

Desert Lion Energy Corp.

CONSOLIDATED FINANCIAL STATEMENTS

For the periods ended December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Desert Lion Energy Corp.

We have audited the accompanying consolidated financial statements of Desert Lion Energy Corp. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the year ended December 31, 2017 and for the period from incorporation (June 17, 2016) to December 31, 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Desert Lion Energy Corp. and its subsidiaries as at December 31, 2017 and 2016, and their financial performance and their cash flows for the year ended December 31, 2017 and for the period from incorporation (June 17, 2016) to December 31, 2016 in accordance with International Financial Reporting Standards.

UHY McGovern Hurley LLP



Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 27, 2018

Desert Lion Energy Corp.

Consolidated Statements of Financial Position (Expressed in Canadian dollars)

| As at: | December 31, 2017 | December 31, 2016 |
|--|----------------------|----------------------|
| ASSETS | | |
| Current | | |
| Cash and cash equivalents | \$ 6,553,667 | \$ 167,890 |
| Restricted cash (Notes 12 and 20) | 9,830,197 | - |
| Amounts receivable (Note 6) | 782,817 | 31,973 |
| Inventory | 29,262 | - |
| Deposits | 189,793 | - |
| Prepaid expenses | 574,013 | 14,125 |
| Total current assets | 17,959,749 | 213,988 |
| Non-current | | |
| Prepaid expenses | - | 301,568 |
| Funds in escrow | - | 2,148,320 |
| Property, plant and equipment (Note 8) | 2,558,850 | - |
| Exploration and evaluation assets (Note 7) | 5,196,323 | - |
| Total assets | \$ 25,714,922 | \$ 2,663,876 |
| LIABILITIES | | |
| Current | | |
| Trade payables and accrued liabilities (Note 9) | \$ 2,966,231 | \$ 311,926 |
| Subscription receipts (Notes 12 and 20) | 9,830,197 | - |
| Offtake prepayment liability (Note 10) | 5,021,513 | - |
| Option liability (Note 10) | 1,769,000 | - |
| Loans payable (Note 11) | - | 88,609 |
| Total current liabilities | 19,586,941 | 400,535 |
| EQUITY | | |
| Share capital (Note 12(b)) | 13,165,700 | 2,743,530 |
| Warrants (Note 13) | 2,746,057 | 152,070 |
| Options (Note 14) | 781,720 | 298,900 |
| Deficit | (10,560,606) | (931,159) |
| Accumulated other comprehensive loss | (54,835) | - |
| Equity attributable to owners of the parent | 6,078,036 | 2,263,341 |
| Non-controlling interest (Note 7) | 49,945 | - |
| Total shareholders' equity | 6,127,981 | 2,263,341 |
| Total liabilities and equity | \$ 25,714,922 | \$ 2,663,876 |

Nature of operations and going concern (Note 1)

Commitments and contingencies (Notes 7, 10 and 19)

Subsequent events (Note 20)

Approved by the Board of Directors on March 27, 2018:

"PETER MCCAGUE", Director

"TIM JOHNSTON", Director

See accompanying notes to the consolidated financial statements

Desert Lion Energy Corp.

Consolidated Statements of Loss and Comprehensive Loss (Expressed in Canadian dollars)

| (\$ Canadian) | Year ended December 31, 2017 | For the period from incorporation (June 17, 2016) to December 31, 2016 |
|--|---------------------------------|---|
| Expenses | | |
| Consulting and management fees (Note 18) | \$ 2,145,395 | \$ 122,474 |
| Professional fees | 435,389 | 95,889 |
| General office expenses | 163,098 | 26,300 |
| Travel expenses | 281,632 | 71,745 |
| Shareholder communications and filing fees | 33,820 | - |
| Marketing and promotion | 394,847 | 15,535 |
| Share based compensation (Notes 14 and 18) | 518,171 | 298,900 |
| Exploration and evaluation expenditures (Note 7) | 5,670,263 | 311,311 |
| Amortization expense | 26,044 | - |
| Foreign exchange (gain) | (632,886) | (12,839) |
| Loss before other items | 9,035,773 | 929,315 |
| Interest and financing expense | 126,304 | 1,844 |
| Change in fair value of option liability (Note 10) | 971,000 | - |
| Withholding tax expense | 14,523 | - |
| Net loss for the period | \$ 10,147,600 | \$ 931,159 |
| Other comprehensive loss | | |
| Foreign currency translation | 54,835 | - |
| Comprehensive loss for the period | 10,202,435 | 931,159 |
| Comprehensive loss for the period attributable to: | | |
| Owners of the parent | 9,684,282 | - |
| Non-controlling interest | 518,153 | - |
| | \$ 10,202,435 | \$ - |
| Basic and diluted loss per share (Note 15) | \$ 0.31 | \$ 0.03 |
| Weighted average number of common shares outstanding - basic and diluted | 32,820,735 | 29,415,229 |

See accompanying notes to the consolidated financial statements

Desert Lion Energy Corp.

Consolidated Statements of Changes in Equity (Expressed in Canadian dollars)

| | Common Shares | | Warrants | Contributed Surplus | Accumulated Deficit | Non-Controlling interest | Accumulated Other Comprehensive Loss | Equity |
|---|-------------------|-------------------|------------------|---------------------|---------------------|--------------------------|--------------------------------------|------------------|
| | # | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance, December 31, 2016 | 26,000,000 | 2,743,530 | 152,070 | 298,900 | (931,159) | - | - | 2,263,341 |
| Private placements, net of issue costs (Note 12(b)) | 13,171,083 | 10,343,715 | 2,010,751 | - | - | - | - | 12,354,466 |
| Broker warrants (Note 13) | - | - | 583,236 | - | - | - | - | 583,236 |
| Share-based compensation (Note 14) | - | - | - | 518,171 | - | - | - | 518,171 |
| Options exercise (Note 14) | 86,207 | 78,455 | - | (35,351) | - | - | - | 43,104 |
| Issuance of non-controlling interest (Note 7) | - | - | - | - | - | 568,098 | - | 568,098 |
| Loss for the year | - | - | - | - | (9,629,447) | (518,153) | - | (10,147,600) |
| Other comprehensive loss for the year | - | - | - | - | - | - | (54,835) | (54,835) |
| Balance, December 31, 2017 | 39,257,290 | 13,165,700 | 2,746,057 | 781,720 | (10,560,606) | 49,945 | (54,835) | 6,127,981 |
| Balance, June 17, 2016 | - | - | - | - | - | - | - | - |
| Private placements, net of issue costs (Note 12(b)) | 25,225,000 | 2,704,780 | - | - | - | - | - | 2,704,780 |
| Broker shares (Note (12(b)) | 775,000 | 38,750 | - | - | - | - | - | 38,750 |
| Broker warrants (Note 13) | - | - | 152,070 | - | - | - | - | 152,070 |
| Share-based compensation (Note 14) | - | - | - | 298,900 | - | - | - | 298,900 |
| Loss for the period | - | - | - | - | (931,159) | - | - | (931,159) |
| Balance, December 31, 2016 | 26,000,000 | 2,743,530 | 152,070 | 298,900 | (931,159) | - | - | 2,263,341 |

See accompanying notes to the consolidated financial statements

Desert Lion Energy Corp.

Consolidated Statements of Cash Flows (Expressed in Canadian dollars)

| | Year ended December 31, 2017 | For the period from incorporation (June 17, 2016) to December 31, 2016 |
|---|---------------------------------|---|
| CASH (USED IN) PROVIDED BY: | | |
| OPERATING ACTIVITIES | | |
| Net loss for the period | \$ (10,147,600) | \$ (931,159) |
| Items not involving cash: | | |
| Share-based compensation | 518,171 | 298,900 |
| Shares issued for services (Note 12) | 1,049,976 | 38,750 |
| Amortization (Note 8) | 26,044 | - |
| Accrued interest on loans payable (Note 11) | - | 1,844 |
| | (8,553,409) | (591,665) |
| Net change in non-cash working capital | 11,073,268 | (35,740) |
| Net cash flows provided by / (used in) operating activities | 2,519,859 | (627,405) |
| FINANCING ACTIVITIES | | |
| Private placement (Note 12) | 12,432,527 | 3,085,000 |
| Share issue costs (Note 12) | (1,532,425) | (228,150) |
| Exercise of options (Note 14) | 43,104 | - |
| Loan proceeds (Note 11) | 820,000 | 177,848 |
| Subscription receipts (Note 12(b)) | 9,830,197 | - |
| Loan repayments (Note 11) | (60,000) | (91,819) |
| Loan interest paid (Note 11) | (1,236) | (302) |
| Net cash flows provided by financing activities | 21,532,167 | 2,942,577 |
| INVESTING ACTIVITIES | | |
| (Acquisition) of property, plant, and equipment | (2,584,894) | - |
| (Acquisition) of exploration and evaluation assets | (5,196,323) | - |
| Restricted cash | (9,830,197) | - |
| Funds held in escrow to share purchase | - | (2,127,680) |
| Net cash flows (used in) investing activities | (17,611,414) | (2,127,680) |
| Effect of exchange rate change | (54,835) | (19,602) |
| CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD | 6,385,777 | 167,890 |
| CASH AND CASH EQUIVALENTS, beginning of the period | 167,890 | - |
| CASH AND CASH EQUIVALENTS, end of the period | \$ 6,553,667 | \$ 167,890 |
| SUPPLEMENTAL INFORMATION: | | |
| Shares issued to settle loans payable | 847,624 | - |
| Shares issued for financing expenses | 120,000 | - |
| Broker warrants issued for services | 583,236 | 152,070 |

See accompanying notes to the consolidated financial statements

Desert Lion Energy Corp.

