,269		-		-		-		2,039,269
Share bonus to personnel	390,000		190,320		-		-		-		190,320
Share compensation for services	984,200		344,470		-		-		-		344,470
Exercise of stock options	126,870		65,252		(14,567)		-		-		50,685
Exercise of warrants	150,000		70,650		(10,650)		-		-		60,000
Share-based payments	-		-		827,096		-		-		827,096
Loss for the year	-		-		-		-		(18,592,981)		(18,592,981)
Unrealized gain on marketable securities	-		-		-		12,160		-		12,160
Balance, December 31, 2017	**74,721,790**	**$**	**165,862,805**	**$**	**22,621,202**	**$**	**12,160**	**$**	**(179,808,646)**	**$**	**8,687,521**
Private placements, net of share issue costs	16,061,417		6,096,621		-		-		-		6,096,621
Warrants issued for mineral property	-		-		181,944		-		-		181,944
Exercise of stock options	87,500		39,500		(15,350)		-		-		24,150
Exercise of warrants	3,445,420		1,470,620		(132,453)		-		-		1,338,167
Bonus shares	1,000,000		350,000		-		-		-		350,000
Share-based payments	-		-		758,487		-		-		758,487
Loss for the year	-		-		-		-		(18,184,468)		(18,184,468)
Unrealized loss on marketable securities	-		-		-		(12,160)		-		(12,160)
Balance, December 31, 2018	**95,316,127**	**$**	**173,819,546**	**$**	**23,413,830**	**$**	**-**	**$**	**(197,993,114)**	**$**	**(759,738)**

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

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

	Years Ended December 31,		
	2018	**2017**	**2016**
Operating Activities			
Net loss for year	$ (18,184,468)	$ (18,592,981)	$ (2,007,305)
Adjustments to reconcile net loss to net cash flows:			
Depreciation and accretion	28,024	8,823	65,175
Share-based payments	553,430	599,117	197,889
Finance cost	-	8,111	317,056
Interest costs	-	21,066	258,640
Unrealized foreign exchange (gain)/loss	580,902	480,325	(227,164)
Share compensation for services	350,000	344,470	-
Impairment/(recovery) of mineral property	13,994,970	14,829,267	(195,079)
Impairment of prepaid expenses	26,234	57,420	-
Impairment of property and equipment	425,925	159,666	-
Impairment of receivables	21,004	61,202	-
Loss/(gain) on sale of marketable securities	91,890	22,810	(59,698)
Loss on sale of equipment	-	1,681	67,348
Loss on debt settlement	-	752,742	-
	(2,112,089)	(1,246,281)	(1,583,138)
Working capital adjustments			
Receivables	(22,750)	(4,290)	308,724
Prepaid expenses	(8,896)	2,496	9,231
Accounts payable and accrued liabilities	(482,952)	540,844	811,583
	(514,598)	539,050	1,129,538
Cash Used in Operating Activities	(2,626,687)	(707,231)	(453,600)
Investing Activities			
Cash received from GIC redemption	-	-	34,500
Purchase of GIC	-	(34,500)	-
Net (purchases)/proceeds from marketable securities	101,550	(40,250)	59,698
Proceeds from sale of property and equipment	-	-	12,331
Purchase of property and equipment	(120,416)	(515,609)	-
Mineral property acquisition and expenditures	(3,609,896)	(1,398,207)	(712,901)
Cash Used in Investing Activities	(3,628,762)	(1,988,566)	(606,372)
Financing Activities			
Funds borrowed under credit facility	-	163,405	341,116
Credit facilities paid	-	(343,076)	(234,714)
Interest paid	-	(21,066)	(11,253)
Proceeds from share issuance, net of share issue costs	6,096,621	6,864,809	952,929
Proceeds from exercise of options	24,150	50,685	-
Proceeds from exercise of warrants	1,338,167	60,000	-
Cash Provided by Financing Activities	7,458,938	6,774,757	1,048,078
Net Increase (Decrease) in Cash	1,203,489	4,078,960	(11,894)
Cash - beginning of year	4,100,608	21,648	33,542
Cash - end of year	$ 5,304,097	$ 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", the OTCQX® Best Market under the symbol "PRPCF", and the Frankfurt Stock Exchange under the symbol "1P2N".

Prophecy Development Corp. is an exploration and development stage company focusing on the development of its Gibellini vanadium project, the Company's only material property. In Nevada, the Company currently holds a 100% interest in the Gibellini Project, which it aims to make the first operating primary vanadium mine in North America. The Company also has a 100% interest in the Titan vanadium-titanium-iron property located in Ontario, Canada, a 100% interest in the Ulaan Ovoo coal property located in Selenge province, Mongolia and a 100% interest in the Chandgana Tal coal property and Khavtgai Uul coal property located in Khentii province, Mongolia. The Company also holds the land use right and construction license for the Chandgana 600MW Coal-Fired Mine Mouth Power Plant project located in Khentii province, Mongolia. The Company also holds a mining joint venture interest in the Pulacayo Paca silver-lead-zinc property located in Quijarro province, Bolivia.

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 marketable securities 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 29, 2019.

3. BASIS OF CONSOLIDATION

The Annual Financial Statements comprise the financial statements of the Company and its wholly owned and partially-owned subsidiaries as at December 31, 2018. 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.

(Expressed in Canadian Dollars)

3. BASIS OF CONSOLIDATION (cont'd…)

The Company's most significant subsidiaries at December 31, 2018 are presented in the following table:

Subsidiary	Location	Ownership interest	Operations and Projects Owned
Vanadium Gibellini Company LLC	USA	100%	Gibellini project
VC Exploration (US) Inc,	USA	100%	Gibellini project
0912601 B.C. Ltd.	Canada	100%	Titan project
Apogee Minerals Bolivia S. A.	Bolivia	98%	Pulacayo project
ASC Holdings Limited	Bolivia	100%	Pulacayo project
Red Hill Mongolia LLC	Mongolia	100%	Ulaan Ovoo mine
Chandgana Coal LLC	Mongolia	100%	Chandgana project

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:

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

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

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

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

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

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

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

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

IFRS 15 *'Revenue from Contracts with Customers'* ("**IFRS 15**") – Effective January 1, 2018, the Company has adopted IFRS 15. 'This standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The adoption of this standard had no impact on the Company's financial statements as the Company is not currently generating any significant revenue.

