



(Formerly Prophecy Coal Corp.)

**Management's Discussion and Analysis of Financial
Condition and Results of Operations
For the three and six months ended June 30, 2015**
(Expressed in Canadian Dollars)

PROPHECY DEVELOPMENT CORP.

(formerly Prophecy Coal Corp.)

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1. INTRODUCTION

This Management's Discussion and Analysis ("MD&A") of Prophecy Development Corp. and its subsidiaries ("Prophecy", or the "Company") provides analysis of the Company's financial results for the three and six months ended June 30, 2015. The following information should be read in conjunction with the accompanying June 30, 2015 unaudited condensed interim consolidated financial statements and the notes to those financial statements, prepared in accordance with International Financial Reporting Standards ("IFRS"), applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 Interim Financial Reporting, as issued by the International Accounting Standards Board. This MD&A should be read also in conjunction with both the audited annual consolidated financial statements for the year ended December 31, 2014 (prepared in accordance with IFRS) ("Annual Financial Statements") and the related annual MD&A ("Annual MD&A"), all of which are available under the Company's SEDAR profile at www.SEDAR.com.

Financial information is expressed in Canadian dollars, unless stated otherwise. This MD&A is current as of August 14, 2015, and was reviewed, approved, and authorized for issue by the Company's Audit Committee. Readers are cautioned that this MD&A contains "forward-looking statements" and that actual events may vary from management's expectations. Readers are encouraged to read the cautionary note contained herein regarding such forward-looking statements.

Change of Company Name

On January 5, 2015, the Company changed its name from "Prophecy Coal Corp." to "Prophecy Development Corp." to better reflect its various interests in its mining and energy projects in Mongolia, Bolivia and Canada, and to allow for the broadening development and evolution of the Company's business interests as it actively pursues new opportunities.

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" or each, a "Share") are listed for trading on the Toronto Stock Exchange (the "TSX") under the symbol "PCY".

The principal business of the Company is the acquisition, exploration and development of mineral, mining and energy projects in Mongolia, Bolivia and Canada. The Company owns a 100% interest in the following significant coal projects in Mongolia: the Khavtgai Uul and Chandgana Tal coal deposits which are together, known as the "Chandgana Coal Properties" and the Ulaan Ovoo coal property. On January 2, 2015, the Company acquired a 100% joint venture interest in the Pulacayo Paca silver-lead-zinc mining project in Bolivia (the "Pulacayo Project").

General Corporate Information:

At June 30, 2015 and August 14, 2015, Prophecy had: (i) 324,113,315 and 324,452,784 Common shares issued and outstanding respectively; (ii) 38,413,750 and 38,213,750 share options for Common shares outstanding respectively; and (iii) 29,849,396 warrants for Common shares outstanding.

Share Information

Common shares of Prophecy are listed for trading on: (i) the TSX under the symbol "PCY"; (ii) the OTC-QX under the symbol "PRPCF"; and (iii) on the Frankfurt Stock Exchange under the symbol "1P2".

Investor Information

All financial reports, news releases and corporate information can be accessed on the Company's website at www.prophecydev.com

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Registered office

2nd Floor, 342 Water Street
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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 | Officers |
|---|---|
| John Lee, Executive Chairman Harald Batista Greg Hall Masa Igata | John Lee, Interim Chief Executive Officer ("CEO") Irina Plavutska, Chief Financial Officer Tony Wong, Corporate Secretary |
| Audit Committee Greg Hall (Chair) Harald Batista Masa Igata | Corporate Governance and Compensation Committee Greg Hall (Chair) Harald Batista Masa Igata |

Qualified Persons

Mr. Christopher Kravits, LPG, CPG, is a qualified person as defined under National Instrument 43-101 *Standards of Disclosure for Mineral Projects* ("NI 43-101"). Mr. Kravits is not considered independent of Prophecy given he is the Company's General Mining Manager, he is Executive Director of its wholly-owned subsidiary, Chandgana Coal LLC ("Chandgana"), and the large extent that his professional time is dedicated solely to Prophecy's interests. Mr. Kravits has reviewed and approved the technical and scientific disclosure regarding the mineral properties of Prophecy contained in this MD&A.

2. CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of applicable Canadian securities legislation concerning anticipated developments in the Company's continuing and future operations in Mongolia and Bolivia, the adequacy of the Company's financial resources and financial projections. Such forward-looking statements include but are not limited to statements regarding the permitting, feasibility, plans for development and production of Prophecy's Chandgana power plant, including finalizing of any power purchase agreement; the likelihood of securing project financing; estimated future coal production at the Ulaan Ovoo coal property and the Chandgana Coal Properties; development of the Pulacayo Project and other information concerning possible or assumed future results of operations of Prophecy. See in particular, the sections Select Financial and Operational Data and 2015 Outlook descriptions under Part 4 – Property Summary.

Forward-looking statements in this document are frequently identified by words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", "potentially" or similar expressions, or statements that events, conditions or results "will", "may", "would", "could", "should" occur or are "to be" achieved, and statements related to matters which are not historical facts. Information concerning management's expectations regarding Prophecy's future growth, results of operations, performance, business prospects and opportunities may also be

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deemed to be forward-looking statements, as such information constitutes predictions based on certain factors, estimates and assumptions subject to significant business, economic, competitive and other uncertainties and contingencies, and involve known and unknown risks which may cause the actual results, performance, or achievements to be different from future results, performance, or achievements contained in such forward-looking statements made by Prophecy.

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

Numerous factors could cause Prophecy's actual results to differ materially from those expressed or implied in the forward-looking statements including the following risks and uncertainties, which are discussed in greater detail under the heading "Risk Factors" in this MD&A: Prophecy's history of net losses and lack of foreseeable cash flow; exploration, development and production risks, including risks related to the development of Prophecy's Ulaan Ovoo coal property; Prophecy not having a history of profitable mineral production; commencing mine development without a feasibility study; the uncertainty of mineral resource and mineral reserve estimates; the capital and operating costs required to bring Prophecy's projects into production and the resulting economic returns from its projects; foreign operations and political conditions, including the legal and political risks of operating in Mongolia and Bolivia which are developing countries and being subject to their local laws; the availability and timeliness of various government approvals and licences; the feasibility, funding and development of the Chandgana power plant and Pulacayo Project; 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; and conflicts of interest.

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

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

3. SECOND QUARTER HIGHLIGHTS

- On April 1, 2015, the Company engaged Cor Capital Inc. ("**Cor Capital**") to provide the Company with investor relations and shareholder communications services. Cor Capital is also engaged to introduce

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the Company to institutional investors, large asset money managers, investment advisors and high-net worth individuals among other duties.

- On April 2, 2015, the Company announced that it had completed a review of prior technical studies on the Pulacayo Project and engaged Mercator Geological Services Limited of Dartmouth, Nova Scotia ("**Mercator**") to complete an updated mineral resource estimate in accordance with NI 43-101 for the Pulacayo deposit and to develop a future exploration plan and a new mine plan for the Pulacayo Project.
- On April 7, 2015, the Company granted 10,000,000 incentive stock options to directors, officers, employees, and consultants of the Company which are exercisable at a price of \$0.05 per Share for a period of five years expiring on April 7, 2020 and vest at 12.5% per quarter for the first two years following the date of grant. The Company also cancelled 1,000,000 incentive stock options on April 7, 2015 which were originally granted on May 1, 2014 and had an exercise price of \$0.065 per Share for a period of five years.
- On April 14, 2015, the Company filed a Notice of Civil Claim in the Supreme Court of British Columbia against TBF Capital Management Group (HK) Limited for breach and repudiation of an Amended and Restated Subscription Agreement for Shares between the parties dated February 6, 2015.
- On May 5, 2015, the Company, through its wholly-owned subsidiary, Red Hill Mongolia LLC ("**Red Hill**"), entered into a purchase agreement with an arm's-length party in Mongolia to sell substantially all of its mining and transportation equipment at the Company's Ulaan Ovoo mine for total proceeds of approximately \$2.34 million. The sale, together with the sale of additional equipment to other arm's-length parties, was completed in June 2015 and the Company received approximately \$2.9 million in cash.

The Company received consent to the sales of the equipment, which belonged to Red Hill, from the Company's creditor, Linx Partners Ltd., a private company wholly-owned and controlled by John Lee, Director, CEO and Executive Chairman of Prophecy ("**Linx**"), which holds a general security interest over all of the Company's present and after-acquired property. In consideration for consenting to the sales of, and waiving its security interest in, the equipment, John Lee, the beneficial owner of Linx, received 12 million share purchase warrants of the Company exercisable at \$0.05 per Share for a period of five years expiring on May 22, 2020.

- On June 16, 2015, the Company received an independent mineral resource estimate for the Pulacayo Project prepared in accordance with the CIM Definition Standards on Mineral Resources and Mineral Reserves referenced in NI 43-101. The estimate was prepared by Mercator under the supervision of Michael Cullen, P.Geo., who is an independent Qualified Person under NI 43-101. The news release dated June 18, 2015 showing the results of the estimate is available under the Company's SEDAR profile at www.SEDAR.com.
- On June 22, 2015, the Company appointed Mr. Bekzod Kasimov as Vice-President, Operations of the Company.

The Company granted 3,500,000 incentive stock options to directors, officers, employees and consultants of the Company which are exercisable at a price of \$0.05 per Share for a period of five years expiring on June 22, 2020 and vest at 12.5% per quarter for the first two years following the date of grant.

The Company also entered into settlement and release agreements with certain of its consultants located in Bolivia to settle various historical debts owing to them when Prophecy acquired its Bolivian subsidiaries on January 2, 2015. Pursuant to the terms of those settlement and release agreements, the Company issued 757,862 Shares, and a further 339,469 Shares on July 27, 2015, at a deemed price of \$0.05 per Share through its Share-Based Compensation Plan.

- On June 24, 2015, the Company held its annual general meeting of shareholders at which all resolutions proposed by management of the Company were passed including the issuance of a total of 11,476,819

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debt settlement units, consisting of 11,476,819 Shares and 11,476,819 share purchase warrants exercisable at a price of \$0.06 per Share for a period of two years from the date of issuance expiring on June 24, 2017, and the adoption of a new shareholder rights plan which was entered into between the Company and Computershare Trust Company of Canada on April 29, 2015.

Subsequent to period end

- On July 7, 2015, the Company announced commencement of the first phase of systematic district exploration at its Pulacayo Project. For further information please view the Company's news release of July 7, 2015 under the Company's SEDAR profile at www.SEDAR.com.
- On July 29, 2015, the Company cancelled a total of 200,000 incentive stock options which were originally granted on October 21, 2014 and April 7, 2015, were exercisable for five years, and had exercise prices of \$0.055 and \$0.05 per Share respectively.
- On July 31, 2015, the Company filed the technical report related to the mineral resource estimate dated June 16, 2015 prepared by Mercator titled "Pulacayo Silver-Zinc-Lead Deposit Mineral Resource Estimate Technical Report, Pulacayo Township, Potosí Department, Anttonio Quijarro Province, Bolivia". A copy of the technical report can be found under the Company's SEDAR profile at www.SEDAR.com.
- On August 14, 2015 the Company cancelled 250,000 incentive stock options which were originally granted on May 1, 2014 and had an exercise price of \$0.065 per Share for a period of five years.

4. PROPERTY SUMMARY

For this quarterly report the property descriptions and selected financial and operating data for this section are not included unless there is a change from the Annual Financial Statements and related Annual MD&A. The reader is referred to the Annual Financial Statements and related Annual MD&A for this information.

Highlights on Ulaan Ovoo Mine, Mongolia

Please refer to the relevant section of the Annual MD&A for this information.

Select Financial and Operational Data:

Please refer to the relevant section of the Annual MD&A for this information.

Q2 2015

The Company's Ulaan Ovoo operations are on standby though coal loading and sales from existing stockpiles continues to customers. This is a temporary curtailment from pre-commercial mining during which the Company is preparing to mine later this year. The Company decided to sell the mining equipment to generate cash so that operations may continue. Open-pit mining operations at Ulaan Ovoo may be restarted in short order by signing with any one of several available third party contract-mining companies in Mongolia that provide a turnkey solution with labor and equipment. The Company believes contract mining is a more efficient way to operate in Mongolia since contract mining firms will be responsible for labor agreements and equipment maintenance.

