PROPHECY RESOURCE CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
For the year ended September 30, 2008

The following discussion and analysis should be read in conjunction with the annual Financial Statements for Prophecy Resource Corp (the "Company") and related notes for the year ended September 30, 2008. 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 December 23 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 $35,000 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 intend to form a joint venture for the further exploration and development of the Okeover property, with Prophecy becoming the operator.

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^{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 (of which $69,625 has been paid) 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 diamond drilling program in early 2007. Prophecy completed two diamond drill programs on the OK property during calendar 2007, with the first program consisting of seven drill holes totalling 1,229 metres and the second consisting of a further three holes totalling 782 metres (ten holes and 2,011 metres combined).

Four of the holes were completed in the area of the North Lake Zone and all four were successful with OK-07-02 returning an intercept of 0.24% copper and 0.031% MoS2 from the bottom 23 metres of the hole and OK-07-04 returning an aggregate intercept of 75 metres grading 0.34% copper and 0.02% MoS2. The three holes forming the eastern boundary of the area of drilling in the North Lake zone, OK-07-01, OK-07-02 and OK-07-03, all ended in mineralization grading between 0.19% and 0.20% copper. Three holes completed in the fall of 2007 were completed in the area known as the South Breccia Zone and resulted in the discovery of a new area of copper- molybdenum mineralization. Highlights of the drilling include hole 07-08 with an intercept of 39.7 metres grading 0.045% MoS2 and 0.27% Cu, including 25.4 metres grading 0.068% MoS2 and 0.25% Cu.

A rock exposure located approximately 400 metres southwest of the North Lake Zone returned an analysis of 0.17 % Mo (0.288% MoS_2) and greater than 1000 ppb rhenium. This result encouraged a reanalysis of several other samples which had returned higher molybdenum values. A higher grade intercept in hole 07-03 which had returned an assay of 1.26% copper and 0.38% Mo (0.63% MoS_2) over 0.8 metres (73.7-74.5 metres) returned a rhenium analysis also greater than 1000 ppb which is the upper limit that the assay lab, Acme Analytical Laboratories Ltd., is equipped to provide. The two samples are approximately 1200 metres distant from each other.

On May 22, 2008 Prophecy initiated a six hole (1,449 metre) diamond drilling program at Okeover. The predominant thrust of this program was to significantly expand the known mineral resource at the North Lake Zone, which is one of eight known areas of significant copper-molybdenum mineralization on the Okeover project. Five of the six holes were completed as step outs to the south and west sides of the existing resource area at North Lake, with drill results being announced July 28, 2008.

Highlights of the 2008 drill program include Hole OK-08-03, which intersected 45.5 metres grading 0.33% copper and 0.003% molybdenum, including 12 metres grading 0.41% copper and 0.001% molybdenum. Hole OK-08-03 was drilled 90 metres to the south of the nearest hole in the current North Lake resource area and creates an open southern edge for future expansion of the resource area in this direction.

At Okeover, the objectives of the recent program were achieved and expanded the mineralized area of the North Lake Zone (calculated in 2006 by N.C. Carter, Ph.D., P. Eng to contain 86.8 million tonnes grading 0.31% copper and 0.014% MoS2) a substantial distance to the south. Prophecy plans to incorporate the drill results from this current program and last year's drilling into an updated North Lake resource estimate to be completed in 2009.

A summary of the drill results from the 2008 exploration programs is as follows:

Hole	Intercept (m)	From (m)	To (m)	Cu %	Mo %
Ok-08-01	57.0	113.0	170.0	0.30	0.003
Including	42.0	122.0	164.0	0.33	0.003
Ok-08-02	26.3	72.5	98.8	0.26	0.002
And	16.5	107.3	123.8	0.33	0.003
Ok-08-03	198.5	39.5	238.0	0.16	0.001
Including	45.5	39.5	85.0	0.33	0.003
Including	12.0	73.0	85.0	0.41	0.001
Ok-08-04	2.2	98.2	98.0	0.21	0.004
Ok-08-05	46.4	2.1	48.5	0.10	0.001

Hole OK-08-06, drilled three kilometres further to the south, returned only anomalous values, with individual three metres sample intervals returning values to 0.28% Cu and 0.029% Mo.

With this drill program now complete, Prophecy has spent over $1,000,000 in exploration at Okeover and satisfied its work commitment to earn a 60% interest from Eastfield Resources Ltd. (TSX.V: ETF).

Prophecy believes that well situated copper-molybdenum projects presently constitute a high potential opportunity for venture capital investment, with copper and molybdenum both at record prices (Cu currently at ± $3.75 a pound and molybdenum at ± $32). Moreover, many of the recent takeovers of resource exploration companies, such as Northern Peru Copper Corp. in December 2007, Tyler Resources Inc. in January, 2008 and Global Copper Corp. in April 2008 all occurred as a consequence of these companies developing lesser known copper-molybdenum resources to critical sizes.

