Form 51-102F4
Business Acquisition Report

Name and Address of Company

Prophecy Development Corp. (the "**Company**")
2nd Floor, 342 Water Street
Vancouver, B.C. V6B 1B6

Executive Officer

For additional information regarding any information contained in this Business Acquisition Report, please contact Tony Wong, Corporate Secretary, at (604) 569.3661.

Nature of Business Acquired

The Company acquired Apogee Minerals Bolivia S.A., ASC Holdings Limited and ASC Bolivia LDC (which hold ASC Bolivia L.D.C. Sucursal Bolivia, the holder of a mining joint venture interest in the Pulacayo-Paca silver-lead-zinc project in Bolivia) (collectively, the "**Acquired Subsidiaries**") from Apogee Silver Ltd. ("**Apogee**") on the terms described in the Company's news release dated November 4, 2014 which is filed under the Company's SEDAR profile on www.SEDAR.com.

On January 2, 2015, the Company completed its previously announced acquisition of the Acquired Subsidiaries from Apogee. The acquisition was completed pursuant to a Share Purchase Agreement between the Company and Apogee dated November 3, 2014. Shareholders of Apogee approved the transaction at a Special Meeting held on December 29, 2014.

Acquisition Date

The acquisition date was January 2, 2015.

Consideration

In consideration, the Company paid Apogee $250,000 and issued to Apogee 60 million common shares in the capital of the Company (the "**Consideration Shares**"). 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 shares trading on the Toronto Stock Exchange reach certain price levels or in the face of certain major triggering events. The Company also agreed to assume all liabilities of the Acquired Subsidiaries.

Effect on Financial Position

As a result of the acquisition, ASC Holdings Limited became a direct wholly-owned, Apogee Minerals Bolivia became a direct 98%-owned, and ASC Bolivia LDC and ASC Bolivia L.D.C. Sucursal Bolivia became indirect wholly-owned subsidiaries of the Company.

The effect of the acquisition on the Company's financial position is outlined in the Company's unaudited pro forma consolidated financial statements dated September 30, 2014 which are attached to and form part of this Business Acquisition Report.

Prior Valuations

Fairness Opinion with respect to the fair market value of Apogee's Bolivian subsidiaries: Apogee Minerals Bolivia S.A. and ASC Bolivia L.D.C. Sucursal Bolivia from Cairn Merchant Partners LP dated November 3, 2014 and obtained by the Board of Directors of Apogee, which confirms subject to certain assumptions, limitations and qualifications set out therein, that the transaction is fair, from a financial point of view, to shareholders of Apogee based on their evaluation of those quantitative and qualitative factors outlined, and methodologies used, in the opinion report described in Schedule "A" of Apogee's Management Information Circular dated December 3, 2014 which is filed under Apogee's SEDAR profile on www.SEDAR.com.

Parties to Transaction

The transaction was conducted with an arm's length party.

Date of Report

March 18, 2015

Financial Statements and Other Information

The financial statements and other information required by Part 8 of National Instrument 51-102 are attached hereto and form part of this business acquisition report:

(1) audited financial statements of the Acquired Subsidiaries as at and for the years ended June 30, 2014 and June 30, 2013, together with the notes thereto and the Auditors' Report thereon;

(2) unaudited pro forma consolidated financial statements of the Company consisting of:

    (a) unaudited pro forma condensed consolidated statement of financial position at September 30, 2014 and unaudited pro forma condensed consolidated statement of comprehensive loss for nine month ended September 30, 2014; and

(b) unaudited pro forma condensed consolidated statement of comprehensive loss for the year ended December 31, 2013.

The Company requested and received the consent of McGovern, Hurley, Cunningham, LLP, Chartered Accountants, for the inclusion of the Auditor’s Report in this Business Acquisition Report.

APOGEE MINERALS BOLIVIA

CARVE-OUT FINANCIAL STATEMENTS

For the years ended
June 30, 2014 and 2013
(expressed in Canadian dollars)

McGovern, Hurley, Cunningham, LLP
Chartered Accountants

2005 Sheppard Avenue East, Suite 300
Toronto, Ontario
M2J 5B4, Canada
Phone 416-496-1234
Fax 416-496-0125
Web www.mhc-ca.com

INDEPENDENT AUDITOR'S REPORT

To the Directors of Prophecy Development Corp.:

We have audited the accompanying carve-out financial statements of Apogee Minerals Bolivia , which comprise the carve-out statements of financial position as at June 30, 2014 and 2013, and the carve-out statements of operations and comprehensive loss, carve-out statements of cash flows and carve-out statements of changes shareholder's deficiency for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Carve-out Financial Statements

Management is responsible for the preparation and fair presentation of these carve-out financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of carve-out financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these carve-out financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the carve-out financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the carve-out financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the carve-out financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the carve-out financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the carve-out financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the carve-out financial statements present fairly, in all material respects, the financial position of Apogee Minerals Bolivia as at June 30, 2014 and 2013, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the carve-out financial statements which indicates that the Company had continuing losses during the year ended June 30, 2014 and a working capital deficiency as at June 30, 2014. These conditions along with other matters set forth in Note 1 indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
March 16, 2015

