Prophecy Development Corp.

Management's Discussion and Analysis of Financial Condition and Results of Operations
For the six months ended June 30, 2017

(Expressed in Canadian Dollars, except where indicated)

TABLE OF CONTENTS

1. INTRODUCTION

This Management's Discussion and Analysis ("**MD&A**") of Prophecy Development Corp. and its subsidiaries ("**Prophecy**", or the "**Company**") was prepared by management as at August 10, 2017 and was reviewed, approved, and authorized for issue by the Company's Audit Committee. The following discussion of performance, financial condition and future prospects should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company and notes thereto for the three and six months ended June 30, 2017 prepared in accordance with International Financial Reporting Standards ("**IFRS**"), applicable to the preparation of interim financial statements, including International Accounting Standard ("**IAS**") 34 Interim Financial Reporting, as issued by the International Accounting Standards Board. This MD&A should be read also in conjunction with both the audited annual consolidated financial statements for the year ended December 31, 2016 (prepared in accordance with IFRS) ("**Annual Financial Statements**") and the related annual MD&A ("**Annual MD&A**") dated March 29, 2017, and the 2016 Annual Information Form ("**AIF**"), all of which are available under the Company's SEDAR profile at www.sedar.com.

The information provided herein supplements but does not form part of the financial statements. Financial information is expressed in Canadian dollars, unless stated otherwise. Readers are cautioned that this MD&A contains "forward-looking statements" and that actual events may vary from management's expectations. Readers are encouraged to read the cautionary note contained herein regarding such forward-looking statements. Information on risks associated with investing in the Company's securities as well as information about mineral resources and reserves under National Instrument 43-101 – Standards of Disclosure for Mineral Projects ("**NI 43-101**") are contained in the Company's most recently filed AIF which is available on the Company's website at www.prophecydev.com or on SEDAR at www.sedar.com.

Description of Business

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

The principal business of the Company is the acquisition, exploration and development of mineral 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. Also, the Company 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 vanadium project (the "**Gibellini Project**") and Louie Hill vanadium project (the "**Louie Hill Project**") both, in the United States.

Recently, the Company has actively pursued exposure and leverage to rising vanadium prices by defining and adding attributable vanadium resources in the ground in politically safe jurisdictions, and to build the first vanadium mine in North America by steadily advancing mine permitting, project financing and construction. Vanadium resources are part of a portfolio of projects the Company is building that through their diversity of locations, commodities and products reduce exposure to adverse regulation and political climates and changes in specific commodity prices. A diverse portfolio of projects from which a variety of minerals are mined and sold provides multiple opportunities to maintain revenue and is one facet of Prophecy's efforts to attain its ultimate objective of stable positive cash flow.

General Corporate Information:

At June 30, 2017 and August 10, 2017, Prophecy had: (i) 5,389,248 Shares issued and outstanding; (ii) 678,326 stock options for Shares outstanding, and (iii) 1,560,968 warrants for Shares outstanding.

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

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

Head Office and Registered Office
Suite 1610, 409 Granville Street
Vancouver, BC, Canada V6C 1T2

Investor & Media requests and queries: Bekzod Kasimov Tel: +1-604-569-3661
Tel: +1-888-513-6286 Email:ir@prophecydev.com

Directors and Officers

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

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

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

Qualified Persons

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

2. CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

3. SECOND QUARTER HIGHLIGHTS AND SIGNIFICANT EVENTS

- On April 12, 2017, the Company closed an oversubscribed non-brokered private placement involving the issuance of 103,250 units at a price of $4.00 per unit as previously announced on March 14, 2017 for gross proceeds of $413,000. Each unit consists of one Share and one Share purchase warrant. Each warrant entitles the holder to acquire an additional Share at a price of $5.00 per Share for a period of five years from the date of issuance.

- The Annual General Meeting of the Company was held on June 13, 2017. There are no changes to the Company's Board of Directors or officers; all proposed resolutions were approved by the Company's shareholders including amendments to the Company's share-based compensation plan to increase the number of shares available for issuance under the plan.

- On June 13, 2017, the Company issued 59,659 units at a price of $4.00 per unit, to certain of its directors and officers to settle various debts owing to them pursuant to the terms of debt settlement agreements entered into with those directors and officers. Each unit consists of one Share and one Share purchase warrant. Each warrant entitles the holder to acquire an additional Share at a value of $5.00 per Share for a period of five years from the date of issuance.

- On June 13, 2017, the Company granted in aggregate, 145,000 incentive stock options to various directors, officers and consultants of the Company. The options are exercisable at a price of $3.30 per Share for a term of five years expiring on June 12, 2022 and vest at 12.5% per quarter for the first two years following the date of grant.

- On June 23, 2017, the Company acquired through lease, the Gibellini Project in Nevada, USA, by paying USD 35,000 in cash to arm's-length private parties (together, the "**Gibellini Lessors**") with the intent to carry-out mining operations there. Under the mineral lease agreement, Prophecy will lease the mining claims which constitute the Gibellini Project by paying to the Gibellini Lessors, annual advance royalty payments which will be tied, based on an agreed formula (not to exceed USD 120,000 per year), to the average vanadium pentoxide price of the prior year.

  Upon commencement of production, Prophecy will maintain its acquisition through lease of the Gibellini Project mining claims by paying to the Gibellini 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").

  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.

Subsequent to period end

- On July 13, 2017, the Company acquired through lease, the Louie Hill Project in Nevada, USA, by paying USD 10,000 in cash to an arm's-length, private party (the "**Louie Hill Lessor**") with the intent to carry-out mining operations there. Under the mineral lease agreement, Prophecy will lease the mining claims which constitute the Louie Hill Project by paying to the Louie Hill Lessor, annual 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.

  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").

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

- On July 21, 2017, the Company announced that it has entered into a binding letter agreement (the "**Letter Agreement**") with Fairmont Resources Inc. ("**Fairmont**") to acquire the fully-permitted Buttercup Iron-Titanium-Vanadium project in Quebec, Canada (the "**Buttercup Project**").

  Under the terms of the Letter Agreement, Prophecy will acquire the claims and a lease which constitute the Buttercup Project by paying to Fairmont:

  (a) At closing, the equivalent of $1,000,000, up to half of which (i.e. $500,000), may at Prophecy's sole discretion, be paid in Prophecy Common shares, calculated based on the 5-day volume-weighted average trading price of such shares as of the closing date; and

  (b) On the 1-year anniversary date of the closing date, a further $500,000, up to half of which (i.e. $250,000), may at Prophecy's sole discretion, be paid in Prophecy Common shares, calculated based on the 5-day volume-weighted average price of such shares as of the 1-year anniversary date of the closing date.

  The proposed transaction will be subject to Prophecy being satisfied with the results of its due diligence inquiries into the Buttercup Project. The parties have agreed to replace the Letter Agreement with a more comprehensive definitive agreement by November 1, 2017, subject to such due diligence results and other conditions being satisfied.

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

(Expressed in Canadian Dollars, except where indicated)

4. PROPERTY SUMMARY

Vanadium Projects

Titan Project

In February 2017, Prophecy consolidated its ownership over the Titan Project deposit in Ontario, Canada by acquiring the remaining 20% title interest held by Randsburg International Gold Corp. in the patented claims.

The Titan Project is located in eastern Ontario, approximately 120km east-northeast of Sudbury, and in close proximity to necessary infrastructure such as 8km from a railway station, 18km from a highway, 2.5km from a major transmission line, and 25km from a natural gas pipeline.

A Technical Report prepared by Neil Prenn, P. Eng of Mine Development Associates dated February 26, 2010 (available at www.sedar.com and www.prophecydev.com) disclosed in compliance with NI 43-101 an inferred resource for the Titan Project of:

Resource Class	Tonnes (t)*	Fe_2O_3 (%)**	V (%)**	TiO_2 (%)**
Inferred	49.0 million	48.09	0.43%	14.82

The Company estimates vanadium content at 259 million lbs and titanium dioxide content at 7,259 million kgs.
* *Based on resource estimated at cutoff grade of 40% Fe_2O_3.*
** *100% metals recovery is assumed.*

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

Since then, there has been a few maturing, patented hydrometallurgical technologies developed to extract titanium dioxide, iron, and vanadium from titaniferous vanadiferous deposits.

Prophecy sent samples from the Titan Project to two independent laboratories in Canada for testing. Each batch of samples will undergo bench-scale testing to determine the percentage of metals dissolveable into solution and the recovery rate of metals from solution.

Prophecy has no preference as to a particular recovery technology but rather, seeks the best technology to recover valuable metals from the Titan Project that will be both environmentally friendly and cost effective. Each laboratory has its own proprietary, patented hydrometallurgical process to treat materials similar to those found at the Titan Project. Results from the testing will be announced when they become available.

Gibellini Project

On June 23, 2017, the Company acquired (through lease) the Gibellini Project which is located in Eureka County, Nevada, about 25 miles south of the town of Eureka and is easily accessed by a graded, gravel road extending south from US Highway 50. The project is comprised of 40 unpatented lode claims totaling approximately 771 acres in the state of Nevada. Opportunities exist to further expand the project beyond its current definition.

