Prophecy Development Corp.

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

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

March 29, 2018

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Prophecy Development Corp.

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Professional Accountants

March 29, 2018

A member of Nexia International

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

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

Approved on behalf of the Board:

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

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

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

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

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

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

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

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

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

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

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

1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

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

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

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

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

2. BASIS OF PRESENTATION

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

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

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

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

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

3. BASIS OF CONSOLIDATION

(a) Subsidiaries

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

(Expressed in Canadian Dollars)

3. BASIS OF CONSOLIDATION (cont'd…)

(a) Subsidiaries (cont'd…)

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

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

(1) Incorporated on November 8, 2017.

4. CHANGES IN ACCOUNTING POLICIES

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

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

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

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

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

5. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

5.1 Significant Judgments

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

(a) Functional currency determination

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

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

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

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

(c) Impairment assessment of deferred exploration interests

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

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

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

5.1 Significant Judgments (cont'd...)

(d) Deferred Tax Liability

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

5.2 Estimates and Assumptions

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

(a) Mineral reserves

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

(b) Depreciation

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

(c) Impairment

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

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

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

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

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

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

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

(e) Provision for closure and reclamation

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

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

(f) Share-based payments

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

(g) Contingencies

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

(h) Fair value measurement

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

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

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

(h) Fair value measurement

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

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Restricted cash equivalents

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

(b) Mineral properties

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

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

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

(i) Title to mineral properties

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

(ii) Realization of mineral property assets

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

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

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

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

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

(iii) Environmental

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

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

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

(c) Equipment

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

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

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

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

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

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

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

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

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

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

(e) Borrowing costs

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

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

(f) Foreign currency translation

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

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

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

(g) Revenue recognition

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

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

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

(h) Unit offerings

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

(i) Share-based payments

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

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

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

(j) Loss per share

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

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

(k) Income taxes

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

(l) Provision for closure and reclamation

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

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

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

(m) Financial instruments

(i) Financial assets

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

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

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

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

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

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

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

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

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

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

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

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

(ii) Financial liabilities

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

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

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

(Expressed in Canadian Dollars)

7. SEGMENTED INFORMATION

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

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

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

8. CASH AND RESTRICTED CASH EQUIVALENTS

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

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

Restricted Cash Equivalents

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

9. RECEIVABLES

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

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

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

(Expressed in Canadian Dollars)

10. PREPAID EXPENSES

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

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

11. AVAILABLE-FOR-SALE INVESTMENTS

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

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

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

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

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

(Expressed in Canadian Dollars)

11. PROPERTY AND EQUIPMENT

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

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

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

(Expressed in Canadian Dollars)

12. MINERAL PROPERTIES

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

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

Chandgana Properties, Mongolia

Chandgana Tal

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

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

Khavtgai Uul Property, Mongolia

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

Impairment of Chandgana Properties

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

(i) decreased coal demand from local customers;

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

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

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

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

Pulacayo Property, Bolivia

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

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

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

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

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

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

Gibellini Project

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

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

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

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

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

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

Louie Hill Project

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

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

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

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

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

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

(Expressed in Canadian Dollars)

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

Previously Impaired Properties

Titan Property, Ontario, Canada

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

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

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

Okeover Property, British Columbia, Canada

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

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

On September 22, 2016, the Company sold its 60% interest in the Okeover property to Lorraine Copper Corp. ("**Lorraine**"). Under the terms of the agreement, Lorraine issued 2,200,000 common shares of Lorraine (valued at $0.08/share) to Prophecy and assumed Prophecy's $19,079 payment obligation to Eastfield Resources Ltd. under such parties' existing joint venture agreement. Prophecy will additionally be entitled to receive 30% of any payments or proceeds resulting from third party agreements related to the project entered into within five years, which payments shall be limited to a maximum amount payable to Prophecy, of $1,000,000. Upon completion of the sale, the Company recorded a mineral property recovery of $195,079 in the statement of operations and comprehensive loss.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

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

14. CREDIT FACILITY

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

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

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

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

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

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

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

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

15. PROVISION FOR CLOSURE AND RECLAMATION

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

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

(Expressed in Canadian Dollars)