APOGEE MINERALS BOLIVIA

CARVE-OUT STATEMENTS OF FINANCIAL POSITION
in Canadian dollars

	Notes	June 30, 2014 $	June 30, 2013 $
ASSETS			
Current assets:			
Cash		13,670	40,513
Amounts receivable	6	-	204,189
Inventories	8	-	933,482
Total current assets		13,670	1,178,184
Non-current assets:			
Advances	7	-	181,475
Equipment	9	705,975	1,615,168
Exploration and evaluation expenditures	10	9,891,620	7,842,184
Total non-current assets		10,597,595	9,638,827
TOTAL ASSETS		**10,611,265**	**10,817,011**
LIABILITIES AND SHAREHOLDER'S DEFICIENCY			
Current liabilities:			
Accounts payable and accrued liabilities	11	7,361,265	8,036,569
Due to parent company	14	37,809,421	37,505,006
Total liabilities		45,170,686	45,541,575
Shareholder's deficiency			
Share capital		9,885	9,885
Contributed capital	14	19,076,766	17,215,044
Deficit		(53,646,072)	(51,949,493)
Total shareholder's deficiency		**(34,559,421)**	**(34,724,564)**
TOTAL LIABILITIES AND SHAREHOLDER'S DEFICIENCY		**10,611,265**	**10,817,011**
Nature of operations and going concern	1		
Commitments and contingencies	16		
Subsequent event	17		

Approved on behalf of the Directors:

Signed "Gustavo Miranda"
Director

- See accompanying notes to the carve-out financial statements -

APOGEE MINERALS BOLIVIA

CARVE-OUT STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

in Canadian dollars

For the years ended June 30,

	Notes	2014 $	2013 $
Expenses			
Consulting, management and professional fees	14	1,035,510	1,745,817
Travel and promotion		56,850	191,171
Shareholder communications		53,141	159,364
Office and general expenses		208,114	316,415
Transfer agent and filing fees		37,620	29,130
Amortization		3,914	4,499
Interest		186	1,700
Loss before the undernoted		(1,395,334)	(2,448,096)
Impairment of assets	6,7,8,9	466,571	908,110
Foreign exchange (gain) loss		(165,326)	131,202
Net loss and comprehensive loss for the year		(1,696,579)	(3,487,408)

APOGEE MINERALS BOLIVIA

CARVE-OUT STATEMENTS OF CASH FLOWS
in Canadian dollars
For the years ended June 30,

	Note	2014	2013
		$	$
Cash (used in) provided by			
Operating activies			
Net loss		(1,696,579)	(3,487,408)
Items not involving cash:			
Foreign exchange		(165,326)	131,202
Share-based payments		-	295,519
Impairment of assets		466,571	908,110
Working capital adjsutments:			
Change in amounts receivable		(54,820)	(89,230)
Change in advances		67,150	220,854
Net cash (used in) operating activities		**(1,383,004)**	**(2,020,953)**
Financing activities			
Contributions from parent company		2,166,137	7,789,264
Net cash provided by financing activities		**2,166,137**	**7,789,264**
Investment activities			
Interest in exploration and evaluation expenditures		(850,141)	(5,525,119)
Working captial adjustments related to investment activities		(695,675)	403,520
Proceeds from disposal of equipment		735,840	-
Additions to equipment		-	(699,848)
Net cash (used in) investing activities		**(809,976)**	**(5,821,447)**
Change in cash		(26,843)	(53,136)
Cash, beginning of the year		40,513	93,649
Cash, end of year		13,670	40,513
SUPPLEMENTAL INFORMATION			
Amortization capitalized in exploration and evaluation expenditures		193,724	365,480

APOGEE MINERALS BOLIVIA

CARVE-OUT STATEMENTS OF SHAREHOLDER'S DEFICIENCY
in Canadian dollars

	Share Capital	Contributed capital	Deficit	Total
	$	$	$	$
Balance, June 30, 2012	9,885	14,766,948	(48,462,085)	(33,685,252)
Contributions	-	2,448,096	-	2,448,096
Net loss for the year	-	-	(3,487,408)	(3,487,408)
Balance, June 30, 2013	**9,885**	**17,215,044**	**(51,949,493)**	**(34,724,564)**
Contributions	-	1,861,722	-	1,861,722
Net loss for the year	-	-	(1,696,579)	(1,696,579)
Balance, June 30, 2014	**9,885**	**19,076,766**	**(53,646,072)**	**(34,559,421)**

-See accompanying notes to the carve-out financial statements -

1. Nature of operations and going concern

Apogee Minerals Bolivia S.A. ("Apogee") and ASC Bolivia LDC Sucursal Bolvia ("ASC") were incorporated under the laws of Bolivia. Apogee is a wholly-owned subsidiary of Apogee Silver Ltd. ("Apogee Silver"), the common shares of which trade on the TSX Venture Exchange ("TSX-V") under the symbol of "APE". The registered head office of Apogee Silver is located at 65 Queen Street West, Suite 815, Toronto, Ontario, Canada. ASC is a wholly-owned subsidiary of Apogee Silver through two inactive holding companies, ASC Holdings Ltd. and ASC Bolivia LDC, both incorporated in the Cayman Islands. These carve-out financial statements reflect the operations of Apogee, ASC and the two inactive holding companies noted above (collectively, the "Company" or "Apogee Minerals Bolivia").