Under the mineral lease agreement, Prophecy will lease the mining claims which constitute the Gibellini Project by paying to the Gibellini Lessors, annual advance royalty payments which will be tied, based on an agreed formula (not to exceed USD 120,000 per year), to the average vanadium pentoxide price of the prior year.

Upon commencement of production, Prophecy will maintain its acquisition through lease of the Gibellini Project mining claims by paying to the Gibellini Lessors, a 2.5% 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"). All advance royalty payments made will be deducted as credits against future production royalty payments. The lease is for a term of 10 years, which can be extended for an additional 10 years at Prophecy's option.

(Expressed in Canadian Dollars, except where indicated)

AMEC E&C Services, Inc. (**"AMEC E&C"**) prepared the Gibellini Project resource estimate and feasibility study titled "American Vanadium, Gibellini Vanadium Project" having an effective date of August 31, 2011 for American Vanadium Corp. (**"AVC"**) following the guidelines of the CIM Definition Standards for Mineral Resources and Mineral Reserves. The report, which was prepared according to the disclosure requirements of NI 43-101, outlined 7.9 million tons at a weighted average grade of 0.32% vanadium pentoxide (V_2O_5) in the measured category and 15.16 million tons at a weighted average grade of 0.28% V_2O_5 in the indicated category making for a total resource of 23.05 million tons at a weighted average grade of 0.29% V_2O_5.* Total metal content of the measured and indicated category resources is 131.37 million pounds V_2O_5. The inferred category resource is 14.23 million tons at a weighted average grade of 0.17% V_2O_5. The total metal content of the inferred category resource is 49.42 million pounds V_2O_5 (more resource details in table below).

Gibellini Mineral Resource Estimate

Resource Category	Domain [(1)]	Cut-off V_2O_5 (%)	Tons [(2)] (M)	Grade [(3)] (%V_2O_5)	Metal Content (M lbs V_2O_5)
Measured	Oxide	0.08	3.95	0.25	19.83
	Transition	0.07	3.95	0.38	29.88
Indicated	Oxide	0.08	8.01	0.22	35.05
	Transition	0.07	7.15	0.33	46.62
Total Measured and Indicated		various	23.05	0.29	131.37
Inferred	Oxide	0.08	0.16	0.20	0.98
	Transition	0.07	0.01	0.22	0.07
	Reduced	0.09	14.05	0.17	48.37
Total Inferred		various	14.23	0.17	49.42

Notes to accompany Gibellini Mineral Resource Estimate Table:

1. *Mineral resources are reported by mineralization domain. Domains are laterally continuous portions of the ore body having a grade determined by oxidation state that is relatively consistent and distinct from adjacent domains.*
2. *Specific gravity measurements used are specific to the domain. Mineral resources are reported within a conceptual Lerchs-Grossman pit shell using a long-term V_2O_5 price of USD12.59/lb, estimated mining and processing costs, and processing recoveries that are based on the oxidation state of the deposit.*
3. *No capping of assays but three composites were capped at 1.5%. Dilution is not included.*
4. Resource *categories are referred to as classes in the AMEC E&C resource estimate and feasibility study.*
5. *Rounding of numbers required by reporting guidelines may result in summation differences.*
6. *Abbreviations: M=million, lbs=pounds.*

Based on the feasibility study base case, the Company projects mine production to average 11.4 million pounds of vanadium pentoxide per year at 66% recovery.* This could enable the Gibellini Project to potentially supply up to 3% of current global vanadium demand.

As estimated by the Company based on the feasibility study, the Gibellini Project could potentially become a low-cost primary vanadium producer because of the low strip ratio of 0.22 and a unit operating cost of USD 4.10/lb of vanadium product. The study's base case scenario places the Gibellini Project's after tax IRR at 43%, and after tax NPV at USD 170.1 million at a 7% discount based on capital cost of USD 95.5 million and USD 10.95/lb vanadium pentoxide price.

**The historic Gibellini mineral resource estimate that was prepared by AMEC E&C for AVC has an effective date of July 31, 2011. Results of the study were disclosed previously by AVC in accordance with NI 43-101 and are considered historic in nature by the Company. Mineral resources are reported inclusive of mineral reserves. This historical estimate was prepared using currently accepted methods and assumptions but the costs and prices assumed are not current. It is considered relevant in that the estimate was prepared for the resource area the Company has leased and acquired and open pit mining was assumed. It is considered reliable since the geologic model developed by AVC geologists was used. This historical estimate assumed open pit mining, on-site processing by heap leach followed by solvent extraction and precipitation, and all services provided by a contract* *miner. The key parameters for resource estimation included ten foot composites that honoured the domain, grade was interpolated to a distance of 110 ft from the composites, composite grades greater than 1% V_2O_5 were capped to 1% V_2O_5 beyond 110 ft, the domain boundaries and a minimum grade of 0.05% V_2O_5 were used to limit grade interpolation, and a long-term V_2O_5 price of USD 12.59/lb was used. The key methods used include consideration of lithology, alteration and assay results to establish oxidation domains, capping assays and composites as described previously, variography, ordinary kriging, and validations to assess potential bias. The historical estimate uses the same resource classes described in Section 1.2 of NI 43-101. The historical estimate does not include any more recent data or estimates available to the Company. The work needed to upgrade the historical estimate as current mineral resources is to use current costs and metal prices. A qualified person has not done sufficient work to classify the historical estimate as current mineral resources. The Company is not treating the historical estimate as current mineral resources. Mineral resources that are not mineral reserves do not have demonstrated economic viability.*

With the onsite production process designed to yield vanadium pentoxide, the project is expected to create opportunities for direct off-take agreements with the steel industry. Furthermore, since the process already yields vanadium in sulfuric acid in an intermediary step to producing vanadium pentoxide, it is expected that this intermediary product can be pulled from the process and used directly as an electrolyte for grid-scale energy storage batteries.

Because black shale (also called stone coal) is an important vanadium resource in China, where studies of the recovery of vanadium from black shale has received considerable attention based on the Company's research, Prophecy shall continue to investigate commercial-scale black shale vanadium recovery methods and report specific factual findings in due course. In addition, the Company also plans to expedite completion of the Gibellini environmental and mine permitting processes that were previously started by American Vanadium Corp.

Louie Hill Project

On July 13, 2017, the Company acquired through lease the Louie Hill Project located approximately 500 metres south of the Gibellini Project. The Louie Hill Project is easily accessed by a graded gravel road extending south from US Highway 50, and is about 25 miles south of the town of Eureka, Nevada, USA. The Louie Hill Project is comprised of ten unpatented lode claims totaling approximately 207 gross acres in the state of Nevada. Opportunities exist to further expand the project beyond its current definition.

Under the mineral lease agreement, Prophecy will lease the mining claims which constitute the Louie Hill Project by paying to the Louie Hill Lessor, annual 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.

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"). 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.

Union Carbide reportedly drilled a series of 60 holes at the Louie Hill Project in 1956. Noranda Exploration, Inc. completed five reverse circulation holes (total 610 ft) in 1973. During the 2007 to 2010 period, RMP Resources Corporation (predecessor to AVC) completed a total of 11,010 ft of drilling in 38 drill holes on the Gibellini Project and Louie Hill Project (nine of which, were drilled in the Louie Hill Project).

The Louie Hill Project is located in the same formation and lithologic units as the Gibellini Project. The general geology in this area is considered to be similar to the Gibellini Project.

AMEC E&C prepared the Louie Hill Project resource estimate as part of the feasibility study titled "American Vanadium, Gibellini Vanadium Project" having an effective date of August 31, 2011 for AVC following the guidelines of the CIM Definition Standards for Mineral Resources and Mineral Reserves. The report which was prepared according to the disclosure requirements of NI 43-101 outlined a resource of 7.67 million tons at a weighted average grade of 0.27% vanadium pentoxide (V_2O_5) in the inferred category for the Louie Hill Project. The total metal content of the inferred category resource is 41.87 million pounds V_2O_5.

Inferred Louie Hill Project Mineral Resource Estimate, Effective Date 20 May 2011, Mark Hertel, SME Registered

(Expressed in Canadian Dollars, except where indicated)

Member:

Cut-off V_2O_5 (%)	Tons (M)	V_2O_5 (%)	V_2O_5 (M lb)
0.077	7.67	0.27	41.87

Notes to accompany Louie Hill Project Mineral Resource Estimate Table:

1. *Mineral Resources are reported above a 0.077% V_20_5% cut-off grade*
2. *Mineral Resources are reported as undiluted*
3. *Mineral Resources are reported within a conceptual pit shell*
4. *Rounding as required by reporting guidelines may result in summation differences between tons, grade and contained metal content*
5. *Tonnage and grade measurements are in US units. Grades are reported in percentages.*
6. *Abbreviations: M=million, lbs=pounds*

**The historic Louie Hill Project mineral resource estimate that was prepared by AMEC E&C for AVC has an effective date of May 20, 2011. Results of the study were disclosed previously by AVC in accordance with NI 43-101 and are considered historic in nature by the Company. This historical estimate was prepared using currently accepted methods and assumptions but the costs and prices assumed are not current. It is considered reliable since the geologic model developed by AVC geologists was used. The historical estimate uses the same resource classes described in Section 1.2 of NI 43-101. The historical estimate does not include any more recent data or estimates available to the Company. The work needed to upgrade the historical estimate as current mineral resources is to use current costs and metal prices. A qualified person has not done sufficient work to classify the historical estimate as current mineral resources. The Company is not treating the historical estimate as current mineral resources. Mineral resources that are not mineral reserves do not have demonstrated economic viability.*

To the Company's knowledge, the Gibellini Project is the only North American black shale vanadium project with a full feasibility study. The Company considers the Louie Hill Project to have similar geology and to be amenable to the same open pit mining and heap leach processing as the Gibellini Project.