Notes to the Consolidated Financial Statements
For the periods ended December 31, 2017 and 2016
(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS

The principal activity of Desert Lion Energy Corp. (the "Company" or "Desert Lion") is the exploration and evaluation of lithium minerals. 2523701 Ontario Inc. was incorporated under the laws of the Province of Ontario, Canada by Articles of Incorporation dated June 17, 2016 and on February 16, 2017 the Company was renamed Desert Lion Energy Corp. On November 10, 2016, the Company's subsidiaries, 9979735 Canada Inc. and 9979743 Canada Inc. were incorporated. On March 20, 2017, 9979735 Canada Inc., a wholly-owned subsidiary of the Company, completed the acquisition of 80% of the shares of !HUNI-/URIB Investments (Pty) Ltd., a Namibian company which holds a 100% interest in 8 mining claims comprising the Rubicon lithium property in Namibia and exclusive prospecting license 5439 ("EPL"), which comprises the surrounding 301 km² prospecting area. On April 18, 2017, 9979735 Canada Inc. and 9979743 Canada Inc. amalgamated with the surviving corporation called 9979735 Canada Inc. On May 22, 2017, the Company incorporated Desert Lion Energy (Mauritius) Ltd. to serve the purpose of an intermediary holding company. On June 21, 2017, 9979735 Canada Inc. continued into the Province of Ontario and was renamed 1976567 Ontario Inc. On August 14, 2017, 1976567 Ontario Inc. amalgamated with Desert Lion Energy Corp. ("Desert Lion" of the "Company"). On August 2, 2017, !HUNI-/URIB Investments (Pty) Ltd. changed its name to Desert Lion Energy (Proprietary) Ltd. On December 16, 2017, the Company completed the acquisition of the Helikon mining interests. Subsequent to year-end, on February 22, 2018, Desert Lion Energy Corp. completed its going public transaction with Camex Energy Corp. ("Camex") (TSXV: CXE.V) and was renamed Desert Lion Energy Inc. Refer to Note 20 for more details on the going public transaction. The Company's head office is located at 65 Queen Street West, 8th floor, Toronto, Ontario, M5H 2M5, Canada.

The consolidated financial statements include the financial statements of the Company and its subsidiaries that are listed in the following table:

| | | % Ownership |
|---------------------------------------|--------------------------|--------------------------|
| | Country of incorporation | December 31, 2017 |
| Desert Lion Energy (Mauritius) Ltd. | Mauritius | 100% |
| Desert Lion Energy (Proprietary) Ltd. | Namibia | 80% |

Going Concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

The business of exploration for lithium minerals involves a high degree of risk and there can be no assurance that exploration programs will result in profitable operations. The Company's continued existence is dependent upon the acquisition of mineral resource properties, preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis.

The Company does not have any operating assets that generate revenues, does not have proven reserves and for the year ended December 31, 2017 incurred a net comprehensive loss of \$10,202,435. As at December 31, 2017, the Company had a working capital deficit of \$1,627,192. Consequently, the Company's ability to continue as a going concern is dependent on the Company's ability to obtain additional financing if, as and when required, and, ultimately, the attainment of profitable operations or the profitable sale of exploration interests. Subsequent to December 31, 2017, the Company converted \$9,830,197 subscript receipts into shares and warrants of the Company.

These consolidated financial statements do not give effect to adjustments that would be necessary and could be material to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

Desert Lion Energy Corp.

Notes to the Consolidated Financial Statements
For the periods ended December 31, 2017 and 2016
(Expressed in Canadian dollars)

2. BASIS OF PRESENTATION

Statement of compliance:

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The consolidated financial statements were authorized for issue by the Board of Directors on March 27, 2018.

Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis, unless otherwise disclosed. The consolidated financial statements have been prepared on an accrual basis except for cash flow information.

Functional and presentation currency:

The consolidated financial statements are presented in Canadian dollars, which is the functional and presentation currency of the Canadian parent entity. The Mauritius subsidiary uses a U.S. dollar functional currency. The Namibian subsidiary uses a Namibian dollar functional currency.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Basis of consolidation

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries, Desert Lion Energy (Mauritius) Ltd. (100% owned) and Desert Lion Energy (Proprietary) Ltd. (80% owned) as at December 31, 2017.

Subsidiaries are consolidated for the twelve months ended December 31, 2017 and for the period ended December 31, 2016, from the date of acquisition or incorporation, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. These consolidated financial statements comprise results for the twelve months ended December 31, 2017 and the period from incorporation (June 17, 2016) to December 31, 2016.

All intra-company balances, income and expenses and unrealized gains and losses resulting from intra-company transactions are eliminated in full upon consolidation.

Subsidiaries consist of entities over which the Company is exposed to or has rights to, variable returns as well as the ability to affect these returns through the power to direct the relevant activities of the entity. Subsidiaries are consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases. These consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to conform to the Company's accounting policies.

Desert Lion Energy Corp.

Notes to the Consolidated Financial Statements
For the periods ended December 31, 2017 and 2016
(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency transactions

These consolidated financial statements are presented in Canadian dollars (the Company's presentation currency).

Items included in the consolidated financial statements of the Company and each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in the consolidated statement of loss.

The functional currency of the Parent is the Canadian dollar and the functional currency of each of its subsidiaries is the Namibian dollar or U.S. dollar.

Assets and liabilities of entities with functional currencies other than the Canadian dollar are translated into the presentation currency at the period end rates of exchange, and the results of their operations are translated at the average rates of exchange for the period. The resulting translation adjustments are recognized in other comprehensive (loss) income as cumulative translation adjustments. There is no tax impact on this translation.

Exploration and evaluation assets

Exploration expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential. Pre-exploration costs are expensed unless it is considered probable that they will generate future economic benefits.

The cost of acquiring prospective properties and exploration rights, is capitalized to exploration and evaluation assets. Exploration costs incurred, subsequent to acquisition, in exploration and evaluation activities, are expensed as incurred and included in the consolidated statement of loss until technical feasibility and commercial viability of extraction of reserves are demonstrable. Once a mine development decision has been made by the Company, subsequent expenditures incurred to develop the mine are capitalized to mine property under development.

Prior to reclassification to mine property under development, exploration and evaluation assets are first tested for impairment and any impairment loss recognized immediately in the consolidated statements of loss.

Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable, all irrecoverable costs associated with the project net of any impairment provisions are written off.

Mine development assets

Mine development assets are accumulated separately for each area of interest in which economically recoverable reserves have been identified. These assets are comprised of expenditures directly attributable to the construction of a mine and the related infrastructure.

General and administration costs are allocated to a development asset only to the extent that those costs can be related directly to development activities in the relevant areas of interest.

No amortization is recognized in respect of development properties until they are at the end of the commissioning phase, when the mine is capable of operating in the manner intended by management.

Desert Lion Energy Corp.

Notes to the Consolidated Financial Statements
For the periods ended December 31, 2017 and 2016
(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Mine development assets (continued)

Production Stage

A mine that is under construction is determined to enter the production stage when the project is in the location and condition necessary for it to be capable of operating in the manner intended by management.

When a mine development asset moves into the production stage, the capitalization of certain mine construction costs ceases and costs are either capitalized to inventory or expensed, except for capitalizable costs related to property, plant and equipment additions or improvements, open pit stripping activities that provide a future benefit or expenditures that meet the criteria for capitalization in accordance with International Accounting Standard 16 ("IAS") 16 Property, Plant and Equipment.

Pre-production stripping costs are capitalized until an "other than de minimis" level of mineral is extracted, after which time such costs are either expensed, capitalized to inventory or, if it qualifies as an open pit stripping activity that provides a future benefit, capitalized to property, plant and equipment. Various relevant criteria are considered to assess when an "other than de minimis" level of mineral is produced. Some of the criteria considered would include, but not be limited to, the following:

- The amount of minerals mined versus total tons in the life of mine;
- The amount of ore tons mined versus total life of mine expected ore tons;
- The current stripping ratio versus the life of mine ratio; and
- The ore grade versus the life of mine grade.

Stripping costs incurred during the production stage of a pit are accounted for as costs of inventory produced during the period that the stripping costs are incurred, unless these costs are expected to provide future economic benefit to the identifiable component of the ore body. Components of the ore body are based on the distinct development phases identified by the mine planning engineers when determining the optimal development plan for the open pit. Production phase stripping costs generate a future economic benefit when the related stripping activity:

- Improves access to a component of the ore body to be mined in the future;
- Increases the fair value of the mine (or pit) as access to future mineral reserves becomes less costly; and
- Increases the production capacity or extends stripping;
- Costs that are expected to generate a future economic benefit are capitalized as open pit mine development costs.

