



**Management's Discussion and Analysis of Financial
Condition and Results of Operations
For the year ended December 31, 2018**

(Currency expressed in Canadian Dollars, except where indicated)

CONTENTS

1. INTRODUCTION	3
2. CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS	4
3. YEAR 2018 HIGHLIGHTS AND SIGNIFICANT EVENTS	5
4. PROPERTY SUMMARY	9
5. SELECTED ANNUAL FINANCIAL INFORMATION.....	29
6. SUMMARY OF QUARTERLY RESULTS.....	30
7. RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2018	30
8. RESULTS OF OPERATIONS FOR THE FOURTH QUARTER 2018	32
9. PROPOSED TRANSACTIONS.....	34
10. LIQUIDITY AND CAPITAL RESOURCES.....	34
11. CONTINGENCIES	36
12. ENVIRONMENTAL REGULATIONS	37
13. RELATED PARTY DISCLOSURES.....	37
14. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS.....	39
15. ACCOUNTING CHANGES AND RECENT ACCOUNTING PRONOUNCEMENTS.....	41
16. FINANCIAL INSTRUMENTS AND RELATED RISKS	42
17. RISKS AND UNCERTAINTIES	45
18. DISCLOSURE CONTROLS AND PROCEDURES	45
19. CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING.....	46
20. DISCLOSURE OF OUTSTANDING SHARE DATA.....	47
21. OFF-BALANCE SHEET ARRANGEMENTS.....	47

PROPHECY DEVELOPMENT CORP.

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

For the year ended December 31, 2018

(Expressed in Canadian Dollars, except where indicated)

1. INTRODUCTION

This Management's Discussion and Analysis ("MD&A") of Prophecy Development Corp. and its subsidiaries ("Prophecy", or the "Company") provides analysis of the Company's financial results for the year ended December 31, 2018. The following discussion of performance, financial condition and future prospects should be read in conjunction with the accompanying December 31, 2018 audited consolidated financial statements and the notes to those financial statements (the "Annual Financial Statements"), prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, and the Company's SEC Form 20-F Annual Report ("AR") for the year ended December 31, 2018, all of which are available under the Company's SEDAR profile at www.SEDAR.com. This MD&A is current as of March 29, 2019, and was reviewed, approved, and authorized for issue by the Company's Board of Directors.

Financial information is expressed in Canadian dollars, unless stated otherwise. 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 AR 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", and each, a "Share") are listed for trading on the Toronto Stock Exchange (the "TSX") under the symbol "PCY", the OTCQX® Best Market under the symbol "PRPCF" and the Frankfurt stock exchange under the symbol "1P2N".

On August 8, 2018, the Company completed a split of the issued and outstanding Shares on the basis of 10 new Shares for every one old Share outstanding (the "Split"). As required by IAS 33, *Earnings Per Share*, all information with respect to the number of Shares and issuance prices for the time periods prior to the Split was restated to reflect the Split.

We are an exploration stage company focusing on mining and energy projects in the United States, Canada, Bolivia and Mongolia. We have a 100% interest in two vanadium projects in North America including the Gibellini vanadium project which is comprised of the Gibellini and Louie Hill vanadium deposits and associated claims located in the State of Nevada, USA (the "Gibellini Project") and the Titan vanadium-titanium-iron project comprised of the Titan vanadium-titanium-iron deposit and related claims located in the Province of Ontario, Canada (the "Titan Project"). We also own a 100% interest in the Pulacayo project, a silver-lead-zinc property located in Bolivia. We also own a 100% interest in three coal properties in Mongolia: the Ulaan Ovoo property, the Khavtgai Uul property and the Chandgana Tal property, in addition to the land use right and construction license for the Chandgana power plant project. We do not currently consider our properties in Canada, Bolivia or Mongolia to be material properties.

Our principal business is the acquisition, exploration and development of mineral and energy projects. Our business strategy focus is to make our Gibellini Project the first operating primary vanadium mine in North America, offering the best quality vanadium pentoxide product that exceeds customer requirements in a variety of high-tech applications such as batteries and aerospace. We are also considering development of our Titan Project and the acquisition of other vanadium resources to augment Gibellini and position us as a major producer of vanadium.

The vanadium resources are part of a portfolio of projects we are building that, through their diversity of locations, commodities and products, reduces our 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 our efforts to attain our ultimate objective of stable positive cash flow.

PROPHECY DEVELOPMENT CORP.

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

For the year ended December 31, 2018

(Expressed in Canadian Dollars, except where indicated)

General Corporate Information:

At December 31, 2018 and March 29, 2019, Prophecy had: (i) 95,316,217 Shares issued and outstanding; (ii) 9,591,000 and 8,846,000 stock options for Shares outstanding respectively; (iii) 27,318,027 Share purchase warrants for Shares outstanding.

Transfer Agent and Registrar
Computershare Investor Services Inc.
3rd Floor, 510 Burrard Street
Vancouver, BC, Canada V6C 3B9
Tel: +1 (604) 661-9400

Investor and Contact Information

All financial reports, news releases and corporate information can be accessed by visiting our website at:

www.prophecydev.com

Investor & Media requests and queries:

Bekzod Kasimov

Tel: +1 (888) 513-6286

Email: ir@prophecydev.com

Head Office and Registered Office

Suite 1610 - 409 Granville Street
Vancouver, BC, Canada V6C 1T2
Tel: +1 (604) 569-3661

Directors and Officers

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

Directors

John Lee, Executive Chairman
Greg Hall
Masa Igata

Officers

John Lee, Interim President and Chief Executive Officer
Irina Plavutska, Chief Financial Officer
Bekzod Kasimov, Vice-President, Business Development
Michael Drozd, Vice-President, Operations
Danniel Oosterman, Vice-President, Exploration
Ron Espell, Vice-President, Environment and Sustainability

Audit Committee

Greg Hall (Chair)
Masa Igata
John Lee

Corporate Governance and Compensation Committee

Greg Hall (Chair)
Masa Igata
John Lee

Qualified Persons

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

2. CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

Forward-looking statements in this document are frequently identified by words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", "potentially" or similar expressions, or statements that events, conditions or results "will", "may", "would", "could", "should" occur or are "to be" achieved, and statements related to matters

PROPHECY DEVELOPMENT CORP.

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

For the year ended December 31, 2018

(Expressed in Canadian Dollars, except where indicated)

which are not historical facts. Information concerning management's expectations regarding Prophecy's future growth, results of operations, performance, business prospects and opportunities may also be deemed to be forward-looking statements, as such information constitutes predictions based on certain factors, estimates and assumptions subject to significant business, economic, competitive and other uncertainties and contingencies, and involve known and unknown risks which may cause the actual results, performance, or achievements to be different from future results, performance, or achievements contained in such forward-looking statements made by Prophecy.

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

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

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

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

3. YEAR 2018 HIGHLIGHTS AND SIGNIFICANT EVENTS

For further information please view the Company's 2018 news releases under the Company's SEDAR profile at www.SEDAR.com

PROPHECY DEVELOPMENT CORP.

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

For the year ended December 31, 2018

(Expressed in Canadian Dollars, except where indicated)

Gibellini Project

- On February 15, 2018, the Company acquired an additional 105 unpatented lode mining claims located adjacent to our existing Gibellini Project, through the acquisition of 1104002 B.C. Ltd. and its Nevada subsidiary, by paying a total of \$335,661 in cash, settling \$14,338 in debt and issuing the equivalent of 500,000 share purchase warrants (valued at \$89,944) to arm's-length, private parties.
- On March 12, 2018, the Company announced that it entered into a technical advisory and cooperation agreement with Northwest Nonferrous Metals Mining Group Co., Ltd. to advance the Gibellini Project. A technical team from Northwest Nonferrous Metals Mining Group Co., Ltd. concluded a visit to the Gibellini site and collected representative oxide and supergene samples.
- On March 28, 2018, the Company announced that following a meeting between the Company and staff of the Battle Mountain District-Mt. Lewis field office of the Bureau of Land Management (the "**BLM**") on March 23, 2018, the Gibellini Project will be one of the first projects to undergo National Environmental Policy Act ("**NEPA**") review under Secretary of the Interior Order No. 3355 with the following subject: Streamlining National Environmental Policy Reviews and Implementation of Executive Order 13807.
- On April 18, 2018, the Company announced that it signed an agreement with Monitor Ventures Inc. ("**Monitor**") for the right to access and use information related to the Gibellini Project, which was commissioned, compiled and held by Monitor. In consideration, Prophecy paid \$7,000 in cash; issued to Monitor the equivalent of 500,000 warrants entitling Monitor to purchase one Share at an exercise price the equivalent of \$0.30 for a period of three years, and will, upon approval of the environmental impact statement (the "**EIS**") in connection with the Gibellini Project by the BLM, pay Monitor, \$50,000 in cash.
- On April 23, 2018, the Company announced an amendment to the Gibellini mineral lease agreement dated June 22, 2017 (the "**MLA**"), whereby the Company had been granted an option to, at any time during the term of the MLA, require the current holder to transfer title over all but four of the leased, unpatented lode mining claims to the Company in exchange for USD1,000,000, to be paid as an advance royalty payment.
- On April 30, 2018, the Company announced that it initiated preparations for its exploration and verification drilling program on the Gibellini Project, including a planned total of 4,880 meters of reverse circulation drilling in 64 holes are planned in Gibellini, Louie Hill, Middle Earth, Big Sky and Northeast regional prospects.
- On May 9, 2018, the Company announced the submission of its Management Plan of Operations for the Gibellini Project to the BLM and the reclamation permit application to the Nevada Division of Environmental Protection, Bureau of Mining Regulation and Reclamation.
- On May 29, 2018, the Company announced results of a preliminary economic assessment study for the Gibellini Project (technical report filed on Sedar titled "Gibellini Vanadium Project, Eureka County, Nevada, NI 43-101 Technical Report on Preliminary Economic Assessment") (the "**PEA**"), designed to be an open pit, heap leach operation in Nevada's Battle Mountain region, about 25 miles south of the town of Eureka. The PEA reported an after tax cumulative cash flow of USD601.5 million, an internal rate of return of 50.8%, a net present value of USD338.3 million at a 7% discount rate and a 1.72 years payback on investment from start-up assuming an average vanadium pentoxide price (V_2O_5) of USD12.73 per pound. The PEA is preliminary in nature, it includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves, and there is no certainty that the preliminary economic assessment will be realized. Mineral resources are not mineral reserves and do not have demonstrated economic viability. The PEA was prepared by Amec Foster Wheeler E7C Services Inc, part of the Wood Group of companies ("**Wood**").
- On August 20, 2018, the Company secured water supply for the Gibellini Project's construction and operation. The Company signed a 10-year water lease agreement (the "**Agreement**") with the owner of a private ranch, located approximately 14.5 km from the Gibellini Project. The Agreement can be extended for any number of additional 7-year terms, not to exceed (with the primary term) a total of 99 years. Per the terms of the Agreement, the lessor has granted to Prophecy the rights to 805 acre-feet (approximately 262.4 million gallons) of water per year for the Gibellini Project, at a minimum flow rate of 500 gallons per minute from its year-round springs surface water stream.

PROPHECY DEVELOPMENT CORP.

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

For the year ended December 31, 2018

(Expressed in Canadian Dollars, except where indicated)

- On August 24, 2018, the Company engaged NewFields Companies, LLC ("**NewFields**"), an environmental, engineering, and construction management consulting firm to advance permitting and environmental impact statement (the "**EIS**") preparation for the Gibellini Project. The Company and NewFields' teams intend to work closely with the BLM the Nevada Division of Environmental Protection and other federal and state permitting agencies to target the filing of all major permitting applications by the end of 2019.
- On October 2, 2018, the Company signed a Memorandum of Agreement for voluntary cost recovery with the BLM to expedite Gibellini Project permitting efforts. Prophecy and the BLM agreed in principal to a fixed cost structure that will have Prophecy reimburse the BLM for the cost of all anticipated work for the BLM to complete its review of the Company's submission of mine plan of operations and any updates to existing baseline studies.
- On December 18, 2018, the Company announced that it selected M3 Engineering & Technology Corporation to provide engineering, procurement, construction and management services for its Gibellini Project in response to its Request for Proposal issued on August 15, 2018.
- Subsequent to year end, on February 14, 2019, the Company announced that it has retained Wood to undertake updating of the mineral resource and mining sections for the Company's upcoming Feasibility Study to be completed by year end 2019 to the standards of NI 43-101 for the Gibellini Project.
- On March 26, 2019, the Company announced vanadium assay results from its Fall 2018 exploration reconnaissance program on the Gibellini Project.

Corporate

Appointments:

- On February 26, 2018, the Company announced the following executive management appointments:
Michael Drozd, Vice-President, Operations;
Danniel Oosterman, Vice-President, Exploration;
Bekzod Kasimov, Vice-President, Business Development; and
John Young, Environmental Permitting Consultant.
- On August 14, 2018, the Company announced the appointment of Daniel Fidock as a member of the Board of Directors.
- On October 10, 2018, the Company announced the appointment of Gerald Panneton as the Company's President and new Chief Executive Officer, effective October 10, 2018, replacing John Lee, who remains as Chairman of the Board. The Company also announced the appointments of Gerald Panneton and Louis Dionne, to the Board of Directors and the resignations of Harald Batista and Daniel Fidock, as members of the Board of Directors.
- On October 29, 2018, the Company announced the appointment of Ron Espell as VP, Environment and Sustainability to lead the Gibellini Project permitting.
- Subsequent to year end, on February 19, 2019, the Company announced that Gerald Panneton resigned as the President & Chief Executive Officer, and a director of the Company effective February 15, 2019. John Lee, Chairman and former Chief Executive Officer of the Company, was appointed to serve as Interim President & Chief Executive Officer.
- On March 7, 2019, the Company announced the appointment of Michael Doolin as the Company's Chief Operating Officer and interim Chief Executive Officer, effective April 1, 2019. In this role, Mr. Doolin will manage Prophecy's worldwide operations while collaborating with Prophecy's executive chairman John Lee on investor marketing, fundraising and the Company's overall strategic direction. The Company also announced the resignation of Louis Dionne from the Board of Directors

Financings:

PROPHECY DEVELOPMENT CORP.

