Desert Lion Energy Inc.

CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2018 and 2017

Desert Lion Energy Inc.

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of condensed consolidated interim financial statements by an entity's auditor.

Desert Lion Energy Inc.

Condensed Interim Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

As at:		March 31, 2018		December 31, 2017
ASSETS				
Current				
Cash and cash equivalents	$	7,124,850	$	6,553,667
Restricted cash		-		9,830,197
Amounts receivable (Note 4)		1,470,465		782,817
Inventory (Note 6)		4,707,974		29,262
Deposits		267,147		189,793
Prepaid expenses		868,536		574,013
Total current assets		14,438,972		17,959,749
Non-current				
Deposits		144,380		-
Loan receivable (Note 5)		503,219		-
Property, plant and equipment (Note 8)		4,688,781		2,558,850
Exploration and evaluation assets (Note 7)		6,113,905		5,196,323
Total assets	$	25,889,257	$	25,714,922
LIABILITIES				
Current				
Trade payables and accrued liabilities (Note 9)	$	5,887,610	$	2,966,231
Subscription receipts		-		9,830,197
Offtake prepayment liability (Note 10)		-		5,021,513
Unearned revenue (Note 10)		5,285,455		-
Option liability (Note 10)		768,000		1,769,000
Total current liabilities		11,941,065		19,586,941
EQUITY				
Share capital (Note 11(b))		25,199,410		13,165,700
Warrants (Note 12)		3,517,080		2,746,057
Options (Note 13)		1,588,610		781,720
Deficit		(15,596,452)		(10,560,606)
Accumulated other comprehensive loss		(442,061)		(54,835)
Equity attributable to owners of the parent		14,266,587		6,078,036
Non-controlling interest (Note 7)		(318,395)		49,945
Total equity		13,948,192		6,127,981
Total liabilities and equity	$	25,889,257	$	25,714,922

Nature of operations and going concern (Note 1)

Commitments and contingencies (Notes 7, 10 and 15)

Subsequent events (Note 17)

Approved by the Board of Directors on May 30, 2018:

"PETER MCCAGUE", Director

"TIM JOHNSTON", Director

See accompanying notes to the condensed interim consolidated financial statements

Desert Lion Energy Inc.

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

($ Canadian)		Three months ended March 31, 2018		Three months ended March 31, 2017
Expenses				
Consulting and management fees (Note 14)	$	275,466	$	159,600
Professional fees		283,642		7,630
General office expenses		57,438		26,894
Travel expenses		49,240		45,256
Shareholder communications and filing fees		63,117		-
Marketing and promotion		811,733		14,120
Share based compensation (Note 11 and 14)		844,253		149,100
Exploration and evaluation expenditures (Note 7)		1,737,552		777,888
Amortization expense		46,618		2,963
Foreign exchange (gain)		(690,464)		(7,893)
Loss before other items		3,478,595		1,175,558
Interest (income) and financing expense		(5,219)		1,919
Change in fair value of option liability (Note 10)		(1,001,000)		-
Transaction cost (Note 16)		3,255,481		-
Gain on debt settlement (Note 11)		(370,000)		-
Withholding tax expense		46,328		-
Loss for the period	$	5,404,185	$	1,177,477
Other comprehensive loss				
Foreign currency translation		387,226		-
Comprehensive loss for the period		5,791,411		1,177,477
Comprehensive loss for the period attributable to:				
Owners of the parent		5,423,071		1,045,754
Non-controlling interest		368,340		131,723
	$	5,791,411	$	1,177,477
Basic and diluted loss per share	$	0.13	$	0.04
Weighted average number of common shares outstanding - basic and diluted		42,284,768		26,586,567

See accompanying notes to the condensed interim consolidated financial statements

Desert Lion Energy Inc.