Silver Projects

Pulacayo Project

For highlights on the Pulacayo Project, please refer to the relevant section of the Annual MD&A for this information.

Q2 2017

During Q2, 2017, the Company continued communications with the Government of Bolivia. A proposal was presented and submitted that included a description of the project's development, proposed investment and a time line. Other work included completion of detailed internal mine plans for the Paca deposit that initially target near surface mineralization with a low mining strip ratio. The Company renewed the letter of intent to lease mining and transportation equipment, continued negotiations with vendors that provide toll milling services at their ore processing facilities and continued discussion with large trading and smelting companies that are interested in purchasing concentrates processed from materials mined from the Pulacayo and Paca deposits. A positive production decision would not be based on a feasibility study of mineral reserves demonstrating economic and technical viability so would carry increased uncertainty and the risk of failure as to the mining method and profitability.

During the quarter, the Company incurred total costs of $303,492 (same period 2016 – $286,491) for the Pulacayo Project including $Nil (same period 2016 – $4,970) for licenses, $38,631 (same period 2016 – $21,460) for geological and engineering consulting, and $264,861 (same period 2016 – $260,061) for personnel, legal and general and administrative expenses.

2017 Outlook

The Company plans to continue exploration of an additional vein system (the "**AVS**") to assess whether drilling is warranted. The Company believes the results from the latest Pulacayo chip sampling program announced on December 23, 2016 are encouraging given the AVS is located in the shallow part of the deposit; it exhibits strong zinc and lead anomalies and represents a priority area for further exploration which could potentially add resources to the Pulacayo Project. The Company intends to continue with preparations for mining, processing of ore and sale of concentrate and obtaining authorization to start mine construction and production. The Company intends to announce a production decision in conjunction with a financing plan, should a positive production decision be reached in the near future. A positive production decision would not be based on a feasibility study of mineral reserves demonstrating economic and technical viability so would carry increased uncertainty and the risk of failure as to the mining method and profitability.

Coal Projects

Ulaan Ovoo

For highlights of the Ulaan Ovoo coal property, please refer to the relevant section of the Annual MD&A for this information.

Q2 2017

During the second quarter of 2017, the Company completed the sale of 17,535 tonnes of coal to Erdenet Mining Corporation and Selenge Energo Heat Plant and other local customers. As of June 30, 2017, the coal stockpile balance was approximately 60,850 tonnes (June 30, 2016 – 80,700 tonnes). Otherwise, the Company continued to maintain the Ulaan Ovoo operations on standby incurring minimal general and administrative costs.

2017 Outlook

Thermal coal prices remain strong, currently trading at USD 85/t at Asia's eastern seaports. The Company continues talks to sell coal into the Chinese market with transport by rail south through Mongolia with the goal of restarting Ulaan Ovoo. Mining operations at Ulaan Ovoo may be restarted in short order since pit dewatering requires less than a month and other work needed to restart mining can be completed at the same time. The Company believes contract mining is a viable option for more efficient operation of the mine since a contract mining firm would be responsible for labor agreements, equipment maintenance and other key responsibilities and functions.

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

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

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

Chandgana Coal Properties and Chandgana Power Plant Project

For highlights of the Chandgana Coal Properties and Chandgana power plant project, please refer to the relevant section of the Annual MD&A for this information.

Q2 2017

Discussions with Mongolian authorities on the power purchase agreement and other documents related to the Chandgana power plant project continued. Other activity included discussions with potential financial partners in the Chandgana power plant project, renewal of the detailed environmental impact assessment ("**DEIA**") for the power plant and work to convert the Khavtgai Uul exploration license to a mining license. Normal license maintenance and environmental obligations were satisfied.

2017 Outlook

The activities planned during 2017 for the Khavtgai Uul license include normal license maintenance work and continuation of work to convert the license to a mining license. The exploration and report work to convert the license to a mining license is expected to be completed by the end 2017, before being submitted for review to the Mineral Resources Professional Council by January 2018, with a conclusion of acceptance expected by April 2018. For the Chandgana Tal project, the Company intends to assess the local market for coal to determine the need for mining during the 2017 - 2018 heating season. The Company plans to continue work to update the DEIA and mining feasibility study for the Chandgana Tal project. Normal license maintenance work for the Khavtgai Uul and Chandgana Tal project licenses are expected to be completed also.

The Company intends to continue its activities and consider other activities that could promote the Chandgana power plant project. Such activities include consideration of project financing options such as debt, equity or a combination thereof in addition to joint ventures with international power project developers. Discussions will continue with large-scale, Asian strategic power producers who have expressed interest in investing in the Chandgana power plant project. Other activities include renewal of the DEIA and power plant construction license and regular work to maintain the Chandgana power plant project land use rights. The Company believes since the recent election, that Mongolia will continue its efforts to maintain a more stable government and further greater economic development. The new government has started efforts to attract foreign investment and so Prophecy plans to continue its commitment to the project and is optimistic that material progress can be made during 2017.

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

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

5. SUMMARY OF QUARTERLY RESULTS

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

(Expressed in Canadian Dollars, except where indicated)

		2017 Q2		2017 Q1		2016 Q4		2016 Q3
Operating expense	$	(336,028)	$	(282,923)	$	(473,114)	$	(307,343)
Net loss		(516,243)		(30,009)		(1,089,282)		(651,212)
Net loss per share, basic and diluted	$	(0.10)	$	(0.01)	$	(0.23)	$	(0.14)
Comprehensive loss		(516,243)		(30,009)		(1,089,282)		(651,212)
Comprehensive loss per share, basic and diluted	$	(0.10)	$	(0.01)	$	(0.23)	$	(0.14)

		2016 Q2		2016 Q1		2015 Q4		2015 Q3
Operating expense	$	(248,333)	$	(305,697)	$	(540,153)	$	(481,915)
Net loss		(140,392)		(126,419)		(3,884,097)		(831,656)
Net loss per share, basic and diluted	$	(0.04)	$	(0.04)	$	(1.15)	$	(0.26)
Comprehensive loss		(140,392)		(126,419)		(3,884,097)		(831,656)
Comprehensive loss per share, basic and diluted	$	(0.04)	$	(0.04)	$	(1.15)	$	(0.26)

6. DISCUSSION OF OPERATIONS

The reader is encouraged to refer to Note 6 of the Company's Annual Financial Statements for the year ended December 31, 2016 for Prophecy's IFRS accounting policies. For discussion on each project, the reader is encouraged to refer to the "Property Summary" section of this MD&A.

Three Months Ended June 30, 2017 and 2016 (Q2 2017 and Q2 2016)

Results of operations are summarized as follows:

Operating Expenses		**Three months ended June 30, 2017**		**2016**
Advertising and promotion	$	1,953	$	8,897
Consulting and management fees		53,640		31,823
General and administrative expenses		111,006		148,225
Professional fees		5,248		25,005
Share-based payments		157,775		34,383
Travel and accommodation		6,406		-
	$	336,028	$	248,333

The Company had an operating loss of $336,028 for Q2 2017, compared with an operating loss of $248,333 for Q2 2016.

Of note are the following items:

- Advertising and promotion expenses decreased by $6,944;
- Consulting and management fees increased by $21,817 due to geological consulting regarding new vanadium projects acquiring by the Company;
- General and administrative expenses decreased by $37,219 due primarily to decreased office expenses and stock exchange and shareholder service costs;
- Professional fees decreased by $19,757;
- Travel and accommodation expenses increased by $6,406 due to increased property site visits; and
- Non-cash share-based payments increased by $123,392 due to a larger number of outstanding options vesting during the 2017 period compared to the 2016 period.

For Q2 2017, the Company's "Other Items" amounted to a loss of $180,215 compared to a gain of $107,941 for Q2 2016.

(Expressed in Canadian Dollars, except where indicated)

Other Items		**Three months ended June 30,**		
		2017		**2016**
Costs/(income) in excess of recovered coal		181,370		102,598
Finance cost		70		7,970
Foreign exchange loss/(gain)		(6,936)		(375,702)
Interest expense		5,711		85,392
Loss on sale of equipment		-		71,801
	$	180,215	$	(107,941)

The increase in other items by $288,156 was mostly due to fluctuations in the value of the Canadian dollar compared to the Mongolian tugrik, Bolivian boliviano, and the United States dollar.