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

For the year ended December 31, 2018

(Expressed in Canadian Dollars, except where indicated)

- On May 30, 2018, the Company announced a non-brokered private placement involving the issuance of up to the equivalent of 9,340,000 units (the "**Units**") at a price the equivalent of C\$0.30 per Unit. Each Unit consists of one Share and one share purchase warrant (each a "**Warrant**"). Each Warrant entitles the holder to purchase one additional Share at an exercise price the equivalent of C\$0.40 for a period of three years from the closing of the first tranche of the placement (the "**Private Placement**").
- On June 26, 2018, the Company announced that it amended the terms of the Private Placement to provide for the issuance of up to the equivalent of 7,000,000 Units at a price the equivalent of C\$0.28 per Unit.
- On July 6, 2018, the Company announced that it closed the first tranche of the Private Placement. The first tranche of the Private Placement raised gross cash proceeds of C\$1,081,690 through the issuance of the equivalent of 3,863,180 Units of Prophecy.
- On July 19, 2018, the Company announced, following conditional acceptance by the TSX, and approval by the Company's shareholders at its Annual General Meeting held on June 20, 2018, that the Company intends to split the issued and outstanding Shares, on the basis of 10 new Shares for every one old Share outstanding and that the Shares would commence trading on an ex-distribution and post-Split basis at market opening on August 8, 2018.
- On August 14, 2018, the Company announced that it closed the second and final tranche of the Private Placement previously announced on May 30, 2018 and amended on June 26, 2018. The second and final tranche of the Private Placement raised gross cash proceeds of C\$55,506 through the issuance of 198,237 Units to John Lee, the Company's Executive Chairman, at a price of C\$0.28 per Unit. Each Unit is comprised of one Share and one Warrant. Each Warrant entitles the holder to purchase one additional Share at an exercise price of C\$0.50 for a period of three years from the closing of the second tranche of the Private Placement.
- On November 22, 2018, the Company closed its bought deal financing previously announced on November 1, 2018, which raised gross proceeds of \$5,520,000. The Company entered into an agreement with BMO Nesbitt Burns Inc. ("**BMO**"), under which BMO agreed to buy on a bought deal basis 12,000,000 Shares, at a price of \$0.46 per Share. The Shares were offered by way of a short form prospectus in each of the provinces and territories of Canada, except Québec. The net proceeds of the offering will be used to continue exploration and advance development and permitting of the Gibellini Project and for general corporate purposes.

Other:

- On February 27, 2018, the Company's shares began trading on the OTCQX® Best Market.
- On October 4, 2018, the Company announced that its SEC Form 20-F registration statement was declared effective. The Company is subject to the reporting requirements of the *United States Securities Exchange Act of 1934*, as amended, and will file annual reports and other information with the United States Securities and Exchange Commission.
- On October 16, 2018, the Company announced that it executed a lease agreement (the "**Lease**") with an arms-length private Mongolian company (the "**Lessee**") whereby the Lessee plans to perform mining operations at Prophecy's Ulaan Ovoo coal mine and will pay Prophecy USD2.00 (the "**Production Royalty**") for every tonne of coal shipped from the Ulaan Ovoo site premises. The Lessee paid Prophecy USD100,000 in cash, as a non-refundable advance royalty payment and is preparing, at its own and sole expense, to restart and operate the Ulaan Ovoo mine with its own equipment, supplies, housing and crew. The Lessee is responsible for all government taxes and royalties related to its proposed mining operation.

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

- Subsequent to year end, on March 18, 2019, the Company announced Ulaan Ovoo mine start up in March and approximately 21,000 tonnes of coal production and sales.

PROPHECY DEVELOPMENT CORP.

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

For the year ended December 31, 2018

(Expressed in Canadian Dollars, except where indicated)

- Subsequent to year end, the Company cancelled 745,000 stock options with a weighted average exercise price of \$0.28.

4. PROPERTY SUMMARY

Gibellini Project, Nevada, USA

The Company’s principal asset is its interest in the Gibellini Project. Prophecy holds a 100% interest in the properties by way of a lease agreement and staked claims. Claims are in the name of Prophecy’s indirect, wholly-owned Nevada subsidiaries, VC Exploration (US), Inc. (“**VC Exploration**”) and Vanadium Gibellini Company, LLC (“**Vanadium Gibellini**”).

The Gibellini Project consists of a total of 354 unpatented lode mining claims that include: the Gibellini group of 40 claims, the VC Exploration group of 105 claims, and the Prophecy group of 209 claims. The Gibellini group of claims is referred to by the Company as a “project”. All the claims are located in Eureka County, Nevada, approximately 25 miles south of the town of Eureka and are easily accessed from US Highway 50 to a paved road that becomes a graded, gravel road.

The Gibellini Project is situated on the east flank of the Fish Creek Range in the Fish Creek Mining District, about 25 miles south of Eureka, Nevada and is accessed by dirt road extending westward from State Route 379.



Figure 1

PROPHECY DEVELOPMENT CORP.

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

For the year ended December 31, 2018

(Expressed in Canadian Dollars, except where indicated)

The Gibellini group of claims was acquired on June 22, 2017, through lease from the claimant and current holder of the Gibellini mineral claims (the "**Gibellini Lessor**") and includes an area of approximately 771 acres. Under the Gibellini mineral lease agreement dated June 22, 2017 (the "**Gibellini MLA**"), Prophecy leased the Gibellini group of claims which originally constituted the Gibellini Project by among other things, agreeing to pay to the Gibellini Lessor, 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 group of claims by paying to the Gibellini Lessor, 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.

On April 19, 2018, the Gibellini MLA was amended to grant Prophecy the option, at any time during the term of the agreement, to require the Gibellini Lessor to transfer their title over all of the leased mining claims (excluding four claims which will be retained by the Gibellini Lessor and which contain minimal resource) to Prophecy in exchange for USD1,000,000, to be paid as an advance royalty payment.

On July 10, 2017, the Company acquired (through lease) from the holders (the "**Former Louie Hill Lessors**") 10 unpatented lode claims totaling approximately 207 gross acres that comprised the Louie Hill group of claims located approximately 500 metres south of the Gibellini group of claims. These claims were subsequently abandoned by the Former Louie Hill Lessors, and on March 11 and 12, 2018, the Company staked the area within and under 17 new claims totaling approximately 340 gross acres which now collectively comprise the expanded Louie Hill group of claims.

On October 22, 2018, the Company entered into a royalty agreement (the "**Royalty Agreement**") with the Former Louie Hill Lessors to replace on substantially similar terms, the former Louie Hill Mineral Lease Agreement dated July 10, 2017, wherein Prophecy will pay an advance royalty and a net smelter royalty on vanadium pentoxide produced from the area of the 10 unpatented lode claims originally acquired through lease from the Former Louie Hill Lessors that is now contained within 17 lode claims since staked by the Company's subsidiaries. The annual advance royalty payments will be tied, based on an agreed formula (the total amount not to exceed USD\$28,000 per year), to the average vanadium pentoxide price for the prior year.

Upon commencement of production, Prophecy will pay to the Former Louie Hill Lessors, a 2.5% NSR of which, 1.5% of the NSR may be purchased at any time by Prophecy for 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 Royalty Agreement shall be for an indefinite period and shall be valid and in full force and effect for as long as the Company, its subsidiaries, or any of their permitted successors or assigns holds a valid and enforceable mining concession over the area.

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

On February 15, 2018, the Company indirectly acquired an additional 105 unpatented lode mining claims located adjacent to its existing Gibellini Project in Nevada, USA through the indirect acquisition of VC Exploration (US) Inc, by paying a total of \$335,661 in cash and issuing the equivalent of 500,000 Share purchase warrants to arm's-length, private parties.

The Gibellini Project is situated entirely on public lands that are administered by the BLM. No easements or rights of way are required for access over public lands. Rights-of-way would need to be acquired for future infrastructure requirements, such as pipelines and powerlines.

On November 20, 2017, the Company received an independent technical report titled "Gibellini Vanadium Project Nevada, USA NI 43-101 Technical Report" with an effective date of November 10, 2017 (the "**Gibellini Report**") prepared by Wood. The Gibellini Report was filed with Canadian securities regulatory authorities on SEDAR (available at www.sedar.com).

PROPHECY DEVELOPMENT CORP.
Management’s Discussion and Analysis of Financial Condition and Results of Operations
For the year ended December 31, 2018
(Expressed in Canadian Dollars, except where indicated)

On June 25, 2018, Prophecy released the “Gibellini Vanadium Project, Eureka County, Nevada, NI 43-101 Technical Report on Preliminary Economic Assessment” (the “**PEA**”), with an effective date of May 29, 2018 and signed June 25, 2018 authored by Independent Qualified Persons Kirk Hanson, P.E.; Edward J.C. Orbock III, RM SME; Edwin Peralta, P.E.; and Dr. Lynton Gormely, P. Eng. of Wood and is in accordance with NI 43-101. The Gibellini PEA was filed with Canadian securities regulatory authorities on SEDAR (available at www.sedar.com).

Gibellini Deposit

On May 29, 2018, the Company received an independent technical report providing an updated the resource on the Gibellini project. The report is titled “Gibellini Vanadium Project Eureka County, Nevada, NI 43-101 Technical Report on Preliminary Economic Assessment” prepared by Mr. Kirk Hanson, P.E., Technical Director, Open Pit Mining; Mr. Edward J.C. Orbock III, RM SME, Principal Geologist and US Manager of Consulting; Mr. Edwin Peralta, P.E., Senior Mining Engineer; and Mr. Lynton Gormely, P.Eng., Consultant Metallurgist of Wood. The report has an effective date of May 29, 2018.

The PEA replaces the technical report entitled “Gibellini Vanadium Project, Nevada, USA, NI 43-101 Technical Report”, effective November 10, 2017 and filed November 20, 2017. The PEA is preliminary in nature and includes inferred mineral resources that are too speculative geologically to have economic considerations applied to them that would enable them to be categorized as mineral reserves. There is no certainty that the PEA results will be realized. Mineral resources are not mineral reserves and do not have demonstrated economic viability.

The PEA disclosed an estimated 7.94 million tons at a weighted average grade of 0.314% vanadium pentoxide (“**V₂O₅**”) in the Measured category and 15.02 million tons at a weighted average grade of 0.271% V₂O₅ in the Indicated category leading to a total combined Measured and Indicated Mineral Resource of 22.95 million tons at a weighted average grade of 0.286% V₂O₅. Total contained metal content of the Measured and Indicated Mineral Resources is 131.34 million pounds V₂O₅. The Inferred Mineral Resource estimate is 14.97 million tons at a weighted average grade of 0.175% V₂O₅. The total contained metal content of the Inferred Mineral Resource estimate is 52.30 million pounds V₂O₅. The table below contains a summary of the Gibellini deposit resource estimate:

Table 1: Mineral Resource Statement, Gibellini

Confidence Category	Domain	Cut-off V₂O₅ (%)	Tons (Mt)	Grade V₂O₅ (%)	Contained V₂O₅ (Mlb)
Measured	Oxide	0.101	3.96	0.251	19.87
	Transition	0.086	3.98	0.377	29.98
Indicated	Oxide	0.101	7.83	0.222	34.76
	Transition	0.086	7.19	0.325	46.73
Total Measured and Indicated			22.95	0.286	131.34
Inferred	Oxide	0.101	0.16	0.170	0.55
	Transition	0.086	0.01	0.180	0.03
	Reduced	0.116	14.80	0.175	51.72
Total Inferred			14.97	0.175	52.30

Notes to accompany Mineral Resource table for Gibellini:

1. The Qualified Person for the estimate is Mr. E.J.C. Orbock III, RM SME, a Wood Group of companies employee. The Mineral Resources have an effective date of May 29, 2018.
2. Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability.
3. Mineral Resources are reported at various cut-off grades for oxide, transition, and reduced material.

PROPHECY DEVELOPMENT CORP.