The Company currently has interests in exploration and evaluation properties in Bolivia. Substantially all of the Company's efforts are devoted to financing, exploring and evaluating these properties. There has been no determination whether the Company's interests in exploration and evaluation properties contain mineral reserves which are economically recoverable as of June 30, 2014. The Company's assets may also be subject to the risk of foreign investment, including increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and political uncertainty.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current operations, including exploration and evaluation programs will result in profitable mining operations. The recoverability of the carrying value of exploration and evaluation expenditures and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

The carve-out financial statements of the Company for the years ended June 30, 2014 and 2013 were reviewed, approved and authorized for issue by the Board of Directors on March 16, 2015.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of operations of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, political uncertainty and currency exchange fluctuations and restrictions.

The Company has a need for capital in order to fund the projects and corporate expenditures. Due to continuing operating losses and a working capital deficiency, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

2. Basis of preparation

These carve-out financial statements of the Company were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and have been prepared in accordance with accounting policies based on IFRS standards and International Financial Reporting Interpretation Committee ("IFRIC") interpretations. The policies set out in the Company's carve-out financial statements for the years ended June 30, 2014 and 2013 were consistently applied to all the periods presented unless otherwise noted below.

These carve-out financial statements have been prepared on a historical basis. In addition, these carve-out financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

These carve-out financial statements present the historical financial position, results of operations, changes in equity and cash flows on a carve-out basis as if the Company had operated as a stand-alone entity during the years presented.

Assets, liabilities, and equity contributions directly attributable to the properties in Bolivia have been allocated to the Company. Expenses have generally been allocated based on the percentage of total property expenditures incurred on the properties in Bolivia compared to total expenses incurred on other Apogee Silver properties. Any items that were directly attributable to the properties in Bolivia were allocated to the Company. Amounts were allocated using management's best estimates in order to provide the most reasonable allocation.

2. Basis of preparation (continued)

As a result of the basis of accounting described above, the carve-out financial statements may not necessarily be indicative of the results that would have been obtained if the Company had operated as a stand-alone entity during the years ended June 30, 2014 and 2013, nor are they necessarily indicative of the result for any future periods.

For purposes of these carve-out financial statements, directors, officers, and management of the Company are the same directors, officers, and management of Apogee Silver.

3. Critical accounting judgements and estimation uncertainties

The preparation of these carve-out financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the carve-out financial statements and related notes to the carve-out financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these differences could be material.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

- Assets' carrying values and impairment charges

In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

- Capitalization of exploration and evaluation expenditures

Management has determined that exploration and evaluation expenditures incurred during the year have future economic benefits and are economically recoverable. In making this judgement, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits. See Note 10 for details of capitalized exploration and evaluation costs.

- Impairment of exploration and evaluation expenditures

While assessing whether any indications of impairment exist for exploration and evaluation expenditures, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of exploration and evaluation assets. Internal sources of information include the manner in which exploration and evaluation assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's exploration and evaluation assets.

- Estimation of decommissioning and restoration costs and the timing of expenditure

Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

3. Critical accounting judgements and estimation uncertainties (continued)

- Income taxes and recoverability of potential deferred tax assets

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

4. Significant accounting policies

Foreign currency translation

The Company's functional currency is the Canadian dollar. In preparing the carve-out financial statements, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Foreign exchange gains and losses are presented in the carve-out statement of operations.

Inventories

Concentrate and stockpiled ore are physically measured or estimated and valued at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and cost of selling final product.

Cost is determined by the weighted average method and comprises direct purchase costs and an appropriate portion of fixed and variable overhead costs, including depletion, depreciation and amortization incurred in converting materials into finished goods.

Taxation

Current tax

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the carve-out statement of operations because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the carve-out financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

4. Significant accounting policies (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its tax assets and liabilities on a net basis.

Interest in mineral exploration and development properties
Exploration and evaluation properties
Once a license to explore an area has been secured, expenditures on exploration and evaluation activities, net of government assistance received and pre-production revenues, are capitalized to exploration and evaluation expenditures. Exploration and evaluation expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential.

Once an economically viable reserve has been determined for an area and the decision to proceed with development has been approved, exploration and evaluation assets attributable to that area are first tested for impairment and then reclassified to construction in progress within mineral properties and deferred exploration expenditures.

Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable, all irrecoverable costs associated with the project net of any impairment provisions are written off.

Development properties
When economically viable reserves have been determined and the decision to proceed with development has been approved, the expenditures related to construction are capitalized as construction-in-progress and classified as a component of mineral properties and deferred exploration expenditures. Costs associated with the commissioning of new assets, in the period before they are operating in the way intended by management, are capitalized, net of any pre-production revenues.

Interest on borrowings related to the construction and development of assets are capitalized until substantially all the activities required to make the asset ready for its intended use are complete.

