Prophecy
Development Corp.

Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2017 and 2016

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

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

As at	Notes		September 30, 2017		December 31, 2016
Assets					
Current assets					
Cash	4	$	1,704,626	$	21,648
Restricted Cash	4		2,251,550		-
Receivables			169,293		91,565
Prepaid expenses			119,762		200,526
Available-for-sale investments	5		-		176,000
			4,245,231		489,739
Non-current assets					
Reclamation deposits			21,055		21,055
Property and equipment	6		728,987		917,607
Mineral properties	7		27,197,948		26,399,708
		$	32,193,221	$	27,828,109
Liabilities and Equity					
Current liabilities					
Accounts payable and accrued liabilities	8	$	2,149,733	$	2,658,018
Credit facility	9		-		1,071,560
			2,149,733		3,729,578
Non-current liabilities					
Provision for closure and reclamation			242,347		242,347
Tax provision	16		6,550,294		7,060,691
			8,942,374		11,032,616
Equity					
Share capital	10		160,811,483		156,529,025
Subscriptions received in advance	10		2,310,075		-
Reserves			22,067,999		21,482,133
Deficit			(161,938,710)		(161,215,665)
			23,250,847		16,795,493
		$	32,193,221	$	27,828,109

Approved on behalf of the Board:

"John Lee" — John Lee, Director

"Greg Hall" — Greg Hall, Director

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

See accompanying notes to the consolidated financial statements.

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

	Notes	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
General and Administrative Expenses					
Advertising and promotion		$ 33,768	$ 7,730	$ 48,150	$ 40,065
Consulting and management fees		47,550	28,983	137,620	109,938
Depreciation and accretion		2,143	2,677	6,794	29,292
Director fees		11,700	10,800	35,100	36,000
Insurance		13,156	14,467	39,410	42,280
Office and administration		26,973	33,233	68,094	99,032
Professional fees		31,160	1,638	51,251	26,643
Salaries and benefits		51,690	66,005	132,425	181,985
Share-based payments	10	185,562	68,181	385,916	123,461
Stock exchange and shareholder services		26,824	13,244	114,890	104,772
Travel and accommodation		54,381	60,385	84,208	67,904
		(484,907)	(307,343)	(1,103,858)	(861,372)
Other Items					
Costs in excess of recovered coal		(87,398)	(71,776)	(104,820)	(205,811)
Finance cost	9	(7,950)	(1,571)	(8,111)	(316,894)
Foreign exchange (loss)/gain		410,928	(382,865)	633,820	530,962
(Loss)/gain on sale of available-for-sale investment	5	-	-	(22,810)	59,698
Loss on sale of equipment	6	-	(36,926)	-	(108,727)
Interest expense	9	(7,466)	(45,810)	(21,066)	(210,957)
Impairment of mineral property	7	-	-	(96,200)	-
Recover on mineral property sale		-	195,079	-	195,079
		308,114	(343,869)	380,813	(56,650)
Net Loss for Period		(176,793)	(651,212)	(723,045)	(918,022)
Comprehensive Loss for Period		$ (176,793)	$ (651,212)	$ (723,045)	(918,022)
Loss Per Common Share, basic and diluted		$ (0.03)	$ (0.14)	$ (0.14)	$ 0.23
Weighted Average Number of Common Shares Outstanding		5,403,274	4,579,016	5,299,985	4,020,901

See accompanying notes to the consolidated financial statements.