Mine development costs are depreciated on a unit of production basis whereby the denominator is the estimated tons of lithium in proven and probable reserves and the portion of resources considered probable of economic extraction based on the current life of mine plan in the current component of the ore body that has been made more accessible through the strip activity and all future components in the current plan that benefit from the particular stripping activity. Mine development assets are depreciated once the operation has entered production and the future economic benefit is being derived.

Desert Lion Energy Corp.

Notes to the Consolidated Financial Statements
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(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

On initial recognition, property, plant and equipment are valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items.

Property, plant and equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land which is not depreciated.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount, and are recognized net within other income in profit or loss.

Depreciation is based on the cost of an asset less its residual value. Amortization is recognized in profit or loss over the estimated useful lives as follows:

| | | |
|-------------------------|---|-------------------|
| Vehicles | - | 25% straight line |
| Computers and equipment | - | 33% straight line |
| Furniture and fixtures | - | 20% straight line |

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate. No depreciation has been recognized on the mine development assets.

Financial instruments

Non-derivative financial assets:

Non-derivative financial assets comprise cash and cash equivalents, funds in escrow, restricted cash and amounts receivable. The amounts receivable are classified as loans and receivables. The Company has not designated any financial assets as fair value through profit or loss.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Desert Lion Energy Corp.

Notes to the Consolidated Financial Statements
For the periods ended December 31, 2017 and 2016
(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated statements of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Non-derivative financial liabilities:

Non-derivative financial liabilities comprise trade payables and accrued liabilities, subscription receipts, offtake prepayment liability and loans payable.

These financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

Impairment of financial assets (including receivables):

A financial asset not carried at fair value through profit or loss is assessed at each reporting date for impairment if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise or indicators that a debtor or issuer will enter bankruptcy.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against the receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options and warrants are recognized as a deduction from equity, net of any tax effects.

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprises cash at banks and at hand with original maturity of three months or less.

Desert Lion Energy Corp.

Notes to the Consolidated Financial Statements
For the periods ended December 31, 2017 and 2016
(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognized when: (i) the Company has a present obligation (legal or constructive) as a result of a past event, and (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that the tax relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Share-based compensation

The Company records compensation cost associated with equity-settled share-based awards based on the fair value of the equity instrument at the date of grant. The fair value of stock options and compensation options is determined using the Black-Scholes option pricing model. The compensation expense is recognized on a straight-line basis over the vesting period, if any, based on the estimate of equity instruments expected to vest. The estimate of options expected to vest is revised at the end of each reporting period. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received.

When options or warrants are exercised, the proceeds received, together with any related amount in the warrant or option reserves within equity, is credited to share capital. On expiry, any amount related to the initial value of the stock option or compensation option is recorded to deficit.

Desert Lion Energy Corp.

Notes to the Consolidated Financial Statements
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Lithium production inventories, concentrate inventory and ore stockpiles are measured at the lower of weighted average production cost and net realizable value. Net realizable value is calculated as the difference between the estimated selling price and estimated costs to complete processing into a saleable form and variable selling expenses. Mine supplies are measured at the lower of average purchase cost and net realizable value.

Production costs include the cost of materials, labour, mine site production overheads and depreciation to the applicable stage of processing.

The cost of ore stockpiles is increased based on the related current cost of production for the period, and decreases in stockpiles are charged to cost of sales using the weighted average cost per ton.

Provisions are recorded to reduce the carrying amount of inventory to net realizable value to reflect changes in grades, quantity or other economic factors and to reflect current intentions for the use of redundant or slow-moving items. Provisions for redundant and slow-moving items are made by reference to specific items of inventory. The Company reverses write-downs where there is a subsequent increase in net realizable value and where the inventory is still on hand.

Spare parts, stand-by and servicing equipment and consumable material held are generally classified as inventories. Major capital spare parts are classified as a component of property, plant and equipment.

Revenue Recognition

Revenue from the sale of materials is recognized when all the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Offtake agreement

Revenue from the off-take agreement is a payment for future product to be delivered, and has been presented as offtake prepayment liability on the consolidated statements of financial position. Advance customer payments are unearned revenues at the time of receipt. When the product is delivered to the customer the unearned revenue will be released to the statement of loss. The liability is presented as current based on its expected life.

The offtake agreement provided the counterparty with the option to purchase an interest in the Company. This option represents an embedded derivative. At the date of issue, the fair value of the embedded derivative was estimated using an option valuation model. The offtake prepayment liability is subsequently measured on an amortized cost basis using the effective interest method over the expected life. The embedded derivative is initially recorded at fair value using pricing model techniques. The embedded derivative was determined to be a liability instrument and has been presented as option liability in the consolidated statement of financial position and is subsequently re-measured at fair value through profit and loss. This instrument is classified current based on its expected life.

Desert Lion Energy Corp.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning after January 1, 2018 or later periods. Updates that are not applicable or are not consequential to the Company have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

FRS 2 – Share-based Payment (“IFRS 2”) was amended by the IASB in June 2016 to clarify the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018.

IFRS 9, Financial Instruments (“IFRS 9”) was issued July 2014 and introduced new requirements for financial assets. This standard addresses; classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. A new general hedge accounting standard, which aligns hedge accounting more closely with risk management also forms part of IFRS 9. The mandatory effective date is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions.

IFRS 16, Leases (“IFRS 16”) was issued in January 2016. It replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. IFRS 16 is effective from January 1, 2019. A company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 Revenue from Contracts.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration (“IFRIC 22”) was issued in December 2016 and addresses foreign currency transactions or parts of transactions where there is consideration that is denominated in a foreign currency; a prepaid asset or deferred income liability is recognized in respect of that consideration, in advance of the recognition of the related asset, expense or income; and the prepaid asset or deferred income liability is non-monetary. The interpretation committee concluded that the date of the transaction, for purposes of determining the exchange rate, is the date of initial recognition of the non-monetary prepaid asset or deferred income liability. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018.

IFRIC 23 – Uncertainty Over Income Tax Treatments (“IFRIC 23”) was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The interpretation committee concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted.

Desert Lion Energy Corp.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting standards

During 2017, the Company adopted a number of new IFRS standards, interpretations, amendments and improvements of existing standards. These include IAS 7 and IAS 12. These new standards and changes did not have any material impact on the Company's consolidated financial statements.

IAS 7 – Statement of Cash Flows (“IAS 7”) was amended in January 2016 to clarify that disclosures shall be provided that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments were effective for annual periods beginning on or after January 1, 2017.

IAS 12 – Income Taxes (“IAS 12”) was amended in January 2016 to clarify that, among other things, unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use; the carrying amount of an asset does not limit the estimation of probable future taxable profits; and estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. The amendments were effective for annual periods beginning on or after January 1, 2017.

IFRS 15 - Effective January 1, 2017, the Company elected to early adopt IFRS 15, Revenue from Contracts with Customers (“IFRS 15”), issued in May 2014. The standard outlines a single comprehensive model for entities to use in accounting for revenues arising from contracts with customers. It supersedes current revenue recognition guidance including IAS 18 Revenues, IAS 11 Construction Contracts and related interpretations. IFRS 15 specifies how and when the entity should recognize revenue and additional disclosure requirements. The adoption of IFRS 15 did not have any material impact on the 2016 accounts of the Company.

4. USE OF ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from those estimates.

In particular, information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements is described below:

Capitalization of exploration and evaluation assets

The application of the Company's accounting policy for exploration and evaluation assets requires judgement in determining whether future economic benefits are likely, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after the expenditures are capitalized, information becomes available suggesting that the recovery of assets is unlikely, the amount capitalized is written off in profit or loss in the period when the new information becomes available.

Desert Lion Energy Corp.

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4. USE OF ESTIMATES AND JUDGEMENTS (continued)

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events. See Note 19.

Fair value of share-based compensation, warrants and derivatives

In determining the fair value of share-based compensation, warrants and derivatives, pricing models are used that require management to make estimates and assumptions regarding the expected life and market price of its equity instruments, volatility and risk free interest rates.

Estimated useful life of property, plant and equipment

Management estimates the useful lives of property, plant and equipment based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for amortization of property, plant and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at each reporting date and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's property, plant and equipment in the future.

Assets' carrying values and impairment charges

The determination of carrying values and impairment charges and their individual assumptions require that management make an estimate based on the best available information at each reporting period. Under situations where management has determined indicators of impairment are present, an impairment assessment will be performed by management whereupon management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets.

Rehabilitation provisions

The Company records management's best estimate of the present value of the future cash requirements of any rehabilitation obligation as a long-term liability in the period in which the related environmental disturbance occurs based on the net present value of the estimated future costs. This obligation is adjusted at each period end to reflect the passage of time and any changes in the estimated future costs underlying the obligation. In determining this obligation, management must make a number of assumptions about the amount and timing of future cash flows and discount rate to be used. The actual future expenditures may differ from the amounts currently provided if the estimates made are significantly different than actual results or if there are significant changes in environmental and/or regulatory requirements in the future.

