

PROPHECY DEFI INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DATE OF MD&A

This MD&A was prepared on May 1, 2023.

Basis of Presentation

The following discussion and analysis of Prophecy DeFi Inc.'s (the "Company's" or "Prophecy's") financial condition should be read in conjunction with the Company's audited consolidated financial statements as at December 31, 2022. These financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"). All figures are expressed in Canadian dollars unless otherwise indicated. See "Risk Factors" for a discussion of the risks inherent in the business of the Company, which may also affect its continuing financial condition, cash flows and operating results.

Overall Performance

Overview of the Business

Prophecy has its principal offices located at 87 Scollard Street, Suite 100, Toronto, ON M5R 1G4.

Prophecy Defi's primary objective is to invest its funds for purposes of generating returns from capital appreciation and income. It plans to accomplish these goals by bringing together technology start-ups in the Blockchain and Decentralized Finance sectors to fund innovation, elevate industry research, and create new business opportunities in a coherent ecosystem. The Company is pursuing investments in companies that are addressing these opportunities in innovative and technologically advanced ways. Our team will strive to accelerate the growth of these companies by providing capital, establishing advisory relationships, and providing strategic advice to leadership.

Effective December 31, 2015, Bucephalus Capital Corp. ("Bucephalus Capital") completed a reverse takeover transaction with Bucephalus Financial Corp. ("Bucephalus Financial"). The composition of the Board of Directors became Chris Carmichael, Jason Ewart, Michael Allen and Alec Regis and Chris Carmichael was appointed as Chief Executive Officer.

In March 2016, Bucephalus Capital listed its 20,215,887 Subordinate Voting Shares ("SV") on the Canadian Securities Exchange (the "CSE") under the symbol BCA. The Bucephalus Capital Multiple Voting Shares were not listed on an exchange but they were convertible into Bucephalus Capital SV Shares on a one for one basis.

On February 23, 2018, Lucas Ewart was appointed the Chief Executive Officer and as a Director of the Company. Lucas Ewart has extensive experience in finance, senior management and corporate development of public and private companies. He has served as Chairman, CEO as

well as Chief Restructuring Officer of numerous companies on an international scale having worked in Canada, USA, Australia, Mexico, and South East Asia (Hong Kong, Singapore, Philippines and China). In addition, he served as a Principal to GC-Global Capital Corp. for 10 years which specialized in securitized bridge loans.

On April 22, 2019, the Company announced that it had changed its name to Bucephalus Capital Corp. after receiving shareholder approval at its Annual and Special Meeting held on June 12, 2018.

On March 2, 2021, the Company appointed John A. McMahon to serve as Chairman and Chief Executive Officer and the addition of Tim Diamond to the Board. The Company also sold its ownership in Marathon Mortgage Corp. (“MMC”) for \$670,000. In 2019, the Company adjusted the fair value of its MMC shares to \$Nil.

On March 19, 2021, the Company closed a \$1,250,000 private placement financing at a price of \$0.05 per unit with each unit consisting of one subordinate voting share (“SVS”) and one warrant. Each warrant converts into one SVS at a price of \$0.25 with an expiry date of thirty-six months. Further, the Company announced that it has appointed Roland Nimmo to its executive management team as Chief Financial Officer, replacing Chris Carmichael.

On April 23, 2021, the Company closed a \$1,500,000 private placement financing at a price of \$0.15 per unit with each unit consisting of one subordinate voting share (“SVS”) and one warrant. Each warrant converts into one SVS at a price of \$0.25 with an expiry date of thirty-six months.

April 28, 2021, the Company announced that it has entered into a service agreement with Ninepoint Partners (“Ninepoint”) through its Ninepoint Digital Asset Group division. Through this partnership, Ninepoint will provide Prophecy ongoing marketing and strategic advice, assist with the corporate development of planned investment opportunities and provide introductions to certain parties that may further the business of the corporation. Ninepoint is among the largest independent asset management firms in Canada, with over \$8 billion in assets under management and institutional contracts. Ninepoint manages unique alternative investment solutions that offer investors the benefits of better diversification. It manages investment strategies that are uncorrelated from traditional asset classes, such as equities and bonds, with the goal of lowering overall portfolio risk. In consideration for services, Ninepoint will be paid a \$25,000 per month advisory fee and be issued 5,000,000 performance warrants exercisable at a price of \$0.35 to purchase common shares of the Company for a period expiring on the earlier of 3 years or a date that is 90 days after Ninepoint ceases to provide services to the Company. The warrants have a value of \$1,731,500 which have been recorded as a service agreement expense.