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

For the year ended December 31, 2018

(Expressed in Canadian Dollars, except where indicated)

4. Mineral Resources are reported within a conceptual pit shell that uses the following assumptions: Mineral Resource V_2O_5 price: \$14.64/lb; mining cost: \$2.21/ton mined; process cost: \$13.62/ton; general and administrative ("G&A") cost: \$0.99/ton processed; metallurgical recovery assumptions of 60% for oxide material, 70% for transition material and 52% for reduced material; tonnage factors of 16.86 ft³/ton for oxide material, 16.35 ft³/ton for transition material and 14.18 ft³/ton for reduced material; royalty: 2.5% net smelter return (NSR); shipping and conversion costs: \$0.37/lb. An overall 40° pit slope angle assumption was used.
5. Rounding as required by reporting guidelines may result in apparent summation differences between tons, grade and contained metal content. Tonnage and grade measurements are in US units. Grades are reported in percentages.
Louie Hill Deposit

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

The Gibellini Technical Report provides an Inferred Mineral Resource of 7.52 million tons at a weighted average grade of 0.276% vanadium pentoxide (V_2O_5). The oxidation domains were not modeled. The total contained metal content of the estimate is 41.49 million pounds V_2O_5 . The table below summarizes the Louie Hill deposit resource estimate:

Table 2: Mineral Resources Statement, Louie Hill

Confidence Category	Cut-off V_2O_5 (%)	Tons (Mt)	Grade V_2O_5 (%)	Contained V_2O_5 (Mlb)
Inferred	0.101	7.52	0.276	41.49

Notes to accompany Mineral Resource table for Louie Hill:

1. The Qualified Person for the estimate is Mr. E.J.C. Orbock III, RM SME, a Wood Group of companies employee. The Mineral Resources have an effective date of May 29, 2018. The resource model was prepared by Mr. Mark Hertel, RM SME.
2. Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability.
3. Oxidation state was not modeled.
4. Mineral Resources are reported within a conceptual pit shell that uses the following assumptions: Mineral Resource V_2O_5 price: \$14.64/lb; mining cost: \$2.21/ton mined; process cost: \$13.62/ton; general and administrative (G&A) cost: \$0.99/ton processed; metallurgical recovery assumptions of 60% for mineralized material; tonnage factors of 16.86 ft³/ton for mineralized material, royalty: 2.5% net smelter return (NSR); shipping and conversion costs: \$0.37/lb. For the purposes of the resource estimate, an overall 40° slope angle assumption was used.
5. Rounding as required by reporting guidelines may result in apparent summation differences between tons, grade and contained metal content. Tonnage and grade measurements are in US units. Grades are reported in percentages.
A total of 280 drill holes (about 51,265 ft) have been completed on the Gibellini Project since 1946, comprising 16 core holes (4,046 ft), 169 rotary drill holes (25,077 ft; note not all drill holes have footages recorded) and 95 reverse circulation holes (22,142 ft).

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

No significant work has been conducted on the Gibellini Project since 2011 with some minor prospecting completed in October of 2018. We have completed trenching or drilling activities since the Gibellini Project acquisition.

The power supply for the Gibellini Project site is assumed to be at 24.9 kV and supplied from a planned substation to be located near Fish Creek Ranch. This substation would tap and step-down the 69kV supply carried by the line to the nearby Pan Mine to 24.9kV and place it on a line to the Gibellini Project. Negotiations with the power utility, Mt. Wheeler Power will need to be undertaken to secure any future power supply contract and transmission line to the site.

On April 18, 2018, the Company announced that it signed an agreement with Monitor Ventures Inc. ("Monitor") for the right to access and use information related to the Gibellini Project which was commissioned, compiled and held by Monitor. In consideration, Prophecy paid \$7,000 in cash, issued to Monitor the equivalent of 500,000 warrants

PROPHECY DEVELOPMENT CORP.

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

For the year ended December 31, 2018

(Expressed in Canadian Dollars, except where indicated)

entitling Monitor to purchase one Share at an exercise price the equivalent of \$0.30 for a period of three years, and will, upon approval of the EIS by BLM, pay Monitor, \$50,000 in cash.

On May 9, 2018, the Company submitted its Management's plan of operations (the "MPO") to the BLM and the Reclamation Permit Application to the Nevada Division of Environmental Protection, Bureau of Mining Regulation and Reclamation (the "BMRR").

The MPO was prepared by SRK Consulting (U.S.) Inc. with over 1,100 pages of detailed development plans for the open pit mining operations and processing facilities to extract and recover vanadium from the Gibellini Project with stated average mine production during the seven-year mine life of 15.7 million tons of ore material containing 120.5 million pounds of vanadium. The primary facilities include the: pit, waste rock disposal facility, mine office, auxiliary facilities such as water and power, crushing facilities and stockpile, heap leach pad, process facility, water ponds, borrow areas, and mine and access roads.

A map of the proposed facilities is available at www.prophecydev.com.

In addition, the MPO includes the following designs along with associated environmental baseline studies:

1. Quality Assurance Plan
2. Storm Water Management Plan
3. Adaptive Waste Rock Management Plan
4. Monitoring Plan
5. Noxious Weed Management Plan
6. Spill Contingency Plan
7. Feasibility Study Level Pit Slope Design
8. Heap Leach and Waste Rock Dump Facility Stability Report
9. Geochemical Characterization Report
10. Water Management Plan
11. Closure and Reclamation Plan
12. Transportation Plan
13. Standardized Reclamation Cost Estimate

The baseline studies supplementing the MPO were completed by the previous operator between 2010 and 2012, and included studies of biological resources, cultural resources, surface water resources, ground water resources, and waste rock geochemical characterization.

In August 2018, the Company engaged NewFields, an environmental, engineering, and construction management consulting firm to advance EIS preparation for the Gibellini Project.

NewFields completed the Gibellini heap leach pad and waste dump designs (over 40 pages) as part of an overall basic engineering design lead by Scotia International of Nevada, Inc. in 2014. NewFields' familiarity with the project should help to expedite permitting efforts at Gibellini.

As a result of direction from Secretary of the Interior Order No. 3355 (Streamlining National Environmental Policy Reviews and Implementation of Executive Order 13807) Prophecy anticipates the Gibellini EIS will not be more than 150 pages (excluding appendices) and the BLM to complete the Gibellini final EIS within one year from the issuance of the Notice of Intent ("NOI"). Should that occur, it means that permitting for the Gibellini Project may potentially be concluded in 2020.

PEA

On May 29, 2018, the Company received results of a PEA for the Gibellini Project. The PEA reported an after tax cumulative cash flow of \$601.5 million, an internal rate of return of 50.8%, a net present value of \$338.3 million at a 7% discount rate and a 1.72 years payback on investment from start-up assuming an average vanadium pentoxide price of \$12.73 per pound. As of May 29, 2018, the price of vanadium pentoxide is \$14.20 per pound according to www.asianmetal.com. The PEA was prepared by Wood and is based on the NI 43-101 compliant resource calculations reported above.

PROPHECY DEVELOPMENT CORP.
Management’s Discussion and Analysis of Financial Condition and Results of Operations
For the year ended December 31, 2018
(Expressed in Canadian Dollars, except where indicated)

Table 3: Highlights of the PEA (after tax)

All dollar values are expressed in US dollars unless otherwise noted

Internal rate of return	50.8%
Net present value (“NPV”)	\$338.3 million at 7% discount rate
Payback period	1.72 years
Average annual production	9.65 million lbs V ₂ O ₅
Average V ₂ O ₅ selling price	\$12.73 per lb
Operating cash cost	\$4.77 per lb V ₂ O ₅
All-in sustaining costs*	\$6.28 per lb V ₂ O ₅
Breakeven price**	\$7.76 per lb V ₂ O ₅
Initial capital cost including 25% contingency	\$116.76 million
Average grade	0.26% V ₂ O ₅
Strip ratio	0.17 waste to leach material
Mining operating rate	3.4 million tons (leach material and waste) per year
Average V ₂ O ₅ recovery through Direct Heap Leaching	62%
Life of mine	13.5 years

*includes selling costs, royalties, operating cash cost, reclamation, exploration and sustaining capital costs.

**includes selling costs, royalties, operating cash costs, taxes (local, state, and federal), working capital, and sustaining and capital costs.

The PEA is preliminary in nature, and includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves, and there is no certainty that the PEA will be realized. Mineral resources are not mineral reserves and do not have demonstrated economic viability.

Sensitivity Analysis

The tables below show the sensitivity analysis to the vanadium pentoxide price, grade, and to the PEA capital cost and operating costs. This sensitivity analysis indicates strong project economics even in very challenging conditions, and that the project is well positioned to benefit from the current rising vanadium price environment. A 20% increase in the vanadium price relative to the base case translates to a USD\$491.3 million after-tax NPV at a 7% discount rate.

Table 4: Sensitivity Analysis

All dollar values are expressed in US dollars unless otherwise noted

V ₂ O ₅ price change	V ₂ O ₅ price USD\$/lb	After-tax IRR	After-tax NPV USD\$M @ 7%	After-tax cashflow USD\$M
30%	16.55	69%	568.0	996.0
20%	15.28	63%	491.3	864.4

PROPHECY DEVELOPMENT CORP.
Management's Discussion and Analysis of Financial Condition and Results of Operations
For the year ended December 31, 2018
(Expressed in Canadian Dollars, except where indicated)

10%	14.00	57%	415.2	733.2
Base price	12.73	51%	338.3	600.4
-10%	11.46	44%	261.0	467.2
-20%	10.18	36%	183.1	333.2
-30%	8.91	26%	103.9	196.9
V₂O₅ grade change	V₂O₅ grade	After-tax IRR	After-tax NPV USD\$M @ 7%	After-tax cashflow USD\$M
30%	0.34%	68%	554.4	972.8
20%	0.31%	63%	482.4	849.0
10%	0.28%	57%	410.7	725.4
Base grade	0.26%	51%	338.3	600.4
-10%	0.23%	44%	265.6	475.0
-20%	0.21%	37%	192.2	348.9
-30%	0.18%	28%	118.3	221.6
Capex change	Capex USD\$M	After-tax IRR	After-tax NPV USD\$M @ 7%	After-tax cashflow USD\$M
30%	151.8	40%	307.2	564.3
20%	140.1	43%	317.6	576.3
10%	128.4	47%	328.0	588.4
Base Capex	116.8	51%	338.3	600.4
-10%	105.1	55%	348.6	612.5
-20%	93.4	61%	358.9	624.6
-30%	81.7	67%	369.3	636.8
Opex change	Opex USD\$M	After-tax IRR	After-tax NPV USD\$M @ 7%	After-tax cashflow USD\$M
30%	6.20	45%	257.9	450.2
20%	5.72	47%	284.8	500.3
10%	5.25	49%	311.6	550.4
Base Capex	4.77	51%	338.3	600.4
-10%	4.29	53%	364.8	650.0
-20%	3.82	55%	390.7	698.4
-30%	3.34	56%	416.0	745.4

PROPHECY DEVELOPMENT CORP.**Management's Discussion and Analysis of Financial Condition and Results of Operations****For the year ended December 31, 2018**

(Expressed in Canadian Dollars, except where indicated)

Mining & Processing

Mining at the Gibellini and Louie Hill projects is planned to be a conventional open pit mine utilizing a truck and shovel fleet comprised of 100-ton trucks and front end loaders. Average mine production during the 13.5 year mine life is 3.4 million tons of leach material (3 million tons) and waste (0.4 million tonnes) per year at a strip ratio of 0.17. Mining is to be completed through contract, with Prophecy's mining staff overseeing the contracted mining operation and performing the mine engineering and survey work.

Table 5

	Oxide '000 tons	Transition '000 tons	Reduced '000 tons	Grade % V₂O₅	Metal contained V₂O₅ (Mlb)	Metal Produced V₂O₅ (Mlb)
YR 1	2,600	400	—	0.291	17.440	10.633
YR 2	2,400	600	—	0.278	16.690	10.480
YR 3	1,760	1,240	—	0.310	18.580	12.067
YR 4	650	2,350	—	0.372	22.320	15.217
YR 5	310	2,680	10	0.366	21.950	15.185
YR 6	2,240	750	10	0.315	18.920	11.928
YR 7	3,000	—	—	0.316	18.980	11.394
YR 8	1,910	700	380	0.189	11.310	7.085
YR 9	690	1,220	1,090	0.216	12.940	8.023
YR 10	110	370	2,520	0.208	12.480	6.898
YR 11	450	360	2,180	0.182	10.910	6.103
YR 12	50	140	2,820	0.166	9.980	5.349
YR 13	390	10	2,600	0.183	10.970	5.839
YR 14	1,710	—	—	0.195	6.670	4.096
Totals:	18,290	10,830	11,590	0.258	210.15	130.297

The processing method envisioned for the Gibellini Project will be to feed leach material from the mine via loader to a hopper that feeds the crushing plant. The leach material will then be fed to the agglomerator where sulfuric acid, flocculent and water will be added to achieve adequate agglomeration. The agglomerated leach material will be transported to a stacker on the leach pad, which will stack the material to a height of 15 feet. Once the material is stacked, solution will be added to the leach heap at a rate of 0.0025 gallons per minute per square foot. The solution will be collected in a pond and this pregnant leach solution will be sent to the process building for metal recovery where it will go through solvent extraction and stripping processes to produce the vanadium pentoxide.

Vanadium Recoveries and Metallurgical Testing

Approximately 130.3 million pounds of V₂O₅ is expected to be produced from Gibellini and Louie Hill leaching operations at an average recovery of 62% (oxide: 60%, transition: 70% and reduced: 52%). The heap leaching is performed at ambient temperature and atmospheric pressure without pre-roasting or other beneficiation process. The pregnant leach solution is continuously collected with leach material undergoing, on average, a 150-day heap-leaching cycle. Table 9 below summarizes the projected metallurgical recoveries used in the PEA for the three defined oxidation-type domains.