Desert Lion Energy Corp.

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4. USE OF ESTIMATES AND JUDGEMENTS (continued)

Income, value added, withholding and other taxes

The Company is subject to income, value added, withholding and other taxes. Significant judgement is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

Operating levels intended by management

Prior to a mine being capable of operating at levels intended by management, costs incurred are capitalized as part of the costs of the related mining properties and proceeds from mineral sales are offset against costs capitalized. Depletion of capitalized costs for mining properties begins when the mine is capable of operating at levels intended by management. Management considers several factors in determining when a mining property is capable of operating at levels intended by management.

Economic recoverability and probability of future economic benefits of exploration and evaluation assets and development costs

Management has determined that acquisition, development and related costs incurred which have been capitalized are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

5. INCOME TAXES

a) Provision for income taxes

Major items causing the Company's effective income tax rate to differ from the combined Canadian federal and provincial statutory rate of 26.5% (2016 – 26.5%) were as follows:

| | 2017 | 2016 |
|--|--------------|-----------|
| | \$ | \$ |
| (Loss) before income taxes | (10,147,600) | (931,159) |
| Expected income tax recovery based on statutory rate | (2,689,000) | (247,000) |
| Adjustment to expected income tax benefit: | | |
| Share-based compensation | 137,000 | 79,000 |
| Expenses not deductible for tax purposes | 606,000 | (2,000) |
| Other | 100,000 | (60,000) |
| Change in benefit of tax assets not recognized | 1,846,000 | 230,000 |
| Deferred income tax provision | - | - |

Desert Lion Energy Corp.

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5. INCOME TAXES (continued)

b) Deferred income tax

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

| | 2017 | 2016 |
|---|-----------|---------|
| | \$ | \$ |
| Non-capital loss carry-forwards (Canada) | 4,241,000 | 688,000 |
| Non-capital loss carry-forwards (Mauritius) | 12,000 | - |
| Share issue costs (Canada) | 1,363,000 | 183,000 |
| Exploration and evaluation assets (Namibia) | 2,223,000 | - |
| Total | 7,839,000 | 871,000 |

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can use the benefits. As at December 31, 2017, the Company had estimated non-capital losses for Canadian of approximately \$4,241,000 available to use against future taxable income. The non-capital losses expire between 2036 to 2037. As at December 31, 2017, the Company had estimated non-capital losses for Mauritius of approximately \$12,000 available to use against future taxable income. The non-capital losses expire in 2022.

6. AMOUNTS RECEIVABLE

The amounts receivable consists of amounts from the Government of Canada for Harmonized Goods and Services Taxes (HST) and from the Government of Namibia for Value Added Taxes (VAT).

| | 2017 | 2016 |
|---------------------------|---------|--------|
| | \$ | \$ |
| Government of Canada HST | 163,228 | 31,973 |
| Government of Namibia VAT | 619,589 | - |
| Total | 782,817 | 31,973 |

7. EXPLORATION AND EVALUATION ASSETS AND EXPENDITURES

On March 20, 2017, the Company closed an acquisition to acquire 80% of the outstanding shares of !HUNI-/URIB Investments (Pty) Ltd ("Huni"), subsequently renamed Desert Lion Energy (Pty) Ltd. which at the time of acquisition held a 100% interest in 8 mining claims comprising the Rubicon lithium property in Namibia (the "Mining Claims") and exclusive prospecting license 5439 ("EPL"), which comprises the surrounding 301km² prospecting area. Total cash consideration paid to acquire Huni was US\$1,700,000 (\$2,272,471). This amount has been capitalized in the Consolidated Statement of Financial Position as exploration and evaluation assets. The acquisition of the Huni shares has been determined to be an asset acquisition.

In addition to the cash consideration, as part of the share purchase and sale agreement, the Company committed to issue the Huni Vendors on successful closing of a reverse take-over transaction 545,451 of its common shares valued at \$1.82 per share or \$1,000,000 in aggregate (\$200,000 worth of common shares to each Huni Vendor). As the triggering event required for the contingent consideration to be issued subsequently has not taken place as December 31, 2017, no amounts have been recorded in these consolidated financial statements.

Desert Lion Energy Corp.

Notes to the Consolidated Financial Statements
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7. EXPLORATION AND EVALUATION ASSETS AND EXPENDITURES (continued)

An additional \$500,000 (\$100,000 to each Huni Vendor) worth of common shares of the Company are to be issued to the Huni Vendors, in the event that a mining license is granted to Huni, at an issue price equal to the closing price of the Company on the date the mining license is granted. As the triggering event required for the contingent consideration to be issued has not taken place, no amounts have been recorded in relation to the contingent consideration in these consolidated financial statements.

The purchase price consideration for the Huni shares was allocated as follows:

| | Fair value |
|---|---------------------|
| Exploration and evaluation assets | \$ 3,064,613 |
| Less: portion allocated to non-controlling interest | <u>(568,098)</u> |
| Total consideration | <u>\$ 2,496,515</u> |
| Consideration: | |
| Cash consideration | \$ 2,272,471 |
| Transaction cost | <u>224,044</u> |
| Total consideration | <u>\$ 2,496,515</u> |

On December 16, 2017, the Company completed the purchase and sale of the Helikon mining interests for ZAR 21 million (\$2,131,710). The purchase and sale was completed via an irrevocable surrender by the Helikon vendors of the Helikon mining interests back to the Government of Namibia with the legal effect that such Helikon mining interests were then subsumed and form part of the existing 301 km² EPL 5439 which is held by the Company.

The total exploration and evaluation assets as at December 31, 2017 is as follows:

| | |
|--------------------------|---------------------|
| Mining claims of Rubicon | \$ 3,064,613 |
| Mining claims of Helikon | <u>2,131,710</u> |
| | <u>\$ 5,196,323</u> |

Exploration and evaluation expenditures for the periods were as follows:

| | Dec 31, 2017 | Dec 31, 2016 |
|--|---------------------|-------------------|
| Description | | |
| Camp and support | \$ 474,672 | \$ - |
| Consulting and technical | 739,124 | 191,519 |
| Drilling and assay | 2,724,501 | - |
| Environmental permitting | 215,648 | - |
| Preliminary economic assessment | 906,936 | - |
| Legal | 41,930 | - |
| Field office and administration | 56,907 | 19,493 |
| Resource report | 239,804 | 19,984 |
| Travel | 270,741 | 80,315 |
| Total exploration and evaluation expenditures | \$ 5,670,263 | \$ 311,311 |

Desert Lion Energy Corp.

Notes to the Consolidated Financial Statements
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8. PROPERTY, PLANT AND EQUIPMENT

For the year ended December 31, 2017, the Company purchased the following assets to be used on the Rubicon lithium project:

| | Vehicles | Computers and equipment | Furniture | Building and Infrastructure | Mine Development Asset | Total |
|--|-------------|-------------------------------|------------|--------------------------------|---------------------------|--------------|
| Cost as at December 31, 2016 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Additions | 220,443 | 199,876 | 24,356 | 340,559 | 1,799,660 | 2,584,894 |
| Cost as at December 31, 2017 | \$ 220,443 | \$ 199,876 | \$ 24,356 | \$ 340,559 | \$ 1,799,660 | \$ 2,584,894 |
| Depreciation as at December 31, 2016 | - | - | - | - | - | - |
| Charge for the period | (15,975) | (8,716) | (1,353) | - | - | (26,044) |
| Depreciation as at December 31, 2017 | \$ (15,975) | \$ (8,716) | \$ (1,353) | \$ - | \$ - | \$ (26,044) |
| Net book value as at December 31, 2016 | - | - | - | - | - | - |
| Net book value as at December 31, 2017 | \$ 204,468 | \$ 191,160 | \$ 23,003 | \$ 340,559 | \$ 1,799,660 | \$ 2,558,850 |

As at December 31, 2017, the carrying value of the property, plant and equipment is comprised of \$2,558,850 in Namibia (2016 - \$nil).

9. TRADE PAYABLES AND ACCRUED LIABILITIES

Trade payables and accruals are non-interest bearing and are expected to be settled on 30 to 60-day terms. There is \$15,094 of withholding tax in trade payables as at December 31, 2017 and \$nil as at December 31, 2016.

10. OFFTAKE PREPAYMENT LIABILITY AND OPTION LIABILITY

The Company and Jiangxi Jinhui Lithium Co Ltd. ("Jinhui"), a private arm's length Chinese corporation, signed an offtake agreement dated November 6, 2017 and subsequently amended on February 13, 2018 (the "Jinhui Lithium Offtake Agreement"). The effective date of the Jinhui Lithium offtake agreement was November 16, 2017, being the date of receipt by the Company of a prepayment in the amount of US\$4.5 million (\$5,021,513) (the "Deposit").