During the second quarter 2015, the mine shipped approximately 2,000 tonnes (same period 2014 – 15,740 tonnes) of coal to local customers from existing stockpiles. Total coal sales revenue of \$0.07 million (same period 2014 - \$0.58 million) was realized during this period. The coal stockpile balance was approximately 88,000 tonnes with a value of approximately of \$1 million at June 30, 2015. Sales volume is generally lower in the first and second quarters of each year due to seasonal holidays which result in a general decrease in the level of economic activity and a shift to warmer weather moving into the summer season. During the six months ended June 30, 2015, the Company incurred operating costs of approximately \$1.1 million.

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In April 2015, the Company, through its wholly-owned subsidiary, Red Hill, entered into a purchase agreement with an arm's-length party in Mongolia to sell substantially all of its mining and transportation equipment at the Company's Ulaan Ovoo mine for total proceeds of approximately \$2.34 million. The sale of equipment was completed in June 2015. Total proceeds (including the sale of equipment to other arm's-length parties) amounted to \$2.9 million in cash.

The feasibility study for upgrading the road from the Ulaan Ovoo mine to the Zeltura border was approved by the Mongolian Ministry of Road and Transportation in January 2015. The Company continues to work with the Mongolian Customs General Administration through a consultant for the design of a customs inspection and clearance area at Ulaan Ovoo. While the Company is pleased with the overall progress and appreciates the support from the Mongolian authorities, it cannot offer any certainty or a definitive time frame to start transporting coal to Russia through Zeltura.

Work continued on the update of the mine feasibility study. The detailed environmental impact assessment update was submitted and accepted by the Ministry of Environment.

2015 Outlook

For the near future, the Ulaan Ovoo mine will remain on standby. The Company will continue with coal loading and the sale of its remaining mining and transportation equipment at Ulaan Ovoo. Placing the mine on standby and selling off equipment is not considered to decrease the likelihood of successfully restarting the mine and continued pre-commercial mining to eventually achieve commercial mining. The Company continues its efforts to maximize value including evaluation of operating alternatives (e.g. electrification, conveyance vs. haul), infrastructure improvement, management changes, higher margin uses and markets for Ulaan Ovoo coal, and methods to upgrade coal quality and pursuit of financial arrangements including strategic partner or joint venture arrangements or the sale of a portion or the entire project. One of these efforts is to penetrate the urban residential market in Mongolia (total estimated consumption of approximately 700 - 900 thousand tonnes a year in the cities of Ulaanbaatar, Erdenet, and Darkhan) and further increase coal sales to Russia.

Though management believes the domestic and export long term thermal coal market is improving and is becoming more profitable, the Company is unable to determine when improvement will materialize and if it does, be sustainable, when, if at all, greater access to Russian coal markets will be realized, the extent of project changes and operational modifications required and the time and degree they will improve profitability, and the full potential value of the coal resource will be realized.

The update to the mine feasibility study is expected to be completed in Q3 2015. Drilling required as part of the annual license diligence requirement is planned for the Khujirt license.

Highlights on the Chandgana Coal Properties, Mongolia

Please refer to the relevant section of the Annual MD&A for this information.

Q2 2015

Chandgana completed drilling six drill holes on the Khavtgai Uul license as part of the annual license diligence requirement. Consolidation of the assets of Cosmo Coal LLC's wholly-owned subsidiary Tugalgatai Mining LLC ("**Tugalgatai**") and Chandgana was largely on hold pending resolution of internal issues by Cosmo and some regulatory issues.

During the second quarter 2015, the Company incurred total costs of \$59,431 (same period 2014 - \$89,434) for the Chandgana Tal property (including power plant consultant and land maintenance costs) and \$5,332 (same period 2014 - \$3,297) for the Khavtgai Uul property.

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2015 Outlook

For the Chandgana Tal property, the Company will prepare to mine a small amount of coal for the upcoming heating season. Otherwise normal license maintenance work will be completed.

Work on the Khavtgai Uul license will include the required exploration report and other license maintenance work in order to retain exploration and mining rights to the license.

Prophecy still expects regulatory approval of the consolidation of the assets of Chandgana, which controls the Chandgana Tal and Khavtgai Uul licenses, with the assets of Tugalgtai, as announced in the Company's August 18, 2014 news release issued in Q3 2014. The assets of Tugalgtai include licenses located between and contiguous to the Chandgana Tal and Khavtgai Uul licenses. Although the consolidation has been on hold due to internal restructuring of Cosmo Coal LLC, Prophecy continues to work toward completing the consolidation.

Chandgana Power Plant Project, Mongolia

Please refer to the relevant section of the Annual MD&A for this information.

Q2 2015

During the quarter, Prophecy Power Generation LLC has met with the government appointed working group and revised the concession agreement following their recommendations. Several meetings with key government officials were held. Discussions with investors also continued.

2015 Outlook

The Company actively pursues the remaining agreements, approvals and permits required to proceed with the development of the Chandgana power plant project. The Company intends to conclude three major agreements with the government on the Chandgana power plant – the tariff agreement, power purchase agreement and concession agreement in 2015. Prophecy also continues to actively consider project financing options which include either debt, equity or a combination thereof in addition to joint ventures with international power project developers. Otherwise regular license maintenance work will continue.

Highlights on the Pulacayo Project, Bolivia

Please refer to the relevant section of the Annual MD&A for this information.

Select Financial and Operational Data:

Please refer to the relevant section of the Annual MD&A for this information.

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

The Pulacayo Project comprises approximately 22,850 hectares of contiguous mining concessions centered on the historical Pulacayo mine and town site. The Pulacayo Project is located 18 km east of the town of Uyuni in the Department of Potosi in southwestern Bolivia. It is located 460 km south-southeast of the national capital of La Paz and 150 km southwest of the city of Potosi, which is the administrative capital of the department. Pulacayo is accessible by all season paved and gravel roads from La Paz via Oruro to Uyuni, and by newly paved road from Potosi. The town of Uyuni has a newly developed asphalt airstrip which now accommodates daily

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scheduled air service from La Paz by two regional carriers. It also has commercial railway connections to the cities of Oruro, Potosi and Villazon, and links to the borders of Argentina and Chile. Railway connections to Chile link to major shipping ports at Antofastago and Porto Mejillones. The Pulacayo Project is fully permitted with secured social licenses for mining.

In December 2012, the Environmental Impact Assessment for the Pulacayo Project was submitted to Bolivia's Ministry of Environment and Water and it was approved in October 2013. The submission was the result of over 30 months of technical studies and consultations, including a comprehensive water management plan, the feasibility study, archeological studies, flora and fauna studies, mine closure planning, social baseline studies, and results from two years of public consultations with local communities. The approval of the Environmental Impact Assessment allows for mine and concentrator construction with a targeted production rate of up to 560tpd at the Pulacayo Project.

Paca Deposit

The Paca deposit is located approximately 8 km north of the Pulacayo deposit. Drilling by Apex Silver Company in 2002 identified a zone of significant silver-zinc-lead mineralization (see Apogee's news release dated September 13, 2005 under Apogee's SEDAR profile at www.SEDAR.com).

Subsequent drilling by Apogee in 2006 and 2007, totalling approximately 15,000 meters, delineated a silver-lead-zinc deposit that could potentially be developed by open pit methods. Apogee believes that there is potential for resource expansion at the Paca deposit but currently efforts at Pulacayo are taking priority.

This deposit was the subject of an independent estimate of mineral resources prepared by Micon International Limited. The resource estimate was disclosed in a technical report dated March 2007 that meets the disclosure requirements of Canadian Securities Administrators NI 43-101 and can be found under Apogee's SEDAR profile at www.SEDAR.com. Alternatively, this report is also available on Apogee's website. Apogee has not undertaken diamond drilling on the Paca project since February 2007.

Q2 2015

The Company continued its fast-track development schedule of the Pulacayo project as described in the previous quarterly report. Progress was made during Q2 on the following tasks - resource estimation, determination of a high-grade mining scenario, commencement of the first phase of the exploration program, hiring key personnel, concentrator (mill) proposal evaluation, and assessment of options to upgrade utilities.

The Company has engaged Mercator Geological Services LLC to:

- complete an updated mineral resource estimate in accordance with NI 43-101 for the Pulacayo deposit by the end of April 2015 based on a silver equivalency cut off value of 500g/t Ag eq;
- work with Prophecy engineering staff to develop a new mine plan for the Pulacayo Project with a production rate of 500 tonnes per day, downsized from the 1,000 tonne per day rate in the prior feasibility study mine plan;
- complete a mineral resource estimate in accordance with NI 43-101 for the Paca open pit deposit based on a silver equivalency cut off value of 200g/t Ag eq;
- work with Prophecy engineering staff to develop a mine plan for the Paca open pit deposit with a proposed production rate of 500 tonnes per day;
- examine the Pulacayo tailings deposits and associated technical data and prepare a mineral resource estimate in accordance with NI 43-101 for these deposits, or a portion thereof; and
- develop a future exploration plan for the Pulacayo deposit, Paca deposit, and other satellite target anomalies on the properties with the objective of establishing additional high grade mineral resources.

On June 16, 2015, the Company received the independent mineral resource estimate for the Pulacayo Project prepared in accordance with the CIM Definition Standards on Mineral Resources and Mineral Reserves referenced in NI 43-101. The estimate was prepared by Mercator under the supervision of Michael Cullen,

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P.Geo., who is an independent Qualified Person under NI 43-101. The news release dated June 18, 2015 is available under the Company's SEDAR profile at www.SEDAR.com. The reader is referred to the news release for background and conditions under which the resource estimate was prepared.

Results of the mineral resource estimate prepared by Mercator for the Pulacayo Project are presented in the table below.

Pulacayo Mineral Resource Statement - Effective June 16, 2015

| Ag Eq. Cut-Off (g/t) | Category | Tonnes** | Ag (g/t) | Pb (%) | Zn (%) | Ag Eq. (g/t) |
|-------------------------|------------------|------------------|------------|-------------|-------------|--------------|
| 400 | Indicated | 2,080,000 | 455 | 2.18 | 3.19 | 594 |
| | Inferred | 480,000 | 406 | 2.08 | 3.93 | 572 |
| 500* | Indicated | 1,270,000 | 530 | 2.51 | 3.63 | 688 |
| | Inferred | 350,000 | 419 | 2.47 | 4.58 | 620 |
| 600 | Indicated | 750,000 | 608 | 2.91 | 4.02 | 785 |
| | Inferred | 170,000 | 394 | 3.49 | 6.75 | 710 |

Notes:

- (1) Mineral resources are estimated in conformance the CIM Standards referenced in NI 43-101.
- (2) Raw silver assays were capped at 1,700 g/t, raw lead assays were capped at 15% and raw zinc assays were capped at 15%.
- (3) Silver equivalent Ag Eq. (g/t) = Ag (g/t)*89.2% + (Pb% *(US\$0.94/ lb. Pb /14.583 Troy oz./lb./US\$16.50 per Troy oz. Ag)*10,000*91.9%) + (Zn% *(US\$1.00/lb. Zn/14.583 Troy oz./lb./US\$16.50 per Troy oz. Ag)*10,000*82.9%). Metal prices used in the silver equivalent calculation are US\$16.50/Troy oz. Ag, US\$0.94/lb Pb and US\$1.00/lb Zn. Metal recoveries 89.2% Ag. 91.9% Pb. 82.9% Zn. used in the silver equivalent equation reflect historic metallurgical results disclosed previously by Apogee.
- (4) Metal grades were interpolated within wireframed, three dimensional silver domain solids using Geovia-Surpac Ver. 6.6.1 software and inverse distance squared interpolation methods. Block size is 10m(X) by 10m(Z) by 2m(Y). Historic mine void space was removed from the model prior to reporting of resources.
- (5) Block density factors reflect three dimensional modeling of drill core density determinations.
- (6) Mineral resources are considered to have reasonable expectation for economic development using underground mining methods based on the deposit history, resource amount and metal grades, current metal pricing and comparison to broadly comparable deposits elsewhere.
- (7) Rounding of figures may result in apparent differences between tonnes, grade and contained ounces.
- (8) Mineral resources that are not mineral reserves do not have demonstrated economic viability.
- (9) *Mineral resource statement cut-off value; resource statement values are presented in bolded form.
- (10) **Tonnes are rounded to nearest 10,000.

A high grade mine plan was developed in-house based on the geologic model prepared by Mercator for the resource estimate. The mine plan includes mining the high grade resources (>500 g/t Ag Eq) at a rate of 500 tn/day producing a total 1.26 million tonnes. The mine plan has been based on the use of the shrinkage stoping method.

