**FINANCIAL STATEMENTS**

**MARCH 31, 2009**
**(Unaudited – prepared by management)**

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

**PROPHECY RESOURCE CORP.**
INTERIM BALANCE SHEET
AS AT MARCH 31, 2009
(Unaudited – prepared by management)

| | March 31, 2009 | September 30, 2008 (audited) |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash | $ 14,542 | $ 17,787 |
| Short-term investments (Note 3) | 75,000 | 170,000 |
| Receivables | 878 | 2,844 |
| Government grant receivable (Note 12) | 10,745 | 45,965 |
| Prepaids | - | 4,950 |
| | 101,165 | 241,546 |
| **Mineral property** (Note 6) | 150,750 | 89,000 |
| **Deferred exploration costs** (Note 7) | 1,018,587 | 1,018,587 |
| **Reclamation bond** (Note 6) | 6,500 | 6,500 |
| | 1,277,002 | $ 1,355,633 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | $ 10,436 | $ 13,966 |
| Due to related parties (Note 8) | - | 5,307 |
| | 10,436 | 19,303 |
| **Future Income Taxes** (Note 12) | 85,750 | 85,750 |
| | 96,186 | 105,053 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (Note 9) | 1,388,802 | 1,388,802 |
| Contributed surplus (Note 9) | 202,845 | 198,905 |
| Deficit | (410,831) | (337,127) |
| | 1,180,816 | 1,250,580 |
| | $ 1,277,002 | $ 1,355,633 |

**Nature and continuance of operations** (Note 1)
**Commitments** (Note 6)

**Approved on behalf of the Board:**

| | |
|---|---|
| *"Stuart Rogers"* Director | *"James Brown"* Director |
| Stuart Rogers | James Brown |

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

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

| | Three months ended March 31, 2009 | Three months ended March 31, 2008 | Six months ended March 31, 2009 | Six months ended March 31, 2008 |
|---|---|---|---|---|
| **EXPENSES** | | | | |
| Office, rent and miscellaneous (Note 8) | 4,870 | 6,467 | 9,571 | 11,472 |
| Investor Relations –Stock-based compensation (Note 10) | - | 3,940 | 3,940 | 5,253 |
| Management fees (Note 8) | 4,500 | 3,500 | 9,000 | 8,000 |
| Management fees –stock based compensation (Notes 10) | - | - | - | - |
| Part XII.6 tax | 4,607 | | 4,607 | - |
| Professional fees | 21,987 | 16,946 | 21,987 | 29,216 |
| Shareholder communications | 6,312 | 19,934 | 18,102 | 40,383 |
| Transfer agent and filing fees | 7,104 | 11,730 | 10,291 | 16,771 |
| **LOSS BEFORE OTHER ITEM** | (49,380) | (62,517) | (77,498) | (111,095) |
| **OTHER ITEM** | | | | |
| Interest income | 589 | 4,528 | 3,794 | 8,325 |
| **NET LOSS BEFORE INCOME TAXES** | (48,791) | (57,989) | (73,704) | (102,770) |
| Future income tax recovery (Notes 7 and 12) | - | 92,380 | - | 92,380 |
| **NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)** | (48,791) | 34,391 | (73,704) | (10,390) |
| **DEFICIT, BEGINNING** | (362,040) | (306,582) | (337,127) | (261,801) |
| **DEFICIT, ENDING** | $ (410,831) | $ (272,191) | (410,831) | (272,191) |
| **BASIC AND DILUTED GAIN (LOSS) PER COMMON SHARE** | $ 0.01 | $ 0.01 | $ (0.01) | $ (0.01) |
| **WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC AND DILUTED** | 11,100,000 | 11,100,000 | 11,100,000 | 10,229,563 |