The Jinhui Lithium Offtake Agreement provides for the sale by the Company to Jinhui of the material (as defined below) located in the stockpile at the Company's Rubicon lithium project in Namibia.

The material consists of the following: (i) the lepidolite minerals containing 1.7% lithium oxide and the 200kt of lepidolite minerals containing 1.7% lithium oxide; and (ii) the lepidolite minerals containing 3.5% lithium oxide and 50kt of lepidolite minerals containing 3.5% lithium oxide. The purchase price for the materials is determined as of the first day of each month, for that month, calculated as a percentage of the previous 30 day moving average price of 99.5% lithium carbonate as published by Asian Metals. The percentage of the benchmark is determined by the average lithium oxide and tantalum content of the material.

The deposit depletes throughout the term by an adjustment to the purchase price, using a depletion factor of US\$40.00 per tonne. Payments of the purchase price are to be collateralized by the delivery by Jinhui to the Company of irrevocable and unconditional letters of credit drawable on a major international bank with no less than an A rating.

The term of the Jinhui Lithium Offtake Agreement began on November 16, 2017 and ends on the earlier of 60 months following such date and the date that is 15 business days after all material has been loaded on to the vessel nominated by Jinhui; and has been paid for by Jinhui.

Desert Lion Energy Corp.

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10. OFFTAKE PREPAYMENT LIABILITY AND OPTION LIABILITY (continued)

If the Company has not delivered the first shipment of material as defined in the agreement on or before April 16, 2018, the Deposit shall become due and owing by the Company to Jinhui, together with interest thereon at the rate of 10% per annum and Jinhui shall be entitled to terminate the Jinhui Lithium Offtake Agreement. As part of the February 13, 2018 amendment to extend the first shipment date from March 16, 2018 to April 16, 2018, the Company agreed to a US\$37,500 interest deduction from the first shipment purchase price payable.

If the Company has delivered the first shipment of material on or before the deadline date, then Jinhui shall have a period of 60 days to send a written notice that it elects to subscribe for an amount of common shares of the Company that after such subscription equals 15% of the issued shares, in consideration of the payment of \$13.0 million.

This option represents an embedded derivative. At the date of issue, the fair value of the embedded derivative was estimated at \$798,000 using the Black-Scholes model with the following assumptions: risk free rate of return 1.05%, expected volatility 59%, life 0.52 years, and expected dividend yield of nil. As at December 31, 2017, the fair value of the embedded derivative was estimated at \$1,769,000 using the Black-Scholes model with the following assumptions: risk free rate of return 1.05%, expected volatility 69%, life 0.37 years, and expected dividend yield of nil.

The offtake prepayment liability was initially recorded as \$4,847,250, being the residual value after allocating the estimated fair value of the embedded derivative. The offtake prepayment liability is subsequently measured on an amortized cost basis using the effective interest method over the expected life. The effective interest rate was estimated to be approximately 21%. During 2017, \$174,263 was recorded as accretion expense related to the offtake prepayment liability and recorded to mine development asset within property, plant and equipment.

11. LOANS PAYABLE

| | December 31, 2017 | December 31, 2016 |
|------------------------------|-------------------|-------------------|
| PJM Professional Corporation | \$ - | \$ 40,263 |
| Forbes and Manhattan, Inc. | - | 48,346 |
| Total loans payable | \$ - | \$ 88,609 |

On August 22, 2016 and September 7, 2016, the Company entered into loan agreements with Stetson Oil & Gas Ltd. ("Stetson"). The principal amount of each loan was US\$35,000 for a total of US\$70,000 (\$91,819) and both bore interest of 8% per year. The loans, including interest accrued of \$302, were repaid on August 31, 2016 and September 30, 2016.

On August 29, 2016, the Company entered into a loan agreement with Forbes and Manhattan, Inc. ("Forbes"). Pursuant to the terms of the loan, Forbes agreed to lend the Company US\$35,054 at an interest rate of 8% per year. The principal would become due and payable on December 31, 2016. On December 31, 2016, the loan agreement was amended to extend the maturity date to become due and payable on the date on which the common shares of the Company are listed and commence trading on any public stock exchange. On September 22, 2017, the entire loan balance and accrued interest was repaid to Forbes in the amount of US\$38,160 or \$47,624 through the unit offering. See Note 12.

On December 1, 2016, the Company received a loan of \$40,000 from PJM Professional Corporation, a company wholly owned by Mr. Peter McCague, a director of the Company, at an interest rate of 8% per year. The loan was due and payable on the earlier of March 31, 2017 and the date on which the Company closes a financing for gross proceeds in excess of \$1,000,000. On February 14, 2017, the Company received an additional loan of \$20,000 from PJM Professional Corporation with the same terms. On March 15, 2017, the entire loan balance and accrued interest was repaid to PJM Professional Corporation in the amount of \$61,236.

Desert Lion Energy Corp.

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11. LOANS PAYABLE (continued)

On July 11, 2017, the Company received a loan of \$440,000 including finance fees from Aberdeen International Inc. with a maturity of 45 days. The loan was extended for an additional 45 days for a fee of \$40,000. On August 22, 2017, the Company obtained a further \$440,000 loan including finance fees from the same lender. A total of \$920,000 outstanding loan balance (including extension and finance fees) was settled in shares as part of the September 22, 2017 unit offering described in Note 12.

12. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares without par value (issued – 39,257,290)
Unlimited number of preference shares without par values (issued – nil).

(b) Common shares

On June 23, 2017, the Company performed a reverse stock split of 2:1. All share, option, and warrant related amounts have been retroactively restated in these consolidated financial statements to reflect this share consolidation.

Common share transactions for the periods ended December 31, 2017 and 2016 are as follows:

| | Number of common shares | Stated value \$ |
|---------------------------------|----------------------------|-----------------|
| Balance as of June 17, 2016 | - | - |
| Private placements | 25,225,000 | 3,123,750 |
| Broker shares | 775,000 | 38,750 |
| Share issue costs | | (418,970) |
| Balance as of December 31, 2016 | 26,000,000 | 2,743,530 |
| Exercise of options | 86,207 | 78,455 |
| Private placements | 13,171,083 | 12,459,376 |
| Share issue costs | - | (2,115,661) |
| Balance as of December 31, 2017 | 39,257,290 | 13,165,700 |

On June 28, 2016, the Company issued 6,250,000 common shares at a deemed price of \$nil for gross proceeds of \$nil.

On September 22, 2016, the Company completed a private placement financing for 5,475,000 common shares at a price of \$0.05 per share for gross proceeds of \$273,750. In connection with the financing, the Company issued 775,000 broker shares with a value of \$38,750, based on the value of shares in the private placement, and granted 500,000 broker warrants with a value of \$16,420.

On October 5, 6 and 21, 2016, the Company closed private placement financings for an aggregate of 13,000,000 common shares at a price of \$0.20 per share for gross proceeds of \$2,600,000. In connection with the financings, the Company paid \$228,150 in share issue costs and granted 1,040,000 broker warrants with a value of \$135,650.

On December 8, 2016, the Company closed a private placement financing for 500,000 common shares at a price of \$0.50 per share for gross proceeds of \$250,000.

Desert Lion Energy Corp.

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12. SHARE CAPITAL (continued)

On March 20, 2017, the Company completed a private placement financing for 3,899,655 common shares at a price of US\$0.38 (\$0.50) per share for gross proceeds of US\$1,481,850 (\$1,949,828). In connection with the financing, the Company issued 272,976 broker warrants with a value of \$79,080 (see Note 13).

On March 28, 2017, the Company closed private placement financings for 3,298,260 common shares at a price of US\$0.38 (\$0.50) per share for gross proceeds of US\$1,253,339 (\$1,649,130). In connection with the financings, the Company granted 230,878 broker warrants with a value of \$66,540 (see Note 13).

On September 1, 2017, 86,207 options were exercised at \$0.50 per common share.

On September 22, 2017, the Company completed a private placement (the "unit offering") of an aggregate of 3,379,185 units at a price of \$1.82 per unit for gross proceeds of \$6,150,119. Each unit is comprised of one common share and three-quarters of one common share purchase warrant. Each whole warrant is exercisable to acquire one common share at a price of \$2.28 until the date that is 24 months following closing of the unit offering (see Note 13). In connection with the unit offering, the Company agreed to pay certain finders a cash commission equal to 6% of the gross proceeds raised from the sale of the units to subscribers referred to the Company by such finder. In addition, certain finders received compensation warrants ("unit compensation warrants") equal to 6% of the units sold to subscribers referred to the Company by the finder pursuant to the unit offering. Each unit compensation warrant entitles the holder thereof to acquire one and three-quarters of a warrant with some warrants at a price of \$1.82 and others at \$2.28 until the date that is 24 months following closing of this unit offering. 129,651 compensation warrants with a value of \$72,993 were granted with an exercise price of \$1.82 and 97,236 compensation warrants with a value of \$53,501 were granted with an exercise price of \$2.28. A total of 184,066 units were subscribed for by directors of the Company.

