

(Formerly Prophecy Coal Corp.)

Condensed Interim Consolidated Financial Statements
For the three months ended March 31, 2015

(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

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NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

As at	Notes		March 31, 2015		December 31, 2014
Assets					
Current assets					
Cash and cash equivalents	6	$	283,095	$	200,994
Receivables			1,071,097		737,434
Prepaid expenses			587,181		732,082
Inventory			1,068,716		1,499,231
			3,010,089		3,169,741
Non-current assets					
Restricted cash equivalents	6		34,500		34,500
Reclamation deposits			27,554		27,554
Property and equipment	7		4,467,739		4,361,982
Mineral properties	8		24,163,592		13,710,520
		$	31,703,474	$	21,304,297
Liabilities and Equity					
Current liabilities					
Accounts payable and accrued liabilities	9	$	10,192,406	$	2,778,368
Credit facilities	10		2,314,580		1,288,218
			12,506,986		4,066,586
Non-current liabilities					
Provision for closure and reclamation			173,363		173,363
			12,680,349		4,239,949
Equity					
Share capital	11		151,847,292		147,947,292
Reserves			20,556,415		20,502,885
Deficit			(153,380,582)		(151,385,829)
			19,023,125		17,064,348
		$	31,703,474	$	21,304,297

Approved on behalf of the Board:

"John Lee"
John Lee, Director

"Greg Hall"
Greg Hall, Director

Nature of operations and going concern (Note 1)
Commitments (Note 17)
Contingencies (Note 18)
Events after the reporting date (Note 19)

See accompanying notes to the consolidated financial statements.

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

	Notes	Three Months Ended March 31, 2015	2014
General and Administrative Expenses			
Advertising and promotion		$ 20,640	$ 19,460
Consulting and management fees		108,499	22,811
Depreciation		14,306	16,461
Director fees		30,002	36,871
Insurance		24,312	37,606
Office and administration		53,368	44,370
Professional fees		51,897	88,739
Salaries and benefits		122,864	81,052
Share-based payments	11	46,004	192,603
Stock exchange and shareholder services		49,114	49,533
Travel and accommodation		44,710	32,499
		(565,716)	(622,005)
Other Items			
Costs in excess of impaired value	7	(1,318,174)	(2,211,781)
Foreign exchange (loss)/gain		(101,111)	275,465
Gain on sale of available-for-sale investments		-	2,351,906
Interest expense	10	(9,752)	-
Interest income		-	7,206
Net Loss for Period		(1,994,753)	(199,209)
Comprehensive Loss for Period		$ (1,994,753)	$ (199,209)
Loss Per Common Share, basic and diluted		$ (0.01)	$ (0.00)
Weighted Average Number of Common Shares Outstanding		311,204,477	249,319,226

See accompanying notes to the consolidated financial statements.

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

	Numbers of shares	Share Capital	Reserves	Accumulated Other Comprehensive Gain (Loss)	Deficit	Total
Balance, December 31, 2013	248,373,819	$ 147,680,113	$ 19,790,089	$ 399,271	$ (136,689,788)	$ 31,179,685
Share-based payments	-	-	159,424	-	-	159,424
Share bonus to personnel	1,013,750	81,100	-	-	-	81,100
Loss for the period	-	-	-	-	(199,209)	(199,209)
Sale of available-for-sale investments	-	-	-	(399,271)	-	(399,271)
Balance, March 31, 2014	249,387,569	$ 147,761,213	$ 19,949,513	$ -	$ (136,888,997)	$ 30,821,729
Balance, December 31, 2014	251,878,634	$ 147,947,292	$ 20,502,885	$ -	$ (151,385,829)	$ 17,064,348
Shares issued for acquisition, net of share issue costs	60,000,000	3,900,000	-	-	-	3,900,000
Share-based payments	-	-	53,530	-	-	53,530
Loss for the period	-	-	-	-	(1,994,753)	(1,994,753)
Balance, March 31, 2015	311,878,634	$ 151,847,292	$ 20,556,415	$ -	$ (153,380,582)	$ 19,023,125