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, 2009 | Three months ended March 31, 2008 | Six months ended March 31, 2009 | Six months ended March 31,2008 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Net Income (loss) | $ (48,791) | $ 34,391 | $ (73,704) | $ (10,390) |
| Items not involving cash: | | | | |
| Future income tax recovery | - | (92,380) | - | (92,380) |
| Stock based compensation | - | 3,940 | 3,940 | 5,253 |
| Changes in non-cash working capital items: | | | | |
| Decrease (Increase) in receivables | (409) | 21,388 | 1,967 | 3,820 |
| Decrease in prepaids | 4,950 | - | 4,950 | 30,000 |
| Decrease in Grant Receivable | 35,220 | - | 35,220 | - |
| Decrease (increase) in accounts payable and accruals | 4,085 | (2,304) | (8,868) | 5,560 |
| Net cash used in operating activities | (4,945) | (34,965) | (36,495) | (58,137) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Short-term investments | 60,000 | (115,000) | 95,000 | (365,000) |
| Property acquisition cost | (43,375) | (20,000) | (61,750) | (20,000) |
| Deferred exploration costs | - | (13,798) | - | (260,821) |
| Net cash used in investing activities | 16,625 | (148,798) | 33,250 | (645,821) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Deferred finance fees | - | - | - | - |
| Related party advances (repayments) | - | - | - | - |
| Shares issued, net of share issuance costs | - | - | - | 679,700 |
| Net cash provided by financing activities | - | - | - | 679,700 |
| **Change in cash** | 11,680 | (183,763) | (3,245) | (24,258) |
| **Cash, beginning** | 2,862 | 187,510 | 17,787 | 28,005 |
| **Cash, end** | $ 14,542 | $ 3,747 | $ 14,542 | $ 3,747 |

**Supplemental disclosures with respect to cash flows** (Note 11)

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 and trades publicly on the TSX Venture Exchange (“TSX-V”).

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.

**Government Grants**
Government assistance is recorded as either a reduction of the cost of the applicable assets or credited in the statement of operations as determined by the terms and conditions of the agreement under which the assistance is provided to the Company. Claims for tax credits are accrued upon the Company attaining reasonable assurance of collection from the Canadian tax authorities.

**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.

**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 March 31, 2009 and 2008, management has determined that there are no material asset retirement obligations to the Company.

**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 year.

**Financial instruments**
On October 1, 2007, the Company adopted CICA Handbook Sections 3855 and 3861, financial instruments and Section 3856, hedges. Sections 3855 and 3861 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

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

**Financial instruments** (cont'd…)
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 Company's financial instruments consist of cash, short-term investments, receivables, accounts payable and due to related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency risks, or credit risks arising from these financial instruments. The Company has made the following classifications for the financial instruments:

(i) Cash and short-term investments – held-for-trading; measured at fair value;
(ii) Receivables recorded at amortized cost; and
(iii) Accounts payable and due to related parties – other financial liabilities; recorded at amortized cost.

Fair Value estimates are made at the balance sheet date, based on relevant market information and other information about financial instruments. 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 Handbook Section 3870, "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.

**Comprehensive income**
The Company adopted CICA Handbook Section 1530, "Comprehensive Income". Section 1530 establishes standards for the reporting and presenting of comprehensive income which is defined as the change in equity from transaction and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income (loss). At September 30, 2008 and 2007 the Company had no significant items that caused other comprehensive loss to be different than net loss.

**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.

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

**Flow-through shares** (cont'd…)
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.

**Change in accounting policies**
On December 1, 2006, the Canadian Institute of Chartered Accountants ("CICA") issued three new accounting standards: Capital Disclosures (Handbook Section 1535), Financial Instruments – Disclosures (Handbook Section 3862), and Financial Instruments – Presentation (Handbook Section 3863). These new standards became effective for the Company on October 1, 2007.

*Capital Disclosures*
Handbook Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has not complied with any capital requirements; and (iv) if it has not complied, the consequences of such noncompliance. The Company has included disclosures recommended by the new Handbook section in Note 4 to these financial statements.

*Financial Instruments*
Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the new Handbook sections in Note 5 to these financial statements.