On October 10, 2017, the Company completed a private placement of an aggregate of 964,588 units at a price of \$1.82 per unit for gross proceeds of \$1,755,550. Each unit is comprised of one common share and three-quarters of one common share purchase warrant. Each whole warrant is exercisable to acquire one common share at a price of \$2.28 until the date that is 24 months following closing of the unit offering (see Note 13). In connection with the unit offering, the Company agreed to pay certain finders a cash commission equal to 6% of the gross proceeds raised from the sale of the units to subscribers referred to the Company by such finder. In addition, certain finders received compensation warrants equal to 6% of the units sold to subscribers referred to the Company by the finder pursuant to the unit offering. Each unit compensation warrant entitles the holder thereof to acquire one and three-quarters of a warrant with some warrants at a price of \$1.82 and others at \$2.28 until the date that is 24 months following closing of this unit offering. 57,866 compensation warrants with a value of \$35,564 were granted with an exercise price of \$1.82 and 43,400 compensation warrants with a value of \$23,161 were granted with an exercise price of \$2.28.

On November 29, 2017, the Company completed a private placement of an aggregate of 677,584 units at a price of \$1.82 per unit for gross proceeds of \$1,233,202. Each unit is comprised of one common share and three-quarters of one common share purchase warrant. Each whole warrant is exercisable to acquire one common share at a price of \$2.28 until the date that is 24 months following closing of the unit offering (see Note 13). In connection with the unit offering, the Company agreed to pay certain finders a cash commission equal to 6% of the gross proceeds raised from the sale of the units to subscribers referred to the Company by such finder. In addition, certain finders received compensation warrants equal to 6% of the units sold to subscribers referred to the Company by the finder pursuant to the unit offering. Each unit compensation warrant entitles the holder thereof to acquire one and three-quarters of a warrant with some warrants at a price of \$1.82 and others at \$2.28 until the date that is 24 months following closing of this unit offering. 33,549 compensation warrants with a value of \$16,866 were granted with an exercise price of \$1.82 and 25,161 compensation warrants with a value of \$10,175 were granted with an exercise price of \$2.28.

Desert Lion Energy Corp.

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12. SHARE CAPITAL (continued)

On December 6, 2017, the Company completed a private placement of an aggregate of 274,725 units at a price of \$1.82 per unit for gross proceeds of \$499,999. Each unit is comprised of one common share and three-quarters of one common share purchase warrant. Each whole warrant is exercisable to acquire one common share at a price of \$2.28 until the date that is 24 months following closing of the unit offering (see Note 13). In connection with the unit offering, the Company agreed to pay a certain finder a cash commission equal to 6% of the gross proceeds raised from the sale of the units to the subscriber referred to the Company by such finder. In addition, the finder received compensation warrants equal to 6% of the units sold to the subscriber referred to the Company by the finder pursuant to the unit offering. Each unit compensation warrant entitles the holder thereof to acquire one and three-quarters of a warrant with some warrants at a price of \$1.82 and others at \$2.28 until the date that is 24 months following closing of this unit offering. 16,483 compensation warrants with a value of \$8,150 were granted with an exercise price of \$1.82 and 12,362 compensation warrants with a value of \$4,875 were granted with an exercise price of \$2.28.

On December 29, 2017, the Company completed a private placement of an aggregate of 677,086 units at a price of \$1.82 per unit for gross proceeds of \$1,232,296. Each unit is comprised of one common share and three-quarters of one common share purchase warrant. Each whole warrant is exercisable to acquire one common share at a price of \$2.28 until the date that is 24 months following closing of the unit offering (see Note 13). In connection with the unit offering, the Company agreed to pay certain finders a cash commission equal to 6% of the gross proceeds raised from the sale of the units to subscribers referred to the Company by such finder. In addition, certain finders received compensation warrants equal to 6% of the units sold to subscribers referred to the Company by the finder pursuant to the unit offering. Each compensation warrant entitles the holder thereof to acquire one and three-quarters of a warrant with some warrants at a price of \$1.82 and others at \$2.28 until the date that is 24 months following closing of this unit offering. 22,419 compensation warrants with a value of \$14,345 were granted with an exercise price of \$1.82 and 16,814 compensation warrants with a value of \$8,886 were granted with an exercise price of \$2.28.

During December 2017, the Company completed multiple brokered private placements and issued an aggregate of 5,401,207 Subscription Receipts for total gross proceeds of \$9,830,197. On December 13, 2017, the Company completed a subscription of an aggregate of 3,075,408 Subscription Receipts at a price of \$1.82 per Subscription Receipt for gross proceeds of \$5,597,243. On December 22, 2017, the Company completed a non-brokered private placement of 1,504,395 Subscription Receipts to raise gross proceeds of \$2,737,999. On December 29, 2017, the Company completed a non-brokered private placement of 821,404 Subscription Receipts to raise gross proceeds of \$1,494,955. The Subscription Receipt proceeds of \$9,830,197 was released to the Company on February 22, 2018 on closing of the business combination with Camex (see note 20). Each Subscription Receipt was converted into one Desert Lion Share and one-quarter of one common share purchase warrant of Desert Lion (each whole warrant, a "SR Warrant"). Each SR Warrant is exercisable to acquire one Desert Lion share at a price of \$2.28 for a period of 24 months following closing of the offering. A total of 307,294 compensation warrants with a value of \$157,204 were granted with an exercise price of \$1.82 and 76,821 compensation warrants with a value of \$31,898 were granted with an exercise price of \$2.28.

Desert Lion Energy Corp.

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13. WARRANTS

At December 31, 2017, outstanding warrants to acquire common shares of the Company were as follows:

| Exercise Price | Number Outstanding | Grant Date | Expiry Date | Grant Date estimated Fair Value Vested | Expected Volatility | Expected life years | Remaining life in years | Expected dividend yield | Risk-free interest rate |
|----------------|--------------------|------------|-------------|--|---------------------|---------------------|-------------------------|-------------------------|-------------------------|
| \$ | | | | \$ | | | | | |
| 0.05 | 500,000 | 22-Sep-16 | 22-Sep-18 | 16,420 | 133.5% | 2.00 | 0.73 | 0% | 0.57% |
| 0.20 | 928,000 | 6-Oct-16 | 6-Oct-18 | 121,190 | 132.4% | 2.00 | 0.76 | 0% | 0.58% |
| 0.20 | 112,000 | 21-Oct-16 | 21-Oct-18 | 14,460 | 130.4% | 2.00 | 0.81 | 0% | 0.52% |
| 0.50 | 272,976 | 20-Mar-17 | 20-Mar-19 | 79,080 | 113.1% | 2.00 | 1.22 | 0% | 0.79% |
| 0.50 | 230,878 | 28-Mar-17 | 28-Mar-19 | 66,540 | 112.4% | 2.00 | 1.24 | 0% | 0.74% |
| 2.28 | 2,534,390 | 22-Sep-17 | 22-Sep-19 | 1,182,716 | 81.2% | 2.00 | 1.73 | 0% | 1.59% |
| 1.82 | 129,651 | 22-Sep-17 | 22-Sep-19 | 72,993 | 81.2% | 2.00 | 1.73 | 0% | 1.59% |
| 2.28 | 97,236 | 22-Sep-17 | 22-Sep-19 | 53,501 | 81.2% | 2.00 | 1.73 | 0% | 1.59% |
| 2.28 | 723,441 | 10-Oct-17 | 10-Oct-19 | 321,467 | 76.6% | 2.00 | 1.78 | 0% | 1.55% |
| 1.82 | 57,866 | 10-Oct-17 | 10-Oct-19 | 35,564 | 76.6% | 2.00 | 1.78 | 0% | 1.55% |
| 2.28 | 43,400 | 10-Oct-17 | 10-Oct-19 | 23,161 | 76.6% | 2.00 | 1.78 | 0% | 1.55% |
| 2.28 | 508,188 | 29-Nov-17 | 29-Nov-19 | 210,051 | 70.4% | 2.00 | 1.91 | 0% | 1.42% |
| 1.82 | 33,549 | 29-Nov-17 | 29-Nov-19 | 16,866 | 70.4% | 2.00 | 1.91 | 0% | 1.42% |
| 2.28 | 25,161 | 29-Nov-17 | 29-Nov-19 | 10,175 | 70.4% | 2.00 | 1.91 | 0% | 1.42% |
| 2.28 | 206,043 | 6-Dec-17 | 6-Dec-19 | 82,417 | 68.4% | 2.00 | 1.93 | 0% | 1.54% |
| 1.82 | 16,483 | 6-Dec-17 | 6-Dec-19 | 8,150 | 68.4% | 2.00 | 1.93 | 0% | 1.54% |
| 2.28 | 12,362 | 6-Dec-17 | 6-Dec-19 | 4,875 | 68.4% | 2.00 | 1.93 | 0% | 1.54% |
| 1.82 | 184,524 | 13-Dec-17 | 13-Dec-19 | 93,774 | 73.9% | 2.00 | 1.95 | 0% | 1.52% |
| 2.28 | 46,130 | 13-Dec-17 | 13-Dec-19 | 18,993 | 73.9% | 2.00 | 1.95 | 0% | 1.52% |
| 1.82 | 73,487 | 22-Dec-17 | 13-Dec-19 | 37,450 | 73.1% | 2.00 | 1.95 | 0% | 1.68% |
| 2.28 | 18,371 | 22-Dec-17 | 13-Dec-19 | 7,588 | 73.1% | 2.00 | 1.95 | 0% | 1.68% |
| 1.82 | 49,283 | 29-Dec-17 | 13-Dec-19 | 25,980 | 73.1% | 2.00 | 1.95 | 0% | 1.69% |
| 2.28 | 12,320 | 29-Dec-17 | 13-Dec-19 | 5,317 | 73.1% | 2.00 | 1.95 | 0% | 1.69% |
| 2.28 | 507,814 | 29-Dec-17 | 29-Dec-19 | 214,098 | 73.1% | 2.00 | 1.99 | 0% | 1.69% |
| 1.82 | 22,419 | 29-Dec-17 | 29-Dec-19 | 14,345 | 73.1% | 2.00 | 1.99 | 0% | 1.69% |
| 2.28 | 16,814 | 29-Dec-17 | 29-Dec-19 | 8,886 | 73.1% | 2.00 | 1.99 | 0% | 1.69% |
| 1.68 | 7,362,786 | | | 2,746,057 | | | 1.55 | | |

Desert Lion Energy Corp.

