

PROPHECY RESOURCE CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the three month period ended December 31, 2007

The following discussion and analysis should be read in conjunction with the Interim Financial Statements for Prophecy Resource Corp (the "Company") and related notes for the three month period ended December 31, 2007. All dollar amounts included therein and in the following management discussion and analysis ("MDA") are stated in Canadian funds. This discussion is based on information available as at February 22, 2008.

This discussion contains forward-looking statements that involve risks and uncertainties. Such information, although considered reasonable by the Company's management at the time of preparation, may prove to be inaccurate and actual results may differ materially from those anticipated in the statements made.

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 "Okeover 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 Okeover Property from Eastfield by spending up to \$1,000,000 in exploration on the Okeover Property within four years of the date of the agreement and by making cash payments totalling \$110,000, of which \$15,000 has been paid. To acquire the option from Goldrush, the Company issued 100,000 shares to Goldrush and made cash payments totalling \$15,000. Upon the Company earning its 60% interest in the Okeover property, the Company and Eastfield will form a joint venture for the further exploration and development of the Okeover property, with Prophecy becoming the operator.

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 Warrants exercisable to purchase a share at the Offering price for a period of one year from closing.

The Okeover Copper-Molybdenum Property

The following represents information summarized from a technical report (the "Okeover 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 Okeover Property that is the subject of the Okeover Property Report.

The Okeover Property (copper-molybdenum) consists of eleven contiguous legacy and cell mineral claims located in the Vancouver Mining Division of south western British Columbia, 25 kilometres north of Powell River and 145 kilometres northwest of Vancouver. Collectively, the claims cover an area of approximately 5,233 hectares between latitudes 49^o59.5' and 50^o04.6' North and longitudes 124^o37.0' and 124^o41.2'

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.

Copper and molybdenum mineralization was discovered in creek bottoms in the central part of the Okeover Property 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. Average diamond drill hole length was 169 metres and the deepest hole drilled was 363 metres in length. Vertical percussion holes were drilled to 61 metres depths.

2007 Exploration Program (first phase)

As recommended by N.C. Carter, P. Eng, the Company began a first phase program in spring 2007.

In July, 2007 Prophecy received the results from the first four drill holes of a seven hole program at the Okeover property. These four drill holes were designed to expand the current resources of the North Lake Zone.

Hole OK-07-04, drilled near the western boundary of the North Lake Zone, intersected an aggregate intercept of **76 metres grading 0.34% copper and 0.020% MoS₂**, including an intercept of **19 metres grading 0.42% copper and 0.027% MoS₂**. Hole OK-07-04 was drilled adjacent to and beneath a hole completed in 1972 with much of the mineralized interval, including the higher grade section, occurring beneath the 1972 hole, which bottomed at a depth of 97 metres.

Hole OK-07-02, drilled approximately **300 metres to the east** of the area corresponding to the North Lake resource, intersected **23 metres grading 0.24% copper and 0.031% MoS₂ at the bottom of the hole**, establishing that mineralization is very much open ended to the east and suggesting that the North Lake Zone may be considerably larger than the 2006 estimate. In addition, molybdenum grades appear to be increasing to the east.

A summary of results of the first four holes is as follows:

Hole OK-07-01

Excluding several internally dilutive dykes greater than 4 metres in thickness:

Beginning	Ending	Aggregate mineralization	Copper %	MoS ₂ %
29 m	203 m	147 m	0.18	0.009

Mineralized intervals in OK-07-01 in detail

From M	To M	Interval M	Copper %	MoS ₂ %
29	47	18	0.16	0.010
56	90	34	0.17	0.008
92	132	40	0.17	0.009
138	166	28	0.17	0.007
171	191	20	0.24	0.010
196	203 (end)	7	0.19	0.019

OK-07-01 is located approximately 75 metres to the east of the 2006 North Lake Zone (south side).

Hole OK-07-02

From M	To M	Interval M	Copper %	MoS ₂ %
165	188 (end)	23	0.24	0.031

OK-07-02 is located approximately 350 metres to the east of the 2006 North Lake Zone.