PROPHECY DEVELOPMENT CORP.
Management's Discussion and Analysis of Financial Condition and Results of Operations
For the year ended December 31, 2018
(Expressed in Canadian Dollars, except where indicated)

Table 6

Mill Feed Material Type	Direct Leaching Recovery
Oxide	60%
Transition	70%
Reduced	52%

The direct heap leach vanadium recovery estimates used in the PEA were based on extensive metallurgical testing work performed by SGS Lakefield Research Laboratories, Dawson Minerals Laboratories, and McClelland Laboratories. Samples were selected from a range of depths within the deposit, representative of the various types and styles of mineralization. Samples were obtained to ensure that tests were performed on sufficient sample mass. The end results demonstrated low acid consumption (less than 100 lb acid consumption per ton leached) and high recovery through direct leaching. Notable test results included the following:

Acid Heap Leach Testing of a Gibellini Bulk Sample, McClelland Laboratories, September 4, 2013

A series of trenches were excavated and approximately 18 tons of material were sent to McClelland Laboratories for pilot testing. The material was air dried and stage crushed to 2" where a column sample was cut for 12" columns and then the leach material was crushed to $\frac{1}{2}$ ". A head sample was taken and material for bench marking columns, and a bottle roll test was also taken. The results of the pilot plant testing are shown in Table 7:

Table 7

Crush Size 100% Passing	Test Type	Time (Days)	Head Grade %V*	% Vanadium Recovery	Acid Consumption lbs/st
50 mm (2")	Column, open circuit	123	0.299	76.6%	88
12.5 mm (1/2")	Column, open circuit	123	0.313	80.2%	72
12.5 mm (1/2")	Column, closed circuit	199	0.284	68.3%	84
12.5 mm (1/2")	Column, closed circuit	Column, closed circuit	0.313	74.0%	96
12.5 mm (1/2")	Bottle Roll	4	0.286	67.1%	74
1.7 mm (-10m)	Bottle Roll	4	0.286	66.3%	66
-75 μ	Bottle Roll	4	0.279	67.6%	62
-75 μ	Bottle Roll	30	0.298	74.2%	54

*to convert V to V₂O₅, multiply V by 1.7852.

Solvent Extraction (SX) Test Work

The design parameters from this test work are:

- SX Extraction pH Range 1.8 to 2.0
- Di-2-Ethyl Hexyl Phosphoric Acid Concentration 0.45 M (~17.3% by weight) Cytec
- 923 Concentration 0.13 M (~5.4% by weight)

PROPHECY DEVELOPMENT CORP.

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

For the year ended December 31, 2018

(Expressed in Canadian Dollars, except where indicated)

- The Organic Diluent is Orform SX-12 (high purity kerosene)
- SO₂ addition of 1.0 to 1.5 g/l
- Strip Solution Sulfuric Acid Concentration 225 to 250 g/l SX
- Extraction Efficiency ~97%
- SX Strip Efficiency ~98%

Pilot Scale Solvent Extraction Testing on Vanadium Bearing Solutions from Two Gibellini Project Column Leach Tests, McClelland Laboratories, September 16, 2013

Solvent extraction (“**SX**”) processing was conducted to recover vanadium from sulfuric acid pregnant leach solution (“**PLS**”) generated during pilot column testing on bulk leach samples from the Gibellini project. Laboratory scale testing was conducted on select solutions generated during the pilot SX processing, to optimize the SX processing conditions. Additional laboratory scale testing was conducted on the loaded strip solution generated during the pilot SX testing, to evaluate methods for upgrading and purifying it to levels that may be required for sale of a final vanadium bearing product.

The final pregnant strip solution was 6.1% vanadium, 250 g/l sulfuric acid with approximately 2% Fe and Al. The solution was suitable for oxidation using sodium chlorate to convert the V+4 to V+5 which was then precipitated using ammonia to make ammonium metavanadate (“**AMV**”). To make a vanadium product for the steel industry, this AMV is calcined (ammonia driven off) and heated to above 700°C (the fusion temperature of V₂O₅). This fused V₂O₅ would then be cooled on a casting wheel, pulverized and packaged. Additionally, using ion exchange resins in conjunction with solvent extraction, strip solution was produced which met or exceeded specifications of electrolyte for vanadium flow batteries.

In August of 2018, Prophecy received metallurgical results from its technology partner, NWME from samples collected during a site visit in March of 2018. Tests were performed at it’s laboratory testing facilities located in Xi’an, China. NWME utilized a SX processing method to recover vanadium from sulfuric acid PLS generated by bottle roll and column test acid leaching on Gibellini samples. The solution was reduced and then precipitated using ammonia to make AMV. The AMV was calcined and heated then cooled and pulverized. A vanadium pentoxide with 98.56 % purity content was produced. The assay for this work is shown below:

Table 8

V2O5 %	SI %	Fe %	P %	S %	As %	Na2O %	K2O %	Al %	U %
98.56	0.0078	0.88	0.058	0.47	0.0026	0.43	0.052	0.22	0.0001

Uranium content is less than 0.0001% which does not affect the marketability of the product.

The PLS was produced with very low deleterious elements which enabled using an efficient SX process. The PLS V2O5 concentration was 1.15 gram per liter and the Pregnant Strip Solution V2O5 concentration was 39.61 grams per liter.

Capital and Operating Costs

The projected capital costs for the Gibellini vanadium project over a 1 ½ year construction period and mine life average operating costs are summarized in Tables 9 and 10 below. The capital cost includes 25% contingency or USD23.4 million.

PROPHECY DEVELOPMENT CORP.
Management's Discussion and Analysis of Financial Condition and Results of Operations
For the year ended December 31, 2018
(Expressed in Canadian Dollars, except where indicated)

Table 9: Pre-Production Capital Cost

All dollar values are expressed in US dollars unless otherwise noted

Cost Description	Total (USD\$000s)
<i>Open Pit Mine</i>	
Open pit mine development	1,412
Gibellini incremental WRSF	212
Mobile equipment	111
<i>Infrastructure-On Site</i>	
Site prep	2,431
Roads	1,391
Water supply	2,007
Sanitary system	61
Electrical – on site	2,052
Communications	165
Contact water ponds	174
Non-process facilities – buildings	7,583
<i>Process Facilities</i>	
Mill feed handling	15,380
Heap leach system	20,037
Process plant	14,441
<i>Off-Site Infrastructure</i>	
Water system	4,495
Electrical supply system	3,227
First fills	860
<i>Subtotal Total Direct Cost</i>	<i>76,039</i>
Construction indirect costs	4,254
Sales tax / OH&P	4,236
EPCM	8,879
Total Before Contingency	93,409
Contingency (25%)	23,352
Total Project Cost	116,761

PROPHECY DEVELOPMENT CORP.

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

For the year ended December 31, 2018

(Expressed in Canadian Dollars, except where indicated)

Table 10: Operating Costs

All dollar values are expressed in US dollars unless otherwise noted

Total Cash Operating Cost	USD\$ per Ton Leached	USD\$ per lb of V ₂ O ₅ Produced
G&A	0.99	0.31
Mining Cost	2.72	0.85
Total Processing Cost	11.54	3.61
Total	15.26	4.77

The cash operating costs in the first half of the project covering years 1-7 is USD\$3.59 per lb of V₂O₅ produced and for the years 8-14 is USD\$7.12 per lb of V₂O₅ produced, resulting in the weighted average cash cost of USD\$4.77 per lb of V₂O₅ produced. The cash operating cost is lower in the first half of the project due to processing higher grade material.

During the year ended December 31, 2018, the Company incurred total costs of \$2,727,759 (2017 - \$431,566) for the Gibellini Project including for \$387,149 (2017 - \$74,876) for registrations, annual maintenance fees, taxes, and for advance royalty payments, \$1,509,587 (2017 - \$272,620) for geological and engineering services, and \$831,023 (2017 - \$84,070) for personnel, legal, general and administrative expenses.

Permitting

Further to our news release dated May 9, 2018, Prophecy submitted its MPO and associated baseline studies to the the BLM. Prophecy is currently working with the BLM to update all previous, and add all necessary, baseline studies. Upon acceptance of the baseline studies, MPO, and environmental report by the BLM, Prophecy expects to trigger a NOI in 2019 by the BLM, to prepare an EIS for the Gibellini project.

In December 2017, vanadium was listed by the U.S. Geological Survey as one of 23 metals critical to the US economy despite there being no active primary vanadium mines in North America. As a result of direction from Secretary of the Interior Order No. 3355 (Streamlining National Environmental Policy Reviews and Implementation of Executive Order 13807), Prophecy anticipates the Gibellini EIS will not be more than 150 pages (excluding appendices) and the BLM to complete the Gibellini final EIS within one year from the issuance of the NOI. Should that occur, it means that permitting for the Gibellini project may potentially be concluded in 2020.

Engineering Procurement Construction Management:

On August 15, 2018, the Company issued a request for proposal (the "RFP") for EPCM from qualified bidders. The Company selected, in December 2018, M3 Engineering & Technology Corporation ("M3") of Tucson, Arizona to provide engineering, procurement, construction and management services (EPCM) for its Gibellini Vanadium Project in response to its Request for Proposal. M3 was selected for its specific experience in heap leach engineering, and construction expertise in arid environments such as Nevada and Arizona.

The EPCM consists of three phases:

- Phase 1 includes updating and simplifying previous basic engineering designs from producing delicate vanadium battery electrolyte to producing standard vanadium pentoxide off take product. The other parts of the design such as mine design, waste dump design, road design, borrow pit design, buildings and infrastructure designs will not be substantially changed.
- Phase 2 will be procurement of the required equipment and services, and developing the detailed engineering design required to build the project facilities.
- Phase 3 will outline construction management services to build the facilities to accomplish the actual work.

PROPHECY DEVELOPMENT CORP.

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

For the year ended December 31, 2018

(Expressed in Canadian Dollars, except where indicated)

The Company expects Phase 1 of the EPCM, updating basic engineering design, to be completed in 2020; Phase 2, equipment procurement and detailed engineering design, to be completed in 2021; Phase 3, facilities construction, to start in 2021 and be completed in 2022 with the Gibellini Project wet commissioning expected to be in 2022.

To try to minimize technical and implementation risk, the Company is working closely with its chosen technology partner, NWME, to fine tune metallurgy, process design and engineering, and ensure maximum vanadium recovery and high-grade vanadium pentoxide commercial product on site. NWME owns and is currently operating the world's largest black-shale vanadium mine in China with an environmentally friendly, hydrometallurgical leach processing technology without the need of a pre-roasting step. Refer to news release dated March 12, 2018 for more details.

NWME conducted a Gibellini site visit in March 2018 and analyzed Gibellini samples in its laboratories. The results of this work are discussed in the following section.

Test Results

Samples collected by NWME's technical team during their visit to the Project's site in February 2018 were analyzed at NWME's facility in Xi'an, China. Approximately 250 kg of material was submitted for analysis. The results are described herein.

98.6% V₂O₅ Produced on the 1st Run with Simple Conventional Flowsheet

NWME used SX processing method to recover vanadium from sulfuric acid PLS generated by bottle roll and column test acid leaching on Gibellini samples. The solution was reduced and then precipitated using ammonia to make AMV. The AMV was calcined and heated then cooled and pulverized. A vanadium pentoxide with 98.56 % purity content was produced. The assay for this work is shown in Table 11 below:

Table 11: Gibellini Vanadium Pentoxide Assay

V2O %	SI %	Fe %	P %	S %	As %	Na2O %	K2O %	Al %	U %
98.56	0.0078	0.88	0.058	0.47	0.0026	0.43	0.052	0.22	0.0001

Uranium content is less than 0.0001% which does not affect the marketability of the product.

The PLS was produced with very low deleterious elements which enabled using an efficient SX process. The PLS V₂O₅ concentration was 1.15 gram per liter and the Pregnant Strip Solution V₂O₅ concentration was 39.61 grams per liter.

Overall Vanadium Recovery of Over 60% and Low Acid Consumption

PLS was produced from both bottle roll and column tests. Sulfuric acid was added to the feed material with the bottle rolling for 1 hour, then the open bottle was allowed to cure for 24 hours and water was added to the bottle to attain the desired density (40%). Initial samples were taken at 6 hours, 12 hours, 24 hours, 36 hours, 48 hours and then once a day until the bottle roll was completed.

In column tests, sulfuric acid was added to the feed material and the material was allowed to cure for 24 hours before initiating the leaching. Leaching was conducted by applying 108 grams per liter acid solution over the material. PLS was collected every 24 hours and samples were taken for vanadium analysis. All the tests were performed at room temperature and at atmospheric pressure. The results of the tests are given in Table 12:

PROPHECY DEVELOPMENT CORP.**Management's Discussion and Analysis of Financial Condition and Results of Operations****For the year ended December 31, 2018**

(Expressed in Canadian Dollars, except where indicated)

Table 12

Test	Leach Time	Vanadium Recovery %	Sulfuric Acid Consumed kg/t
Column Test	21 days	70.74	100
Bottle Roll Test - investigate the effect of the curing method and increase of sulfuric acid addition on the vanadium recovery	50 hours	62.8	150
Bottle Roll Test - investigate addition of NWME prepared leaching agent on the vanadium recovery	144 hours	66.5	100
Bottle Roll Test - investigate the leaching of coarse feed (2mm) on the vanadium recovery	216 hours	63.7	100

The results of the bottle roll and column leach tests performed by NWME largely validate the results of previous tests performed by McClelland Laboratories on Gibellini bulk sample in 2013 (18 tons of material).

The NWME test samples were not agglomerated and were on short leach time of 21 days for column tests and 5 days for bottle roll tests. Prophecy studied both the NWME test and McClelland test in detail and believe the results were consistent, whereby 70% recovery can be achieved with longer leach cycle (over 100 days McClelland Laboratories vs 21 days NWME) and less acid consumption (50 kg of acid per tonne of material McClelland Laboratories vs 100 kg of acid per tonne of material NWME).