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

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

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

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

5.1 Significant Judgments (cont'd...)

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

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, 2018, the Company wrote-off $13,994,970 of capitalized mineral property costs (Note 13).

(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.

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

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

(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.

Management has made significant assumptions about the recoverability of receivables and prepaid expense amounts. During the year ended December 31,2018 the Company wrote-off $21,004 (2017-$61,202) of trade receivables which are no longer expected to be recovered and $26,234 (2017 - $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

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

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

(f) Share-based payments (cont'd…)

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.

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

Mineral property assets consist of exploration and evaluation costs. 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. These costs include acquisition of rights to explore, license and application fees, topographical, geological, geochemical and geophysical studies, exploratory drilling, trenching, sampling, and activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

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

(b) Mineral properties (cont'd…)

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.

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.

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

(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.

(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.

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

(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.

(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.

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

(i) Share-based payments (cont'd…)

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.

(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.

(Expressed in Canadian Dollars)

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

(m) Financial instruments

Classification

Financial assets are classified at initial recognition as either: measured at amortized cost, FVTPL or fair value through other comprehensive income ("FVOCI"). The classification depends on the Company's business model for managing the financial assets and the contractual cash flow characteristics. For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL or the Company has opted to measure at FVTPL.

Measurement

Financial assets and liabilities at FVTPL are initially recognized at fair value and transaction costs are expensed in the consolidated statement of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets or liabilities held at FVTPL are included in the consolidated statement of operations and comprehensive loss in the period in which they arise. Where the Company has opted to designate a financial liability at FVTPL, any changes associated with the Company's credit risk will be recognized in OCI. Financial assets and liabilities at amortized cost are initially recognized at fair value, and subsequently carried at amortized cost less any impairment.

Impairment

The Company assesses on a forward looking basis the expected credit losses ("ECL") associated with financial assets measured at amortized cost, contract assets and debt instruments carried at FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

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 non-current assets is as follows:

	December 31, 2018				
	Canada	USA	Mongolia	Bolivia	Total
Reclamation deposits	$ -	$ -	$ 21,055	$ -	$ 21,055
Equipment	14,839	22,713	33,440	30,170	101,162
Mineral properties	-	3,643,720	-	-	3,643,720
	$ 14,839	$ 3,666,433	$ 54,495	$ 30,170	$ 3,765,937
	December 31, 2017				
	Canada	USA	Mongolia	Bolivia	Total
Reclamation deposits	$ -	$ -	$ 21,055	$ -	$ 21,055
Equipment	18,376	-	48,364	465,171	531,911
Mineral properties	-	490,356	-	12,809,550	13,299,906
	$ 18,376	$ 490,356	$ 69,419	$ 13,274,721	$ 13,852,872
	December 31, 2016				
	Canada	USA	Mongolia	Bolivia	Total
Reclamation deposits	$ -	$ -	$ 21,055	$ -	$ 21,055
Equipment	22,816	-	329,912	564,879	917,607
Mineral properties	-	-	14,418,765	11,980,943	26,399,708
	$ 22,816	$ -	$ 14,769,732	$ 12,545,822	$ 27,338,370

(Expressed in Canadian Dollars)

8. CASH AND 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, 2018	December 31, 2017	December 31, 2016
Cash	$ 804,097	$ 4,100,608	$ 21,648
Cash equivalents	4,500,000	-	-
Restricted cash equivalents	34,500	34,500	-
	$ 5,338,597	$ 4,135,108	$ 21,648

Cash Equivalents

Restricted Cash Equivalents

As at December 31, 2018, a guaranteed investment certificate of $34,500 (2017 – 34,500), (2016 -$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.

	December 31, 2018	December 31, 2017	December 31, 2016
Input tax recoverable	$ 36,399	$ 10,562	$ 1,388
Trade receivable	-	24,091	90,177
	$ 36,399	$ 34,653	$ 91,565

During the year ended December 31, 2018, the Company wrote-off $21,004 (2017 - $61,202, 2016 - $Nil) of trade receivables which are no longer expected to be recovered.

10. PREPAID EXPENSES

	December 31, 2018	December 31, 2017	December 31, 2016
General	$ 47,216	$ -	$ 57,681
Insurance	57,882	41,029	40,969
Environmental and taxes	8,789	47,508	40,695
Transportation and fuel	-	-	23,863
Rent	9,385	11,458	37,318
Market advisors	-	40,615	-
	$ 123,272	$ 140,610	$ 200,526

During the year ended December 31, 2018, the Company wrote-off $26,234 (2017 - $57,420, 2016 - $Nil) of prepaid expenses for which no future benefit is expected to be received.

(Expressed in Canadian Dollars)

11. MARKETABLE SECURITIES

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

During the year ended December 31, 2018, the Company sold all its marketable securities for proceeds of $162,490 and a realized loss of $91,890. Following the disposal of the shares, the Company reclassified the cumulative loss previously recognized in other comprehensive income of $68,840 to profit and loss on the sale of marketable securities.

The following table summarized information regarding the Company's marketable securities as at December 31, 2016, 2017, and 2018:

Marketable securities	2018	2017	2016
Balance, beginning of period	$ 205,600	$ 176,000	$ -
Additions	60,940	193,440	176,000
Disposals	(162,490)	(153,190)	-
Realized loss on disposal	(91,890)	(22,810)	-
Unrealized gain/(loss) on mark-to-market	(12,160)	12,160	-
Balance, end of period	$ -	$ 205,600	$ 176,000

12. EQUIPMENT

During the year ended December 31, 2018, the Company wrote-off $425,925 of mining equipment in Bolivia that was no longer in use. During the year ended December 31, 2017, the Company wrote-off $159,666 (2016 - $Nil) of equipment in Mongolia that was no longer in use.