Hole OK-07-03

Excluding several internally dilutive dykes greater than 4 metres in thickness:

Beginning	Ending	Aggregate mineralization	Copper %	MoS ₂ %
73 m	188 m	75 m	0.19	0.029

Mineralized intervals in OK-07-03 in detail

From M	To M	Interval M	Copper %	MoS ₂ %
73	116	43	0.17	0.031
123	135	12	0.17	0.020
151	156	6	0.27	0.032
160	170	10	0.27	0.030
176	179	3	0.24	0.020
187	188 (end)	1	0.19	0.028

OK-07-03 is located approximately 50 metres to the east of the North Lake Zone (north side). **The interval from 73.7 metres to 74.5 metres returned grades of 1.26% copper and 0.639% MoS₂.**

Hole OK-07-04

Excluding several internally dilutive dykes greater than 4 metres in thickness:

Beginning	Ending	Aggregate mineralization	Copper %	MoS ₂ %
41 m	141 m	76 m	0.34	0.020

Mineralized intervals in OK-07-04 in detail

From M	To M	Interval M	Copper %	MoS ₂ %
41	61	20	0.35	0.029
72	91	19	0.42	0.027
104	141	37	0.29	0.012

Drill Hole OK-07-04 is located near the western boundary of the North Lake Zone, adjacent to and underneath a hole drilled in 1972, hole 72-16, which bottomed at 97 metres.

Holes OK-07-01 to OK-07-04 have confirmed that mineralization in the North Lake Zone has not been constrained by depth and remains open on the eastern and western edges, offering substantial opportunities for expansion of the resource. Several sites have been prepared in the North Lake Zone, where the company plans to resume drilling in the spring of 2008.

The final drill program of 2007, which started in late October, was completed on December 15, 2007. This three hole drill program was designed to test the South Breccia Zone located 3,500 metres south of the North Lake Zone.

The South Breccia area is a hydrothermal breccia first recognized in 1979. Between 1966 and 1977, seven corporations, including Noranda, Falconbridge and Asarco Exploration completed 14,000 metres of diamond drilling at Okeover. In 1979, two years following these campaigns, logging activities exposed the south Breccia Zone approximately 3.5 kilometres south of the North Lake Zone. In 1979, Aquarius Resources Ltd. completed three holes in this then newly discovered area (205 metres in total) with results which included 1.49% Copper over 9 metres in hole 79-2 and 0.49% Copper over 21 metres in hole 79-3. In 1996, Canquest Resource Corp. drilled a single 154 metre deep hole with the strongest mineralization in that hole (0.21% Cu) occurring at the bottom. A review of this drill hole indicates that it may have stopped short (to the east) of the South Breccia Zone. Geological mapping of the area peripheral to the South Breccia discovery outcrop indicates that brecciation and silicification extend over an area of at least 300 metres by 600 metres, offering substantial potential for discovery.

Three holes were completed in December 2007 at the South Breccia Zone totalling approximately 790 metres (2,600 feet). Both the first and second holes completed during the program returned large footages with visible chalcopyrite and molybdenite mineralization, however no conclusions can be drawn as to the nature or extent of such mineralization prior to the receipt of assays, which should be available in late February.

Exploration of the Okeover property is being conducted under the supervision of J.W. (Bill) Morton, P.Geo., a director of the Company and qualified person within the context of National Instrument 43-101.

During the three month period ended December 31, 2007 the Company spent \$247,022 on exploration of the Okeover property. This was comprised of geological consulting of \$62,353, assays and drilling of \$125,946 and field expenses of \$58,723. As of December 31, 2007 the Company has spent a total of \$745,337 on exploration of the Okeover property.

Private Placement – November, 2007

In November 2007 Prophecy completed a non-brokered private placement of 1,450,000 flow-through units at a price of \$0.35 per unit. Each unit consists of one common share of the company and one half share purchase warrant, with each full warrant exercisable into one additional common share of the Company for a period of eighteen months from closing at an exercise price of \$0.45 per share. The shares and any shares acquired on the exercise of warrants are subject to a hold period expiring on March 1, 2008. Finder's fees of \$37,800 were paid on a portion of this placement along with the issuance of 108,000 finder's warrants, exercisable at \$0.35 per share until April 30, 2009.

The proceeds of this placement are to be used for exploration of the Okeover property, following which the Company will have satisfied its \$1 Million work commitment with Eastfield Resources and have earned a 60% interest in the Okeover property.

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, 2007.

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 Okeover 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

Operating expenses for the three month period ended December 31, 2007 totaled \$48,578 as compared to \$61,104 during the same period a year prior. The significant expenditures were as follows:

During the three month period ended December 31, 2007 the Company incurred \$5,005 for office, rent and miscellaneous expenses, compared to \$4,574 incurred during the same period a year prior. The increase during the current period was due to increased office costs incurred by the Company as it is now a public company, having listed on the TSX Venture Exchange in February, 2007.

Professional fees of \$12,270 incurred during the three month period ended December 31, 2007 were increased from the \$64 incurred during the three month period ended December 31, 2006. This was due to increased audit and accounting fees incurred by the Company during the current period to satisfy its reporting obligations as a public company.

During the three month period ended December 31, 2007 the Company incurred stock-based compensation expense, a non-cash expense, of \$1,313 for 200,000 options granted to consultants during the period and subject to vesting provisions. There compares to stock-based compensation expense of \$55,304, a non-cash expense, incurred during the three month period ended December 31, 2006 when 450,000 options were granted to directors and officers.

