



**LITHIUM**



**Management's Discussion and Analysis**

**For the year ended December 31, 2022**

## **PRESIDENT'S MESSAGE**

Dear E3 Lithium Shareholders,

Since successfully founding E3 Lithium in 2016, the Company had a vision to extract lithium from brines from the world-renowned Leduc Aquifer in Alberta. Looking back over the past seven years, E3 Lithium has accomplished a significant number of key milestones, building the foundation of a lithium development and production company with positive momentum to realize material shareholder value for E3 Lithium in 2023 and beyond. Our strategy is clear and with a successful 2023, we will be ready to move towards building the first lithium production facility in Alberta and one of the first in Canada to produce battery products. We are confident in our focused strategy that ensures E3 Lithium is firmly positioned to meet global demand for lithium and delivering battery-grade lithium to the market in 2026.

I am proud of what our Company has accomplished and am incredibly excited for the future. I would like to express my sincere gratitude to our shareholders, the federal and provincial governments, and most importantly, the staff at E3 Lithium who continue to work towards bringing this steadfast goal of achieving first lithium to fruition.

Thank you for your continued support of E3 Lithium.

Sincerely,

**Chris Doornbos**  
**President & CEO**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") has been prepared by management as of April 20, 2023 and provides a summary of the activities, results of operations, and financial condition of E3 Lithium Ltd. ("E3 Lithium" or the "Company") and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2022 and 2021 and related notes thereto, which are prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are stated in thousands of Canadian Dollars unless otherwise indicated. The MD&A should also be read in conjunction with "Forward-Looking Statements" below. Additional information about E3 Lithium is available on E3 Lithium's website [www.e3lithium.ca](http://www.e3lithium.ca) and SEDAR at [www.sedar.com](http://www.sedar.com), including the Company's most recently filed Annual Information Form.

### BUSINESS OVERVIEW

E3 Lithium is a lithium resource company with a current focus on commercial development of lithium extraction from brines contained in its mineral properties in Alberta. E3 Lithium's shares are listed on the TSX Venture Exchange under the symbol ETL.

### E3 LITHIUM'S STRATEGIC VISION

Our vision is to be a global leader in responsibly sourced lithium, fueling the global transition towards a brighter energy future. We are focused on creating long-term, sustainable value for the future by creating a world-class, large-scale, long-life lithium production company. We will be focusing on safe operations, maintaining a strong balance sheet and taking advantage of the enormous potential across our world-class asset base.

### AN OVERVIEW OF 2022

#### 2022 Highlights: A Track Record of Success

During 2022, E3 Lithium achieved many significant milestones, setting a foundation for a strong 2023. With our track record of success and exceptional team, we look forward to providing updates as we continue to progress on our path to commercialization.

Key milestones accomplished:

- **Government support:** Awarded \$27 million from the Government of Canada's Strategic Innovation Fund.
- **Strategic partnerships:** Executed a USD \$5 million Strategic Agreement with Imperial Oil Limited ("IOL"), representing the first investment in lithium from a global energy industry leader. Additionally, signed a Memorandum of Understanding with Pure Lithium, which produced a lithium metal battery utilizing E3 Lithium Concentrate. Given the size of E3 Lithium's resource and opportunity in Alberta, the Company believes there is opportunity to develop portions of its resource with partners while still leaving significant land for E3 Lithium to develop on its own. The Company also has an active commercial development group engaging and developing relationships with potential customers of our battery-grade lithium products.
- **First manufacture of commercial scale sorbent:** Oversaw the successful manufacture of its first quantity of continuously produced, commercial scale sorbent, critical to the success and commercialization of our ion-exchange Direct Lithium Extraction ("DLE") technology.
- **First lithium brine wells drilled in Alberta:** Drilled the first two lithium brine wells and sampled a total of three wells in the heart of the Clearwater Area, confirming producibility of the reservoir and lithium concentration in the core of our proposed production area.
- **Field Pilot Plant:** Completed the Front-End Engineering Design ("FEED") of the direct lithium extraction

field pilot. Engaged an engineering firm to complete the design and construction for its Field Pilot Plant. The goal of the pilot is to demonstrate the ion-exchange DLE under real-world operating conditions at near commercial scale, expected to be operational in Q3 2023.

## THE COMPANY THAT IS E3 LITHIUM

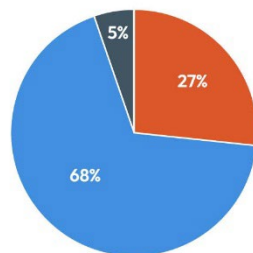
We are determined to achieve the highest possible standards through our actions and conduct. Our approach promotes a strong culture of corporate responsibility that empowers our people to support our local communities, nurture our environment, and deepen our stakeholder relationships in order to create tangible and long-lasting benefits for our future. As part of E3 Lithium’s vision for a brighter energy future, we plan to deliver our lithium products with reduced carbon emissions, while using less than 3% of the land of typical lithium projects, with no tailings or evaporative ponds.