See accompanying notes to the consolidated financial statements

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

	Three Months Ended March 31, 2015	2014
Operating Activities		
Net loss for the year	$ (1,994,753)	$ (199,209)
Adjustments to reconcile net loss to net cash flows:		
Depreciation	14,306	16,461
Share-based payments	46,004	192,603
Gain on sale of available-for-sale investments	-	(2,351,906)
Costs in excess of impaired value	1,318,174	2,211,781
Interest income	-	(7,206)
	(616,269)	(137,476)
Working capital adjustments		
Receivables	(333,663)	509,257
Prepaid expenses	144,901	351,421
Inventory	430,515	(805,807)
Accounts payable and accrued liabilities	752,656	(1,278,734)
	994,409	(1,223,863)
Cash Used in Operating Activities	378,140	(1,361,339)
Investing Activities		
Acquisition of Apogee Subsidiaries, net of cash acquired (Note 4)	(237,224)	-
Acquisition of property and equipment	(498,146)	(1,560,064)
Mineral property expenditures	(549,877)	123,737
Proceeds from sale of available-for-sale investments	-	4,255,651
Cash Provided by Investing Activities	(1,285,246)	2,819,324
Financing Activities		
Credit facility paid	(75,072)	(61,598)
Proceeds from credit facility	1,064,280	-
Cash Used in Financing Activities	989,208	(61,598)
Net Decrease in cash and cash equivalents	82,101	1,396,388
Cash and Cash Equivalents - beginning of period	200,994	507,996
Cash and Cash Equivalents - end of period	$ 283,095	$ 1,904,384

Supplemental cash flow information (Note 16)

See accompanying notes to the consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

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

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

These unaudited condensed interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. The Company incurred a net loss of $2 million during the three months ended March 31, 2015 and as of that date the Company's deficit was $153 million.

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

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

2. BASIS OF PRESENTATION

(a) Statement of compliance

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

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

2. BASIS OF PRESENTATION (cont'd…)

(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) 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.

3. CHANGES IN ACCOUNTING POLICIES

The following standards have been published and are mandatory for the Company's annual accounting periods no earlier than January 1, 2017:

- IFRS 9 *'Financial Instruments'* – This standard was published in July 2014 and replaces the existing guidance in IAS39, '*Financial Instruments: Recognition and Measurement'*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the extent of the impact of the adoption of this standard.

- IFRS 15 *'Revenue from Contracts with Customers'* – This standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

This standard is effective for fiscal years beginning on or after January 1, 2017, with early adoption permitted. The Company does not expect this standard to have a material impact on its financial statements.

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

4. ACQUISITION

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

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

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

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

Cash consideration:	$	250,000
Fair value of Common shares issued:		3,900,000
Purchase price:	$	4,150,000
The preliminary purchase price allocation is as follows:		
Cash and cash equivalents:	$	12,776
Plant & equipment:		862,900
Mineral properties:		9,940,134
Accounts payable:		(6,665,810)
Net assets acquired:	$	4,150,000

5. SEGMENTED INFORMATION

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

	March 31, 2015			
	Canada	Mongolia	Bolivia	Total
Reclamation deposits	$ 6,500	$ 21,054	$ -	$ 27,554
Property and equipment	117,557	3,576,124	774,058	4,467,739
Mineral properties	-	13,824,867	10,338,725	24,163,592
	$ 124,057	$ 17,422,045	$ 11,112,783	$ 28,658,885

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

6. CASH AND CASH EQUIVALENTS

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

	March 31, 2015	December 31, 2014
Denominated in Canadian dollars	$ 221,873	$ 154,592
Denominated in US dollars	53,951	3,642
Denominated in Mongolian tugriks	7,270	42,760
	$ 283,095	$ 200,994