When a mine construction project moves into the production stage, the capitalization of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for costs which qualify for capitalization relating to mining asset additions or improvements, underground mine development or mineable reserve development.

Depletion
Accumulated mine development costs are depleted on a unit-of-production basis over the estimated economically recoverable reserves of the mine concerned.

Equipment
Items of equipment are stated at cost less accumulated amortization and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Amortization
Equipment is generally amortized on a straight line basis over the estimated useful life per annum of the equipment at a rate of 12.5%.

An item of equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the carve-out statement of operations when the asset is derecognised. The assets' residual values, useful lives and methods of depreciation/amortization are reviewed at each reporting period, and adjusted prospectively if appropriate.

4. Significant accounting policies (continued)

Major maintenance and repairs
Expenditures on major maintenance refits or repairs comprise the cost of replacement assets or parts of assets and overhaul costs. Where an asset or part of an asset that was separately amortized and is now written off is replaced, and it is probable that future economic benefits associated with the item will flow to the Company through an extended life, the expenditure is capitalized.

Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets, which is immediately written off. All other day-to-day maintenance costs are expensed as incurred.

Impairment of non-financial assets
The carrying values of exploration and evaluation expenditures and equipment are assessed for impairment when indicators of such impairment exist. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use.

Impairment is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the individual assets of the Company are grouped together into cash generating units ("CGUs") for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets or other group of assets. This generally results in the Company evaluating its non-financial assets on a geographical basis.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the carve-out statement of operations so as to reduce the carrying amount to its recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the carve-out statement of operations.

Financial assets
Financial assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, (i.e., the date that the Company commits to purchase or sell the asset).

The Company's financial assets include cash and amounts receivable.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as follows:
Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in other gains and losses in the carve-out statement of operations.

The Company evaluates its financial assets at fair value through profit and loss (held for trading) to determine whether the intent to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Company may elect, in rare circumstances, to reclassify these financial assets. The reclassification to loans and receivables, available-for-sale or held-to-maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

4. Significant accounting policies (continued)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (“EIR”), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the carve-out statement of operations. The losses arising from impairment are recognised in the carve-out statement of operations.

Derecognition
A financial asset is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either:
  (a) the Company has transferred substantially all the risks and rewards of the asset; or
  (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets
The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of operations. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the carve-out statement of operations. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the carve-out statement of operations.

The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate.

4. Significant accounting policies (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, other financial liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value, plus in the case of other financial liabilities, directly attributable transaction costs.

The Company's financial liabilities are accounts payable and accrued liabilities and due to parent company.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss:

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the carve-out statement of operations. The Company has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

Other Financial Liabilities

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate ("EIR") method. Gains and losses are recognised in the statement of operations when the liabilities are derecognised, as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the carve-out statement of operations.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially lower terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the carve-out statement of operations.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the carve-out statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Cash

Cash in the statement of financial position comprises cash at banks net of outstanding bank overdrafts.

4. Significant accounting policies (continued)

Provisions
General
Provisions are recognised when (a), the Company has a present obligation (legal or constructive) as a result of a past event, and (b), it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the carve-out statement of operations, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Rehabilitation provision
The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground / environment is disturbed at the production location. When the liability is initially recognised, the present value of the estimated cost is capitalised by increasing the carrying amount of the related assets to the extent that it was incurred prior to the production of related ore. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognised in the statement of operations as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognised as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognised immediately in the carve-out statement of operations.

Employee entitlements
Employee entitlements to annual leave are recognized as the employees earn them. A provision, stated at current cost, is made for the estimated liability at period end.

Loss per share
Loss per share information is not provided as these financial statements are prepared on a carve-out basis.

5. Recent accounting pronouncements

Certain new standards, interpretations, amendments and improvements to existing standards were issued by IASB or IFRIC that are mandatory for accounting periods beginning on or after July 1, 2014. Updates that are not applicable or are not consequential to the Company have been excluded thereof. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

IFRS 13 – Fair Value Measurement ("IFRS 13") was amended to clarify that the exception which allows fair value measurements of a group of financial assets and liabilities on a net basis applies to all contracts within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or liabilities as defined in IAS 32. The amendment is effective for annual periods beginning on or after July 1, 2014.

IAS 24 – Related Party Disclosures ("IAS 24") was amended to clarify that an entity providing key management services to the reporting entity or the parent of the reporting entity is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. The amendments to IAS 24 are effective for annual periods beginning on or after July 1, 2014.

(Expressed in Canadian dollars unless otherwise noted)

5. Recent accounting pronouncements (continued)

IAS 32 – Financial Instruments: Presentation ("IAS 32") was amended by the IASB in December 2011 to clarify certain aspects of the requirements on offsetting. The amendments focus on the criterion that an entity currently has a legally enforceable right to set off the recognized amounts and the criterion that an entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014.

IAS 36 – Impairments of Assets ("IAS 36") was amended by the IASB in May 2013 to clarify the requirements to disclose the recoverable amounts of impaired assets and require additional disclosures about the measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014.