Our core values drive how we approach our work at E3 Lithium and set the tone from the inside out:

- **Environment, Social and Governance:** E3 Lithium is committed to sustainable development that extends to all facets of our business. We aim to deliver new sources of lithium through innovation, emphasizing high standards in environmental stewardship, social engagement, and economic benefits for our stakeholders. In addition to adding key staff members to strengthen our organizational effectiveness, the Company and Board have improved its corporate governance processes by implementing new policies and procedures, including an active risk mitigation program.
- **Integrity & Ethical Practice:** This is the foundation upon which we act. It’s the only way to operate and we want to be proud of our work. Plain and simple.
- **Accountability:** We own our actions, collectively and individually. We learn from our experience and are continually improving as a result.
- **Passion:** We believe in our work and are committed to its success. It’s that intrinsic passion that fuels our drive and subsequently our success.
- **Safety:** It’s at the core of everything we do. We believe in consistent training and maintaining best practices, especially when it comes to keeping everyone safe.
- **Diversity, Equity and Inclusion:** They say teamwork makes the dream work, and we believe that! Equal opportunity and diversity makes us all better. E3 Lithium is proud to be an equal opportunity employer that celebrates its inclusivity and diversity. E3 Lithium believes that every employee should be treated according to such things as their experience and attitude and not based on their gender, ethnicity, sexual orientation, or other biased related traits. Our Company is committed to its diversity, as evidenced by our 2022 diversity, equity and inclusion self-identification survey.

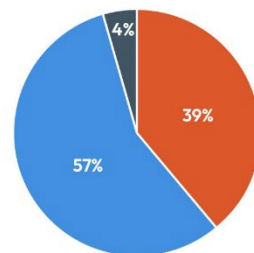
**Ethnicity Origin**

■ BIPOC      ■ Prefer not to respond  
■ Caucasian



**Gender**

■ Male      ■ Prefer not to respond  
■ Female



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## **Canada’s Largest Measured and Indicated (“M&I”) Resource – A Globally Significant Source of Lithium**

As a result of the work completed on the Leduc reservoir in 2022, and building from the drill program completed in 2022, E3 Lithium was proud to announce a material increase to its resource base in early 2023. We have upgraded the Bashaw District’s mineral resource to 16.0 million tonnes Measured and Indicated (“M&I”). The mineral resource upgrade included 6.6 million tonnes (Mt) of Lithium Carbonate Equivalent (“LCE”) Measured and 9.4 Mt of LCE Indicated. This resource upgrade is monumental, placing E3 Lithium firmly on the map on a global scale for resources in the lithium space, making E3 Lithium’s M&I resource Canada’s largest. Prior to this, Canada held 2.9 million tonnes of resources.

## **Government Support: Over \$32 Million In Non-Dilutive Funding Secured**

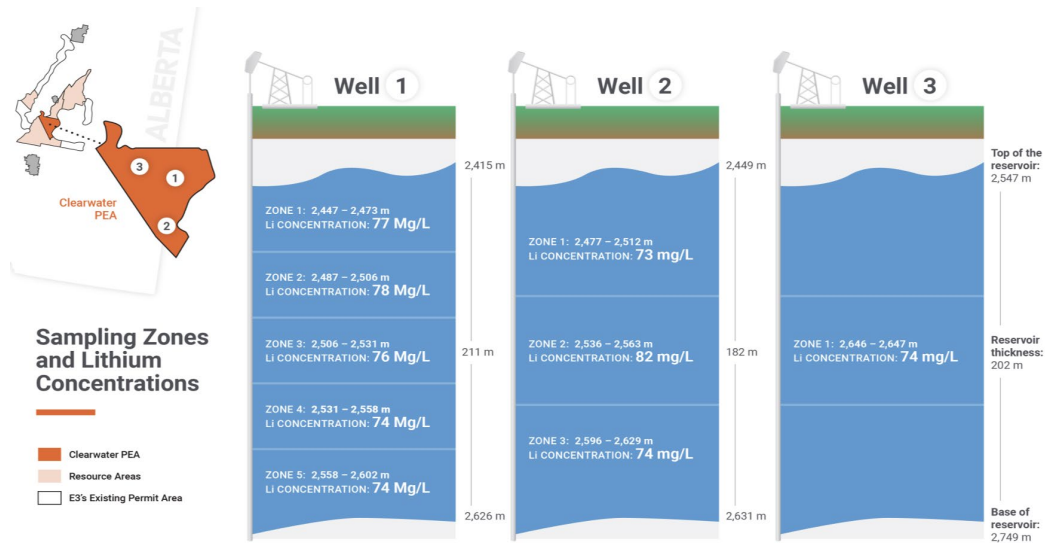
We thank the federal and provincial governments for their continued support of E3’s developments. The Company has been awarded more than \$32 million in active government funds supporting a breadth of activities as we work towards developing our first commercial facility, the majority of which has yet to be deployed.

- **Alberta Innovates (“AI”):** E3 Lithium received \$1.1 million of this \$1.8 million non-repayable grant, which was announced in 2021, that supports the development and testing of its ion-exchange technology.
- **Innovation, Science and Economic Development Canada’s Strategic Innovation Fund (“SIF”):** The \$27 million contribution supports brine-to-battery development and is conditionally repayable if the Company earns gross revenue from commercial operations. Eligible costs are reimbursed to E3 Lithium at 33.94%, announced in November 2022 and retroactive to August 2021.
- **Natural Resources Canada’s (“NRCan”) Critical Minerals Research, Development, and Demonstration (“CMRDD”) Program:** The NRCan CMRDD Program is supporting E3 Lithium’s field pilot plant with a \$3.545M million non-repayable grant announced in March 2023.