Phase 1 of the exploration program consisting of surface mapping, sampling, trenching and field assay using a handheld XRF unit started at the end of June, 2015. See the Company's July 7, 2015 news release which is available under the Company's SEDAR profile at www.SEDAR.com. The exploration program is focused on four targets located by previous reconnaissance exploration – El Abra, Pero, Paca, and Pacamayo. The results of this work will be used to plan induced polarization (IP) surveys. The information from the surface mapping, sampling, trenching and field assays will be studied with the new IP survey information and previous IP survey information to develop drilling plans for the exploration targets. Phase 2 will consist of drilling and assays.

During the six months ended June 30, 2015, the Company incurred total costs of \$804,151 for the Pulacayo Project of which a total of \$267,142 has been spent for permits and licenses, \$147,642 for geological core and consulting, and \$389,367 for payroll, legal and general and administrative expenses.

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2015 Outlook

Work will continue to complete the tasks described above with the goal to make a production decision as soon as possible. If the decision is affirmative, utility upgrade work, mill construction, rehabilitation and development of the Pulacayo underground mine, development of the Paca open pit mine including obtaining necessary environmental and government approvals will start.

5. SUMMARY OF QUARTERLY RESULTS

The following table summarizes selected financial information for the eight most recently completed quarters, prepared in accordance with IFRS:

| | 2014 | 2015 | 2014 | 2014 |
|---|--------------|--------------|--------------|-----------|
| | Jun-30 | Mar-31 | Dec-31 | Sep-30 |
| Operating expense | (805,826) \$ | (565,716) \$ | (908,565) \$ | (381,890) |
| Net loss | (1,112,025) | (1,994,753) | (12,624,317) | (997,563) |
| Net loss per share, basic and diluted | (0.00) \$ | (0.01) \$ | (0.05) \$ | (0.00) |
| Comprehensive loss | (1,112,025) | (1,994,753) | (12,624,317) | (997,563) |
| Comprehensive loss per share, basic and diluted | (0.00) \$ | (0.01) \$ | (0.05) \$ | (0.00) |

| | 2014 | 2014 | 2013 | 2013 |
|---|-----------------|--------------|--------------|-------------|
| | Jun-30 | Mar-31 | Dec-31 | Sep-30 |
| Operating expense | \$ (551,125) \$ | (622,005) \$ | 225,160 \$ | (2,731,414) |
| Net loss | (874,952) | (199,209) | (10,818,935) | (5,300,267) |
| Net loss per share, basic and diluted | \$ (0.00) \$ | (0.00) \$ | (0.04) \$ | (0.02) |
| Comprehensive loss | (874,952) | (199,209) | (10,665,360) | (5,502,416) |
| Comprehensive loss per share, basic and diluted | \$ (0.00) \$ | (0.00) \$ | (0.04) \$ | (0.02) |

The Company's quarterly operating expenses remain relatively stable. Factors causing significant changes between the prior seven quarters have primarily been items such as non-cash share-based payments expense and consulting and management fees. Factors causing significant changes in net loss have been primarily items such as impairment charges, losses on disposal of investment in associate, and sale of available-for-sale investments.

6. DISCUSSION OF OPERATIONS

All of the information described below is accounted for in accordance with IFRS. The reader is encouraged to refer to Note 6 of Prophecy's Annual Financial Statements for Prophecy's IFRS accounting policies. Certain prior period figures have been reclassified to conform to the current year's presentation. Such reclassification is for presentation purposes only and has no effect on previously reported results. For discussion on each project, the reader is encouraged to refer to the "Property Summary" section of this MD&A.

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Three Months Ended June 30, 2015 and 2014 (Q2 2015 and Q2 2014)

Results of operations are summarized as follows:

| Operating Expenses | Three months ended June 30, | |
|-------------------------------------|-----------------------------|------------|
| | 2015 | 2014 |
| Advertising and promotion | \$ 38,724 | \$ 13,772 |
| Consulting and management fees | 42,066 | 10,503 |
| General and administrative expenses | 235,754 | 218,666 |
| Professional fees | 35,163 | 37,912 |
| Share-based payments | 432,377 | 240,911 |
| Travel and accommodation | 21,742 | 29,361 |
| | \$ 805,826 | \$ 551,125 |

The increase by \$254,701 in operating expenses was mainly due to the following factors:

- Share-based payments expense represents the value assigned to the granting of options and incentive-based units under the Company's Share-Based Compensation Plan using the Black-Scholes option pricing model and varies from period to period based on the number and valuation of the stock options granted during the period, vesting provisions, and amortization schedule of the previously granted options. During Q2 2015, the Company granted 13,500,000 stock options, issued 12,000,000 share purchases warrants and incurred \$432,377 in share-based payments expense which is net of the \$46,219 that was capitalized to mineral properties and property and equipment (Note 11 to the interim financial statements);
- Consulting and management fees increased by \$31,563 mainly due to general increase in business activity as a result of the Pulacayo Project acquisition; and
- Advertising and promotion expense increased by \$24,952 due to more extensive promotion carried out for the Company during the period.

For Q2 2015, the Company incurred other expenses classified as "Other Items" amounting to \$0.3 million.

| Other Items | Three months ended June 30, | |
|---|-----------------------------|------------|
| | 2015 | 2014 |
| Costs in excess of impaired value | \$ (725,074) | \$ 465,381 |
| Foreign exchange (gain) loss | 869,925 | (122,466) |
| (Gain) loss on sale of available-for-sale investments | - | (15,007) |
| Interest expense | 49,985 | - |
| Interest income | - | (4,081) |
| Loss on sale of equipment | 111,363 | - |
| | \$ 306,199 | \$ 323,827 |

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Six Months Ended June 30, 2015 and 2014

For the six months ended June 30, 2015, the Company incurred operating expenses of \$1.37 million compared to the \$1.17 million incurred for the six months ended June 30, 2014. Results of operations are summarized as follows:

| Operating Expenses | Six month ended June 30, | |
|-------------------------------------|--------------------------|--------------|
| | 2015 | 2014 |
| Advertising and promotion | \$ 59,364 | \$ 33,232 |
| Consulting and management fees | 150,565 | 33,314 |
| General and administrative expenses | 529,720 | 484,559 |
| Professional fees | 87,060 | 126,651 |
| Share-based payments | 478,381 | 433,514 |
| Travel and accommodation | 66,452 | 61,860 |
| | \$ 1,371,542 | \$ 1,173,130 |

The increase by \$198,412 in operating expenses was mainly due to the following factors:

- Consulting and management fees increased by \$117,251 mainly due to general increase in business activity as a result of the Pulacayo Project acquisition.
- General and administrative expenses increased by \$45,161. The increase was due primarily to increased stock exchange and shareholders services (by \$43,803) and increased salaries (by \$ 32,679) partially offset by a decrease in directors fees (by \$21,143) and by a decrease in insurance expense (by \$11,880).
- Advertising and promotion expense increased by \$26,132 due to more extensive promotion carried out for the Company during the period.

For the six months ended June 30, 2015, the Company incurred other expenses classified as "Other Items" amounting to \$1.7 million compared to a gain of \$0.1 million for the same period of 2014.

| Other Items | Six month ended June 30, | |
|--|--------------------------|-------------|
| | 2015 | 2014 |
| Costs in excess of impaired value | 593,100 | 2,677,162 |
| Foreign exchange (loss)/gain | 971,036 | (397,931) |
| Gain on sale of available-for-sale investments | - | (2,366,913) |
| Interest expense | 59,737 | - |
| Interest income | - | (11,287) |
| Loss on sale of equipment | 111,363 | - |
| | \$ 1,735,236 | \$ (98,969) |

The increase by \$1.7 million was mainly due to: 1) a gain on the sale of available-for-sale investments of \$2.4 million recorded in 2014; 2) an increase in the foreign exchange loss by \$1.4 million due to fluctuations in the value of the Canadian dollar compared to the Mongolian tugrik and the United States dollar; and 3) a decrease of costs in excess of impaired value of the Ulaan Ovoo property's expenditures due to the curtail of mining operations.

7. LIQUIDITY AND CAPITAL RESOURCES**Working Capital**

The Company is an exploration and development stage company that has not yet generated revenues or significant cash flows from its operations. To continue operations and to fund future obligations, the Company will

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be required to raise funds through equity or other financing alternatives. Recent global economic conditions and market uncertainty may have an impact on the Company's ability to raise funds through the equity markets. Management believes that there are sources of financing available; however, there can be no assurance that the Company will be successful in its future.

At June 30, 2015 Prophecy had \$634,380 comprised of cash and cash equivalents, representing an increase of \$433,386 from the \$200,994 held at December 31, 2014. Working capital deficit amounted approximately to \$1 million at June 30, 2015 compared to working capital deficit of \$0.9 million as at December 31 2014. The decrease in working capital was mainly due to decrease in current assets such as coal inventory, receivables and prepaids.

During Q2 2015, the Company received approximately \$2.9 million in cash from sale of mining and transportation equipment at the Company's Ulaan Ovoo mine. The proceeds are being used to repay the Company's line of credit with the Trade and Development Bank of Mongolia (the "LOC"), to advance the Company's Pulacayo and Chandgana power plant projects.

On March 12, 2015, the Company entered into a credit facility agreement with Linx (the "Credit Facility Agreement") in order to meet current working capital requirements. The Credit Facility Agreement has a maximum principal amount available for advance of \$1.5 million, a two year term (formerly one year, but amended on May 5, 2015 and approved by the TSX) with an option to extend it for any number of subsequent one-year terms subject to TSX approval, and bears an interest rate of 18% per annum. The Credit Facility Agreement is secured by promissory notes and a general security agreement.

As at the date of this MD&A, the Company has reached the maximum of \$1.5 million of the Credit Facility Agreement.

As at date of this MD&A, the outstanding balance of the Company's LOC is US \$184,240.

The Company's holding of cash balances is kept under constant review. Given the current climate, the Company takes a very risk adverse approach to management of cash resources and management and directors monitor events and associated risks on a continuous basis. The Company is also exploring other financing alternatives, such as equity financing, and the sale and leaseback of capital assets.

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

Cash Flow Highlights

| | Six months ended June 30, | |
|---|---------------------------|----------------|
| | 2015 | 2014 |
| Cash used in operating activities | \$ (925,434) | \$ (1,882,893) |
| Cash provided by investing activities | 1,083,581 | 2,475,291 |
| Cash (used in) provided by financing activities | 275,238 | (259,739) |
| Increase (decrease) in cash for period | 433,386 | 332,659 |
| Cash balance, beginning of period | 200,994 | 507,996 |
| Cash balance, end of period | \$ 634,380 | \$ 840,655 |

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Operating activities: Cash used in operating activities was approximately \$0.9 million during the six months ended June 30 2015 compared to cash used of \$1.9 million during the same period in 2014. The Company has increased its efforts in managing operating costs in advance of cash flows from operations but will require financing in the near term to fund operations.

Investing activities: Cash provided by investing activities was approximately \$1 million during the six months ended June 30 2015 compared to \$2.5 million cash provided by investing activities during the same period in 2014. In 2014, the Company received \$4.27 million from the sale of its common shares of Wellgreen Platinum Ltd. and used \$1.8 million for mineral property and property and equipment expenditures. During the six months ended 2015, the Company received \$2.9 million from sale of mining and transportation equipment and spent \$1.6 million on mineral property and property and equipment expenditures. Also, the Company paid \$250,000 to acquire the Apogee Subsidiaries.

Financing activities: Cash provided by financing activities was approximately \$0.28 million during the six months ended June 30 2015 compared to \$0.26 million cash used in the same period of 2014. The Company received \$1,096,648 from the Credit Facility Agreement and paid \$655,646 toward the LOC outstanding balance compared to \$136,188 paid in the same period of 2014.

Contractual Commitments

Prophecy's commitments related to mineral properties are disclosed in Note 14 to the Annual Financial Statements. Prophecy's other commitments are disclosed in Note 27 to the Annual Financial Statements.

Capital Risk Management

Prophecy considers its capital structure to consist of Shares, incentive 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 acquisition and exploration of mineral properties. The Board of Directors does not establish quantitative returns on capital criteria for management.

The properties, to which Prophecy currently has an interest in, are predominantly in the exploration and development stages; as such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. There were no changes in management's approach to capital management during the six months ended June 30, 2015. Neither Prophecy nor its subsidiaries are subject to externally imposed capital requirements.

