

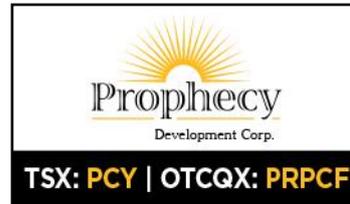
Strategic Metals & Rare Earths Letter

INTERNATIONAL

the independent information and advisory publication on investing in Strategic Metals & Rare Earths

INVESTMENT ALERT – October 2, 2019

www.prophecydev.com



Prophecy Development Corp. (C\$ 0.39)

TSX.V : PCY
OTCQX : PRPCF
Frankfurt : 1P2N

H + L prices (12 months) : Cdn\$ 0.74 – 0.15

Net shares issued : 109.3 million
Fully diluted shares : 132.0 million

Market Capitalization : Cdn\$ 43.2 million
(US\$ 29.0 million)

2020 price target: Cdn\$ 0.70

INVESTMENT ALERT

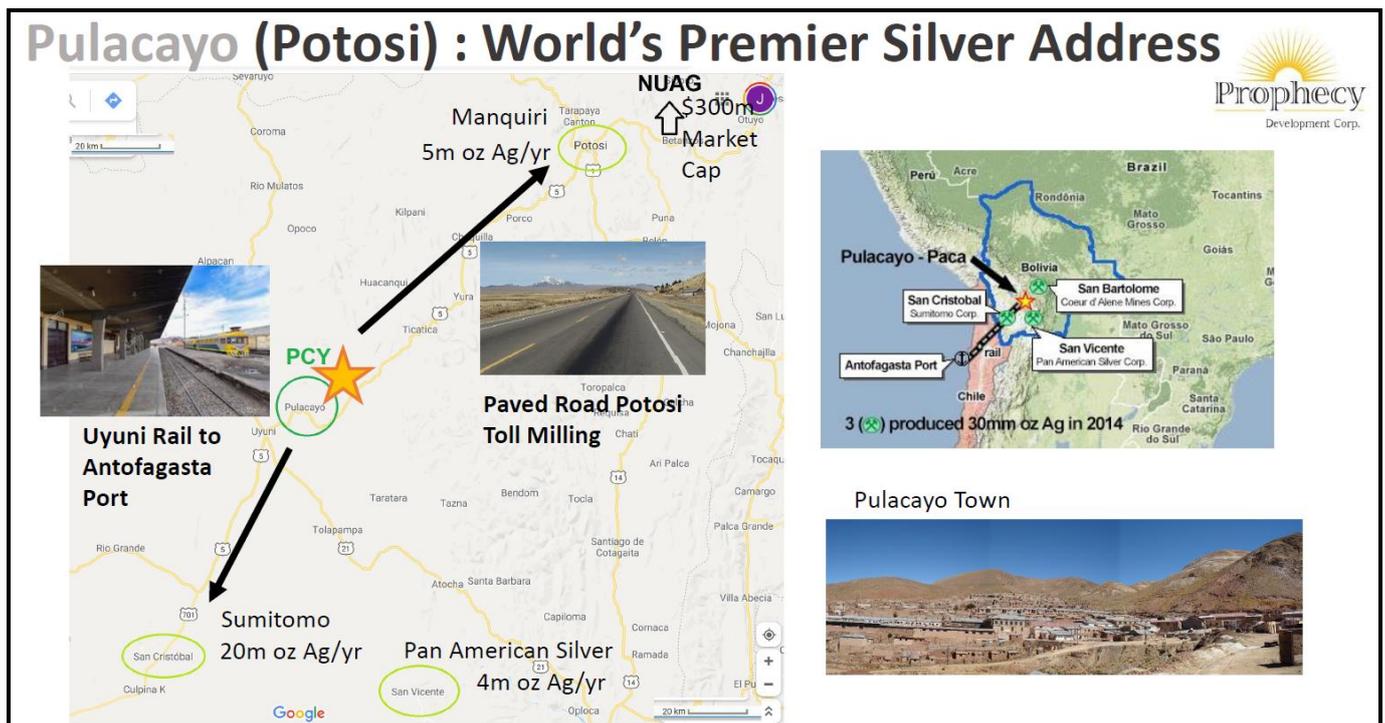
► Drilling to commence at **Pulacayo Paca Silver-Zinc-Lead deposit in Bolivia**

On September 30, 2019, **Prophecy Development** (“Prophecy”) announced that a 5,000-metre diamond drilling at its **Pulacayo Paca Silver-Zinc-Lead deposit** in the prolific silver mining Potosi department in **Bolivia** has started with first set of assay results expected in early November 2019.

Phase I drilling will be comprised of surface drilling to expand the NI 43-101 compliant **Paca resource** in the northern and eastern directions where previous drill holes encountered high-grade surface intercepts including PND-062, which included 42 metres of 406 g/t silver (Ag) located on the edge of the resource envelope. **Prophecy** will also evaluate upgrading the Paca resource from an Inferred category to Measured and Indicated categories through infill drilling.