6. Amounts receivable

The Company performed an impairment assessment for its current assets due to the subsequent sale of the Company (see Note 17), continuous declining market prices and regulatory challenges in Bolivia. During the year ended June 30, 2014, the Company wrote off $259,009 in amounts receivable and this is included in the Company's loss on the carve-out statements of operations and comprehensive loss for the year ended June 30, 2014 (year ended June 30, 2013: $nil).

	June 30, 2014	June 30, 2013
Exploration receivables	$ -	$ 204,189
	$ -	$ 204,189

7. Advances

	June 30, 2014	June 30, 2013
Exploration advances	$ -	$ 177,702
Corporate advances	-	3,773
	$ -	$ 181,475

For the year ended June 30, 2014, the Company wrote off $114,325 in advances (to employees and suppliers) as they were determined to be unrecoverable and this is included in the Company's loss on the carve-out statements of operations and comprehensive loss for the year ended June 30, 2014 (year ended June 30, 2013: $nil).

8. Inventories

	June 30, 2014	June 30, 2013
Lead-silver concentrate	$ -	$ 411,482
Zinc-silver concentrate	-	458,435
Ore stockpile	-	63,565
	$ -	$ 933,482

All inventories are carried at the lower of cost and net realizable value. As at June 30, 2013, concentrate and ore stockpile were recorded at cost. A total of $28,466 and $64,771 of concentrate and ore stockpile was written down to $nil as net realizable value was $nil and included in loss on the carve-out statements of operations and comprehensive loss for the year ended June 30, 2014 (year ended June 30, 2013: $nil for concentrate and $nil for ore stockpile).

(Expressed in Canadian dollars unless otherwise noted)

9. Equipment

	Office furniture and equipment	Mine machinery and equipment	Total
Cost as at June 30, 2012	$ 219,496	$ 2,132,649	$ 2,352,145
Additions	-	703,890	703,890
Impairment	-	(908,110)	(908,110)
Cost as at June 30, 2013	219,496	1,928,429	2,147,925
Additions	-	20,631	20,631
Disposals	-	(984,782)	(984,782)
Cost as at June 30, 2014	**$ 219,496**	**$ 964,278**	**$ 1,183,774**
Accumulated amortization as at June 30, 2012	(99,466)	(63,769)	(163,235)
Change for the year	(23,023)	(346,499)	(369,522)
Accumulated amortization as at June 30, 2013	(122,489)	(410,268)	(532,757)
Change for the year	(13,017)	(180,967)	(193,984)
Disposals	-	248,942	248,942
Accumulated amortization as at June 30, 2014	**$ (135,506)**	**$ (342,293)**	**$ (477,799)**
Net book value as at June 30, 2012	$ 120,030	$ 2,068,880	$ 2,188,910
Net book value as at June 30, 2013	$ 97,007	$ 1,518,161	$ 1,615,168
Net book value as at June 30, 2014	**$ 83,990**	**$ 621,985**	**$ 705,975**

An impairment of $nil was recorded on the carve-out statements of operations and comprehensive loss for the year ended June 30, 2014 (2013 - $908,110 resulting from the sale of some of the Company's idle mining equipment, (e.g. jumbo, scoop tram and truck) during the year ended June 30, 2014 for an aggregate price of USD700,000 ($746,340).

10. Exploration and evaluation expenditures

	Pulacayo-Paca, Bolivia
Cost as at June 30, 2012	$ 3,016,269
Acqusition costs	649
Exploration and evaluation expenditures	5,915,362
Amounts received from trial mining	(1,090,096)
Cost as at June 30, 2013	7,842,184
Exploration and evaluation expenditures	3,048,401
Amounts received from trial mining	(998,965)
Cost as at June 30, 2014	$ 9,891,620

(Expressed in Canadian dollars unless otherwise noted)

10. Exploration and evaluation expenditures (continued)

Pulacayo-Paca, Bolivia

In January 2011, the Company announced that it had entered into a definitive agreement (the "Agreement") with Golden Minerals Company ("Golden Minerals") to acquire all of the issued and outstanding shares of an indirectly held subsidiary of Golden Minerals which held a 100% interest in the Pulacayo-Paca Project. Pursuant to the Agreement, Apogee Silver issued 5,000,000 common shares of Apogee Silver at a value of $1,950,000 based on the fair value of the Apogee Silver's common shares upon closing of the transaction and was required to issue an additional 3,000,000 common shares and pay Golden Minerals a cash fee in the amount of US$500,000 eighteen months following closing of the transaction. As such, the 3,000,000 common shares to be issued to Golden Minerals were recorded based on the fair value of Apogee Silver's stock price on January 28, 2011, for a total value of $1,170,000. On July 27, 2012, Apogee Silver issued to Golden Minerals an additional 3,000,000 common shares of Apogee Silver valued at $210,000 based on the trading price of Apogee Silver's shares on the date of transaction and paid US$500,000 ($533,100) which concluded Apogee Silver's payment obligation under the Agreement.