## **Drill Program Summary: Demonstrating Consistency Across the Leduc Aquifer**

Drilling the first-in-Alberta brine production wells for the purposes of evaluating lithium increased the confidence in the resource base across the Bashaw District. The data collected from the three wells associated with E3 Lithium’s inaugural drill program is fundamental for our understanding of the Leduc Aquifer in the Clearwater Project Area. The properties of the aquifer, the chemistry of the brine and the grade of lithium sampled in all wells demonstrate consistency. This consistency will allow E3 Lithium to design and build the commercial facility more simply given it does not need to be designed to handle a large variation of fluid chemistry and has enabled our M&I upgrade.

The aquifer’s attractive characteristics, specifically its porosity and permeability, are critical to the successful commercialization of this asset. Over the course of 2023, the team will be developing a detailed aquifer management plan using the newly collected data. This work will direct E3 Lithium towards completing a reserve estimate in coordination with the Pre-Feasibility Study (“PFS”).



## MARKET OUTLOOK

Over the past year, the global lithium market remained robust, with battery-grade lithium prices setting record highs in 2022 and remained strong during the first few months of 2023. Market data suggests demand for lithium remains strong. The forecast lithium supply deficit may start as early as 2024 and continue into the later part of this decade due to sustained demand growth and a lack of producing mines, creating a favorable market environment that will likely coincide with our planned first lithium production and commercial facility in 2026.

## 2023 COMPANY GOALS AND PATH TO FIRST LITHIUM

On March 2, 2023, E3 Lithium provided an outline of its 2023 goals and strategic vision. The Company believes that by reaching our 2023 goals and milestones, culminating with the completion of its PFS by the end of 2023, will lay the foundation for E3 Lithium to move towards producing battery-grade lithium from its significant resources in Alberta. The Company continues to evaluate commercially available, and therefore, lower risk process and design solutions for its commercial plant design. E3 Lithium believes it can reduce the project development timeframe, allowing the Company to meet its goal of a commercial facility in 2026. Enabling the acceleration of the project development and the production of battery-grade lithium may provide significant advantages to project economics and project financing. Following a successful PFS, E3 Lithium will aim to complete a Feasibility Study (“FS”), obtain all required regulatory approvals and deliver a project financing arrangement to enable the construction of its first commercial facility in Alberta.

E3 Lithium is active in developing relationships with the battery and automotive industries as it moves through the next phase of project development in 2023. E3 Lithium’s strategy has been to develop meaningful agreements that provide binding provisions for the development of future sales contracts. The landscape of these sales contracts has evolved over the past few years. Recent contracts are moving towards index pricing and partnerships are becoming more common as the automotive and battery industry source lithium for the growing electric vehicle (“EV”) fleets.

With a clear strategy in place, 2023 will see E3 Lithium deliver on some of the most significant milestones in the Company’s history. We are confident that successfully achieving our goals will be positive catalysts for Company’s value and will firmly establish E3 Lithium as a leader in the lithium space.

As the Company executes towards the goal of a commercial lithium project, we have outlined the following upcoming milestones:

TIMING	GOAL	MILESTONES
Q1 2023	Resource upgrade to Measured & Indicated	<ul style="list-style-type: none"> <li>✓ Announce results of the Measured and Indicated upgrade</li> <li>• Publish the NI 43-101 report (within 45 days of March 21, 2023)</li> </ul>
Q3 2023	Field pilot plant	<ul style="list-style-type: none"> <li>✓ Obtain approval on facility license from the Alberta Energy Regulator</li> <li>• Complete Detailed Engineering and Design</li> <li>• Publish Key Performance Indicators (KPIs) on expected pilot performance</li> <li>• Commission equipment on site</li> <li>• Commence pilot operations</li> <li>• Publish results against the previously outlined KPIs</li> </ul>
Q3-Q4 2023	Lithium hydroxide samples	<ul style="list-style-type: none"> <li>• Initiate testing program with an industry leader for lithium hydroxide production</li> <li>• Publish results and specification of the lithium hydroxide produced</li> </ul>
End of 2023	Pre-Feasibility Study (PFS)	<ul style="list-style-type: none"> <li>• Engage Pre-Feasibility EPC firm</li> <li>• Define capacity for the first commercial facility</li> <li>• Publish the results of the PFS</li> </ul>

### Q3 2023 Field Pilot

Our field pilot is on target to be constructed and operational during Q3 2023, where we will demonstrate ion exchange DLE technology under real world operating conditions. As of the end of Q1 2023, we were in the process of completing the final engineering, design and construction plans for the plant with a goal of commissioning equipment on site in Q3 2023.

### Lithium Hydroxide Samples

E3 Lithium has begun evaluating several commercially available processes with vendors to define the processes for the production of battery-grade lithium hydroxide monohydrate (“LHM”) from its lithium concentrate produced from the ion-exchange process. Through this process, we expect to produce lithium hydroxide samples for evaluation by potential offtake partners in H2 2023.