During the year ended September 30, 2008 the Company spent $566,237 on exploration of the Okeover property. This was comprised of geological consulting of $95,577, assays and drilling of $323,793, field expenses of $131,697, road building of $12,213 and property maintenance fees of $2,957. As of September 30, 2008 the Company has spent a total of $1,064,552 on exploration of the Okeover property. During the year ended September 30, 2008, the Company has applied for a mining tax refund from the Government of British Columbia of $45,965 for exploration work incurred on 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 year ended September 30, 2008.

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 year ended September 30, 2008 totaled $180,026 as compared to $197,795 during the same period a year prior. The significant expenditures were as follows:

During the year ended September 30, 2008 the Company incurred $20,990 for office, rent and expenses, which was comparable to the $19,953 incurred during the same period a year prior.

Professional fees increased to $41,440 during the year ended September 30, 2008 from the $26,756 incurred during the year ended September 30, 2007 due to an increase in legal fees incurred during the current year.

During the year ended September 30, 2008 the Company incurred stock-based compensation expense, a non-cash expense, of $13,133 for 200,000 options granted to investor relations consultants during the period. This compares to stock-based compensation expense of $81,696 charged during the same period a year prior for 450,000 options granted to directors and officers.

The Company spent $19,460 for transfer agent and filing fees during the year ended September 30, 2008. This is reduced from the $38,345 incurred for transfer agent and filing fees during the year ended September 30, 2007 when the Company incurred additional filing fees related to the Company's public listing in February 2007.

During the three month period ended September 30, 2008 the Company incurred $79,055 for shareholder communications expenses, which included web site maintenance, consulting, news release dissemination and advertising. This compares to $27,570 incurred during the same period a year prior, when all investor relations activity was conducted by management.

Management fees of $17,000 incurred during the year ended September 30, 2008 were reduced from the $12,000 incurred during the same period a year prior when the Company was private during the first half of the fiscal year.

Travel expenses of $96 were incurred during the year ended September 30, 2008. This compares to travel expenses of $2,474 incurred during the same period a year prior for property visits.

During the year ended September 30, 2008 the Company earned interest income of $11,148 on short-term investments and cash on hand. This is comparable to the $11,479 earned on cash on hand during the year ended September 30, 2007.

During the year ended September 30, 2008, the Company recognized a future income tax recovery of $104,700 on the renunciation of flow-through shares as a result of the issuance of 2,200,000 flow-through shares during calendar 2007. This compares to a future income tax recovery of $34,680 as a result of the issuance of 850,000 flow-through shares during the fiscal year ended September 30, 2007.

As a result of the foregoing, the Company incurred a net and comprehensive loss for the year ended September 30, 2008 of $75,326 as compared to a loss of $163,115 for the comparable period a year prior.

Selected Annual Information

	Year ended September 30, 2008	Year ended September 30, 2007	Period from inception on February 9, 2006 to September 30, 2006
Revenue	Nil	Nil	Nil
Income (Loss) before Other Items	(180,026)	(209,274)	(100,414)
Per Share	(0.02)	(0.03)	(0.03)
Net Income or (Loss)	(75,326)	(163,115)	(98,686)
Per Share	(0.01)	(0.02)	(0.03)
Total assets	$1,355,633	$846,416	$310,106
Long-Term Liabilities	Nil	Nil	Nil

The net loss for the fiscal year ended September 30, 2007 of $163,115 represented an increase from the net loss incurred during fiscal 2006 of $98,686 ($131,580 on an annualized basis) due to increased levels of expenditure during the current period in all categories related to the Company becoming publicly traded during the current fiscal period. Expenditures were incurred during fiscal 2007 for shareholder communications, management fees, and transfer agent and filing fees totalling $77,915 that were not incurred during the prior fiscal period, when the Company was privately held.

The net loss for the fiscal year ended September 30, 2008 was reduced to of $75,326 primarily due to a future income tax recovery of $104,700 on the renunciation of flow-through shares during the period as a result of the issuance of 2,200,000 flow-through shares during calendar 2007. This was offset by increased expenditures during the current period for shareholder communications and professional fees.

Summary of Quarterly Results

	Q4-08	Q3-08	Q2-08	Q1-08	Q4-07	Q3-07	Q2-07	Q1-07
Revenue	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Net Income (Loss) ($)	(33,717)	(31,219)	34,391	(44,781)	(16,878)	(30,744)	(55,286)	(60,207)
Per Share (Loss) ($)	(0.01)	(0.01)	0.01	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)

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.