Restricted Cash Equivalents

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

7. PROPERTY AND EQUIPMENT

	Computer Equipment	Furniture & Equipment	Vehicles	Computer Software	Leasehold Improvements	Mining Equipment	Ulaan Ovoo Deferred Exploration	Total
Cost								
Balance, December 31, 2013	$ 171,550	$ 372,545	$ 798,599	$ 196,554	$ 172,818	$ 15,071,500	$ 2,000,000	$ 18,783,566
Additions/(disposals)	(15,713)	672	(11,291)	1,259	-	927,423	(33,899)	868,451
Sale of coal	-	-	-	-	-	-	(3,935,612)	(3,935,612)
Cost of coal production	-	-	-	-	-	-	10,045,848	10,045,848
Impairment charge	-	-	-	-	-	(9,750,533)	(8,076,337)	(17,826,870)
Balance, December 31, 2014	$ 155,837	$ 373,217	$ 787,308	$ 197,813	$ 172,818	$ 6,248,390	$ -	$ 7,935,383
Accumulated depreciation								
Balance, December 31, 2013	$ 99,872	$ 174,015	$ 404,587	$ 131,328	$ 92,709	$ 7,122,469	$ -	$ 8,024,980
Depreciation for year	15,338	33,288	73,428	4,356	32,944	1,664,591	400,000	2,223,945
Impairment charge	-	-	-	-	-	(6,275,524)	(400,000)	(6,675,524)
Balance, December 31, 2014	$ 115,210	$ 207,303	$ 478,015	$ 135,684	$ 125,653	$ 2,511,536	$ -	$ 3,573,401
Carrying amount								
At December 31, 2013	$ 71,678	$ 198,530	$ 394,012	$ 65,226	$ 80,109	$ 7,949,031	$ 2,000,000	$ 10,758,587
At December 31, 2014	$ 40,627	$ 165,914	$ 309,293	$ 62,129	$ 47,165	$ 3,736,854	$ -	$ 4,361,982
Cost								
Balance, December 31, 2014	$ 155,837	$ 373,217	$ 787,308	$ 197,813	$ 172,818	$ 6,248,390	$ -	$ 7,935,383
Additions/(disposals)	146,033	87,877	-	-	-	832,217	2,346,418	3,412,545
Sale of coal	-	-	-	-	-	-	(599,719)	(599,719)
Costs in excess of impaired value	-	-	-	-	-	-	(1,746,699)	(1,746,699)
Balance, March 31, 2015	$ 301,870	$ 461,094	$ 787,308	$ 197,813	$ 172,818	$ 7,080,607	$ -	$ 9,001,510
Accumulated depreciation								
Balance, December 31, 2014	$ 115,210	$ 207,303	$ 478,015	$ 135,684	$ 125,653	$ 2,511,536	$ -	$ 3,573,401
Depreciation for period	142,297	64,202	15,032	682	8,730	729,427	(428,525)	531,845
Costs in excess of impaired value	-	-	-	-	-	-	428,525	428,525
Balance, March 31, 2015	$ 257,507	$ 271,505	$ 493,047	$ 136,366	$ 134,383	$ 3,240,963	$ -	$ 4,533,771
Carrying amount								
At December 31, 2014	$ 40,627	$ 165,914	$ 309,293	$ 62,129	$ 47,165	$ 3,736,854	$ -	$ 4,361,982
At March 31, 2015	$ 44,363	$ 189,589	$ 294,261	$ 61,447	$ 38,435	$ 3,839,644	$ -	$ 4,467,739

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

Ulaan Ovoo Property

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

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

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

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

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

During the year ended December 31, 2014, the Company determined there were several indicators of potential impairment of the carrying value of the Company's long-lived assets (note 13 to Annual Financial Statements). As result, in accordance with *IFRS 6, Exploration for and Evaluation of Mineral Resources* and *IAS 36, Impairment of Assets,* at December 31, 2014, the Company assessed the recoverable amount of the Ulaan Ovoo property, which consists of the deferred development costs and the mine equipment, which have both been identified as separate CGU's.

As result, at December 31, 2014, the Company recorded an impairment charge of $3,475,009 against the value of the mining equipment and an impairment charge of $7,676,337 against the value of the deferred development costs.

During the quarter ended March 31, 2015, the Company incurred expenditures on the Ulaan Ovoo property, classified as costs in excess of impaired value, amounting to $1,318,174 which is reflected on the consolidated statement of operations and comprehensive loss. As there were no benchmark or market changes from January 1, 2015 to March 31, 2015, the impaired value of $nil for deferred development costs remains unchanged.

8. MINERAL PROPERTIES

	Chandgana Tal (a)	Khavtgai Uul (b)	Titan (c)	Okeover, others (d)	Pulacayo (e)	Total
Balance, December 31, 2013	$ 9,974,172	$ 2,875,808	$ 750,628	$ 1,453,165	$ -	$ 15,053,773
Additions:						
Acquisition cost	-	-	-	-	-	-
Deferred exploration costs:						
Licenses, leases, and power plant application	664,437	41,299	1,049	5,864	-	712,649
Geological core, engineering, and consulting	23,560	-	7,705	30,910	-	62,175
Camp and general	112,464	18,780	1,500	1,789	-	134,533
Impairment of mineral property	-	-	(760,882)	(1,491,728)	-	(2,252,610)
	800,461	60,079	(750,628)	(1,453,165)	-	(1,343,253)
Balance, December 31, 2014	$ 10,774,633	$ 2,935,887	$ -	$ -	$ -	$ 13,710,520
Additions:						
Acquisition cost	$ -	$ -	$ -	$ -	$ 9,940,134	$ 9,940,134
Deferred exploration costs:						
Licenses, leases, and power plant application	43,928	46,936	-	-	192,988	283,853
Geological core, engineering, and consulting	15,592	-	-	-	79,150	94,741
Camp and general	3,946	3,945	-	-	126,453	134,344
	63,466	50,881	-	-	398,591	512,938
Balance, March 31, 2015	$ 10,838,099	$ 2,986,768	$ -	$ -	$ 10,338,725	$ 24,163,592

