

PROPHECY RESOURCE CORP.

FINANCIAL STATEMENTS

MARCH 31, 2008

(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.
BALANCE SHEET
AS AT MARCH 31, 2008
(Unaudited – prepared by management)

	March 31, 2008	September 30, 2007 (audited)
ASSETS		
Current		
Cash	\$ 3,747	\$ 28,005
Short-term investments (Note 3)	540,000	175,000
Receivables	20,827	24,646
Prepays	14,950	44,950
	<u>579,524</u>	<u>272,601</u>
Mineral property (Note 4)	89,000	69,000
Deferred exploration costs (Note 5)	759,135	498,315
Reclamation bond (Note 4)	6,500	6,500
	<u>1,434,159</u>	<u>\$ 846,416</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 25,812	\$ 13,158
Due to related parties (Note 6)	2,642	9,735
	<u>28,454</u>	<u>22,893</u>
Future income taxes (Note 10)	134,695	-
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	1,352,176	906,557
Contributed surplus (Note 7)	191,025	178,767
Deficit	(272,191)	(261,801)
	<u>1,271,010</u>	<u>823,523</u>
	<u>\$ 1,434,159</u>	<u>\$ 846,416</u>

Nature and continuance of operations (Note 1)
Commitments (Note 4)

Approved on behalf of the Board:

<u>“STUART ROGERS”</u> Stuart Rogers	Director	<u>“JAMES BROWN”</u> James Brown	Director
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The accompanying notes are an integral part of these financial statements.

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

	Three months ended March 31, 2008	Three months ended March 31, 2007	Six months ended March 31, 2008	Six months ended March 31, 2007
EXPENSES				
Consulting	\$ -	\$ 480	\$ -	\$ 480
Office, rent and miscellaneous (Note 6)	6,467	5,806	11,472	10,380
Investor Relations –Stock-based compensation (Note 8)	3,940	-	5,253	-
Management fees (Note 6)	3,500	3,000	8,000	3,000
Management fees –stock based compensation (Notes 8)	-	-	-	55,304
Professional fees	16,946	8,617	29,216	8,681
Shareholder communications	19,934	8,516	40,383	8,516
Transfer agent and filing fees	11,730	28,800	16,771	29,962
Travel	-	608	-	608
LOSS BEFORE OTHER ITEM	(62,517)	(55,827)	(111,095)	(116,931)
OTHER ITEM				
Interest income	4,528	541	8,325	1,438
NET LOSS BEFORE INCOME TAXES	(57,989)	(55,286)	(102,770)	(115,493)
Future income tax recovery (Notes 7 and 10)	92,380	-	92,380	-
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	34,391	(55,286)	(10,390)	(115,493)
DEFICIT, BEGINNING	(306,582)	(158,893)	(261,801)	(98,686)
DEFICIT, ENDING	\$ (272,191)	(214,179)	(272,191)	(214,179)
BASIC AND DILUTED GAIN (LOSS) PER COMMON SHARE				
	\$ 0.01	\$ (0.01)	\$ (0.01)	\$ (0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC AND DILUTED				
	11,100,000	6,489,167	10,229,563	5,837,500

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

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

	Three months ended March 31, 2008	Three months ended March 31, 2007	Six months ended March 31, 2008	Six months ended March 31,2007
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income (loss)	\$ 34,391	\$ (55,286)	\$ (10,390)	\$ (115,493)
Items not involving cash:				
Future income tax recovery	(92,380)		(92,380)	
Stock based compensation	3,940	-	5,253	55,304
Changes in non-cash working capital items:				
Decrease (Increase) in receivables	21,388	(3,952)	3,820	(838)
Increase in prepaids	-	(4,950)	30,000	(4,950)
Decrease in accounts payable and accrued liabilities	(2,304)	(8,471)	5,560	(11,471)
Net cash used in operating activities	(34,965)	(72,659)	(58,137)	(77,448)
CASH FLOWS FROM INVESTING ACTIVITIES				
Short-term investments	(115,000)	(22,000)	(365,000)	(22,000)
Property acquisition costs	(20,000)		(20,000)	
Deferred exploration costs	(13,798)	(1,816)	(260,821)	(6,638)
Net cash used in investing activities	(148,798)	(23,816)	(645,821)	(28,638)
CASH FLOWS FROM FINANCING ACTIVITIES				
Deferred finance fees	-	36,000	-	17,000
Related party advances (repayments)	-	(14,153)	-	(8,367)
Shares issued, net of share issuance costs	-	417,808	679,700	417,808
Net cash provided by financing activities	-	439,655	679,700	426,441
Change in cash	(183,763)	343,180	(24,258)	320,355
Cash, beginning	187,510	135,119	28,005	157,944
Cash, end	\$ 3,747	\$ 478,299	\$ 3,747	\$ 478,299