### 2023 Canadian Federal Budget - Critical Minerals Support

E3 Lithium is pleased that the federal government continues to recognize the potential to be a global leader in critical minerals. On March 28, 2023, the Government of Canada proposed numerous initiatives in support of clean technologies and for the extraction and processing of critical minerals with the announcement of its Budget 2023 including: the Critical Mineral Exploration Tax Credit, accelerated permitting for projects, the Canada Growth Fund (“CGF”), Critical Minerals Infrastructure Fund, SIF, and Flow-Through Shares.

### Alberta’s Regulatory Improvements

On March 1, parts of the Mineral Resource Development Act (Bill 82) for brine-hosted mineral development were proclaimed by the Alberta Government, combined with the Responsible Energy Development Act, supporting the

responsible development of Alberta’s mineral resources and providing regulatory oversight for minerals under the Alberta Energy Regulator’s (“AER”) authority, creating confidence for companies, including E3 Lithium, in developing Alberta’s critical minerals. AER Directive 090: Brine-Hosted Mineral Resource Development completes the regulatory framework for brine-hosted mineral resource development. AER Directive 056: Energy Development Applications and Schedules have been updated to include well, facility, and pipeline licensing requirements for brine-hosted mineral resource development. Both AER Directive 090 and AER Directive 056 will come into effect once the Brine-Hosted Mineral Resource Development Rules (“BMR”) are in effect. The similarities between lithium production and oil production in Alberta mean that a well-developed permitting framework is in place to streamline development. There is also a well-defined royalty and tax regime already in place that applies to E3 Lithium’s project development. Alberta’s oil and gas history, regulatory environment, industrial capability and workforce offer a key ‘Alberta Advantage’ to E3 Lithium’s projects.

## **IN SUMMARY**

We would like to sincerely thank our shareholders for their continued support of E3 Lithium. Our team has, and will, continue to work diligently to deliver shareholder value. The milestones achieved during 2022 secured a solid foundation and have enabled the potential of a substantial 2023. E3 Lithium is well-funded and well-positioned to capitalize on the demand growth for EVs and batteries in its path to achieving first lithium production in 2026, firmly establishing E3 Lithium as a leader in the lithium space.



## SUMMARY OF OPERATIONS

### Operating Expenses

	Three months ended December 31			Year ended December 31		
	2022	2021	% Change	2022	2021	% Change
Operating expenses	<b>30</b>	-	100%	<b>156</b>	-	100%

Operating expenses consist primarily of lease rentals, property taxes, repairs & maintenance and other costs incurred to maintain and operate the Company's lithium evaluation wells. During the three months and year ended December 31, 2022, the Company incurred \$0.1 million and \$0.2 million in operating expenses, respectively with no similar charges in the prior year comparative periods. The Company began to incur operating expenses in the second quarter of 2022 as lease rentals were paid to landowners in order to secure the rights required to conduct its field operations.

### Business Development and Marketing

	Three months ended December 31			Year ended December 31		
	2022	2021	% Change	2022	2021	% Change
Business development and marketing	<b>326</b>	221	48%	<b>1,535</b>	874	76%

Business development expenditures are comprised of costs incurred for building strategic relationships and exploring potential partnership opportunities. Marketing expenditures refer primarily to the costs of advertising, conferences, and external consulting fees incurred for brand building and strategic positioning. For the three months and year ended December 31, 2022, business development and marketing expenses were \$0.3 million and \$1.5 million, respectively compared to \$0.2 million and \$0.9 million in the comparative periods of 2021. Expenditures were budgeted to be higher in 2022 as the Company engaged in a digital media marketing campaign in efforts to build its brand and increase its investor outreach.

### General and Administrative

	Three months ended December 31			Year ended December 31		
	2022	2021	% Change	2022	2021	% Change
General and administrative	<b>1,072</b>	699	53%	<b>2,971</b>	2,033	46%

General and administrative expenses were \$1.1 million and \$3.0 million for the three months and year ended December 31, 2022 compared to \$0.7 million and \$2.0 million in the year prior. The increases can be attributed to additional costs incurred in support of the Company's continuous successful execution on its initiatives. Costs to support the Company's forward direction included several strategic hires to expand on the Company's core capabilities to execute on its goals, and legal and consulting fees incurred in conjunction with the IOL and E3 Lithium strategic agreement and various other initiatives.

## Share-Based Compensation

	Three months ended December 31			Year ended December 31		
	2022	2021	% Change	2022	2021	% Change
Share-based compensation	<b>593</b>	246	141%	<b>1,985</b>	1,761	13%

Share-based compensation refers to compensation expenses resulting from the issuance and vesting of equity-based rewards. For the three months and year ended December 31, 2022, share-based compensation was \$0.6 million and \$2.0 million compared to \$0.2 million and \$1.8 million in the comparable prior year periods. The Company issued 2.8 million options as a result of increased hiring during the year.