The Company incurred \$5,040 for transfer agent and filing fees during the three month period ended December 31, 2007 as a result of its listing on the TSX Venture Exchange earlier in 2007. This were no transfer agent and filing fees incurred during the three months ended December 31, 2006 as the Company was still private at that time.

During the three month period ended December 31, 2007 the Company incurred \$20,450 for shareholder communications expenses, which included web site maintenance, consulting, news release dissemination and advertising. There were no such expenses incurred during the comparable period a year prior when the Company was still private.

Management fees of \$4,500 were incurred during the three month period ended December 31, 2007 for the monthly management fee of \$1,500 charged by the President of the Company, which commenced following the Company's listing on the TSX Venture Exchange in February, 2007. There was no comparable expense incurred during the same period a year prior.

During the three month period ended December 31, 2007 the Company earned interest income of \$3,797 on short-term investments and cash on hand as a result of the completion of a private placement for gross proceeds of \$507,500 in November 2007 and the exercise of 1,400,000 warrants at \$0.15 prior to their expiry in December 2007. This compares to \$897 earned on cash on hand during the three month period ended December 31, 2006 when the Company was still private.

As a result of the foregoing, the Company incurred a net loss for the three month period ended December 31, 2007 of \$44,781 as compared to net loss of \$60,207 for the comparable period a year prior.

Summary of Quarterly Results

	Q1-08 (Dec. 31, 2007)	Q4-07 (Sept. 30, 2007)	Q3-07 (June 30, 2007)	Q2-07 (March 31, 2007)	Q1-07 (Dec. 31, 2006)
Revenue	Nil	Nil	Nil	Nil	Nil
Net Loss (\$)	44,781	\$16,878	30,744	55,286	60,207
Per Share	0.01	0.01	0.01	0.01	0.01

A "Summary of Quarterly Results" has only been prepared for the four quarters of fiscal 2007 and the first quarter of fiscal 2008 as the Company was private during the fiscal year ended September 30, 2006 and did not prepare any quarterly financial reports during that period.

The loss during the second quarter of fiscal 2007 (the three month period ended March 31, 2007) decreased to \$55,286 from the loss of \$60,207 incurred during the prior fiscal quarter primarily due to the elimination of stock based compensation expense, a non-cash item, as there were no stock options granted or vested during the current period. During the first quarter of fiscal 2007, the granting of stock options to directors resulted in a charge for stock-based compensation of \$55,304 during that period. The elimination of stock-based compensation expense during the second quarter was offset by an increase in transfer agent and filing fees to \$28,800 from the \$1,162 incurred during the first quarter due to the completion of the Company's Initial Public Offering during the second period and the subsequent listing on the TSX Venture Exchange. As it became a public company in February 2007, Prophecy also incurred additional expenses for shareholder communications of \$8,516 during the second quarter, a portion of which will continue to be incurred during subsequent quarters.

The loss for the third quarter of fiscal 2007 decreased to \$30,744 from the \$55,286 incurred during the second quarter of fiscal 2007 primarily due to a reduction in transfer agent and filing fees to \$6,868 from the \$28,800 incurred during the second quarter for completion of the Company's Initial Public Offering and listing on the TSX Venture Exchange.

The loss for the fourth quarter of fiscal 2007 was reduced to \$16,878 primarily due to recording a future income tax recovery of \$34,680 during the period as a result of the issuance of 850,000 flow-through shares during fiscal 2006. This served to reduce the loss for the period to \$16,878 from the \$51,558 that would have been recorded otherwise, with the increase from the \$30,744 incurred during the third quarter the result of additional stock-based compensation expense, a non-cash item, of \$26,392 recorded during the fourth quarter for options granted to directors earlier in the year.

The loss for the first quarter of fiscal 2008 increased to \$44,781 primarily due to the elimination of an allowance for future income tax recovery of \$34,680 incurred during the fourth quarter of fiscal 2007 as a result of the issuance of 850,000 flow-shares during fiscal 2006 and renounced during fiscal 2007. This served to reduce the loss for the fourth quarter period to \$16,878 from the \$51,558 that would have been recorded otherwise, with the decrease in net loss to \$44,781 for the first quarter of 2008 due primarily to a reduction in charges for stock based compensation to \$1,313 from the \$26,392 incurred during the fourth quarter, offset by an additional charge of \$8,000 for investor relations consulting incurred during the first quarter of fiscal 2008.

Liquidity and Capital Resources

Prophecy is in the development stage and therefore has no regular cash flow. As at December 31, 2007, the Company had working capital of \$638,918, inclusive of cash and short-term investments on hand of \$612,510. This compares to working capital of \$249,708 at September 30, 2007, inclusive of cash on hand and short term investments of \$203,005.