On October 10, 2018, the Company signed a lease agreement (the "**Lease**") with an arms-length private Mongolian company (the "**Lessee**") whereby the Lessee plans to perform mining operations at Prophecy's Ulaan Ovoo coal mine and will pay Prophecy USD2.00 (the "**Production Royalty**") for every tonne of coal shipped from the Ulaan Ovoo site premises. The Lessee paid Prophecy USD100,000 in cash (recorded as other income on the consolidated statement of operations) as a non-refundable advance royalty payment and is preparing, at its own and sole expense, to restart and operate the Ulaan Ovoo mine with its own equipment, supplies, housing and crew.

The Lease is valid for 3 years with an annual advance royalty payment ("**ARP**") for the first year of USD100,000 which was due and paid upon signing, and USD150,000 and USD200,000 due on the 1st and 2nd anniversary of the Lease, respectively. The ARP can be credited towards the USD2.00 per tonne Production Royalty payments to be made to Prophecy as the Lessee starts to sell Ulaan Ovoo coal. The 3-year Lease can be extended upon mutual agreement.

The impaired value of $Nil for deferred development costs at Ulaan Ovoo property at December 31, 2018 remains unchanged.

The following table summarized information regarding the Company's equipment as at December 31, 2016, 2017, and 2018:

(Expressed in Canadian Dollars)

12. **EQUIPMENT** (cont'd...)

	Computer Equipment	Furniture & Equipment	Computer Software	Vehicles	Leasehold Improvements	Mining Equipment	Total
Cost							
Balance, December 31, 2015	$ 161,959	$ 388,933	$ 197,813	$ 459,229	$ 172,818	$ 1,574,098	$ 2,954,850
Disposals	(61,738)	(109,720)	-	(5,375)	(172,818)	(39,353)	(389,004)
Balance, December 31, 2016	$ 100,221	$ 279,213	$ 197,813	$ 453,854	$ -	$ 1,534,745	$ 2,565,846
Accumulated depreciation							
Balance, December 31, 2015	$ 135,912	$ 230,867	$ 197,813	$ 330,345	$ 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	$ 197,813	$ 339,916	$ -	$ 833,971	$ 1,648,239
Carrying amount							
At December 31, 2015	$ 26,047	$ 158,066	$ -	$ 128,884	$ 37,732	$ 956,754	$ 1,307,483
At December 31, 2016	$ 5,321	$ 97,574	$ -	$ 113,938	$ -	$ 700,774	$ 917,607
Cost							
Balance, December 31, 2016	$ 100,221	$ 279,213	$ 197,813	$ 453,854	$ -	$ 1,534,745	$ 2,565,846
Additions	(147)	(2,383)	-	-	-	-	(2,530)
Impairment charge	-	-	-	(281,162)	-	(219,916)	(501,078)
Balance, December 31, 2017	$ 100,074	$ 276,830	$ 197,813	$ 172,692	$ -	$ 1,314,829	$ 2,062,238
Accumulated depreciation							
Balance, December 31, 2016	$ 94,900	$ 181,639	$ 197,813	$ 339,916	$ -	$ 833,971	$ 1,648,239
Depreciation for year	1,795	35,434	-	18,434	-	167,837	223,500
Impairment charge	-	-	-	(228,508)	-	(112,904)	(341,412)
Balance, December 31, 2017	$ 96,695	$ 217,073	$ 197,813	$ 129,842	$ -	$ 888,904	$ 1,530,327
Carrying amount							
At December 31, 2016	$ 5,321	$ 97,574	$ -	$ 113,938	$ -	$ 700,774	$ 917,607
At December 31, 2017	$ 3,379	$ 59,757	$ -	$ 42,850	$ -	$ 425,925	$ 531,911
Cost							
Balance, December 31, 2017	$ 100,074	$ 276,830	$ 197,813	$ 172,692	$ -	$ 1,314,829	$ 2,062,238
Additions/Disposals	3,180	2,015	-	-	-	24,476	29,671
Impairment charge	-	-	-	-	-	(1,314,829)	(1,314,829)
Balance, December 31, 2018	$ 103,254	$ 278,845	$ 197,813	$ 172,692	$ -	$ 24,476	$ 777,080
Accumulated depreciation							
Balance, December 31, 2017	$ 96,695	$ 217,073	$ 197,813	$ 129,842	$ -	$ 888,904	$ 1,530,327
Depreciation for period	1,316	16,351	-	13,337	-	3,491	34,495
Impairment charge	-	-	-	-	-	(888,904)	(888,904)
Balance, December 31, 2018	$ 98,011	$ 233,424	$ 197,813	$ 143,179	$ -	$ 3,491	$ 675,918
Carrying amount							
At December 31, 2017	$ 3,379	$ 59,757	$ -	$ 42,850	$ -	$ 425,925	$ 531,911
At December 31, 2018	$ 5,243	$ 45,421	$ -	$ 29,513	$ -	$ 20,985	$ 101,162

(Expressed in Canadian Dollars)