On April 28, 2021, the Company announced that it has entered into a non-binding letter of intent to acquire a 100% interest in Layer2 Blockchain Inc., a company which manages capital, technology and infrastructure in the decentralized finance (DeFi) cryptocurrency sector, with a focus on scalable layer two DeFi protocols. Layer2 is led by Andrew Young, Jake Hannah and Julian Wilson, a seasoned team of blockchain and DeFi entrepreneurs with a proven track record as investors, technologists, and business builders in this emerging industry, having successfully launched a top DeFi protocol. (the “Proposed Transaction”). The Proposed Transaction is subject

to the parties completing its respective due diligence and negotiating and entering into a definitive agreement and other ancillary documents necessary to complete the Proposed Transaction.

On June 1, 2021, the Company closed a \$3,000,000 private placement financing at a price of \$0.30 per unit with each unit consisting of one common share and one warrant. Each warrant converts into one common share at a price of \$0.50 with an expiry date of thirty-six months.

On June 8, 2021, the Company announced that it has entered into a definitive agreement with Layer2 Blockchain Inc. to initially acquire 60% of the issued and outstanding common shares of Layer 2 in exchange for 25,000,000 common shares in the capital of the Company at a price per common share of \$0.50, such common shares to be distributed pro rata to the shareholders of Layer2. Additionally, pursuant to the terms of the definitive agreement the Company has agreed to issue an additional 25,000,000 common shares for the remaining 40% of Layer 2 at a price of \$0.59 on the earlier of: (i) six months from the closing date of the initial acquisition or (ii) the date when Layer2 creates a minimum of 15 token positions in liquidity pools.

On June 23, 2021, the Company announced that it had filed articles of amendment to changed its name to Prophecy DeFi Inc. from Bucephalus Capital Corp. and to provide for the conversion of all of the subordinate voting shares and multiple voting shares into common shares after receiving shareholder approval at its Annual and Special Meeting held on June 8, 2021. The new name is designed to emphasize the Company's focus in the new and transformative financial sector. The common shares commenced trading under the new name on June 28, 2021 and under the new symbol "PDFI". The Company also announced that it has entered into a 6-month marketing and consulting contract with Toronto-based marketing firm, North Equities Corp. North Equities Corp. specializes in various social media platforms and will be able to facilitate greater awareness and widespread dissemination of the Company's news. The contract has a fee payable of \$150,000, which will be satisfied through the issuance of 250,000 common shares at a deemed price of \$0.60 per share. Further, the Company's announced that it has appointed Charlie Morris to its Board of Directors.

On June 29, 2021, the Company announced that is has become a member of the Blockchain Research Institute. As a member of the BRI, the Company receives access to a research library of 100+ projects and joins a global community of blockchain innovators, experts, builders and thought leaders.

On July 9, 2021, the Company announced that is has completed the previously announced acquisition of 60% of the issued and outstanding common shares of Layer2 Blockchain Inc. As consideration, the Company issued an aggregate of 25,000,000 common shares of the Company to the shareholders of Layer2 on a pro rata basis. Layer2 is a technology company focused on the rapidly emerging "Ethereum Layer Two" decentralized finance ecosystem. DeFi is currently the fastest growing and most innovative subsector in cryptocurrencies.

On July 22, 2021, the Company appointed Mr. Stuart Hensman to the Company's Board of Directors.

On August 4, 2021, the Company appointed Mr. Sandeep Nailwal to the Company's Advisory Committee.

On September 2, 2021, the Company appointed Ms. Galia Benartzi to the Company's Advisory Committee.

On September 13, 2021, the Company announced it has completed the previously announced acquisition of the remaining 40% of the issued and outstanding common shares of Layer2 Blockchain Inc. As consideration, the Company issued a further 25,000,000 common shares of the Company to the shareholders of Layer 2 on a pro rata basis. Layer2 specializes in liquidity provisioning, pooled lending and staking in non-Ethereum DeFi protocols. By providing capital to emerging marketplaces, Layer2 does not just profit from high yields, but also takes an early ownership stake in these growing exchanges. The Company also announced that it has agreed to extend a consulting contract with an investor relations firm, The Bid Capital. The contract has a fee payable of \$250,000, which will be satisfied through the issuance of 500,000 common shares at a deemed price of \$0.50 per share.

On September 21, 2021, the Company appointed Mr. Peng Zhong to the Company's Advisory Committee.

On October 19, 2021, the Company provided an operational update on its wholly owned subsidiary, Layer2 which has generated yield and capital gains of \$2,001,000 or 55% in a 90-day period beginning on July 17, 2021. Layer2 purchased a total of \$3,650,000 in digital assets across three purchases on July 17, August 6 and October 4, 2021 and has deployed these digital assets across eleven positions to generate an annualized rate of return of 492.5%.

