PROPHECY RESOURCE CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
For the three month period ended December 31, 2006

The following discussion and analysis should be read in conjunction with the Interim Financial Statements and related notes for the three month period year ended December 31, 2006. All dollar amounts are stated in Canadian funds. This discussion is based on information available as at February 14, 2007.

The Company was incorporated under the *Business Corporations Act* (British Columbia) on February 9, 2006 under the name "Prophecy Resource Corp." Prophecy is focused on the acquisition of base and precious metal exploration properties primarily in the Province of British Columbia. The Company has no subsidiaries.

Overview

On March 8, 2006 the Company acquired Goldrush Resources Ltd.'s option with Eastfield Resources Ltd. 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. James (Bill) Morton, a director of the Company, is the president and chief executive officer of Eastfield. The Company can earn a 60% interest in the OK Property from Eastfield by spending up to $1,000,000 in exploration on the OK Property within four years of the date of the agreement and by making cash payments totalling $110,000, of which $17,000 has been paid. To acquire the option from Goldrush, the Company issued 100,000 shares to Goldrush and must make a payment of $10,000 on completion of its proposed Initial Public Offering ("IPO").

On February 9, 2007 Prophecy completed its Initial Public Offering for gross proceeds of $550,000 and on February 14th commenced trading on the TSX Venture Exchange under the symbol "PCY".

The Offering was comprised of 2,200,000 shares of the Company at $0.25 per share. Bolder Investment Partners Ltd. acted as agent for the Offering. As compensation, Bolder received a commission, a corporate finance fee, and was issued 220,000 Broker's Warrants exercisable to purchase a share at the Offering price for a period of one year from closing.

The Company intends to fund the exploration of the OK Property using the proceeds of its prior private placement financing and its Initial Public Offering. In addition, the Company intends to seek and acquire additional properties worthy of exploration and development. Further information is available on our website at www.prophecyresource.com.

OK Property, B.C.

The following represents information summarized from a technical report (the "OK Property Report") dated October 5, 2006 entitled "Technical Report on the OK Copper Property", prepared by N.C. Carter, Ph.D. P.Eng. pursuant to the provisions of National Instrument 43-101 ("NI 43-101").

N.C. Carter is a "qualified person" within the meaning of NI 43-101. N.C. Carter is independent of the Company applying all of the tests in section 1.5 of NI 43-101 and has not had prior involvement with the OK Property that is the subject of the OK Property Report.

The OK Property (copper-molybdenum) consists of eleven contiguous legacy and cell mineral claims located in the Vancouver Mining Division of southwestern British Columbia, 25 kilometres north of Powell River and 145 kilometres northwest of Vancouver. Collectively, the claims cover an area of approximately 3,950 hectares between latitudes $49^0$59.5' and $50^0$04.6' North and longitudes $124^0$37.0' and $124^0$41.2'

All claims are registered in the name of Eastfield and are subject to a March 4, 2003 option agreement with Robert Edward Mickle of Likely, B.C. whereby Eastfield has the right to earn a 100% interest in the property subject to a 2.5% net smelter royalty interest which may be purchased from the vendor for $2 million on commencement of commercial production. Cash payments to the vendor totalling $88,000 over a five year period are due at six month intervals in addition to the annual issuance of Eastfield securities amounting to 125,000 shares over the term of the agreement. The payments totalling $88,000 are payable by Prophecy pursuant to the terms of the agreement between Prophecy and Eastfield.

Goldrush, from whom the Company gained the right to earn an interest in the OK Property via an assignment, entered into an agreement with Eastfield on March 8, 2004. Goldrush maintained the option in good standing through to March, 2006 at which time Goldrush assigned its interest in the option agreement to the Company in exchange for 100,000 shares of the Company and a $10,000 cash payment. At the same time the Company concluded a new agreement with Eastfield which provides the Company with the option to earn a 60% interest in the OK Property by making cash payments and/or stock issuances amounting to $110,000 to Eastfield over the next four years, plus incurring exploration expenditures totalling $1 million over the same period. Upon the Company earning its 60% interest in the OK property, the Company and Eastfield will form a joint venture for the further exploration and development of the OK property with Prophecy becoming the operator. A $102,000 program was funded by the Company and completed in June, 2006. This work included the collection and analyses of several hundred soil samples from two grid areas and road and drill pad construction in the North Lake area using a large excavator.