	Stock Options	Weighted Average Exercise Price (\$)
Balance, January 1, 2021	2,938,000	0.48
Granted	2,105,000	1.89
Exercised	(1,981,250)	0.51
Forfeited	(116,750)	1.65
Expired	(68,250)	0.95
Balance, December 31, 2021	2,876,750	1.42
Granted	<b>2,750,000</b>	<b>2.57</b>
Exercised	<b>(67,900)</b>	<b>0.91</b>
Forfeited/expired	<b>(533,083)</b>	<b>2.17</b>
<b>Balance, December 31, 2022</b>	<b>5,025,767</b>	<b>1.98</b>

## Financing Expenses

	Three months ended December 31			Year ended December 31		
	2022	2021	% Change	2022	2021	% Change
Accretion	<b>2</b>	-	100%	<b>4</b>	-	100%
Interest on leases	<b>11</b>	10	10%	<b>31</b>	21	48%

Financing expenses relate to interest expense from the Company's head office and laboratory leases and accretion on its decommissioning obligations. For the three months and year ended December 31, 2022, interest on leases were 10% and 48% higher than the comparable periods in 2021, respectively. The Company entered into two new leases during 2022 for its corporate head office and research lab facility. The Company recognized decommissioning obligations in conjunction with its three-well exploratory program which commenced during the second quarter of 2022 resulting in current year accretion.

## Depreciation

	Three months ended December 31			Year ended December 31		
	2022	2021	% Change	2022	2021	% Change
Depreciation	<b>42</b>	35	20%	<b>175</b>	128	37%

For the three months and year ended December 31, 2022, depreciation was 20% and 37% higher than the comparable periods in 2021, respectively. The depreciable asset base increased in 2022 as the Company entered into new leases and procured new equipment for its expanding workforce.

## Other Income

	Three months ended December 31			Year ended December 31		
	2022	2021	% Change	2022	2021	% Change
Interest income	<b>91</b>	13	600%	<b>231</b>	37	524%

Interest income results from the Company's short-term savings deposits. Interest income for the three months and year ended December 31, 2022 was \$0.1 million and \$0.2 million which represents significant increases over the prior year as a result of higher average cash on hand during the year.

## Net Loss

The Company incurred a net loss of \$6.9 million and \$0.12 per common share during the year ended December 31, 2022, compared to a net loss of \$4.8 million and \$0.10 per common share in the prior year.

## CAPITAL EXPENDITURES

The Company has three main sources of capital expenditures:

- Exploration and evaluation ("E&E") assets – the acquisition of mineral permits and licenses
- Property and equipment ("P&E") – corporate assets such as computer equipment and software
- Intangible assets – costs incurred to further the Company's proprietary DLE technology

	Three months ended December 31			Year ended December 31		
	2022	2021	% Change	2022	2021	% Change
Acquisition	-	-	-	<b>100</b>	1,099	(91%)
E&E expenditures	<b>1,096</b>	329	233%	<b>10,089</b>	847	1,091%
P&E expenditures	<b>81</b>	7	1,057%	<b>185</b>	82	126%
Intangible asset expenditures	<b>1,396</b>	464	200%	<b>3,700</b>	1,557	137%
Total capital expenditures	<b>2,573</b>	800	222%	<b>14,074</b>	3,585	293%

E&E expenditures were \$1.1 million and \$10.1 million for the three months and year ended December 31, 2022 compared to \$0.3 million and \$0.8 million in the comparative prior year periods, respectively. The Company completed a three-well exploratory program during the latter part of the year, resulting in a significant increase in exploration and evaluation expenditures as compared to the prior year. The Company spud two wells in the

Clearwater area during the second and third quarter of 2022 and also acquired a nearby well drilled and completed by a third party for \$0.1 million. Initial production tests for the wells have provided positive results related to the producibility and the consistency of lithium concentration throughout the reservoir. Additionally, the Company exercised its right to purchase a gross overriding royalty for \$0.8 million as part of a royalty agreement the Company signed to acquire mineral permits relating to the Clearwater Lithium Project.

P&E expenditures were \$0.1 million and \$0.2 million for the three months and year ended December 31, 2022 compared to minimal expenses in the comparative prior year quarter and \$0.1 million during the year ended December 31, 2021. The increases are due to supplying an increased workforce with appropriate equipment as well as equipment required for the Company's new head office and research laboratory locations.

For the three months and year ended December 31, 2022 intangible asset expenditures were \$1.4 million and \$3.7 million, respectively compared to \$0.5 million and \$1.6 million during the three months and year ended December 31, 2021, respectively. The Company made significant progress with respect to its DLE development and completed its first production of commercial scale sorbent.

### **Impairment Analysis**

The Company does not consider its exploration and evaluation or intangible assets to be impaired. The Company's ability to realize the value of these assets is dependent on the successful completion of an economically feasible pilot plant, followed by the construction of commercial scale lithium production facilities. Based on the current development progress of its proprietary direct lithium extraction technology and positive results from geological testing, the Company does not believe that these assets are impaired. Current market prices show that there is a short supply of lithium and that the demand for battery-grade lithium is at all-time highs.

### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not have any off-balance sheet arrangements as at December 31, 2022.

### **LIQUIDITY AND CAPITAL RESOURCES**

The Company reported a working capital of \$17.0 million at December 31, 2022 (December 31, 2021 - \$17.6 million). During the year ended December 31, 2022, the Company:

- used \$5.5 million (2021 – \$2.8 million) in operating activities primarily due to increases in business development and general and administrative expenses to support the Company's expansion;
- used \$12.7 million (2021 – \$3.4 million) in investing activities as a result of a significant increase in capital expenditures from the Company's exploratory drilling program;
- generated \$13.6 million (2021 – \$17.3 million) from its financing activities due to \$6.9 million in proceeds received from the exercise of options and warrants, \$6.4 million in proceeds from prepaid warrants, and \$4.9 million received in government grants (*see section below – Government Grants*).