11. Accounts payable and accrued liabilities

	June 30, 2014	June 30, 2013
Exploration payables	$ 7,361,265	$ 8,036,569

12. Financial instruments

Financial assets and financial liabilities as at June 30, 2014 and June 30, 2013 were as follows:

June 30, 2014	Loans and receivable and other financial liabilities
Cash	$ 13,670
Accounts payable and accrued liabilities	(7,361,265)
Due to parent company	(37,809,421)

June 30, 2013	Loans and receivable and other financial liabilities
Cash	$ 40,513
Amounts receivable	204,189
Accounts payable and accrued liabilities	(8,036,569)
Due to parent company	(37,505,006)

The carrying value of cash, amounts receivable and accounts payable and accrued liabilities reflected in the carve-out statement of financial position approximate fair value because of the limited term of these instruments.

It is not possible to determine if the amount due to parent company is at fair value as there is no comparable market value for such loans.

12. Financial instruments (continued)

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no significant changes in the risks, objectives, policies and procedures for managing risk during the years ended June 30, 2014 and 2013.

Credit risk

The Company has no significant concentration of credit risk arising from operations.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2014, the Company had cash of $13,670 (June 30, 2013: $40,513) to settle current liabilities of $45,170,686 (June 30, 2013: $45,541,575). The Company is seeking financing in order to be in a position to satisfy its current liabilities.

Market risk

(a) Interest rate risk

The Company has cash at June 30, 2014 and 2013. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company considers interest rate risk to be minimal as investments are short term, the Company does not carry interest-bearing debt, and expects future financings will be primarily secured from private placements of its parent company.

(b) Foreign currency risk

The Company's functional currency is the Canadian dollar. The Company is funded by Apogee Silver through cash calls in United States dollars which is then converted to Bolivian bolivianos for its operating, exploration and administrative expenses in Bolivia. Currently, the Company does not hedge its foreign exchange risk.

(c) Commodity price risk

The Company is exposed to price risk with respect to commodity prices, specifically lead, zinc and silver. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. 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. As the Company does not have producing assets, management believes this risk is minimal.

Sensitivity analysis

Price risk is remote as the Company is not a producing entity.

(d) Fair value

A fair value hierarchy prioritizes the methods and assumptions used to develop fair value measurements for those financial assets where fair value is recognized on the carve-out statement of financial position. These have been prioritized into three levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3: Inputs for the asset or liability that are not based on observable market data.

Fair value amounts represent point-in-time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of significant judgment.

As at June 30, 2014 and 2013, the Company does not have any assets that are carried at fair value.

(Expressed in Canadian dollars unless otherwise noted)

13. Capital management

The Company manages and adjusts its capital structure based on available funds in order to support the acquisition, exploration and evaluation of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company considers its capital to consist of share capital and contributed capital.

The properties in which the Company currently has an interest are in the exploration and evaluation stage; as such the Company is dependent on funding from its parent company to fund its activities. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the years ended June 30, 2014 and 2013. The Company is not subject to externally imposed capital requirements.

14. Related party disclosures

During the years ended June 30, 2014 and 2013, the Company entered into the following transactions in the ordinary course of business with related parties.

	Years ended June 30,	
	2014	2013
Forbes & Manhattan, Inc.	$ 298,615	$ 257,392

The Company shares office space with other companies who may have similar officers or directors. The costs associated with this space are administered by an unrelated company. However, as the Company is a subsidiary of a company that is a part of the Forbes & Manhattan Group of Companies; it continues to receive the benefits of such membership, including access to mining professionals, advice from Mr. Bharti, and strategic advice from the Forbes & Manhattan Board of Advisors.

The Company charged $nil to Pitchblack Resources Ltd. ("Pitchblack") for consulting, professional and management fees in fiscal year 2014 (fiscal 2013 - $6,193) with no fixed terms of repayment.

Mr. Gregory Duras, an officer of Apogee Silver, is an officer of Pitchblack.

Contributed capital includes all amounts contributed by Apogee Silver to the Company. During the year ended June 30, 2014, the Company received cash transfers of $770,793 (2013 – $5,636,687) from Apogee Silver, and $1,395,344 (2013 – $2,448,096) of general and administrative overhead expenses incurred by Apogee Silver have been allocated to the Company in these carve-out financial statements.

As at June 30, 2014, the aggregate amount owed to Apogee Silver of $37,809,421 (2013 – $37,505,006) is unsecured, non-interest bearing and due on demand.

(Expressed in Canadian dollars unless otherwise noted)

14. Related party disclosures (continued)

Compensation of key management personnel of the Company
The remuneration of directors and other members of key management personnel during the periods presented were as follows:

	Years ended June 30, 2014	Years ended June 30, 2013
Short-term benefits	$ 776,206	$ 1,027,731
Share-based payments	-	295,519

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

15. Income Taxes

a) Provision for Income Taxes

Major items causing the Company's effective income tax rate to differ from the Bolivian statutory rate of 37.5% (2013 - 37.5%) were as follows:

	2014 $	**2013 $**
(Loss) before income taxes	(1,696,579)	(3,487,408)
Expected income tax recovery based on statutory rate	(636,000)	(1,308,000)
Adjustment to expected income tax benefit:		
Expenses not deductible for tax purposes	523,000	918,000
Other	113,000	390,000
Deferred income tax provision (recovery)	-	-

b) Deferred Income Tax

Deductible temporary differences	**$**	**$**
Non-capital loss carry-forwards	286,000	8,479,000
Other	1,102,000	908,000
Total	1,388,000	9,387,000

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can use the benefits.