Six Months Ended June 30, 2017 and 2016

Results of operations are summarized as follows:

Operating Expenses		**Six Months Ended June 30,**		
		2017		**2016**
Advertising and promotion	$	14,382	$	32,335
Consulting and management fees		90,070		80,955
General and administrative expenses		264,227		352,935
Professional fees		20,091		25,005
Share-based payments		200,354		55,280
Travel and accommodation		29,827		7,519
	$	618,951	$	554,029

The increase by $64,922 in operating expenses is the net result of changes to a number of the following items:

- Advertising and promotion expenses decreased by 17,953;
- Consulting and management fees increased by $9,115 due to geological consulting regarding new vanadium projects acquiring by the Company;
- General and administrative expenses decreased by $88,708 due primarily to decreased office expenses, salaries, and amortization expense;
- Professional fees decreased by $4,914 due to less accounting fees being incurred during the 2017 period;
- Travel and accommodation expenses increased by $22,308 due to increased property site visits; and
- Non-cash share-based payments increased by $145,074 due to a larger number of outstanding options vesting during the 2017 period compared to the 2016 period. During the six months ended June 30, 2017, the Company granted 236,000 incentive stock options with a weighted average exercise price of $3.91.

For the six months ended June 30, 2017, the Company incurred other expenses classified as "Other Items" amounting to a gain of $72,699 compared to a gain of $287,219 for the same period in 2016.

Other Items		**Six Months Ended June 30,**		
		2017		**2016**
Costs/(income) in excess of recovered coal	$	17,422	$	134,035
Finance cost		161		315,323
Foreign exchange loss/(gain)		(222,892)		(913,827)
Loss/(gain) on sale of available-for-sale investments		22,810		(59,698)
Interest expense		13,600		165,147
Impairment of mineral property		96,200		-
Loss on sale of equipment		-		71,801
	$	(72,699)	$	(287,219)

(Expressed in Canadian Dollars, except where indicated)

Of note are the following items:

- Costs in excess of recovered coal were reduced by $116,613 due to decreased general and administrative expenses of the Company's Mongolian office;
- Finance cost decreased by $315,162 due to decreased draws from the revolving credit facility agreement dated March 12, 2015, as amended (the "**Credit Facility**"), with Linx Partners Ltd. ("**Linx**") a company controlled by Mr. John Lee, Executive Chairman of Prophecy;
- Foreign exchange gain of $222,892 was due to fluctuations in the value of the Canadian dollar compared to the Mongolian tugrik, Bolivian boliviano, and the United States dollar;
- During the six months ended June 30, 2017, the Company disposed of 2.2 million Lorraine Copper Corp. shares for proceeds of $153,190 and a realized loss of $22,810. During the same period in 2016, the Company recorded a gain on sale of a total of remaining Wellgreen Platinum Ltd. shares released from trust of $59,698;
- Decrease in interest expense by $151,547 was due to decrease in the outstanding balance of the Credit Facility; and
- During the six months ended June 30, 2016, the Company recorded a loss on disbursement of office furniture and equipment of $71,801.

7. PROPOSED TRANSACTIONS

Acquisition of the Buttercup Project

On July 21, 2017, the Company announced that it entered into the Letter Agreement with Fairmont to acquire the Buttercup Project. The 15 claims and one exclusive lease to mine surface mineral substances that comprise the Buttercup Project, are located 30km north of Saguenay, Quebec. The property has access to water and power, and connects to a two-lane highway, which leads to the all-weather Grand Anse Sea Terminal at the Port of Saguenay, which is located on the St. Lawrence River on the eastern Canadian seaboard 33km south of the property.

In December 2014, a Certificate of Authorization was issued for the Buttercup Project by the Ministère du Développement durable, de l'Environnement et des Parcs, which allowed aggregate production from the property of 300,000 tonnes annually. Fairmont completed site clearing and commenced first blast at the Buttercup Project in April 2015. Further mining activities were curtailed due to declining prices in certain metals and aggregates, all of which, have since rebounded from lows during the 2015-2016 period.

The Fe-Ti-V mineralization appears to start from surface at some locations making for a possible low mining strip ratio. In 1964, the Bersimis Mining Company calculated a historical "drilled tonnage" on lense "A" and lense "B" located within the property. Both lenses, where drill-tested, were found at relatively shallow depth between 5 and 154m depth below surface.

Historic "drill indicated tonnage" and corresponding grade					
Lense	**Tons**	**Fe (%)**	**TiO_2 (%)**	**V_2O_5 (%)**	**Number of Holes**
A	2,779,285	48.40	18.90	0.67	8
B	758,828	49.39	19.07	0.64	12

Source: P.J. Goldsmith 1964 Report on: The Bersimis Mining Company, Report on Diamond Drilling Program Lake Kanekatshonanuts Tintaniferous Megnetite Deposits

The historical "drill indicated tonnage" cited above is mentioned for historical purposes only, and uses terminology not compliant with current NI 43-101 reporting standards. The reliability of these historical estimates is unknown but considered relevant by Prophecy as it represents significant targets for future exploitation. The key assumption was that the mineralization is found in two nearly flat-lying lenses. The key factor was use of a 7 cubic feet per ton relative density. The method used to prepare the historical estimate was use of length, width and thickness of the lenses to determine volume followed by conversion of volume to mass by use of a relative density factor. No consideration was made for weathered zones or grade. The historical estimate was not reported using measured, indicated or inferred confidence categories. There are no more recent resource estimates availably to Prophecy. In order to verify this historical estimate as a current estimate, a qualified person would need to conduct additional exploration work in the form of diamond drilling to verify the historic data. A qualified person has not done sufficient work to classify the historical estimate as a current mineral resource, and Prophecy is not treating this historical estimate as a current mineral resource.

Fairmont conducted surface channel sampling in October 2014 (refer to Fairmont's October 23, 2014 news release filed on SEDAR for sampling, assay and QAQC details) at the Buttercup Project, with 361 meters of sampling, 184 samples were collected whereby 182 samples contained massive titano-magnetite. The massive titano-magnetite averaged more than 70% Fe2O3 (49% Fe), 19% TiO2, and 0.56% V2O5, consistent with the drill intercept grades reported in the Goldsmith report.

	From (m)	To (m)	Width (m)	Rock*	Fe_2O_3 (%)	TiO_2 (%)	V_2O_5 (%)
Lense A	Channel 1						
	0.0	40.5	40.5	T.M.	70.7	18.9	0.56
	40.5	50.5	10.0	obdn			
	50.5	60.5	10.0	T.M.	73.2	19.6	0.57
	60.5	64.0	3.5	obdn			
	64.0	76.0	12.0	T.M.	73.7	19.5	0.58
	76.0	84.0	8.0	obdn			
	84.0	146.0	62.0	T.M.	72.7	19.8	0.58
	146.0	171.0	25.0	obdn			
	171.0	184.0	13.0	T.M.	72.9	19.5	0.59
	185.0	212.5	27.5	T.M.	72.8	19.7	0.58
	Channel 2						
	0.0	11.5	11.5	T.M.	72.6	20.1	0.56
	11.5	17.5	6.0	obdn			
	17.5	79.0	61.5	T.M.	72.5	19.7	0.57
	Channel 3						
	0.0	1.5	1.5	T.M.	73.1	19.7	0.59
	1.5	4.0	2.5	obdn			
	4.0	28.0	24.0	T.M.	71.8	19.7	0.56
	28.0	30.0	2.0	obdn			
	30.0	58.0	28.0	T.M.	72.3	19.7	0.57
	58.0	59.0	1.0	obdn			
	59.0	70.5	11.5	T.M.	72.3	19.7	0.57
Lense C	Channel 4						
	0.0	26.5	26.5	T.M.	72.1	19.9	0.56
	Channel 5						
	0.0	29.0	29.0	T.M.	71.7	20.1	0.55

**T.M. = titano-magnetite, obdn = overburden*

Materials mined from the Buttercup Project may be amenable to the following three markets. A feasibility study has not been completed and there is no certainty mined materials can be produced economically from the Buttercup Project. The Buttercup Project extraction permit only applies to aggregate sales, additional permitting is required to sell mined materials as direct shipment ore (**"DSO"**) furnace feed.

1. Dense Aggregate for Nuclear Construction and Offshore Drilling:

Buttercup mined materials having a high density of approximately 4 tonne/m^3 can be sold as aggregate for manufacture of high-weight concrete or as loose ballast. Specific applications include nuclear reactor construction, nuclear spent fuel storage, foundations for high-rise structures, and offshore drilling platforms. Dense aggregate cement is a premium product to cement which currently trades at about USD 100/tonne.*

*https://www.statista.com/statistics/219339/us-prices-of-cement/

2. DSO Lump Titano-Magnetite for Hearth Protection:

Titanium-bearing minerals like the DSO lump titano-magnetite from the Buttercup Project, are used in steel blast furnaces to protect the hearth wall, which is comprised primarily of graphite (carbon), against erosion.

(Expressed in Canadian Dollars, except where indicated)

Buttercup DSO lump titano-magnetite has a low sulphur (<0.1%), low phosphorus (<0.1%) and low insoluble (<10%) content that is desired by iron makers to increase blast furnace life.

A sample assay of DSO lump titano-magnetite from the Buttercup Project provided previously by Fairmont in their February 25, 2014 news release (available on Fairmont's website http://www.fairmontresources.ca/ and on SEDAR) is given in the following table.