Condensed Interim 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, 2017	39,257,290	13,165,700	2,746,057	781,720	(10,560,606)	49,945	(54,835)	6,127,981
Private placements, net of issue costs (Note 11(b))	5,401,207	9,059,240	771,213	-	-	-	-	9,830,453
Exercise of warrants (Note 11, 12)	656	518	(190)	-	-	-	-	328
Options grant (Note 13)	-	-	-	844,253	-	-	-	844,253
Options exercise (Note 11, 13)	250,000	87,363	-	(37,363)	-	-	-	50,000
Acquisition of Camex (Note 16)	1,647,658	2,751,589	-	-	-	-	-	2,751,589
Share issued for debt settlement (Note 11)	74,176	135,000	-	-	-	-	-	135,000
Loss for the period	-	-	-	-	(5,035,846)	(368,340)	-	(5,404,186)
Other comprehensive loss for the period	-	-	-	-	-	-	(387,226)	(387,226)
Balance, March 31, 2018	46,630,987	25,199,410	3,517,080	1,588,610	(15,596,452)	(318,395)	(442,061)	13,948,192
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 11(b)	7,197,917	3,271,999	-	-	-	-	-	3,271,999
Broker warrants (Note 12)	-	-	145,620	-	-	-	-	145,620
Share-based compensation (Note 13)	-	-	-	149,100	-	-	-	149,100
Loss for the period	-	-	-	-	(1,045,754)	(131,723)	-	(1,177,477)
Balance, March 31, 2017	33,197,917	6,015,529	297,690	448,000	(1,976,913)	(131,723)	-	4,652,583

See accompanying notes to the condensed interim consolidated financial statements

Desert Lion Energy Inc.

Condensed Interim Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Three months ended March 31, 2018	Three months ended March 31, 2017
CASH (USED IN) PROVIDED BY:		
OPERATING ACTIVITIES		
Net loss for the period	$ (5,404,185)	$ (1,177,477)
Items not involving cash:		
Transaction cost (Note 16)	3,255,481	-
Shares issued for services (Note 11)	135,000	-
Share-based compensation (Note 11)	844,253	149,100
Amortization (Note 8)	46,618	2,963
Accrued interest on loans payable (Note 5)	-	1,918
	(1,122,833)	(1,023,496)
Net change in non-cash working capital	4,206,355	(66,669)
Net cash flows (used in) operating activities	3,083,522	(1,090,165)
FINANCING ACTIVITIES		
Private placement (Note 11)	-	3,417,619
Exercise of options (Note 13)	49,810	-
Exercise of warrants (Note 12)	518	-
Net cash flows provided by financing activities	50,328	3,417,619
INVESTING ACTIVITIES		
(Acquisition) of equipment	(2,176,549)	(70,699)
Acquisition of cash from Camex (Note 16)	1,108	-
Net cash flow (used in) investing activities	(2,175,441)	(70,699)
Effect of exchange rate change	(387,226)	(421)
CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	571,183	2,256,334
CASH, beginning of the period	6,553,667	167,890
CASH, end of the period	$ 7,124,850	$ 2,424,224
SUPPLEMENTAL INFORMATION		
Conversion of subscription receipts into share capital	9,830,197	-

See accompanying notes to the condensed interim consolidated financial statements

(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS

The principal activity of Desert Lion Energy Inc. (the “Company” or “Desert Lion”) is the exploration and evaluation of lithium minerals. The Company was incorporated as 2523701 Ontario Inc. under the laws of the Province of Ontario, Canada by Articles of Incorporation dated June 17, 2016. On March 20, 2017, the Company completed the acquisition of 80% of the shares of !HUNI-/URIB Investments (Pty) Ltd. (subsequently renamed Desert Lion Energy (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 km^2 prospecting area. On May 22, 2017, the Company incorporated Desert Lion Energy (Mauritius) Ltd. to serve the purpose of an intermediary holding company. On December 16, 2017, the Company completed the acquisition of the Helikon mining interests. 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. The Company’s head office is located at 65 Queen Street West, 8th floor, Toronto, Ontario, M5H 2M5, Canada.