The Company recorded income for the second quarter of fiscal 2008 of $34,391 primarily due to recording a future income tax recovery of $92,380 during the period as a result of the issuance of 2,200,000 flow-through shares during the prior calendar year. This served to offset the loss for the period of $57,989 that would have been recorded otherwise, with the increase from the $44,781 incurred during the first quarter of 2008 the result of additional professional fees incurred during the second quarter for preparation of the Company's audited financial statements for the prior fiscal year.

As there was no future income tax recovery in the third quarter of fiscal 2008, the Company incurred a loss of $31,219 for the period. When compared to prior fiscal periods, this reduced loss was primarily as a result of reductions in expenditures for professional fees and transfer agent and filing fees, offset by additional expenditures for consultants providing shareholder communications services. The loss for the fourth quarter of fiscal 2008 was relatively unchanged at $33,717.

Liquidity and Capital Resources

Prophecy is in the development stage and therefore has no regular cash flow. As at September 30, 2008, the Company had working capital of $222,243, inclusive of cash and short-term investments on hand of $187,787. This compares to working capital of $249,708 at September 30, 2007, inclusive of cash on hand and short term investments of $203,005.

At September 30, 2008 the Company had current assets of $241,546, total assets of $1,355,633 and total liabilities of $19,303. The Company has no long-term debt other than a liability for future income taxes of $85,750. 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 $1,107,587 as at September 30, 2008.

The decrease in cash during the year ended September 30, 2008 of $10,218 was primarily due to cash provided by the issuance of shares of $679,700, offset by property exploration and acquisition expenditures of $580,930 and cash used in operating activities of $113,988.

The reduction in cash during the year ended September 30, 2007 of $129,939 was primarily due to net cash received from the issuance of shares for cash of $659,808, offset by cash used by operations of $181,664, property acquisition and exploration expenditures of $433,083 and cash deposited in a short-term investment of $175,000.

The Company had sufficient funds on hand at September 30, 2008 to fund its operating expenses for the balance of the next fiscal year but will not have sufficient funds to conduct additional exploration at its Okeover property. In November, 2007 the Company completed a private placement of flow-through securities for gross proceeds of $507,500 to fund phase II exploration work on its Okeover property during fiscal 2008. This enabled Prophecy to earn its 60% interest in the Okeover property, with Eastfield and the Company intending to 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.

Off Balance Sheet Arrangements

The Company has no off Balance Sheet arrangements.

Changes in Accounting Policies

Adoption of New Accounting Standards and Accounting Pronouncements

Effective January 1, 2008, the Company adopted the following new accounting standards that were issued by the Canadian Institute of Chartered Accountants. These accounting policy changes were adopted on a prospective basis with no restatement of prior period financial statements:

(i) Financial Instrument Disclosures and Presentation

CICA Handbook Sections 3862 *"Financial Instruments – Disclosures"* and Section 3863*"Financial Instruments – Presentation"* replace Section 3861 *"Financial Instruments – Disclosure and Presentation"*. The new standards carry forward the presentation requirements for financial instruments and enhance the disclosure requirements by placing increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

(ii) Capital Disclosures

CICA Handbook Section 1535 requires the company to disclose (a) its objectives, policies and processes for managing capital; (b) quantitative data about what the entity regards as capital; (c) whether the entity has complied with any capital requirements; and (d) if it has not complied, the consequences of such noncompliance.

(iv) Going Concern

CICA Handbook Section 1400 - General Standards of Financial Statements. The new standard requires management to make an assessment of the Company's ability to continue as a going concern, and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

New Accounting Pronouncements Effective in Future Periods

CICA Handbook Section 3064 - Goodwill and other intangibles assets. This new section replaces Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Management does not expect the adoption of this new standard to have a material impact on the financial statements of the Company or its business. The Company will adopt the new standards for its fiscal year beginning July 1, 2009.

In 2006, the Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transitional date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2010.

Risk, Uncertainties and Outlook

The business of mineral deposit exploration and extraction involves a high degree of risk. Few properties that are explored ultimately become producing mines. At present, none of the Company's properties has a known commercial ore deposit. Operations, the status of mineral property rights and the recoverability of amounts shown for mineral properties can be affected by changing economic, regulatory and political situations. Other risks facing the Company include competition for mineral properties, environmental and insurance risks, fluctuations in metal prices, fluctuations in exchange rates, share price volatility and uncertainty of additional financing.

Related Party Transactions

During the year ended September 30, 2008, $19,000 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, $17,000 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 $226,660 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.

These amounts were incurred in the ordinary course of business.

Contingencies

The Company is aware of no contingencies or pending legal proceedings as of December 23, 2008.

Equity Securities Issued and Outstanding

The Company had 11,100,000 common shares issued and outstanding as of December 23, 2008. In addition, there were 650,000 incentive stock options and a total of 1,583,000 share purchase warrants outstanding as of December 23, 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.