8. 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, that ASC Bolivia LDC Sucursal Bolivia, the Company's wholly-owned subsidiary, owed approximately Bs42,000,000 (\$6,536,326) 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.

Subsequent to period end, the Company received a positive Resolution issued by the Bolivian Constitutional

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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 the subsidiary) and sends the matter back to the Supreme Court to consider and issue a new Resolution. The Company plans to continue to vigorously defend its position and make submissions to the Supreme Court during the new hearing. Based on these developments, the tax claim amount of \$6,491,755 was classified as non-current liabilities.

Red Hill tax claim

During the year ended December 31, 2014, Red Hill was issued a letter from the Sukhbaatar District Tax Division notifying it of the results of the Sukhbaatar District Tax Division's VAT inspection of Red Hill's 2009-2013 tax imposition and payments that resulted in validating VAT credit of only MNT235,718,533 from Red Hill's claimed VAT credit of MNT2,654,175,507. Red Hill disagreed with the Sukhbaatar District Tax Division's findings as the tax assessment appeared to the Company to be unfounded. The Company disputed the Sukhbaatar District Tax Division's assessment and submitted a complaint to the Capital City Tax Tribunal. On March 24, 2015, the Capital City Tax Tribunal resolved to refer the matter back to the Sukhbaatar District Tax Division for revision and separation of the action between confirmation of Red Hill's VAT credit, and the imposition of the penalty/deduction for the tax assessment. The Sukhbaatar District Tax Division appealed the Capital City Tax Tribunal's resolution to the General Tax Tribunal office, but was denied on June 4, 2015 on procedural grounds. As a result, the Sukhbaatar District Tax Division implemented the Capital City Tax Tribunal's resolution on June 25, 2015, finding: 1) with respect to confirmation of Red Hill's VAT credit, that after inspection the amount was to be MNT235,718,533; and 2) with respect to the imposition of the penalty/deduction for the tax assessment, that no penalty was to be issued but that Red Hill's loss to be depreciated and reported to be MNT1,396,668,549 in 2010 and MNT4,462,083,700 in 2011. The Company continues to dispute the Sukhbaatar District Tax Division's assessment and delivered a complaint to Capital City Tax Tribunal on July 24, 2015. In the opinion of Prophecy, at June 30, 2015 a provision for this matter is not required.

9. RELATED PARTY DISCLOSURES

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

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

A summary of amounts paid and accrued to related parties for services provided is as follows:

| Related parties | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-------------------------|-----------------------------|------------|---------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Directors and officers | \$ 92,780 | \$ 94,054 | \$ 169,801 | \$ 178,306 |
| Linx Partners Ltd. | 105,000 | 105,003 | 218,988 | 210,006 |
| MaKevCo Consulting Inc. | 9,200 | 12,900 | 20,719 | 25,300 |
| Sophir Asia Ltd. | 8,000 | - | 18,242 | - |
| | \$ 214,980 | \$ 211,957 | \$ 427,750 | \$ 413,612 |

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

| Related parties | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--------------------------------|-----------------------------|------------|---------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Consulting and management fees | \$ 36,243 | \$ 10,503 | \$ 127,433 | \$ 27,257 |
| Directors' fees | 25,200 | 40,174 | 57,202 | 77,045 |
| Mineral properties | 86,757 | 47,250 | 109,555 | 94,500 |
| Property and equipment | - | 47,250 | - | 94,500 |
| Salaries and benefits | 66,780 | 66,780 | 133,560 | 120,310 |
| | \$ 214,980 | \$ 211,957 | \$ 427,750 | \$ 413,612 |

On March 12, 2015, the Company entered into the Credit Facility Agreement with Linx which has a maximum principal amount available for advance of \$1.5 million, a two year term with an option to extend it for any number of subsequent one-year terms subject to TSX approval, and bears an interest rate of 18% per annum. The Credit Facility Agreement is secured by promissory notes and a general security agreement. As at the date of this MD&A, the outstanding balance of the credit facility is \$1.5 million.

On May 22, 2015, the Company issued to John Lee, the beneficial owner of Linx, 12,000,000 share purchase warrants, exercisable at a price of \$0.05 per Common share for a period of 5 years from the date of issuance, as consideration for receiving his consent for the sale of the Ulaan Ovoo mining equipment. The fair value of \$333,811 of the issued share purchase warrants to Mr. Lee was included in share based payments expense and determined using the Black-Scholes option pricing (Note 11 (d) to the interim financial statements).

As at June 30, 2015, amounts due to related parties (excluding the Credit Facility Agreement with Linx) totaled \$68,098 (December 31, 2014 – \$463,578) and was comprised of \$20,620 (December 31, 2014 - \$70,845) for directors' fees and \$47,478 (December 31, 2014 - \$157,312) for consulting and management.

The amounts due to related parties are non-interest bearing and due upon demand.

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

| Key Management Personnel | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------------------------------|-----------------------------|------------|---------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Salaries and short term benefits | \$ 67,360 | \$ 93,030 | \$ 134,997 | \$ 178,306 |
| Share-based payments | 390,568 | 129,200 | 426,750 | 252,893 |
| | \$ 457,928 | \$ 222,230 | \$ 561,747 | \$ 431,199 |

10. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company's condensed consolidated interim financial statements are prepared in accordance with IFRS as issued by the IASB. The Company followed the same accounting policies and methods of computation in the Annual Financial Statements for the six months ended June 30, 2015. The significant accounting policies applied and recent accounting pronouncements are described in Note 6 to the Annual Financial Statements.

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

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payable and accrued liabilities, the assumptions used in the determination of the fair value of financial instruments and share-based payments, and the determination of the recoverability of deferred income tax assets. Prophecy bases its estimates and assumptions on current and various other factors that it believes to be reasonable under the circumstances. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

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

11. 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 21 to the Annual Financial Statements)

The following table sets forth the Company's financial assets that are measured at fair value on a recurring basis by level within the fair value hierarchy. As at June 30, 2015 those financial assets and liabilities are classified in their entirety based on the level of input that is significant to the fair value measurement.

| As at June 30, 2015 | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------|------------|---------|---------|------------|
| Financial assets | | | | |
| Cash and cash equivalents | \$ 634,380 | \$ - | \$ - | \$ 634,380 |
| Restricted cash equivalents | 34,500 | - | - | 34,500 |
| | \$ 668,880 | \$ - | \$ - | \$ 668,880 |

Related Risks

A description of types of risks that the Company is exposed to and its objectives and policies for managing such risks is included in the Company's Annual MD&A dated March 31, 2015, which is available under the Company's SEDAR profile at www.SEDAR.com. There have been no changes in the risks, objectives, policies or procedures during the six months ended June 30, 2015.

12. RISKS AND UNCERTAINTIES

Readers should carefully consider the risks and uncertainties described in the Company's Annual Information Form for the year ended December 31, 2014 under the section "Risk Factors" on page 59. The Annual Information Form is available under the Company's SEDAR profile at www.SEDAR.com. Additional risks not currently known to the Company, or that the Company currently deems immaterial, may also impair the Company's operations. If any of the foregoing risks actually occur, the Company's business, financial condition and operating results could be adversely affected.

13. DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, with oversight from the Audit Committee of the Board of Directors, is responsible for establishing and maintaining an adequate system of 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. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. As a result, even those systems determined to be effective can only provide reasonable assurance

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with respect to financial statement preparation and presentation and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The Company's management has determined that there has been no change in the Company's internal control over financial reporting during the six months ended June 30, 2015, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

14. DISCLOSURE OF OUTSTANDING SHARE DATA

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

- 324,452,784 Common shares outstanding with recorded value of \$152,475,999;
- 38,213,750 stock options outstanding with a weighted average exercise price of \$0.10. Each option is exercisable to purchase one Common share of the Company at prices ranging from \$0.05 to \$0.28 and which expire between 2015 and 2020; and
- 29,849,396 share purchase warrants outstanding exercisable to purchase one Common share of the Company at any time at prices ranging from \$0.05 to \$0.18 and which expire between 2015 and 2020.

15. OFF-BALANCE SHEET ARRANGEMENTS

During the six months ended June 30, 2015, 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.



(Formerly Prophecy Coal Corp.)

Condensed Interim Consolidated Financial Statements
For the three and six month period ended June 30, 2015
(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

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NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

| As at | Notes | June 30, 2015 | December 31, 2014 |
|--|-------|------------------|----------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 6 | \$ 634,380 | \$ 200,994 |
| Receivables | | 676,385 | 737,434 |
| Prepaid expenses | | 559,225 | 732,082 |
| Inventory | | 1,025,579 | 1,499,231 |
| | | 2,895,569 | 3,169,741 |
| Non-current assets | | | |
| Restricted cash equivalents | 6 | 34,500 | 34,500 |
| Reclamation deposits | | 27,554 | 27,554 |
| Property and equipment | 7 | 1,927,200 | 4,361,982 |
| Mineral properties | 8 | 24,633,915 | 13,710,520 |
| | | \$ 29,518,738 | \$ 21,304,297 |
| Liabilities and Equity | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 9 | \$ 2,122,968 | \$ 2,778,368 |
| Credit facilities | 10 | 1,729,220 | 1,288,218 |
| | | 3,852,188 | 4,066,586 |
| Non-current liabilities | | | |
| Provision for closure and reclamation | | 173,363 | 173,363 |
| Tax Claim | 18 | 6,491,755 | - |
| | | 10,517,306 | 4,239,949 |
| Equity | | | |
| Share capital | 11 | 152,459,026 | 147,947,292 |
| Reserves | | 21,035,013 | 20,502,885 |
| Deficit | | (154,492,607) | (151,385,829) |
| | | 19,001,432 | 17,064,348 |
| | | \$ 29,518,738 | \$ 21,304,297 |

Approved on behalf of the Board:

"John Lee"
John Lee, Director

"Greg Hall"
Greg Hall, Director

Nature of operations and going concern (Note 1)

Commitments (Note 17)

Contingencies (Note 18)

Events after the reporting date (Note 19)

See accompanying notes to the consolidated financial statements.

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

| | Note: | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-------|-----------------------------|--------------|---------------------------|----------------|
| | | 2015 | 2014 | 2015 | 2014 |
| General and Administrative Expenses | | | | | |
| Advertising and promotion | | \$ 38,724 | \$ 13,772 | \$ 59,364 | \$ 33,232 |
| Consulting and management fees | | 42,066 | 10,503 | 150,565 | 33,314 |
| Depreciation | | 14,908 | 15,737 | 29,214 | 32,198 |
| Director fees | | 25,900 | 40,174 | 55,902 | 77,045 |
| Insurance | | 21,506 | 20,092 | 45,818 | 57,698 |
| Office and administration | | 22,744 | 27,056 | 76,112 | 71,426 |
| Professional fees | | 35,163 | 37,912 | 87,060 | 126,651 |
| Salaries and benefits | | 93,205 | 91,214 | 216,069 | 172,266 |
| Share-based payments | 11 | 432,377 | 240,911 | 478,381 | 433,514 |
| Stock exchange and shareholder services | | 57,491 | 24,393 | 106,605 | 73,926 |
| Travel and accommodation | | 21,742 | 29,361 | 66,452 | 61,860 |
| | | (805,826) | (551,125) | (1,371,542) | (1,173,130) |
| Other Items | | | | | |
| Costs in excess of impaired value | 7 | 725,074 | (465,381) | (593,100) | (2,677,162) |
| Foreign exchange (loss)/gain | | (869,925) | 122,466 | (971,036) | 397,931 |
| Gain on sale of available-for-sale investments | | - | 15,007 | - | 2,366,913 |
| Interest expense | 10 | (49,985) | - | (59,737) | - |
| Interest income | | - | 4,081 | - | 11,287 |
| Loss on sale of equipment | 7 | (111,363) | - | (111,363) | - |
| Net Loss for Period | | (1,112,025) | (874,952) | (3,106,778) | (1,074,161) |
| Comprehensive Loss for Period | | \$ (1,112,025) | \$ (874,952) | \$ (3,106,778) | \$ (1,074,161) |
| Loss Per Common Share, basic and diluted | | \$ (0.00) | \$ (0.00) | \$ (0.01) | \$ (0.00) |
| Weighted Average Number of Common Shares Outstanding | | 309,274,735 | 249,694,731 | 311,961,544 | 249,509,065 |

See accompanying notes to the consolidated financial statements.