Phase 2 surface drilling is scheduled to commence in November 2019. The plan is to expand the Pulacayo resource base along strike from 1 km to 3 km and at depth from 300 m to 600 m. There will also be infill drilling to confirm the geological model and test continuity of shallow high-grade indicated resource blocks that are near the San Leon tunnel and accessible through the existing adit.

➤ **Pulacayo mineral resource estimate**



A 2017 mineral resource estimate prepared by Mercator for the **Pulacayo deposit** based on 400 Ag Equivalent cut-off outlined **2.08 million tonnes** at a weighted average of **Ag 455 g/t, Pb 2.18%, Zn 3.19% (Ag Equivalent 594 g/t)** in the **Indicated category** and **0.48 million tonnes** at a weighted average grade of **Ag 406 g/t, Pb 2.08%, Zn 3.93% (Ag equivalent 572 g/t)** in the **Inferred category**.

Based on the resource statement, the contained metal content of the Indicated resources are 3.04 million ounces of silver (Ag), 100.0 million pounds of lead (Pb) and 146.3 million pounds of zinc (Zn).

The contained metal content of the Inferred category resources are 6.3 million ounces of Ag, 22.0 million pounds of Pb and 41.6 million pounds of Zn.

The Mercator study superceded the 2013 feasibility study of TWP Sud America that outlined an historic resource starting from surface of **20.7 million tonnes** grading **100 g/t** at a lower cut-off grade, containing 70 million ounces of silver.

The TWP study is now considered historic in nature and should not be relied upon.

Past **Pulacayo** production was predominantly from the **Tajo Vein System (TVS)**, which extends over a strike length of more than **2.5 km** and to a depth of at least **1,000 metres**.

Prior resource drilling only covered approximately 30% of the TVS strike length, with additional resources along the TVS structure..

Prophecy's wholly owned Bolivian subsidiaries (acquired from Apogee Silver in 2015) **have invested over US\$ 25 million in Pulacayo-Paca** since 2005, which included over **80,000 metres of drilling**. The Company is developing and operating at **Pulacayo** with full local commissioning support

Overview of Projects



Prophecy
Development Corp.

<p>Nevada Vanadium Mining Corp*</p> <p>Gibellini Nevada US\$20 million invested</p>  <p>Permitting and Design Stage</p>	<p>Silver Elephant Mining Corp*</p> <p>Pulacayo Bolivia US\$25 million invested</p>  <p>Mining Application Stage</p>	<p>Asia Mining Inc*</p> <p>Coal Mongolia US\$50 million invested</p>  <p>Commercial Production</p>
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* BC subs 100% owned by PCY, Reorganization by August 31, 2019
Silver Elephant may seek to go public in 2019

► Gibellini Vanadium Project – Nevada, USA

The **Gibellini Vanadium Project**, the Company's flagship property, is designed to be an open-pit, heap-leach operation in **Nevada**, ranked #1 mining jurisdiction in the world by Fraser Institute. The Project is located about 25 miles south of the town of Eureka.

Prophecy holds a 100% interest in the properties by way of a lease agreement and staked claims. The Project consists of **Gibellini** and **Laurie Hill Vanadium Deposits** located in close proximity of each other.

The **Gibellini Project** is currently undergoing EIS and EPCM preparation. The Company achieved a major permitting milestone by submitting its **Management's Plan of Operation ("MPO")** and associated baseline studies with the local office of the federal Bureau of Land Management ("BLM").

Prophecy is currently working with the BLM to update all previous and add all necessary, baseline studies. Upon acceptance of the baseline studies, MPO and environmental report by the BLM, **Prophecy** expects to trigger a NOI in 2019 by the BLM to prepare an **Environmental Impact Statement ("EIS")** for the Project.

The **Preliminary Economic Assessment ("PEA")**, completed on May 29, 2018 and planned to be conventional open-pit mining with an average mine production during the 13.5 year mine life, reported an **after tax cumulative cash flow of US\$ 60.15 million, an internal rate of return of 50.8%, a Net Present Value of US\$ 338.3 million at a 7% discount rate and a 1.72 years payback** on investment from start-up assuming an average vanadium price (V2O5) of \$ 12.73 per pound.

The **PEA** was prepared by Amec Foster Wheeler E & Services ("AMEC"), part of the Wood Group of companies.

Gibellini: Positive Vanadium Project Economics



Highlights of PEA (after tax)	
Average annual production	9.65 million lbs V ₂ O ₅
Average V ₂ O ₅ selling price	\$12.73 per lb
Operating cash cost	\$4.77 per lb V ₂ O ₅
Breakeven price @ 7%	\$7.76 per lb V ₂ O ₅
Capex including 25% contingency	\$116.76 million
Strip ratio	0.17 waste to leach material
Mining operating rate per year	3.4 million tons
V ₂ O ₅ heap leach recovery rate	62%
Life of mine	13.5 years

Price change	V ₂ O ₅ price \$/lb	After-tax IRR	After-tax NPV @7%	After-tax cashflow
Base price	\$12.73	51%	\$338M	\$600.4M
-20%	\$10.18	36%	\$183M	\$333M
-30%	\$8.91	26%	\$103M	\$197M

May 29th, 2018 Preliminary Economic Assessment by AMEC at \$12.73/lb V₂O₅
 Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability.