Prior Exploration

Copper and molybdenum mineralization was discovered in creek bottoms in the central part of on the OK Property by the current registered owner in 1965. Between 1966 and 1977, seven companies carried out a number of geological, geochemical and geophysical surveys, mechanical trenching and more than 14,000 metres of drilling. Companies working on the property included Noranda Exploration Company Ltd., Asarco Exploration Company of Canada Limited, Falconbridge Nickel Mines Ltd., Duval International Corporation, Granite Mountain Mines Ltd., Sierra Empire and Western Mines Ltd.

Drilling completed between 1966 and 1977 consisted of 13,831.5 metres of diamond drilling in 82 holes and 12 vertical percussion holes totalling 732 metres. Most of the diamond drill holes were inclined at -45° or less and five were vertical holes. Average hole length was 169 metres and the deepest hole drilled was 363 metres in length. Average vertical depth tested was between 120 and 140 metres below surface. Vertical percussion holes were drilled to 61 metres depths. Readily available reports pertaining to drilling include only those of Western Mines Ltd. in 1974 and 1977. Original drill logs and analytical results for core and cuttings samples from all holes drilled between 1966 and 1977 were digitized in the late 1980s and these data were acquired on behalf of Goldrush in late 2004.

Work on the property conducted between 1979 and 1982 by Aquarius Resources Ltd. was mainly directed to a breccia zone with enhanced copper, molybdenum and silver values in the southern property area. Work included limited diamond drilling (3 holes totalling 205 metres), geological mapping, an Induced Polarization geophysical survey and soil geochemical surveys, road building and trenching.

CanQuest Resource Corporation acquired the rights to the property in the early 1990s and a reconnaissance geological mapping and sampling program was undertaken in the area of the southern breccia zone in 1994. A small grid (4.2 line kilometres) was established in 1995 to cover this area in the south-central part of the OK C mineral claim and an Induced Polarization survey was completed. An area of higher chargeability identified by this survey was tested by one short (154 metres) inclined diamond drill hole in 1996. Follow-up work in 1997 included mapping of bedrock exposed in newly constructed logging roads. An expanded program in 1998 consisted of geological mapping and bedrock chip sampling in other areas of the property plus limited soil geochemical sampling and orientation magnetometer, VLF-EM and Self Potential geophysical surveys in selected areas.

A geological mapping, prospecting and bedrock sampling program on the OK Property was undertaken by Mincord Exploration Consultants Ltd. on behalf of Lumina Copper Corp. in October of 2003. This work, which was mainly directed to bedrock exposures along logging roads in the central southern property area, included geological mapping at 1:5000 scale, petrographic studies and the collection and subsequent analyses of 81 rock samples. Total cost of this program was $31,509.

An airborne geophysical survey over a large part of the property was completed between July 12 and 15, 2004 by Fugro Airborne Surveys Corp. on behalf of Goldrush. This survey, conducted by helicopter, involved the collection of electromagnetic, resistivity and magnetic data. Program costs were in the order of $82,000. Goldrush also funded a six hole, 975 metres diamond drilling program in 2005 which cost approximately $175,000 to complete.

A surface exploration program was completed on the OK Property by the Company over a five week period between late May and late June of 2006. As an adjunct to the geochemical programs undertaken, a large excavator was used to improve road access within and marginal to the North Lake Zone. This work involved the extension of existing roads and construction of several drill pads east of 05-01, 05-03 and 05-05 drill holes completed in 2005. A number of grab samples were collected from bedrock exposed along the newly constructed roads. Chalcopyrite and molybdenite were found in quartz stockwork cutting quartz diorite between newly constructed drill pads east of hole 05-3.

Sites of 1960's drilling in the Claim Lake Zone were located and a road route into this area was investigated.

Some investigation and bedrock sampling was also undertaken in several areas in the northern and southern parts of the property during the 2006 program. Further examination of the Breccia Zone suggests that it forms the core of a wider zone of silicification, minor brecciation and moderate quartz stockwork development hosting variable chalcopyrite and molybdenite mineralization.

The two new soil grids were established. The northernmost grid area, which is immediately northwest of the North Lake Zone, was selected following a review of 2004 airborne geophysical data which had identified geophysical responses similar to those underlying the North Lake Zone. These included a relatively low magnetic response and generally coincident high resistivity readings. A flagged grid consisting of 15 lines at roughly 100 metres intervals was established off part of the original survey baseline. A total of 499 soil samples were collected at 25 metres intervals along the flagged lines and submitted to Acme Analytical Laboratories in Vancouver for 4-acid digestion and the subsequent determination of 35 major and trace elements (including copper and molybdenum) by ICP – emission spectrography procedures.