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

	Numbers of Shares Outstanding	Number of Shares Issuable	Share Capital	Subsriptions Received in advance	Reserves	Deficit	Total
December 31, 2015	3,427,474	$ -	$ 153,281,631	$ -	$ 21,205,698	$ (159,208,360)	$ 15,278,969
Private placements, net of share issue costs	282,735	-	942,746	-	10,183	-	952,929
Debt Settlement	1,050,569	-	2,154,648	-	-	-	2,154,648
Share-based payments	-	-	-	-	175,856	-	175,856
Loss for the period	-	-	-	-	-	(918,022)	(918,022)
September 30, 2016	4,760,778	$ -	$ 156,379,025	$ -	$ 21,391,737	$ (160,126,382)	$ 17,644,380
December 31, 2016	4,807,653	-	156,529,025	-	21,482,133	(161,215,665)	16,795,493
Shares issued for mineral properties	20,000	-	96,200	-	-	-	96,200
Private placements, net of share issue costs	821,217	660,021	2,806,930	2,310,075	54,075	-	5,171,080
Debt Settlement	359,659	-	1,138,636	-	-	-	1,138,636
Share bonus to personnel	39,000	-	190,320	-	-	-	190,320
Exercise of stock options	9,687	-	50,372	-	(5,687)	-	44,685
Share-based payments	-	-	-	-	537,478	-	537,478
Loss for the period	-	-	-	-	-	(723,045)	(723,045)
September 30, 2017	6,057,216	$ 660,021	$ 160,811,483	$ 2,310,075	$ 22,067,999	$ (161,938,710)	$ 23,250,847

See accompanying notes to the consolidated financial statements

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

	Nine Months Ended September 30, 2017	2016
Operating Activities		
Net loss for period	$ (723,045)	$ (918,022)
Adjustments to reconcile net loss to net cash flows:		
Depreciation	186,119	192,621
Share-based payments	385,916	123,461
Costs in excess of recovered coal	104,820	205,811
Finance cost	8,111	316,894
Interest costs	21,066	210,957
Loss on sale of equipment	-	108,727
(Gain)/loss on sale of available-for-sale investment	22,810	(59,698)
Impairment of mineral property	96,200	-
Recovery on mineral property sale	-	(195,079)
	101,997	(14,328)
Working capital adjustments		
Receivables	(77,728)	227,776
Prepaid expenses and reclamation deposits	80,764	66,824
Accounts payable and accrued liabilities and tax provision	(868,797)	(1,072,236)
	(865,761)	(777,636)
Cash Used in Operating Activities	(763,764)	(791,964)
Investing Activities		
Cash received from GIC redemption	-	34,500
Proceeds from sale of property and equipment	-	12,990
Mineral property acquisition	(58,790)	-
Mineral property expenditures	(411,136)	(163,394)
Proceeds from sale of available-for-sale investment	153,190	59,698
Cash Used in Investing Activities	(316,736)	(56,206)
Financing Activities		
Credit facilities paid	(343,076)	(198,787)
Interest paid	(21,066)	(11,253)
Funds borrowed under credit facility	163,405	337,887
Proceeds from share issuance, net of share issue costs	5,215,765	952,929
Cash Provided by Financing Activities	5,015,028	1,080,776
Net Increase (Decrease) in Cash	3,934,528	232,606
Cash - beginning of period	21,648	33,542
Cash - end of period	$ 3,956,176	$ 266,148

Supplemental cash flow information (Note 15)

See accompanying notes to the consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

Prophecy Development Corp. ("**Prophecy**" or the "**Company**") is incorporated under the laws of the province of British Columbia, Canada and is engaged in worldwide mineral and energy exploration and development. The Company owns a 100% interest in the following significant coal projects in Mongolia: the Ulaan Ovoo coal property, the Khavtgai Uul and Chandgana Tal coal deposits (together, the "**Chandgana Coal Properties**"), and the Pulacayo Paca silver-lead-zinc property (the "**Pulacayo Project**") in Bolivia. The Company also has a 100% interest in three vanadium projects in North America: the Titan vanadium-titanium-iron project (the "**Titan Project**") in Canada, and the Gibellini and Louie Hill vanadium projects (the "**Gibellini Project**"), in the United States.

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

These unaudited condensed interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. The Company incurred a net loss of $723,045 during the nine months ended September 30, 2017 and as of that date the Company's deficit was $161.9 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.