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

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

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

16. TAX PROVISION

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

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

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

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

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

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

17. SHARE CAPITAL

(a) Authorized

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

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

(b) Equity issuances

Private Placements

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

On August 29, 2016, the Company closed a non-brokered private placement (the "**Second Placement**") involving the issuance of 202,735 units at a price of $3.80 per unit. Each unit consists of one Share and one-half share purchase warrant. Each share purchase warrant entitles the holder to acquire an additional Share at a price of $4.40 per Share for a period of five years from the date of issuance. The warrants will be subject to the following acceleration conditions:

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

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

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

On January 13, 2017, the Company closed a non-brokered private placement involving the issuance of 49,999 units (at a price of $3.00 per unit) for gross proceeds of $149,997. Each unit consists of one Share and one share purchase warrant. Each Share purchase warrant entitles the holder to acquire an additional Share at a price of $4.00 per Share for a period of five years from the date of issuance. The Company paid in cash, finder's fees totaling $7,997.

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

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

(b) Equity issuances (cont'd…)

Private Placements *(cont'd…)*

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

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

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

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

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

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

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

Debt Settlements

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

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

(Expressed in Canadian Dollars)

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

(b) Equity issuances (cont'd…)

Debt Settlements (cont'd…)

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

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

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

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

Shares Issued for Mineral Properties

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

Share Bonus to Personnel

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

(Expressed in Canadian Dollars)

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

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

Share Compensation for Services

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

Exercise of Stock Options and Warrants

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

(c) Share-based compensation plan

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

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

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

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

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

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

(Expressed in Canadian Dollars)

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

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

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

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

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

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

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

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

(Expressed in Canadian Dollars)

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

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

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

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

(d) Share purchase warrants

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

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

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(Expressed in Canadian Dollars)

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

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

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

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

(1) Expired subsequent to year end unexercised.

19. CAPITAL RISK MANAGEMENT

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

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

20. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

Fair Value

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

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

(Expressed in Canadian Dollars)

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

Fair Value (cont'd…)

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

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

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

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

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

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

Categories of financial instruments

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

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

(Expressed in Canadian Dollars)

21. FINANCIAL RISK MANAGEMENT DISCLOSURES

(a) Liquidity risk

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

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

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

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

(b) Credit risk

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

(c) Market risk

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

(i) Interest rate risk

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

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

(c) Market risk (cont'd…)

(ii) Foreign currency risk

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

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

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

(iii) Commodity and equity price risk

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

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

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

22. RELATED PARTY DISCLOSURES

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

- Linx Partners Ltd., a private company controlled by John Lee, Director, CEO and Executive Chairman of Prophecy, provides management and consulting services to the Company.
- MaKevCo Consulting Inc., a private company 50% owned by Greg Hall, Director of Prophecy, provides consulting services to the Company.
- Sophir Asia Ltd., a private company controlled by Masa Igata, Director of Prophecy, provides consulting services to the Company.

(Expressed in Canadian Dollars)

22. RELATED PARTY DISCLOSURES (cont'd…)

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

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

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

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

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

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

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

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

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

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

(Expressed in Canadian Dollars)

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	2017	2016
Salaries and short term benefits	$ 204,506	$ 204,079
Share-based payments	596,232	181,990
	$ 800,738	$ 386,069

24. SUPPLEMENTAL CASH FLOW INFORMATION

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

25. COMMITMENTS

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

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

26. CONTINGENCIES

ASC tax claim

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

Company's wholly-owned subsidiary, owed approximately Bs42,000,000 ($7,541,016) in taxes, interest and penalties relating to a historical tax liability in an amount originally assessed at approximately $760,000 in 2004, prior to Apogee acquiring the subsidiary in 2011. Apogee disputed the assessment and disclosed to the Company that it believed the notice was improperly issued. The Company continued to dispute the assessment and hired local legal counsel to pursue an appeal of the tax authority's assessment on both substantive and procedural grounds. On May 26, 2015, the Company received a positive Resolution issued by the Bolivian Constitutional Court that among other things, declared null and void the previous Resolution of the Bolivian Supreme Court issued in 2011 (that imposed the tax liability on ASC Bolivia LDC Sucursal Bolivia) and sent the matter back to the Supreme Court to consider and issue a new Resolution. The Company plans to continue to vigorously defend its position and make submissions to the Supreme Court during the new hearing. Based on these developments, the tax claim amount of $7,541,016 (2016 - $7,060,690) was classified as non-current liabilities.

Red Hill tax claim

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

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

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

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

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

26. EVENTS AFTER THE REPORTING DATE

The following events occurred subsequent to December 31, 2017:

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

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