13. MINERAL PROPERTIES

	Titan	Chandgana Tal	Khavtgai Uul	Pulacayo Paca	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 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 and consulting	-	39,362	-	102,592	272,620	414,574
Personnel, camp and general	-	2,492	2,492	726,015	84,070	815,069
	-	69,044	245,258	828,607	431,566	1,574,475
Impairment	(96,200)	(11,255,366)	(3,477,701)	-	-	(14,829,267)
Balance, December 31, 2017	$ -	$ -	$ -	$ 12,809,550	$ 490,356	$ 13,299,906
Additions:						
Acquisition cost	$ -	$ -	$ -	$ -	$ 425,605	$ 425,605
Deferred exploration costs:						
Licenses, tax, and permits	-	1,271	261,168	-	387,149	649,588
Geological and consulting	-	-	-	51,112	1,509,587	1,560,699
Personnel, camp and general	-	20,590	3,741	847,538	831,023	1,702,892
	-	21,861	264,909	898,650	2,727,759	3,913,179
Impairment	-	(21,861)	(264,909)	(13,708,200)	-	(13,994,970)
Balance, December 31, 2018	$ -	$ -	$ -	$ -	$ 3,643,720	$ 3,643,720

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

Gibellini Project, Nevada, United States

Gibellini Project

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

Gibellini Group

The Gibellini group of claims was acquired on June 22, 2017, through lease from the claimant (the "**Gibellini Lessor**") and includes an area of approximately 771 acres. Under the Gibellini Mineral Lease Agreement (the "**Gibellini MLA**") Prophecy leased the Gibellini group of claims which originally constituted the Gibellini Project by among other things, agreeing to pay to the Gibellini Lessor, US$35,000 (paid), annual advance royalty payments which will be tied, based on an agreed formula (not to exceed US$120,000 per year), to the average vanadium pentoxide price of the prior year. Upon commencement of production, Prophecy will maintain its acquisition through lease of the Gibellini group of claims by paying to the Gibellini Lessor, a 2.5% NSR until a total of US$3,000,000 is paid. Thereafter, the NSR will be reduced to 2% over the remaining life of the mine (and referred to thereafter, as "production royalty payments"). All advance royalty payments made, will be deducted as credits against future production royalty payments. The lease is for a term of 10 years, which can be extended for an additional 10 years at Prophecy's option.

On April 23, 2018, the Company announced an amendment to the Gibellini MLA, whereby Prophecy has been granted the right to cause the Gibellini Lessor of the Gibellini mineral claims to transfer their title to the claims to Prophecy. With the amendment, Prophecy will have the option to, at any time during the term of the Gibellini MLA, require the Gibellini Lessor to transfer title over all of the leased, unpatented lode mining claims (excluding four claims which will be retained by the Gibellini Lessor (the "**Transferred Claims**") to Prophecy in exchange for US$1,000,000, to be paid as an advance royalty payment (the "**Transfer Payment**"). A credit of US$99,027 in favour of Prophecy towards the Transfer Payment is already paid upon signing of the amendment, with the remaining US$900,973 portion of the Transfer Payment due and payable by Prophecy to the Gibellini Lessor upon completion of transfer of the Transferred Claims from the Gibellini Lessor to Prophecy. The advance royalty obligation and production royalty will not be affected, reduced or relieved by the transfer of title.

On June 22, 2018, the Company paid US$101,943 of the annual royalty payment to the Gibellini Lessor.

VC Exploration Group

On July 13, 2017, the Company acquired (through lease under the mineral lease agreement "**Louie Hill MLA**") from the holders (the "**Former Louie Hill Lessors**") 10 unpatented lode claims totaling approximately 207 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, 2018 and March 12, 2018, the Company's wholly owned US subsidiaries, Vanadium Gibellini Company LLC and VC Exploration (US) Inc., staked the area within and under 17 new claims totaling approximately 340 gross acres which now collectively comprise the expanded Louie Hill group of claims.

Under the Louie Hill MLA, the Company is required to make payments as follows: cash payment of US$10,000 (paid), annual advance royalty payments which will be tied, based on an agreed formula (not to exceed US$28,000 per year), to the average vanadium pentoxide price for the prior year. Upon commencement of production, Prophecy will pay to the Former Louie Hill Lessors, a 2.5% NSR of which, 1.5% of the NSR may be purchased at any time by Prophecy for US$1,000,000, leaving the total NSR to be reduced to 1% over the remaining life of the mine (and referred to thereafter, as "production royalty payments"). All advance royalty payments made, will be deducted as credits against future production royalty payments. The lease will be for a term of 10 years, which can be extended for an additional 10 years at Prophecy's option.

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

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

On October 22, 2018, the Company and Former Louie Hill Lessors entered into a royalty agreement (the "**Royalty Agreement**") that terminated the Louie Hill MLA and provides for the Company to pay the following royalties to the Former Louie Hill Lessors as an advance royalty: (i) US$75,000 upon the Company achieving Commercial Production (as defined in the Royalty Agreement) at its Gibellini Project; (ii) US$50,000 upon the Company selling, conveying, transferring or assigning all or any portion of certain claims defined in the Royalty Agreement to any third party and (iii) annually upon the anniversary date of July 10, 2018 and the like day thereafter during the term of the Royalty Agreement: (a) if the average vanadium pentoxide price per pound as quoted on www.metalbulletin.com (the "**Metal Bulletin**") or another reliable and reputable industry source as agreed by the parties, remains below US$7.00/lb during the preceding 12 months, US$12,500; or (b) if the average vanadium pentoxide price per pound as quoted on Metal Bulletin or another reliable and reputable industry source as agreed by the parties, remains equal to or above US$7.00/lb during the preceding 12 months, US$2,000 x average vanadium pentoxide price per pound up to a maximum annual advance royalty payment of US$28,000. Further, the Company will pay to the Former Louie Hill Lessors a production royalty of 2.5% of the net smelter returns of vanadium produced from the royalty area and sold. Prophecy has an option to purchase 1.5% of the 2.5% of the production royalty from the Former Louie Hill Lessors for US$1,000,000.