Fe_2O_3 (%)	TiO_2 (%)	SiO_2 (%)	MgO (%)	CaO (%)	V_2O_5 (%)	MnO_2 (%)	Al_2O_3 (%)	S (%)	P (%)
69.4	18.9	0.89	3.57	0.08	0.54	0.33	6.49	0.02	0.01

The conditions of sampling, assay and reporting of these assay results are not known. Thus, the assay results should not be relied upon.

3. DSO for Titanium Slag – Vanadium Slag Furnace:

Buttercup titano-magnetite with high vanadium content can be an ideal DSO feed for furnaces that produce titanium slag and vanadium slag.

Titaniferous magnetite is first, partially reduced with coal in rotary kilns, and then melted in a furnace (most such facilities are located in Asia). This produces a titanium slag (>90% TiO_2, USD 1200/tonne[*]) and pig iron containing most of the vanadium. The titanium slag is removed and sold to pigment producers for further processing to pigment grade (>99% TiO_2, USD 2500/tonne[*]). The molten pig iron is blown with oxygen to form a new slag containing 12–24% vanadium pentoxide (V_2O_5), which is further processed to either ferro vanadium (80% vanadium) or vanadium pentoxide (98% V_2O_5).

[*]Source: http://www.ferroalloynet.com

Completion of the Buttercup Project acquisition is subject to a number of conditions, including Prophecy being satisfied with the results of its due diligence inquiries, the parties entering into a definitive agreement for the purchase and sale of the Buttercup Project by November 1, 2017, and obtaining any necessary regulatory (including TSX) approvals that may be required to complete the transaction. In addition, the Company will require additional financing to complete the acquisition and to provide working capital for further exploration and related work at the Buttercup Project.

8. LIQUIDITY AND CAPITAL RESOURCES

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

Liquidity

At June 30, 2017, the Company had cash of $55,374 representing an increase of $33,726 from $21,648 held at December 31, 2016. The Company's working capital deficit at June 30, 2017 was $2 million compared to working capital deficit of $3.2 million at December 31, 2016. The Company's working capital deficit decreased since the year ended December 31, 2016 primarily as a result of the decrease in credit facilities.

(Expressed in Canadian Dollars, except where indicated)

Cash Flow Highlights

		Six Months Ended June 30, 2017		2016
Cash Used in Operating Activities	$	(518,567)	$	(248,022)
Cash Provided by (Used in) Investing Activities		7,915		(59,127)
Cash Provided by Financing Activities		544,378		282,437
Increase in cash for period		33,726		(24,712)
Cash balance, beginning of period		21,648		33,542
Cash balance, end of period	$	55,374	$	8,830

Operating activities: Cash used in operating activities was $518,567 and $248,022 respectively for the six month periods ended June 30, 2017 and June 30, 2016. The Company will require financing in the near term to fund operations.

***Investing activities*:** Cash provided by investing activities was $7,915 and cash used in investing activities totalled $59,127 respectively for the six month periods ended June 30, 2017 and June 30, 2016. The Company spent $145,274 (2016 - $163,394) on capital additions and received $153,190 (2016 – $59,698) from sale of available-for-sale investments.

***Financing activities*:** A total of $544,378 and $282,437 respectively was provided by financing activities during the six month periods ended June 30, 2017 and June 30, 2016. The Company paid $57,300 (2016 - $198,787) toward the Credit Facility, drew $3,273 (2016 - $306,477) from the Credit Facility, and received net proceeds of $598,405 (2016 - $186,000) from issuing Shares in private placements.

Capital Resources

The Company's major commitments over the next 12 months are repayment of trade and other payables. Given the number of obligations and project tasks the Company has in progress, the current cash balance is inadequate to fund operations. Management believes the Company is able to raise capital by means of equity or debt financing, or through other avenues available to mining companies. Management explores all possible avenues to determine the best course of action to acquire the required funds to meet obligations and to fund operations. Management is aware that market conditions, driven primarily by metal prices, may limit the Company's ability to raise additional funds. The Company is also required to maintain a number of financial covenants as part of its Credit Facility, which may limit the Company's ability to access future funding. These factors, and others, are considered when shaping the Company's capital management strategy.

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

Contractual Commitments

Prophecy's commitments related to mineral properties are disclosed in Note 14 to the Annual Financial Statements and in Section 4 of this MD&A. Prophecy's other commitments include a rental commitment as at June 30, 2017 of $34,743 per year on office premises which expires on July 1, 2018.

Capital Risk Management

Prophecy considers its capital structure to consist of share capital, share options and warrants. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the exploration and development of its projects and to pursue and support growth opportunities. The

Board of Directors does not establish quantitative returns on capital criteria for management. The overall objectives for managing capital remained unchanged in 2016 from the prior comparative period.
Management is aware that market conditions, driven primarily by metal prices, may limit the Company's ability to raise additional funds. The Company is also required to maintain a number of financial covenants as part of its Credit Facility, which may limit the Company's ability to access future funding. These factors, and others, are considered when shaping the Company's capital management strategy.

9. CONTINGENCIES

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

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 acquisition 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, alleging that ASC Bolivia LDC Sucursal Bolivia, now the Company's wholly-owned subsidiary, owed approximately Bs42,000,000 ($6,821,652) 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.

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

(Expressed in Canadian Dollars, except where indicated)

10. RELATED PARTY DISCLOSURES

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

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

A summary of amounts paid or accrued to related parties is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Related parties	**2017**	**2016**	**2017**	**2016**
Directors and officers	$ 52,750	$ 53,250	$ 105,000	$ 141,000
Linx Partners Ltd.	52,500	52,500	105,000	105,000
MaKevCo Consulting Inc.	4,600	5,400	10,800	9,200
Sophir Asia Ltd.	4,000	4,500	7,500	8,000
	$ 113,850	$ 115,650	$ 228,300	$ 263,200

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

	Three Months Ended June 30,		Six Months Ended June 30,	
Related parties	**2017**	**2016**	**2017**	**2016**
Consulting and management fees	$ 28,500	$ 28,500	$ 59,400	$ 57,000
Directors' fees	12,600	14,400	23,400	25,200
Mineral properties	39,000	39,000	78,000	78,000
Salaries and benefits	33,750	33,750	67,500	103,000
	$ 113,850	$ 115,650	$ 228,300	$ 263,200

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.

During the six months ended June 30, 2017, the Company issued 300,000 Shares to Linx in satisfaction of $900,000 worth of indebtedness owing by the Company under the Credit Facility. Linx also agreed for the nominal consideration of $1, to accrue and postpone the repayment of any principal, interest and fees due until the earlier of October 1, 2017, or such time as the Company is in a reasonable financial position to repay all or a portion of the amounts owing. See Note 16 to the Annual Financial Statements for more information regarding the Credit Facility with Linx. Also, during the six months ended June 30, 2017, the Company paid $57,300 to Linx toward the Credit Facility.

As at the date of this MD&A, Mr. Lee now beneficially owns and exercises control over an aggregate of 1,058,081 shares representing an interest of approximately 19.63% of the Company's currently issued and outstanding shares, and 31.05% of the Company's shares on a fully diluted basis assuming exercise of all of the Company's outstanding options and share purchase warrants. The securities were acquired or disposed of by Mr. Lee for investment purposes only, and not for purposes of exercising control or direction over the Company. Generally, Mr. Lee intends to evaluate his investment in the Company and to increase or decrease his shareholdings as circumstances require, depending on market conditions and other factors, through market transactions, private agreements or otherwise.

(Expressed in Canadian Dollars, except where indicated)

As at June 30, 2017, amounts due to related parties totaled $87,720 (December 31, 2016 – $366,269) and was comprised of $87,720 in deferred amounts due to directors and CEO (December 31, 2016 - $180,829), and $Nil bonus payable (December 31, 2016 - $185,440).

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

Key Management Personnel	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Salaries and short term benefits	$ 34,367	$ 33,750	$ 68,734	$ 103,000
Share-based payments	206,847	19,210	233,171	48,391
	$ 241,214	$ 52,960	$ 301,905	$ 151,391

10. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's consolidated financial statements are prepared in accordance with IFRS as issued by the IASB. The Company followed the same accounting policies and methods of computation in the Annual Financial Statements for the three and six months ended June 30, 2017. The significant accounting policies applied and recent accounting pronouncements are described in Notes 4 and 6 to the Annual Financial Statements.

In preparing the condensed consolidated interim financial statements in accordance with IFRS, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Areas requiring the use of estimates include the rates of amortization for property and equipment, the useful life and recoverability of long-lived assets, the recoverability of accounts receivable, determination of environmental obligation provision for closure and reclamation, accounts payable and accrued liabilities, the assumptions used in the determination of the fair value of financial instruments and share-based payments, and the determination of the recoverability of deferred income tax assets 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.

Readers are encouraged to read the significant judgements, estimates and assumptions as described in Note 5 to the Annual Financial Statements.

11. ACCOUNTING CHANGES AND RECENT ACCOUNTING PRONOUNCEMENTS

There were no previously undisclosed significant accounting pronouncements issued during the six months ended June 30, 2017.