**Recent accounting pronouncements**
The CICA accounting standards board amended Handbook Section 1400, "General standards of financial statement presentations", to include requirements for management to assess and disclose an entity's ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company does not expect the adoption of this amendment to have a significant impact on its financial statements.

In 2006, the Canadian Accounting Standards Board ("AcSB") published a strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles with International Financial Reporting Standards ("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 generally accepted accounting principles. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2010. The Company continues to monitor and assess the impact of Canadian GAAP and IFRS.

## 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, 2009, the instruments were yielding an annual interest rate of 1.70% (2008 – 3.15%).

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

## 4. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The property in which the Company currently has an interest is in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the three months ended March 31, 2009. The Company is not subject to externally imposed capital requirements.

## 5. FINANCIAL INSTRUMENTS

Financial Risk Management
The Company is exposed in varying degrees to a variety of financial instrument related risks.

*Credit Risk*
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its bank accounts and short-term investments, whose balance at March 31, 2009 were $14,542 and $75,000 respectively. Bank accounts are held with a major bank in Canada. As all of the Company's cash is held by a Canadian bank and all the short-term investments are also held by the same Canadian bank, there is a concentration of credit risk with one bank in Canada. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. The Company's secondary exposure to credit risk is on its receivables. This risk is minimal as receivables consist primarily of refundable government sales taxes.

*Currency Risk*
The Company operates in Canada and is therefore not exposed to foreign exchange risk arising from transactions denominated in a foreign currency.

*Interest Rate Risk*
The Company is exposed to interest rate risk as bank accounts and short-term investments earn interest income at variable rates. The fair value of its portfolio is relatively unaffected by changes in short term interest rates. The income earned on these bank accounts is subject to the movements in interest rates. A +/- 1% change in interest rates would have an effect on the loss before taxes for the year ended September 30, 2008 of approximately +/- $1,900.

*Liquidity Risk*
Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and short-term investments. As at March 31, 2009, the Company was holding cash of $14,542 and short-term investments of $75,000.

## 6. MINERAL PROPERTY

| | | March 31, 2009 | | March 31, 2008 |
|---|---|---|---|---|
| Okeover Property, British Columbia, Canada | $ | 150,750 | $ | 89,000 |

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") from Eastfield.

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),
- $20,000 in cash or issuance of common shares by March 8, 2008 (paid),
- $25,000 in cash or issuance of common shares by March 8, 2009, (paid)
- $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 (completed).

At March 31, 2009, the Ministry of Energy, Mines and Petroleum Resources of British Columbia holds a $6,500 (2008 - $6,500) reclamation bond from the Company to guarantee reclamation of the environment on the Okeover Property.

## 7. DEFERRED EXPLORATION COSTS

The following exploration costs were incurred on the Okeover Property to March 31, 2009:

| | Assays and drilling | Consulting | Field expenses | Road building | Property maintenance | Other | Total |
|---|---|---|---|---|---|---|---|
| September 30, 2006 | $ 8,794 | $ 36,254 | $ 43,681 | $ 13,503 | $ - | $ - | $ 102,232 |
| Additions | 255,592 | 68,374 | 69,424 | - | 2,693 | - | 396,083 |
| September 30, 2007 | 264,386 | 104,628 | 113,105 | 13,503 | 2,693 | - | 498,315 |
| Additions | 323,793 | 95,577 | 131,697 | 12,213 | 2,957 | - | 566,237 |
| Government grants | - | - | - | - | - | (45,965) | (45,965) |
| September 30 and March 31, 2009 | $ 588,179 | $ 200,205 | $244,802 | $ 25,716 | $ 5,650 | $ (45,965) | $ 1,018,587 |

## 8. RELATED PARTY TRANSACTIONS

During the six months ended March 31, 2009 the Company entered into the following transactions with related parties:

a) Paid office rent of $9,000 (2008 - $10,000) to a company controlled by a director and officer of the Company;

b) Paid management fees of $9,000 (2008 – $8,000) to a director and officer of the Company; and

c) Paid $Nil (2008 - $113,315) to a private company in which a director is a 50% partner for exploration work incurred on the Company's property.

