PROPHECY RESOURCE CORP.

FINANCIAL STATEMENTS

DECEMBER 31, 2006
(Unaudited – prepared by management)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

PROPHECY RESOURCE CORP.
INTERIM BALANCE SHEET
AS AT DECEMBER 31, 2006
(Unaudited – prepared by management)

	December 31, 2006	September 30, 2006 (audited)
ASSETS		
Current		
Cash	$ 135,119	$ 157,944
Other receivables	1,315	4,430
	136,434	162,374
Mineral properties (Note 3)	22,000	22,000
Deferred exploration costs (Note 4)	107,055	102,232
Deferred finance fees (Note 5)	36,000	17,000
Reclamation bond	6,500	6,500
	$ 307,989	$ 310,106
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 10,000	$ 13,000
Due to related parties (Note 6)	16,078	10,292
	26,078	23,292
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	308,650	308,650
Contributed surplus (Note 9)	132,154	76,850
Deficit	(158,893)	(98,686)
	281,911	286,814
	$ 307,989	$ 310,106

Nature and continuance of operations (Note 1)
Commitments (Note 3 and 7)

Approved on behalf of the Board:

"Stuart Rogers" Director   "Donald Sharp" Director
Stuart Rogers   Donald Sharp

The accompanying notes are an integral part of these financial statements.

PROPHECY RESOURCE CORP.
INTERIM STATEMENT OF OPERATIONS AND DEFICIT
(Unaudited – prepared by management)

	For the three months ended December 31, 2006
EXPENSES	
Filing and transfer agent fees	$ 1,162
Office, rent and miscellaneous	4,574
Management fees – stock based compensation (Note 7)	55,304
Professional fees	64
LOSS FROM OPERATIONS	(61,104)
OTHER ITEM	
Interest income	897
NET LOSS	(60,207)
DEFICIT, BEGINNING	(98,686)
DEFICIT, ENDING	$ (158,893)
BASIC AND DILUTED LOSS PER COMMON SHARE	$ (0.01)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	5,200,000

The accompanying notes are an integral part of these financial statements.

PROPHECY RESOURCE CORP.
INTERIM STATEMENT OF CASH FLOWS
(Unaudited – prepared by management)

		For the three months ended December 31, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$	(60,207)
Non-cash operating items:		
Stock based compensation		55,304
Changes in non-cash working capital items:		
Increase in other receivables		3,114
Increase in accounts payable and accrued liabilities		(2,047)
Net cash used in operating activities		(3,836)
CASH FLOWS FROM INVESTING ACTIVITIES		
Deferred exploration costs		(4,822)
Net cash used in investing activities		(4,822)
CASH FLOWS FROM FINANCING ACTIVITIES		
Deferred finance fees		(19,000)
Amounts due to related parties		4,833
Net cash used in financing activities		(14,167)
Decrease in cash during the period		(22,825)
Cash, beginning		157,944
Cash, ending	$	135,119

Supplemental disclosures with respect to cash flows:

Cash paid during the period for interest	$	-
Cash paid during the period for income taxes	$	-

The accompanying notes are an integral part of these financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company was incorporated under the Business Corporations Act (British Columbia) on February 9, 2006 and is primarily in the exploration stage with respect to its mineral properties. Based on the information available to date, the Company has not yet determined whether its mineral properties contain economically recoverable reserves. The recoverability of the amounts shown for mineral properties and deferred exploration costs is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their development and upon future profitable production. The Company's Initial Public Offering prospectus was filed with the British Columbia Securities Commission and became effective December 29, 2006. Pursuant to this prospectus, the Company raised $550,000 by issuing 2,200,000 shares at a price of $0.25 per share on February 9, 2007 and commenced trading on the TSX Venture Exchange under the symbol "PCY" on February 14, 2007.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to raise adequate financing to develop its mineral properties, and to commence profitable operations in the future. To date the Company has not generated any significant revenues and is considered to be in the exploration stage.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation
These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars.

Use of estimates
The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates. Significant areas requiring the use of management estimates relate to the determination of impairment of mineral property interests and future tax rates used to determine future income taxes. Where estimates have been used financial results as determined by actual events could differ from those estimates.

Mineral properties
The Company records its interests in mineral properties and areas of geological interest at cost. All direct and indirect costs relating to the acquisition of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be an impairment. These costs will be amortized on the basis of units produced in relation to the proven reserves available on the related property following commencement of production. Mineral properties which are sold before that property reaches the production stage will have all revenues from the sale of the property credited against the cost of the property. Properties which have reached the production stage will have a gain or loss calculated based on the portion of that property sold.