A summary of acid heap leach tests of a Gibellini bulk sample, completed at McClelland Laboratories, September 4, 2013 is tabulated in Table 13 below:

Table 13

Size	Test Type	Time (Days)	Vanadium Recovery %	Head Grade % V2O5	Sulfuric Acid Consumed kg/t
50 mm (2")	Column, open circuit	123	76.6	0.53	39.9
12.5 mm (1/2")	Column, open circuit	123	80.2	0.56	32.7
12.5 mm (1/2")	Column, closed circuit	230	68.3	0.51	38.1
12.5 mm (1/2")	Column, closed circuit	198	74.0	0.56	43.5
12.5 mm (1/2")	Bottle Roll	4	67.1	0.51	33.6
1.7 mm (-10m)	Bottle Roll	4	66.3	0.51	29.9
-75µ	Bottle Roll	4	67.6	0.50	28.1
-75µ	Bottle Roll	30	74.2	0.53	24.5

Representative Feed Grade with Benign Test Conditions that Can be Replicated in Commercial Setting

The leaching bottle roll and column tests were performed at room temperature and at atmospheric pressure based on Gibellini's representative grade from grab sampling method across the width of the mineralization at various locations of the Project. These samples are characterized in Table 14:

PROPHECY DEVELOPMENT CORP.
Management's Discussion and Analysis of Financial Condition and Results of Operations
For the year ended December 31, 2018
(Expressed in Canadian Dollars, except where indicated)

Table 14

Sample Number	Sample ID	Weight kg	Head Grade V2O5 (%)
1	18-L6-28	17.0	0.665
2	18-L6-29	17.0	0.885
3	18-L6-30	12.5	0.370
4	18-L6-31	18.0	0.210
5	18-L6-32	13.5	0.420
6	18-L6-33	22.5	0.280
7	18-L6-34	19.0	0.315
8	18-L6-35	20.0	0.185
9	18-L6-36	18.0	0.165
10	18-L6-37	20.0	0.195
Total		177.5	

For the purpose of metallurgical testing, the samples were mixed to produce a composite material with the average grade of 0.30% V₂O₅ which is representative of Gibellini resource grade. The composite material was ground to -75 µm feed. Prophecy believes the test conditions can easily be replicated in a commercial heap leach setting with low technical and implementation risk.

Unique Vanadium Mineralogy in Achieving Remarkable Recovery at Room Temperature and Atmospheric Pressure

NWME performed detailed mineralogical analysis which included microscope identification using a Carl Zeiss Axioskop, XRD analysis on Bruker D8-A25 XRD, multi-element analysis, electron probe X-ray microanalysis on JEOL JXA 8230, scanning electron microscopy/energy dispersive X-ray spectroscopy analysis on Mineral Liberation Analyzer 650 and V element phase analysis. This mineralogical analysis confirmed that the Gibellini resource has a high percentage of independent vanadium minerals ("IVM") such as kazakhstanite, shubnelite, sherwoodite, bokite, which can be leached easily at room temperature and atmospheric pressure within a short time frame.

NWME noted the unique nature of the Gibellini samples with over 45% IVM versus numerous other typical black shale deposits which they have encountered containing less than 10% IVM.

All of the testwork carried out on the material from the Gibellini Project indicate that there is a two-stage leaching phenomenon in Gibellini ore - about 50% of the vanadium leaches in the first 96 hours (independent vanadium minerals), and the remaining leaching approximately 15 to 20% occurs over a longer time horizon.

Heap leaching is the lowest-cost recovery method compared to roasting, and pressured container VAC leaching, whereby capital costs can compound to multiple times greater for the same throughput. Gibellini's high IVM content is a key competitive differentiator which places the deposit in the top tier of black shale deposits in terms of pre-production capital cost required based on NWME's research. The mineralogical results of the Gibellini ore as characterized by NWME's testwork is shown in Table 15:

Table 15

Mineral composition	Mineral content %	V content in minerals %	V distribution %
Independent vanadium minerals 45.2% of vanadium content	Kazakhstanite	0.15	40.91
	Shubnelite	0.13	27.86
	Sherwoodite	0.08	34.54
	Bokite	0.03	36.51

PROPHECY DEVELOPMENT CORP.

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

For the year ended December 31, 2018

(Expressed in Canadian Dollars, except where indicated)

	Melanovanadite	0.01	41.27	1.33
Vanadium-bearing layered aluminosilicate minerals 20.8% of vanadium content	Sericite	8.59	0.57	14.63
	Illite	5.58	0.28	5.03
	Chlorite	0.81	0.44	1.14
	Nacrite-palygorskite	0.70	-	-
Vanadium-bearing layered iron oxide, sulfate 34% of vanadium content	Limonite	1.76	5.48	31.07
	Strengite	0.64	0.49	1.01
	Jarosite	0.48	1.24	1.92
Gangue	Quartz	75.88	-	-
	Apatite	2.83	-	-
	Potassium feldspar	0.73	-	-
	Dolomite	0.66	-	-
	Carbonaceous	0.45	-	-
	Rutile	0.25	-	-
	Barite	0.04	-	-
	Pyrite	0.20	-	-
Total		100.00		100.00

Low Carbonate Content Results in Exceptional Low Acid Consumption

NWME detailed mineralogical analysis which included microscope identification using a Carl Zeiss Axioskop, XRD analysis on Bruker D8-A25 XRD, multi-element analysis, electron probe X-ray microanalysis on JEOL JXA 8230, scanning electron microscopy/energy dispersive X-ray spectroscopy analysis on Mineral Liberation Analyzer 650 and V element phase analysis, confirmed the extremely low carbonaceous content of Gibellini’s oxide and transition samples. This explains the low acid consumption (less than 50 kg per tonne) compared to other average black shale deposits of 200 kg to 300 kg per tonne based on extensive NWME data compilation. Given acid cost accounts for approximately 50% of the Project’s operating expenses, Gibellini’s low carbon content is a key competitive differentiator which places it in the top tier of black shale deposits in terms of processing cost based on NWME’s findings.

The following table is a generalized comparison of Gibellini’s deposit to a composite of typical black shale vanadium deposits:

Table 16

	Gibellini Vanadium Deposit	Black Shale Series Vanadium Deposits
Host Rock	Silica State	Carbon Siliceous Rocks with Mudstone
The Mineral Composition	High Silica, Low Aluminium and Low Carbonaceous. SiO ₂ -78.40%; Al ₂ O ₃ - 4.13%; T(C) - 0.47%	High Silica, High Aluminum and High Carbonaceous. SiO ₂ -62-93%; Al ₂ O ₃ > 7%; T(C) > 10%

The next step for NWME will be to investigate the application of NWME’s proprietary technology to Gibellini mineral to produce a high purity vanadium pentoxide product with 99.5% V₂O₅ content. During the Prophecy’s team visit to NWME’s processing facilities in China in June 2018, NWME commented that its own black-shale vanadium mine produces exclusively 99.5% V₂O₅ which commands a 15 to 25% pricing premium (compared to benchmark 98% purity) to supply to the vanadium battery, chemical, and aerospace industries. Prophecy delivered the representative samples from the Project with a total weight of approximately 1 tonne to NWME in China and the test has begun. Prophecy expects to receive the results from the second phase of metallurgical testing by NWME in the second half of 2019.

PROPHECY DEVELOPMENT CORP.

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

For the year ended December 31, 2018

(Expressed in Canadian Dollars, except where indicated)

On March 26, 2019, the Company announced vanadium assay results from its Fall 2018 exploration reconnaissance program on the Gibellini Project. The 155 assays are taken from three prospective exploration areas all within 5km to existing Gibellini vanadium NI43-101 compliant resource pit outline. Surface grab samples assay as high as 2% vanadium pentoxide (V2O5) and 75 samples (48% of total 155) have V2O5 grades greater than the Gibellini deposit's cut-off grade of 0.101% V2O5 at \$12.5/lb V2O5; V2O5 currently trades at approximately \$16/lb.

The high vanadium assay results along the 5-kilometer northeast-southwest trend which line-up the Northeast Prospect, through Gibellini Hill, Louie Hill, Middle Earth Prospect, and Big Sky Prospect providing an indication of potential and possibly significant future expansion of vanadium mineralization along this corridor.

Detailed maps are available at www.prophecydev.com

Big Sky Prospect (300m by 50m)

The Big Sky prospect occurs 3.1 km southwest of the Gibellini Hill measured and indicated resource and 1.8 km southwest of Louie Hill inferred resource. A total of 62 samples were taken, of which 40% (n=25) returned assays greater than Gibellini cut-off grade. Sixteen (16) samples returned assays >0.200 V2O5. The distribution of samples occurs along a 300 meter exposure of the Woodruff Formation. Assays showing >0.200 V2O5 are shown in Table 17.

Table 17. V2O5% grab sample assay results at Big Sky prospect for samples with >0.200%

SAMPLE ID	Prospect	V2O5 %
301910	Big Sky	0.261
301913	Big Sky	0.223
301915	Big Sky	0.346
301916	Big Sky	0.400
301918	Big Sky	0.712
301920	Big Sky	0.264
301926	Big Sky	0.580
301927	Big Sky	2.008
301928	Big Sky	0.848
301944	Big Sky	0.264
301946	Big Sky	0.280
301947	Big Sky	0.218
301950	Big Sky	0.261
302050	Big Sky	0.214
302054	Big Sky	0.787
302055	Big Sky	1.982

Middle Earth Prospect (200m by 70m)

The Middle Earth prospect occurs 1.7 km southeast of the Gibellini Hill deposit and 300 meters south of the Louie Hill deposit. A total of 50 samples were collected of which 68% (n=34) returned assays >0.101% V2O5 or the Gibellini cut-off grade. Twenty-seven (27) samples returned assays >0.200 V2O5. The samples are distributed over 3 road cuts of exposed Woodruff Formation making up a 200 meter by 70-meter areal footprint. Assays showing >0.200 V2O5 are shown in Table 18.

PROPHECY DEVELOPMENT CORP.**Management's Discussion and Analysis of Financial Condition and Results of Operations****For the year ended December 31, 2018**

(Expressed in Canadian Dollars, except where indicated)

Table 18. V2O5% grab sample assay results at Middle Earth prospect for samples with >0.200%

SAMPLE ID	Prospect	V2O5 %
301951	Middle Earth	0.350
301952	Middle Earth	0.482
301968	Middle Earth	0.628
301969	Middle Earth	0.605
301970	Middle Earth	0.634
301972	Middle Earth	0.252
301973	Middle Earth	0.687
301974	Middle Earth	0.470
301975	Middle Earth	0.612
301976	Middle Earth	0.637
301978	Middle Earth	0.559
301979	Middle Earth	0.557
301980	Middle Earth	0.259
301981	Middle Earth	0.405
301983	Middle Earth	0.255
301984	Middle Earth	0.303
301985	Middle Earth	0.434
301987	Middle Earth	0.291
301988	Middle Earth	1.294
301989	Middle Earth	0.261
301991	Middle Earth	0.314
301992	Middle Earth	0.457
301993	Middle Earth	0.380
301995	Middle Earth	0.302
301998	Middle Earth	0.539
301999	Middle Earth	0.618
302000	Middle Earth	0.532

Northeast Trench Prospect (500m by 300m)

The Northeast Trench prospect occurs 1.2 km northeast of the Gibellini Hill deposit and 2.5 km northeast of the Louie Hill deposit. A total of 43 samples were collected of which 37% ($n=16$) returned assays >0.101% V2O5 or the Gibellini cut-off grade. Three (3) samples returned assays >0.200 V2O5. The samples are distributed through road cuts ("trenches") and dry gulches of exposed Woodruff Formation making up a 500 meter by 350-meter areal footprint. The exposure at the Northeast Trench is greatly obscured by colluvium material however the extent where it is exposed might indicate a large volume of Woodruff Formation yet to be explored. Assays showing >0.200 V2O5 are shown in Table 19.

Table 19. V2O5% grab sample assay results at Northeast Trench prospect for samples with >0.200%

SAMPLE ID	Prospect	V2O5 %
302004	NE Trench	0.239
302005	NE Trench	0.380
302016	NE Trench	0.303

PROPHECY DEVELOPMENT CORP.

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

For the year ended December 31, 2018

(Expressed in Canadian Dollars, except where indicated)

Water supply

On August 20, 2018, the Company secured water supply for the Gibellini Project construction and operation. The Company signed a 10-year Agreement with the owner of a private ranch, located approximately 14.5 km from the Gibellini Project. The Agreement can be extended for any number of additional 7-year terms, not to exceed (with the primary term) a total of 99 years.

Per the terms of the Agreement, the lessor granted to Prophecy the rights to 805 acre-feet (approximately 262.4 million gallons) of water per year for the Gibellini Project, at a minimum flow rate of 500 gallons per minute ("gpm") from its year-round springs surface water stream. The water flow rate was measured at the ranch springs in 1965, in 1981, from December 2011 to September 2013, and most recently, in 2017. The water flow rate ranges from 1,000 to 3,900 gpm with an average flow rate of 2,690 gpm, which exceeds the project's maximum water operational requirement of 420 gpm based on the process engineering design prepared by Scotia International of Nevada, Inc. as a part of engineering, procurement, construction and management work done in 2014.