12. FINANCIAL INSTRUMENTS AND RELATED RISKS

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

Financial Instruments

A description of financial instruments is included in Note 21 to the Annual Financial Statements. There were no changes to the method of fair value measurement of financial assets and financial liabilities during the period.
Related Risks

(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 June 30, 2017, the Company had a cash balance of $55,374 (December 31, 2016 – $21,648) in order to meet short-term business requirements.

At June 30, 2017, the Company had accounts payable and accrued liabilities of $2,254,194 (December 31, 2016 - $2,658,018), which have contractual maturities of 90 days or less and payments on a line of credit of $131,294 (December 31, 2016 - $1,071,560). The Company is seeking financing in order to be in a position to satisfy its current liabilities.

Additional sources of funding, which may not be available on favourable terms, if at all, include: share equity and debt financings; coal sales from stockpiled inventory; equity, debt or property level joint ventures with power project and coal property developers; and sale of interests in existing assets.

(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 with cash and cash equivalents and receivables, net of allowances. The significant concentration of credit risk is situated in Mongolia. The carrying amount of assets included on the statements of financial position represents the maximum credit exposure.

(c) Market risk

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

(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. During the six months ended June 30, 2017, the Company drew down $3,273 on its Credit Facility with an outstanding balance of $131,294 as at June 30, 2017. Due to the short-term nature of these financial instruments, and the fact that the Company's Credit Facility bears interest at a fixed rate, fluctuations in market rates do not have a significant impact on the fair values or future cash flows of the financial instruments as of June 30, 2017. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

(ii) Foreign currency risk

The Company 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 June 30, 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 $50,100. A 10% strengthening (weakening) of the Canadian dollar against the Bolivian boliviano would impact net loss with other variables unchanged by $680,400. A 10% strengthening (weakening) of the US dollar against the Canadian dollar would impact net loss with other variables unchanged by $70,500. The Company currently does not use any foreign exchange contracts to hedge this currency risk.

(iii) Commodity and equity price risk

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

13. RISKS AND UNCERTAINTIES

Readers should carefully consider the risks and uncertainties described in the Company's most recently filed AIF "Risk Factors" page 89 which is available under the Company's SEDAR profile at www.sedar.com. Additional risks not currently known to the Company, or that the Company currently deems immaterial, may also impair the Company's operations. If any of the foregoing risks actually occur, the Company's business, financial condition and operating results could be adversely affected.

14. DISCLOSURE CONTROLS AND PROCEDURES

Design of Internal Controls over Financial Reporting

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

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

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting using the criteria set forth in the *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that the Company's internal control over financial reporting was effective as of June 30, 2017.

Changes in internal control over financial reporting

There have been no changes in the Company's internal control over financial reporting during the three months ended June 30, 2017, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations of controls and procedures

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

15. DISCLOSURE OF OUTSTANDING SHARE DATA

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

- 5,389,248 Shares outstanding with recorded value of $158,558,273;
- 678,326 stock options outstanding with a weighted average exercise price of $5.29 and exercisable to purchase one Share at prices ranging from $2.00 to $18.00 and which expire between August 2017 and June 2022; and
- 1,560,968 warrants outstanding with a weighted average exercise price of $4.63 and exercisable to purchase one Share at prices ranging from $4.00 to $7.00 and which expire between November 2017 and June 2022.

16. OFF-BALANCE SHEET ARRANGEMENTS

During the six months ended June 30, 2017, Prophecy was not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources of Prophecy.

Prophecy Development Corp.

Condensed Interim Consolidated Financial Statements
For the three and six months ended June 30, 2017 and 2016

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

TABLE OF CONTENTS

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements have been prepared by management and approved by the Audit Committee. The Company's independent auditors have not performed a review of these condensed interim consolidated financial statements in accordance with the standards established for a review of interim financial statements by an entity's auditors.

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

As at	Notes		June 30, 2017		December 31, 2016
Assets					
Current assets					
Cash	4	$	55,374	$	21,648
Receivables			205,499		91,565
Prepaid expenses			133,865		200,526
Available-for-sale investments	5		-		176,000
			394,738		489,739
Non-current assets					
Reclamation deposits			21,055		21,055
Property and equipment	6		641,201		917,607
Mineral properties	7		26,945,035		26,399,708
		$	28,002,029	$	27,828,109
Liabilities and Equity					
Current liabilities					
Accounts payable and accrued liabilities	8	$	2,254,194	$	2,658,018
Credit facilities	9		131,294		1,071,560
			2,385,488		3,729,578
Non-current liabilities					
Provision for closure and reclamation			242,347		242,347
Tax provision	16		6,821,652		7,060,691
			9,449,487		11,032,616
Equity					
Share capital	10		158,558,273		156,529,025
Reserves			21,756,186		21,482,133
Deficit			(161,761,917)		(161,215,665)
			18,552,542		16,795,493
		$	28,002,029	$	27,828,109

Approved on behalf of the Board:

"John Lee" — John Lee, Director

"Greg Hall" — Greg Hall, Director

Nature of operations and going concern (Note 1)
Contingencies (Note 16)
Events after the reporting date (Note 17)

See accompanying notes to the consolidated financial statements.

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

	Notes	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
General and Administrative Expenses					
Advertising and promotion		$ 1,953	$ 8,897	$ 14,382	$ 32,335
Consulting and management fees		53,640	31,823	90,070	80,955
Depreciation and accretion		2,262	8,043	4,651	26,615
Director fees		12,600	14,400	23,400	25,200
Insurance		13,156	14,468	26,254	27,813
Office and administration		13,235	17,678	41,121	65,799
Professional fees		5,248	25,005	20,091	25,005
Salaries and benefits		38,153	38,980	80,735	115,980
Share-based payments	10	157,775	34,383	200,354	55,280
Stock exchange and shareholder services		31,600	54,656	88,066	91,528
Travel and accommodation		6,406	-	29,827	7,519
		(336,028)	(248,333)	(618,951)	(554,029)
Other Items					
Costs in excess of recovered coal		(181,370)	(102,598)	(17,422)	(134,035)
Finance cost	9	(70)	(7,970)	(161)	(315,323)
Foreign exchange (loss)/gain		6,936	375,702	222,892	913,827
(Loss)/gain on sale of available-for-sale investment	5	-	-	(22,810)	59,698
Interest expense	9	(5,711)	(85,392)	(13,600)	(165,147)
Impairment of mineral property	7	-	-	(96,200)	-
Loss on sale of equipment		-	(71,801)	-	(71,801)
		(180,215)	107,941	72,699	287,219
Net Loss for Period		(516,243)	(140,392)	(546,252)	(266,810)
Comprehensive Loss for Period		$ (516,243)	$ (140,392)	$ (546,252)	(266,810)
Loss Per Common Share, basic and diluted		$ (0.10)	$ (0.04)	$ (0.10)	$ (0.07)
Weighted Average Number of Common Shares Outstanding		5,269,686	3,860,270	5,246,697	3,713,728

See accompanying notes to the consolidated financial statements.

PROPHECY DEVELOPMENT CORP.
Condensed Interim Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars, except number of shares) (Unaudited)

	Numbers of shares		Share Capital		Reserves		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	80,000		175,817		10,183		-		186,000
Debt Settlement	1,050,569		2,154,648		-		-		2,154,648
Share-based payments	-		-		82,980		-		82,980
Loss for the period	-		-		-		(266,810)		(266,810)
June 30, 2016	4,558,043	$	155,612,096	$	21,298,861	$	(159,475,170)	$	17,435,787
December 31, 2016	4,807,653		156,529,025		21,482,133		(161,215,665)		16,795,493
Shares issued for mineral properties	20,000		96,200		-		-		96,200
Private placements, net of share issue costs	153,249		553,720		-		-		553,720
Debt Settlement	359,659		1,138,636		-		-		1,138,636
Share bonus to personnel	39,000		190,320		-		-		190,320
Exercise of stock options	9,687		50,372		(5,687)		-		44,685
Share-based payments	-		-		279,740		-		279,740
Loss for the period	-		-		-		(546,252)		(546,252)
June 30, 2017	5,389,248	$	158,558,273	$	21,756,186	$	(161,761,917)	$	18,552,542

See accompanying notes to the consolidated financial statements

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

	Six Months Ended June 30, 2017	2016
Operating Activities		
Net loss for period	$ (546,252)	$ (266,810)
Adjustments to reconcile net loss to net cash flows:		
Depreciation and accretion	273,905	114,087
Share-based payments	200,354	55,280
Costs in excess of recovered coal	17,422	134,035
Finance cost	161	315,323
Interest costs	13,600	165,147
Loss on sale of equipment	-	71,801
(Gain)/loss on sale of available-for-sale investment	22,810	(59,698)
Impairment of mineral property	96,200	-
	78,200	529,165
Working capital adjustments		
Receivables	(113,934)	195,913
Prepaid expenses and reclamation deposits	66,661	51,162
Accounts payable and accrued liabilities and tax provision	(549,494)	(1,024,262)
	(596,767)	(777,187)
Cash Used in Operating Activities	(518,567)	(248,022)
Investing Activities		
Cash received from GIC redemption	-	34,500
Proceeds from sale of property and equipment	-	10,069
Mineral property acquisition	(46,370)	-
Mineral property expenditures	(98,905)	(163,394)
Proceeds from sale of available-for-sale investment	153,190	59,698
Cash Provided by (Used in) Investing Activities	7,915	(59,127)
Financing Activities		
Credit facilities paid	(57,300)	(198,787)
Funds borrowed under credit facility	3,273	306,477
Interest paid	-	(11,253)
Proceeds from share issuance, net of share issue costs	598,405	186,000
Cash Provided by Financing Activities	544,378	282,437
Net Increase (Decrease) in Cash	33,726	(24,712)
Cash - beginning of period	21,648	33,542
Cash - end of period	$ 55,374	$ 8,830

Supplemental cash flow information (Note 15)

See accompanying notes to the consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

Prophecy Development Corp. ("**Prophecy**" or the "**Company**") is incorporated under the laws of the province of British Columbia, Canada and is engaged in worldwide mineral and energy exploration and development. 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. Also, the Company 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 vanadium project (the "**Gibellini Project**") and Louie Hill vanadium project (acquired after the reporting date) (the "**Louie Hill Project**") both, in the United States.

