



(Formerly Prophecy Coal Corp.)

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

**Unaudited – Prepared by Management**

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## **NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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

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

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

Approved on behalf of the Board:

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

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

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

See accompanying notes to the consolidated financial statements.

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

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

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

See accompanying notes to the consolidated financial statements

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

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

**Supplemental cash flow information (Note 16)**

See accompanying notes to the consolidated financial statements.

## **PROPHECY DEVELOPMENT CORP.**

(formerly Prophecy Coal Corp.)

Notes to Condensed Interim Consolidated Financial Statements

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

(Expressed in Canadian Dollars) (Unaudited)

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### **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 2<sup>nd</sup> Floor, 342 Water Street, Vancouver, BC, Canada, V6B 1B6.

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

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

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

### **2. BASIS OF PRESENTATION**

#### **(a) Statement of compliance**

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

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



## **PROPHECY DEVELOPMENT CORP.**

(formerly Prophecy Coal Corp.)

Notes to Condensed Interim Consolidated Financial Statements

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

(Expressed in Canadian Dollars) (Unaudited)

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

#### **(b) Significant accounting policies**

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

#### **(c) Judgments and estimates**

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

#### **(d) Comparative figures**

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

### **3. CHANGES IN ACCOUNTING POLICIES**

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

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

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

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

**PROPHECY DEVELOPMENT CORP.**

(formerly Prophecy Coal Corp.)

Notes to Condensed Interim Consolidated Financial Statements

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

(Expressed in Canadian Dollars) (Unaudited)

**4. ACQUISITION**

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

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

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

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

Cash consideration:	\$	250,000
Fair value of Common shares issued:		3,900,000
<b>Purchase price:</b>	<b>\$</b>	<b>4,150,000</b>

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)
<b>Net assets acquired:</b>	<b>\$</b>	<b>4,150,000</b>

**PROPHECY DEVELOPMENT CORP.**

(formerly Prophecy Coal Corp.)

Notes to Condensed Interim Consolidated Financial Statements

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

(Expressed in Canadian Dollars) (Unaudited)

**5. SEGMENTED INFORMATION**

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

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

  

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

**6. CASH AND CASH EQUIVALENTS**

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

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

**Restricted Cash Equivalents**

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

**PROPHECY DEVELOPMENT CORP.**

(formerly Prophecy Coal Corp.)

Notes to Condensed Interim Consolidated Financial Statements

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

(Expressed in Canadian Dollars) (Unaudited)

**7. PROPERTY AND EQUIPMENT**

	Computer Equipment	Furniture & Equipment	Vehicles	Computer Software	Leasehold Improvements	Mining Equipment	Ulaan Ovoo Deferred Exploration	Total
<b>Cost</b>								
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
<b>Accumulated depreciation</b>								
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
<b>Carrying amount</b>								
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
<b>Cost</b>								
Balance, December 31, 2014	\$ 155,837	\$ 373,217	\$ 787,308	\$ 197,813	\$ 172,818	\$ 6,248,390	\$ -	\$ 7,935,383
Additions	151,046	87,905	33,877	-	-	1,317,931	1,941,958	3,532,717
Disposals	-	-	(369,179)	-	-	(5,229,103)	-	(5,598,282)
Sale of coal	-	-	-	-	-	-	(667,831)	(667,831)
Costs in excess of impaired value	-	-	-	-	-	-	(1,274,127)	(1,274,127)
Balance, June 30, 2015	\$ 306,883	\$ 461,122	\$ 452,006	\$ 197,813	\$ 172,818	\$ 2,337,218	\$ -	\$ 3,927,860
<b>Accumulated depreciation</b>								
Balance, December 31, 2014	\$ 115,210	\$ 207,303	\$ 478,015	\$ 135,684	\$ 125,653	\$ 2,511,536	\$ -	\$ 3,573,401
Depreciation for period	145,884	37,457	1,265	1,194	17,461	600,084	681,027	1,484,372
Disposals	-	-	(179,831)	-	-	(2,196,256)	-	(2,376,087)
Costs in excess of impaired value	-	-	-	-	-	-	(681,027)	(681,027)
Balance, June 30, 2015	\$ 261,094	\$ 244,760	\$ 299,449	\$ 136,878	\$ 143,114	\$ 915,364	\$ -	\$ 2,000,660
<b>Carrying amount</b>								
At December 31, 2014	\$ 40,627	\$ 165,914	\$ 309,293	\$ 62,129	\$ 47,165	\$ 3,736,854	\$ -	\$ 4,361,982
At June 30, 2015	\$ 45,789	\$ 216,362	\$ 152,557	\$ 60,935	\$ 29,704	\$ 1,421,854	\$ -	\$ 1,927,200

## PROPHECY DEVELOPMENT CORP.

(formerly Prophecy Coal Corp.)