The Company has approximately $286,000 (Bs 1,962,000) (2013 - $8,479,000, Bs 57,206,000) of non-capital losses in Bolivia as at June 30, 2014 expiring in 2019, which under certain circumstances can be used to reduce the taxable income of future years.

16. Commitments and contingencies

The Company has commitments to purchase equipment in the future. The Company has agreed to purchase a ball mill, jaw crusher and other mill equipment in the amount of $263,777 from Jiangsu Pengfei Group (China). Payment and delivery terms for these items are currently under negotiation.

The Company's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

17. Subsequent event

Effective January 2, 2015, all of the issued and outstanding shares of the Company were sold to Prophecy Coal Corp. ("Prophecy"), in exchange for $250,000 and 60,000,000 common shares of Prophecy issued to Apogee Silver.

PROPHECY DEVELOPMENT CORP.

PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

SEPTEMBER 30, 2014

PROPHECY DEVELOPMENT CORP.
PRO-FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Unaudited)

	Prophecy Development Corp. as at September 30, 2014	Apogee Minerals Bolivia as at June 30, 2014	Note	Pro-forma Adjustments	Pro-forma Consolidated
ASSETS					
Current assets					
Cash and cash equivalents	$ 662,767	$ 13,670	2	$ (250,000)	$
			2	(56,350)	370,087
Receivables	2,286,970	-		-	2,286,970
Amount due from related party	78,364	-		-	78,364
Prepaid expenses	1,204,207	-		-	1,204,207
Inventory	2,731,336	-		-	2,731,336
	6,963,644	13,670		(306,350)	6,670,964
Restricted cash	34,500	-		-	34,500
Reclamation deposits	27,554	-		-	27,554
Property and equipment	9,821,323	705,975		-	10,527,298
Mineral properties	15,489,205	9,891,620	2	600,000	25,980,825
	$ 32,336,226	$ 10,611,265		$ 293,650	$ 43,241,141
LIABILITIES AND EQUITY (DEFICIENCY)					
Current liabilities					
Accounts payable and accrued liabilities	$ 1,234,223	$ 7,361,265		$ -	$ 8,595,488
Due to parent company	-	37,809,421	2	(37,809,421)	-
Line of credit, current portion	1,391,511	-		-	1,391,511
	2,625,734	45,170,686		(37,809,421)	9,986,999
Provision for closure and reclamation	129,552	-		-	129,552
	2,755,286	45,170,686		(37,809,421)	10,116,551
Equity (Deficiency)					
Share capital	147,947,293	9,885	2	3,600,000	
			2	(9,885)	151,547,293
Reserves	20,395,159	19,076,766	2	(19,076,766)	20,395,159
Deficit	(138,761,512)	(53,646,072)	2	53,646,072	
			2	(56,350)	(138,817,862)
	29,580,940	(34,559,421)		38,103,071	33,124,590
	$ 32,336,226	$ 10,611,265		$ 293,650	$ 43,241,141

The accompanying notes are integral part of these consolidated pro-forma financial statements.

PROPHECY DEVELOPMENT CORP.
PRO-FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS
(Unaudited)

	Prophecy Development Corp. for the nine month period ended September 30, 2014	Apogee Minerals Bolivia nine month period ended September 30, 2014	Note	Pro-forma Adjustments	Pro-forma Consolidated
GENERAL AND ADMINISTRATIVE EXPENSES					
Advertising and promotion	$ 45,678	$ -		$ -	$ 45,678
Consulting and management fees	42,617	849,669		-	892,286
Depreciation	47,794	179,189		-	226,983
Director fees	105,771	-		-	105,771
Insurance	82,005	-		-	82,005
Office and administration	108,635	7,262		-	115,897
Professional fees	148,444	-		-	148,444
Salaries and benefits	251,052	-		-	251,052
Share-based payments	538,158	-		-	538,158
Stock exchange and shareholder services	104,137	-		-	104,137
Transaction costs	-	-	2	56,350	56,350
Travel and accommodation	80,729	-		-	80,729
	(1,555,020)	(1,036,120)		(56,350)	(2,647,490)
OTHER ITEMS					
Costs in excess of impaired value	(3,767,686)	-		-	(3,767,686)
Foreign exchange gain	614,775	2,374,533		-	2,989,308
Gain on available-for-sale investments	2,621,630	-		-	2,621,630
Interest income	14,577	-		-	14,577
Loss on bad debts	-	(56,500)		-	(56,500)
Loss on disposal of assets	-	(20,457,000)		-	(20,457,000)
	(516,704)	(18,138,967)		-	(18,655,671)
Net loss for the period	$ (2,071,724)	$ (19,175,087)		$ (56,350)	$ (21,303,161)

The accompanying notes are integral part of these consolidated pro-forma financial statements.