As at December 31, 2022, the Company had net cash on hand of \$13.2 million compared to cash on hand of \$17.8 million at December 31, 2021.

## Government Grants

### AI

On April 6, 2021, the Company was awarded a \$1.8 million grant to assist in the scale up and development of its field pilot plant. The Company received \$0.5 million from the AI grant in Q1 2022 and life-to-date has received a total of \$1.1 million as at December 31, 2022. The remaining amount is expected to be claimed after the completion of the field pilot in 2023.

### SIF

On November 28, 2022 the Company was awarded a \$27 million grant from the Government of Canada's Innovation, Science and Economic Development's SIF to support several aspects of the Company's resource and technology development up until commercial production. Eligible costs under the agreement are reimbursed at 33.94% to a maximum of \$27 million.

Contingent on the Company's success and reaching commercial lithium production, the grant becomes repayable at 1.4 times the amount disbursed from the SIF grant. The repayment period begins the second-year post project completion at a rate of 1% of annual gross business revenues over a 20 year period. Currently, it is possible but not probable whether the Company will realize an outflow of benefits to settle the contingent obligation as the Company has not yet achieved commercial production. The Company has not recognized a provision at December 31, 2022.

As at December 31, 2022, life-to-date claims under the SIF grant is \$4.4 million and the contingent obligation related to SIF is estimated to be \$6.4 million.

### NRCan CMRDD

Subsequent to year end, on March 7, 2023, the Company announced it was awarded \$3.5 million in funding through NRCan's CMRDD program. The funds are non-dilutive and non-repayable. The funds will be used to support the construction and operation of the Company's field pilot plant. The Company shall submit and be reimbursed for eligible expenses on an ongoing basis throughout the term of the agreement.

## Share Capital

The table below summarizes the change in share capital:

Number of Shares	December 31, 2022	December 31, 2021
Balance, beginning of period	57,759,871	41,664,131
Exercise of stock options and warrants	5,241,878	9,302,440
Shares issued by private placement	-	6,793,300
Stock options exercised in prior period <sup>(1)</sup>	100,000	-
Shares issued – Finder's fee	128,024	-
<b>Balance, end of period</b>	<b>63,229,773</b>	<b>57,759,871</b>

(1) The stock options were exercised in December 2021 but shares not issued until January 2022.

## 2022

During the year ended December 31, 2022, the Company issued 5.3 million common shares from the exercise of stock options and warrants with exercise prices between \$0.40 to \$1.65. Total proceeds received were \$6.8 million year to date. The regulatory fees and legal fees attributable to shares issued for the year ended December 31, 2022 were \$0.1 million.

### *Strategic Agreement with IOL*

In 2022, the Company announced a collaboration with IOL to advance its lithium-extraction pilot in Alberta. Under the agreement, the Company would continue to operate the Clearwater project and retain its intellectual property, with technical and developmental support from IOL in areas such as water and reservoir management. The agreement also includes access for E3 Lithium to freehold lands in the area, which are operated by IOL.

As part of the agreement, IOL agreed to invest \$6.35 million into E3 Lithium through the purchase of 3.4 million warrants at a pre-paid price of \$1.86 per warrant. Each warrant provides IOL the option to exercise the warrant for one common share of E3 Lithium at no further cost to IOL. The warrants are immediately exercisable, non-transferrable, and are non-refundable with expiry on July 8, 2024.

The Company paid a one-time 5% finder's fee, being equal to \$0.3 million based on the amount of IOL's investment. The finder elected to take 25% of the fee in cash and 75% of the fee in common shares of E3 Lithium. The Company issued the finder 128,024 shares on closing at \$1.86 per share. The Company received TSX Venture Exchange approval to issue the prepaid warrants and the 128,024 common shares on July 8, 2022.

### **2021**

During the year ended December 31, 2021, the Company issued 9.3 million common shares from the exercise of stock options and warrants with exercise prices between \$0.40 to \$1.65 per share. Total proceeds received were \$9.7 million year to date. The regulatory fees and legal fees attributable to shares issued for the year ended December 31, 2021 were \$0.1 million.

### *Brokered private placement*

On February 8, 2021, the Company closed its brokered private placement by issuing 6.8 million units at a price of \$1.185 per unit for gross proceeds of \$8.1 million. Each unit was comprised of one common share and one unit warrant. Each unit warrant entitled the holder to acquire one additional common share at an exercise price of \$1.65 for a period of 24 months following the date of issuance. The broker warrants carried the same terms as the unit warrants. As the closing price of the Company's common shares on the issue date exceeded the unit price of the private placement, no residual value was allocated to the warrants. Share issuance costs consisted of \$0.7 million in cash and 0.6 million broker warrants fair valued at \$1.3 million.

