



**Condensed Interim Consolidated Financial Statements**  
**For the three and six months ended June 30, 2018 and 2017**  
(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	June 30, 2018	December 31, 2017
<b>Assets</b>			
<b>Current assets</b>			
Cash	4	\$ 1,931,993	\$ 4,100,608
Receivables		35,596	34,653
Prepaid expenses		145,410	140,610
Marketable securities	5	162,000	205,600
		2,274,999	4,481,471
<b>Non-current assets</b>			
Restricted cash equivalents	4	34,500	34,500
Reclamation deposits		21,055	21,055
Equipment	6	487,078	531,911
Mineral properties	7	15,197,384	13,299,906
		\$ 18,015,016	\$ 18,368,843
<b>Liabilities and Equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	8	\$ 1,272,072	\$ 1,895,983
		1,272,072	1,895,983
<b>Non-current liabilities</b>			
Provision for closure and reclamation		244,323	244,323
Tax provision	15	7,827,708	7,541,016
		9,344,103	9,681,322
<b>Equity</b>			
Share capital	9	165,870,805	165,862,805
Subscriptions received in advance	9	1,081,690	-
Reserves		23,124,910	22,621,202
Accumulated other comprehensive income/(loss)	5	(92,380)	12,160
Deficit		(181,314,112)	(179,808,646)
		8,670,913	8,687,521
		\$ 18,015,016	\$ 18,368,843

Approved on behalf of the Board:

**"John Lee"**  
John Lee, Director

**"Greg Hall"**  
Greg Hall, Director

Contingencies (Note 15)  
Events after the reporting date (Note 16)

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

**PROPHECY DEVELOPMENT CORP.****Condensed Interim Consolidated Statements of Operations and Comprehensive Loss**

(Expressed in Canadian Dollars) (Unaudited)

	Notes	Three Months Ended June 30,		Six Months Ended June 30,	
		2018	2017	2018	2017
<b>General and Administrative Expenses</b>					
Advertising and promotion		\$ 287,565	\$ 1,953	\$ 332,943	\$ 14,382
Consulting and management fees	12	58,609	53,640	126,887	90,070
Depreciation and accretion		1,821	2,262	3,744	4,651
Director fees	12	13,500	12,600	27,000	23,400
Insurance		13,031	13,156	26,104	26,254
Office and administration		27,076	13,235	61,869	41,121
Professional fees		52,569	5,248	109,064	20,091
Salaries and benefits	12	93,390	38,153	183,643	80,735
Share-based payments	9	177,068	157,775	311,996	200,354
Stock exchange and shareholder services		21,400	31,600	91,438	88,066
Travel and accommodation		34,789	6,406	69,048	29,827
		(780,818)	(336,028)	(1,343,736)	(618,951)
<b>Other Items</b>					
Costs in excess of recovered coal		(46,178)	(181,370)	(84,849)	(17,422)
Finance cost		-	(70)	-	(161)
Foreign exchange gain/(loss)		(67,188)	6,936	(54,818)	222,892
Interest expense		-	(5,711)	-	(13,600)
Loss on sale of marketable securities	5	-	-	-	(22,810)
Impairment of mineral property	7	(22,063)	-	(22,063)	(96,200)
		(135,429)	(180,215)	(161,730)	72,699
<b>Net Loss for Period</b>		(916,247)	(516,243)	(1,505,466)	(546,252)
Fair value loss on marketable securities	5	(50,540)	-	(104,540)	-
<b>Comprehensive Loss for Period</b>		\$ (966,787)	\$ (516,243)	\$ (1,610,006)	\$ (546,252)
<b>Loss Per Common Share, basic and diluted</b>		\$ (0.12)	\$ (0.10)	\$ (0.20)	\$ (0.10)
<b>Weighted Average Number of Common Shares Outstanding</b>		7,392,608	5,269,686	7,432,174	5,246,697