As at December 31, 2007, the Company had current assets of \$669,675, total assets of \$1,490,512 and total liabilities of \$30,757. 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 \$814,337 as at December 31, 2007.

The increase in cash during the three month period ended December 31, 2007 of \$159,505 was primarily due to net cash received from the issuance of shares for cash of \$679,700, offset by cash used by operations of \$23,172, property exploration expenditures of \$247,023 and cash deposited in a short-term investment of \$250,000.

The Company had sufficient funds on hand at December 31, 2007 to fund its operating expenses for the balance of the current fiscal year as well as conduct additional exploration at its Okeover property. In November, 2007 the Company completed a private placement of flow-through securities in November 2007 for gross proceeds of \$507,500 to fund phase II exploration work on its Okeover property during fiscal 2008. This will enable Prophecy to earn its 60% interest in the Okeover property, following which Eastfield and the Company will form a joint venture to fund further

exploration on the Okeover project in proportion to their respective interests. At that time, the Company may have to obtain other financing or raise additional funds in order to continue to fund its share of Okeover exploration expenses. 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 favorable. Failure to obtain such additional financing could result in the delay or indefinite postponement of further exploration and development of the Okeover property.

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.

Disclosure Controls and Procedures

The Company's system of disclosure controls and procedures includes our Disclosure Policy, our Code of Conduct and Business Ethics and the effectiveness of our Audit Committee. The Company has established procedures that allow the identification of matters warranting consideration of disclosure by the Audit Committee, as well as procedures for the verification of individual transactions and information that would be incorporated in annual and interim filings, including Financial Statements, Management's Discussion and Analysis, Annual Information Forms and other related documents.

As required by CSA Multilateral Instrument 52-109, Certification of Disclosure in an Issuer's Annual and Interim Filings, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was conducted as of December 31, 2007 under the supervision of management, including the President and the Chief Financial Officer. The evaluation included review of documentation, enquiries of Company staff and other procedures considered by Management to be appropriate under the circumstances.

As a result of their evaluation, the President and Chief Financial Officer are of the opinion that the design and operation of the system of disclosure controls was effective as at December 31, 2007.

The President and Chief Financial Officer are also required to file certifications of our annual and interim filings under Multilateral Instrument 52-109. These certifications may be accessed at www.sedar.com.

Related Party Transactions

During the three month period ended December 31, 2007, \$4,500 was paid to a private company wholly-owned by Stuart Rogers, a director and Chief Financial Officer of the Company, for office rent and administration services provided to the Company.

During this same period, \$4,500 was paid to James Brown, the President and a director of the Company, for management services provided. In addition, during the period a total of \$103,582 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 \$2,720 which were paid to this same director.

These amounts were incurred in the ordinary course of business.

Use of Proceeds

In February 2007 Prophecy completed a Prospectus Offering of 2,200,000 shares at \$0.25 per share for gross proceeds of \$550,000. After deducting commission of \$44,000 and the agent's corporate finance fee and expenses, the

Company received net proceeds of \$489,833. The budget amounts, compared to our actual use of proceeds, are as follows:

Principal Purposes:	Budgeted Amount	Actual Amount Spent	Balance Remaining
For the balance of the estimated costs of the Offering	\$ 65,000	\$90,969	\$ Nil
Phase 1 exploration costs on the Okeover property	333,000	279,716	Nil
Property payment due to Goldrush	10,000	10,000	Nil
Property payments over the next twelve months	5,000	5,000	Nil
General and administrative costs for the 12 months following the Offering	89,700	94,090	Nil

Investor Relations

The Company incurred expenditures of \$20,450 on investor relations during the three month period ended December 31, 2007. This figure was comprised of \$999 for dissemination of news releases, \$8,000 for consulting services, \$11,171 for advertising and \$280 for web site maintenance.

During the period, on December 4, 2007, the Company retained Contact Financial Corp. to provide investor relations services to the Company, subject to acceptance for filing by the TSX Venture Exchange.

Contact Financial has been retained for a minimum three month term at \$8,000 per month, plus reimbursement of approved expenses. Prophecy has also agreed to grant 200,000 incentive stock options to Contact Financial, exercisable at a price of \$0.25 for a period of two years and subject to TSX Venture Exchange rules with regard to vesting and pricing.

Contingencies

The Company is aware of no contingencies or pending legal proceedings as of February 22, 2008.

Equity Securities Issued and Outstanding

The Company had 11,100,000 common shares issued and outstanding as of February 22, 2008. In addition, there were 650,000 incentive stock options and a total of 1,803,000 share purchase warrants outstanding as of February 22, 2008.

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.