On February 15, 2018, the Company acquired 105 unpatented lode mining claims located adjacent to its Gibellini Project through the acquisition of 1104002 B.C. Ltd. and its Nevada subsidiary VC Exploration (US) Inc. ("**VC Exploration**") by paying a total of $335,661 in cash and issuing 500,000 Share purchase warrants (valued at $89,944) to arm's-length, private parties. Each warrant entitles the holder upon exercise, to acquire one Share of the Company at a price of $0.50 per Share until February 15, 2021. The acquisition of the VC Exploration has been accounted for as an asset acquisition as their activities at the time of the acquisition consisted of mineral claims only.

Prophecy Group

During 2017 and 2018, the Company expanded the land position at the Gibellini Project, by staking a total of 209 new claims immediately adjacent to the Gibellini Project covering 4091 acres.

Impairment of Pulacayo Paca 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.

During the year ended December 31, 2018, the Company determined there were several indicators of potential impairment of the carrying value of the Pulacayo Paca property. The indicators of potential impairment were as follows:

(i) change in the Company's primary focus to the Gibellini Project;

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

(iii) no positive decision from the Bolivian Government to grant mining production contract to develop the project.

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

Impairment of Pulacayo Paca Property, Bolivia (cont'd...)

As result, in accordance with *IFRS 6, Exploration for and Evaluation of Mineral Resources* and *IAS 36, Impairment of Assets*, at December 31, 2018, the Company assessed the recoverable amount of the Pulacayo Paca property exploration costs and determined that its value in use is $nil. As at December 31, 2018, the recoverable amount of $nil resulted in an impairment charge of $13,708,200 against the value of the deferred exploration costs, which was reflected on the consolidated statement of operations.

Previously Impaired Properties

Chandgana Properties, Mongolia

Chandgana Tal

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

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

Khavtgai Uul Property, Mongolia

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

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:

(iv) decreased coal demand from local customers;

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

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

(vii) 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. As at and for the year ended December 31, 2018, there were no changes to the impairment assessment and accordingly all costs incurred during the year ended December 31, 2018, were written off.

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

(Expressed in Canadian Dollars)

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

Previously Impaired Properties (cont'd...)

Titan Property, Ontario, Canada (cont'd...)

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, 2018, 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 during the year ended December 31, 2017.

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 220,000 common shares of Lorraine (valued at $0.80/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.

14. 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, 2018	December 31, 2017	December 31, 2016
Trade accounts payable	$ 1,536,786	$ 1,644,995	$ 2,224,134
Accrued liabilities	100,000	250,988	433,884
	$ 1,636,786	$ 1,895,983	$ 2,658,018

15. 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

15. CREDIT FACILITY (cont'd…)

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 7,500,000 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 $0.40 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 3,000,000 Shares 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.

16. 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.

Management used a risk-free interest rate of 1.98% (2017 – 2.23%, 2016 – 1.06%) and a risk premium of 7% (2017 – 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 6 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.

(Expressed in Canadian Dollars)

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

	December 31, 2018	December 31, 2017	December 31, 2016
Balance, beginning of year	$244,323	$242,374	$208,993
Accretion	20,916	1,976	33,354
Balance, end of year	$265,239	$244,323	$242,347

17. 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:

		2018		2017		2016
Earnings (loss) for the year		(18,184,468)	$	(18,592,981)	$	(2,007,305)
Expected income tax (recovery)	$	(4,910,000)	$	(4,834,000)	$	(522,000)
Change in statutory, foreign tax, foreign exchange rates and other		389,000		1,885,000		(1,575,000)
Permanent Difference		3,833,000		450,000		1,869,000
Share issue cost		(151,000)		(25,000)		(87,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses		12,000		(118,000)		(34,000)
Change in unrecognized deductible temporary differences		827,000		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:

		2018	Expiry dates		**2017**	Expiry dates		**2016**	Expiry dates
Share issue costs	**$**	**644,000**	2039 to 2042	**$**	**285,000**	2038 to 2042	$	399,000	2037 to 2041
Allowable Capital losses	**$**	**6,607,000**	No expiry	**$**	**6,549,000**	No expiry	$	6,549,000	No expiry
Non-Capital losses	**$**	**24,109,000**	2030 to 2038	**$**	**21,402,000**	2030 to 2037	$	16,658,000	2030 to 2036
Property and equipment	**$**	**1,138,000**	No expiry	**$**	**1,146,000**	No expiry	$	1,067,000	No expiry
Exploration and evaluation assets	**$**	**19,625,000**	No expiry	**$**	**19,715,000**	No expiry	$	5,016,000	No expiry
Investment tax credits	**$**	**23,000**	2029	**$**	**23,000**	2029	$	23,000	2029
Asset retirement obligation	**$**	**265,000**	No expiry	**$**	**244,000**	No expiry	$	209,000	No expiry

18. 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.

On June 7, 2016, the Company completed a consolidation of its issued and outstanding common shares on the basis of 100 old Shares, options and warrants to one (1) new Share, option and warrant (the "**Share Consolidation**").

On August 8, 2018, the Company completed a common share split on the basis of ten (10) new Shares, options and warrants for every one (1) old Share, option and warrant outstanding (the "**Split**"). All information with respect to the number of Shares and issuance prices for the time periods prior to the Split was restated to reflect the Share Consolidation and the Split.

(b) Equity issuances

<u>During the year ended December 31, 2018</u>

Private Placements

On August 14, 2018, the Company closed its non-brokered private placement for gross proceeds of $1,137,197 through the issuance of 4,061,417 units of Prophecy. Each unit is comprised of one Share and one Share purchase warrant. Each warrant entitles the holder to purchase one additional Share of the Company at an exercise price of $0.40 for a period of three years from the closing of the first tranche of the placement.

Short Form Prospectus Offering

On November 22, 2018, the Company closed its bought deal financing for gross proceeds of $5,520,000. The Company entered into an agreement with BMO Nesbitt Burns Inc. ("**BMO**"), under which BMO agreed to buy on a bought deal basis 12,000,000 Shares, at a price of $0.46 per share. The shares were offered by way of a short form prospectus in each of the provinces and territories of Canada, except Québec. The Company incurred $560,576 in cash Share issuance costs.