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

(a) Chandgana Tal Property, Mongolia

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

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

(b) Khavtgai Uul Property, Mongolia

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

(c) Titan Property, Ontario, Canada

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

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

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

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

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

(d) Okeover Property, British Columbia, Canada

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

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

(e) Pulacayo Property, Bolivia

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

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

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

		March 31, 2015		December 31, 2014
Trade accounts payable	$	3,231,494	$	2,347,888
ASC tax claim		6,643,093		-
Accrued liabilities		317,819		430,480
	$	10,192,406	$	2,778,368

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (cont'd...)

ASC tax claim

Pursuant to the terms of the Agreement, Prophecy agreed to assume all liabilities of the Apogee Subsidiaries, including legal and tax liabilities associated with the the Pulacayo Project. During Apogee's financial year ended June 30, 2014, it received notice from the Servicio de Impuestos Nacionales, the national tax authority in Bolivia, that ASC Bolivia LDC Sucursal Bolivia, the Company's wholly owned subsidiary owes approximately Bs42,000,000 ($6,536,326) in taxes,

interest and penalties relating to a historical tax liability which occurred in 2004, prior to Apogee acquiring the subsidiary in 2011. Apogee disclosed that it was not aware of this historical liability, originally assessed by the tax authority at an amount equivalent to approximately $760,000 in 2004, and believed this notice was improperly provided. The Company disputes the assessment and is currently investigating the merits and legitimacy of same and has hired local counsel to pursue an appeal of the tax authority's assessment. An amount of $6,643,093 is included in the current liabilities.

10. CREDIT FACILITIES

In October 2013, Prophecy's wholly-owned Mongolian subsidiary, Red Hill Mongolia LLC ("**Red Hill**") arranged a line of credit for US$1,500,000 ("**LOC**") with the Trade and Development Bank ("**TDB**"). The line of credit has a 1.5 year term, with the option of extending it, and bears interest at 15% per annum and a commitment rate of 2% per annum payable monthly. The funds are being used for working capital. The credit facility is collateralized by certain equipment and certain mineral and exploration licences. Pursuant to the LOC agreement, Red Hill was scheduled to pay a fixed amount of US$125,000 monthly against the principal starting May 2014. On June 30, 2014, Red Hill amended the line of credit agreement by extending the maturity date by four months, to August 2015 and the repayment schedule of the remaining principal of US$1,250,000 commencing November 2, 2014, broken down as follows:

November and December 2014	Monthly payment of US $150,000
January 2015 to March 2015	Monthly payment of US $150,000
April 2015 to August 2015	Monthly payment of US $100,000

As at March 31, 2015, the outstanding balance of the LOC was $1,225,300. For the three months ended March 31, 2015, Red Hill recorded an interest expense of $37,154 (capitalized), interest paid of $53,338 and interest payable of $53,338.

The Company borrowed by way of a revolving credit facility agreement dated March 12, 2015 (the "**Credit Facility Agreement**") $1,089,280 from Linx Partners Ltd., a private company wholly-owned and controlled by John Lee, Director, CEO and Executive Chairman of the Company in order to meet interim working capital requirements to fund the Company's business operations and financial commitments. The Credit Facility Agreement has a maximum principal amount available for advance of $1.5 million, a one-year term with an option to extend it for any number of subsequent one-year terms subject to TSX approval, and bears an interest rate of 18% per annum. The Credit Facility Agreement is secured by a promissory note and a general security agreement. For the three months ended March 31, 2015, the Company recorded an interest expense of $9,752.

11. SHARE CAPITAL

(a) Authorized

The authorized share capital consists of an unlimited number of Common shares without par value. There are no authorized preferred shares. At March 31, 2015, the Company had 311,878,634 (December 31, 2014 – 251,878,634) Common shares issued and outstanding.