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

2. BASIS OF PRESENTATION

(a) Statement of compliance

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

(Expressed in Canadian Dollars) (Unaudited)

2. BASIS OF PRESENTATION (cont'd…)

(a) Statement of compliance (cont'd…)

These unaudited condensed interim consolidated financial statements were approved and authorized for issue by the Audit Committee on November 8, 2017.

(b) Significant accounting policies

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

(c) Use of judgments and estimates

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

(d) Changes in accounting standards

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

3. SEGMENTED INFORMATION

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

	September 30, 2017				
	Canada	USA	Mongolia	Bolivia	Total
Reclamation deposits	$ -	$ -	$ 21,055	$ -	$ 21,055
Property and equipment	19,392	-	218,386	491,209	728,987
Mineral properties	-	160,265	14,525,815	12,511,868	27,197,948
	$ 19,392	$ 160,265	$ 14,765,256	$ 13,003,077	$ 27,947,990

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

(Expressed in Canadian Dollars) (Unaudited)

4. CASH

Cash of Prophecy is comprised of bank balances.

		September 30, 2017		December 31, 2016
Cash	$	1,704,626	$	21,648
Restricted cash		2,251,550		-
	$	3,956,176	$	21,648

Restricted cash

As at September 30, 2017, the Company has $2,251,550 classified as restricted cash which represents subscriptions proceeds received that have been placed into an escrow account with the Company's Transfer Agent. The escrow account has been established for the specific purpose of holding the special warrants subscription proceeds paid by such subscribers pending release to the Company upon the receipt of disinterested shareholder approval for the issuance of the units underlying the special warrants to be obtained at a special meeting of shareholders to be held on December 15, 2017 (see Note 10 (b)).

5. AVAILABLE-FOR-SALE INVESTMENTS

On September 22, 2016, the Company sold its 60% interest in the Okeover copper-molybdenum project located in British Columbia to Lorraine Copper Corp. ("**Lorraine**"). Under the terms of the agreement, Lorraine issued 2,200,000 common shares of Lorraine (valued at $0.08/share) to Prophecy and assumed Prophecy's $19,079 payment obligation to Eastfield Resources Ltd. under such parties' existing joint venture agreement. The Lorraine shares are subject to a hold period of four months plus one day. The 2,200,000 common shares of Lorraine represented approximately 9.6% of the issued and outstanding common shares of Lorraine at the acquisition date. The investment in Lorraine of $176,000 is classified as available-for-sale and is measured at fair value with changes in fair value recognized in other comprehensive income.

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

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

(Expressed in Canadian Dollars) (Unaudited)

6. PROPERTY AND EQUIPMENT

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

	Computer Equipment	Furniture & Equipment	Vehicles	Computer Software	Leasehold Improvements	Mining Equipment	Total
Cost							
Balance, December 31, 2016	$ 100,221	$ 279,213	$ 453,854	$ 197,813	$ -	$ 1,534,745	$ 2,565,846
Additions/Disposals	(146)	(2,355)	-	-	-	-	(2,501)
Balance, September 30, 2017	$ 100,075	$ 276,858	$ 453,854	$ 197,813	$ -	$ 1,534,745	$ 2,563,345
Accumulated depreciation					-		
Balance, December 31, 2016	$ 94,900	$ 181,639	$ 339,916	$ 197,813	$ -	$ 833,971	$ 1,648,239
Depreciation for period	1,422	33,283	25,636	-	-	125,778	186,119
Balance, September 30, 2017	$ 96,322	$ 214,922	$ 365,552	$ 197,813	$ -	$ 959,749	$ 1,834,358
Carrying amount							
At December 31, 2016	$ 5,321	$ 97,574	$ 113,938	$ -	$ -	$ 700,774	$ 917,607
At September 30, 2017	$ 3,753	$ 61,936	$ 88,302	$ -	$ -	$ 574,996	$ 728,987

(Expressed in Canadian Dollars) (Unaudited)