Supplemental disclosures with respect to cash flows (Note 9)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Prophecy Resource Corp. (the "Company") was incorporated under the Business Corporations Act (British Columbia) on February 9, 2006. The Company's Initial Public Offering (the "Offering") prospectus was filed with the British Columbia Securities Commission and became effective December 29, 2006. Pursuant to the Offering, the Company raised \$550,000 by issuing 2,200,000 shares at a price of \$0.25 per share on February 9, 2007 (Note 7) and commenced trading on the TSX Venture Exchange ("TSX-V") on February 14, 2007.

The Company is a mineral property exploration company and has not yet determined whether its mineral properties contain economically recoverable reserves. The recoverability of the amounts shown for mineral properties 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.

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.

These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

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, expected tax rates for future income tax recoveries, the fair values of financial instruments and determining the fair value of stock based payments. Where estimates have been used financial results as determined by actual events could differ from those estimates.

Short-term investments

Short-term investments consist of highly liquid Canadian dollar denominated guaranteed investment certificates with terms to maturity greater than ninety days, but not more than one year, that are readily convertible to contracted amounts of cash. Short-term investments are classified as held-for-trading and recorded at fair value with realized and unrealized gains and losses reported in the statement of operations.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Mineral properties (cont'd...)

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 the carrying value of 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 capitalized costs are impaired. 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.

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.

Values

The amounts shown for mineral properties and deferred exploration costs represent costs incurred to date, and do not necessarily represent present or future values which are entirely dependent upon the economic recovery from production or from disposal.

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. As at December 31, 2007 and 2006, the Company does not foresee the necessity to make any material expenditures in this area.

Asset retirement obligations

The Company has adopted the Canadian Institute of Chartered Accountants ("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.

Mineral property related retirement obligations are capitalized as part of deferred exploration and development costs and amortized over the estimated useful lives of the corresponding mineral properties.

At December 31, 2007 and 2006, management has determined that there are no material asset retirement obligations to the Company.

Deferred finance fees

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Impairment of long-lived assets

The Company follows the recommendations of the CICA Handbook section 3063, "Impairment of Long-Lived Assets". Section 3063 establishes standards for recognizing, measuring and disclosing impairment of long-lived assets held for use. The Company conducts its impairment test on long-lived assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment is recognized when the carrying amount of an asset to be held and used exceeds the undiscounted future net cash flows expected from its use and disposal. If there is an impairment, the impairment amount is measured as the amount by which the carrying amount of the asset exceeds its fair value, calculated using discounted cash flows when quoted market prices are not available.

Foreign currency translation

The financial statements are presented in Canadian dollars. 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 results of operations for the period.

Financial instruments

Effective October 1, 2006, the Company adopted CICA Handbook Sections 3855, financial instruments; Section 1530, comprehensive income and Section 3856, hedges. Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. Under Section 3855, financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are measured at the balance sheet date at fair value except for loans and receivables, held-to-maturity investments, and other financial liabilities which are measured at amortized cost. The adoption of these policies has not had a significant impact on the financial statement presentation or disclosures.

These standards have been applied prospectively. The adoption of these standards has not resulted in any adjustments to the carrying amounts of financial assets and financial liabilities at October 1, 2006.

The Company's financial instruments consist of cash, short-term investments, 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.

The Company has determined that it does not have derivatives or embedded derivatives.

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 CICA, "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. Any consideration paid on the exercise of stock options is credited to share capital.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

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. For the periods presented, dilutive loss per share is equal to basic loss per share.

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.

