



E3 METALS CORP



Management Discussion and Analysis
For the Three Months Ended March 31, 2022



Current Outlook

As the Company executes its plan towards the goal of a commercial lithium project in the Clearwater area, the Company has outlined the following upcoming milestones and their respective status:

1. **De-risk and Upgrade the Clearwater Resource:** The Company has selected the locations for the wells to be drilled. It is in the process of obtaining the required licenses and permits from the Alberta Energy Regulator.
2. **De-risk and Scale-up the Ion-Exchange Technology:** The Company has engaged several specialty equipment providers to evaluate manufacturing methods for its proprietary ion-exchange sorbent used as part of its Direct Lithium Extraction (“DLE”) process. The work is to delineate a scalable manufacturing process to produce E3 Meta’s proprietary ion-exchange beads at a large scale. While the immediate need is to deliver large quantities of the sorbent material for the Company’s upcoming Field Pilot Plant, the Company continues to work on the design and engineering of the upcoming Field Pilot Plant.
3. **Production of Battery Grade Lithium Hydroxide Monohydrate (“LHM”) Samples:** The Company has begun the evaluation of several commercially available processes with vendors to produce LHM samples from its lithium concentrate produced from the ion-exchange process.

Initial estimates for the milestones noted above will require approximately \$6.0 million, \$5.0 million, and \$1.5 million, respectively. The success of these milestones will lay the groundwork for the planned pre-feasibility study, anticipated in 2023.

Since inception of the Company, the Company has spent:

- Approximately \$2.6 million towards the development of the DLE technology, net of government grants received, which includes costs related to the recent completion of the lab-pilot prototype commissioned in 2021.
- Approximately \$6.0 million towards the acquisition and development of the Company’s lithium resources. These costs include independent geological evaluation, well sampling, acquisition and continuation of land tenure, core logging, seismic interpretation, and aquifer management planning.
- The expenditures to-date in the aggregate amount of \$8.6 million enabled the Company to publish the Clearwater PEA and the proposed expenditures of an aggregate amount of \$12.5 million is expected to generate most of the necessary technical data to enable E3 Metals to publish a pre-feasibility study.



E3 METALS CORP

Management Discussion & Analysis
March 31, 2022

(CAD\$ thousands, except share amounts and where noted)

This Management Discussion and Analysis ("MD&A") of E3 Metals provides a summary of the activities, results of operations and financial condition of the Company as at and for the three months ended March 31, 2022. The MD&A has been prepared by management as of May 10, 2022 and should be read together with the unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2022, and the MD&A and audited consolidated financial statements as at and for the year ended December 31, 2021. All amounts are stated in thousands of Canadian Dollars unless otherwise indicated.

E3 Metals is a resource and technology company with mineral properties in Alberta and an ion-exchange direct lithium extraction technology that has been developed to exploit the lithium mineral resources contained in Alberta brines. The Company's shares trade on the TSX Venture Exchange (the "Exchange") under the trading symbol "ETMC".

Corporate Summary

The Company was incorporated on August 19, 1998 under the laws of British Columbia. The Company is presently a "Venture Issuer", as defined in NI 51-102.

The Company has a wholly-owned Canadian subsidiary, 0904254 BC Ltd. ("0904254 BC"), incorporated on March 1, 2011, and a Mexican subsidiary, Mexigold Resources SA de CV ("MAU Mexico"), incorporated on March 4, 2011, whereby the Company owns 99% and 0904254 BC owns 1% of MAU Mexico. The Canadian subsidiary was dissolved in 2019.

Effective July 9, 2015, the Company's listing was transferred to the NEX board of the Exchange in accordance with TSX-V Policy 2.5 as the Company was not able to maintain the requirements for a TSX-V Tier 2 company. The Company was listed on the NEX under the symbol SAV.H.

On August 22, 2016, the Company changed its name from Mexigold Corp. to Savannah Gold Corp. and its stock symbol from MAU.H to SAV.H. The Company also consolidated its share capital on a ratio of one new post-consolidated common share for every two old pre-consolidated common shares.

Effective March 3, 2017, the Company consolidated its share capital on a ratio of five old common shares for every one new post-consolidated share. On completion of the consolidation, the Company had 3,046,021 issued and outstanding common shares.

On May 30, 2017, the Company completed a Fundamental Acquisition (as that term is defined in the policies of the Exchange) (the "Transaction") with 1975293 Alberta Ltd. ("Alberta Co"), whereby all outstanding securities of Alberta Co. have been exchanged for securities of the Company pursuant to a Definitive Share Exchange Agreement dated May 8, 2017. The Company changed its name to E3 Metals Corp. and upgraded its listing to Tier 2 of the Exchange subsequent to the closing of the Transaction.