7. MINERAL PROPERTIES

	Chandgana Tal	Khavtgai Uul	Pulacayo	Gibellini and Louie Hill	Total
Balance, December 31, 2015	$ 11,040,916	$ 3,139,891	$ 11,115,403	$ -	$ 25,296,210
Additions:					
Deferred exploration costs:					
Licenses, power plant application	93,505	89,184	4,970	-	187,659
Geological core and consulting	48,533	-	146,051	-	194,584
Personnel, camp and general	3,368	3,368	714,519	-	721,255
	145,406	92,552	865,540	-	1,103,498
Balance, December 31, 2016	$ 11,186,322	$ 3,232,443	$ 11,980,943	$ -	$ 26,399,708
Additions:					
Acquisition cost	$ -	$ -	$ -	$ 58,790	$ 58,790
Deferred exploration costs:					
Licenses, power plant application	53,122	24,581	-	9,734	87,437
Geological core and consulting	26,028	-	52,181	91,177	169,386
Personnel, camp and general	1,658	1,661	478,744	564	482,627
	80,808	26,242	530,925	101,475	739,450
Balance, September 30, 2017	$ 11,267,130	$ 3,258,685	$ 12,511,868	$ 160,265	$ 27,197,948

7. MINERAL PROPERTIES (cont'd…)

Gibellini and Louie Hill Projects, Nevada, United States

Gibellini Project

On June 23, 2017, The Company acquired (through lease) the Gibellini vanadium project (the "**Gibellini Project**") by paying $46,370 in cash to arm's-length private parties (the "**Lessors**").

The Gibellini Project is comprised of 40 unpatented lode claims totaling approximately 771 acres, located in Eureka County, Nevada, USA.

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

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

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

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

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

Louie Hill Project

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

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

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

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

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

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

(Expressed in Canadian Dollars) (Unaudited)

7. MINERAL PROPERTIES (cont'd…)

Titan Project, Ontario, Canada

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

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

At December 31, 2014, due to market conditions, the Company impaired the value of the property to $nil. On February 10, 2017, the Company negotiated with Randsburg to acquire the remaining 20% title interest of Randsburg in the Titan project by issuing to Randsburg 20,000 Prophecy Shares at a value of $4.81 per Share. As there were no benchmark or market changes from January 1, 2015 to September 30, 2017, the impaired value of $nil for Titan property remains unchanged. Therefore, the Company recorded an impairment loss of $96,200 on the acquisition of the remaining title interest in Titan which was reflected on the consolidated statement of operations and comprehensive loss.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	September 30, 2017	December 31, 2016
Trade accounts payable	$ 1,977,604	$ 2,224,134
Accrued liabilities	172,129	433,884
	$ 2,149,733	$ 2,658,018

9. CREDIT FACILITY

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

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

On February 24, 2016, the Company entered into an agreement (the "**Second Amendment**") to increase and amend the Credit Facility. The previous maximum principal amount of $1.5 million has been increased with the Second Amendment to $2.5 million. A 5% "drawdown" fee will be applicable to amounts advanced over and above the original and outstanding $1.5 million advanced under the Credit Facility, at the time of advance.

9. CREDIT FACILITY (cont'd…)

In consideration of a bonus of $300,000 (the "**Bonus**"), Linx has agreed to postpone any repayments due under the Credit Facility, until the earlier of October 1, 2016, or such time as the Company is in a reasonable financial position to repay all or a portion of the amounts owing, and remove the requirement for the Company to pay any 20% penalties as a result of any future failure to repay any amounts when due under the terms of the Credit Facility.

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

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

On October 28, 2016, the Company paid $35,000 toward the Credit Facility. As at December 31, 2016, the outstanding balance of the Credit Facility was $1,071,560 including interest payable of $448,388. For the year ended December 31, 2016, the Company recorded an interest expense of $258,640 and finance cost of $317,056 which included the Bonus of $300,000 and draw-down fees of $17,056.

During the nine months ended September 30, 2017, the Company fully repaid the remaining balance of the Credit Facility by issuing 300,000 Shares to John Lee in satisfaction of $900,000 of indebtedness owing by the Company under the Credit Facility and making a cash payment of $343,076. For the nine months ended September 30, 2017, the Company recorded an interest expense of $21,066 and finance cost of $8,111.