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

		% Ownership
	Country of incorporation	March 31, 2018
Desert Lion Energy Corp.	Canada	100%
Desert Lion Energy (Mauritius) Ltd.	Mauritius	100%
Desert Lion Energy (Proprietary) Ltd.	Namibia	80%

Desert Lion Energy Corp. amalgamated with Desert Lion Energy Inc. on April 1, 2018 to form Desert Lion Energy Inc.

Going Concern

The accompanying condensed interim 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 have generated revenues to March 31, 2018, does not have proven reserves and for the three months ended March 31, 2018 incurred a net comprehensive loss of $5,791,411. As at March 31, 2018, the Company had a working capital surplus of $2,497,907. 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.

These condensed interim 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.

2. BASIS OF PRESENTATION

The accompanying condensed interim consolidated financial statements have been prepared by management in conformity with IAS 34, *Interim Financial Reporting* and do not include all the disclosures required in full annual financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These condensed interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2017.

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on May 30, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies

The unaudited condensed interim consolidated financial statements were prepared using the same accounting policies and methods as those used in the Company's consolidated financial statements for the year ended December 31, 2017. These new standards and changes did not have any material impact on the Company's consolidated financial statements.

Accounting pronouncements not yet adopted

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, 2019 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.

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting standards

During 2018 and 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.

IFRS 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.

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, 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.

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, 2018.

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

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.

(Expressed in Canadian dollars)

4. 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).

	2018	2017
	$	$
Government of Canada HST	110,680	163,228
Government of Namibia VAT	1,359,785	619,589
Total	1,470,465	782,817

5. LOAN RECEIVABLE

On February 12, 2018, the Company extended a $500,000 Board approved loan to an officer with an annual interest rate of 5% and maturity date of August 12, 2019. As at March 31, 2018, the loan had an outstanding balance of $503,219.

6. INVENTORY

	March 31, 2018	December 31, 2017
Description		
Work-in-progress	$ 2,984,168	$ 29,262
Finished goods - concentrates	1,723,806	-
Total inventories	$ 4,707,974	$ 29,262

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 301km^2 prospecting area. Total cash consideration paid to acquire Huni was US$1,700,000 ($2,272,471). This amount has been capitalized in the Interim 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 549,450 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). The liability accrued at March 31, 2018 was $917,582. The shares were issued on April 17, 2018.

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 interim condensed consolidated financial statements.

(Expressed in Canadian dollars)

7. EXPLORATION AND EVALUATION ASSETS AND EXPENDITURES (continued)

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	(568,098)
Total consideration	$ 2,496,515
Consideration:	
Cash consideration	$ 2,272,471
Transaction cost	224,044
Total consideration	$ 2,496,515

On December 16, 2017, the Company completed the purchase of the Helikon mining interests for ZAR 21 million ($2,131,710). The purchase 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 km^2 EPL 5439 which is held by the Company.

The total exploration and evaluation assets as at March 31, 2018 is as follows and includes the value of the shares issued in April 2018 to the Huni Vendors valued at $917,582:

Mining claims of Rubicon	$ 3,982,195
Mining claims of Helikon	2,131,710
	$ 6,113,905

Exploration and evaluation expenditures for the periods were as follows:

	March 31, 2018	March 31, 2017
Description		
Camp and support	$ 117,664	$ 194,891
Consulting and technical	238,525	29,673
Drilling and assay	1,072,710	416,668
Environmental permitting	17,343	106,402
Preliminary economic assessment	10,517	-
Field office and administration	57,320	-
Resource report	60,686	3,967
Travel	162,787	26,287
Total exploration and evaluation expenditures	$ 1,737,552	$ 777,888

(Expressed in Canadian dollars)