Exercise of Stock Options and Warrants

During the year ended December 31, 2018, the Company issued 87,500 and 3,445,420 Shares on the exercise of stock options and warrants respectively for total proceeds of $1,362,317.

Share Bonus to Personnel

On October 10, 2018, the Company issued 1,000,000 Shares with a fair value of $0.35 per Share as a bonus to its new CEO included in Salaries and benefits.

<u>During the year ended December 31, 2017</u>

Private Placements

On April 12, 2017, the Company closed a non-brokered private placement involving the issuance of 1,032,500 units (at a price of $0.40 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 $0.50 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…)

On September 20, 2017, the Company closed the first tranche of a non-brokered private placement involving the issuance of 6,679,680 units and 6,290,000 special warrants (the "**Special Warrants**") at a price of $0.35 per each unit and Special Warrant and raised gross proceeds of $4,539,390. Each unit consisted of one Share and one half of one Share purchase warrant. Each first tranche warrant entitles the holder to purchase one additional Share at an exercise price of $0.40 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. In connection with the first tranche of the placement, the Company paid finder's fees of $30,606 and issued 870,130 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 1,165,780 units and 4,143,710 Special Warrants at a price of $0.35 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 $0.40 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 93,270 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 11,397,110 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.

The finder's Special Warrants have been valued at $0.35 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 January 12, 2017, the Company issued 3,000,000 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 596,590 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 $0.50 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 422,540 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 $0.40 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.

18. SHARE CAPITAL (cont'd…)

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 200,000 Shares at a value of $0.48 per Share.

Share Bonus to Personnel

On January 12, 2017, the Company issued 390,000 Shares with a fair value of $0.49 per Share as a bonus to its directors, officers and consultants.

Share Compensation for Services

On December 18, 2017, the Company issued 984,200 units with a fair value of $0.35 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 $0.40 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 126,870 and 150,000 Shares on the exercise of stock options and warrants respectively for total proceeds of $110,685.

<u>During the year ended December 31, 2016</u>

Private Placements

On January 25, 2016, the Company closed a non-brokered private placement involving the issuance of 800,000 units at a price of $0.25 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 $0.40 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 56,000 finder's Share purchase warrants which are exercisable at a price of $0.40 for a period of two years from the closing of the 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 involving the issuance of 2,027,350 units at a price of $0.38 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 $0.44 per Share for a period of five years from the date of issuance. The Company paid in cash, total finder's fees of $3,464 in connection with the placement. 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 $0.88 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.

(Expressed in Canadian Dollars)

18. SHARE CAPITAL (cont'd…)

Debt Settlements

On June 6, 2016, the Company issued 7,500,000 units at a value of $0.20 to Mr. John Lee, in satisfaction of $1,500,000 of indebtedness owed by the Company to Linx under the Credit Facility (Note 15). 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 $0.40 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 3,474,430 Shares to those directors, officers, employees and consultants as follows:

Settlement Date	Number of Shares	Value
January 13, 2016	613,850	$0.30
January 25, 2016	132,064	$0.25
February 29, 2016	736,453	$0.20
March 4, 2016	30,000	$0.20
April 18, 2016	265,110	$0.15
June 2, 2016	1,228,210	$0.20
November 16, 2016	468,750	$0.32
	3,474,437	

(c) Share-based compensation plan

The Company has a 20% fixed equity-based compensation plan in place (the **"Amended 2016 Plan**") dated June 13, 2017, under which the Company may grant stock options, bonus shares or stock appreciation rights to acquire the equivalent of a maximum of 10,778,490 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 Amended 2016 Plan will be issued under, and governed by, the terms and conditions of the Amended 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, 2018, the Company granted 4,040,000 incentive stock options to its directors, officers, employees and consultants. The options are exercisable at an exercise prices ranging from $0.22 to $0.65 per Share and expiry dates ranging from February 20, 2023 to November 14, 2023 and vest at 12.5% per quarter for the first two years following the date of grant.

During the year ended December 31, 2017, the Company granted 4,080,000 incentive stock options to its directors, officers, employees and consultants. The options are exercisable at an exercise prices ranging from $0.33 to $0.49 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 1,600,000 incentive stock options to its directors, officers, employees and consultants. The options are exercisable at a price of $0.20 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.

(Expressed in Canadian Dollars)

18. SHARE CAPITAL (cont'd…)

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

The following is a summary of the changes in Prophecy's stock options from December 31, 2015 to December 31, 2018:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2015	3,437,420	$1.00
Granted	1,600,000	$0.20
Expired	(10,000)	$2.80
Cancelled	(379,280)	$2.19
Forfeited	(40,000)	$0.61
Outstanding, December 31, 2016	4,608,140	$0.64
Granted	4,080,000	$0.38
Expired	(312,930)	$2.08
Exercised	(126,870)	$0.40
Outstanding, December 31, 2017	8,248,340	$0.46
Granted	4,040,000	$0.31
Expired	(349,720)	$1.21
Cancelled	(1,815,120)	$0.45
Forfeited	(445,000)	$1.04
Exercised	(87,500)	$0.28
Outstanding, December 31, 2018	9,591,000	$0.34

As of December 31, 2018, the following Prophecy share purchase options were outstanding:

Exercise	Expiry	Options Outstanding		Exercisable	Unvested
Price	Date	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2018
$0.65	November 14, 2023	200,000	-	-	200,000
$0.33	October 17, 2023	940,000	-	-	940,000
$0.26	October 10, 2023	550,000	-	-	550,000
$0.22	July 23, 2023	400,000	-	50,000	350,000
$0.31	May 1, 2023	200,000	-	50,000	150,000
$0.28	April 6, 2023	1,225,000	-	306,250	918,750
$0.31	February 20, 2023	200,000	-	75,000	125,000
$0.48	November 6, 2022	-	50,000	-	-
$0.35	September 1, 2022	1,250,000	1,670,000	781,250	468,750
$0.33	June 12, 2022	1,225,000	1,450,000	918,750	306,250
$0.49	January 12, 2022	820,000	910,000	717,500	102,500
$0.20	June 2, 2021	1,420,000	1,557,500	1,420,000	-
$0.50	June 22, 2020	311,000	328,000	311,000	-
$0.50	April 7, 2020	535,000	820,620	535,000	-
$0.65	May 1, 2019	315,000	547,500	315,000	-
$1.00	February 3, 2019	-	50,000	-	-
$1.05	January 27, 2019	-	515,000	-	-
$1.20	August 16, 2018	-	324,720	-	-
$1.30	July 22, 2018	-	25,000	-	-
		9,591,000	8,248,340	5,479,750	4,111,250

(Expressed in Canadian Dollars)

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

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

Share-based payment expenses resulting from stock options are amortized over the corresponding vesting periods. During the year ended December 31, 2018, 2017 and 2016, the share-based payment expenses were calculated using the following weighted average assumptions:

	Year ended December 31, 2018	2017	2016
Risk-free interest rate	1.77%	1.25%	1.20%
Expected life of options in years	4.4	4.4	4.9
Expected volatility	135.71%	133.55%	131.45%
Expected dividend yield	Nil	Nil	Nil
Expected forfeiture rate	12%	12%	12%
Weighted average fair value of options granted during the year	$ 0.32	$ 0.32	$ 0.23

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.

For the year ended December 31, 2018, 2017, and 2016, share-based payments were recorded as follows:

	Year Ended December 31, 2018	2017	2016
Consolidated Statement of Operations			
Share based payments	553,430	599,117	197,889
	$ 553,430	$ 599,117	$ 197,889
Consolidated Statement of Financial Position			
Chandgana Tal and power plant application	-	69,515	21,429
Gibellini exploration	87,186	-	-
Pulacayo exploration	117,871	158,464	46,934
	205,057	227,979	68,363
Total share-based payments	$ 758,487	$ 827,096	$ 266,252

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(Expressed in Canadian Dollars)

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

(d) Share purchase warrants

The following is a summary of the changes in Prophecy's share purchase warrants from December 31, 2015 to December 31, 2018:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2015	4,365,040	$0.60
Issued	9,369,670	$0.40
Expired	(254,110)	$1.00
Outstanding, December 31, 2016	13,480,600	$0.47
Issued	12,453,680	$0.41
Exercised	(150,000)	$0.40
Expired	(26,250)	$0.70
Outstanding, December 31, 2017	25,758,030	$0.44
Issued	5,061,417	$0.40
Exercised	(3,445,420)	$0.39
Expired	(56,000)	$0.40
Outstanding, December 31, 2018	27,318,027	$0.44

On February 15, 2018, the Company issued 500,000 Share purchase warrants as a part of consideration for mining claims acquisition (Note 13). The fair value of $89,944 of the issued warrants determined using the Black-Scholes option pricing model using the following assumptions: (1) a risk-free interest rate of 1.9%; (2) warrant expected life of three years; (3) expected volatility of 116%, and (4) dividend yield of nil.

On April 23, 2018, the Company issued 500,000 Share purchase warrants as a part of consideration for services related to the Gibellini Project. The fair value of $92,000 of the issued warrants determined using the Black-Scholes option pricing model using the following assumptions: (1) a risk-free interest rate of 2%; (2) warrant expected life of three years; (3) expected volatility of 97.4%, and (4) dividend yield of nil.

As of December 31, 2018, the following Prophecy share purchase warrants were outstanding:

Exercise Price	Expiry Date	Number of Warrants	
		At December 31, 2018	At December 31, 2017
$0.50	June 13, 2022	596,590	596,590
$0.50	April 12, 2022	1,032,500	1,032,500
$0.40	January 13, 2022	499,990	499,990
$0.44	August 29, 2021	1,013,670	1,013,670
$0.40	August 13, 2021	198,237	-
$0.40	July 6, 2021	3,863,180	-
$0.40	June 2, 2021	7,500,000	7,500,000
$0.30	April 23, 2021	100,000	-
$0.50	February 15, 2021	500,000	-
$0.40	January 25, 2021	650,000	650,000
$0.40	December 18, 2020	211,250	703,350
$0.70	November 13, 2020	625,000	625,000
$0.40	October 16, 2020	2,533,020	2,701,360
$0.70	September 30, 2020	1,112,000	1,112,000
$0.40	September 20, 2020	4,534,920	6,919,900
$0.60	June 24, 2020	1,147,670	1,147,680
$0.50	May 22, 2020	1,200,000	1,200,000
$0.40	January 25,2018	-	56,000
		27,318,027	25,758,030

(Expressed in Canadian Dollars)

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, 2018. Neither Prophecy nor its subsidiaries are subject to externally imposed capital requirements.

20. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

Fair Value Measurements

Fair value hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or 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. Level 3 inputs are unobservable (supported by little or no market activity). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. Prophecy utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value as follows:

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

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

	Level 1	Level 2	Level 3	Total
Financial assets				
Cash, December 31, 2018	$ 5,304,097	$ -	$ -	$ 5,304,097
Cash, December 31, 2017	$ 4,100,608	$ -	$ -	$ 4,100,608
Cash, December 31, 2016	$ 21,648	$ -	$ -	$ 21,648

(Expressed in Canadian Dollars)

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

Categories of financial instruments

The Company considers that the carrying amount of all its financial assets and financial liabilities measured 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, 2018.