On November 12, 2021, the Company provided an operational update on its wholly owned subsidiary, Layer2 which has continued to produce significant returns from existing positions, generating yield and capital gains of \$2,980,000 from its original \$3,650,000 in deployed capital in under 120 days of operations. On November 11, 2021, the Company provided additional capital to Layer2 in order to take advantage of net market opportunities. This increased Layer2's total deployable capital base to \$7,130,000. Layer2 identified Impermax as an innovative new DeFi protocol, which has tremendous potential. Layer2 worked directly with Impermax's founders to acquire a position of IMX, the protocol's governance token. Layer2 has deployed \$152,832 in the form of single sided and traditional liquidity to Impermax, which now has a market value of \$473,549 and has returned an additional \$44,595 in yield.

On December 23, 2021, the Company announced that it closed a brokered private placement of an aggregate of 5,680 convertible debenture units at an issue price of \$1,000 per unit for aggregate gross proceeds of \$5,680,000. Each debenture unit is comprised of \$1,000 principal amount of 10% unsecured convertible debentures of the Company and 1,667 common share purchase warrants of the Company. Each convertible debenture matures 36 months following the closing of the offering and bears interest at a rate of 10% per annum from the date of issue payable quarterly in cash.

On April 6, 2022, the Company provided an update regarding the exposure it's wholly owned subsidiary, Layer2 Blockchain Inc. had to the Ronin Network and its recent security breach. Layer2 has been providing liquidity to the decentralized exchange (DEX), Katana, which runs on the Ronin blockchain. Layer2 had approximately \$1 million of tokens deployed into a liquidity pool on the Katana DEX prior to the security breach. Currently, Layer2 has access to the tokens it has deployed into a Katana liquidity pool. The Ronin Network bridge will open once it has undergone a security upgrade and several audits.

On October 28, 2022, the Company announced the appointment of Paul Rekai as President and Head of Operations. In connection with Mr. Rekai's appointment, the Company has granted him an aggregate of 3,000,000 options to purchase common shares of the Company, with 1,000,000 options each exercisable at prices of \$0.05, \$0.10 and \$0.15, vesting over a 2 year period and expiring three (3) years from the date of issuance. The common shares issuable upon exercise of the options are subject to a four month hold period from the original date of grant.

On November 29, 2022, the Company announced the resignation of Stuart Hensman from the Board of Directors.

On December 13, 2022, the Company announced the appointment of Andy Dayes to the Company's Board of Directors. The Company also announced the resignation of Charlie Morris from the Board of Directors.

On December 13, 2022, the Company announced the appointment of Jonathon Cohen as the Company's new Chief Financial Officer. The Company also announced the resignation of Paul Rekai as President and Head of Operations. The Company also announced the resignation of Jonathon Hannah and Andrew Young as directors of Layer2 Blockchain Inc. and of its Chief Executive Officer, Andrew Young. Cameron Day had been appointment as a director of Layer2 and as its interim Chief Executive Officer and interim Secretary, and Jonathon Cohen had been appointed as Layer2's Chief Financial Officer.

As of December 31, 2022, the Company had cash of \$972,121 (Dec 31, 2021 - \$6,652,988), digital currencies of \$3,407,494 (Dec 31, 2021 - \$6,187,917), prepaid expenses and deposits of \$74,015 (Dec 31, 2021 - \$71,990), bridge loans of \$Nil (Dec 31, 2021 - \$99,520) with associated accrued interest receivable of \$Nil (Dec 31, 2021 - \$7,539), portfolio investments of \$26,908 (Dec 31, 2021 - \$94,179), office premise of \$788,173 (Dec 31, 2021 - \$998,471) and goodwill of \$Nil (Dec 31, 2021 - \$19,704,882).

As of December 31, 2022, the Company had accounts payable and accrued liabilities of \$632,456 (Dec 31, 2021 - \$429,665), a lease liability of \$513,735 (Dec 31, 2021 - \$617,453), convertible debentures of \$5,153,019 (Dec 31, 2021 - \$4,817,723) and total capital stock and deficit of (\$896,658) (Dec 31, 2021 - \$27,952,645).