8. PROPERTY, PLANT AND EQUIPMENT

	Vehicles	Equipment	Furniture	Assets Under Construction	Mine Development Asset	Total
Cost as at December 31, 2017	$ 220,443	$ 199,876	$ 24,356	$ 340,559	$ 1,799,660	$ 2,584,894
Additions	100,651	93,910	20,395	1,412,121	549,472	2,176,549
Cost as at March 31, 2018	$ 321,094	$ 293,786	$ 44,751	$ 1,752,680	$ 2,349,132	$ 4,761,443
Depreciation as at December 31, 2017	(15,975)	(8,716)	(1,353)	-	-	(26,044)
Charge for the period	(20,996)	(19,785)	(5,837)	-	-	(46,618)
Depreciation as at March 31, 2018	$ (36,971)	$ (28,501)	$ (7,190)	$ -	$ -	$ (72,662)
Net book value as at December 31, 2017	204,468	191,160	23,003	340,559	1,799,660	2,558,850
Net book value as at March 31, 2018	$ 284,123	$ 265,285	$ 37,561	$ 1,752,680	$ 2,349,132	$ 4,688,781

As at March 31, 2018, the carrying value of the property, plant and equipment is comprised of $4,688,781 of assets located in Namibia (December 31, 2017 - $2,558,850).

9. TRADE PAYABLES AND ACCRUED LIABLITIES

Trade payables and accruals are non-interest bearing and are expected to be settled on 30 to 60-day terms. There is $82,890 of withholding tax in trade payables as at March 31, 2018 and $15,094 as at December 31, 2017.

10. UNEARNED REVENUE, 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) up to a maximum of 120,000 tonnes of lepidolite minerals containing 1.7% to 1.99% lithium oxide (the “low-grade concentrate”); and (ii) all lepidolite concentrate produced by the Company from the lepidolite minerals contained in the stockpile located at the mine site, which contain not less than 2% 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 credit 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.

10. UNEARNED REVENUE, OFFTAKE PREPAYMENT LIABILITY AND OPTION LIABILITY (continued)

Subsequent to March 31, 2018, the Company completed its first shipment within the timeframe of the contract. As a result, the Deposit is no longer refundable and the remaining balance shall continue to amortize against future shipments. Jinhui has a period of 60 days following the first shipment 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 ("The Option").

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 March 31, 2018, the fair value of the embedded derivative was estimated at $768,000 using the Black-Scholes model with the following assumptions: risk free rate of return 1.09%, expected volatility 59%, life 0.23 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%. At March 31, 2018, the offtake prepayment liability of $5,285,455 was reclassified as unearned revenue as the deposit is no longer refundable. For the three months ended March 31, 2018, $263,943 was recorded as accretion expense and recorded to mine development asset within property, plant and equipment.

11. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares without par value (issued – 46,630,987)
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.

(Expressed in Canadian dollars)

11. SHARE CAPITAL(continued)

(b) Common shares

Common share transactions for the three months ended March 31, 2018 and 2017 are as follows:

	Number of shares	Stated value
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
Exercise of options	250,000	87,363
Private placements	5,401,207	9,059,240
Exercise of warrants	656	518
Acquisition of Camex	1,647,658	2,751,589
Shares issued for debt settlement	74,176	135,000
Balance as of March 31, 2018	46,630,987	$ 25,199,410

On February 22, 2018, on closing of the transaction with Camex (Note 16), the Company issued an aggregate of 5,401,207 common shares in conversion of subscription receipts previously issued the multiple brokered private placements completed during December 2017 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. 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.

On February 23, 2018, as part of the transaction with Camex, the Company issued 1,647,658 common shares at a price of $1.67 for a value of $2,751,589 (Note 16).

On February 23, 2018, 250,000 options were exercised at $0.20 per common share (Note 13).

On March 15, 2018, 656 warrants were exercised at $0.50 (Note 12).

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 $490,000 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.