PROPHECY DEVELOPMENT CORP.
(formerly Prophecy Coal Corp.)
Condensed Interim Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars) (Unaudited)

| | Numbers of shares | Share Capital | Reserves | Accumulated Other Comprehensive Gain (Loss) | Deficit | Total |
|---|----------------------|------------------|---------------|--|------------------|---------------|
| Balance, December 31, 2013 | 248,373,819 | \$ 147,680,113 | \$ 19,790,089 | \$ 399,271 | \$ (136,689,788) | \$ 31,179,685 |
| Share-based payments | - | - | 460,408 | - | - | 460,408 |
| Share bonus to personnel | 1,013,750 | 81,100 | - | - | - | 81,100 |
| Debt Settlement | 2,541,065 | 190,580 | - | - | - | 190,580 |
| Loss for the period | - | - | - | - | (1,074,161) | (1,074,161) |
| Sale of available-for-sale investments | - | - | - | (399,271) | - | (399,271) |
| Balance, June 30, 2014 | 251,928,634 | \$ 147,951,793 | \$ 20,250,497 | \$ - | \$ (137,763,949) | \$ 30,438,341 |
| Balance, December 31, 2014 | 251,878,634 | \$ 147,947,292 | \$ 20,502,885 | \$ - | \$ (151,385,829) | \$ 17,064,348 |
| Shares issued for acquisition, net of share issue costs | 60,000,000 | 3,900,000 | - | - | - | 3,900,000 |
| Share-based payments | - | - | 532,128 | - | - | 532,128 |
| Debt Settlement | 12,234,681 | 611,734 | - | - | - | 611,734 |
| Loss for the period | - | - | - | - | (3,106,778) | (3,106,778) |
| Balance, June 30, 2015 | 324,113,315 | \$ 152,459,026 | \$ 21,035,013 | \$ - | \$ (154,492,607) | \$ 19,001,432 |

See accompanying notes to the consolidated financial statements

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

| | Six Months Ended June 30, | |
|---|----------------------------------|--------------------|
| | 2015 | 2014 |
| Operating Activities | | |
| Net loss for the year | \$ (3,106,778) | \$ (1,074,161) |
| Adjustments to reconcile net loss to net cash flows: | | |
| Depreciation | 29,214 | 32,198 |
| Share-based payments | 478,381 | 433,514 |
| Gain on sale of available-for-sale investments | - | (2,366,913) |
| Loss on sale of equipment | 111,363 | - |
| Costs in excess of impaired value | 593,100 | 2,677,162 |
| Interest income | - | (11,287) |
| Interest costs | 59,737 | - |
| | (1,834,983) | (309,487) |
| Working capital adjustments | | |
| Receivables | 61,049 | 635,481 |
| Prepaid expenses | 172,857 | 390,152 |
| Inventory | 473,652 | (1,437,114) |
| Accounts payable and accrued liabilities | 201,991 | (1,161,925) |
| | 909,549 | (1,573,406) |
| Cash Used in Operating Activities | (925,434) | (1,882,893) |
| Investing Activities | | |
| Acquisition of Apogee Subsidiaries, net of cash acquired (Note 4) | (237,224) | - |
| Property and equipment expenditures | (946,412) | (1,726,313) |
| Proceeds from sale of property and equipment | 2,921,484 | - |
| Mineral property expenditures | (654,267) | (73,135) |
| Proceeds from sale of available-for-sale investments | - | 4,274,739 |
| Cash Provided by Investing Activities | 1,083,581 | 2,475,291 |
| Financing Activities | | |
| Credit facilities paid | (655,646) | (136,188) |
| Proceeds from credit facility | 1,096,648 | - |
| Interest paid | (165,764) | (123,551) |
| Cash Used in Financing Activities | 275,238 | (259,739) |
| Net Decrease in cash and cash equivalents | 433,386 | 332,659 |
| Cash and Cash Equivalents - beginning of period | 200,994 | 507,996 |
| Cash and Cash Equivalents - end of period | \$ 634,380 | \$ 840,655 |

Supplemental cash flow information (Note 16)

See accompanying notes to the consolidated financial statements.

PROPHECY DEVELOPMENT CORP.

(formerly Prophecy Coal Corp.)

Notes to Condensed Interim Consolidated Financial Statements

For the three and six month period ended June 30, 2015

(Expressed in Canadian Dollars) (Unaudited)

1. NATURE OF OPERATIONS AND GOING CONCERN

Prophecy Development Corp. (“**Prophecy**” or the “**Company**”) is amalgamated under the laws of the province of British Columbia, Canada and is engaged in exploring and developing mining properties and energy projects in Canada, Mongolia, and Bolivia. The Company’s principal assets are its 100% interest in mining licenses in the Ulaan Ovoo and Chandgana properties in Mongolia and its 100% joint venture interest in the Pulacayo Project (as hereinafter defined) in Bolivia.

The Company maintains its registered and records as well as head office at 2nd Floor, 342 Water Street, Vancouver, BC, Canada, V6B 1B6.

These unaudited condensed interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. The Company incurred a net loss of \$3.1 million during the six months ended June 30, 2015 and as of that date the Company’s deficit was \$154.5 million.

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

Additional sources of funding, which may not be available at favourable terms, if at all, include: equity and debt financings; coal sales; equipment rentals/sales; equity, debt or property level joint ventures with power project and coal property developers; and sales of interests in existing assets. In the event that the Company is not able to obtain adequate additional funding to continue as a going concern, material adjustments would be required to be made to both the carrying value and classification of assets and liabilities on the statement of financial position.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting. They do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company’s annual financial statements as at and for the year ended December 31, 2014. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company’s financial position and performance since the last annual consolidated financial statements as at and for the year ended December 31, 2014 (“**Annual Financial Statements**”).

These unaudited condensed interim consolidated financial statements were approved and authorized for issue by the Audit Committee on August 12, 2015.

PROPHECY DEVELOPMENT CORP.

(formerly Prophecy Coal Corp.)

Notes to Condensed Interim Consolidated Financial Statements

For the three and six month period ended June 30, 2015

(Expressed in Canadian Dollars) (Unaudited)

2. BASIS OF PRESENTATION (cont'd...)

(b) Significant accounting policies

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

(c) Judgments and estimates

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

(d) Comparative figures

Certain prior year figures have been reclassified to conform to the current year's presentation. Such reclassifications are for presentation purposes only and has no effect on previously reported results.

3. CHANGES IN ACCOUNTING POLICIES

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

- IFRS 9 '*Financial Instruments*' – This standard was published in July 2014 and replaces the existing guidance in IAS39, '*Financial Instruments: Recognition and Measurement*'. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the extent of the impact of the adoption of this standard.
- IFRS 15 '*Revenue from Contracts with Customers*' – This standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

This standard is effective for fiscal years beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect this standard to have a material impact on its financial statements.

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 unaudited consolidated interim financial statements.

PROPHECY DEVELOPMENT CORP.

(formerly Prophecy Coal Corp.)

Notes to Condensed Interim Consolidated Financial Statements

For the three and six month period ended June 30, 2015

(Expressed in Canadian Dollars) (Unaudited)

4. ACQUISITION

On January 2, 2015, the Company completed the acquisition of 100% of Apogee Silver Ltd.'s ("**Apogee**") interest in and to ASC Holdings Limited and ASC Bolivia LDC (which together, hold ASC Bolivia LDC Sucursal Bolivia, which in turn, holds Apogee's joint venture interest in the Pulacayo Paca silver-lead-zinc mining project in Bolivia (the "**Pulacayo Project**")) and Apogee Minerals Bolivia S.A. (collectively, the "**Apogee Subsidiaries**") by paying to Apogee \$250,000 in cash and issuing to Apogee 60 million Prophecy Common shares (the "**Consideration Shares**"). The Company also agreed, pursuant to the terms of the share purchase agreement it entered into with Apogee on November 3, 2014, as amended (the "**Agreement**"), to assume all liabilities of the Apogee Subsidiaries. Apogee agreed to forgive, waive and discharge the intercompany debt owing by Apogee Minerals Bolivia S.A. to Apogee pursuant to the terms of the Agreement.

The Consideration Shares have been deposited into escrow pursuant to an escrow agreement, which allows for the release of the Consideration Shares over time, when the Company's Common shares trading on the Toronto Stock Exchange (the "**TSX**") reach certain price levels or in the face of certain major triggering events. The escrow agreement also provides for a standstill on the voting of the Consideration Shares while they are held in escrow, and to not vote the released Consideration Shares against the Company's management so long as Prophecy continues to be engaged in its current business.

The acquisition of the Apogee Subsidiaries has been accounted for as an asset acquisition as their activities at the time of the acquisition consisted of mineral properties under care and maintenance. The consideration was allocated based on the fair value of the assets acquired and liabilities assumed.

The purchase price of \$4,150,000 consists of the following:

| | | |
|-------------------------------------|-----------|------------------|
| Cash consideration: | \$ | 250,000 |
| Fair value of Common shares issued: | | 3,900,000 |
| Purchase price: | \$ | 4,150,000 |

The preliminary purchase price allocation is as follows:

| | | |
|-----------------------------|-----------|------------------|
| Cash and cash equivalents: | \$ | 12,776 |
| Plant & equipment: | | 862,900 |
| Mineral properties: | | 9,940,134 |
| Accounts payable: | | (6,665,810) |
| Net assets acquired: | \$ | 4,150,000 |

PROPHECY DEVELOPMENT CORP.

(formerly Prophecy Coal Corp.)

Notes to Condensed Interim Consolidated Financial Statements

For the three and six month period ended June 30, 2015

(Expressed in Canadian Dollars) (Unaudited)

5. SEGMENTED INFORMATION

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

| | June 30, 2015 | | | |
|------------------------|---------------|---------------|---------------|---------------|
| | Canada | Mongolia | Bolivia | Total |
| Reclamation deposits | \$ 6,500 | \$ 21,054 | \$ - | \$ 27,554 |
| Property and equipment | 108,486 | 1,055,944 | 762,770 | 1,927,200 |
| Mineral properties | - | 13,889,630 | 10,744,285 | 24,633,915 |
| | \$ 114,986 | \$ 14,966,628 | \$ 11,507,055 | \$ 26,588,669 |

| | December 31, 2014 | | | |
|------------------------|-------------------|---------------|---------|---------------|
| | Canada | Mongolia | Bolivia | Total |
| Reclamation deposits | \$ 6,500 | \$ 21,054 | \$ - | \$ 27,554 |
| Property and equipment | 131,863 | 4,230,119 | - | 4,361,982 |
| Mineral properties | - | 13,710,520 | - | 13,710,520 |
| | \$ 138,363 | \$ 17,961,693 | \$ - | \$ 18,100,056 |

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents of Prophecy are comprised of bank balances and short-term money market instruments with original maturities of three months or less. The carrying amounts of cash and cash equivalents approximate fair value. Prophecy's cash and cash equivalents are denominated in the following currencies:

| | June 30, 2015 | December 31, 2014 |
|----------------------------------|------------------|----------------------|
| Denominated in Canadian dollars | \$ 338,785 | \$ 154,592 |
| Denominated in US dollars | 249,285 | 3,642 |
| Denominated in Mongolian tugriks | 46,310 | 42,760 |
| | \$ 634,380 | \$ 200,994 |

Restricted Cash Equivalents

A guaranteed investment certificate of \$34,500 has been pledged as collateral for the Company's credit card.

PROPHECY DEVELOPMENT CORP.

(formerly Prophecy Coal Corp.)