3. SHORT-TERM INVESTMENTS

Short-term investments consists of highly liquid Canadian dollar denominated guaranteed investment certificates with term to maturity of greater than ninety days but not more than one year. The counter-parties are financial institutions. At March 31, 2008, the instruments were yielding an average annual interest rate of approximately 3.15%.

The fair market value of the Company’s short-term investment approximates its carrying value at the balance sheet dates.

4. MINERAL PROPERTY

	March 31, 2008	September 30, 2007
Okeover Property, British Columbia, Canada	\$ 89,000	\$ 69,000

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 property and, to the best of its knowledge, title to its property is in good standing.

On March 8, 2006 the Company acquired Goldrush Resources Ltd.’s (“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 “Okeover Property”) (formerly the “OK Property”) from Eastfield.

PROPHECY RESOURCE CORP.
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2008
(Unaudited, prepared by management)

4. MINERAL PROPERTY (cont'd...)

Subject to an underlying agreement, the Company paid \$5,000 and issued 100,000 shares with a fair value of \$12,000 to Goldrush to acquire the option during the year ended September 30, 2006. Pursuant to the underlying agreement, the Company paid the final \$10,000 due to Goldrush during the year ended September 30, 2007. The Company also paid \$27,000 to Eastfield for property payments.

The Company can earn a 60% interest, subject to a 2.5% net smelter royalty, in the Okeover Property from Eastfield in exchange for cash and common shares as follows:

- \$5,000 cash to be paid upon the acquisition of the option (paid during the year ended September 30, 2006, and
- \$100,000 in exploration expenditures by September 30, 2006 (completed).

The Company also has the following optional commitments:

- \$10,000 in cash or issuance of common shares by March 8, 2007 (issued common shares),
- An additional \$200,000 in exploration expenditures by September 30, 2007 (completed),
- \$20,000 in cash or issuance of common shares by March 8, 2008 (completed),
- An additional \$250,000 in exploration expenditures by September 30, 2008,
- \$25,000 in cash or issuance of common shares by March 8, 2009,
- An additional \$300,000 in exploration expenditures by September 30, 2009,
- \$50,000 in cash or issuance of common shares by March 8, 2010; and
- Have completed \$1,000,000 in cumulative exploration expenditures by March 8, 2010.

At March 31, 2008, the Ministry of Energy, Mines and Petroleum Resources of British Columbia holds a \$6,500 reclamation bond from the Company to guarantee reclamation of the environment on the Okeover Property.

5. DEFERRED EXPLORATION COSTS

The following exploration expenses were incurred on the Okeover Property to March 31, 2008:

	February 9, 2006 (inception) to September 30, 2006	For the year ended September 30, 2007	For the six month period ending March 31, 2008	Total
Assays and drilling	\$ 8,794	\$ 255,592	\$ 134,721	\$ 399,107
Consulting	36,254	68,374	65,073	169,701
Field expenses	43,681	69,424	61,026	174,131
Road building	13,503	-	-	13,503
Property maintenance	-	2,693	-	2,693
Total	\$ 102,232	\$ 396,083	\$ 260,820	759,135

PROPHECY RESOURCE CORP.
NOTES TO THE FINANCIAL STATEMENTS
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(Unaudited, prepared by management)

6. RELATED PARTY TRANSACTIONS

During the six month period ended March 31, 2008 the Company entered into the following transactions with related parties:

- a) Paid office rent of \$10,000 (2007 - \$9,000) to a company controlled by a director and officer of the Company;
- b) Paid management fees of \$8,000 (2007 - \$3,000) to a director and officer of the Company; and
- c) Paid \$113,315 (2007 - \$2,448) 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 \$4,080 (2007 - \$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 March 31, 2008 \$2,642 (2007 - \$1,925) was owing to related parties. Amounts due to related parties are non-interest bearing, unsecured and have no fixed terms of repayment. The fair value of amounts due to related parties is not determinable as they have no specified repayment terms.