Enhanced copper and molybdenum values were found throughout the grid area with the highest values being 1244 ppm (parts per million) copper and 534 ppm molybdenum. A previous statistical analysis of soil sample results from the OK Property suggested that anomalous values were >260 ppm copper and

>27 ppm molybdenum. Assuming these values to be applicable to the results obtained from the 2006 program, less than 20 samples contain what might be referred to as anomalous values. Significantly, several of these are near the western limits of the sample grid. Molybdenum on the other hand features a much broader distribution of "anomalous" values with some 90 samples collected throughout the grid area containing values in excess of 27 ppm.

A smaller grid, consisting of three flagged lines at 100 metres spacings, was established to further assess the potential of the Southwest Zone situated southwest of the Breccia Zone. Ninety-nine soil samples, collected at 25 metres intervals, returned only slightly enhanced copper and molybdenum values with the highest values being 115 ppm copper and 52 ppm molybdenum.

INTERPRETATION AND CONCLUSIONS FROM THE OK PROPERTY 43-101 REPORT

The OK Property includes a multiple phase granitic complex which hosts widespread copper and lesser molybdenum mineralization. Eight mineralized zones over a 5 kilometres distance have been partially defined by previous drilling programs and all zones remain open both laterally and to depth. The most consistent copper (+molybdenum) mineralization identified by past drilling is associated with quartz veinlets and stockworks developed in quartz diorite and leucocratic phases along the margins of an essentially barren, large quartz-feldspar porphyry dyke.

An Inferred Mineral Resource for the North Lake Zone is estimated to be 86.8 million tonnes with average grades of 0.31% copper and 0.014% MoS_2 at a copper cutoff grade of 0.20%. The zone remains open to depth, along trend to the south and along most sections to the east. Similar grades of copper and molybdenum have been identified within the other known zones and the property has the potential to host a significantly large resource of low grade copper and molybdenum.

Higher grades of copper, accompanied by some silver values, are associated with the Breccia Zone in the southern property area. There are indications of similar breccias elsewhere within the large property area and these warrant further investigation inasmuch as they may assist in upgrading some of the other lower grade copper and molybdenum zones.

Results from recent drilling of the North Lake Zone indicate that precious metals values are very low within this particular zone. Previous and recent bedrock sampling in various parts of the property has returned essentially inconsequential gold values but low silver values appear to accompany zones of better grades of copper and molybdenum. Previous soil sampling indicated the presence of elevated silver values associated with coincident copper and molybdenum in soil anomalies suggesting that silver could be a significant component of the mineralized system.

As noted, post-mineral, barren dykes are ubiquitous within the various mineralized zones. The orientation of these is not well known but it is critical that these should be mapped in detail where exposed.

A 2004 airborne geophysical survey identified a number of anomalous features of which only a few have been investigated to date. Recent geochemical surveys have provided useful results and more work of this nature is warranted.

Planned Exploration Program for 2007

As recommended by N.C. Carter, the Company plans to undertake a first phase program in spring 2007 that will include additional drilling of the North Lake Zone to expand upon the currently identified mineral resources. This program should include several 200 to 250 metre holes collared east and south of holes completed in 2005.

Additional surface work, including mapping and sampling, has also been recommended as part of first phase work. Specific known mineral zones, including the Breccia Zone in the south, warrant additional investigation and only a few of the anomalous features identified by the 2004 airborne geophysical survey have been followed up to date. Surface work should also include the determination of accurate locations for some of the historic drill holes. While the majority of the previous drill holes are accurately plotted, there are some discrepancies in the existing database.

The Phase 1 budget is as follows:

Diamond drilling – 1500 metres @ $120/metre	$180,000
Sample analyses – 600 samples @ $23/sample	$13,800
Supervision – 45 days @ $500/day	$22,500
Geologist – surface surveys – 45 days @$500/day	$22,500
Technical assistance – 2x 45 days @ $250/day	$22,500
Lodging, travel, meals, etc.	$36,000
Equipment rentals	$5,000
Communications, freight	$1,500
Contingencies	$30,000
Total:	$333,800

A proposed second phase of exploratory work will be contingent on the results of first phase work and availability of capital, as the Company will not have sufficient funds to carry out the phase II exploration program until it raises additional funds. It is envisioned that a second phase program would consist mainly of additional diamond drilling, directed either to the North Lake Zone or to one or more of the other known mineral zones.

During the three month period ended December 31, 2006 the Company spent $4,823 on exploration of the OK property, inclusive of consulting fees of $4,540 and property maintenance fees of $283.