The accompanying notes form an integral part of these unaudited condensed interim 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	Share Capital	Subscription s Received in Advance	Reserves	Accumulated Other Comprehen sive Income	Deficit	Total
<b>December 31, 2016</b>	4,807,653	\$ 156,529,025	\$ -	\$ 21,482,133	\$ -	\$ (161,215,665)	\$ 16,795,493
Private placements, net of share issue costs	153,249	553,720	-	-	-	-	553,720
Shares issued on acquisition of property	20,000	96,200	-	-	-	-	96,200
Debt Settlement	359,659	1,138,636	-	-	-	-	1,138,636
Share bonus to personnel	39,000	190,320	-	-	-	-	190,320
Exercise of stock options	9,687	50,372	-	(5,687)	-	-	44,685
Share-based payments	-	-	-	279,740	-	-	279,740
Loss for the period	-	-	-	-	-	(546,252)	(546,252)
<b>June 30, 2017</b>	5,389,248	\$ 158,558,273	\$ -	\$ 21,756,186	\$ -	\$ (161,761,917)	\$ 18,552,542
<b>December 31, 2017</b>	7,472,179	\$ 165,862,805	\$ -	\$ 22,621,202	\$ 12,160	\$ (179,808,646)	\$ 8,687,521
Subscriptions received in advance	-	-	1,081,690	-	-	-	1,081,690
Share-based payments	-	-	-	415,514	-	-	415,514
Warrants issued for mineral property	-	-	-	89,944	-	-	89,944
Exercise of stock options	3,125	8,000	-	(1,750)	-	-	6,250
Loss for the period	-	-	-	-	-	(1,505,466)	(1,505,466)
Unrealized loss on marketable securities	-	-	-	-	(104,540)	-	(104,540)
<b>June 30, 2018</b>	7,475,304	\$ 165,870,805	\$ 1,081,690	\$ 23,124,910	\$ (92,380)	\$ (181,314,112)	\$ 8,670,913

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

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

	<b>Six months ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Operating Activities</b>		
Net loss for period	\$ (1,505,466)	\$ (546,252)
Adjustments to reconcile net loss to net cash flows:		
Depreciation and accretion	3,744	273,905
Share-based payments	311,996	200,354
Costs in excess of recovered coal	84,849	17,422
Finance cost	-	161
Interest costs	-	13,600
Unrealized foreign exchange (gain)/loss	286,692	-
Loss on sale of marketable securities	-	22,810
Impairment of mineral property	22,063	96,200
	<b>(796,122)</b>	<b>78,200</b>
Working capital adjustments		
Receivables	(943)	(113,934)
Prepaid expenses and reclamation deposits	(4,800)	66,661
Accounts payable and accrued liabilities and tax provision	(533,950)	(549,494)
	<b>(539,693)</b>	<b>(596,767)</b>
<b>Cash Used in Operating Activities</b>	<b>(1,335,815)</b>	<b>(518,567)</b>
<b>Investing Activities</b>		
Net (purchases)/proceeds from marketable securities	(60,940)	153,190
Purchase of equipment	(26,475)	-
Mineral property acquisition	(335,661)	(46,370)
Mineral property expenditures	(1,497,664)	(98,905)
<b>Cash Provided by (Used in) Investing Activities</b>	<b>(1,920,740)</b>	<b>7,915</b>
<b>Financing Activities</b>		
Funds borrowed under credit facility	-	3,273
Credit facilities paid	-	(57,300)
Proceeds from share issuance, net of share issue costs	6,250	598,405
Receipt of share subscriptions	1,081,690	-
<b>Cash Provided by Financing Activities</b>	<b>1,087,940</b>	<b>544,378</b>
Net Increase (Decrease) in Cash	(2,168,615)	33,726
Cash - beginning of period	4,100,608	21,648
Cash - end of period	\$ 1,931,993	\$ 55,374

Supplemental cash flow information (Note 14)

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

## **PROPHECY DEVELOPMENT CORP.**

Notes to the Condensed Interim Consolidated Financial Statements  
For the three and six months ended June 30, 2018 and 2017  
(Expressed in Canadian Dollars) (Unaudited)

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### **1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS**

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

The principal business of the Company is the acquisition, exploration and development of mineral and energy projects. The Company owns a 100% interest in the following significant projects: two vanadium projects located in North America including the Gibellini vanadium project which is comprised of the Gibellini and Louie Hill vanadium deposits and associated claims located in the State of Nevada, USA (the “**Gibellini Project**”) and the Titan vanadium-titanium-iron project comprised of the Titan vanadium-titanium-iron deposit and related claims located in the Province of Ontario, Canada (the “**Titan Project**”); the Pulacayo Paca silver-lead-zinc property which is comprised of the Pulacayo and Paca silver-lead-zinc deposits and related concessions located in Bolivia (the “**Pulacayo Project**”); two coal projects located in Mongolia including the Ulaan Ovoo project which is comprised of the Ulaan Ovoo coal deposit, coal leases and Ulaan Ovoo mine and the Khujirt exploration license (the “**Ulaan Ovoo Coal Property**”) and the Khavtgai Uul and Chandgana Tal coal deposits, coal leases and Chandgana Tal mine (the “**Chandgana Project**”); and the Chandgana Power Plant project comprised of a land right located in Mongolia.