7. SHARE CAPITAL

	Number of Shares	Amount	Contributed Surplus	Total
Authorized				
Unlimited common shares without par value				
Issued				
Balance at September 31, 2006	5,200,000	\$ 308,650	\$ 76,850	\$ 385,500
Shares issued at \$0.25 per share	2,200,000	550,000	-	550,000
Shares issued for finance fee	75,000	-	-	-
Broker's warrants	-	(20,221)	20,221	-
Shares issued for mineral property	25,000	10,000	-	10,000
Shares issued at \$0.30 per share	750,000	225,000	-	225,000
Share issuance costs	-	(132,192)	-	(132,192)
Stock-based compensation	-	-	81,696	81,696
Renounced flow-through share expenditures	-	(34,680)	-	(34,680)
Balance at September 31, 2007	8,250,000	906,557	178,767	1,085,324
Shares issued at \$0.35 per share	1,450,000	507,500	-	550,000
Finders warrants	-	(7,005)	7,005	-
Share issuance costs	-	(37,800)	-	-
Shares issued on exercise of warrants at \$0.15	1,400,000	210,000	-	210,000
Stock-based compensation	-	-	5,253	5,253
Renounced flow-through share expenditures	-	(227,076)	-	(227,075)
Balance as at March 31, 2008	11,100,000	\$ 1,352,176	\$ 191,025	\$ 1,543,201

As at December 31, 2006, 3,050,000 common shares included in capital stock were held in escrow subject to a three year escrow agreement pursuant with TSX-V policies. During the year ended September 30, 2007, 762,500 shares were released from escrow, with a further 457,500 shares released from escrow in February, 2008 leaving a balance of 1,830,000 shares held in escrow pursuant to this agreement at March 31, 2008.

PROPHECY RESOURCE CORP.
NOTES TO THE FINANCIAL STATEMENTS
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(Unaudited, prepared by management)

7. SHARE CAPITAL (cont'd...)

On February 9, 2007, the Company completed its Offering and issued 2,200,000 common shares at \$0.25 per share for gross proceeds of \$550,000. The Company had entered into an agreement with Bolder Investment Partners, Ltd. ("Bolder") whereby Bolder agreed, subject to regulatory approval and certain conditions, to act as the agent for the Offering. As compensation, Bolder received a work fee of \$10,000, a corporate finance fee of 75,000 shares at a fair value of \$18,750, a commission of 8% of the gross proceeds of the Offering, and was issued warrants (the "broker's warrants") equivalent to 10% of the number of shares sold under the Offering (220,000), 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. The broker's warrants have been recorded as share issuance costs at a fair value of \$20,221. These warrants expired unexercised in February, 2008.

On March 8, 2007 the Company issued 25,000 shares at a fair value of \$10,000 with respect to an option payment on the Okeover property (Note 4).

On May 11, 2007 the Company issued 750,000 flow-through units at a price of \$0.30 per share for proceeds of \$225,000 pursuant to a private placement. Each unit consisted of one flow-through common share and one share purchase warrant. Each warrant is exercisable into an additional non-flow-through common share at a price of \$0.40 until May 11, 2009. The fair value of the warrants was estimated to be \$22,500 (10% of the proceeds received from the private placement), this estimate has not been recorded as a separate component of shareholders' equity.

On November 2, 2007 the Company completed a non-brokered private placement of 1,450,000 flow-through units at a price of \$0.35 per unit for gross proceeds of \$507,500. Each unit consisted 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. 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 granting of these 108,000 finders warrants resulted in stock-based compensation expense, calculated using the Black-Scholes option pricing model, of \$7,005 which has been charged to share issuance costs during the period.

During the three months ended December 31, 2007 at total of 1,400,000 warrants were exercised for proceeds of \$210,000 and 200,000 warrants expired unexercised.

Flow-through shares

In accordance with accounting recommendations relating to the issuance of flow-through shares (Note 2), the Company reduced from flow-through share proceeds assigned to share capital and recognized as a future tax liability, the estimated tax effect of the timing difference resulting from renouncing exploration expenditures using currently enacted tax rates and laws.

Concurrently the Company recognized a future income tax recovery from the utilization of available tax losses of prior periods to offset the future tax liability recognized. The Company has not previously recognized tax benefits relating to losses of prior periods as the criteria for recognition had not been met.

8. STOCK OPTIONS AND WARRANTS

Stock options

The Company follows 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.

The Company expenses the fair value of all stock-based compensation awards as determined using the Black-Scholes option pricing model. During the year ended September 30, 2007, the Company granted 450,000 incentive stock options to officers and directors. These options may be exercised within 5 years at a price of \$0.25 per share. The granting of these 450,000 incentive stock options resulted in stock-based compensation expense, calculated using the Black-Scholes option pricing model, of \$81,696 which has been recorded as compensation expense on the statement of operations.