The Gibellini Project completed water-related baseline studies including the drilling of water-test wells, water source data collection, characterization, flow rate testing and modeling. Due to the fact that the Agreement provides a source of water from surface springs located on a private ranch and baseline studies related to it have been completed, Prophecy expects to significantly expedite the permitting process by eliminating the need to appropriate water rights from the Nevada Division of Water Resources ("DWR").

Offtake and project financing

Prophecy has received unsolicited expressions of interest from various potential investment sources and is currently engaged in discussions with potential cornerstone investors, vanadium product off-takers and banks on potential equity, debt and prepaid off-take financing possibilities. We expect to report material progress in due course.

2019 Outlook

Prophecy intends to advance the Gibellini Project through the permitting process in cooperation with the BLM and to that end, Prophecy submitted its MPO and associated baseline studies to the BLM. Prophecy is currently working with the BLM to update all previous, and add all necessary, baseline studies. Upon acceptance of the baseline studies, MPO, and environmental report by the BLM, Prophecy expects to trigger a NOI in 2019 by the BLM, to prepare an EIS for the Gibellini project.

Prophecy continues with its EPCM work and expects Phase 1 of the EPCM, updating basic engineering design, to be completed by 2020; Phase 2, equipment procurement and detailed engineering design, to be completed in 2021; Phase 3, facilities construction, to start in 2021 and be completed in 2022 with the Gibellini Project wet commissioning expected to be in 2022.

The Company intends to spend the available funds as set forth above based on annual budgets approved by the Board of Directors consistent with established internal control guidelines, and programs recommended in the Gibellini PEA. However, there may be circumstances where, for sound business reasons, a reallocation of the net proceeds may be necessary. The actual amount that the Company spends in connection with each of the intended uses of proceeds may vary significantly from the amounts specified above and will depend on a number of factors, including those referred to under "*Risk Factors*".

Other Properties

Pulacayo Paca Property, Bolivia

For information about the Pulacayo Paca property, please refer to the relevant section of the Company's Annual Information Form for the year ended December 31, 2017.

During the year ended December 31, 2018, the Company continued negotiations to obtain the mining production contract for the projects and resolve the legacy financial obligations.

PROPHECY DEVELOPMENT CORP.

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

For the year ended December 31, 2018

(Expressed in Canadian Dollars, except where indicated)

During the year ended December 31, 2018, the Company determined there were several indicators of potential impairment of the carrying value of the Pulacayo Paca property including change in the Company primary focus to Gibellini Project. While management believes that Pulacayo Project is a property of merit and warrants continued development, a write down in accordance with *IFRS 6 Exploration for and Evaluation of Mineral Resources* and *IAS 36, Impairment of Assets* of \$13,708,200 of previously capitalized deferred exploration costs to \$nil and an impairment charge of \$335,181 on the Pulacayo mining equipment has been recognized. This non-cash accounting charge does not impact the Company's financial liquidity, or any future operations and management believes the adjustment to the book value of this long-lived asset more accurately reflects the Company's current market capitalization.

Ulaan Ovoo Property, Mongolia

For information about the Ulaan Ovoo property, please refer to the relevant section of the Company's Annual Information Form for the year ended December 31, 2017.

On October 16, 2018, the Company announced that it executed a lease agreement (the "**Lease**") with an arms-length private Mongolian company (the "**Lessee**") whereby the Lessee plans to perform mining operations at Prophecy's Ulaan Ovoo coal mine and will pay Prophecy USD\$2.00 (the "**Production Royalty**") for every tonne of coal shipped from the Ulaan Ovoo site premises. The Lessee paid Prophecy USD\$100,000 in cash, as a non-refundable advance royalty payment and is preparing, at its own and sole expense, to restart and operate the Ulaan Ovoo mine with its own equipment, supplies, housing and crew. The Lessee will pay all government taxes and royalties related to its proposed mining operation.

The Lease is valid for 3 years with an annual advance royalty payment ("**ARP**") for the first year of \$100,000 which was due and paid upon signing, and USD\$150,000 and USD\$200,000 due on the 1st and 2nd anniversary of the Lease, respectively. The ARP can be credited towards the USD\$2.00 per tonne Production Royalty payments to be made to Prophecy as the Lessee starts to sell Ulaan Ovoo coal. The 3-year Lease can be extended upon mutual agreement.

Since the signing of the Lease, the Lessee has spent approximately \$700,000 on supplies, housing and crew and restarted Ulaan Ovoo mine with its own equipment in March 2018 reporting approximately 21,000 tonnes of coal production and sales. Lessee plans to start double shifts in April to meet demand.

Chandgana Coal Properties and Chandgana Power Plant Project

For information about the Chandgana coal properties and power plant project, please refer to the relevant section of the 2017 Annual Information Form.

During the year ended December 31, 2018, the Company completed converting the Khavtgai Uul exploration license to a mining license. For the Chandgana Tal project, the Company intends to discuss the need to update the detailed environmental impact assessment and mining feasibility study with the relevant ministries and complete the requirements to maintain the licenses.

The Company continues to negotiate with the Mongolian Government on the Chandgana Power Plant. The major reasons completion of the Chandgana Power Plant project would be beneficial to Mongolia include the current and projected long-term electrical power demand exceeding capacity, current importation of approximately 20% of its electric power from Russia and China and the virtues of the project. The virtues are that the Company is proposing to build a new, modern power plant to provide a stable power supply to Mongolia, with 100% private funding and with no up-front payment or subsidies from the Mongolia government, a fixed, long-term tariff that is lower than those of foreign imported electrical power that would ease Mongolia's budget, the creation of employment and assisting in establishing Mongolia's energy independence. The Chandgana Power Plant and Chandgana coal mine would be expected to employ over 600 full-time skilled local staff, cause the start of many new support businesses, and revitalize Khentii province. The Company believes its mine-mouth power plant located far from Ulaanbaatar (as opposed to having a power plant located in or near the city) is not only the solution to Mongolia's power shortage, but eliminates costly coal and ash transportation, preserves the capital city's limited water resources and reduces the severe air pollution in the city.

PROPHECY DEVELOPMENT CORP.
Management's Discussion and Analysis of Financial Condition and Results of Operations
For the year ended December 31, 2018
(Expressed in Canadian Dollars, except where indicated)

5. SELECTED ANNUAL FINANCIAL INFORMATION

Table 20 contains selected financial data from the audited consolidated financial statements of the Company for the most recently completed three financial years and was prepared in accordance with IFRS.

Table 20. Selected Annual Financial Data

	Years ended December 31,		
	2018	2017	2016
Operating expense	\$ (3,298,383)	\$ (2,381,365)	\$ (1,334,487)
Other items	(14,886,085)	(16,211,616)	(672,818)
Net loss	(18,184,468)	(18,592,981)	(2,007,305)
Comprehensive loss	(18,196,628)	(18,580,821)	(2,007,305)
Share Information:			
Loss per share, basic and diluted	\$ (0.23)	\$ (0.33)	\$ (0.05)
Weighted average number of common shares outstanding	78,445,396	55,760,700	42,120,040
Financial Position:			
Current assets	5,463,768	4,481,471	489,739
Property and equipment	101,162	531,911	917,607
Mineral properties	3,643,720	13,299,906	26,399,708
Total assets	9,264,205	18,368,843	27,828,109
Total liabilities	10,023,943	9,681,322	11,032,616
Dividends	\$ -	\$ -	\$ -

Year Ended December 31, 2018 compared with the same period in 2017.

The Company's annual operating expenses increased by \$0.9 million from \$2.4 million for the year 2017 to \$3.3 million for the year 2018. The increase was due to increased activities related to the acquisition and exploration of the Gibellini Project in Nevada and equity financings.

The Company reported a net loss of \$18.2 million (\$0.23 loss per Share) for the year ended December 31, 2018, which represents a decreased loss of \$0.4 million when compared to the year 2017 (\$0.33 loss per Share). The decrease in net loss was primarily due to a lesser amount of impairment charges in the year 2018 (\$14.5 million) compared to the previous year (\$15.1 million), offset by increase in operating expenses and a foreign exchange loss.

The total assets decreased by \$9.1 million from \$18.4 million in the year 2017 to \$9.3 million in the year 2018. The decrease was mainly due to a write-off the non-core Pulacayo silver property and its mining equipment. Current assets increased by \$1 million from \$4.5 million in the year 2017 to \$5.5 million in the year 2018. The increase was mainly due to the \$5.2 million net proceeds received from the bought deal financing in Q4 2018.

The Company's total liabilities at December 31, 2018 were \$10 million compared to \$9.7 million at December 31, 2017. The increase in liabilities was mainly due to a foreign exchange fluctuation of Canadian Dollar against Bolivian Boliviano related to Bolivian tax provision.

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

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

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

PROPHECY DEVELOPMENT CORP.

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

For the year ended December 31, 2018

(Expressed in Canadian Dollars, except where indicated)

The decrease in total assets to \$18.4 million in the year 2017 from \$27.8 million in the year 2016 was mainly due to the \$14.8 write-off of the non-core Mongolian coal properties. The increase in current assets to \$4.5 million in the year 2017 compared to the year 2016 (0.5 million) was due to the net equity proceeds raised in Q4 2017.

The Company's total liabilities increased by \$0.45 million from \$ 9.7 million at December 31, 2017 to \$10.1 million at December 31, 2018 due to increased Bolivian tax provision (due to fall of Canadian Dollar) and offset by a decrease in trade accounts payable.

6. SUMMARY OF QUARTERLY RESULTS

Table 21 presents summarized selected consolidated financial information for the eight most recently completed quarters:

Table 21

	2018		2018		2018		2018
	Q4		Q3		Q2		Q1
Operating expense	\$ (1,318,475)	\$	(636,172)	\$	(780,818)	\$	(562,918)
Net loss	(16,044,665)		(634,337)		(916,247)		(589,219)
Net loss per share, basic and diluted	\$ 0.20	\$	(0.01)	\$	(0.01)	\$	(0.01)
Comprehensive loss	(15,975,825)		(610,797)		(966,787)		(643,219)
Comprehensive loss per share, basic and diluted	\$ 0.20	\$	(0.01)	\$	(0.01)	\$	(0.01)

	2017		2017		2017		2017
	Q4		Q3		Q2		Q1
Operating expense	\$ (1,277,507)	\$	(484,907)	\$	(336,028)	\$	(282,923)
Net loss	(17,869,936)		(176,793)		(516,243)		(30,009)
Net loss per share, basic and diluted	\$ (0.32)	\$	(0.00)	\$	(0.01)	\$	(0.00)
Comprehensive loss	(17,857,776)		(176,793)		(516,243)		(30,009)
Comprehensive loss per share, basic and diluted	\$ (0.32)	\$	(0.00)	\$	(0.01)	\$	(0.00)

The fluctuation on quarterly net loss is primarily due to Share-based compensation expenses recognized as stock options granted to directors, officers, employees and consultants of the Company are earned, the impairment losses recognized on resource properties, and expensed financing transaction costs, and advertising and promotion expenses. The costs of resource properties are written off at the time the properties are abandoned or considered to be impaired in value.

7. RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2018

All of the information described below is accounted for in accordance with IFRS. The reader is encouraged to refer to Note 6 of Prophecy's Annual Financial Statements for the year ended December 31, 2018 for Prophecy's IFRS accounting policies.

The Company reported a net loss of \$18.2 million (\$0.23 loss per share) for the year ended December 31, 2018, which represents a decreased loss of \$0.4 million when compared to the same period in 2017 (\$0.33 loss per share). The decrease in net loss was primarily due to lesser impairment charges of 14.5 million (2017 - \$15.1 million) mostly attributable to our non-core Bolivian property.

For the year ended December 31, 2018, Prophecy incurred operating expenses of \$3,298,383 compared to \$2,381,365 for 2017 and \$1,334,487 for 2016. Details of the operating expenses are presented in Table 22.

PROPHECY DEVELOPMENT CORP.
Management's Discussion and Analysis of Financial Condition and Results of Operations
For the year ended December 31, 2018
(Expressed in Canadian Dollars, except where indicated)

Table 22

Operating Expenses	Year Ended December 31,		
	2018	2017	2016
Advertising and promotion	\$ 471,230	\$ 101,512	\$ 50,125
Consulting and management fees	255,610	751,612	215,438
General and administrative expenses	1,357,724	635,736	666,831
Professional fees	428,884	194,912	122,230
Share-based payments	553,430	599,117	197,889
Travel and accommodation	231,505	98,476	81,974
	\$ 3,298,383	\$ 2,381,365	\$ 1,334,487

The increase by \$0.9 million in operating expenses during 2018 compared to 2017 was a result of the overall increased activity levels of the Company related to the acquisition of vanadium properties in Nevada, equity financings, and hiring a new President and CEO. Of note are the following items:

- advertising and promotion expenses increased by \$369,718 due to increased promotion efforts in the US and Europe to raise market awareness and to raise equity financing. The Company incurred higher marketing costs because the Company is working with the financial community to make its project known. Investor relations remains a priority due to the ongoing need to attract investment capital;
- consulting and management fees decreased by \$496,002 in the year 2018 compared to the year 2017. The Company significantly reduced external consulting services used in 2017 related to acquiring the Gibellini Project and hiring Skanderbeg Capital Advisors Inc. to explore and evaluate strategic alternatives. The amount of this decrease was partially offset by a higher amount of internal consulting expenses due to hiring a new Vice-President, Exploration and restored the Company interim CEO previously reduced fees;
- general and administrative costs comprising head office costs including salaries, directors' fees, insurance and costs related to maintaining the Company's exchange listings and complying with securities regulations. General and administrative expenses increased by \$721,988 in the year 2018 compared to the year 2017. The increase was the result of increased salaries due to hiring a new President and CEO including his Share bonus of value of \$350,000, and restoring salaries for officers of the Company, increased stock exchange and shareholders' services due to increased financing activities;
- professional fees increased by \$233,972. The increase was mainly due to increased legal, accounting and audit services related to the Gibellini Project activities and the recently completed bought deal financing;
- share-based payments costs are non-cash charges which reflect the estimated value of stock options granted. The Company uses the fair value method of accounting for stock options granted to directors, officers, employees and consultants whereby the fair value of all stock options granted is recorded as a charge to operations over the period from the grant date to the vesting date of the option. The fair value of common share options granted is estimated on the date of grant using the Black-Scholes option pricing model.