Management's Discussion and Analysis

The following discussion and analysis is based on the Company's results of operations and financial position and should be read in conjunction with the interim financial statements for the three month period ended December 31, 2006.

The Company holds an option to earn a 60% interest in eleven contiguous mineral claims in British Columbia totaling approximately 3,950 hectares called the OK Property. The Company is a resource development company focused on the acquisition and exploration of mineral properties and therefore has no regular cash flow from operations. The level of operations has been determined by the availability of capital resources. To date, private placements have provided the main source of funding.

Results of Operations

Net loss for the three months ended December 31, 2006 was $60,207. Operating expenses totaled $61,104 for the three months ended December 31, 2006, of which the significant expenditures were as follows:

- Office, rent and miscellaneous expenses of $4,574, inclusive of rent of $4,500 paid to a company wholly-owned by a director and officer of the Company;

- Professional fees of $64 for legal services;
- Filing and transfer agent fees of $1,162; and
- Stock-based compensation, a non-cash expense, of $55,304 for incentive stock options granted to management during the period.

A "Summary of Quarterly Results" has not been prepared as the Company was private during the past fiscal year ended September 30, 2006 and did not prepare any quarterly financial reports during that period.

Liquidity and Capital Resources

Prophecy is in the development stage and therefore has no regular cash flow. As at December 31, 2006, the Company had working capital of $110,356, inclusive of cash on hand of $135,119. This compares to working capital of $139,082 at September 30, 2006, inclusive of cash on hand of $157,944.

As at December 31, 2006, the Company had current assets of $136,434, total assets of $307,989 and total liabilities of $26,078. The Company has no long-term debt. There are no known trends in the Company's liquidity or capital resources.

The principal assets of the Company are its mineral exploration properties, amounting to $129,055 as at December 31, 2006.

The decrease in cash during the three months ended December 31, 2006 of $22,825 was due to cash used by operations of $3,836, exploration expenditures of $4,822 and deferred finance charges of $19,000, offset by advances from related parties of $4,833.

The Company had sufficient funds on hand at December 31, 2006 to fund its operating expenses for the balance of the fiscal year but will require additional funding in order to conduct its proposed Phase I exploration program on the OK Property. This funding will be provided through an Initial Public Offering of the Company's securities on the TSX Venture Exchange that was completed on February 9, 2007. This offering was comprised of 2,200,000 shares of the Company at $0.25 per share. The Company will not have sufficient funds upon closing of the Offering to carry out phase II exploration work on its OK Property, if warranted, and may have to obtain other financing or raise additional funds in order to do so. Although the company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in the delay or indefinite postponement of further exploration and development of its properties

Cash flow to date has not satisfied the Company's operational requirements. The development of the Company may in the future depend on the Company's ability to obtain additional financings. In the past, the Company has relied on the sale of equity securities to meet its cash requirements. Future developments, in excess of funds on hand, will depend on the Company's ability to obtain financing through joint venturing of projects, debt financing, equity financing or other means. There can be no assurances that the Company will be successful in obtaining any such financing or in joint venturing its property.

Related Party Transactions

During the three month period ended December 31, 2006, $4,500 was paid or accrued to a private company wholly-owned by Stuart Rogers, a director and officer of the Company, for office rent and administration services provided to the Company. This amount was incurred in the ordinary course of business.

In addition, during the period $914 was paid or accrued to a private company in which a director, Bill Morton, 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.

Investor Relations

There were no investor relations activities conducted by the Company during the period.

Contingencies

The Company is aware of no contingencies or pending legal proceedings as of February 14, 2007.

Equity Securities Issued and Outstanding

The Company had 7,475,000 common shares issued and outstanding as of February 14, 2007. In addition, there were 450,000 incentive stock options and a total of 1,820,000 warrants outstanding as of February 14, 2007.

Disclaimer

The information provided in this document is not intended to be a comprehensive review of all matters concerning the Company. It should be read in conjunction with all other disclosure documents provided by the Company, which can be accessed at www.sedar.com. No securities commission or regulatory authority has reviewed the accuracy or adequacy of the information presented herein.

Certain statements contained in this document constitute "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressly stated or implied by such forward-looking statements. Such factors include, among others, the following: mineral exploration and development costs and results, fluctuation in the prices of commodities for which the Company is exploring, competition, uninsured risks, recoverability of resources discovered, capitalization requirements, commercial viability, environmental risks and obligations, and the requirement for obtaining permits and licenses for the Company's operations in the jurisdictions in which it operates.