Notes to Condensed Interim Consolidated Financial Statements

For the three and six month period ended June 30, 2015

(Expressed in Canadian Dollars) (Unaudited)

7. PROPERTY AND EQUIPMENT

| | Computer Equipment | Furniture & Equipment | Vehicles | Computer Software | Leasehold Improvements | Mining Equipment | Ulaan Ovoo Deferred Exploration | Total |
|-----------------------------------|-----------------------|--------------------------|------------|----------------------|---------------------------|---------------------|---------------------------------------|---------------|
| Cost | | | | | | | | |
| Balance, December 31, 2013 | \$ 171,550 | \$ 372,545 | \$ 798,599 | \$ 196,554 | \$ 172,818 | \$ 15,071,500 | \$ 2,000,000 | \$ 18,783,566 |
| Additions/(disposals) | (15,713) | 672 | (11,291) | 1,259 | - | 927,423 | (33,899) | 868,451 |
| Sale of coal | - | - | - | - | - | - | (3,935,612) | (3,935,612) |
| Cost of coal production | - | - | - | - | - | - | 10,045,848 | 10,045,848 |
| Impairment charge | - | - | - | - | - | (9,750,533) | (8,076,337) | (17,826,870) |
| Balance, December 31, 2014 | \$ 155,837 | \$ 373,217 | \$ 787,308 | \$ 197,813 | \$ 172,818 | \$ 6,248,390 | \$ - | \$ 7,935,383 |
| Accumulated depreciation | | | | | | | | |
| Balance, December 31, 2013 | \$ 99,872 | \$ 174,015 | \$ 404,587 | \$ 131,328 | \$ 92,709 | \$ 7,122,469 | \$ - | \$ 8,024,980 |
| Depreciation for year | 15,338 | 33,288 | 73,428 | 4,356 | 32,944 | 1,664,591 | 400,000 | 2,223,945 |
| Impairment charge | - | - | - | - | - | (6,275,524) | (400,000) | (6,675,524) |
| Balance, December 31, 2014 | \$ 115,210 | \$ 207,303 | \$ 478,015 | \$ 135,684 | \$ 125,653 | \$ 2,511,536 | \$ - | \$ 3,573,401 |
| Carrying amount | | | | | | | | |
| At December 31, 2013 | \$ 71,678 | \$ 198,530 | \$ 394,012 | \$ 65,226 | \$ 80,109 | \$ 7,949,031 | \$ 2,000,000 | \$ 10,758,587 |
| At December 31, 2014 | \$ 40,627 | \$ 165,914 | \$ 309,293 | \$ 62,129 | \$ 47,165 | \$ 3,736,854 | \$ - | \$ 4,361,982 |
| Cost | | | | | | | | |
| Balance, December 31, 2014 | \$ 155,837 | \$ 373,217 | \$ 787,308 | \$ 197,813 | \$ 172,818 | \$ 6,248,390 | \$ - | \$ 7,935,383 |
| Additions | 151,046 | 87,905 | 33,877 | - | - | 1,317,931 | 1,941,958 | 3,532,717 |
| Disposals | - | - | (369,179) | - | - | (5,229,103) | - | (5,598,282) |
| Sale of coal | - | - | - | - | - | - | (667,831) | (667,831) |
| Costs in excess of impaired value | - | - | - | - | - | - | (1,274,127) | (1,274,127) |
| Balance, June 30, 2015 | \$ 306,883 | \$ 461,122 | \$ 452,006 | \$ 197,813 | \$ 172,818 | \$ 2,337,218 | \$ - | \$ 3,927,860 |
| Accumulated depreciation | | | | | | | | |
| Balance, December 31, 2014 | \$ 115,210 | \$ 207,303 | \$ 478,015 | \$ 135,684 | \$ 125,653 | \$ 2,511,536 | \$ - | \$ 3,573,401 |
| Depreciation for period | 145,884 | 37,457 | 1,265 | 1,194 | 17,461 | 600,084 | 681,027 | 1,484,372 |
| Disposals | - | - | (179,831) | - | - | (2,196,256) | - | (2,376,087) |
| Costs in excess of impaired value | - | - | - | - | - | - | (681,027) | (681,027) |
| Balance, June 30, 2015 | \$ 261,094 | \$ 244,760 | \$ 299,449 | \$ 136,878 | \$ 143,114 | \$ 915,364 | \$ - | \$ 2,000,660 |
| Carrying amount | | | | | | | | |
| At December 31, 2014 | \$ 40,627 | \$ 165,914 | \$ 309,293 | \$ 62,129 | \$ 47,165 | \$ 3,736,854 | \$ - | \$ 4,361,982 |
| At June 30, 2015 | \$ 45,789 | \$ 216,362 | \$ 152,557 | \$ 60,935 | \$ 29,704 | \$ 1,421,854 | \$ - | \$ 1,927,200 |

PROPHECY DEVELOPMENT CORP.

(formerly Prophecy Coal Corp.)

Notes to Condensed Interim Consolidated Financial Statements

For the three and six month period ended June 30, 2015

(Expressed in Canadian Dollars) (Unaudited)

7. PROPERTY AND EQUIPMENT (cont'd...)

Ulaan Ovoo Property

In November 2005, Prophecy entered into a letter of intent with Ochir LLC that set out the terms to acquire a 100% interest in the Ulaan Ovoo property. The Ulaan Ovoo property is located in Selenge province, Mongolia. It is held by Ochir LLC under a transferable, 55-year mining license with a 45-year option for extension granted by the Government of Mongolia. The purchase price for the 100% interest, together with all equipment, buildings, and other facilities assembled and constructed at the property, was US\$9,600,000. Under the terms of the agreement, Ochir LLC retained a 2% net smelter return royalty (“NSR”).

In November 2006, Prophecy entered into an agreement with a private Mongolian corporation to purchase 100% title and interest in five mineral licenses including licenses that are contiguous and entirely surrounding the Ulaan Ovoo property. The aggregate purchase price for the licenses was US\$400,000. Under the terms of the agreement the vendor retained a 2% NSR. A finder’s fee of 58,500 Common shares of Prophecy was issued to a third party on the acquisition.

In March 2010, Prophecy was granted an option to purchase a 2% NSR on the Ulaan Ovoo property from Dunview Services Ltd., a private British Virgin Islands company, with a cash payment of US\$130,000 and issuance of 2,000,000 Common shares of Prophecy. In April 2010, Prophecy exercised the option and a total of \$1,570,000 was capitalized as acquisition costs of the property.

On November 9, 2010, Prophecy received a mining permit from the Mongolian Ministry of Mineral Resources and Energy for the Ulaan Ovoo property. During the year ended December 31, 2010, Prophecy had reached technical feasibility, commenced development, and achieved some pre-commercial production, and accordingly reclassified mineral property costs to property and equipment.

Pre-commercial operations for the period from commencement in November 2010 until December 31, 2014, along with project exploration and development costs were capitalized to Ulaan Ovoo deferred exploration costs within property and equipment. Coal sales revenue and associated costs to deliver the coal have been recorded against deferred exploration, within property and equipment.

In accordance with *IFRS 6, Exploration for and Evaluation of Mineral Resources* and *IAS 36, Impairment of Assets*, at December 31, 2014, the Company assessed the recoverable amount of the Ulaan Ovoo property, which consists of the deferred development costs and the mine equipment, which have both been identified as separate CGU’s. As result, at December 31, 2014, the Company recorded an impairment charge of \$3,475,009 against the value of the mining equipment and an impairment charge of \$7,676,337 against the value of the deferred development costs.

As there were no benchmark or market changes from January 1, 2015 to June 30, 2015, the impaired value of \$nil for deferred development costs remains unchanged.

During the six months ended June 30, 2015, the Company sold most of its mining and transportation equipment at Ulaan Ovoo mine for the net proceeds of \$2,921,484 and recorded a loss on sale of equipment of \$111,363 which is reflected on the consolidated statement of operations and comprehensive loss.

PROPHECY DEVELOPMENT CORP.

(formerly Prophecy Coal Corp.)

Notes to Condensed Interim Consolidated Financial Statements

For the three and six month period ended June 30, 2015

(Expressed in Canadian Dollars) (Unaudited)

8. MINERAL PROPERTIES

| | Chandgana Tal (a) | Khavtgai Uul (b) | Titan (c) | Okeover, others (d) | Pulacayo (e) | Total |
|---|-------------------------|------------------------|--------------|---------------------------|-----------------|--------------|
| Balance, December 31, 2013 | \$ 9,974,172 | \$ 2,875,808 | \$ 750,628 | \$ 1,453,165 | \$ - | \$15,053,773 |
| <i>Additions:</i> | | | | | | |
| Acquisition cost | - | - | - | - | - | - |
| Deferred exploration costs: | | | | | | |
| Licenses, leases, and power plant application | 664,437 | 41,299 | 1,049 | 5,864 | - | 712,649 |
| Geological core, engineering, and consulting | 23,560 | - | 7,705 | 30,910 | - | 62,175 |
| Personnel, camp and general | 112,464 | 18,780 | 1,500 | 1,789 | - | 134,533 |
| <i>Impairment of mineral property</i> | - | - | (760,882) | (1,491,728) | - | (2,252,610) |
| | 800,461 | 60,079 | (750,628) | (1,453,165) | - | (1,343,253) |
| Balance, December 31, 2014 | \$10,774,633 | \$ 2,935,887 | \$ - | \$ - | \$ - | \$13,710,520 |
| <i>Additions:</i> | | | | | | |
| Acquisition cost (Note 4) | \$ - | \$ - | \$ - | \$ - | \$ 9,940,134 | \$ 9,940,134 |
| Deferred exploration costs: | | | | | | |
| Licenses, leases, and power plant application | 82,361 | 49,247 | - | - | 267,142 | 398,749 |
| Geological core, engineering, and consulting | 34,555 | 985 | - | - | 147,642 | 183,183 |
| Personnel, camp and general | 5,981 | 5,981 | - | - | 389,367 | 401,329 |
| | 122,897 | 56,213 | - | - | 804,151 | 983,261 |
| Balance, June 30, 2015 | \$10,897,530 | \$ 2,992,100 | \$ - | \$ - | \$10,744,285 | \$24,633,915 |

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

(a) Chandgana Tal Property, Mongolia

In March 2006, the Company acquired a 100% interest in the Chandgana Tal property, a coal exploration property consisting of two exploration licenses located in the northeast part of the Nyalga coal basin, approximately 290 kilometers east of Ulaanbaatar, Mongolia, by cash payment of US\$400,000 and the issuance of 250,000 Common shares of the Company valued at \$1.20 per Common share. A total of \$814,334, which included a finder's fee of 50,000 Common shares of the Company issued to a third party, was capitalized as acquisition costs of the Chandgana Tal property.

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

(b) Khavtgai Uul Property, Mongolia

In 2007, the Company acquired a 100% interest in the Chandgana Khavtgai property, a coal exploration property consisting of one license located in the northeast part of the Nyalga coal basin by cash payment of US\$570,000. A total of \$589,053 was capitalized as acquisition costs of the Chandgana Khavtgai property.

(c) Titan Property, Ontario, Canada

The Company has an 80% interest in the Titan property, a vanadium-titanium-iron project located in Ontario, Canada.

In January 2010, the Company entered into an option agreement with Randsburg International Gold Corp. ("**Randsburg**") whereby the Company had the right to acquire an 80% interest in the Titan property by paying Randsburg an aggregate of \$500,000 (paid), and by incurring exploration expenditures of \$200,000 by December 31, 2010. Pursuant to the option agreement, Randsburg has the option to sell the remaining 20% interest in the Titan property to the Company for \$150,000 cash or 400,000 Common shares of the Company. The Titan property is subject to a 3% NSR that may be purchased for \$20,000.

On June 30, 2011, the Company paid Randsburg the balance of the unexpended amount of \$114,742 according to the terms of an amended option agreement with Randsburg signed on June 30, 2011.

At December 31, 2014, due to market conditions and the difficulty to raise additional financing, as well as Prophecy's inactivity on the Titan property in recent years, the Company impaired the value of \$760,882 to \$nil. Prophecy continues to retain its 80% interest and management will continue to evaluate appropriate financing and strategic alternatives to move the project forward.

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

(d) Okeover Property, British Columbia, Canada

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

At December 31, 2014, due to market conditions and the difficulty to raise additional financing, as well as Prophecy's inactivity on the Okeover property in recent years, the Company impaired the value of \$1,453,897 to \$nil. Prophecy continues to retain its 60% interest and management will continue to evaluate appropriate financing and strategic alternatives to move the project forward.

(e) Pulacayo Property, Bolivia

The Pulacayo property, a silver-lead-zinc project located in southwestern Bolivia, was acquired on January 2, 2015 through the acquisition of 100% of Apogee's interest in ASC Holdings Limited and ASC Bolivia LDC, which together, hold ASC Bolivia LDC Sucursal Bolivia ("**ASC**"), which in turn, holds a joint venture interest in the Pulacayo Project, by paying to Apogee \$250,000 in cash and issuing to Apogee 60 million Prophecy Common shares (see Note 4).