The recorded cost of mineral exploration interests is based on cash paid, the value of share considerations and exploration and development costs incurred. The recorded amount may not reflect recoverable value as this will be dependent on the development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

Management evaluates each mineral interest on a reporting period basis or as changes in events and circumstances warrant, and makes a determination based on exploration activity and results, estimated future cash flows and availability of funding as to whether costs are capitalized or charged to operations. Mineral property interests, where future cash flows are not reasonably determinable, are evaluated for impairment based on management's intentions and determination of the extent to which future exploration programs are warranted and likely to be funded.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Deferred finance fees
The Company capitalizes fees incurred in connection with proposed equity financings. These finance fees will be offset against the proceeds of the financing or charged to operations if the financing is not completed.

Deferred exploration costs
The Company defers all exploration costs relating to mineral properties and areas of geological interest until the properties to which they relate are placed into production, sold, abandoned or management has determined there to be an impairment. These costs will be amortized on the basis of units produced in relation to the estimated reserves available on the related property following commencement of production or written-off to operations in the period related properties are abandoned.

Environmental protection and reclamation costs
The Company's policy relating to environmental protection and land reclamation programmes is to charge to income during the period any costs incurred in environmental protection and land reclamation.

Foreign currency translation
The Company's monetary assets and liabilities that are denominated in foreign currencies are translated at the rate of exchange at the balance sheet date. Non-monetary assets and liabilities are translated at exchange rates prevailing at the transaction date. Income and expenses are translated at rates which approximate those in effect on transaction dates. Gains and losses arising on translation are included in earnings.

Financial instruments
The Company's financial instruments consist of cash, other receivables, accounts payable and accrued liabilities, and amounts due to related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

Future income taxes
Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Stock-based compensation
The Company has adopted the accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") Handbook Section, *Stock-based compensation and other stock-based payments*, which recommends the fair-value based method for measuring compensation costs. The Company determines the fair value of the stock-based compensation using the Black-Scholes option pricing model.

Loss per share
The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. Basic and diluted loss per common share are calculated using the weighted-average number of common shares outstanding during the period.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Flow-through shares

The Company provides certain share subscribers with a flow-through component for tax incentives available on qualifying Canadian exploration expenditures. The Company renounces the qualifying expenditures upon the issuance of the respective flow-through common shares and accordingly is not entitled to the related taxable income deductions from such expenditures.

The Company has adopted the recommendation by the Emerging Issues Committee ("EIC") of the CICA relating to the recording of flow-through shares. EIC 146 stipulates that future income tax liabilities resulting from the renunciation of qualified resource expenditures by the Company from the issuance of flow-through shares are recorded as a reduction of share capital. Any corresponding realization of future income tax benefits resulting in the utilization of prior year losses available to the Company not previously recorded, whereby the Company did not previously meet the criteria for recognition, are reflected as part of the Company's operating results in the period the Company files the appropriate tax documents with the Canadian tax authorities.

Asset retirement obligations

The Company has adopted the CICA Handbook section 3110, *Asset retirement obligations.* This standard focuses on the recognition and measurement of liabilities related to obligations associated with the retirement of property, plant and equipment. Under this standard, these obligations are initially measured at fair value and subsequently adjusted for any changes resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. The asset retirement cost is to be capitalized to the related asset and amortized into earnings over time. This section became effective on January 1, 2004. Mineral property related retirement obligations are capitalized as part of deferred exploration and development costs.

3. MINERAL PROPERTIES

	December 31, 2006
OK Property, British Columbia, Canada	$ 22,000

Title to mining properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mining properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

On March 8, 2006 the Company acquired Goldrush Resources Ltd. ("Goldrush") option with Eastfield Resources Ltd.. ("Eastfield") whereby Goldrush had the right to earn an interest in mineral exploration claims located north of Powell River in British Columbia (the "OK Property") from Eastfield. The Company can earn a 60% interest in the OK Property from Eastfield by spending up to $1,000,000 in exploration costs on the OK Property within four years of the date of the agreement and by making cash payments totalling $110,000 (paid $10,000). To acquire the option from Goldrush, the Company agreed to issue to Goldrush 100,000 shares of the Company (issued) at a value of $12,000 and make a payment of $10,000 on completion of its proposed Initial Public Offering.

4. DEFERRED EXPLORATION COSTS

The following exploration expenses were incurred on the OK Property during the period from inception to December 31, 2006:

Balance, February 9, 2006	$ -
Assays	8,794
Consulting	36,254
Field expenses	43,681
Road building	13,503
Balance September 30, 2006	$ 102,232
Consulting	4,540
Property maintenance fees	283
Balance, September 30, 2006	$ 107,055

5. DEFERRED FINANCE FEES

On October 24, 2006 the Company entered into an agreement with Bolder Investment Partners, Ltd. ("Bolder") whereby Bolder has agreed, subject to regulatory approval and certain conditions, to act as the agent to sell up to $550,000 of the Company's securities in an Initial Public Offering (the "Offering"). The Offering will consist of 2,200,000 shares of the Company at $0.25 per share for gross proceeds of $550,000. As compensation, Bolder is to receive a work fee of $10,000 (of which $5,000 has been paid), a corporate finance fee of 75,000 shares, a commission of 8% of the gross proceeds of the Offering, and be issued Broker's Warrants equivalent to 10% of the number of Shares sold under the Offering, with each Broker Warrant exercisable to purchase a share at the Offering price for a period of one year from the date of the Offering. This Offering was completed on February 9, 2007

As at December 31, 2006 the Company had incurred $36,000 in direct costs consisting of legal and agent fees in connection with this proposed financing.

6. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties during the three month period ended December 31, 2006:

a) Accrued office rent of $4,500 to a company controlled by a director of the Company.

b) Paid $914 to a private company in which a director is a 50% partner for exploration work done on the Company's property. Included in this amount are geological consulting fees of $600 which were paid to this same director.

These transactions were in the normal course of operations and were measured at the exchange amount, which was the amount of consideration established and agreed to by the related parties.

At December 31, 2006 $16,078 is owing to related parties. Amounts due to related parties are non-interest bearing, unsecured and have no fixed terms of repayment.

7. SHARE CAPITAL

	Number of Shares		Amount
Authorized			
Unlimited number of common shares without par value			
Issued			
Balance at February 9, 2006	-	$	-
Shares issued for cash at $0.001 per share	2,650,000		2,650
Shares issued for mineral property at $0.12 per share	100,000		12,000
Shares issued for cash at $0.12 per share	2,450,000		294,000
Balance as at September 30 and December 31, 2006	5,200,000	$	308,650

As at December 31, 2006, 3,050,000 common shares included in capital stock are held in escrow. The shares subject to escrow will be released as follows: 10% upon the issuance of notice of listing of the common shares for trading by the TSX-V, and the remainder in six equal tranches of 15% every six months thereafter for a period of 36 months.

On April 30, 2006 the Company issued 100,000 shares to Goldrush at an agreed price of $0.12 per share. Refer to Note 3.

On June 20, 2006 the Company issued 850,000 flow-through shares at a price of $0.12 per share for proceeds of $102,000 pursuant to a private placement.

As at December 31, 2006, $107,055 was expended as qualifying exploration expenditures. The Company is committed to spending a total of $102,000 on qualifying exploration expenditures to be renounced to investors. If this is not done, certain amounts become payable to investors and the Canada Revenue Agency. The Company intends on meeting its commitment on a timely basis.

On June 23, 2006 the Company issued 1,400,000 units at a price of $0.12 per unit for proceeds of $168,000 pursuant to a private placement. Each unit consisted of one common share and one share purchase warrant. Each warrant is exercisable into an additional common share at a price of $0.15 until December 23, 2007. The Company has not recorded a separate value to the warrants.

On August 30, 2006 the Company issued 200,000 units at a price of $0.12 per unit for proceeds of $24,000 pursuant to a private placement. Each unit consisted of one common share and one share purchase warrant. Each warrant is exercisable into an additional common share at a price of $0.15 until December 29, 2007. The Company has not recorded a separate value to the warrants.

8. STOCK OPTIONS AND WARRANTS

Stock options

The Company intends to follow the policies of the TSX-V under which it would be authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the policies, the exercise price of each option equals the market price or a discounted price of the Company’s stock as calculated on the date of grant. The options can be granted for a maximum term of five years.

8. STOCK OPTIONS AND WARRANTS (cont'd…)

Stock-based compensation

During the three months ended December 31, 2006, the Company granted 450,000 incentive stock options officers and directors. These options may be exercised within 5 years from the date of listing on the TSX-V at a price of $0.25 per share.

The Company expenses the fair value of all stock-based compensation awards as determined using the Black-Scholes option pricing model. The granting of these 450,000 incentive stock options resulted in stock-based compensation expense, calculated using the Black-Scholes option pricing model, of $55,304. This amount was recorded as contributed surplus on the balance sheet.

The following assumptions were used for the Black-Scholes valuation of stock options granted during the three months ended December 31, 2006:

Risk-free interest rate:	3.96%
Expected life of options:	5 years
Annualized volatility:	89%
Dividend yield:	0%

The following options were outstanding at December 31, 2006:

Number of Shares	Exercise Price	Expiry Date
450,000	$0.25	February 14, 2011

Warrants

The following warrants were outstanding at December 31, 2006:

Number	Exercise Price	Expiry Date
1,400,000	$0.15	December 23, 2007
200,000	$0.15	December 29, 2007

The weighted average remaining life of the warrants is 0.98 and the weighted average exercise price is $0.15.

9. CONTRIBUTED SURPLUS

Balance, February 9, 2006	$ -
Stock-based compensation expense (Note 7)	76,850
Balance, September 30, 2006	76,850
Stock-based compensation expense (Note 7)	55,304
Balance, September 30, 2006	$ 132,154