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 Mach 31, 2009 $ Nil (2008 - $2,642) 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.

## 9. SHARE CAPITAL

| | Number of Shares | Amount | Contributed Surplus | Total |
|---|---|---|---|---|
| Authorized | | | | |
| Unlimited common shares without par value | | | | |
| Issued | | | | |
| Balance at September 30, 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 30, 2007 | 8,250,000 | 906,557 | 178,767 | 1,085,324 |
| Shares issued at $0.35 per share | 1,450,000 | 507,500 | - | 507,500 |
| Finder's warrants | - | (7,005) | 7,005 | - |
| Share issuance costs | - | (37,800) | - | (37,800) |
| Shares issued on exercise of warrants at $0.15 | 1,400,000 | 210,000 | - | 210,000 |
| Stock-based compensation | - | - | 13,133 | 13,133 |
| Renounced flow-through share expenditures | - | (190,450) | - | (190,450) |
| Balance as at September 30, 2008 | 11,100,000 | $ 1,388,802 | $ 198,905 | $ 1,587,707 |
| Stock-based compensation | - | - | 3,940 | 3,940 |
| Balance as at September 30, 2008 and March 31, 2009 | 11,100,000 | $ 1,388,802 | $ 202,845 | $ 1,591,647 |

As at March 31, 2009, 915,000 (2008 – 1,830,000) common shares included in share capital were held in escrow subject to a three year escrow agreement pursuant to TSX-V policies.

## 9. SHARE CAPITAL (cont'd…)

There were no shares issued during the six months ended March 31, 2009

**2008**

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 finder's 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. The Company has included the fair value of the warrants in share capital.

During the year ended September 30, 2008 at total of 1,400,000 warrants were exercised for proceeds of $210,000.

**2007**

On February 9, 2007, the Company completed its Initial Public Offering (the "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. As at September 30, 2006 the Company had incurred $17,000 in direct costs consisting of legal and agent fees in connection with this proposed financing. On completion of the Offering, these deferred finance charges were charged to share issuance costs. During the year ended September 30, 2007, the Company incurred additional share issuance costs in the amount of $61,192.

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 6).

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 Company has included the fair value of the warrants in share capital.

**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.

## 10. 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 20% 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.

## 10. STOCK OPTIONS AND WARRANTS (cont'd…)

There were no options granted during the six months ended March 31, 2009.

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, 2008, the Company granted 200,000 (2007 - 450,000) incentive stock options to consultants, directors and officers. These options may be exercised within 2-5 years at a price of $0.25 per share. The fair value of the 200,000 stock options granted during the year ended September 30, 2008 was estimated at $15,759 (2007 - $81,696) and had a vesting provision which allocates the amount of compensation to be recorded over a twelve month service period. During the year ended September 30, 2008, the Company recognized $13,133 (2007 - $81,696) in compensation expense related to these options. A further $3,940 was expensed on vesting during the three months ended December 31, 2008. These options were subsequently cancelled during the second quarter of fiscal 2009.

The weighted average fair value of the stock options granted during the year ended September 30, 2008 was $0.08 (2007 - $0.18). There were no options granted during the six months ended March 31, 2009.

The following assumptions were used for the Black-Scholes valuation of stock options and agents' warrants granted during the fiscal years ended September 30, 2008 and 2007:

| | 2008 | 2007 |
|---|---|---|
| Risk-free interest rate | 3.55% | 4.09% |
| Expected life | 1.5 – 2 years | 1-5 years |
| Annualized volatility | 52% | 92% |
| Dividend yield | 0% | 0% |

The following options were outstanding and exercisable at March 31, 2009:

| Number of Shares | Exercise Price | Expiry Date |
|---|---|---|
| 450,000 | $0.25 | February 14, 2012 |

Stock option transactions are summarized as follows:

| | Number of Options Outstanding | Number of Options Exercisable | Weighted Average Exercise Price |
|---|---|---|---|
| Balance, September 30, 2006 | - | - | $ - |
| Options granted | 450,000 | 450,000 | 0.25 |
| Balance, September 30, 2007 | 450,000 | 450,000 | 0.25 |
| Options granted | 200,000 | 166,667 | 0.25 |
| Balance, September 30, 2008 | 650,000 | 616,667 | 0.25 |
| Options expired | (200,000) | (200,000) | |
| Balance, March 31, 2009 | 450,000 | 450,000 | 0.25 |

The weighted average life remaining of the stock options outstanding and exercisable at March 31, 2009 are 2.87 years.