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

		December 31, 2018		December 31, 2017		December 31, 2016
Fair value through profit or loss						
Cash	$	5,304,097	$	4,100,608	$	21,648
Fair value though other comprehensive income						
Marketable securities	$	-	$	205,600	$	176,000
Amortized cost						
Receivables	$	36,399	$	34,653	$	91,565
Restricted cash equivalents	$	34,500	$	34,500	$	-
	$	5,374,996	$	4,375,361	$	289,213
Amortized cost						
Accounts payable and accrued liabilities	$	1,636,786	$	1,895,983	$	2,658,018
Credit facility	$	-	$	-	$	1,071,560
	$	1,636,786	$	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, 2018, the Company had a cash balance of $5,304,097 (December 31, 2017 – $4,100,608, December 31, 2016 – $21,648). As at December 31, 2018 the Company had accounts payable and accrued liabilities of $1,636,786 (December 31, 2017 - $1,895,983, December 31, 2016 - $2,658,018), which have contractual maturities of 90 days or less.

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
Accounts payable and accrued liabilities						
As at December 31, 2018	$	1,636,786	$	-	$	1,636,786
As at December 31, 2017	$	1,895,983	$	-	$	1,895,983
As at December 31, 2016	$	2,658,018	$	-	$	2,658,018

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

(b) Credit risk

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

(c) Market 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, 2018. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

(ii) Foreign currency risk

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

The Company has exploration and development projects in Mongolia and 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, 2018, with other variables unchanged, a 10% (December 31, 2017 – 10%, December 31, 2016 – 10%) strengthening (weakening) of the Canadian dollar against the Mongolian tugrik would impact net loss with other variables unchanged by $44,000. A 10% strengthening (weakening) of the Canadian dollar against the Bolivian boliviano would impact net loss with other variables unchanged by $811,000. A 10% strengthening (weakening) of the US dollar against the Canadian dollar would impact net loss with other variables unchanged by $60,000. The Company currently does not use any foreign exchange contracts to hedge this currency risk.

(iii) Commodity and equity price risk

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

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

(Expressed in Canadian Dollars)

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.

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

				Year Ended December 31,		
Related parties		2018		2017		2016
Directors and officers	$	1,265,152	$	307,425	$	280,160
Linx Partners Ltd.		401,044		363,781		210,000
MaKevCo Consulting Inc.		21,200		23,600		22,480
Sophir Asia Ltd.		19,100		19,700		20,380
	$	1,706,496	$	714,506	$	533,020

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

				Year Ended December 31,		
Related parties		2018		2017		2016
Consulting and management fees	$	268,456	$	247,525	$	153,000
Directors' fees		70,378		60,600		63,240
Mineral properties		631,610		201,875		117,000
Salaries		736,052		204,506		199,780
	$	1,706,496	$	714,506	$	533,020

As at December 31, 2018, amounts due to related parties were $4,634 (December 31, 2017 - $160,503), (December 31, 2016 – $366,269).

Transactions between the Company and its subsidiaries are eliminated on consolidation; therefore, they are not disclosed as related party transactions.

During the years ended December 31, 2012 and 2013, the Company shared administrative assistance, office space, and management with Nickel Creek Platinum Corp. ("**Nickel**") pursuant to a Service Agreement dated January 1, 2012, consisting of fixed monthly fees of $40,000. During the year ended December 31, 2018, the Company received $50,000 as a debt settlement in satisfaction of an amount owing from Nickel for services rendered to Nickel and expenses incurred on behalf of Nickel, which was reflected on the consolidated statement of operations.

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.

				Year Ended December 31,		
Key Management Personnel		2018		2017		2016
Salaries and short term benefits	$	775,064	$	204,506	$	204,079
Share-based payments		621,339		596,232		181,990
	$	1,396,403	$	800,738	$	386,069

(Expressed in Canadian Dollars)

24. SUPPLEMENTAL CASH FLOW INFORMATION

	Year ended December, 31		
	2018	2017	2016
Supplementary information			
Interest paid	$ -	$ 21,066	$ 11,253
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	$ -
Bonus shares	$ -	$ 190,320	$ -
Shares issued to settle debt	$ -	$ 386,527	$ 804,648
Capitalized interest	$ -	$ -	$ 11,253
Warrants issued for mineral property	$ 181,944	$ -	$ -
Depreciation included in mineral property	$ 27,387	$ 216,653	$ 278,376
Property and equipment expenditures included in accounts payable	$ 489,890	$ 580,634	$ 1,097,092
Fair value loss/gain on marketable securities	$ 12,160	$ 12,160	$ -
Mineral property expenditures included in accounts payable	$ 1,067,747	$ 753,248	$ 962,822
Share-based payments capitalized in mineral properties	$ 205,057	$ 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	$ 15,350	$ 14,567	$ -
Reclassification of contributed surplus on exercise of warrants	$ 132,453	$ 10,650	$ -

25. COMMITMENTS

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

	2019	2020	2021	2022	Total
Office Lease Obligations	$ 44,953	$ 45,489	$ 24,574	$ 9,540	$ 124,556
	$ 44,953	$ 45,489	$ 24,574	$ 9,540	$ 124,556

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 ($8,121,918) 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

26. CONTINGENCIES (cont'd...)

ASC tax claim (cont'd...)

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 $8,121,918 (2017 - 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, 2018, the impaired value of $Nil for the VAT receivable remains unchanged.

27. EVENTS AFTER THE REPORTING DATE

The following events occurred subsequent to December 31, 2018:

- On February 19, 2019, the Company announced that Gerald Panneton resigned as the President & Chief Executive Officer, and a director of the Company. John Lee, Chairman and former Chief Executive Officer of the Company, was appointed to serve as Interim President & Chief Executive Officer. Also, in February 2019, the Company announced resignation of Louis Dionne as a director of the Company.

- On March 7, 2019, the Company announced the appointment of Michael Doolin as the Company's Chief Operating Officer and interim Chief Executive Officer, effective April 1, 2019. In this role, Mr. Doolin will manage Prophecy's worldwide operations while collaborating with Prophecy's executive chairman John Lee on investor marketing, fundraising and the Company's overall strategic direction.