(b) Equity issuances

During the three months ended March 31, 2015, the Company issued 60,000,000 Common shares in relation with Apogee Subsidiaries acquisition (Note 4).

(c) Equity-based compensation plans

During the three months ended March 31, 2015, there were no stock options granted, exercised, forfeited or expired.

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

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2013	31,565,550	$0.26
Granted	13,535,000	$0.08
Expired	(1,231,800)	$0.28
Forfeited	(14,980,000)	$0.29
Cancelled	(2,325,000)	$0.23
Outstanding, December 31, 2014 and March 31, 2015	26,563,750	$0.13
Options exercisable on March 31, 2015	20,513,750	$0.14

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

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

As of March 31, 2015, the following Prophecy stock options were outstanding:

March 31, 2015		December 31, 2014		Expiry	At March 31, 2015	
Exercise Price	Options Outstanding	Exercise Price	Options Outstanding	Date	Exercisable	Unvested
						-
$ 0.055	2,468,750	$ 0.055	2,468,750	December 31, 2015	2,468,750	-
$ 0.055	100,000	$ 0.055	100,000	October 21, 2019	25,000	75,000
$ 0.065	7,055,000	$ 0.065	7,055,000	May 1, 2019	4,880,000	2,175,000
$ 0.08	100,000	$ 0.080	100,000	January 9, 2019	50,000	50,000
$ 0.10	500,000	$ 0.100	500,000	February 3, 2019	250,000	250,000
$ 0.105	5,150,000	$ 0.105	5,150,000	January 27, 2019	2,575,000	2,575,000
$ 0.12	3,450,000	$ 0.120	3,450,000	August 16, 2018	2,587,500	862,500
$ 0.13	250,000	$ 0.130	250,000	July 22, 2018	187,500	62,500
$ 0.18	230,000	$ 0.180	230,000	August 16, 2017	230,000	-
$ 0.18	3,654,167	$ 0.180	3,654,167	August 22, 2017	3,654,167	-
$ 0.18	375,000	$ 0.180	375,000	September 24, 2017	375,000	-
$ 0.25	10,000	$ 0.250	10,000	June 1, 2017	10,000	-
$ 0.28	2,450,000	$ 0.280	2,450,000	June 18, 2017	2,450,000	-
$ 0.28	25,000	$ 0.280	25,000	September 21, 2015	25,000	-
$ 0.28	50,000	$ 0.280	50,000	May 10, 2015	50,000	-
$ 0.28	445,833	$ 0.280	445,833	December 24, 2015	445,833	-
$ 0.28	50,000	$ 0.280	50,000	April 30, 2015	50,000	-
$ 0.28	100,000	$ 0.280	100,000	February 14, 2016	100,000	-
$ 0.67	100,000	$ 0.670	100,000	May 10, 2015	100,000	-
	26,563,750		26,563,750		20,513,750	6,050,000

Share-based payment expenses resulting from stock options are amortized over the corresponding vesting periods. Share-based payments charged to operations and assets were allocated between deferred mineral properties, and general and administrative expenses.

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

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

For the three months ended March 31, 2015 and 2014, share-based payments were recorded as follows:

	Three Months Ended March 31,	
	2015	2014
Consolidated Statement of Operations		
Share based payments	$ 46,004	$ 192,603
	46,004	192,603
Consolidated Statement of Financial Position		
Ulaan Ovoo exploration	-	31,163
Power Plant application	7,526	16,758
	7,526	47,921
Total share-based payments	$ 53,530	$ 240,524

(c) Share purchase warrants

During the three months ended March 31, 2014, there were no share purchase warrants granted, exercised or expired. The following is a summary of the changes in Prophecy's share purchase warrants from December 31, 2013 to March 31, 2015:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2013	13,225,583	$0.18
Issued	2,541,065	$0.10
Outstanding, December 31, 2014 and March 31, 2015	15,766,648	$0.15

As of March 31, 2015, the following Prophecy share purchase warrants were outstanding:

Exercise price	Number of Warrants		Expiry date
	At March 31, 2015	At December 31, 2014	
$0.18	3,286,929	3,286,929	April 11, 2015
$0.18	6,107,143	6,107,143	June 4, 2015
$0.18	2,767,296	2,767,296	October 28, 2015
$0.055	1,064,215	1,064,215	October 28, 2015
$0.10	2,541,065	2,541,065	June 19, 2016
	15,766,648	15,766,648	

12. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

Fair Value

Fair value is the price that would be received to sell and asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Prophecy utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value as follows:

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

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

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

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 March 31, 2015	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	$ 283,095	$ -	$ -	$ 283,095
Restricted cash equivalents	34,500	-	-	34,500
	$ 317,595	$ -	$ -	$ 317,595

As at December 31, 2014	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	$ 200,994	$ -	$ -	$ 200,994
Restricted cash equivalents	34,500	-	-	$ 34,500
	$ 235,494	$ -	$ -	$ 235,494

The Company considers that the carrying amount of all its financial assets and financial liabilities measured at amortized cost approximates their fair value. The Company does not offset financial assets with financial liabilities. There were no transfers between Level 1, 2 and 3 for the year ended December 31, 2014.

12. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS (cont'd…)

Categories of financial instruments

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

	As at March 31, 2015	As at December 31, 2014
Fair value through profit or loss		
Cash and cash equivalents	$ 283,095	$ 200,994
Restricted cash equivalents	34,500	34,500
Loans and receivables		
Trade receivable and other	673,785	731,447
VAT receivable	397,312	-
	$ 1,388,692	$ 966,941
Other financial liabilities		
Accounts payable and accrued liabilities	$ 10,192,406	$ 2,778,368
Credit facilities	2,314,580	1,288,218
	$ 12,506,986	$ 4,066,586

13. FINANCIAL RISK MANAGEMENT DISCLOSURES

(a) Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its financial obligations as they fall due. The Company manages liquidity risk by preparing cash flow forecasts of upcoming cash requirements. As at March 31, 2015, the Company had a cash and cash equivalents balance of $283,095 (at December 31, 2014 – $200,994) in order to meet short-term business requirements. At March 31, 2015, the Company had trade accounts payable and accrued liabilities $3,549,313 (December 31, 2013 - $2,778,368), which have contractual maturities of 90 days or less, short-term line of credit payments of $2,314,580, and ASC tax claim of $6,643,093 which is under dispute. The Company is seeking financing in order to be in a position to satisfy its current liabilities.

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

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

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

(a) Liquidity risk (cont'd…)

	0 to 6 months	6 to 12 months	Total
As at March 31, 2015			
Trade accounts payable	$ 3,231,494	$ -	$ 3,231,494
Credit facilities	972,460	1,342,120	2,314,580
Tax claim	-	6,643,093	6,643,093
	$ 4,203,954	$ 7,985,213	$ 12,189,167
As at December 31, 2014			
Trade accounts payable	$ 2,347,888	$ -	$ 2,347,888
Credit facilities	1,055,678	232,540	1,288,218
	$ 3,403,566	$ 232,540	$ 3,636,106

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

(b) Credit risk

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

(c) Market risk

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

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's cash equivalents primarily include highly liquid investments that earn interest at market rates that are fixed to maturity or at variable interest rates. The Company also drew down $2,314,580 on its credit facilities bearing an annual coupon rate of 15%, and 18% with monthly interest payments. Due to the short-term nature of these financial instruments, and that the Company's credit facilities beer an interest at fixed rates, fluctuations in market rates do not have a significant impact on the fair values or future cash flows of the financial instruments as of March 31, 2015.

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

(c) Market risk (cont'd…)

(i) Interest rate risk (cont'd…)

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

(ii) Foreign currency risk

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

Based on the above, net exposures as at March 31, 2015, with other variables unchanged, a 10% (December 31, 2014 - 10%) strengthening (weakening) of the Canadian dollar against the Mongolian tugrik would impact earnings with other variables unchanged by $144,823. A 10% (December 31, 2014 - 10%) strengthening (weakening) of the US dollar against the Canadian dollar would have a trivial impact on net loss. 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.

14. RELATED PARTY DISCLOSURES

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

- Linx Partners Ltd., a private company wholly-owned and controlled by John Lee, Director, CEO and Executive Chairman of Prophecy, provides management and consulting services to the Company.

- MaKevCo Consulting Inc., a private company 50% owned by Greg Hall, Director of Prophecy, provides consulting services to the Company.

14. RELATED PARTY DISCLOSURES (cont'd…)

- Sophir Asia Ltd., a private company wholly-owned and controlled by Masa Igata, Director of Prophecy, provides consulting services to the Company.