10. SHARE CAPITAL

(a) Authorized

The authorized share capital consists of an unlimited number of common shares without par value (the "**Shares**"). There are no authorized preferred shares. At September 30, 2017, the Company had 6,057,216 (September, 30, 2016 – 4,760,778) common shares issued and outstanding.

(b) Equity issuances

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

On January 12, 2017, the Company issued 300,000 Shares to Mr. Lee pursuant a Debt Settlement Agreement with Linx to settle $900,000 of the outstanding balance owing by the Company to Linx under the Credit Facility.

10. SHARE CAPITAL (cont'd…)

(b) Equity issuances (cont'd…)

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

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

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

On June 13, 2017, the Company issued 59,659 units ("**Debt Settlement Units**") at a price of $4.00 per unit, to certain of its directors and officers to settle various debts owing to them pursuant to the terms of debt settlement agreements entered into with those directors and officers. Each Debt Settlement Unit is comprised of one Share and one Share purchase warrant of the Company entitling the holder thereof to purchase, upon exercise of a warrant, one additional Share at a price of $5.00 per Share for a period of five years from the date of issuance of the Debt Settlement Units.

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

The Special Warrants proceeds of $2,251,550 (includes proceeds from the first tranche Special Warrants of $2,201,500 and an advance of $50,050 for the second tranche 14,300 Special Warrants) have been placed into an escrow account with the Company's Transfer Agent pending release to the Company upon the receipt of shareholder approval.

As at September 30, 2017, the Company's subscriptions received in advance totalled to $2,310,075 for 643,300 Special Warrants and 16,721 units.

As part of the financing, The Company paid finder's fees of $30,604 and issued 87,013 finder's Special Warrants, which are exercisable on identical terms as those Special Warrants issued to subscribers through the placement. The finder's Special Warrants have a fair value of $54,075, which was determined using the Black-Scholes option pricing model with the following assumptions: volatility - 82%, risk-free rate - 0.70%, expected life - 2 months, dividend rate - Nil %).

(Expressed in Canadian Dollars) (Unaudited)

10. SHARE CAPITAL (cont'd…)

(b) Equity issuances (cont'd…)

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

(c) Equity-based compensation plans

The following is a summary of the changes in Prophecy's stock options from December 31, 2015 to September 30, 2017:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2015	343,742	$10.00
Granted	160,000	$2.00
Expired	(1,000)	$28.00
Forfeited	(37,928)	$21.85
Cancelled	(4,000)	$6.05
Outstanding, December 31, 2016	460,814	$6.42
Granted	403,000	$3.74
Expired	(31,293)	$20.80
Exercised	(9,687)	$4.61
Outstanding, September 30, 2017	822,834	$4.58

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

Exercise Price	Expiry Date	Options Outstanding September 30, 2017	Options Outstanding December 31, 2016	Exercisable September 30, 2017	Unvested September 30, 2017
$3.30	June 12, 2022	145,000	-	18,125	126,875
$3.50	September 1, 2022	167,000	-	-	167,000
$4.88	January 12, 2022	91,000	-	34,125	56,875
$2.00	June 2, 2021	158,750	160,000	99,219	59,531
$5.00	June 22, 2020	32,800	32,800	32,800	-
$5.00	April 7, 2020	82,062	90,500	82,062	-
$6.50	May 1, 2019	54,750	54,750	54,750	-
$10.00	February 3, 2019	5,000	5,000	5,000	-
$10.50	January 27, 2019	51,500	51,500	51,500	-
$12.00	August 16, 2018	32,472	32,472	32,472	-
$13.00	July 22, 2018	2,500	2,500	2,500	-
$18.00	September 24, 2017	-	3,750	-	-
		822,834	433,272	412,552	410,281

The nine months ended September 30, 2017, included $385,916 (same period 2016 - $123,461) in share based payment costs related to stock options expensed as general and administrative expenses and $151,562 (same period 2016 – 24,696) capitalized to mineral properties.