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

### **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, 2017. 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, 2017 (“**Annual Financial Statements**”).

These unaudited condensed interim consolidated financial statements were approved and authorized for issue by the Audit Committee on August 8, 2018.

#### (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.

**PROPHECY DEVELOPMENT CORP.**

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Expressed in Canadian Dollars) (Unaudited)

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

## (c) Use of judgments and estimates (cont'd...)

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

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

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

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

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

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

## PROPHECY DEVELOPMENT CORP.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Expressed in Canadian Dollars) (Unaudited)

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

#### (d) Changes in accounting standards (cont'd...)

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

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

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

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

### 3. SEGMENTED INFORMATION

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

	June 30, 2018				
	Canada	USA	Mongolia	Bolivia	Total
Reclamation deposits \$	-	\$ -	\$ 21,055	\$ -	\$ 21,055
Equipment	16,508	25,167	38,696	406,707	487,078
Mineral properties	-	2,073,250	-	13,124,134	15,197,384
	\$ 16,508	\$ 2,098,417	\$ 59,751	\$ 13,530,841	\$ 15,705,517

  

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

**PROPHECY DEVELOPMENT CORP.**

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Expressed in Canadian Dollars) (Unaudited)

**4. CASH AND RESTRICTED CASH EQUIVALENTS**

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

		June 30, 2018		December 31, 2017
Cash	\$	1,931,993	\$	4,100,608
Cash equivalents		34,500		34,500
	\$	1,966,493	\$	4,135,108

***Restricted Cash Equivalents***

As at June 30, 2018, a guaranteed investment certificate of \$34,500 (December 31, 2017 - \$34,500) has been pledged as collateral for the Company's credit card.

**5. MARKETABLE SECURITIES**

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

As of June 30, 2018, the Company holds 2,700,000 shares (December 31, 2017 – 1,409,000) of a public company. These shares are marked to market which resulted in an unrealized loss of \$104,540 for the six months ended June 30, 2018 (2017 - a gain of \$12,160).

The following table summarized information regarding the Company's marketable securities as at December 31, 2017 and June 30, 2018.

Marketable securities		June 30, 2018		December 31, 2017
Balance, beginning of period	\$	205,600	\$	176,000
Additions		60,940		193,440
Disposals		-		(153,190)
Realized loss on disposal		-		(22,810)
Unrealized gain/(loss) on mark-to-market		(104,540)		12,160
Balance, end of period	\$	162,000	\$	205,600

**PROPHECY DEVELOPMENT CORP.**

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Expressed in Canadian Dollars) (Unaudited)

**6. PROPERTY AND EQUIPMENT**

	Computer Equipment	Furniture & Equipment	Computer Software	Vehicles	Mining Equipment	Total
<b>Cost</b>						
Balance, December 31, 2016	\$ 100,221	\$ 279,213	\$ 197,813	\$ 453,854	\$ 1,534,745	\$ 2,565,846
Additions	(147)	(2,383)	-	-	-	(2,530)
Impairment charge	-	-	-	(281,162)	(219,916)	(501,078)
Balance, December 31, 2017	\$ 100,074	\$ 276,830	\$ 197,813	\$ 172,692	\$ 1,314,829	\$ 2,062,238
<b>Accumulated depreciation</b>						
Balance, December 31, 2016	\$ 94,900	\$ 181,639	\$ 197,813	\$ 339,916	\$ 833,971	\$ 1,648,239
Depreciation for year	1,795	35,434	-	18,434	167,837	223,500
Impairment charge	-	-	-	(228,508)	(112,904)	(341,412)
Balance, December 31, 2017	\$ 96,695	\$ 217,073	\$ 197,813	\$ 129,842	\$ 888,904	\$ 1,530,327
<b>Carrying amount</b>						
At December 31, 2016	\$ 5,321	\$ 97,574	\$ -	\$ 113,938	\$ 700,774	\$ 917,607
At December 31, 2017	\$ 3,379	\$ 59,757	\$ -	\$ 42,850	\$ 425,925	\$ 531,911
<b>Cost</b>						
Balance, December 31, 2017	\$ 100,074	\$ 276,830	\$ 197,813	\$ 172,692	\$ 1,314,829	\$ 2,062,238
Additions/Disposals	-	1,997	-	-	24,479	26,476
Balance, June 30, 2018	\$ 100,074	\$ 278,827	\$ 197,813	\$ 172,692	\$ 1,339,308	\$ 2,088,714
<b>Accumulated depreciation</b>						
Balance, December 31, 2017	\$ 96,695	\$ 217,073	\$ 197,813	\$ 129,842	\$ 888,904	\$ 1,530,327
Depreciation for period	640	8,393	-	7,497	54,779	71,309
Balance, June 30, 2018	\$ 97,335	\$ 225,466	\$ 197,813	\$ 137,339	\$ 943,683	\$ 1,601,636
<b>Carrying amount</b>						
At December 31, 2017	\$ 3,379	\$ 59,757	\$ -	\$ 42,850	\$ 425,925	\$ 531,911
At June 30, 2018	\$ 2,739	\$ 53,361	\$ -	\$ 35,353	\$ 395,625	\$ 487,078