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13. WARRANTS (continued)

Warrant transactions during the periods ended December 31, 2017 and 2016 were as follows:

| | Number of warrants | Weighted average exercise price | Grant date fair value |
|---------------------------------|--------------------|---------------------------------|-----------------------|
| Balance as of June 17, 2016 | - | \$ - | \$ - |
| Granted, broker warrants | 1,540,000 | 0.15 | 152,070 |
| Balance as of December 31, 2016 | 1,540,000 | 0.15 | 152,070 |
| Granted, broker warrants | 1,342,910 | 1.45 | 583,236 |
| Granted, private placement | 4,479,876 | 2.28 | 2,010,751 |
| Balance as of December 31, 2017 | 7,362,786 | \$ 1.68 | \$ 2,746,057 |

14. OPTIONS

The Company has a stock option plan whereby it may grant options for the purchase of common shares to any director, consultant, employee or officer of the Company or its subsidiaries. The aggregate number of shares that may be issuable pursuant to options granted under the Company's stock option plan (the "Plan") will not exceed 10% of the issued common shares of the Company (the "Shares") at the date of grant. The options are non-transferable and non-assignable and may be granted for a term not exceeding five years. The exercise price of the options will be determined by the board at the time of grant, but in the event that the Shares are traded on the TSX Venture Exchange or any other stock exchange (the "Exchange"), may not be less than the closing price of the Shares on the Exchange on the trading date immediately preceding the date of grant, subject to all applicable regulatory requirements.

Information relating to share options outstanding as at December 31, 2017 and 2016 is as follows:

| | Number of options | Weighted average exercise price |
|-----------------------------|-------------------|---------------------------------|
| Balance as of June 17, 2016 | - | \$ - |
| Granted | 2,000,000 | 0.20 |
| Balance, December 31, 2016 | 2,000,000 | 0.20 |
| Granted | 1,300,000 | 0.50 |
| Exercised | (86,207) | 0.50 |
| Balance, December 31, 2017 | 3,213,793 | \$ 0.31 |

| Date of expiry | Options outstanding | Options exercisable | Exercise price | Grant date fair value vested | Remaining life in years |
|------------------|---------------------|---------------------|----------------|------------------------------|-------------------------|
| October 25, 2021 | 2,000,000 | 2,000,000 | \$0.20 | \$ 298,900 | 3.82 |
| March 31, 2022 | 325,000 | 325,000 | \$0.50 | 149,100 | 4.25 |
| June 21, 2022 | 888,793 | 888,793 | \$0.50 | 333,720 | 4.47 |
| | 3,213,793 | 3,213,793 | | \$ 781,720 | 4.04 |

Desert Lion Energy Corp.

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14. OPTIONS (continued)

On October 25, 2016, the Company granted 2,000,000 options to directors, officers and consultants of the Company with exercise prices of \$0.20 per common share. The fair market value of the options was determined to be \$298,900 using the Black Scholes option pricing model based on the following assumptions: risk-free rate of 0.66%, expected volatility of 101.4%, based on the weighted average volatility of comparable companies, an estimated life of 5 years and an expected dividend yield of 0%.

On March 31, 2017, the Company granted 325,000 options to officers and consultants of the Company with exercise prices of \$0.50 per common share. The fair market value of the options was estimated to be \$149,100 using the Black Scholes option pricing model based on the following assumptions: risk-free rate of 1.10%, expected volatility of 100%, based on the weighted average volatility of comparable companies, an estimated life of 5 years and an expected dividend yield of 0%.

On June 21, 2017, the Company granted 975,000 options to directors of the Company with exercise prices of \$0.50 per common share. The fair market value of the options was estimated to be \$369,071 using the Black Scholes option pricing model based on the following assumptions: risk-free rate of 1.13%, expected volatility of 119%, based on the weighted average volatility of comparable companies, an estimated life of 5 years and an expected dividend yield of 0%.

On September 1, 2017, 86,207 options were exercised at \$0.50 per share for cash proceeds of \$43,104.

15. LOSS PER SHARE

Basic loss per share is calculated by dividing the loss for the period by the weighted average number of common shares outstanding for the periods ended December 31, 2017 and 2016.

The basic and diluted loss per share excludes options exercisable for 3,213,793 common shares (2016 - 2,000,000) of the Company at a weighted average exercise price of \$0.31 (2016 - \$0.20) and warrants exercisable for 7,362,786 common shares (2016 - 1,540,000) of the Company at a weighted average exercise price of \$1.68 (2016 - \$0.15) as these are anti-dilutive during the periods ended December 31, 2017 and 2016.

16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's financial instruments comprise cash and cash equivalents, restricted cash, amounts receivable, funds in escrow, trade payables and accrued liabilities, subscription receipts, offtake prepayment liability, option liability and loans payable. The main purpose of these financial instruments is to raise finance to fund operations.

The Company's risk exposures and the impact on the Company's consolidated financial instruments are summarized below:

Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets. With respect to credit risk arising from financial assets of the Company, which comprise cash and minimal receivables, the Company's exposure to credit risk arises from default of counterparties, with a maximum exposure equal to the carrying amount of these instruments. Cash and cash equivalents are held with high credit quality financial institutions except for approximately \$2.6 million which is held in a legal trust account by a director of the Company. All amounts held in the trust was received subsequent to December 31, 2017. Management believes that the credit risk concentration with respect to these financial instruments is remote.

Desert Lion Energy Corp.

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16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2017 and 2016, the Company had a cash and cash equivalent balance of \$6,553,667 (2016 - \$167,890) to settle current liabilities of \$19,586,941 (2016 - \$400,535). Most of the Company's financial liabilities have maturities of less than 30 days and are subject to normal trade terms. As at December 31, 2017 and 2016, the Company had accounts payable and accrued liabilities of \$2,966,231 (2016 - \$311,926). Subsequent to December 31, 2017, the Company converted \$9,830,197 subscription receipts into shares and warrants of the Company.

Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

(a) Interest rate risk

The Company has cash and cash equivalent balances as at December 31, 2017 and 2016. The Company considers interest rate risk to be minimal as cash is held on deposit at major financial institutions in accounts bearing nominal or no interest.

(b) Foreign currency risk

Currency risk exposures arise from transactions denominated in a foreign currency. Fluctuations in exchange rates may have a significant effect on the cash flows of the Company. Future changes in exchange rates could materially affect the Company's results in either a positive or negative direction.

The Company's currency risk arises primarily with respect to the Namibian dollar (NAD) and South African Rand (ZAR) which are equivalent. In addition, the Company has transactions in Australian dollars (AUD), British Pounds (GBP), and the U.S. dollars (USD). The Company has not hedged its exposure to currency fluctuations. As at December 31, 2017 and 2016, the Company is exposed to currency risk through the following assets and liabilities denominated in various currencies:

| December 31, 2017 | CAD | USD | GBP | ZAR |
|------------------------------|--------------|--------------|----------|---------------|
| Cash at banks | \$ 4,286,200 | \$ 1,422,420 | \$ - | \$ 4,758,501 |
| Restricted cash | 9,830,197 | - | - | - |
| Accounts receivable | 163,227 | - | - | 6,103,722 |
| Trade and other payables | - | (5,000) | (419) | 3,186 |
| Subscription receipts | (9,830,197) | - | - | - |
| Offtake prepayment liability | - | 4,500,000 | - | - |
| | \$ 4,449,427 | \$ 5,917,420 | \$ (419) | \$ 10,865,409 |

| December 31, 2016 | CAD | USD | AUD | GBP | ZAR |
|--------------------------|--------------|--------------|------------|------------|-------------|
| Cash at banks | \$ 167,557 | \$ 330 | \$ - | \$ - | \$ - |
| Funds in escrow | - | 1,600,000 | - | - | - |
| Accounts receivable | 31,973 | - | - | - | - |
| Trade and other payables | (287,344) | - | (5,500) | (2,500) | (72,483) |
| Loans payable | (40,263) | (36,006) | - | - | - |
| | \$ (128,077) | \$ 1,564,324 | \$ (5,500) | \$ (2,500) | \$ (72,483) |

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16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Based on the net exposures as at December 31, 2017, and assuming that all other variables remain constant, a \$0.01 depreciation or appreciation of the Canadian dollar against the above noted currencies would result in a change in the Company's net loss of approximately \$660,800.