A summary of related party transactions by related party is as follows:

Related parties		Three Months Ended March 31, 2015		2014
Directors and officers	$	77,021	$	84,252
Linx Partners Ltd.		113,988		105,003
MaKevCo Consulting Inc.		11,519		12,400
Sophir Asia Ltd.		18,743		-
	$	221,271	$	201,655

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

Related parties		Three Months Ended March 31, 2015		2014
Consulting and management fees	$	91,190	$	16,754
Directors' fees		40,503		36,871
Mineral properties		22,797		47,250
Property and equipment		-		47,250
Salaries and benefits		66,780		53,530
	$	221,271	$	201,655

As at March 31, 2015, amounts due to related parties totaled of $355,078 (December 31, 2014 – $463,578) and was comprised of $50,845 (December 31, 2014 - $70,845) for director fees, $164,560 (December 31, 2014 - $198,935) for consulting fees, and $121,687 (December 31, 2014 - $157,312) for managing mineral properties and power plant project, and $17,986 (December 31, 2014 - $36,486) for reimbursable expenses.

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

15. KEY MANAGEMENT PERSONNEL COMPENSATION

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

Key Management Personnel		Three Months Ended March 31, 2015		2014
Salaries and short term benefits	$	67,637	$	85,277
Share-based payments		36,182		123,694
	$	103,819	$	208,971

16. SUPPLEMENTAL CASH FLOW INFORMATION

	Three Months Ended March 31,	
	2015	2014
Supplementary information		
Interest paid	$ 53,338	$ 61,598
Non-Cash Financing and Investing Activities		
Shares issued as bonus shares	$ -	$ 81,100
Share issued for assets acquisition	$ 3,900,000	$ -
Capitalized depreciation	$ 428,525	$ 756,441
Capitalized interest	$ 37,154	$ 42,993
Property & equipment expenditures included in accounts payable	$ 1,961,779	$ 1,255,830
Mineral property expenditures included in accounts payable	$ 225,485	$ 308,469
Share-based payments capitalized in property and equipment	$ -	$ 31,163
Share-based payments capitalized in mineral properties	$ 7,526	$ 16,758

17. COMMITMENTS

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

Office rental commitments		
Year		Amount
2015	$	42,641
2016		21,214
	$	63,855

18. CONTINGENCIES

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

During the year ended December 31, 2014, Red Hill was issued a letter from the Sukhbaatar district Tax division discussing the results of VAT inspection of the 2009-2013 tax imposition and payments resulted in an imposed VAT payable of MNT$2,654,175,507 ($1,648,556). Red Hill disagreed with the findings as the tax assessment appeared to be unfounded. The Company disputed the assessment and submitted a complaint to the Capital City Tax Tribunal. On March 24, 2015, the Capital City Tax Tribunal resolved to terminate the action and referred the matter back to the Sukhbaatar district Tax division for revision.

In the opinion of Prophecy, at March 31, 2015 a provision for this matter is not required.

19. EVENTS AFTER THE REPORTING DATE

- The Company granted 10,000,000 incentive stock options to directors, officers, employees, and consultants of the Company which are exercisable for a period of five years expiring on April 7, 2020 at a price of $0.05 per Common share and vest at 12.5% per quarter for the first two years following the date of grant. 1,000,000 incentive stock options were cancelled on April 7, 2015 which were originally granted on May 1, 2014 and had an exercise price of $0.065 per Common share for a period of five years.

- On May 5, 2015, the Company, through its wholly-owned subsidiary, Red Hill, entered into a purchase agreement with an arm's-length party in Mongolia to sell substantially all of its mining and transportation equipment at the Company's Ulaan Ovoo mine for total proceeds of approximately $2.4 million.

  The Company received a cash payment of approximately $1.7 million with further proceeds of approximately $700,000 expected to be paid by the buyer in stages, to correspond with pick-up of the equipment. The process is expected to be completed by June 1, 2015.

  The Company received consent to the sale of the equipment, which belonged to its wholly-owned subsidiary Red Hill, from the Company's creditor, Linx Partners Ltd. which holds a general security interest over all of the Company's present and after-acquired property. In consideration for consenting to the sale of, and waiving its security interest in, the equipment, Linx Partners Ltd. will receive, subject to final acceptance from the TSX, 12 million share purchase warrants of the Company exercisable at $0.05 per Common share for a period of five years from the date of issuance.

  The proceeds from the sale of the mining and transportation equipment will be used to repay the LOC with TDB and to advance the Company's Chandgana Mine Mouth Power Plant and Pulacayo Project.