Prophecy's philosophy and strategy is to follow a disciplined and systematic approach to investment and be guided by four core principles which will be applied consistently across all industries:

- Capital Preservation;
 - Secure Generation of Income;
 - Risk Management; and
 - Shareholder Value.
- (1) **Capital Preservation:** This principle is at the core of Prophecy's investment guidelines. Prophecy secures its bridge loans through a variety of instruments, including by taking a first charge on company assets and marketable securities and/or guarantees, which generally provide Prophecy with two to three times asset coverage.
 - (2) **Secure Generation of Income:** Investments that provide cash flows in the form of dividends, interest payments and/or distributions will be a factor in each of Prophecy's investment requirements. Prophecy's goal is to have the ability to payout a dividend to its shareholders on an annual basis.
 - (3) **Risk Management:** Prophecy's management will take on an active role in each of its investments by requiring Prophecy Board representation as well as weekly reporting of an investee company's operations.
 - (4) **Shareholder Value:** The principal driver of Prophecy's corporate initiatives and investment decisions is the objective of creating and enhancing long-term value for its shareholders.

The Company supplements its active investment business by making investments with its unallocated cash in a diversified portfolio of high-yielding marketable securities such as bonds, preferred shares and royalty and income trusts, thus increasing its overall yield. Prophecy seeks to maximize income and preserve capital with these investments. Investment of Prophecy's funds are chosen on a fundamental basis with emphasis on the track record of management and quality of assets as well as competitive and sustainable business advantages.

Prophecy works with management of operating companies in order to create and enhance value for businesses in which Prophecy assumes a position. These activities include equity financings, developing mergers and acquisitions, providing operational management support and structuring and negotiating debt and equity placements. Prophecy may also acquire positions in private companies at valuations that incorporate conservative earnings multiples and stable cash flows.

Loan Portfolio

As at December 31, 2022, Prophecy has two (Dec 31, 2021 – two) bridge loans outstanding for a total of \$Nil (Dec 31, 2021 - \$99,520) with accumulated interest and fees of \$Nil (Dec 31, 2021 - \$7,539). The interest rate for the loans held is between prime and 12% (Dec 31, 2021 – 12%).

Investment Portfolio

As at December 31, 2022, Prophecy owned common shares of companies with a value of \$26,908 (December 31, 2021 - \$94,179).

During the year ended December 31, 2022, the Company had a change in the value of portfolio investments of \$(67,271) (Dec 31, 2021 – \$164,687) and a realized gain on sale of portfolio investments of \$Nil (Dec 31, 2021 - \$693,508).

Digital Currencies

The continuity of digital currencies for the year ended December 31, 2022:

	December 31 2022	December 31 2021
Opening balance	\$ 6,187,917	\$ -
Purchased	2,918,482	1,850,100
Fee income earned	867,822	653,949
Realized gain (loss) on dispositions	(3,399,102)	208,722
Revaluation adjustment	(3,167,625)	1,653,269
Acquired on business combination	-	1,821,877
Total	<u>\$ 3,407,494</u>	<u>\$ 6,187,917</u>

The Company derives its income from digital currency received for providing liquidity to decentralized cryptocurrency exchanges. Revenue is recognized by the Company when payment, in the form of digital currency, is received for liquidity services rendered. Revenue is measured based on the fair value of the coins received. The fair value is determined using the daily weighted close price for the digital currency on a cryptocurrency data aggregator.

Realized gains on disposals of digital currencies are recognized in other comprehensive income, on the transaction date, while realized losses on disposals of digital currencies are recognized in profit and loss on the transaction date. The Company has the control of the crypto assets prior to the sale and records revenue at the point in time when the sale is confirmed on the respective blockchain.

Business Combination

The Company acquired 60% of the shares of Layer2 Blockchain Inc. (“Layer2”), on July 8, 2021, as consideration the Company issued 25,000,000 common shares of the Company to the shareholders of Layer2. The Company subsequently acquired the remaining 40% of the shares of Layer2 on September 13, 2021, as consideration the Company issued a further 25,000,000 common shares of the Company to the shareholders of Layer2 for a total purchase price of \$21,670,375. Layer 2 is a technology company focused on the rapidly emerging Ethereum Layer Two decentralized finance ecosystem. The Company incurred acquisition-related costs of \$43,149, representing legal and other fees, which were recognized through profit or loss in the prior period.

Goodwill calculated in this acquisition represents the expected synergies from combining the operations of Layer2 with the Company, revenue growth, future market development and expertise in the sector. These benefits are not recognized separately from goodwill as their fair value cannot be measured reliably individually. Goodwill from this acquisition was established as follows:

Purchase price	\$ 21,670,375
Cash	(199,216)
Digital currencies	(1,821,878)
Accounts payable	55,601
Impairment of goddwill	(19,704,882)
<hr/>	
Goodwill	\$ -

As of December 31, 2022, PDFI had amicably parted ways with the former principals and employees of Layer2. At this time, PDFI was still holding significant cryptocurrency assets and decided to use the change in portfolio management as an opportunity to revise the previous strategy and primary activities of Layer2. It plans to accomplish these goals by pursuing a new investment strategy in the crypto currency sector alongside investments in the publicly traded securities of companies actively mining cryptocurrencies. Given the resignation of employment of the Layer2 management team and the winding down of the core activities, the Company feels there is no remaining or future value in the goodwill from the acquisition.