Notes to Condensed Interim Consolidated Financial Statements

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

(Expressed in Canadian Dollars) (Unaudited)

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

#### Ulaan Ovoo Property

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

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

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

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

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

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

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

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

**PROPHECY DEVELOPMENT CORP.**

(formerly Prophecy Coal Corp.)

Notes to Condensed Interim Consolidated Financial Statements

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**8. MINERAL PROPERTIES**

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

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**8. MINERAL PROPERTIES (cont'd...)****(a) Chandgana Tal Property, Mongolia**

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

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

**(b) Khavtgai Uul Property, Mongolia**

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

**(c) Titan Property, Ontario, Canada**

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

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

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

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

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**8. MINERAL PROPERTIES (cont'd...)****(d) Okeover Property, British Columbia, Canada**

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

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

**(e) Pulacayo Property, Bolivia**

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

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

**9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

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

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



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### **10. CREDIT FACILITIES**

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

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

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

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

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

### **11. SHARE CAPITAL**

#### **(a) Authorized**

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

#### **(b) Equity issuances**

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

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

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

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

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

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

## (c) Equity-based compensation plans

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

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

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

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

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

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

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

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

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

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

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

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

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

## (d) Share purchase warrants

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As at June 30, 2015	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	\$ 634,380	\$ -	\$ -	\$ 634,380
Restricted cash equivalents	34,500	-	-	34,500
	\$ 668,880	\$ -	\$ -	\$ 668,880
<hr/>				
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 periods presented.

**Categories of financial instruments**

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

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

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**13. FINANCIAL RISK MANAGEMENT DISCLOSURES****(a) Liquidity risk**

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

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

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

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

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

**(b) Credit risk**

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

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**13. FINANCIAL RISK MANAGEMENT DISCLOSURES (cont'd...)****(b) Credit risk (cont'd...)**

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

**(c) Market risk**

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

**(i) Interest rate risk**

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

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

**(i) Foreign currency risk**

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

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

**(ii) Commodity and equity price risk**

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



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

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

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

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

**14. RELATED PARTY DISCLOSURES**

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

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

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

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

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

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

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

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

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

**15. KEY MANAGEMENT PERSONNEL COMPENSATION**

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

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

**16. SUPPLEMENTAL CASH FLOW INFORMATION**

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

**PROPHECY DEVELOPMENT CORP.**

(formerly Prophecy Coal Corp.)

Notes to Condensed Interim Consolidated Financial Statements

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(Expressed in Canadian Dollars) (Unaudited)

**17. COMMITMENTS**

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

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

**18. CONTINGENCIES**

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

**ASC tax claim**

Pursuant to the terms of the Agreement, Prophecy agreed to assume all liabilities of the Apogee Subsidiaries, including legal and tax liabilities associated with the Pulacayo Project. During Apogee's financial year ended June 30, 2014, it received notice from the Servicio de Impuestos Nacionales, the national tax authority in Bolivia, that ASC Bolivia LDC Sucursal Bolivia, the Company's wholly-owned subsidiary, owed approximately Bs42,000,000 (\$6,536,326) in taxes, interest and penalties relating to a historical tax liability in an amount originally assessed at approximately \$760,000 in 2004, prior to Apogee acquiring the subsidiary in 2011. Apogee disputed the assessment and disclosed to the Company that it believed the notice was improperly issued. The Company continued to dispute the assessment and hired local legal counsel to pursue an appeal of the tax authority's assessment on both substantive and procedural grounds.

Subsequent to period end, the Company received a positive Resolution issued by the Bolivian Constitutional Court that among other things, declared null and void the previous Resolution of the Bolivian Supreme Court issued in 2011 (that imposed the tax liability on the subsidiary) and sends the matter back to the Supreme Court to consider and issue a new Resolution. The Company plans to continue to vigorously defend its position and make submissions to the Supreme Court during the new hearing. Based on these developments, the tax claim amount of \$6,491,755 was classified as non-current liabilities.

**Red Hill tax claim**

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

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**18. CONTINGENCIES (cont'd...)**

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

25, 2015, finding: 1) with respect to confirmation of Red Hill's VAT credit, that after inspection the amount was to be MNT235,718,533; and 2) with respect to the imposition of the penalty/deduction for the tax assessment, that no penalty was to be issued but that Red Hill's loss to be depreciated and reported to be MNT1,396,668,549 in 2010 and MNT4,462,083,700 in 2011. The Company continues to dispute the Sukhbaatar District Tax Division's assessment and delivered a complaint to Capital City Tax Tribunal on July 24, 2015. In the opinion of Prophecy, at June 30, 2015 a provision for this matter is not required.

**19. EVENTS AFTER THE REPORTING DATE**

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