ASC controls the mining rights to the Pulacayo Project through a joint venture agreement entered into between itself and the Pulacayo Ltda. Mining Cooperative on July 30, 2002 (the "**ASC Joint Venture**"). The ASC Joint Venture has a term of 23 years which commenced the day the ASC Joint Venture was entered into. Pursuant to the ASC Joint Venture, ASC is committed to pay monthly rent of US\$1,000 to the state-owned Mining Corporation of Bolivia, COMIBOL and US\$1,500 monthly rent to the Pulacayo Ltda. Mining Cooperative until the Pulacayo Project starts commercial production. COMIBOL retained a 2.5% NSR and the Pulacayo Ltda. Mining Cooperative retained a 1.5% NSR. The Pulacayo Ltda. Mining Cooperative who holds the mining rights through a lease agreement entered into with COMIBOL.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

| | June 30, 2015 | December 31, 2014 |
|------------------------|---------------------|----------------------|
| Current liabilities | | |
| Trade accounts payable | \$ 2,096,568 | \$ 2,347,888 |
| Accrued liabilities | 26,400 | 430,480 |
| | \$ 2,122,968 | \$ 2,778,368 |

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10. CREDIT FACILITIES

In October 2013, Prophecy's wholly-owned Mongolian subsidiary, Red Hill Mongolia LLC ("**Red Hill**") arranged a line of credit for US\$1,500,000 ("**LOC**") with the Trade and Development Bank to meet interim working capital requirements. The LOC had a 1.5 year term, with the option of extending it, and bears interest at 15% per annum and a commitment rate of 2% per annum payable monthly. Pursuant to the LOC agreement, Red Hill was scheduled to pay a fixed amount of US\$125,000 monthly against the principal starting May 2014. The credit facility is collateralized by certain equipment and certain mineral and exploration licences.

On June 30, 2014, Red Hill amended the LOC agreement by extending the maturity date to August 2015 and changing the fixed monthly payment against principal to US\$100,000.

As at June 30, 2015, the outstanding balance of the LOC was \$632,572. For the six months ended June 30, 2015, Red Hill recorded an interest expense of \$89,858 (capitalized), interest paid of \$106,027 and interest payable of \$16,555.

In order to meet interim working capital requirements to fund the Company's business operations and financial commitments, the Company arranged a revolving credit facility with Linx Partners Ltd., a private company wholly-owned and controlled by John Lee, Director, CEO and Executive Chairman of the Company by entering into an agreement dated March 12, 2015 (the "**Credit Facility Agreement**"). The Credit Facility Agreement has a maximum principal amount available for advance of \$1.5 million, a two year term (formerly one year, but amended on May 5, 2015 and approved by the TSX) with an option to extend it for any number of subsequent one-year terms subject to TSX approval, and bears an interest rate of 18% per annum. The Credit Facility Agreement is secured by promissory notes and a general security agreement.

As at June 30, 2015, the outstanding balance of the credit facility was \$1,096,648. For the six months ended June 30, 2015, the Company recorded and paid interest of \$59,737.

11. SHARE CAPITAL

(a) Authorized

The authorized share capital consists of an unlimited number of Common shares without par value. There are no authorized preferred shares. At June 30, 2015, the Company had 324,113,315 (December 31, 2014 – 251,878,634) Common shares issued and outstanding.

(b) Equity issuances

During the six months ended June 30, 2015, Prophecy had the following Common share capital transactions:

On January 2, 2015, the Company issued 60,000,000 Common shares in relation with Apogee Subsidiaries acquisition (Note 4).

On June 22, 2015 the Company issued 757,862 Common shares at a deemed price of \$0.05 per Common share as a partial payment for outstanding severance owing by the Company to certain of its consultants located in Bolivia to settle various historical debts owing to them when Prophecy acquired the Apogee Subsidiaries.

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

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

On June 24, 2015, the Company issued 11,476,819 units (“**Debt Settlement Units**”) as payment for outstanding debt owing by the Company to some of the Company’s directors, officers, employees and consultants at a value of \$0.05 per Debt Settlement Unit. Each Debt Settlement Unit is comprised of one Common share of the Company and one share purchase warrant of the Company entitling the holder thereof to purchase, upon exercise, one additional Common share at a price of \$0.06 per Common share until June 24, 2017.

(c) Equity-based compensation plans

During the six months ended June 30, 2015, the Company granted 13,500,000 stock options to its directors, officers, employees and consultants with a weighted average exercise price of \$0.05 and expire dates ranging from April 4, 2020 to June 22, 2020.

The following is a summary of the changes in Prophecy’s stock options from December 31, 2013 to June 30, 2015:

| | Number of Options | Weighted Average Exercise Price |
|--------------------------------------|----------------------|------------------------------------|
| Outstanding, December 31, 2013 | 31,565,550 | \$0.26 |
| Granted | 13,535,000 | \$0.08 |
| Expired | (1,231,800) | \$0.28 |
| Forfeited | (14,980,000) | \$0.29 |
| Cancelled | (2,325,000) | \$0.23 |
| Outstanding, December 31, 2014 | 26,563,750 | \$0.13 |
| Granted | 13,500,000 | \$0.05 |
| Expired | (200,000) | \$0.48 |
| Cancelled | (1,450,000) | \$0.06 |
| Outstanding, June 30, 2015 | 38,413,750 | \$0.10 |
| Options exercisable on June 30, 2015 | 19,517,500 | \$0.14 |

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

(c) Equity-based compensation plans (cont'd...)

As of June 30, 2015, the following Prophecy stock options were outstanding:

| June 30, 2015 | | December 31, 2014 | | Expiry Date | At June 30, 2015 | |
|----------------|---------------------|-------------------|---------------------|--------------------|------------------|------------|
| Exercise Price | Options Outstanding | Exercise Price | Options Outstanding | | Exercisable | Unvested |
| \$ 0.05 | 3,500,000 | \$ - | - | June 22, 2020 | - | 3,500,000 |
| \$ 0.05 | 9,800,000 | \$ - | - | April 7, 2020 | - | 9,800,000 |
| \$ 0.055 | 100,000 | \$ 0.055 | 100,000 | October 21, 2019 | 25,000 | 75,000 |
| \$ 0.055 | 2,468,750 | \$ 0.055 | 2,468,750 | December 31, 2015 | 2,468,750 | - |
| \$ 0.065 | 5,805,000 | \$ 0.065 | 7,055,000 | May 1, 2019 | 2,902,500 | 2,902,500 |
| \$ 0.08 | 100,000 | \$ 0.080 | 100,000 | January 9, 2019 | 62,500 | 37,500 |
| \$ 0.10 | 500,000 | \$ 0.100 | 500,000 | February 3, 2019 | 312,500 | 187,500 |
| \$ 0.105 | 5,150,000 | \$ 0.105 | 5,150,000 | January 27, 2019 | 3,218,750 | 1,931,250 |
| \$ 0.12 | 3,450,000 | \$ 0.120 | 3,450,000 | August 16, 2018 | 3,018,750 | 431,250 |
| \$ 0.13 | 250,000 | \$ 0.130 | 250,000 | July 22, 2018 | 218,750 | 31,250 |
| \$ 0.18 | 230,000 | \$ 0.180 | 230,000 | August 16, 2017 | 230,000 | - |
| \$ 0.18 | 375,000 | \$ 0.180 | 375,000 | September 24, 2017 | 375,000 | - |
| \$ 0.18 | 3,654,167 | \$ 0.180 | 3,654,167 | August 22, 2017 | 3,654,167 | - |
| \$ 0.25 | 10,000 | \$ 0.250 | 10,000 | June 1, 2017 | 10,000 | - |
| \$ 0.28 | 25,000 | \$ 0.280 | 25,000 | September 21, 2015 | 25,000 | - |
| \$ 0.28 | 100,000 | \$ 0.280 | 100,000 | February 14, 2016 | 100,000 | - |
| \$ 0.28 | 445,833 | \$ 0.280 | 445,833 | December 24, 2015 | 445,833 | - |
| \$ 0.28 | 2,450,000 | \$ 0.280 | 2,450,000 | June 18, 2017 | 2,450,000 | - |
| \$ - | - | \$ 0.280 | 50,000 | April 30, 2015 | - | - |
| \$ - | - | \$ 0.280 | 50,000 | May 10, 2015 | - | - |
| \$ - | - | \$ 0.670 | 100,000 | May 10, 2015 | - | - |
| | 38,413,750 | | 26,563,750 | | 19,517,500 | 18,896,250 |

The fair value of stock options granted are recorded using the Black Scholes model. Share-based payment expenses resulting from stock options are amortized over the corresponding vesting periods. During the six months ended June 30, 2014, the share-based payment expenses were calculated using the following weighted average assumptions:

| | Period ended June 30 | |
|--|----------------------|------------|
| | 2015 | 2014 |
| Risk-free interest rate | 1.30% | 1.60% |
| Expected life of options in years | 4.49 years | 4.35 years |
| Expected volatility | 99.1% | 86.5% |
| Expected dividend yield | Nil | Nil |
| Weighted average fair value of options granted during the period | \$ 0.05 | \$ 0.05 |

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

(c) Equity-based compensation plans (cont'd...)

Share-based payment expenses resulting from stock options are amortized over the corresponding vesting periods. Share-based payments charged to operations and assets were allocated between deferred mineral properties, and general and administrative expenses. Share-based payments are allocated between being either capitalized to property and equipment where related to Ulaan Ovoo, to deferred exploration costs where related to other mineral properties, or expensed as general and administrative expenses where otherwise related to the general operations of the Company. For the six and three months ended June 30, 2015 and 2014, share-based payments were allocated as follows:

| | Three Months Ended June | | Six Months Ended June 30, | |
|---|-------------------------|-------------------|---------------------------|-------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Consolidated Statement of Operations | | | | |
| Share based payments | \$ 432,377 | \$ 240,911 | \$ 478,381 | \$ 433,514 |
| | \$ 432,377 | \$ 240,911 | \$ 478,381 | \$ 433,514 |
| Consolidated Statement of Financial Position | | | | |
| Chandgana Tal exploration | 3,969 | - | 3,969 | - |
| Power Plant application | 9,613 | 18,579 | 17,141 | 35,337 |
| Pulacayo exploration | 21,084 | - | 21,084 | - |
| Ulaan Ovoo exploration | 11,553 | 41,494 | 11,553 | 72,657 |
| | 46,219 | 60,073 | 53,747 | 107,994 |
| Total share-based payments | \$ 478,596 | \$ 300,984 | \$ 532,128 | \$ 541,508 |

(d) Share purchase warrants

On May 22, 2015 the Company issued 12,000,000 share purchase warrants, exercisable at a price of \$0.05 per Common share for a period of 5 years from the date of issuance, to the Company's creditor, Linx Partners Ltd., which holds a general security interest over all of the Company's properties (Note 10) as a consideration for receiving his consent for the sale of mining equipment which belonged to the Company's wholly-owned subsidiary Red Hill. The fair value of \$333,811 of the share purchase warrants issued to Linx Partners Ltd. was included in share based payments expense and determined using the Black-Scholes option pricing model using the following assumptions: 1) a risk-free interest rate of 0.80%, 2) warrant expected life of 5 years, 3) expected volatility of 97%, and 4) dividend yield of nil.

On June 24, 2015, the Company issued 11,476,819 share purchase warrants as a part of Debt Settlement Units exercisable at a price of \$0.06 per Common shares for a period of 2 years from the date of issuance (Note 11 (b)).

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

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

The following is a summary of the changes in Prophecy's share purchase warrants from December 31, 2013 to June 30, 2015:

| | Number of Warrants | Weighted Average Exercise Price |
|--------------------------------|-----------------------|------------------------------------|
| Outstanding, December 31, 2014 | 15,766,648 | \$0.15 |
| Issued | 23,476,819 | \$0.05 |
| Expired | (9,394,071) | \$0.18 |
| Outstanding, June 30, 2015 | 29,849,396 | \$0.07 |

As of June 30, 2015, the following Prophecy share purchase warrants were outstanding:

| Exercise price | Number of Warrants | | Expiry date |
|----------------|--------------------|----------------------|------------------|
| | At June 30, 2015 | At December 31, 2014 | |
| \$0.18 | - | 3,286,929 | April 11, 2015 |
| \$0.18 | - | 6,107,143 | June 4, 2015 |
| \$0.18 | 2,767,296 | 2,767,296 | October 28, 2015 |
| \$0.055 | 1,064,215 | 1,064,215 | October 28, 2015 |
| \$0.10 | 2,541,065 | 2,541,065 | June 19, 2016 |
| \$0.05 | 12,000,000 | - | May 22, 2020 |
| \$0.06 | 11,476,819 | - | June 24, 2017 |
| | 29,849,396 | 15,766,648 | |

12. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS**Fair Value**

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. Prophecy utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value as follows:

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

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

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

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12. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS (cont'd...)**Fair Value (cont'd...)**

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

| As at June 30, 2015 | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------|------------|---------|---------|------------|
| Financial assets | | | | |
| Cash and cash equivalents | \$ 634,380 | \$ - | \$ - | \$ 634,380 |
| Restricted cash equivalents | 34,500 | - | - | 34,500 |
| | \$ 668,880 | \$ - | \$ - | \$ 668,880 |
| As at December 31, 2014 | | | | |
| Financial assets | | | | |
| Cash and cash equivalents | \$ 200,994 | \$ - | \$ - | \$ 200,994 |
| Restricted cash equivalents | 34,500 | - | - | \$ 34,500 |
| | \$ 235,494 | \$ - | \$ - | \$ 235,494 |

The Company considers that the carrying amount of all its financial assets and financial liabilities measured at amortized cost approximates their fair value. The Company does not offset financial assets with financial liabilities. There were no transfers between Level 1, 2 and 3 for the periods presented.