The decrease in share-based payments in in 2018 by \$45,687 compared to 2017 was primarily related to the decrease in the number of options earned during the year 2018 compared to the year 2017; and

- travel and accommodation expenses increased by \$133,029. The Company incurred additional travel expenses as it actively pursues the Gibellini project moving toward production and seeks financing.

For the year ended December 31, 2018, the Company incurred other expenses classified as "Other Items" amounting to \$14,886,085 compared to \$16,211,616 for the year 2017, and \$672,818 for the year 2016. Details of these Other Items is presented in Table 23.

PROPHECY DEVELOPMENT CORP.
Management's Discussion and Analysis of Financial Condition and Results of Operations
For the year ended December 31, 2018
(Expressed in Canadian Dollars, except where indicated)

Table 23

Other Items	Year Ended December 31,		
	2018	2017	2016
Costs in excess of recovered coal	\$ 94,335	\$ 109,187	\$ 290,736
Finance cost	-	8,111	317,056
Foreign exchange (gain)/loss	412,663	188,464	(6,185)
Interest expense	-	21,066	258,640
Impairment/(recovery) of mineral property	13,994,970	14,829,267	(195,079)
Impairment of prepaid expenses	26,234	57,420	-
Impairment of equipment	425,925	159,666	-
Impairment of receivables	21,004	61,202	-
Loss/(gain) on sale of marketable securities	91,890	22,810	(59,698)
Loss on sale of equipment	-	1,681	67,348
Loss/(gain) on debt settlement	(50,000)	752,742	-
Other income	(130,936)	-	-
	\$ 14,886,085	\$ 16,211,616	\$ 672,818

The decrease in Other Items by \$1,325,531 in the year 2018 compared to the year 2017 is the net result of changes to a number of the following items:

- costs in excess of recovered coal for Ulaan Ovoo decreased by \$14,852 due to changes at Ulaan Ovoo coal mine in Mongolia related to a lease agreement with an arms-length private Mongolian company which plans to perform mining operations at Ulaan Ovoo mine in the first fiscal quarter 2019 with its own equipment and resources;
- foreign exchange loss increased by \$224,199 due to fluctuations in the value of the Canadian dollar compared to the United States dollar, Bolivian boliviano and Mongolian tugrik;
- in the year 2018, the Company recorded a total of \$13,994,970 impairment charges on its non-core Bolivian silver property and Chandgana Coal property incurred expenses, an impairment charge of \$425,925 on Bolivian mining equipment, and impairment charges of \$26,234 and \$21,004 on prepaid expenses and receivables respectively. In the year 2017, the Company recorded an impairment charge of \$14,829,267 on its non-core Mongolian coal properties, an impairment charge of \$57,420 on prepaid expenses related to the impaired Mongolian properties, an impairment charge of \$159,666 on equipment, and an impairment charge of \$61,202 on receivables. In the year 2016, the Company recorded a recovery on sale of its 60% interest in the Okeover project, to Lorraine Copper Corp. of \$195,079;
- in the year 2018, the Company sold 2.7 million shares of a public company for a realized loss of \$91,890. In the year 2017, the Company sold of 2.2 million Lorraine Copper Corp. shares for a realized loss of \$22,810. In the year 2016, the Company recorded a gain on the sale of Nickel Creek Platinum Corp. shares of \$59,698;
- in the year 2018, the Company earned \$50,000 from a debt settlement with Nickel Creek Platinum Corp. and \$130,936 from advance royalty payment. In the year 2017, the Company recorded a loss on debt settlements with certain of its directors and officers of \$752,742 to account for the difference in the fair value of the Shares on the settlement date and the implied value from the debt settled.

8. RESULTS OF OPERATIONS FOR THE FOURTH QUARTER 2018

Table 24 presents a summary of the Company's consolidated operating expenses results for the three months ended December 31, 2018, 2017 and 2016:

PROPHECY DEVELOPMENT CORP.
Management’s Discussion and Analysis of Financial Condition and Results of Operations
For the year ended December 31, 2018
(Expressed in Canadian Dollars, except where indicated)

Table 24

Operating Expenses	Three Months Ended December 31,		
	2018	2017	2016
Advertising and promotion	\$ 107,296	\$ 53,362	\$ 10,060
Consulting and management fees	63,455	613,992	105,500
General and administrative expenses	726,257	239,023	173,470
Professional fees	204,162	143,661	95,587
Share-based payments	135,848	213,201	74,428
Travel and accommodation	81,457	14,268	14,070
	\$ 1,318,475	\$ 1,277,507	\$ 473,115

An increase of operating expenses by \$40,968 in the year 2018 compared to the year 2017 is the net result of changes to a number of the following items:

Of note are the following items:

- advertising and promotion expenses increased by \$53,934 due to increased promotion efforts in the US and Europe to raise market awareness and to raise equity financing;
- consulting and management fees decreased by \$550,537 due to decreased external consulting services related to exploration and evaluation strategic alternatives used in Q4 2018 compared to Q4 2017;
- general and administrative expenses increased by \$487,234 due primarily to increased salaries due to a hire of a new President and CEO and increased transfer agent and stock exchange filing fees related to equity financing;
- professional fees increased by \$60,501 due to increased legal, accounting and audit services related mainly to filing Form 20-F and a bought deal financing in Q4 2018;
- non-cash Share-based payments decreased by \$77,353 due to a lesser number of outstanding stock options vesting during the Q4 2018 compared to the Q4 2017; and
- travel and accommodation expenses increased by \$67,189 due to increased property site visits and travel to promote the Company.

For the three months ended December 31, 2018, the Company’s “Other Items” amounted to a loss of \$14,726,190 compared to a loss of \$16,592,429 for the same quarter in 2017 (Table 25) The decrease in other items loss was mainly due to a lesser number of impairment charges recorded in in Q4 2018 compared to Q4 2017.

PROPHECY DEVELOPMENT CORP.
Management's Discussion and Analysis of Financial Condition and Results of Operations
For the year ended December 31, 2018
(Expressed in Canadian Dollars, except where indicated)

Table 25

Other Items	Three Months Ended December 31,		
	2018	2017	2016
Costs in excess of recovered coal	\$ (33,566)	\$ 4,367	\$ 84,925
Finance cost	-	-	162
Foreign exchange (gain)/loss	372,427	822,284	524,777
Interest expense	-	-	47,683
Impairment/(recovery) of mineral property	13,953,212	14,733,067	-
Impairment of prepaid expenses	26,234	57,420	-
Impairment of equipment	425,925	159,666	-
Impairment of receivables	21,004	61,202	-
Loss on sale of marketable securities	91,890	-	-
Loss on sale of equipment	-	1,681	(41,379)
Loss on debt settlement	-	752,742	-
Other income	(130,936)	-	-
	\$ 14,726,190	\$ 16,592,429	\$ 616,168

9. PROPOSED TRANSACTIONS

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

10. LIQUIDITY AND CAPITAL RESOURCES

Working Capital

The Company utilizes existing cash received from prior issuances of equity instruments to provide liquidity to the Company and finance exploration projects.

At December 31, 2018, the Company had cash flow of \$5.3 million representing an increase of \$1.2 million from \$4.1 million held at December 31, 2017. The Company's working capital at December 31, 2018 was a surplus of \$3.8 million compared to working capital of \$2.6 million at December 31, 2017.

Table 26. Sources and Use of Cash

	Years Ended December 31,		
	2018	2017	2016
Cash Used in Operating Activities	\$ (2,626,687)	\$ (707,231)	\$ (453,600)
Cash Used in Investing Activities	(3,628,762)	(1,988,566)	(606,372)
Cash Provided by Financing Activities	7,458,938	6,774,757	1,048,078
Net Increase (Decrease) in Cash	1,203,489	4,078,960	(11,894)
Cash - beginning of year	4,100,608	21,648	33,542
Cash - end of year	\$ 5,304,097	\$ 4,100,608	\$ 21,648

During the year ended December 31, 2018, cash used in operating activities was \$2,626,687 compared to \$707,231 cash used during the prior year. The increased outflows in 2018 primarily related to increased activities of the Company to develop the Gibellini Project. The year over year increase in cash used by operating activities is due to increased funds required for working capital changes.

PROPHECY DEVELOPMENT CORP.

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

For the year ended December 31, 2018

(Expressed in Canadian Dollars, except where indicated)

During the year ended December 31, 2018, the Company used \$3,628,762 in investing activities (2017 – \$1,988,566). The Company received net proceeds of \$101,550 from selling its marketable securities, used \$120,416 (2017 - \$515,609) on purchase of property and equipment, \$425,605 (2017 - \$58,790) on the acquisition of the Gibellini claims, and \$3,184,294 (2017 - \$1,339,417) on mineral properties expenditures.

During the year ended December 31, 2018, a total of \$7,458,938 was provided by financing activities including net proceeds from Prophecy's share issuance of \$6,096, 621, \$24,150 from exercise of stock options, and \$1,338,167 from the exercise of warrants to purchase the common shares of the Company.

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

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

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

Capital Resources

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. See Section "Risk Factors" set out in the Company's AR. 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.

For the foreseeable future, as existing properties are explored, evaluated and developed, the Company will continue to seek capital through the issuance of equity, strategic alliances or joint ventures, and debt, of which the Company currently has none.

The Company expects to continue requiring cash for operations and exploration and evaluation activities as expenditures are incurred while no revenues are generated. Therefore, its continuance as a going concern is dependent upon its ability to obtain adequate financing to fund future exploration, evaluation and development of the Gibellini Project and the potential construction of a mine, in order to reach profitable levels of operation. The Company has managed its working capital by controlling its spending on its properties and operations. Due to the ongoing planned advancement of project milestones for the Gibellini Project, the Company will continue to incur costs associated with exploration, evaluation and development activities, while no revenues are being generated.

On November 22, 2018, the Company closed of its bought deal financing previously announced on November 1, 2018 raised gross proceeds of \$5,520,000. The Company entered into an agreement with BMO Nesbitt Burns Inc. ("BMO"), under which BMO agreed to buy on a bought deal basis 12,000,000 Shares, at a price of \$0.46 per share. The shares were offered by way of a short form prospectus in each of the provinces and territories of Canada, except Québec. The net proceeds of the Offering will be used to continue exploration and advance development and permitting of the Gibellini Project and for general corporate purposes.

The consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company's ability to continue as a going concern is dependent upon the continued support

PROPHECY DEVELOPMENT CORP.

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

For the year ended December 31, 2018

(Expressed in Canadian Dollars, except where indicated)

from its shareholders, the discovery of economically recoverable reserves, and the ability of the Company to obtain the financing necessary to complete development and achieve profitable operations in the future. The outcome of these matters cannot be predicted at this time.

Contractual Commitments

Prophecy's commitments related to mineral properties are disclosed in Note 13 to the Annual Financial Statements. The Company has no commitments for capital expenditures. Prophecy's other commitments include a rental commitment on Vancouver and Nevada office premises:

Table 27

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

Capital Risk Management

Prophecy considers its capital structure to consist of Share capital, stock options and Share purchase warrants. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the exploration and development of its projects and to pursue and support growth opportunities. The Board of Directors does not establish quantitative returns on capital criteria for management. The Company is not subject to externally imposed capital requirements. There has been no change in the Company's approach to capital management during the year ended December 31, 2018.

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

11. CONTINGENCIES

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

ASC Tax Claim

Pursuant to the terms of the acquisition agreement, Prophecy agreed to assume all liabilities of the Apogee subsidiaries, including legal and tax liabilities associated with the Pulacayo project. During Apogee's financial year ended June 30, 2014, it received notice from the Servicio de Impuestos Nacionales, the national tax authority in Bolivia, alleging that ASC Bolivia LDC Sucursal Bolivia, the Company's wholly-owned subsidiary, owed approximately Bs42,000,000 (\$8,121,918) in taxes, interest and penalties relating to a historical tax liability in an amount originally assessed at approximately \$760,000 in 2004, prior to Apogee acquiring the subsidiary in 2011. Apogee disputed the assessment and disclosed to the Company that it believed the notice was improperly issued. The Company continued to dispute the assessment and hired local legal counsel to pursue an appeal of the tax authority's assessment on both substantive and procedural grounds.

On May 26, 2015, the Company received a positive Resolution issued by the Bolivian Constitutional Court that among other things, declared null and void the previous Resolution of the Bolivian Supreme Court issued in 2011 (that imposed the tax liability on ASC Bolivia LDC Sucursal Bolivia) and sent the matter back to the Supreme Court to consider and issue a new Resolution. The Company plans to continue to vigorously defend its position and make submissions to the Supreme Court during the new hearing. Based on these developments, the tax claim amount of \$8,121,918 (2017 - 7,541,016, 2016 - \$7,060,690) was classified as non-current liabilities.