(Expressed in Canadian Dollars) (Unaudited)

10. SHARE CAPITAL (cont'd…)

(d) Share purchase warrants

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

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2015	436,504	$6.00
Issued	936,967	$4.04
Expired	(25,411)	$10.00
Outstanding, December 31, 2016	1,348,060	$4.68
Issued	546,892	$4.11
Outstanding, September 30, 2017	1,894,952	$4.52

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

Exercise price	Number of Warrants		Expiry date
	At September 30,	At December 31, 2016	
$5.00	59,659	-	June 13, 2022
$4.00	103,250	-	April 12, 2022
$4.00	49,999	-	January 13, 2022
$4.40	101,367	101,367	August 29, 2021
$4.00	750,000	750,000	June 2, 2021
$4.00	80,000	80,000	January 25, 2021
$7.00	62,500	62,500	November 13, 2020
$7.00	111,200	111,200	September 30, 2020
$4.00	333,984	-	September 20, 2020
$6.00	114,768	114,768	June 24, 2020
$5.00	120,000	120,000	May 22, 2020
$4.00	5,600	5,600	January 25, 2018
$7.00	2,625	2,625	November 13, 2017
	1,894,952	1,348,060	

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

(e) Special Warrants

On September 20, 2017, the Company issued 716,013 Special Warrants as described in Note 10(b). As of September 30, 2017, the following Special Warrants were outstanding:

(Expressed in Canadian Dollars) (Unaudited)

10. SHARE CAPITAL (cont'd…)

(e) Special Warrants (cont'd…)

Exercise price	Number of Special Warrants	Expiry date
$3.50	716,013	January 21, 2018

11. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

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

	September 30, 2017	December 31, 2016
Fair value through profit or loss		
Cash and Restricted Cash	$ 3,956,176	$ 21,648
Available-for-sale		
Available-for-sale investment	-	176,000
Loans and receivables		
Receivables	169,293	91,565
	$ 4,125,469	$ 289,213
Other financial liabilities		
Accounts payable and accrued liabilities	$ 2,149,733	$ 2,658,018
Credit facility	-	1,071,560
	$ 2,149,733	$ 3,729,578

12. FINANCIAL RISK MANAGEMENT DISCLOSURES

(a) Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its financial obligations as they fall due. The Company manages liquidity risk by preparing cash flow forecasts of upcoming cash requirements. To facilitate its expenditure program, the company raises funds through private equity placements. The Company's liquidity position has strengthened since the beginning of the year due to $5 million financing. At September 30, 2017, the Company had accounts payable and accrued liabilities of $2,149,733 (December 31, 2016 - $2,658,018), which have contractual maturities of 90 days or less and payment on a line of credit of $Nil (December 31, 2016 - $1,071,560).

(b) Credit risk

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

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

(c) Market risk

The significant market risks to which the Company is exposed are interest rate risk, foreign currency risk, and commodity and equity price risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. During the nine months ended September 30, 2017, the Company fully repaid the Credit Facility; therefore fluctuations in market rates have minimal impact on the fair values or future cash flows of the financial instruments as of September 30, 2017. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

(ii) Foreign currency risk

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

Based on the above, net exposures as at September 30, 2017, with other variables unchanged, a 10% (December 31, 2016 – 10%) strengthening (weakening) of the Canadian dollar against the Mongolian tugrik would impact net loss with other variables unchanged by $40,600. A 10% strengthening (weakening) of the Canadian dollar against the Bolivian boliviano would impact net loss with other variables unchanged by $670,300. A 10% strengthening (weakening) of the US dollar against the Canadian dollar would impact net loss with other variables unchanged by $62,800. The Company currently does not use any foreign exchange contracts to hedge this currency risk.