During the three months ended December 31, 2007 the Company granted 200,000 incentive stock options to investor relations consultants, subject to acceptance for filing by the TSX Venture Exchange. These options may be exercised for a period of 2 years at a price of \$0.25 per share and are subject to vesting provisions. The granting of these 200,000 incentive stock options resulted in stock-based compensation expense, calculated using the Black-Scholes option pricing model, of \$15,759 of which \$1,313 vested during the period and has been recorded as compensation expense on the statement of operations.

The following assumptions were used for the Black-Scholes valuation of stock options and agents' warrants granted during the period:

	2008	2007
Risk-free interest rate	3.55 - 3.98%	3.96%
Expected life	1.5 - 2 years	5 years
Annualized volatility	0.52%	89%
Dividend yield	0%	0%

The following options were outstanding at March 31, 2008:

Number of Shares	Exercise Price	Expiry Date
450,000	\$0.25	February 14, 2012
200,000	\$0.25	December 4, 2009

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

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Life Remaining (in years)
Balance, February 9, 2006 and September 30, 2006	-	\$ -	-
Options granted	450,000	0.25	-
Balance, March 31, 2007	450,000	0.25	-
Options granted	200,000	0.25	-
Balance, March 31, 2008	650,000	0.25	3.20
Number of options exercisable at March 31, 2008	500,000	\$ 0.25	3.65

Warrants

The following warrants were outstanding at March 31, 2008:

Number	Exercise Price	Expiry Date
750,000	\$0.40	May 11, 2009
725,000	\$0.45	April 30, 2009
108,000	\$0.35	April 30, 2009

The weighted average remaining life of the warrants is 1.09 years and the weighted average exercise price is \$0.42.

Warrant transactions and the number of warrants are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Life Remaining (in years)
Balance, February 9, 2006	-	\$ -	-
Issued	1,820,000	0.09	-
Balance, March 31, 2008	1,820,000	0.09	0.15
Issued	750,000	0.40	-
Balance, September 30, 2007	2,570,000	0.23	0.65
Issued	833,000	0.35	-
Exercised	(1,400,000)	0.15	-
Expired	(420,000)	0.20	-
Balance, March 31, 2008	1,583,000	0.42	1.09

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9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	2007	2006
Cash paid during the period for interest	\$ -	\$ -
Cash paid during the year for income taxes	\$ -	\$ -

The significant non-cash transactions during the six month period ended March 31, 2008 included:

- a) Recording broker's warrants as share issuance costs at a fair value of \$7,005 (Note 7).

10. FUTURE INCOME TAX RECOVERY

During the year ended September 30, 2007, the Company issued 750,000 flow-through units at a price of \$0.30 per share for proceeds of \$225,000 pursuant to a private placement (Note 7). The flow-through subscription agreements required the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's mineral properties to the flow-through participants. The Company filed the renunciation documentation for \$225,000 of expenditures to the subscribers during 2008 which was effective December 31, 2007. Accordingly, \$69,750, being the taxable benefit renounced, has been charged as a reduction to share capital (Note 7). Concurrent with the renunciation, the Company realized a future tax benefit. The realized tax benefit is recorded as a future income tax recovery during the three months ended March 31, 2008, in accordance with CICA emerging issue pronouncement EIC-146.

During the three months ended December 31, 2007, the Company issued 1,450,000 flow-through units at a price of \$0.35 per share for proceeds of \$507,500 pursuant to a private placement (Note 7). The flow-through subscription agreements required the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's mineral properties to the flow-through participants. The Company filed the renunciation documentation for \$507,500 of expenditures to the subscribers during 2008 which was effective December 31, 2007. Accordingly, \$157,325, being the taxable benefit renounced, has been charged as a reduction to share capital (Note 7). Concurrent with the renunciation, the Company realized a future tax benefit. The realized tax benefit is recorded as a future income tax recovery during the three months ended March 31, 2008, in accordance with CICA emerging issue pronouncement EIC-146.

As at March 31, 2008, the Company has \$246,680 of cash on hand relating to its unexpended 2007 flow-through commitments.