The Company maintains its registered and records office at #1610 – 409 Granville Street, Vancouver, B.C., Canada, V6C 1T2.

These unaudited condensed interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. The Company incurred a net loss of $546,252 during the six months ended June 30, 2017 and as of that date the Company's deficit was $161.8 million.

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

The Company is actively seeking additional sources of funding, which may not be available at favourable terms, if at all. They include: equity and debt financings; coal sales; equity, debt or property level joint ventures with power project and coal property developers; and sales of interests in existing assets. Because of the Company's need to conserve cash, all discretionary spending and exploration spending has been placed on hold.

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern that these uncertainties are material and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore to realize its assets and discharge its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements. These adjustments could be material.

(Expressed in Canadian Dollars) (Unaudited)

2. BASIS OF PRESENTATION

(a) Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting. They do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at and for the year ended December 31, 2016. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual consolidated financial statements as at and for the year ended December 31, 2016 ("**Annual Financial Statements**").

These unaudited condensed interim consolidated financial statements were approved and authorized for issue by the Audit Committee on August 9, 2017.

(b) Significant accounting policies

These interim financial statements follow the same accounting policies and methods of application as the Annual Financial Statements. Accordingly, they should be read in conjunction with the Annual Financial Statements.

(c) Use of judgments and estimates

In preparing these interim financial statements, management makes judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Annual Financial Statements.

(d) Changes in accounting standards

There were no previously undisclosed significant accounting pronouncements issued during the six months ended June 30, 2017.

3. 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:

			June 30, 2017		
	Canada	USA	Mongolia	Bolivia	Total
Reclamation deposits	$ -	$ -	$ 21,055	$ -	$ 21,055
Property and equipment	20,469	-	252,766	367,966	641,201
Mineral properties	-	46,370	14,493,927	12,404,738	26,945,035
	$ 20,469	$ 46,370	$ 14,767,748	$ 12,772,704	$ 27,607,291

			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

(Expressed in Canadian Dollars) (Unaudited)

4. CASH

Cash of Prophecy is comprised of bank balances.

	June 30, 2017	December 31, 2016
Cash	$ 55,374	$ 21,648

5. AVAILABLE-FOR-SALE INVESTMENTS

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 2,200,000 common shares of Lorraine represented approximately 9.6% of the issued and outstanding common shares of Lorraine at the acquisition date. The investment in Lorraine of $176,000 is classified as available-for-sale and is measured at fair value with changes in fair value recognized in other comprehensive income.

During the six months ended June 30, 2017, the Company disposed of 2,200,000 Lorraine shares for proceeds of $153,190 and a realized loss of $22,810.

As at June 30, 2017, the Company does not have available-for-sale investments.

(Expressed in Canadian Dollars) (Unaudited)

6. 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	(146)	(2,355)	-	-	-	-	(2,501)
Balance, June 30, 2017	$ 100,075	$ 276,858	$ 453,854	$ 197,813	$ -	$ 1,534,745	$ 2,563,345
Accumulated depreciation					-		
Balance, December 31, 2016	$ 94,900	$ 181,639	$ 339,916	$ 197,813	$ -	$ 833,971	$ 1,648,239
Depreciation for period	1,129	34,108	13,808	-	-	224,860	273,905
Balance, June 30, 2017	$ 96,029	$ 215,747	$ 353,724	$ 197,813	$ -	$ 1,058,831	$ 1,922,144
Carrying amount							
At December 31, 2016	$ 5,321	$ 97,574	$ 113,938	$ -	$ -	$ 700,774	$ 917,607
At June 30, 2017	$ 4,046	$ 61,111	$ 100,130	$ -	$ -	$ 475,914	$ 641,201

(Expressed in Canadian Dollars) (Unaudited)

7. MINERAL PROPERTIES

	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	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	$ -	$ -	$ -	$ 46,370	$ 46,370
Deferred exploration costs:					
Licenses, power plant	33,713	24,581	-	-	58,294
Geological core and consulting	13,968	-	38,631	-	52,599
Personnel, camp and general	1,448	1,452	385,164	-	388,064
	49,129	26,033	423,795	-	498,957
Balance, June 30, 2017	$ 11,235,451	$ 3,258,476	$ 12,404,738	$ 46,370	$ 26,945,035

Titan Project, 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 acquired the remaining 20% title interest of Randsburg in the Titan project by issuing to Randsburg 20,000 Prophecy Shares at a value of $4.81. As there were no benchmark or market changes from January 1, 2015 to June 30, 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.

Gibellini Project, Nevada, United States

On June 23, 2017, The Company acquired through lease the Gibellini vanadium project (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.

(Expressed in Canadian Dollars) (Unaudited)

7. MINERAL PROPERTIES (cont'd…)

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

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

(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");

(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.

8. 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.

	June 30, 2017	December 31, 2016
Trade accounts payable	$ 2,164,755	$ 2,224,134
Accrued liabilities	89,439	433,884
	$ 2,254,194	$ 2,658,018

9. CREDIT FACILITES

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

9. CREDIT FACILITES (cont'd…)

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 will be accrued and added to the maximum principal amount as they are incurred.

On March 30, 2016, the Company entered into a Debt Settlement Agreement with Linx and Mr. Lee pursuant to which, the Company agreed, subject to TSX and shareholder approval, which was obtained at the Annual General Meeting on June 2, 2016 to issue 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 which included the Bonus of $300,000 and draw-down fees of $17,056.

On January 12, 2017, the Company issued 300,000 Shares to Linx in satisfaction of $900,000 of indebtedness owing by the Company under the Credit Facility. Linx also has agreed for a nominal consideration of $1, to accrue and postpone the repayment of any principal, interest and fees due until the earlier of October 1, 2017, or such time as the Company is in a reasonable financial position to repay all or a portion of the amounts owing.

During the six months ended June 30, 2017, the Company paid $57,300 toward to the Credit Facility. As at June 30, 2017, the outstanding balance of the Credit Facility was $131,294 including interest payable of $13,600. For the six months ended June 30, 2017, the Company recorded an interest expense of $13,600 and finance cost of $161.

10. 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 June 30, 2017, the Company had 5,389,248 (June 30, 2016 – 4,558,043) common shares issued and outstanding.

(b) Equity issuances

On January 12, 2017, the Company, pursuant to the terms of its 2016 Share-Based Compensation Plan, issued 39,000 Shares valued at $4.88 per Share as a bonus to its directors, officers and consultants.

On January 12, 2017, the Company issued 300,000 Shares 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.

(Expressed in Canadian Dollars) (Unaudited)

10. SHARE CAPITAL (cont'd…)

(b) Equity issuances (cont'd…)

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

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). 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.

On June 13, 2017, the Company issued 59,659 units ("**Debt Settlement Units**") at a price of $4.00 per unit, to certain of its directors and officers to settle various debts owing to them pursuant to the terms of debt settlement agreements entered into with those directors and officers. Each Debt Settlement Unit 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 Units.

During six months ended June 30, 2017, the Company issued 9,687 Shares on the exercise of options for total proceeds of $44,685.

(c) Equity-based compensation plans

The following is a summary of the changes in Prophecy's stock options from December 31, 2015 to June 30, 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	236,000	$3.91
Expired	(8,800)	$27.97
Exercised	(9,687)	$4.61
Outstanding, June 30, 2017	678,326	$5.29

(Expressed in Canadian Dollars) (Unaudited)

10. SHARE CAPITAL (cont'd…)

(c) Equity-based compensation plans

As of June 30, 2017, the following Prophecy share purchase options were outstanding:

Exercise Price	Expiry Date	Options Outstanding June 30, 2017	Options Outstanding December 31, 2016	Exercisable June 30, 2017	Unvested June 30, 2017
$3.30	June 12, 2022	145,000	-	-	145,000
$4.88	January 12, 2022	91,000	-	22,750	68,250
$2.00	June 2, 2021	158,750	160,000	79,375	79,375
$5.00	June 22, 2020	32,800	32,800	32,800	-
$5.00	April 7, 2020	82,063	90,500	82,063	-
$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	32,471	32,472	32,471	-
$13.00	July 22, 2018	2,500	2,500	2,500	-
$18.00	September 24, 2017	3,750	3,750	3,750	-
$18.00	August 22, 2017	17,242	17,242	17,242	-
$18.00	August 16, 2017	1,500	1,500	1,500	-
$25.00	June 1, 2017	-	100	-	-
$28.00	June 18, 2017	-	8,700	-	-
		678,326	460,814	385,701	292,625

The six months ended June 30, 2017, included $200,354 (same period 2016 - $55,280) in share based payment costs related to stock options expensed as general and administrative expenses and $79,385 (same period 2016 – 27,700) capitalized to mineral properties.