(Expressed in Canadian dollars)

12. WARRANTS

At March 31, 2018, 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	0.48	0%	0.57%
0.20	928,000	6-Oct-16	6-Oct-18	121,190	132.4%	2.00	0.52	0%	0.58%
0.20	112,000	21-Oct-16	21-Oct-18	14,460	130.4%	2.00	0.56	0%	0.52%
0.50	272,320	20-Mar-17	20-Mar-19	78,890	113.1%	2.00	0.97	0%	0.79%
0.50	230,878	28-Mar-17	28-Mar-19	66,540	112.4%	2.00	0.99	0%	0.74%
2.28	2,534,390	22-Sep-17	22-Sep-19	1,182,716	81.2%	2.00	1.48	0%	1.59%
1.82	129,651	22-Sep-17	22-Sep-19	72,993	81.2%	2.00	1.48	0%	1.59%
2.28	97,236	22-Sep-17	22-Sep-19	53,501	81.2%	2.00	1.48	0%	1.59%
2.28	723,441	10-Oct-17	10-Oct-19	321,467	76.6%	2.00	1.53	0%	1.55%
1.82	57,866	10-Oct-17	10-Oct-19	35,564	76.6%	2.00	1.53	0%	1.55%
2.28	43,400	10-Oct-17	10-Oct-19	23,161	76.6%	2.00	1.53	0%	1.55%
2.28	508,188	29-Nov-17	29-Nov-19	210,051	70.4%	2.00	1.67	0%	1.42%
1.82	33,549	29-Nov-17	29-Nov-19	16,866	70.4%	2.00	1.67	0%	1.42%
2.28	25,161	29-Nov-17	29-Nov-19	10,175	70.4%	2.00	1.67	0%	1.42%
2.28	206,043	6-Dec-17	6-Dec-19	82,418	68.4%	2.00	1.68	0%	1.54%
1.82	16,483	6-Dec-17	6-Dec-19	8,150	68.4%	2.00	1.68	0%	1.54%
2.28	12,362	6-Dec-17	6-Dec-19	4,875	68.4%	2.00	1.68	0%	1.54%
1.82	184,524	13-Dec-17	13-Dec-19	93,774	73.9%	2.00	1.70	0%	1.52%
2.28	46,130	13-Dec-17	13-Dec-19	18,993	73.9%	2.00	1.70	0%	1.52%
1.82	73,487	22-Dec-17	13-Dec-19	37,450	80.2%	2.00	1.70	0%	1.68%
2.28	18,371	22-Dec-17	13-Dec-19	7,588	80.2%	2.00	1.70	0%	1.68%
1.82	49,283	29-Dec-17	13-Dec-19	25,980	73.1%	2.00	1.70	0%	1.69%
2.28	12,320	29-Dec-17	13-Dec-19	5,317	73.1%	2.00	1.70	0%	1.69%
2.28	507,814	29-Dec-17	29-Dec-19	214,099	73.1%	2.00	1.75	0%	1.69%
1.82	22,419	29-Dec-17	29-Dec-19	14,344	73.1%	2.00	1.75	0%	1.69%
2.28	16,814	29-Dec-17	29-Dec-19	8,886	73.1%	2.00	1.75	0%	1.69%
2.28	768,852	21-Feb-18	13-Dec-19	430,557	73.9%	2.00	1.70	0%	1.52%
2.28	376,091	21-Feb-18	13-Dec-19	225,659	80.2%	2.00	1.70	0%	1.68%
2.28	205,351	21-Feb-18	13-Dec-19	114,996	73.1%	2.00	1.70	0%	1.69%
1.77	8,712,424			3,517,080			1.36		

(Expressed in Canadian dollars)

12. WARRANTS (continued)

Warrant transactions during the three months ended March 31, 2018 were as follows:

	Number of warrants	Weighted average exercise price	Grant date fair value
Balance as of December 31, 2016	1,540,000	$ 0.15	$ 152,070
Granted, broker warrants	1,342,910	1.45	583,236
Private placement	4,479,876	2.28	2,010,751
Balance as of December 31, 2017	7,362,786	1.68	2,746,057
Private placement	1,350,294	2.28	771,213
Exercised	(656)	0.50	(190)
Balance as of March 31, 2018	8,712,424	$ 1.77	$ 3,517,080