Operating Results as at December 31, 2022

Revenues

For the year ended December 31, 2022, Prophecy had fee income of \$867,822 (Dec 31, 2021 - \$653,949), a realized loss on digital currencies of (\$3,399,102) (Dec 31, 2021 - \$208,722), interest income on its bridge loans of \$14,809 (Dec 31, 2021 - \$11,181), rental income of \$55,749 (Dec 31, 2021 - \$Nil), change in value of portfolio investment of (\$67,271) (Dec 31, 2021 - (\$154,934)), a foreign exchange loss of (\$11) (Dec 31, 2021 - \$45) and a discount on note for \$Nil (Dec 31, 2021 - (\$71,074)) for comprehensive loss of (\$29,101,366) (Dec 31, 2021 - (\$5,961,078)). Further, Prophecy had an unrealized loss on digital currencies of (\$3,167,625) (Dec 31, 2021 - \$1,653,269) and impairment of goodwill of (\$19,704,822) (Dec 31, 2021 - \$Nil).

Expenses

Prophecy incurred \$446,949 (Dec 31, 2021 - \$448,962) for audit and legal costs, \$461,334 (Dec 31, 2021 - \$1,041,839) in promotional fees, \$63,896 (Dec 31, 2021 - \$118,350) in filing fees, \$446,899 in consulting fees (Dec 31, 2021 - \$652,827), \$617,433 (Dec 31, 2021 - \$484,648) in salaries, \$160,220 (Dec 31, 2021 - \$2,299,725) in stock based compensation, \$84,313 in insurance (Dec 31, 2021 - \$38,880), \$51,973 in director fees (Dec 31, 2021 - \$124,223), \$58,421 in office expenses (Dec 31, 2021 - \$15,757), \$211,389 (Dec 31, 2021 - \$75,106) in amortization, \$169 (Dec 31, 2021 - \$57,883) for memberships, \$54,618 (Dec 31, 2021 - \$15,757) in interest on lease liability, \$249,409 (Dec 31, 2021 - \$Nil) in amortization of financing costs and \$585,400 (Dec,

2021 - \$12,996) in interest on convertible debentures, and \$85,887 (Dec 31, 2021 - \$Nil) in accretion on convertible debentures for total expenses of \$3,700,855 (Dec 31, 2021 - \$7,302,475).

Net Loss for the period attributable to the shareholders of Prophecy was (\$29,101,366) (Dec 31, 2021 – (\$5,961,078) or (\$0.22) per share (Sep 30, 2021 – (\$0.06)).

Summary of Quarterly Results

For the quarters ended	Dec 31/22	Sep 30/22	Jun 30/22	Mar 31/22
Total revenue	\$ (2,528,004)	\$ (2,848,211)	\$ (2,262,817)	\$ (521,788)
Net income (loss) for the period	(29,101,366)	(7,331,697)	(7,093,855)	(3,107,528)
Net income (loss) per share ⁽¹⁾	\$ (0.22)	\$ (0.06)	\$ (0.05)	\$ (0.03)
For the quarters ended	Dec 31/21	Sep 30/21	Jun 30/21	Mar 31/21
Total revenue	\$ 1,341,397	\$ 1,123,904	\$ 628,803	\$ 624,500
Net income (loss) for the period	(4,307,809)	(3,676,503)	(3,309,997)	125,424
Net income (loss) per share ⁽¹⁾	\$ (0.06)	\$ (0.01)	\$ (0.07)	\$ 0.00

(1) Net income (loss) per share has been calculated using the weighted average number of common shares during each period.

Liquidity

As at December 31, 2022, Prophecy had \$972,121, (Dec 31, 2021 - \$6,652,988) in cash. The Company had working capital of \$3,767,252 (Dec 31, 2021 – \$12,491,230).

Management is not aware of any trends or expected fluctuations that would create any liquidity deficiencies. The Company believes that cash flow from continuing operations and existing cash resources will be sufficient to meet the Prophecy’s short-term requirements, as well as ongoing operations, and will be able to generate sufficient capital to support the Company’s operations in the long-term. However, Prophecy may procure debt or equity financing from time to time to fund its operations.