## 10. STOCK OPTIONS AND WARRANTS (cont'd…)

**Warrants**

The following warrants were outstanding at March 31, 2009:

| 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 |

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, September 30, 2006 | 1,600,000 | $ 0.09 | - |
| Issued | 970,000 | 0.14 | - |
| Balance, September 30, 2007 | 2,570,000 | 0.23 | - |
| Issued | 833,000 | 0.44 | - |
| Exercised | (1,400,000) | 0.15 | - |
| Expired | (420,000) | 0.20 | - |
| Balance, September 30 and March 31, 2009 | 1,583,000 | $ 0.42 | 0.09 |

## 11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

| | 2008 | 2007 |
|---|---|---|
| Cash paid during the period for interest | $ - | $ - |
| Cash paid during the period for income taxes | $ - | $ - |

There were no significant non-cash transactions during the six months ended March 31, 2009.

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

a) Recording agent's warrants as share issuance costs at a fair value of $7,005 (Note 9).

## 12. INCOME TAXES

During the year ended September 30, 2008, 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 9). The flow-through subscription agreements required the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's mineral property 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, $190,450, being the taxable benefit renounced, has been charged as a reduction to share capital (Note 9). Concurrent with the renunciation, the Company realized a future tax benefit. The realized tax benefit was recorded as a future income tax recovery during the year ended September 30, 2008, in accordance with CICA emerging issue pronouncement EIC-146.

As at September 30, 2008, the Company had satisfied its flow-through commitments and had fulfilled its commitment to expend the funds on qualifying exploration in accordance with the provisions of the Canadian Income Tax Act. During the year ended September 30, 2008, the Company applied for a mining tax refund from the Government of British Columbia of $45,965 for exploration work incurred on the Okeover property and received $35,220 of this amount in March of 2009.

## PROPHECY RESOURCE CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
For the three months ended March 31, 2009

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 and six months ended March 31, 2009. 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 May 8, 2009.

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 (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.

**2008 Exploration Program**

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 porphyry projects with access to the Asian Rim will continue to be valuable and can be expected to be in higher demand once the current western world recession abates.

The Company did not do any work on the Okeover property during the three months ended March 31, 2009. As of March 31, 2009 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 applied for a mining tax refund from the Government of British Columbia of $45,965 for exploration work incurred on the Okeover property, of which $35,220 was received by the Company in March 2009.

**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 months ended March 31, 2009.

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 months ended March 31, 2009 totaled $49,380 as compared to $62,517 during the same period a year prior. The significant expenditures were as follows:

During the three months ended March 31, 2009 the Company incurred $4,870 for office, rent and expenses, which was reduced from the $6,467 incurred during the same period a year prior.

Professional fees of $21,987 were incurred during the three months ended March 31, 2009 for additional accounting fees incurred with respect to the audited financial statements for fiscal 2008. This compares to $16,946 incurred during the three months ended March 31, 2008 for the same services.

During the three months ended March 31, 2008 the Company incurred stock-based compensation expense, a non-cash expense, of $3,940 for options granted to investor relations consultants in 2007 that vested during that period. There was no stock-based compensation during the current period, as these options, which expired during the current period, were fully vested prior to the period.

During the three months ended March 31, 2009 the Company paid Part XII.6 tax of $4,607 to the Government of Canada on funds raised by the Company through flow-through share offerings during prior years. There was no comparable expense during the same period a year prior.