PROPHECY DEVELOPMENT CORP.
PRO-FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS
(Unaudited)

	Prophecy Development Corp. for the year ended December 31, 2013	Apogee Minerals Bolivia twelve month period ended December 31, 2013	Note	Pro-forma Adjustments	Pro-forma Consolidated
GENERAL AND ADMINISTRATIVE EXPENSES					
Advertising and promotion	$ 132,779	$ -		$ -	$ 132,779
Consulting and management fees	198,156	872,909		-	1,071,065
Depreciation	137,535	39,308		-	176,843
Director fees	247,655	-		-	247,655
Insurance	186,128	-		-	186,128
Office and administration	141,949	253,793		-	395,742
Professional fees	974,010	-		-	974,010
Salaries and benefits	531,355	-		-	531,355
Share-based payments	1,304,486	-		-	1,304,486
Stock exchange and shareholder services	121,617	-		-	121,617
Transaction costs	-	-	2	56,350	56,350
Travel and accommodation	118,778	-		-	118,778
	(4,094,448)	(1,166,010)		(56,350)	(5,316,808)
OTHER ITEMS					
Costs in excess of impaired value	(2,356,443)	-		-	(2,356,443)
Deemed disposal loss of investment in associate	(1,264,472)	-		-	(1,264,472)
Finance costs	(765,000)	-		-	(765,000)
Foreign exchange gain	251,254	52,217		-	303,471
Gain on available-for-sale investments	237,137	-		-	237,137
Interest expense	(2,314,438)	-		-	(2,314,438)
Interest income	28,890	-		-	28,890
Loss on debt settlement	(174,959)	-		-	(174,959)
Loss on disposal of investment in associate	(12,399,523)	-		-	(12,399,523)
Share of net loss of associate	(1,397,252)	-		-	(1,397,252)
	(20,154,806)	52,217		-	(20,102,589)
Net loss for the period	$ (24,249,254)	$ (1,113,793)		$ (56,350)	$ (24,419,397)

The accompanying notes are integral part of these consolidated pro-forma financial statements.

1. BASIS OF PRESENTATION

The unaudited pro-forma consolidated financial statements of Prophecy Development Corp. ("Prophecy" or the "Company") have been prepared by management in accordance with International Financial Reporting Standards for inclusion in the Business Acquisition Report of the Company dated March 18, 2015. In the opinion of management, the pro-forma consolidated financial statements include all adjustments necessary for fair presentation of the transactions as described below.

The unaudited pro-forma consolidated financial statements of the Company have been compiled from the following financial information:

- Audited financial statements of the Company for the year ended December 31, 2013;
- Unaudited interim financial statements of the Company for the nine months ended September 30, 2014;
- Audited carve-out financial statements of Apogee Minerals Bolivia ("AMB") as at June 30, 2014; and
- AMB's unaudited statements of comprehensive loss for the nine months ended September 30, 2014 and the twelve months ended December 31, 2013. The statements of comprehensive loss for the nine months ended September 30, 2014 and the twelve months ended December 31, 2013 were prepared for the sole purpose of the pro-forma consolidated financial statements and do not conform with financial statements for the business included elsewhere in the Business Acquisition Report.

The unaudited pro-forma consolidated statement of financial position has been prepared as if the transactions described in Note 2 had occurred on September 30, 2014. The unaudited pro-forma consolidated statements of operations and comprehensive loss for the nine months ended September 30, 2014 and the twelve months ended December 31, 2013 have been prepared as if the transactions described in Note 2 had occurred on January 1, 2014 and January 1, 2013, respectively.

The unaudited pro-forma consolidated financial statements are not intended to reflect the financial position or performance of the Company which would have actually resulted had the proposed transactions described in Note 2 and other pro-forma adjustments occurred as assumed. Further, these unaudited pro-forma consolidated financial statements are not necessarily indicative of the financial position or performance that may be attained in the future. The unaudited pro-forma consolidated financial statements should be read in conjunction with the financial information referred to above

2. PRO-FORMA TRANSACTIONS

The pro-forma consolidated financial statements were prepared based on the following assumptions:

Pursuant to an Share Purchase Agreement (the "Agreement"), the Company agreed to acquire 100% of Apogee Silver Ltd's ("Apogee") interest in and to ASC Bolivia LDC Sucursal Bolivia, ASC Bolivia LDC, and Apogee Minerals Bolivia S.A. (known collectively as "Apogee Minerals Bolivia" or "AMB") for consideration of $250,000 and 60,000,000 common shares in the capital of the Company.

As part of the Agreement, Apogee agreed to forgive, waive and discharge the intercompany debt owing by AMB to Apogee.

Transaction costs relating to the transaction were $56,350 and are included in the pro-forma statement of comprehensive loss.

The total purchase price of $3,850,000 consists of the following:

2. PRO-FORMA TRANSACTIONS (cont'd…)

Cash consideration	$ 250,000
Common shares	3,600,000
	$ 3,850,000

The total consideration of $3,850,000 was allocated as follows:

Cash	$ 13,670
Property, Plant & Equipment	705,975
Mineral properties	10,491,620
Accounts Payable	(7,361,265)
	$ 3,850,000

3. SHARE CAPITAL

	Number of Common Shares	Amount
Share capital of the Company as at September 30, 2014	251,878,634	$147,947,293
Shares issued to acquire Apogee	60,000,000	3,600,000
	311,878,634	$151,547,293