The impaired value of \$nil for deferred development costs at Ulaan Ovoo property at June 30, 2018 remains unchanged. During the year ended December 31, 2017, the Company wrote-off \$159,666 of equipment in Mongolia because it was no longer in use.

**PROPHECY DEVELOPMENT CORP.**

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Expressed in Canadian Dollars) (Unaudited)

**7. MINERAL PROPERTIES**

	Titan	Chandgana Tal	Khavtgai Uul	Pulacayo	Gibellini	Total
<b>Balance, December 31, 2016</b>	\$ -	\$ 11,186,322	\$ 3,232,443	\$ 11,980,943	\$ -	\$ 26,399,708
<i>Additions:</i>						
Acquisition cost	\$ 96,200	\$ -	\$ -	\$ -	\$ 58,790	\$ 154,990
Deferred exploration costs:						
Licenses, power plant application	-	27,190	242,766	-	74,876	344,832
Geological core and consulting	-	39,362	-	102,592	272,620	414,574
Personnel, camp and general	-	2,492	2,492	726,015	84,070	815,069
	-	69,044	245,258	828,607	431,566	1,574,475
Impairment	(96,200)	(11,255,366)	(3,477,701)	-	-	(14,829,267)
<b>Balance, December 31, 2017</b>	\$ -	\$ -	\$ -	\$ 12,809,550	\$ 490,356	\$ 13,299,906
<i>Additions:</i>						
Acquisition cost	\$ -	\$ -	\$ -	\$ -	\$ 425,605	\$ 425,605
Deferred exploration costs:						
Licenses, tax, and permits	-	1,271	20,792	-	286,424	308,487
Geological core and consulting	-	-	-	14,271	585,547	599,819
Personnel, camp and general	-	-	-	300,313	285,318	585,631
Impairment	-	(1,271)	(20,792)	-	-	(22,063)
	-	-	-	314,584	1,157,289	1,471,873
<b>Balance, June 30, 2018</b>	\$ -	\$ -	\$ -	\$ 13,124,134	\$ 2,073,250	\$ 15,197,384

The impaired value of \$nil for deferred exploration costs at Chandgana Coal and Titan properties at June 30, 2018 remain unchanged.

## PROPHECY DEVELOPMENT CORP.

Notes to the Condensed Interim Consolidated Financial Statements  
For the three and six months ended June 30, 2018 and 2017  
(Expressed in Canadian Dollars) (Unaudited)

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### 7. MINERAL PROPERTIES (cont'd...)

#### ***Gibellini Project, Nevada, United States***

##### *Gibellini Project*

The Gibellini Project consists of a total of 354 unpatented lode mining claims that include: the Gibellini group of 40 claims, the VC Exploration group of 105 claims, and the Prophecy group of 209 claims. All the claims are located in Eureka County, Nevada, USA.

The Gibellini group of claims was acquired on June 22, 2017, through lease from the claimant (the "**Gibellini Lessor**") and includes an area of approximately 771 acres. Under the Gibellini Mineral Lease Agreement (the "**Gibellini MLA**") Prophecy leased the Gibellini group of claims which originally constituted the Gibellini Project by among other things, agreeing to pay to the Gibellini Lessor, USD 35,000 (paid), annual advance royalty payments which will be tied, based on an agreed formula (not to exceed USD120,000 per year), to the average vanadium pentoxide price of the prior year. Upon commencement of production, Prophecy will maintain its acquisition through lease of the Gibellini group of claims by paying to the Gibellini Lessor, a 2.5% NSR until a total of USD3,000,000 is paid. Thereafter, the NSR will be reduced to 2% over the remaining life of the mine (and referred to thereafter, as "production royalty payments"). All advance royalty payments made, will be deducted as credits against future production royalty payments. The lease is for a term of 10 years, which can be extended for an additional 10 years at Prophecy's option.