(d) Share purchase warrants

The following is a summary of the changes in Prophecy's share purchase warrants from December 31, 2015 to June 30, 2017 (see Note 10(b)):

	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	212,908	$4.28
Outstanding, June 30, 2017	1,560,968	$4.63

(Expressed in Canadian Dollars) (Unaudited)

10. SHARE CAPITAL (cont'd…)

(d) Share purchase warrants

As of June 30, 2017, the following Prophecy share purchase warrants were outstanding:

Exercise price	Number of Warrants		Expiry date
	At June 30, 2017	At December 31, 2016	
$5.00	59,659	-	June 13, 2022
$4.00	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	80,000	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	114,768	114,768	June 24, 2020
$5.00	120,000	120,000	May 22, 2020
$4.00	5,600	5,600	January 25, 2018
$7.00	2,625	2,625	November 13, 2017
	1,560,968	1,348,060	

On June 13, 2017, the Company amended the terms of the equivalent of 114,768 warrants previously issued on June 24, 2015 and exercisable at an equivalent price of $6.00 per Common share, by extending their expiry date by three years to June 24, 2020. These warrants were valued at $Nil upon grant using the residual value method, therefore, this modification also resulted in a $Nil fair value.

11. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

The fair values of financial assets and financial liabilities approximate their carrying amounts in the condensed interim consolidated balance sheet. The Company does not offset financial assets with financial liabilities. There were no changes to the method of fair value measurement during the period. The Company's financial assets and financial liabilities are categorized as follows:

	June 30, 2017	December 31, 2016
Fair value through profit or loss		
Cash	$ 55,374	$ 21,648
Available-for-sale		
Available-for-sale investment	-	176,000
Loans and receivables		
Receivables	205,499	91,565
	$ 260,873	$ 289,213
Other financial liabilities		
Accounts payable and accrued liabilities	$ 2,254,194	$ 2,658,018
Credit facilities	131,294	1,071,560
	$ 2,385,488	$ 3,729,578

12. 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 June 30, 2017, the Company had a cash balance of $55,374 (December 31, 2016 – $21,648) in order to meet short-term business requirements.

At June 30, 2017, the Company had accounts payable and accrued liabilities of $2,254,194 (December 31, 2016 - $2,658,018), which have contractual maturities of 90 days or less and payment on a line of credit of $131,294 (December 31, 2016 - $1,071,560). The Company is seeking financing in order to be in a position to satisfy its current liabilities. Additional sources of funding, which may not be available on favourable terms, if at all, include: share equity and debt financings; equity, debt or property level joint ventures with power project and coal property developers. In the event that the Company is not able to obtain adequate additional funding to continue as a going concern, material adjustment would be required to both the carrying value and classification of assets and liabilities on the statement of financial position (Note 1).

(b) Credit risk

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

(c) Market risk

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

(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. During the six months ended June 30, 2017, the Company drew down $3,273 on its Credit Facility with an outstanding balance of $131,294 as at June 30, 2017. Due to the short-term nature of these financial instruments, and the fact that the Company's Credit Facility bears interest at a fixed rate, fluctuations in market rates do not have a significant impact on the fair values or future cash flows of the financial instruments as of June 30, 2017. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

(ii) Foreign currency risk

The Company has exploration and development projects in Mongolia, Bolivia, and United States 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.

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

(c) Market risk (cont'd…)

(i) Foreign currency risk (cont'd…)

Based on the above, net exposures as at June 30, 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 $50,100. A 10% strengthening (weakening) of the Canadian dollar against the Bolivian boliviano would impact net loss with other variables unchanged by $680,400. A 10% strengthening (weakening) of the US dollar against the Canadian dollar would impact net loss with other variables unchanged by $70,500. The Company currently does not use any foreign exchange contracts to hedge this currency risk.

(iii) Commodity and equity price risk

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

13. RELATED PARTY DISCLOSURES

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

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

The amounts due to related parties are non-interest bearing and are due upon demand. See Note 9 for information regarding the Company's credit facility with Linx Partners Ltd.

(Expressed in Canadian Dollars) (Unaudited)

13. RELATED PARTY DISCLOSURES (cont'd…)

A summary of amounts paid or accrued to related parties is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Related parties	2017	2016	2017	2016
Directors and officers	$ 52,750	$ 53,250	$ 105,000	$ 141,000
Linx Partners Ltd.	52,500	52,500	105,000	105,000
MaKevCo Consulting Inc.	4,600	5,400	10,800	9,200
Sophir Asia Ltd.	4,000	4,500	7,500	8,000
	$ 113,850	$ 115,650	$ 228,300	$ 263,200

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

	Three Months Ended June 30,		Six Months Ended June 30,	
Related parties	2017	2016	2017	2016
Consulting and management fees	$ 28,500	$ 28,500	$ 59,400	$ 57,000
Directors' fees	12,600	14,400	23,400	25,200
Mineral properties	39,000	39,000	78,000	78,000
Salaries and benefits	33,750	33,750	67,500	103,000
	$ 113,850	$ 115,650	$ 228,300	$ 263,200

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.

As at June 30, 2017, amounts due to related parties totaled $87,720 (December 31, 2016 – $366,269) and was comprised of $87,720 in deferred amounts due to directors and CEO (December 31, 2016 - $180,829), and $Nil bonus payable (December 31, 2016 - $185,440).

14. 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
Key Management Personnel	2017	2016	2017	2016
Salaries and short term benefits	$ 34,367	$ 33,750	$ 68,734	$ 103,000
Share-based payments	206,847	19,210	233,171	48,391
	$ 241,214	$ 52,960	$ 301,905	$ 151,391

(Expressed in Canadian Dollars) (Unaudited)

15. SUPPLEMENTAL CASH FLOW INFORMATION

	Six Months Ended June 30, 2017	2016
Supplementary information		
Interest paid	$ -	$ 11,253
Non-Cash Financing and Investing Activities		
Shares issued to pay Credit Facility	$ 900,000	$ 1,500,000
Shares issued for mineral properties	$ 96,200	$ -
Share bonus to personnel	$ 190,320	$ -
Shares issued to settle debt	$ 238,636	$ 654,648
Capitalized interest	$ -	$ 11,253
Capitalized depreciation	$ 106,225	$ 236,042
Property & equipment expenditures included in accounts payable	$ 1,747,070	$ 1,876,507
Mineral property expenditures included in accounts payable	$ 1,283,489	$ 1,136,172
Share-based payments capitalized in mineral properties	$ 79,385	$ 27,700

16. 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 ($6,821,652) 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 $6,821,652 was classified as non-current liabilities.

16. CONTINGENCIES (cont'd…)

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 continues to dispute the Sukhbaatar District Tax Division's assessment and delivered a complaint to Capital City Tax Tribunal on July 24, 2015. Due to the uncertainty of realizing the VAT balance, the Company has recorded an impairment charge for the full VAT balance in the year ended December 31, 2015. As there were no changes from January 1 to June 30, 2017, the impaired value of $Nil for the VAT receivable remains unchanged.

17. EVENTS AFTER THE REPORTING DATE

- On July 13, 2017, the Company acquired through lease, the Louie Hill Project in Nevada, USA, by paying USD 10,000 in cash to an arm's-length, private party (the "**Louie Hill Lessor**") with the intent to carry-out mining operations there. Under the mineral lease agreement, Prophecy will lease the mining claims which constitute the Louie Hill Project by paying to the Louie Hill Lessor, annual 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.

  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").

  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.

17. EVENTS AFTER THE REPORTING DATE (cont'd…)

- On July 21, 2017, the Company announced that it has entered into a binding letter agreement (the "**Letter Agreement**") with Fairmont Resources Inc. ("**Fairmont**") to acquire the fully-permitted Buttercup Iron-Titanium-Vanadium project in Quebec, Canada (the "**Buttercup Project**").

  Under the terms of the Letter Agreement, Prophecy will acquire the claims and a lease which constitute the Buttercup Project by paying to Fairmont:

  (a) At closing, the equivalent of $1,000,000, up to half of which (i.e. $500,000), may at Prophecy's sole discretion, be paid in Prophecy Common shares, calculated based on the 5-day volume-weighted average trading price of such shares as of the closing date; and

  (b) On the 1-year anniversary date of the closing date, a further $500,000, up to half of which (i.e. $250,000), may at Prophecy's sole discretion, be paid in Prophecy Common shares, calculated based on the 5-day volume-weighted average price of such shares as of the 1-year anniversary date of the closing date.

  The proposed transaction will be subject to Prophecy being satisfied with the results of its due diligence inquiries into the Buttercup Project. The parties have agreed to replace the Letter Agreement with a more comprehensive definitive agreement by November 1, 2017, subject to such due diligence results and other conditions being satisfied.