

FORM 45-106F1

Securities Act

Report of Exempt Distribution

This is the form required under section 6.1 of National Instrument 45-106 for a report of exempt distribution.

Issuer Information

1. State the full name of the issuer of the security distributed and the address and telephone number of its head office. If the issuer of the security distributed is an investment fund, state the name of the fund as the issuer, and provide the full name of the manager of the investment fund and the address and telephone number of the head office of the manager. Include the former name of the issuer if its name has changed since last report.

PROPHECY RESOURCE CORP.

2080-777 Hornby Street
Vancouver, B.C., V6Z 1S4
Telephone: (604) 683.7361

2. State whether the Issuer is or is not a reporting issuer and, if reporting, the jurisdictions in which it is reporting.

The Issuer is a reporting issuer in British Columbia and Alberta.

3. Indicate the industry of the Issuer by checking the appropriate box next to one of the industries listed below.

- | | |
|---|---|
| <input type="checkbox"/> Bio-tech | <input checked="" type="checkbox"/> Mining |
| <input type="checkbox"/> Financial Services | <input checked="" type="checkbox"/> Exploration/development |
| <input type="checkbox"/> Investment companies and funds | <input type="checkbox"/> Production |
| <input type="checkbox"/> Mortgage investment companies | <input type="checkbox"/> Oil and gas |
| <input type="checkbox"/> Forestry | <input type="checkbox"/> Real estate |
| <input type="checkbox"/> Hi-tech | <input type="checkbox"/> Utilities |
| <input type="checkbox"/> Industrial | <input type="checkbox"/> Other (describe) |

Details of distribution

4. Complete Schedule I to this report. Schedule I is designed to assist in completing the remainder of this report.
5. State the distribution date. If the report is being filed for securities distributed on more than one distribution date, state all distribution dates.

September 1, 2010

6. For each security distributed:
 - (a) Describe the type of security, and

- (b) State the total number of securities distributed. If the security is convertible or exchangeable, describe the type of underlying security, the terms of exercise or conversion and any expiry date.
- (c) State the exemption relied upon.

1,000,000 common shares at a deemed price of \$0.50 per share pursuant to a loan agreement. The Issuer relies upon the exemptions in 2.10 of National Instrument 45-106.

7. Complete the following table for each Canadian and foreign jurisdiction where purchasers of the securities reside. Provide a total dollar value of all securities distributed in all jurisdictions. Do not include in this table, securities issued as payment for commission or finder's fees disclosed under item 8, below.

| Each jurisdiction where purchasers reside | Number of purchasers | Price per security (Canadian \$) ¹ | Total dollar value raised from purchasers in the jurisdiction (Canadian \$) |
|--|----------------------|---|---|
| British Virgin Islands | 1 | \$0.50 per share | \$500,000 |
| Total number of Purchasers | 1 | | |
| Total dollar value of distribution in all jurisdictions (Canadian \$) | | | \$500,000.00 |

Commissions and finder's fees

8. Complete the following table by providing information for each person who has received or will receive compensation in connection with the distribution(s). Compensation includes discounts, commissions or other fees or payments of a similar nature. Do not include payments for services incidental to the distribution, such as clerical, printing, legal or accounting services. N/A

If securities are being issued as compensation are or include convertible securities, such as warrants or options, please add a footnote describing the terms of the convertible securities, including the term and exercise price. Do not include the exercise price of any convertible security in the total dollar value of the compensation unless the securities have been converted.

| Full name and address of the person being compensated | Compensation paid or to be paid (cash and/or securities) | | | | |
|---|--|--------------------------------------|--------------------|--|---|
| | Cash (Canadian \$) | Securities | | | Total dollar value of compensation (Canadian \$) |
| | | Number and type of securities issued | Price per security | Exemption relied on and date of distribution | |
| | | | | | |
| | | | | | |
| TOTAL | 0 | | | | 0 |

9. If a distribution is made in Ontario, please include the attached "Authorization of Indirect Collection of Personal Information for Distributions in Ontario". The "Authorization of Indirect Collection of Personal Information for Distributions in Ontario" is only required to be filed with the Ontario Securities Commission.

Certificate

On behalf of the issuer (or vendor), I certify that the statements made in this report and in each schedule to this report are true.

Date: September 2, 2010

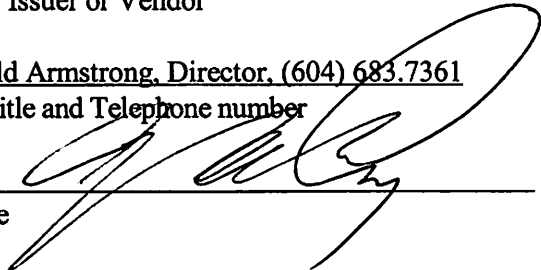
Prophecy Resource Corp.

Name of Issuer or Vendor

G. Arnold Armstrong, Director, (604) 683.7361

Name, Title and Telephone number

Signature



10. State the name, title and telephone number of the person who may be contacted with respect to any questions regarding the contents of this report, if different than the person signing the certificate.

Shauna Hartman, legal counsel to the Issuer, 604-633-4289

IT IS AN OFFENCE TO MAKE A MISREPRESENTATION IN THIS REPORT.

Notice - Collection and use of personal information

The personal information required under this form is collected on behalf of and used by the securities regulatory authorities or, where applicable, the regulators under the authority granted in securities legislation for the purposes of the administration and enforcement of the securities legislation.

If you have any questions about the collection and use of this information, contact the securities regulatory authority or, where applicable, the regulator in the jurisdiction(s) where the form is filed, at the address(es) listed at the end of this report.

Authorization of Indirect Collection of Personal Information for Distributions in Ontario

The attached Schedule I contains personal information of purchasers and details of the distribution(s). The issuer hereby confirms that each purchaser listed in Schedule I of this report

(a) has been notified by the issuer;

- (i) of the delivery to the Ontario Securities Commission of the information pertaining to the person as set out in Schedule I,
- (ii) that this information is being collected indirectly by the Ontario Securities Commission under the authority granted to it in securities legislation,
- (iii) that this information is being collected for the purposes of the administration and enforcement of the securities legislation of Ontario, and
- (iv) of the title, business address and business telephone number of the public official in Ontario, as set out in this report, who can answer questions about the Ontario Securities Commission's indirect collection of the information, and

(b) has authorized the indirect collection of the information by the Ontario Securities Commission.