On April 23, 2018, the Company announced an amendment to the Gibellini MLA, whereby Prophecy has been granted the right to cause the Gibellini Lessor of the Gibellini mineral claims to transfer their title to the claims to Prophecy. With the amendment, Prophecy will have the option to, at any time during the term of the Gibellini MLA, require the Gibellini Lessor to transfer title over all of the leased, unpatented lode mining claims (excluding four claims which will be retained by the Gibellini Lessor (the "**Transferred Claims**") to Prophecy in exchange for USD1,000,000, to be paid as an advance royalty payment (the "**Transfer Payment**"). A credit of USD99,027 in favour of Prophecy towards the Transfer Payment is already paid upon signing of the amendment, with the remaining USD900,973 portion of the Transfer Payment due and payable by Prophecy to the Gibellini Lessor upon completion of transfer of the Transferred Claims from the Gibellini Lessor to Prophecy. The advance royalty obligation and production royalty will not be affected, reduced or relieved by the transfer of title.

On June 22, 2018, the Company paid USD101,943 of the annual royalty payment to the Gibellini Lessor.

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

Under the terms of the mineral lease agreement (the "**Louie Hill MLA**"), the Company is required to make payments as follows: cash payment of USD10,000 (paid), annual advance royalty payments which will be tied, based on an agreed formula (not to exceed USD28,000 per year), to the average vanadium pentoxide price for the prior year. Upon commencement of production, Prophecy will pay to the Former Louie Hill Lessors, a 2.5% NSR of which, 1.5% of the NSR may be purchased at any time by Prophecy for USD1,000,000, leaving the total NSR to be reduced to

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### **7. MINERAL PROPERTIES (cont'd...)**

#### ***Gibellini Project, Nevada, United States (cont'd...)***

1% over the remaining life of the mine (and referred to thereafter, as “production royalty payments”). All advance royalty payments made, will be deducted as credits against future production royalty payments. The lease will be for a term of 10 years, which can be extended for an additional 10 years at Prophecy’s option.

On December 5, 2017, the Company expanded the land position at the Gibellini Project, by staking a total of 198 new claims immediately adjacent to the Gibellini Project covering 4091 acres.

On February 15, 2018, the Company acquired 105 unpatented lode mining claims located adjacent to its Gibellini Project through the acquisition of 1104002 B.C. Ltd. and its Nevada subsidiary VC Exploration (US) Inc. (“**VC Exploration**”) by paying a total of \$335,661 in cash and issuing 50,000 Share purchase warrants (valued at \$89,944) to arm’s-length, private parties. Each warrant entitles the holder upon exercise, to acquire one Share of the Company at a price of \$5.00 per Share until February 15, 2021. The acquisition of the VC Exploration has been accounted for as an asset acquisition as their activities at the time of the acquisition consisted of mineral claims only.

#### ***Pulacayo Property, Bolivia***

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

ASC controls the mining rights to the Pulacayo Project through a joint venture agreement entered into between itself and the Pulacayo Ltda. Mining Cooperative on July 30, 2002 (the “**ASC Joint Venture**”). The ASC Joint Venture has a term of 23 years which commenced the day the ASC Joint Venture was entered into. Pursuant to the ASC Joint Venture, ASC is committed to pay monthly rent of USD1,000 to the state-owned Mining Corporation of Bolivia, COMIBOL and USD1,500 monthly rent to the Pulacayo Ltda. Mining Cooperative until the Pulacayo Project starts commercial production.

#### ***Previously Impaired Properties***

##### ***Chandgana Properties, Mongolia***

###### ***Chandgana Tal***

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

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

###### ***Khavtgai Uul Property, Mongolia***

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

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### 7. MINERAL PROPERTIES (cont'd...)

#### *Previously Impaired Properties* (cont'd...)

#### *Chandgana Properties, Mongolia* (cont'd...)

At December 31, 2017, due to market conditions, the Company impaired the value of the Chandgana Properties deferred exploration costs to \$nil. As at December 31, 2017, the recoverable amount of \$nil resulted in an impairment charge of \$14,733,067 against the value of the deferred exploration costs, which was reflected on the consolidated statement of operations and comprehensive loss.