The Company spent $7,104 for transfer agent and filing fees during the three months ended March 31, 2009. This is reduced from the $11,730 incurred for transfer agent and filing fees during the three months ended March 31, 2008 when the Company incurred additional SEDAR filing fees.

During the three months ended March 31, 2009 the Company incurred $6,312 for shareholder communications expenses, which included web site maintenance, consulting, news release dissemination and advertising. This compares to $16,946 incurred during the same period a year prior. Given current market conditions, the Company intends to further reduce these expenditures in the coming months.

Management fees of $4,500 incurred during the three months ended March 31, 2009 were increased from the $3,500 paid during the comparable period a year prior.

During the three months ended March 31, 2009 the Company earned interest income of $589 on short-term investments and cash on hand. This is reduced from the $4,538 earned during the same period a year prior due to the Company's reduced cash balance and the reduced rate of interest now being paid by financial institutions in North America.

As a result of the foregoing, the Company incurred a net loss before income taxes for the three months ended March 31, 2009 of $48,791 as compared to a loss of $57,989 for the comparable period a year prior.

During the three months ended March 31, 2008 the Company renounced a tax benefit of $92,380 as a result of the issuance of 2,200,000 flow-through shares during calendar 2007. This was charged to the balance sheet as a reduction to share capital and recorded on the statement of operations for the current period as a future income tax recovery, resulting in the Company recording net and comprehensive income for the three month period ended March 31, 2008 of $34,391. There was no comparable transaction during the current period.

**Summary of Quarterly Results**

| | Q2-09 | Q1-09 | Q4-08 | Q3-08 | Q2-08 | Q1-08 | Q4-07 | Q3-07 |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| **Net Income (Loss) ($)** | (48,791) | (24,913) | (33,717) | (31,219) | 34,391 | (44,781) | (16,878) | (30,744) |
| **Per Share (Loss) ($)** | (0.01) | (0.01) | (0.01) | (0.01) | 0.01 | (0.01) | (0.01) | (0.01) |

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.

The loss during the first quarter of fiscal 2009 was reduced to $24,913 from the $33,717 incurred during the fourth quarter of fiscal 2008 primarily due to a reduction in professional fees and expenditures on shareholder relations during the current period.

During the second quarter of fiscal 2009 the loss increased to $48,791 as a result of additional professional fees and Part XII.6 tax paid to the Government of Canada during the period on funds raised by the Company through flow-through share offerings during prior years.

Liquidity and Capital Resources

Prophecy is in the development stage and therefore has no regular cash flow. As at March 31, 2009, the Company had working capital of $90,728, inclusive of cash and short-term investments on hand 90,542. This compares to working capital of $222,243 at September 30, 2008, inclusive of cash on hand and short term investments of $187,787.

At March 31, 2009 the Company had current assets of $101,164, total assets of $1,277,002 and total liabilities of $10,436. 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 $1,169,337 as at March 31, 2009.

The increase in cash during the three months ended March 31, 2009 of $11,680 was primarily due to cash received from the redemption of short-term investments of $60,000, offset by cash used in operating activities of $4,945 and property acquisition expenditures of $43,375.

The decrease in cash during three months ended March 31, 2008 of $183,763 was primarily due to cash used by operations of $34,965, property acquisition and exploration expenditures of $33,798 and cash deposited in a short-term investment of $115,000.

The Company had sufficient funds on hand at March 31, 2009 to fund its operating expenses for the balance of the current 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.

Management has attended briefing seminars on the transition to IFRS, and we are awaiting the release of various exposure drafts and reports which will more clearly define the accounting standards for the mining exploration industry.

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 three months ended March 31, 2009, $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.

These amounts were incurred in the ordinary course of business.

Contingencies

The Company is aware of no contingencies or pending legal proceedings as of May 8, 2009.

Equity Securities Issued and Outstanding

The Company had 11,100,000 common shares issued and outstanding as of May 8, 2009. In addition, there were 450,000 incentive stock options and a total of 750,000 share purchase warrants outstanding as of May 8, 2009.

**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.