(iii) Commodity and equity price risk

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

(Expressed in Canadian Dollars) (Unaudited)

13. RELATED PARTY DISCLOSURES

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

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Related parties	2017	2016	2017	2016
Directors and officers	$ 117,550	$ 52,250	$ 169,800	$ 193,250
Linx Partners Ltd.	122,500	52,500	175,000	157,500
MaKevCo Consulting Inc.	8,700	3,800	14,900	13,000
Sophir Asia Ltd.	7,800	3,500	11,300	11,500
	$ 256,550	$ 112,050	$ 371,000	$ 375,250

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Related parties	2017	2016	2017	2016
Consulting and management fees	$ 103,000	$ 28,500	$ 133,900	$ 85,500
Directors' fees	24,300	10,800	35,100	36,000
Mineral properties	52,000	39,000	91,000	117,000
Salaries and benefits	77,250	33,750	111,000	136,750
	$ 256,550	$ 112,050	$ 371,000	$ 375,250

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

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

(Expressed in Canadian Dollars) (Unaudited)

13. RELATED PARTY DISCLOSURES (cont'd…)

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

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

As at September 30, 2017, amounts due to related parties totaled $145,025 (December 31, 2016 – $366,269) and was comprised of $3,965 (December 31, 2016 - $14,640) for director fees, $8,750 (December 31, 2016 - $54,656) for consulting fees, $Nil (December 31, 2016 - $86,864) for managing mineral properties, $1,720 (December 31, 2016 - $29,280) for salaries and reimbursable expenses. The remaining amounts due relate to deferred consulting fees, director fees and salaries totaled $130,660 (December 31, 2016 - $80,829).

14. KEY MANAGEMENT PERSONNEL COMPENSATION

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Key Management Personnel	2017	2016	2017	2016
Salaries and short term benefits	$ 46,359	$ 67,500	$ 115,093	$ 136,750
Share-based payments	168,090	107,889	374,937	137,070
	$ 214,449	$ 175,389	$ 490,030	$ 273,820

15. SUPPLEMENTAL CASH FLOW INFORMATION

	Nine Months Ended September 30, 2017	2016
Supplementary information		
Interest paid	$ -	$ 11,253
Non-Cash Financing and Investing Activities		
Shares issued to pay Credit Facility	$ 900,000	$ 1,500,000
Shares issued for mineral properties	$ 96,200	$ -
Share bonus to personnel	$ 190,320	$ -
Shares issued to settle debt	$ 238,636	$ 654,648
Capitalized interest	$ -	$ 11,253
Capitalized depreciation	$ 179,325	$ 246,261
Property & equipment expenditures included in accounts payable	$ 1,851,890	$ 1,955,383
Mineral property expenditures included in accounts payable	$ 1,139,574	$ 1,371,469
Share-based payments capitalized in mineral properties	$ 151,562	$ 52,396

16. CONTINGENCIES

ASC tax claim

On January 2, 2015, the Company acquired ASC Holdings Limited and ASC Bolivia LDC (which together, hold ASC Bolivia LDC Sucursal Bolivia, which in turn, held Apogee Silver Ltd.'s ("**Apogee**") joint venture interest in the Pulacayo Project) and Apogee Minerals Bolivia S.A. Pursuant to the terms of the Agreement, Prophecy agreed to assume all liabilities of these former Apogee subsidiaries, including legal and tax liabilities associated with the Pulacayo Project. During Apogee's financial year ended June 30, 2014, it received notice from the Servicio de Impuestos Nacionales, the national tax authority in Bolivia, that ASC Bolivia LDC Sucursal Bolivia, now the Company's wholly-owned subsidiary, owed approximately Bs42,000,000 ($6,550,294) in taxes, interest and penalties relating to a historical tax liability in an amount originally assessed at approximately $760,000 in 2004, prior to Apogee acquiring the subsidiary in 2011. Apogee disputed the assessment and disclosed to the Company that it believed the notice was improperly issued. The Company continued to dispute the assessment and hired local legal counsel to pursue an appeal of the tax authority's assessment on both substantive and procedural grounds. On May 26, 2015, the Company received a positive Resolution issued by the Bolivian Constitutional Court that among other things, declared null and void the previous Resolution of the Bolivian Supreme Court issued in 2011 (that imposed the tax liability on ASC Bolivia LDC Sucursal Bolivia) and sent the matter back to the Supreme Court to consider and issue a new Resolution. The Company plans to continue to vigorously defend its position and make submissions to the Supreme Court during the new hearing. Based on these developments, the tax claim amount of $6,550,294 was classified as non-current liabilities.