As at June 30, 2018, the Company recorded an impairment charge of \$22,063 (licenses fees) against the value of the deferred exploration costs, which was reflected on the consolidated statement of operations and comprehensive loss.

#### *Titan Property, Ontario, Canada*

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

In January 2010, the Company entered into an option agreement with Randsburg International Gold Corp. ("**Randsburg**") whereby 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 Shares of the Company.

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

### 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	June 30, 2018	December 31, 2017
Trade accounts payable	\$ 1,261,335	\$ 1,644,995
Accrued liabilities	10,737	250,988
	<u>\$ 1,272,072</u>	<u>\$ 1,895,983</u>

## PROPHECY DEVELOPMENT CORP.

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### 9. SHARE CAPITAL

(a) Authorized

The authorized share capital consists of an unlimited number of common shares without par value (the “**Shares**”). There are no authorized preferred shares. At June 30, 2018, the Company had 7,475,304 (December 31, 2017 – 7,472,179) common shares issued and outstanding.

After the period end, the Company completed a Share split on the basis of ten (10) new Shares for every one (1) old Share outstanding (see Note 16).

(b) Equity issuances

During six months ended June 30, 2018, the Company issued 3,125 Shares on the exercise of options for total proceeds of \$6,250.

(c) Share subscriptions

In June 2017, the Company has received \$1,081,690 pursuant to share subscription agreements for 386,318 Shares. These Shares were issued after the period end (Note 16).

(d) Equity-based compensation plans

The following is a summary of the changes in Prophecy’s stock options from December 31, 2016 to June 30, 2018:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2016	460,814	\$6.42
Granted	408,000	\$3.75
Expired	(31,293)	\$20.80
Exercised	(12,687)	\$4.00
Outstanding, December 31, 2017	824,834	\$4.59
Granted	195,000	\$2.89
Cancelled	(10,700)	\$3.60
Exercised	(3,125)	\$2.00
Outstanding, June 30, 2018	1,006,009	\$4.12

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**9. SHARE CAPITAL (cont'd...)**

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

As of June 30, 2018, the following Prophecy share purchase options were outstanding:

Exercise Price	Expiry Date	Options Outstanding		Exercisable June 30, 2018	Unvested June 30, 2018
		June 30, 2018	December 31, 2017		
\$3.10	May 1, 2023	20,000	-		20,000
\$3.15	April 27, 2023	15,000	-		15,000
\$2.80	April 6, 2023	140,000	-	-	140,000
\$3.10	February 20, 2023	20,000	-	2,500	17,500
\$4.75	November 6, 2022	5,000	5,000	1,250	3,750
\$3.30	June 12, 2022	167,000	145,000	83,500	83,500
\$3.50	September 1, 2022	145,000	167,000	54,375	90,625
\$3.10	January 12, 2022	147,625	91,000	92,266	55,359
\$2.00	June 2, 2021	91,000	155,750	91,000	-
\$5.00	June 22, 2020	31,100	32,800	31,100	-
\$5.00	April 7, 2020	78,062	82,062	78,062	-
\$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	-
		1,006,009	824,834	580,275	425,734

During the six months ended June 30, 2018, the Company recognised \$415,514 (same period 2017 - \$279,739) in share based payments which included \$311,996 (same period 2017 - \$200,354) costs related to stock options expensed as general and administrative expenses and \$103,518 (same period 2017 - \$79,385) capitalized to mineral properties.

## (e) Share purchase warrants

The following is a summary of the changes in Prophecy's Share purchase warrants from December 31, 2016 to June 30, 2018.

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2016	1,348,060	\$4.68
Issued	1,245,368	\$4.13
Exercised	(15,000)	\$4.00
Expired	(2,625)	\$7.00
Outstanding, December 31, 2017	2,575,803	\$4.42
Issued	100,000	\$4.00
Expired	(5,600)	\$4.00
Outstanding, June 30, 2018	2,670,203	\$4.40

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**9. SHARE CAPITAL (cont'd...)**

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

On February 15, 2018, the Company issued 50,000 Share purchase warrants as a part of consideration for mining claims acquisition (Note 7). The fair value of \$89,944 of the issued warrants determined using the Black-Scholes option pricing model using the following assumptions: (1) a risk-free interest rate of 1.9%; (2) warrant expected life of three years; (3) expected volatility of 116%' and (4) dividend yield of nil.