### **Warrants**

The following table summarizes the change in warrants:

	<b>Warrant (units)</b>	<b>Weighted Average Exercise Price (\$)</b>
Balance, January 1, 2021	6,767,301	0.93
Granted through private placement	6,793,300	1.65
Broker warrants	778,754	1.43
Exercised	(7,321,190)	1.18
Balance, December 31, 2021	7,018,165	1.43
Broker warrants	<b>484,722</b>	<b>1.65</b>
Imperial warrants (note 12)	<b>3,413,979</b>	-
Exercised	<b>(5,173,978)</b>	<b>1.30</b>
Forfeited/expired	<b>(92,243)</b>	<b>1.40</b>
<b>Balance, December 31, 2022</b>	<b>5,650,645</b>	<b>0.65</b>

## Stock Options

See “Share-Based Compensation” above for summary of changes.

## Commitments

The following is a summary of the Company’s estimated commitments as at December 31, 2022:

As at December 31,	2023	2024	2025	2026	2027	Thereafter	Total
Office leases <sup>(1)</sup>	185	271	245	245	245	82	1,273
Mineral license fees	1,804	1,804	1,804	1,804	1,804	-	9,020
<b>Total</b>	<b>1,989</b>	<b>2,075</b>	<b>2,049</b>	<b>2,049</b>	<b>2,049</b>	<b>82</b>	<b>10,293</b>

(1) Represents undiscounted estimated operating costs payments for office and lab leases.

In December 2022, amendments to the Metallic and Industrial Minerals Tenure regulation were approved by Cabinet and effective January 1, 2023. Under the new regulation, brine-hosted mineral rights are granted through new agreements: brine-hosted minerals license and brine-hosted minerals lease. Brine-hosted mineral licenses are available for a 5-year, non-renewable term. Holders of brine-hosted mineral licenses have exclusive rights to apply from brine-hosted mineral leases with 10-year primary terms and indefinite continuation. The Company will be required to pay an annual fee to remain in good standing.

As at April 20, 2023 there were 65,109,182 common shares in the capital of E3 Lithium issued and outstanding.

## RELATED PARTY TRANSACTIONS

Key management personnel are persons responsible for planning, directing and controlling activities of an entity, and include executive and non-executive directors and officers. During the years ended December 31, 2022 and 2021, the remuneration for key management personnel was as follows:

Year ended December 31	2022	2021
Salaries and benefits	849	500
Share-based compensation	651	862
<b>Total</b>	<b>1,500</b>	<b>1,362</b>

Amounts due from related parties of \$0.1 million as at December 31, 2022 (2021 - \$1.4 million) were withholding taxes remitted on behalf of employees arising from stock option exercises during the year.

## GOING CONCERN

As at December 31, 2022, the Company has not generated revenues from operations and has an accumulated deficit of \$33.7 million (2021 – \$26.8 million) including a net loss of \$6.9 million (2021 – \$4.8 million) as at and for the year ended December 31, 2022. The Company’s ability to continue as a going concern is dependent upon its ability to raise equity financing to further develop its proprietary technology and commence construction of a pilot project.

## **SUBSEQUENT EVENTS**

### **Government Grants**

Refer to Government Grants Section above.

## **CRITICAL ACCOUNTING ESTIMATES**

The Company's critical accounting estimates are based on note 4 of the Annual Consolidated Financial Statements. In preparation of the Annual Consolidated Financial Statements, estimates may be necessary to make a determination of the carrying value of certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the Annual Consolidated Financial Statements. Management regularly reviews assumptions used for estimates. Additionally, management maintains a system of internal controls to provide reasonable assurances that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

E3 Lithium's critical accounting estimates that may impact financial and operating results include:

- Estimates regarding the evaluation of progress towards establishing the technical feasibility and commercial viability of E&E assets and intangible assets;
- Estimates of share-based compensation and inputs into the Black-Scholes Option Pricing Model including risk-free interest rate, expected stock price volatility, expected life, expected dividend yields, and the fair value per option granted;
- Estimated values of decommissioning obligations include the expected amount and timing of future cash flows and discount rate used;
- Estimates of deferred income taxes incorporating management's interpretation of tax regulations and legislation in various tax jurisdictions.

## **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

E3 Lithium's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and due from related parties. The Company's financial instruments at December 31, 2022 approximate fair value due to their short-term nature. Accounts receivable, accounts payable and accrued liabilities and due from related parties are carried at amortized cost. The Company has cash carried at fair value through profit or loss.

All of the Company's financial instruments are classified as Level 1 in the fair value measurement hierarchy and there were no transfers between levels for the year ended December 31, 2022. Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date. The Company's financial instruments are exposed to credit risk, currency risk, and liquidity risk.

### **Credit Risk**

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation and cause the Company to incur a financial loss. The Company is exposed to credit risk with respect to its carrying balances of accounts receivable and due from related parties.



Accounts receivable outstanding as at December 31, 2022 were refundable tax credits which have minimal credit risk. Due from related parties as at December 31, 2022 were withholding taxes remitted on behalf of current and former employees from exercising their stock options. Based on management's assessment, the risk of default is considered low.

**Currency Risk**

The Company's exposure to foreign currency risk is not considered to be material as it transacts primarily in the Canadian dollar.

**Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective is to maintain sufficient and readily available cash-on-hand in order to meet its liquidity requirements at any point in time.

As at December 31, 2022, the Company has positive working capital of \$17.0 million (December 31, 2021 - \$17.6 million) and does not foresee a shortfall in capital within the next twelve months.