Capital Resources

Management is not aware of any significant commitments or expected fluctuations with respect to its capital resources at the date of its financial statements.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements.

Transactions with Related Parties

Compensation of key management personnel

The remuneration expense of directors and other members of key management personnel during the nine months ended December 31, 2022 and 2021 as follows:

	December 31, 2022	December 31, 2021
Consulting fees and salaries	\$ 520,935	\$ 404,170
Directors fees	51,973	
Share based compensation	9,146	1,153,835
	<u>\$ 582,054</u>	<u>\$ 1,558,005</u>

As at December 31, 2022 the Company has entered into an office cost sharing agreement with a corporation controlled by an Officer and Director of the Company. The terms of the agreement are monthly payments of \$7,000 with no formal end date. The total amount of rental income accrued from this arrangement for the year ended December 31, 2022 is \$41,998.

Commitments and Contingencies

Management Contingency

The Company is party to certain management contracts. These contracts require that additional payments of up to approximately \$720,000 be made upon the occurrence of certain events such as a change of control or termination. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements.

Legal Contingency

The Company is, from time to time, involved in various claims and legal proceedings. The Company cannot reasonably predict the likelihood or outcome of these activities. The Company does not believe that adverse decisions in any pending or threatened proceedings related to any matter, or any amount which may be required to be paid by reasons thereof, will have a material effect on the financial condition or future results of operations.

On February 12, 2022, a claim was commenced against Layer2 Blockchain Inc. and several other defendants for equitable relief or, in the alternative, damages in an amount to be determined. The Company believes this action is without merit and it intends to defend the proceedings. At this stage, it is not possible to predict the outcome of the proceedings.

Proposed Transactions

There were no proposed transactions as at the date of the Company's financial statements.

Critical Accounting Estimates

The preparation of these financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Financial statement items subject to significant management judgment include:

Credit losses – Management exercises judgement to determine the expected credit losses on loans.

Valuation of portfolio investments – Where investments are not traded in an active market, management exercises judgement to determine the fair value of these assets. These assumptions include observation of recent private sales on the underlying securities (if available) and estimating the inputs to the Black-Scholes option pricing model.

The Black-Scholes option pricing model is used to determine the fair value of the share-based payments and utilizes subjective assumptions such as expected price volatility and expected life of the option. Discrepancies in these input assumptions can significantly affect the fair value estimate.

Business combinations – assumptions and estimates are made in determining the fair value of assets and liabilities, including the identification and valuation of separately identifiable intangible assets acquired as part of an acquisition and the allocation of the purchase price. These estimates may be further based on management's best assessment of the related inputs used in valuation models, such as future cash flows and cost of capital.

Office premise and other – Management determines the carrying value of its office premise based on policies that incorporate assumptions, estimates and judgements relative to the useful lives and residual values of assets.

Impairment of non-financial assets – Impairment exists where the carrying value of an asset, including or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value. The fair value less costs of disposal calculated is based on available data from binding sales transactions in an arm's length transaction of similar assets or other observable market prices less incremental costs of disposal. The value in use calculation is based on discounted cash flow models. The estimated future cash flows are derived from management assumptions, estimates, budgets and past performance and do not include activities that the Company is not yet committed to or significant investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the cost of capital used for the discounted cash flow model as well as the expected future cash flows.

Revenue recognition – The Company recognizes revenue from the provision of liquidity. As consideration for these services, the Company receives digital currency. Management has exercised significant judgment in determining the completion stage for this revenue stream and

examined various factors surrounding the substance of the Company's operations, and determined the stage of completion being the receipt of proceeds to the Company's control.

Going concern – The Company regularly reviews and makes an assessment of its ability to continue as a going concern. This assessment relies on significant judgements and assumptions, taking into account all known future information. These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes the Company will realize the carrying value of its assets and satisfy its obligations as they become due in the normal course of operations. Due to a material and systemic decline in the price of digital currencies, the Company is evaluating different revenue generating alternatives and cost reductions to support current operations and remain a going concern.

Digital currencies valuation – Digital currencies consist of cryptocurrency denominated assets and are included in current assets. The digital currency market is still a new market and is highly volatile, historical prices are not necessarily indicative of future value and a significant change in the market prices for digital currencies would have a significant impact on the Company's earnings and financial position.

Income taxes – Income taxes are subject to measurement uncertainty due to possible changes in tax legislation or changes in the characterization of income sources. Further, estimating income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions against future taxable income. The Company's assessment to recognize a deferred tax asset is based upon estimating tax laws and estimates of future taxable income.

While management believes that the estimates and assumptions are reasonable, actual results may differ materially from those estimates.