PROPHECY DEVELOPMENT CORP.

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

For the year ended December 31, 2018

(Expressed in Canadian Dollars, except where indicated)

Red Hill Tax Claim

During the year ended December 31, 2014, Red Hill was issued a letter from the Sukhbaatar District Tax Division notifying it of the results of the Sukhbaatar District Tax Division's VAT inspection of Red Hill's 2009-2013 tax imposition and payments that resulted in validating VAT credit of only MNT235,718,533 from Red Hill's claimed VAT credit of MNT2,654,175,507. Red Hill disagreed with the Sukhbaatar District Tax Division's findings as the tax assessment appeared to the Company to be unfounded. The Company disputed the Sukhbaatar District Tax Division's assessment and submitted a complaint to the Capital City Tax Tribunal. On March 24, 2015, the Capital City Tax Tribunal resolved to refer the matter back to the Sukhbaatar District Tax Division for revision and separation of the action between confirmation of Red Hill's VAT credit, and the imposition of the penalty/deduction for the tax assessment. The Sukhbaatar District Tax Division appealed the Capital City Tax Tribunal's resolution to the General Tax Tribunal office but was denied on June 4, 2015 on procedural grounds. As a result, the Sukhbaatar District Tax Division implemented the Capital City Tax Tribunal's resolution on June 25, 2015, finding: (1) with respect to confirmation of Red Hill's VAT credit, that after inspection the amount was to be MNT235,718,533; and (2) with respect to the imposition of the penalty/deduction for the tax assessment, that no penalty was to be issued but that Red Hill's loss to be depreciated and reported to be MNT1,396,668,549 in 2010 and MNT4,462,083,700 in 2011. The Company continued to dispute the Sukhbaatar District Tax Division's assessment and delivered a complaint to Capital City Tax Tribunal on July 24, 2015. Due to the uncertainty of realizing the VAT balance, the Company has recorded an impairment charge for the full VAT balance in the year ended December 31, 2015. As there were no changes from January 1, 2016 to December 31, 2018, the impaired value of \$Nil for the VAT receivable remains unchanged.

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

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

12. ENVIRONMENTAL REGULATIONS

The Company's exploration activities are subject to various government regulation in the United States, Canada, Mongolia and Bolivia. These laws and regulations are continually changing and are generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment, and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to continue to make in the future, filings and expenditures to comply with such laws and regulations.

13. RELATED PARTY DISCLOSURES

Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed here. 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, Chairman and interim CEO, 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 to related parties is shown in Table 28:

PROPHECY DEVELOPMENT CORP.
Management's Discussion and Analysis of Financial Condition and Results of Operations
For the year ended December 31, 2018
(Expressed in Canadian Dollars, except where indicated)

Table 28

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

A summary of the expenses by nature among the related parties is shown in Table 29:

Table 29

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

Transactions with related parties have been measured at the fair value of services rendered.

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

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

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

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

On October 10, 2018, the Company announced the appointment of Gerald Panneton as the Company's President and new Chief Executive Officer, replacing John Lee, who remains as Chairman of the Board. Pursuant to the terms of Mr. Panneton's employment agreement with the Company, the Company has granted to Mr. Panneton 1,000,000 with a fair value of \$0.35 per Share of bonus shares and 500,000 incentive stock options exercisable at a price of \$0.26 per Common share for a term of five years expiring on October 10, 2023 and which vest at 12.5% per quarter for the first two years following the date of grant.

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

PROPHECY DEVELOPMENT CORP.
Management’s Discussion and Analysis of Financial Condition and Results of Operations
For the year ended December 31, 2018
(Expressed in Canadian Dollars, except where indicated)

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

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including directors of the Company. The amounts due to related parties is summarized below in Table 30.

Table 30

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

14. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Critical accounting estimates used in the preparation of the Annual Financial Statements include determining the carrying value of mineral properties exploration and evaluation projects and property and equipment, assessing the impairment of long-lived assets, determination of environmental obligation provision for closure and reclamation, determining deferred income taxes, and the valuation of Share-based payments. These estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Company’s control.

Readers are encouraged to read the significant accounting policies and estimates as described in the Company’s Annual Financial Statements for the year ended December 31, 2018 (Notes 4, 5, and 6 to the Annual Financial Statements). Prophecy’s Annual Financial Statements have been prepared using the going concern assumption.

Significant Accounting Judgments and Estimates

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

(a) Mineral reserves

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

(b) Depreciation

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

(c) Impairment

The carrying value of long-lived assets are reviewed each reporting period to determine whether there is any indication of impairment. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired, and an impairment loss is recognized in the consolidated statement of operations. The assessment of fair values, including those of the cash generating units (the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflow from other assets or groups of assets) (“**CGUs**”) for purposes of

PROPHECY DEVELOPMENT CORP.

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

For the year ended December 31, 2018

(Expressed in Canadian Dollars, except where indicated)

testing goodwill, require the use of estimates and assumptions for recoverable production, long-term commodity prices, discount rates, foreign exchange rates, future capital requirements and operating performance. Changes in any of the assumptions or estimates used in determining the fair value of goodwill or other assets could impact the impairment analysis.

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

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

(e) Provision for closure and reclamation

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

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

(f) Share-based payments

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

(f) Contingencies

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

(g) Fair value measurement

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value

PROPHECY DEVELOPMENT CORP.

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

For the year ended December 31, 2018

(Expressed in Canadian Dollars, except where indicated)

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

Same accounting policies as annual audited consolidated financial statements

The Company followed the same accounting policies and methods of computation in the Annual Financial Statements for the year ended December 31, 2018 as followed in the consolidated financial statements for the year ended December 31, 2017.

Basis of consolidation

The Annual Financial Statements include the accounts of the Company and its controlled subsidiaries. All material intercompany balances and transactions have been eliminated. The Company's the most significant subsidiaries at the date of these MD&A are presented in Table 31:

Table 31

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

15. ACCOUNTING CHANGES AND RECENT ACCOUNTING PRONOUNCEMENTS

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

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

- IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments for principal and interest. The change did not impact the carrying amounts of any of the Company's financial assets on the transition date. Prior periods were not restated, and no material changes resulted from adopting this new standard.
- The adoption of the new "expected credit loss" impairment model under IFRS 9, as opposed to an incurred credit loss model under IAS 39, had no impact on the carrying amounts of our financial assets on the transition date given the Company transacts exclusively with large international financial institutions and other organizations with strong credit ratings.

PROPHECY DEVELOPMENT CORP.
Management’s Discussion and Analysis of Financial Condition and Results of Operations
For the year ended December 31, 2018
(Expressed in Canadian Dollars, except where indicated)

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

Table 32

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

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

IFRS 15 ‘Revenue from Contracts with Customers’ (“IFRS 15”) – Effective January 1, 2018, the Company has adopted IFRS 15. This standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The adoption of this standard had no impact on the Company’s financial statements.

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

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

16. FINANCIAL INSTRUMENTS AND RELATED RISKS

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

Financial Instruments (Note 19 to the Annual Financial Statements)

The following table sets forth the Company’s financial assets that are measured at fair value on a recurring basis by level within the fair value hierarchy. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. Table 35 sets forth Prophecy’s financial assets measured at fair value by level within the fair value hierarchy.

PROPHECY DEVELOPMENT CORP.
Management's Discussion and Analysis of Financial Condition and Results of Operations
For the year ended December 31, 2018
(Expressed in Canadian Dollars, except where indicated)

Table 33

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

Categories of financial instruments

The Company considers that the carrying amount of all its financial assets and financial liabilities measure at amortized cost approximates their fair value due to their short term nature. Restricted cash equivalents approximate fair value due to the nature of the instrument. The Company does not offset financial assets with financial liabilities. There were no transfers between Level 1, 2 and 3 for the year ended December 31, 2018.

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

Table 34

	December 31, 2018	December 31, 2017	December 31, 2016
Fair value through profit or loss			
Cash	\$ 5,304,097	\$ 4,100,608	\$ 21,648
Fair value through other comprehensive income			
Marketable securities	\$ -	\$ 205,600	\$ 176,000
Amortized cost			
Receivables	\$ 36,399	\$ 34,653	\$ 91,565
Restricted cash equivalents	\$ 34,500	\$ 34,500	\$ -
	\$ 5,374,996	\$ 4,375,361	\$ 289,213
Amortized cost			
Accounts payable and accrued liabilities	\$ 1,636,786	\$ 1,895,983	\$ 2,658,018
Credit facility	\$ -	\$ -	\$ 1,071,560
	\$ 1,636,786	\$ 1,895,983	\$ 3,729,578

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 December 31, 2018, the Company had a cash balance of \$5,304,097 (December 31, 2017 – \$4,100,608, December 31, 2016 – \$21,648). As at December 31, 2018 the Company had accounts payable and accrued liabilities of \$1,636,786 (December 31, 2017 - \$1,895,983, December 31, 2016 - \$2,658,018), which have contractual maturities of 90 days or less.

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

(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

PROPHECY DEVELOPMENT CORP.

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

For the year ended December 31, 2018

(Expressed in Canadian Dollars, except where indicated)

restricted cash equivalents and receivables, net of allowances. 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. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's cash and restricted cash equivalents primarily include highly liquid investments that earn interest at market rates that are fixed to maturity. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have significant impact on the fair values of the financial instruments as of December 31, 2018. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

(ii) Foreign currency risk

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

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

Based on the above, net exposures as at December 31, 2018, with other variables unchanged, a 10% (December 31, 2017 – 10%, December 31, 2016 – 10%) strengthening (weakening) of the Canadian dollar against the Mongolian tugrik would impact net loss with other variables unchanged by \$44,000. A 10% strengthening (weakening) of the Canadian dollar against the Bolivian boliviano would impact net loss with other variables unchanged by \$811,000. A 10% strengthening (weakening) of the US dollar against the Canadian dollar would impact net loss with other variables unchanged by \$60,000. The Company currently does not use any foreign exchange contracts to hedge this currency risk.

(iii) Commodity and equity risk

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

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

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

PROPHECY DEVELOPMENT CORP.

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

For the year ended December 31, 2018

(Expressed in Canadian Dollars, except where indicated)

17. RISKS AND UNCERTAINTIES

Prophecy's business is the exploration, evaluation and development of mining properties. Thus, the Company's operations are speculative due to the high-risk nature of its business. The following list details existing and future material risks to the Company. The risks described below are not listed in any particular order and are not meant to be exhaustive. Additional risks and uncertainties not currently known to the Company, or those that it currently deems to be immaterial, may become material and adversely affect the Company. The realization of any of these risks may materially and adversely impact the Company's business, financial condition or results of operations and/or the market price of the Company's securities. Each of these risk factors is discussed in more detail under "Risk Factors" in the Company's AR for the year ended December 31, 2018, which is available under the Company's SEDAR profile at www.sedar.com.

- History of net losses;
- Capital costs, operating costs, production and economic returns;
- Exploration and development risks;
- No history of profitable mineral production;
- Mineral reserves / mineral resources;
- Environmental risks;
- Foreign operations;
- Reform of the General Mining Law in the U.S.;
- Government approvals and permits;
- Property interests;
- Mineral claims, mining leases, licenses and permitting;
- Title risks;
- First Nation;
- Competition;
- Inherent risks;
- Reliance on key personnel;
- Volatility of mineral prices,
- Currency fluctuations;
- Global and local financial conditions;
- Third-party contractors;
- Anti-bribery legislations;
- Uninsured risks;
- No dividend payments;
- Related party transactions;
- Litigation and regulatory proceedings;
- Cyber security;
- Foreign private issuer;
- Non-Canadian investors;
- Emerging growing company;
- Additional risks.

18. DISCLOSURE CONTROLS AND PROCEDURES

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

Prophecy's disclosure committee is comprised of the Chief Executive Officer and senior members of management. The disclosure committee's responsibilities include determining whether information is material and ensuring the

PROPHECY DEVELOPMENT CORP.

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

For the year ended December 31, 2018

(Expressed in Canadian Dollars, except where indicated)

timely disclosure of material information in accordance with securities laws. The Board of Directors is responsible for reviewing the Company's disclosure policy, procedures and controls to ensure that it addresses the Company's principal business risks, and changes in operations or structure, and facilitates compliance with applicable legislative and regulatory reporting requirements.

The Chief Executive Officer and Chief Financial Officer, after participating with the Company's management in evaluating the effectiveness of the Company's disclosure controls and procedures have concluded that the Company's disclosure controls and procedures were effective during the year ended December 31, 2018.

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 during the year ended December 31, 2018.

19. CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes to the Company's internal control over financial reporting during the year ended December 31, 2018, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations of controls and procedures

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

PROPHECY DEVELOPMENT CORP.

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

For the year ended December 31, 2018

(Expressed in Canadian Dollars, except where indicated)

20. DISCLOSURE OF OUTSTANDING SHARE DATA

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

- 95,316,127 Shares outstanding with a recorded value of \$173,819,547;
- 8,846,000 stock options outstanding with a weighted average exercise price the equivalent of \$0.35. The options are exercisable to purchase one Share at prices ranging from the equivalent of \$0.20 to \$0.65 and expire between May 2019 and November 2023; and
- 27,318,027 Share purchase warrants outstanding with a weighted average exercise price the equivalent of \$0.44. The Share purchase warrants are exercisable to purchase one Share at prices ranging from the equivalent of \$0.30 to \$0.70 and expire between May 2020 and June 2022.

21. OFF-BALANCE SHEET ARRANGEMENTS

During the year ended December 31, 2018, 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.