(c) Commodity price risk

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. The Company's future operations will be significantly affected by changes in the market prices for commodities. Commodity prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for commodities, the level of interest rates, the rate of inflation, and stability of exchange rates can all cause significant fluctuations in commodity prices. Such external economic factors may in turn be influenced by changes in international investment patterns, monetary systems and political developments. As the Company is not in production, its exposure to commodity price risk is reduced.

Capital management

The Company considers its capital structure to include equity, comprising issued share capital plus warrants, options and deficit with a balance of \$6,078,036 (2016 – 2,263,341) as at December 31, 2017 and 2016. The policy of the Company is to maintain a capital base to ensure it is able to sustain the future development of the Company's business objectives. The Company manages its capital through the issuance of shares as well as prudently managing expenditures relating to acquisition, exploration and development of resource properties.

17. FINANCIAL INSTRUMENTS

The fair values of financial assets and liabilities, together with the carrying amounts shown in the consolidated statement of financial position, are as follows:

| | Financial instrument classification | Carrying amount | | Fair value | |
|--|-------------------------------------|-----------------|------------|--------------|------------|
| | | 2017 | 2016 | 2017 | 2016 |
| Financial assets: | | | | | |
| Cash and cash equivalents | Loans and receivables | \$ 6,553,667 | \$ 167,890 | \$ 6,553,667 | \$ 167,890 |
| Restricted cash | Loans and receivables | 9,830,197 | - | 9,830,197 | - |
| Amounts receivable | Loans and receivables | 782,817 | 31,973 | 782,817 | 31,973 |
| Funds in escrow | Loans and receivables | - | 2,148,320 | - | 2,148,320 |
| Financial liabilities: | | | | | |
| Trade payables and accrued liabilities | Amortized cost | 2,966,231 | 311,926 | 2,966,231 | 311,926 |
| Subscription receipts | Amortized cost | 9,830,197 | - | 9,830,197 | - |
| Offtake prepayment liability | Amortized cost | 5,021,513 | - | 5,021,513 | - |
| Option liability | Fair value through profit (loss) | 1,769,000 | - | 1,769,000 | - |
| Loans payable | Amortized cost | - | 88,609 | - | 88,609 |

Desert Lion Energy Corp.

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17. FINANCIAL INSTRUMENTS (continued)

The fair value of short-term financial instruments approximates their carrying value due to the relatively short period of time to maturity. These include cash and cash equivalents, restricted cash, amounts receivable, trade payables and accrued liabilities, subscription receipts, current portion of offtake prepayment liability and loans payable.

18. RELATED PARTY DISCLOSURES

Key management personnel compensation

In addition to their contracted fees, directors and officers also participate in the Company's share option program. Certain executive officers are subject to a mutual termination notices of three months. Key management personnel compensation comprised:

| | | Year ended December 31, 2017 | Period ended December 31, 2016 |
|------------------------------------|----|---------------------------------|-----------------------------------|
| Directors & officers' compensation | \$ | 1,125,996 | \$ 82,306 |
| Share-based payments | | 767,435 | 225,547 |
| | \$ | 1,893,431 | \$ 307,853 |

See also Notes 11, 12 and 19.

19. COMMITMENTS AND CONTINGENCIES

Management commitments

The Company is party to certain management contracts. These contracts require payments of approximately \$1,675,000 to the officers of the Company upon the occurrence of a change in control of the Company, as such term is defined in each officers' respective consulting agreement. The Company is also committed to payments upon termination of approximately \$343,000 pursuant to the terms of these contracts. As a triggering event has not taken place, these amounts have not been recorded in these consolidated financial statements. The Company has also granted one time bonuses amounting to \$376,875 payable after the first shipment of product which is expected to be made in April 2018. The full amount of the bonus payments have been accrued in the consolidated financial statements as at December 31, 2017.

Environmental

The Company's exploration and evaluation activities are subject to laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its activities are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

Contractor Commitments

The Company engaged third party contractors for its mining operations. The estimated cost to terminate the agreements unilaterally before the terms expire is approximately \$1.5 million.

Royalties

The Company's products are subject to a royalty rate of 2% payable to the Namibian government.

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20. SUBSEQUENT EVENTS

Listing on the TSX Venture Exchange

On February 22, 2018, Desert Lion Energy Corp. completed its “reverse take-over” transaction, pursuant to an amalgamation agreement dated October 12, 2017 with Camex. On closing of the business combination, Desert Lion became a listed company trading on the TSX Venture Exchange trading under the name of Desert Lion Energy Inc., symbol “DLI”. Trading of the shares commenced on February 26, 2018. Refer to the management information circular filed on www.sedar.com on February 23, 2018.

Prior to the closing of the transaction, Camex consolidated its common shares on the basis of one post-consolidation common share for each 12.0258 existing common shares and changed its name to “Desert Lion Energy Inc.” (the Consolidation”).

The transaction was completed by way of a three-cornered amalgamation, pursuant to which 2590945 Ontario Inc., a wholly owned subsidiary of Camex, amalgamated with Desert Lion Energy Corp. to form a newly amalgamated company named Desert Lion Energy Corp.

Pursuant to the transaction, the Company acquired all of the outstanding common shares of Desert Lion Energy Corp. and issued to Desert Lion Energy Corp. shareholders one new share in exchange for each common share of Desert Lion Corp. held.

Upon completion of the transaction, including the conversion of the \$9,830,197 Subscription Receipts (shown as “restricted cash” in the Consolidated Statement of Financial Position) as at December 31, 2017 and the Consolidation, the Company had 46,306,497 common shares issued and outstanding, with approximately 96.4% held by former Desert Lion shareholders and approximately 3.6% held by former Camex shareholders, on an undiluted basis. The Subscription Receipts were issued pursuant to a subscription receipt agreement (the “Subscription Receipt Agreement”) entered among Desert Lion, Haywood Securities Inc. and Computershare Trust Company of Canada. Upon closing of the transaction, each Subscription Receipt automatically converted without any further consideration or action by the holder thereof into one Desert Lion Share and one-quarter of one common share purchase warrant of Desert Lion (each whole warrant, a “SR Warrant”). Each SR Warrant will be exercisable to acquire one Desert Lion Share at a price of \$2.28 for a period ending December 13, 2019.

Acquisition of Additional EPLs

On March 13, 2018, the Company announced that it has entered definitive transfer agreements for the acquisition of Exclusive Prospecting License 5555 and 5718 (the “Proposed Transaction”), both located adjacent to its existing Exclusive Prospecting Licenses (“EPL”) 5439, where the historic Rubicon and Helikon lithium mines are located. EPL 5718 covers an area of 200km² and is located immediately adjacent to and south of Desert Lion’s existing EPL 5439 and contains known lithium – cesium – tantalum (“LCT”) type pegmatite occurrences. EPL 5555 covers an area of 553km² and is located adjacent and immediately west of EPL 5439, and also is believed to contain multiple LCT type pegmatite occurrences and workings.

Desert Lion has agreed to pay an aggregate consideration of approximately \$180,000 for each of EPL 5555 and EPL 5718, of which \$30,000 was paid in cash on execution of the respective transfer agreements. An additional cash payment of approximately \$100,000 will be paid on closing and Desert Lion will issue the respective vendors, in aggregate, a number of common shares of Desert Lion equal to \$50,000 at a price per share equal to the closing price of Desert Lion’s common shares on the TSX Venture Exchange on the day immediately prior to closing.

Closing of the Proposed Transaction is subject to receipt of approval of the transfer of the EPLs to Desert Lion by the Namibian Ministry of Mines and Energy as well as any required regulatory approvals, including the TSX Venture Exchange.

Desert Lion Energy Corp.

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20. SUBSEQUENT EVENTS (continued)

Share for Debt Settlement

On March 15, 2018, the Company announced completion of a debt settlement with certain creditors (the “Shares for Debt Settlement”) after being granted approval by the TSX Venture Exchange. Pursuant to the Shares for Debt Settlement, the Company has issued a total of 8,241 common shares of Desert Lion at a deemed price of \$1.82 per share based on the market price of shares in satisfaction of an outstanding loan of \$15,000. In addition, the Company has issued 65,935 common shares of Desert Lion at a deemed price of \$1.82 per share to settle \$120,000 of unpaid consulting fees owed to Emprise Capital Corp., a private company of which Scott Ackerman, the former President and CEO of the Camex, is a principal. The common shares issued pursuant to the Shares for Debt Settlement are subject to a four month and one day hold period expiring on July 16, 2018.