**RISK FACTORS****Liquidity and Capital Resources**

Historically, capital requirements have been primarily funded through the sale of securities of the Company. Factors that could affect the availability of financing include the progress and results of ongoing exploration at the Company's mineral properties, the state of international debt and equity markets and investor perceptions and expectations of the global market for lithium and its derivatives. There can be no assurance that such financing will be available in the amount required at any time or for any period or, if available, that it can be obtained on terms satisfactory to the Company. Based on the amount of funding raised, the Company's planned exploration or other work programs may be postponed, or otherwise revised, as necessary.

**Development of the Alberta Lithium Project**

The Company's business strategy depends in large part on developing the Alberta Lithium Project. The capital expenditures and time required to develop the Alberta Lithium Project are significant and the Company has not yet secured funding that it believes will be sufficient to cover its share of capital expenditure obligations for the development of the Alberta Lithium Project. If the Company is unable to develop all or any of its projects, its business and financial condition will be materially adversely affected.

The Company believes that one of the key elements to the successful development of a feasible project in the future is the continued scale-up of the Extraction Technology. The successful development of the Extraction Technology is dependent on the development of the Lab Pilot Plant, which will enable the development of the Field Pilot Plant. The Company believes that a successful pilot program should enable the design of a commercial process. There is no guarantee that the Company will be successful in developing the Lab Pilot Plant, the Field Pilot Plant or a commercial lithium production facility within estimated timeframes. Hence, there is no guarantee that the Company will be successful in developing the Extraction Technology. If the Company is unable to develop the Extraction Technology, its business and financial condition will be materially adversely affected.

### Negative Operating Cash Flows

Given that the Company has yet to enter commercial production and generate cash flow, the Company had negative operating cash flow for its financial year ended December 31, 2022. To the extent that the Company has negative cash flow in future periods, the Company may need to deploy a portion of its cash reserves or a portion of the proceeds of any offering of securities to fund such negative cash flow.

### SUMMARY OF QUARTERLY INFORMATION

	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Net loss	(1,981)	(1,798)	(1,848)	(1,310)
Net loss per share	(0.03)	(0.03)	(0.03)	(0.02)
Total assets	36,101	36,815	28,035	25,729
Total liabilities	2,629	5,034	3,306	1,125
Common shares outstanding	63,229,773	61,039,349	59,466,611	58,291,018

	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Net loss	(1,198)	(942)	(1,053)	(1,587)
Net loss per share	(0.02)	(0.03)	(0.02)	(0.03)
Total assets	25,991	19,890	20,052	20,348
Total liabilities	990	725	606	520
Common shares outstanding	57,759,871	53,426,406	52,968,406	52,509,731

### SELECTED ANNUAL INFORMATION

	2022	2021	2020
Net loss	(6,944)	(4,780)	(2,095)
Loss per share	(0.12)	(0.10)	(0.07)
Total assets	36,101	25,991	10,641
Total liabilities	2,629	990	544
Capital expenditures	14,074	3,585	796

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## FORWARD-LOOKING STATEMENTS

These forward-looking statements are based on current expectations and various estimates, factors and assumptions, and involve known and unknown risks, uncertainties and other factors. All statements, other than statements of historical fact, included herein, including without limitation, statements about the Company's ability to effectively implement its planned exploration programs; unexpected events and delays in the course of its exploration and drilling programs; the ability of the Company to raise the capital necessary to conduct its planned exploration programs and to continue exploration on its properties; the failure to discover any significant amounts of lithium or other minerals on any of the Company's properties; the fact that the Company's properties are in the exploration stage and exploration and development of mineral properties involves a high degree of risk and few properties which are explored are ultimately developed into producing mineral properties; the fact that the mineral industry is highly competitive and E3 Lithium will be competing against competitors that may be larger and better capitalized, have access to more efficient technology, and have access to reserves of minerals that are cheaper to extract and process; the fluctuations in the price of minerals and the future prices of minerals; the fact that if the price of minerals decreases significantly, any minerals discovered on any of the Company's properties may become uneconomical to extract; the continued demand for minerals and lithium; that fact that resource figures for minerals are estimates only and no assurances can be given that any estimated levels of minerals will actually be produced; governmental regulation of mining activities and oil and gas in Alberta and elsewhere, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection; environmental regulation, which mandate, among other things, the maintenance of air and water quality standards and land reclamation, limitations on the general, transportation, storage and disposal of solid and hazardous waste; environmental hazards which may exist on the properties which are unknown to E3 Lithium at present and which have been caused by previous or existing owners or operators of the properties; reclamation costs which are uncertain; the fact that commercial quantities of minerals may not be discovered on current properties or other future properties and even if commercial quantities of minerals are discovered, that such properties can be brought to a stage where such mineral resources can profitably be produced there from; the failure of plant or equipment processes to operate as anticipated; the inability to obtain the necessary approvals for the further exploration and development of all or any of the Company's properties; risks inherent in the mineral exploration and development business; the uncertainty of the requirements demanded by environmental agencies; the Company's ability to hire and retain qualified employees and consultants necessary for the exploration and development of any of E3 Lithium's properties and for the operation of its business; and other risks related to mining activities that are beyond the Company's control.

Forward-looking statements contained herein are made as of the date of this MD&A, and the Company disclaims any obligation to update any forward-looking statements, except as required by law, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.