Significant New Accounting Standards

Standards, Amendments and Interpretations Issued but not yet Adopted

The following new standards, amendments and interpretations have been issued but are not effective for the fiscal year ended December 31, 2022 and, accordingly, have not been applied in preparing these consolidated financial statements.

A. Amendments to IAS 1: Classification of Liabilities as Current or Non-Current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. The Company is currently assessing the impact of the

amendments. Earlier application is permitted. The Company is assessing the potential impact of these amendments.

B. Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of ‘accounting estimates’. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Company’s consolidated financial statements.

C. IAS 12: Amendment to IAS 12, Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction

In May 2021, the IASB issued targeted amendments to IAS 12 – Income Taxes to specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, companies are exempt from recognizing deferred tax when they recognize assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations transactions for which companies recognize both an asset and a liability. The amendments clarify that the exemption does not apply and that companies are required to recognize deferred tax on such transactions. The aim of the amendments is to reduce diversity in the reporting of deferred tax on leases and decommissioning obligations. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early application permitted. The Company is assessing the potential impact of the amendment.

Risks and Uncertainties

Capital Management

The Company considers the items included in shareholders’ equity as capital. The Company’s capital management objectives are to maintain a strong and efficient capital structure to provide liquidity to support continued asset growth. A strong capital position also provides flexibility in considering accretive growth opportunities. It is the intention of the Company in the long term to pay out a portion of its future annual earnings to shareholders in the form of dividends. There has been no change in the capital management approach from the prior period.

Risk Management

The success of Prophecy is dependent upon its ability to assess and manage all forms of risk that affect its operations. Like other financial institutions, Prophecy is exposed to many factors that could adversely affect its business, financial conditions or operating results. Developing policies and procedures to identify risk and the implementation of appropriate risk management policies and procedures is the responsibility of senior management and the Board of Directors. The Board directly, or through its committees, reviews and approves these policies and procedures, and monitors their compliance with them through ongoing reporting requirements. A description of the Company's most prominent risks follows.

Credit Risk

Concentration of credit risk may arise from exposures to a single debtor or to a group of debtors having similar characteristics such that their ability to meet their current obligations is expected to be affected similarly by changes in economic or other conditions. The Company is exposed to credit risk on its cash, accrued interest receivable, and bridge loans. The Company's maximum exposure to credit risk is \$972,121 (December 31, 2021 - \$6,760,047).

Market Risk

The Company is exposed to certain market risk that the value of, or future cash flows from, the Company's financial assets will significantly fluctuate due to changes in market prices. The value of the financial assets can be affected by changes in interest rates, foreign exchange rates, and equity and commodity prices. The Company is required to mark to market its fair value through profit or loss investments at the end of each reporting period. This process could result in significant write-downs of the Company's portfolio investment over one or more reporting periods, particularly during periods of overall market instability, which would have a significant unfavorable effect on the Company's financial position.

Digital Currencies Risk

Digital currencies are measured using level two fair values, determined by taking the rates from a cryptocurrency data aggregator.

Digital currency prices are affected by various forces including global supply and demand, interest rates, exchange rates, inflation or deflation and the global political and economic conditions. The profitability of the Company is directly related to the current and future market price of coins; in addition, the Company may not be able to liquidate its inventory of digital currency at its desired price if required. A decline in the market prices for coins could negatively impact the Company's future operations. The Company has not hedged the conversion of any of its coin sales.

Digital currencies have a limited history, and the fair value historically has been very volatile. Historical performances of digital currencies are not indicative of their future price performance.

Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient cash to meet its obligations as they become due. The Company manages liquidity risk by maintaining cash balances to ensure that it is able to meet its short-term and long-term obligations as and when they fall due. The Company manages Company-wide cash projections centrally and regularly updates projections for changes in business and fluctuations caused in digital currency prices and exchange rates. In recent years, the digital currency markets experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. Any quoted market for the common shares may be subject to market trends generally, notwithstanding any potential success of the Company in creating revenue, cash flows or earnings.

As at December 31, 2022, Prophecy had \$972,121 (December 31, 2021 - \$6,652,988) in cash. The Company had working capital of \$3,767,252 (December 31, 2021 – \$12,491,230).

The Company does not have any bank indebtedness. In managements' opinion, Prophecy Capital has sufficient resources to meet its current cash flow requirements.

Management is not aware of any trends or expected fluctuations that would create any liquidity deficiencies. Prophecy believes that cash flow from continuing operations and existing cash resources will be sufficient to meet Prophecy's short-term requirements, as well as ongoing operations, and will be able to generate sufficient capital to support Prophecy's operations in the long-term.