13. 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 March 31, 2018 is as follows:

	Number of options	Weighted average exercise price
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
Granted	1,405,000	1.82
Exercised	(250,000)	0.20
Balance, March 31, 2018	4,368,793	$ 0.80

(Expressed in Canadian dollars)

13. OPTIONS (continued)

Date of expiry	Options outstanding	Options exercisable	Exercise price		Grant date fair value vested	Remaining life in years
October 25, 2021	1,750,000	1,750,000	$0.20	$	261,538	3.57
March 31, 2022	325,000	325,000	$0.50	$	149,100	4.00
June 21, 2022	888,793	888,793	$0.50	$	333,720	4.23
February 26, 2023	1,405,000	468,333	$1.82	$	844,252	4.91
	4,368,793	3,432,126		$	1,588,610	3.30

On February 23, 2018, 250,000 options were exercised at $0.20 per share for cash proceeds of $50,000.

On February 26, 2018, the Company granted 1,405,000 options to directors, officers and consultants of the Company with an exercise price of $1.82 per common share. The options vest over three equal tranches. 652,700 options vested immediately, 652,700 options vest on August 26, 2018 and the final 652,700 options vest on February 26, 2019. The fair market value of the options was estimated to be $844,253 at March 31, 2018 using the Black Scholes option pricing model based on the following assumptions: risk-free rate of 2.05%, expected volatility of 104%, based on the weighted average volatility of comparable companies, an estimated life of 5 years and an expected dividend yield of 0%.

14. RELATED PARTY TRANSACTIONS

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 termination notices of three months and change of control contingent provisions (Note 15). Key management personnel compensation comprised:

		Three months ended March 31, 2018		Three months ended March 31, 2017
Directors & officers' compensation	$	167,499	$	77,499
Share-based payments		811,181		41,934
	$	978,680	$	119,433

See also Note 11.

15. 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 condensed interim consolidated financial statements.

(Expressed in Canadian dollars)

15. COMMITMENTS AND CONTINGENCIES (continued)

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.

16. REVERSE TAKE-OVER TRANSACTION

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").

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. The transaction is assumed to constitute an asset acquisition as Camex did not meet the definition of a business. The assets acquired and liabilities assumed were recorded at their estimated fair values, which are based on managements estimates.

Purchase Price Consideration Paid	
Estimate fair value of shares issued (i)	$ 2,751,589
Net Assets Acquired (Liabilities Assumed)	
Cash	$ 1,108
Accounts payable and accrued liabilities	(505,000)
	(503,892)
Excess of purchase price over fair value of liabilities assumed (expensed)	3,255,481
	$ 2,751,589

(i) The estimated fair value of the shares issued was based on the recent financing price as completed by the Company prior to the acquisition at $1.67 per common share.

17. SUBSEQUENT EVENTS

On May 11, 2018, the Company announced that its common shares commenced trading on the OTCQB in the United States, under the trading symbol “DSLEF”.

On May 16, 2018, the Company announced the completion of the capital cost estimate for the Phase 1 floatation plant by Tulela Processing Solutions. The total estimated cost for the Company’s Phase 1 floatation plant, capable of processing between 350,000 tonnes (t) – 400,000t of feed per year, is estimated to be approximately C$7.0MM (N$70.0MM). The Phase 1 floatation plant will be used to process the fines from the historic run of mines stockpiles at the Rubicon and Helikon mines as part of a three-phase execution plan: (i) Phase 1, the processing of the historic run of mine stockpiles at the Rubicon and Helikon mines; (ii) Phase 2, large scale mining and concentrate production from in situ material to produce a total of 250,000t – 300,000t per year of concentrate; and (iii) Phase 3, 25,000t per year of lithium carbonate production in Walvis Bay, Namibia.