As of June 30, 2018, the following Share purchase warrants were outstanding:

Exercise price	Expiry date	Number of Warrants	
		At June 30, 2018	At December 31, 2017
\$5.00	June 13, 2022	59,659	59,659
\$5.00	April 12, 2022	103,250	103,250
\$4.00	January 13, 2022	49,999	49,999
\$4.40	August 29, 2021	101,367	101,367
\$4.00	June 2, 2021	750,000	750,000
\$3.00	April 23, 2021	50,000	-
\$5.00	February 15, 2021	50,000	-
\$4.00	January 25, 2021	65,000	65,000
\$4.00	December 18, 2020	70,335	70,335
\$7.00	November 13, 2020	62,500	62,500
\$4.00	October 16, 2020	270,136	270,136
\$7.00	September 30, 2020	111,200	111,200
\$4.00	September 20, 2020	691,990	333,984
\$6.00	June 24, 2020	114,768	114,768
\$5.00	May 22, 2020	120,000	120,000
\$4.00	January 25, 2018	-	5,600
		2,670,203	2,217,797

**10. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS****Fair Value Measurements****Fair value hierarchy**

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;

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**10. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS (cont'd...)****Fair Value Measurements (cont'd...)****Fair value hierarchy (cont'd...)**

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

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

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

As at June 30, 2018	Level 1	Level 2	Level 3	Total
Financial assets				
Cash	\$ 1,931,993	\$ -	\$ -	\$ 1,931,993
Marketable securities	\$ 162,000	\$ -	\$ -	\$ 162,000
	\$ 2,093,993	\$ -	\$ -	\$ 2,093,993

**Categories of financial instruments**

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

	June 30, 2018	December 31, 2017
Fair value through profit or loss		
Cash	\$ 1,931,993	\$ 4,100,608
Fair value through other comprehensive income or loss		
Marketable securities	162,000	205,600
Amortized cost		
Receivables	35,596	34,653
Restricted cash equivalents	34,500	34,500
	\$ 2,164,089	\$ 4,375,361
Other Liabilities		
Accounts payable and accrued liabilities	\$ 1,272,072	\$ 1,895,983
	\$ 1,272,072	\$ 1,895,983

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### **11. 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, 2018, the Company had a cash balance of \$1,931,993 (December 31, 2017 – \$4,100,608). As at June 30, 2018, the Company had accounts payable and accrued liabilities of \$1,272,072 (December 31, 2017 - \$1,895,983), which have contractual maturities of 90 days or less.

#### (b) Credit risk

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

#### (c) Market risk

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

##### (i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's cash and restricted cash equivalents primarily include highly liquid investments that earn interest at market rates that are fixed to maturity. Due to the short- term nature of these financial instruments, fluctuations in market rates do not have significant impact on the fair values of the financial instruments as of June 30, 2018.

##### (ii) Foreign currency risk

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

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

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### **11. FINANCIAL RISK MANAGEMENT DISCLOSURES (cont'd...)**

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

(ii) Foreign currency risk (cont'd...)

Based on the above, net exposures as at June 30, 2018, with other variables unchanged, a 10% (December 31, 2017 – 10%) strengthening (weakening) of the Canadian dollar against the Mongolian tugrik would impact net loss with other variables unchanged by \$76,000. A 10% strengthening (weakening) of the Canadian dollar against the Bolivian boliviano would impact net loss with other variables unchanged by \$70,000. A 10% strengthening (weakening) of the US dollar against the Canadian dollar would impact net loss with other variables unchanged by \$33,000. The Company currently does not use any foreign exchange contracts to hedge this currency risk.

(iii) Commodity and equity price risk

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

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

### **12. 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.

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**12. RELATED PARTY DISCLOSURES**

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

Related parties	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Directors and officers	\$ 191,068	\$ 52,750	\$ 308,231	\$ 105,000
Linx Partners Ltd.	105,000	52,500	210,012	105,000
MaKevCo Consulting Inc.	4,700	4,600	9,400	10,800
Sophir Asia Ltd.	4,400	4,000	8,800	7,500
	\$ 305,168	\$ 113,850	\$ 536,443	\$ 228,300

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,	
	2018	2017	2018	2017
Consulting and management fees	\$ 69,986	\$ 28,500	\$ 125,498	\$ 59,400
Directors' fees	13,500	12,600	27,000	23,400
Mineral properties	150,431	39,000	244,194	78,000
Salaries	71,250	33,750	139,750	67,500
	\$ 305,168	\$ 113,850	\$ 536,443	\$ 228,300

As at June 30, 2018, amounts due to related parties totaled \$Nil (December 31, 2017 – \$160,503).