Currency Risk

The Company is exposed to certain currency risks that the value of certain financial instruments will fluctuate due to changes in foreign exchange rates. At times Prophecy intends to take advantage of foreign exchange contracts to manage the risk of currency fluctuations. As of December 31, 2022, the Company did not hold any such contracts.

Other Risks

Dependence on Key Personnel

Prophecy is dependent upon the personal efforts, performance and commitment of its senior officers and directors, who are responsible for the development of Prophecy's business. Investors will be relying upon the business judgment, expertise and integrity of Prophecy's senior officers and directors. To the extent that the services of any of the senior officers or directors would be unavailable for any reason, a disruption to the operations of Prophecy could result, and other persons would be required to manage and operate Prophecy. Prophecy's future success will also depend in large part upon its ability to attract and retain highly skilled personnel. There can be no assurance that Prophecy will be successful in attracting and retaining such personnel.

Possible Volatility of Stock Price

The market price of the common shares could be subject to wide fluctuations in response to factors such as actual or anticipated variations in Prophecy's results of operations, changes in financial estimates by securities analysts, general market conditions and other factors. Market fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations may adversely affect the market price of the common shares.

Competition

Prophecy operates in an increasingly competitive environment. Both large and small competitors compete with Prophecy. Some of these competitors may have longer operating histories, greater name recognition and greater financial and marketing resources than Prophecy. Prophecy believes that its ability to compete effectively is dependent upon the quality of its product and client service. There can be no assurance that Prophecy will be able to compete effectively and retain its existing clients or attract and retain new clients. Prophecy's current and potential competitors may develop and market new products or services that render Prophecy's existing and future products and services less marketable or competitive.

Maintenance of Client Relationships

The ability of Prophecy to attract and maintain clients requires that it provide a competitive offering of products and services that meet the needs and expectations of its clients. Prophecy's ability to satisfy the needs or demands of its clients may be adversely affected by factors such as the inability or failure to identify changing client needs or expectations or the inability to adapt in a timely and cost-effective manner to innovative products and services offered by competitors.

Strategic Relationships

Prophecy anticipates that, from time to time, it will enter into strategic relationships to syndicate certain bridge loans where appropriate, as part of its strategy to diversify and manage risks associated with its bridge loan portfolio. Syndication will afford Prophecy the opportunity to participate in much larger transactions. There can be no assurance that Prophecy will be able to enter into such relationships in the future, and its inability to do so may adversely affect its ability to continue to service its existing and prospective clients.

Share Data

The Company's issued and outstanding share capital is as follows:

Outstanding Shares

	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022
Common Shares	132,147,212	132,147,212	132,147,212	132,147,212
Subordinate Shares	-	-	-	-
Multiple Shares	-	-	-	-
Total Shares Outstanding	<u>132,147,212</u>	<u>132,147,212</u>	<u>132,147,212</u>	<u>132,147,212</u>

Outstanding Warrants

	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022
Number of warrants	49,031,826	49,031,826	49,031,826	49,031,826
Price	\$0.25 - \$0.90	\$0.25 - \$0.90	\$0.25 - \$0.90	\$0.25 - \$0.90
Expiry date	March 2024 to December 2024	March 2024 to December 2024	March 2024 to December 2024	March 2024 to December 2024

Outstanding Options

	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022
Number of options	10,725,000	7,725,000	7,725,000	7,725,000
Price	\$0.05 - \$0.60	\$0.22 - \$0.60	\$0.22 - \$0.60	\$0.22 - \$0.60
Expiry date	March 19, 2024 to October 28, 2025	March 19, 2024 to December 31, 2024	March 19, 2024 to September 31, 2024	March 19, 2024 to September 31, 2024

Forward-Looking Information

These materials include certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Other than statement of historical fact, all statements in this material, including, without limitation, statements regarding disclosure of contingent liabilities at the date of the consolidated financial statements and financial statement items subject to significant management judgment include revenue recognition; loan impairment and losses; the valuation of accounts receivable, the valuation of bridge loans and development and rental properties, future income tax assets, estimated asset retirement obligations, and future plans and objectives of the Company, are forward-looking statements that involve various known and unknown risks, uncertainties and other factors. There can be no assurance that such statements will prove accurate. Actual results and future events could differ materially from those anticipated in such statements. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date of these materials. Important factors that could cause

actual results to differ materially from the Company's expectations include, without limitation, the level of bridge loans completed, the nature and credit quality of the collateral security, estimated asset retirement obligations, as well as those factors discussed in the Company's documents filed from time to time with the Canadian Securities Exchange, Canadian securities regulators and other regulatory authorities. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by this notice.