➤ Ulaan Ovoo Coal Projects, Mongolia

Prophecy operates the 100% owned **Ulaan Ovoo** and **Chandgana coal mines** under existing 20-year mining licences that can be extended for another 20 years. Ulaan Ovoo is located in northern Mongolia, 17 km from the border to Russia and 120 km by road from Mongolia's Sukhbaatar railway station, which connects to the Trans-Siberian railway network.

Ulaan Ovoo has received over US\$ 100 million investment since 2010 and features an average strip ratio of 1.8. The coal mine yielded 5,000 kcal/kg GCV, less than 1% Sulphur, and low ash (8 to 11%), which is well-suited for power plants, cement plants and boiler heat applications.

Wardrop Engineering (Tetra Tech) estimated 174 million tonnes of Measured and 34 million tonnes of Indicated coal resources in an NI 43-101 compliant report titled "Ulaan-Ovoo Pre-Feasibility Study", dated December 13, 2010 (available on SEDAR).

Ulaan Ovoo is being operated by a Lessee since March 2019 and achieved a recent production of 37,800 tonnes in June 2019. The Lessee will pay **Prophecy** \$ 2 (the Production Royalty) for every tonne of coal shipped from the Ulaan Ovoo site premises. The Lessee has reportedly secured more than 400,000 tonnes of orders through to April 2020.

The lease is valid for 3 years with an annual advancing royalty payment for the first year of \$ 100,000 due upon signing (paid), as well as \$ 150,000 and \$ 250,000 due on the 1st and 2nd anniversary of the Lease, respectively. The Lessee is responsible for all capital and operating expenses, government taxes and royalties related to the Ulaan Ovoo operation.

In addition, **Prophecy** reported a positive resolution issued from Mongolia city tax tribunal regarding the Company's VAT dispute with the Mongolian tax office. The resolution, which is binding and final, affirmed the Company's outstanding VAT credit of 1,169 billion MNT (US\$ 439,470) based on an exchange rate of 2,666 MNT to 1 US\$, resulting from past mining equipment purchases.

Lastly, **Prophecy** reported that it had successfully converted its **Chandgana Khantgai** coal exploration licence to mining licence in central Mongolia, approximately 300 km east of the capital of Ulaan Baatar.

Chandgana Khantgai contains estimated NI 43-101 compliant resources of 509 million tonnes of coal in Measured and 539 million tonnes in Indicated categories in a technical report issued in September 2010.

Prophecy anticipates strong 2019 sales with shipments to Mongolia, Russia and potentially China.

Investment recommendation:

With **Prophecy** has announced that it will commence drilling at its 100% owned **Pulacayo Paca Silver-Zinc-Lead** deposit in **Bolivia**, the Company's flagship property is the **Gibellini Vanadium Property** located in the State of Nevada, **USA**. In addition, its **Vanadium-Titanium-Iron Project** and deposit and related claims are located in the Province of Ontario, Canada.

Prophecy has submitted its updated **Plan of Operations/Reclamation Permit Application** for **Gibellini** to the local Bureau of Land Management (the "BLM") and the Nevada Division of Environmental Protection ("NDEP") on June 28, 2019.

Poised to be USA's first primary vanadium mine, **Gibellini** has completed a **Preliminary Economic Assessment ("PEA")** on May 28, 2018, which is planned to be a conventional open-pit mining with an average mine production during the 13.5 year mine life, reported an **after tax cumulative cash flow of US\$ 60.15 million, an internal rate of return of 50.8%, a Net Present Value of US\$ 338.3 million at a 7% discount rate and a 1.72 years payback** on investment from start-up assuming an average vanadium price (V2O5) of \$ 12.73 per pound.

With US\$ 20 million having been invested in the **Gibellini Project**, which shows positive vanadium economics, and expecting the permit of production in Q1 2021, followed by construction in 2021/2022, and production to commence in Q4 2022, **Prophecy** has created a significant added value by reorganizing its **Silver Elephant Mining Project** in **Bolivia**, which includes the **Palacayo Silver-Zinc-Lead Project** where drilling is to commence in November this year and in which project US\$ 25 million has been invested. In commercial production in the **Mongolia** coal project, US\$ 50 million has been invested.

Considering the currently aggregate investment of US\$ 95 million compared to the Company's currently depressed market valuation of US\$ 29 million, and in particular the prospective outlook for its **Gibellini** vanadium project on its way to expected commercial production in 2021, in my view, **Prophecy** offers a high investment leverage potential.

My 2020 price target remains C\$ 0.70.