**13. 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,	
	2018	2017	2018	2017
Salaries and short term benefits	\$ 83,046	\$ 34,367	\$ 153,958	\$ 68,734
Share-based payments	164,391	206,847	296,935	233,171
	\$ 247,437	\$ 241,214	\$ 450,893	\$ 301,905

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**14. SUPPLEMENTAL CASH FLOW INFORMATION**

	Six months ended June 30,	
	2018	2017
Supplementary information		
Non-Cash Financing and Investing Activities		
Shares issued to pay Credit Facility	\$ -	\$ 900,000
Shares issued on acquisition of mineral property	\$ -	\$ 96,200
Shares issued for accrued bonus	\$ -	\$ 190,320
Shares issued to settle debt	\$ -	\$ 238,636
Warrants issued on acquisition of mineral property	\$ 89,944	\$ -
Depreciation included in mineral property	\$ 58,464	\$ 106,225
Equipment expenditures included in accounts payable	\$ 513,070	\$ 1,747,070
Fair value loss on available-for-sale investments	\$ 104,540	\$ -
Mineral property expenditures included in accounts payable	\$ 646,002	\$ 1,283,489
Share-based payments capitalized in mineral properties	\$ 103,518	\$ 79,385

**15. CONTINGENCIES**

## ASC tax claim

On January 2, 2015, the Company acquired ASC Holdings Limited and ASC Bolivia LDC (which together, hold ASC Bolivia LDC Sucursal Bolivia, which in turn, held Apogee Silver Ltd.'s ("**Apogee**") joint venture interest in the Pulacayo Project) and Apogee Minerals Bolivia S.A. Pursuant to the terms of the Agreement, Prophecy agreed to assume all liabilities of these former Apogee subsidiaries, including legal and tax liabilities associated with the Pulacayo Project. During Apogee's financial year ended June 30, 2014, it received notice from the Servicio de Impuestos Nacionales, the national tax authority in Bolivia, that ASC Bolivia LDC Sucursal Bolivia, now the Company's wholly-owned subsidiary, owed approximately Bs42,000,000 (\$7,827,708 in taxes, interest and penalties relating to a historical tax liability in an amount originally assessed at approximately \$760,000 in 2004, prior to Apogee acquiring the subsidiary in 2011. Apogee disputed the assessment and disclosed to the Company that it believed the notice was improperly issued. The Company continued to dispute the assessment and hired local legal counsel to pursue an appeal of the tax authority's assessment on both substantive and procedural grounds. On May 26, 2015, the Company received a positive Resolution issued by the Bolivian Constitutional Court that among other things, declared null and void the previous Resolution of the Bolivian Supreme Court issued in 2011 (that imposed the tax liability on ASC Bolivia LDC Sucursal Bolivia) and sent the matter back to the Supreme Court to consider and issue a new Resolution. The Company plans to continue to vigorously defend its position and make submissions to the Supreme Court during the new hearing. Based on these developments, the tax claim amount of \$7,827,708 (2017 - \$7,541,016) 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.

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### 15. CONTINGENCIES (cont'd...)

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

The Company disputed the Sukhbaatar District Tax Division's assessment and submitted a complaint to the Capital City Tax Tribunal. On March 24, 2015, the Capital City Tax Tribunal resolved to refer the matter back to the Sukhbaatar District Tax Division for revision and separation of the action between confirmation of Red Hill's VAT credit, and the imposition of the penalty/deduction for the tax assessment.

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

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

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

As there were no changes from January 1 to June 30, 2018, the impaired value of \$Nil for the VAT receivable remains unchanged.

### 16. EVENTS AFTER THE REPORTING DATE

- On August 8, the Company completed a common share split the basis of ten (10) new Shares for every one (1) old Share outstanding (the "**Split**"). As required by IAS 33, *Earnings Per Share*, all information with respect to the number of Shares and issuance prices for the time periods prior to the Split will be restated to reflect the Split.
- The Company closed of its non-brokered private placement previously announced on May 30, 2018 and amended on June 26, 2016 (the "**Placement**"), raised gross cash proceeds of \$1,137,196 through the issuance of 4,061,417 units (post the Split) (the "**Units**") of Prophecy. Each Unit is comprised of one Share and one Share purchase warrant (the "**Warrants**"). Each Warrant entitles the holder to purchase one additional Share of the Company at an exercise price of \$0.40 for a period of three years from the closing of the first tranche of the placement.