Red Hill tax claim

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

The Sukhbaatar District Tax Division appealed the Capital City Tax Tribunal's resolution to the General Tax Tribunal office, but was denied on June 4, 2015 on procedural grounds. As a result, the Sukhbaatar District Tax Division implemented the Capital City Tax Tribunal's resolution on June 25, 2015, finding: (1) with respect to confirmation of Red Hill's VAT credit, that after inspection the amount was to be MNT235,718,533; and (2) with respect to the imposition of the penalty/deduction for the tax assessment, that no penalty was to be issued but that Red Hill's loss to be depreciated and reported was to be MNT1,396,668,549 in 2010 and MNT4,462,083,700 in 2011. The Company continues to dispute the Sukhbaatar District Tax Division's assessment and delivered a complaint to Capital City Tax Tribunal on July 24, 2015. Due to the uncertainty of realizing the VAT balance, the Company has recorded an impairment charge for the full VAT balance in the year ended December 31, 2015. As there were no changes from January 1 to September 30, 2017, the impaired value of $Nil for the VAT receivable remains unchanged.

17. EVENTS AFTER THE REPORTING DATE

- On October 16, 2017, the Company has closed the second and final tranche of the Placement previously announced on August 25, 2017 and on September 1, 2017 and October 4, 2017 in order to increase the size of the Placement, raising gross cash proceeds of $1,858,325 through the issuance of 116,578 Units and 423,698 Special Warrants (including 9,327 Special Warrants issued as finder's fees). Each Warrant issued under the second and final tranche of the Placement entitles the holder to purchase one additional Share of the Company at an exercise price of $4.00 until October 16, 2020. Each Special Warrant issued under the second and final tranche of the Placement will be exercisable for one Unit at no additional cost to the holder provided TSX and shareholder approval for the issuance of the units underlying the Special Warrants is obtained at the Special Meeting.

- The Company entered into debt settlement agreements with certain directors and officers of the Company pursuant to which, the Company agreed, subject to the approval of the TSX and disinterested shareholders at the Special Meeting, to issue an aggregate of 42,254 Units (the "**Debt Settlement Units**"), in satisfaction of an aggregate of $147,898 of indebtedness currently owed by the Company to such persons. The Debt Settlement Units are comprised of one Share issuable at a deemed price of $3.50 and one half of one Warrant.

- The Company entered into a consulting agreement with Skanderbeg Capital Advisors Inc. to explore and evaluate strategic alternatives to maximize value for Prophecy's non-core assets in exchange for the issuance of 98,420 units (the "**Skanderbeg Units**") provided TSX and shareholder approval for the issuance of the units is obtained at the Special Meeting. The Skanderbeg Units are comprised of one Share issuable at a deemed price of $3.50 and one half of one Share purchase warrant entitling the holder to purchase an additional Share at a price of $4.00 for a period of three years from the date of issuance.

- The Company entered into an advisory agreement with Hillcrest Merchant Partners Inc., who has agreed to provide corporate development and financial advisory services related to the Gibellini Project, including equity and debt arrangement, product off-take and merger and acquisition negotiations with any strategic investors in exchange for annual aggregate payments totaling $156,000.

- 15,000 Prophecy warrants at an exercise price of $4.00 per Share were exercised, 3,000 stock options at an exercise price of $2.00 per Share were exercised, 2,625 Prophecy warrants at an exercise price of $7.00 per Share expired without exercise, and 5,000 stock options at an exercise price of $4.75 per Share were issued.