Categories of financial instruments

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

| | As at June 30, 2015 | As at December 31, 2014 |
|--|------------------------|----------------------------|
| Fair value through profit or loss | | |
| Cash and cash equivalents | \$ 634,380 | \$ 200,994 |
| Restricted cash equivalents | 34,500 | 34,500 |
| Loans and receivables | | |
| Trade receivable and other | 584,888 | 731,447 |
| VAT receivable | 91,497 | - |
| | \$ 1,345,265 | \$ 966,941 |
| Other financial liabilities | | |
| Accounts payable and accrued liabilities | \$ 2,122,968 | \$ 2,778,368 |
| Credit facilities | 1,729,220 | 1,288,218 |
| | \$ 3,852,188 | \$ 4,066,586 |

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13. FINANCIAL RISK MANAGEMENT DISCLOSURES

(a) Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its financial obligations as they fall due. The Company manages liquidity risk by preparing cash flow forecasts of upcoming cash requirements. As at June 30, 2015, the Company had a cash and cash equivalents balance of \$634,380 (at December 31, 2014 – \$200,994) in order to meet short-term business requirements. At June 30, 2015, the Company had trade accounts payable and accrued liabilities \$2,122,968 (December 31, 2014 - \$2,778,368), which have contractual maturities of 90 days or less, short-term line of credit payments of \$1,729,220 (December 31, 2014 - \$1,288,218), and ASC tax claim of \$6,491,755 (December 31, 2014 - \$Nil) which is under dispute (Note 18). The Company is seeking financing in order to be in a position to satisfy its current liabilities.

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

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

| | 0 to 6 months | | 6 to 12 months | | Total |
|-------------------------|---------------|-----------|----------------|-----------|--------------|
| As at June 30, 2015 | | | | | |
| Trade accounts payable | \$ | 2,122,968 | \$ | - | \$ 2,122,968 |
| Credit facilities | | 632,572 | | 1,096,648 | 1,729,220 |
| Tax claim, Note 18 | | - | | - | - |
| | \$ | 2,755,540 | \$ | 1,096,648 | \$ 3,852,188 |
| As at December 31, 2014 | | | | | |
| Trade accounts payable | \$ | 2,347,888 | \$ | - | \$ 2,347,888 |
| Credit facilities | | 1,055,678 | | 232,540 | 1,288,218 |
| | \$ | 3,403,566 | \$ | 232,540 | \$ 3,636,106 |

Additional sources of funding, which may not be available on favourable terms, if at all, include: share equity and debt financings; coal sales from stockpiled inventory; equity, debt or property level joint ventures with power project and coal property developers; and sale of interests in existing assets. In the event that the Company is not able to obtain adequate additional funding to continue as a going concern, material adjustment would be required to both the carrying value and classification of assets and liabilities on the statement of financial position (Note 1).

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk primarily associated to cash and cash equivalents and receivables, net of allowances.

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

(b) Credit risk (cont'd...)

The significant concentration of credit risk is situated in Mongolia. The carrying amount of assets included on the statements of financial position represents the maximum credit exposure.

(c) Market risk

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

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's cash equivalents primarily include highly liquid investments that earn interest at market rates that are fixed to maturity or at variable interest rates. The Company also drew down \$1,729,220 on its credit facilities bearing an annual coupon rate of 15%, and 18% with monthly interest payments. Due to the short-term nature of these financial instruments, and that the Company's credit facilities bear interest at fixed rates, fluctuations in market rates do not have a significant impact on the fair values or future cash flows of the financial instruments as of June 30, 2015.

The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

(i) Foreign currency risk

The Company is exposed to foreign currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in Canadian dollars. The Company has exploration and development projects in Mongolia and Bolivia and undertakes transactions in various foreign currencies. The Company is therefore exposed to foreign currency risk arising from transactions denominated in a foreign currency and the translation of financial instruments denominated in US dollars and Mongolia tugrik into its functional and reporting currency, the Canadian dollar.

Based on the above, net exposures as at June 30, 2015, with other variables unchanged, a 10% (December 31, 2014 - 10%) strengthening (weakening) of the Canadian dollar against the Mongolian tugrik would impact earnings with other variables unchanged by \$393,184. A 10% (December 31, 2014 - 10%) strengthening (weakening) of the US dollar against the Canadian dollar would impact earnings with other variables unchanged by \$688,687. The Company currently does not use any foreign exchange contracts to hedge this currency risk.

(ii) Commodity and equity price risk

Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. Commodity prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control.

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

(c) Market risk (cont'd...)

(ii) Commodity and equity price risk (cont'd...)

The supply and demand for these commodities, the level of interest rates, the rate of inflation, investment decisions by large holders of commodities including governmental reserves and stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments. The Company closely monitors commodity prices, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in value may be significant.

14. RELATED PARTY DISCLOSURES

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

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

A summary of amounts paid and accrued to related parties for services provided is as follows:

| Related parties | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-------------------------|-----------------------------|------------|---------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Directors and officers | \$ 92,780 | \$ 94,054 | \$ 169,801 | \$ 178,306 |
| Linx Partners Ltd. | 105,000 | 105,003 | 218,988 | 210,006 |
| MaKevCo Consulting Inc. | 9,200 | 12,900 | 20,719 | 25,300 |
| Sophir Asia Ltd. | 8,000 | - | 18,242 | - |
| | \$ 214,980 | \$ 211,957 | \$ 427,750 | \$ 413,612 |

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14. RELATED PARTY DISCLOSURES (cont'd...)

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

| Related parties | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-----------------------------------|-----------------------------|------------|---------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Consulting and management fees \$ | 36,243 | \$ 10,503 | \$ 127,433 | \$ 27,257 |
| Directors' fees | 25,200 | 40,174 | 57,202 | 77,045 |
| Mineral properties | 86,757 | 47,250 | 109,555 | 94,500 |
| Property and equipment | - | 47,250 | - | 94,500 |
| Salaries and benefits | 66,780 | 66,780 | 133,560 | 120,310 |
| | \$ 214,980 | \$ 211,957 | \$ 427,750 | \$ 413,612 |

As at June 30, 2015, amounts due to related parties totaled of \$68,098 (December 31, 2014 – \$463,578) and was comprised of \$20,620 (December 31, 2014 - \$70,845) for directors' fees and \$47,478 (December 31, 2014 - \$157,312) for consulting and management.

The amounts due to related parties are non-interest bearing and are due upon demand.

15. KEY MANAGEMENT PERSONNEL COMPENSATION

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

| Key Management Personnel | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-------------------------------------|-----------------------------|------------|---------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Salaries and short term benefits \$ | 67,360 | \$ 93,030 | \$ 134,997 | \$ 178,306 |
| Share-based payments | 390,568 | 129,200 | 426,750 | 252,893 |
| | \$ 457,928 | \$ 222,230 | \$ 561,747 | \$ 431,199 |

16. SUPPLEMENTAL CASH FLOW INFORMATION

| Supplementary information | Six Months Ended June 30, | |
|--|---------------------------|--------------|
| | 2015 | 2014 |
| Interest paid | \$ 165,764 | \$ 123,551 |
| Non-Cash Financing and Investing Activities | | |
| Shares issued as bonus shares | \$ - | \$ 81,100 |
| Shares issued for business acquisition | \$ 3,900,000 | \$ - |
| Shares issued to settle debt | \$ 611,734 | \$ 190,580 |
| Capitalized depreciation | \$ (1,601,955) | \$ 976,639 |
| Capitalized interest | \$ 89,858 | \$ 104,244 |
| Property & equipment expenditures included in accounts payable | \$ 1,215,228 | \$ 1,013,031 |
| Mineral property expenditures included in accounts payable | \$ 556,751 | \$ 185,749 |
| Share-based payments capitalized in property and equipment | \$ 11,553 | \$ 72,657 |
| Share-based payments capitalized in mineral properties | \$ 42,195 | \$ 35,337 |

PROPHECY DEVELOPMENT CORP.

(formerly Prophecy Coal Corp.)

Notes to Condensed Interim Consolidated Financial Statements

For the three and six month period ended June 30, 2015

(Expressed in Canadian Dollars) (Unaudited)

17. COMMITMENTS

Commitments, not disclosed elsewhere in these condensed interim consolidated financial statements, are as follows:

| Office rental commitments | |
|---------------------------|-----------|
| Year | Amount |
| 2015 | \$ 27,647 |
| 2016 | 21,214 |
| | \$ 48,861 |

18. CONTINGENCIES

The Company accrues for liabilities when both a liability is probable and the amount payable can be reasonably estimated.

ASC tax claim

Pursuant to the terms of the 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, that ASC Bolivia LDC Sucursal Bolivia, the Company's wholly-owned subsidiary, owed approximately Bs42,000,000 (\$6,536,326) 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.

Subsequent to period end, 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 the subsidiary) and sends the matter back to the Supreme Court to consider and issue a new Resolution. The Company plans to continue to vigorously defend its position and make submissions to the Supreme Court during the new hearing. Based on these developments, the tax claim amount of \$6,491,755 was classified as non-current liabilities.

Red Hill tax claim

During the year ended December 31, 2014, Red Hill was issued a letter from the Sukhbaatar District Tax Division notifying it of the results of the Sukhbaatar District Tax Division's VAT inspection of Red Hill's 2009-2013 tax imposition and payments that resulted in validating VAT credit of only MNT235,718,533 from Red Hill's claimed VAT credit of MNT2,654,175,507. Red Hill disagreed with the Sukhbaatar District Tax Division's findings as the tax assessment appeared to the Company to be unfounded. The Company disputed the Sukhbaatar District Tax Division's assessment and submitted a complaint to the Capital City Tax Tribunal. On March 24, 2015, the Capital City Tax Tribunal resolved to refer the matter back to the Sukhbaatar District Tax Division for revision and separation of the action between confirmation of Red Hill's VAT credit, and the imposition of the penalty/deduction for the tax assessment. The Sukhbaatar District Tax Division appealed the Capital City Tax Tribunal's resolution to the General Tax Tribunal office, but was denied on June 4, 2015 on procedural grounds. As a result, the Sukhbaatar District Tax Division implemented the Capital City Tax Tribunal's resolution on June

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Notes to Condensed Interim Consolidated Financial Statements

For the three and six month period ended June 30, 2015

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18. CONTINGENCIES (cont'd...)

Red Hill tax claim (cont'd...)

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 continues to dispute the Sukhbaatar District Tax Division's assessment and delivered a complaint to Capital City Tax Tribunal on July 24, 2015. In the opinion of Prophecy, at June 30, 2015 a provision for this matter is not required.

19. EVENTS AFTER THE REPORTING DATE

- Subsequent to period end, the Company has withdrawn funds further from the credit facility with Linx and has reached the maximum of \$1.5 million.
- Subsequent to period end, the Company issued 339,469 Common shares at a deemed price of \$0.05 per Common share as a partial payment for outstanding severance owing by the Company to certain of its consultants located in Bolivia to settle various historical debts owing to them when Prophecy acquired the Apogee Subsidiaries.
- Subsequent to period end, the Company cancelled a total of 550,000 incentive stock options which were originally granted on May 1, 2014, October 21, 2014 and April 7, 2015, were exercisable for five years, and had exercise prices of \$0.055, \$0.05 and \$0.065 per Common share respectively.