As part of the Transaction, the Company paid Alberta Co. \$150 in cash to settle its outstanding debt owed to Revere Development Corp., issued a total of 6,000,000 common shares of the Company (the "Escrow Shares") and 600,000 share purchase warrants in exchange for all of the issued and outstanding shares and share purchase warrants of Alberta Co. On May 30, 2020, the last of the Escrow Shares were released and are now free-trading shares.

SUMMARY OF OPERATIONS

Business Development and Marketing

	Three months ended March 31		
	2022	2021	% Change
Business development and marketing	405	218	86

The Company's marketing expenditures primarily consist of sponsorships and advertisements at various investment and ESG-based conferences. Expenses are also incurred for the service of external consultants with expertise in brand building and strategic positioning. The Company's business development expenditures primarily consist of building strategic relationships and exploring potential partnership opportunities. As such, the timing and amount of expenditures can fluctuate year-to-year based on the availability of business development and marketing opportunities.

For the three months ended March 31, 2022, business development expenses were 86% higher than the comparable period in 2021 as the Company continues to build its brand and increase awareness of the Company in the investment and ESG communities.

General and Administrative

	Three months ended March 31		
	2022	2021	% Change
General and administrative	477	383	25

For the three months ended March 31, 2022, general and administrative expenses were 25% higher than the comparable period in 2021 primarily due to increase in corporate headcount. Several strategic hires were made between Q2 2021 and Q4 2021; including the Chief Financial Officer, Director of Technology, and Director of Projects. The Company made several additional hires in its finance and sub-surface teams during Q1 2022 to fulfill technical and resource needs.

Share-Based Compensation

	Three months ended March 31		
	2022	2021	% Change
Share-based compensation	377	965	(61)

For the three months ended March 31, 2022, share-based compensation expenses were 61% lower than the comparable period in 2021 as 1.3 million options were granted during Q1 2021 versus 0.5 million options granted during Q1 2022. Stock options issued during 2020 and early 2021 had shorter vesting schedules, which contributed to higher expenses recognized during the shorter expected lives of the options.

Management Discussion & Analysis
March 31, 2022

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The following table summarizes the change in stock options:

	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	510,000	2.32
Exercised	(57,000)	0.78
Forfeited	(8,500)	1.38
Balance, March 31, 2022	3,321,250	1.57

Financing Expenses

	Three months ended March 31		
	2022	2021	% Change
Interest on leases	6	2	200

For the three months ended March 31, 2022, interest on leases were 200% higher than the comparable period in 2021. The Company incurred higher interest expenses due to the additional corporate head office space leased to accommodate its growing workforce.

Amortization

	Three months ended March 31		
	2022	2021	% Change
Amortization	56	19	195

For the three months ended March 31, 2022, amortization was 195% higher than the comparable period in 2021. The depreciable asset base increased in 2022 as the Company entered into new leases and procured new equipment for the expanding workforce.

Foreign Exchange Gain and Loss

	Three months ended March 31		
	2022	2021	% Change
Foreign exchange (gain) and loss	3	6	(50)

For the three months ended March 31, 2022, losses on foreign exchange were 50% lower than the comparable period in 2021. The Company is exposed to foreign exchange risk through purchasing supplies and services from vendors based in the United States. Exposure is immaterial relative to the Company's annual expenditures and gains or losses are incurred from the difference in the CAD/USD exchange rate between the dates when expenses are recognized and when they are settled.

Other Income

	Three months ended March 31		
	2022	2021	% Change
Interest income	14	6	133

Interest income for the three months ended March 31, 2022 were 133% higher than the comparable period in 2021 due to a higher average cash balance during the current quarter.

Net Loss

The Company incurred a net loss of \$1.3 million during Q1 2022, which was a 17% decrease compared to the net loss of \$1.6 million in Q1 2021. On a weighted average per-share basis, losses were \$0.02 for the quarter (2021 - \$0.03). The decrease in losses were primarily due to lower non-cash stock-based compensation during the quarter; offset by higher expenditures in other categories.

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 – corporate assets such as computer equipment and software
- Intangible assets – costs incurred to further the Company’s proprietary DLE technology

	Three months ended March 31		
	2022	2021	% Change
Additions	1,171	63	1,759
Total E&E expenditures	1,171	63	1,759
Computer equipment	14	16	(13)
Furniture and fixtures	10	-	n/a
Total corporate expenditures	24	16	50
Acquisition	-	738	(100)
Additions	573	454	26
Government grant	(500)	(93)	438
Total intangible asset expenditures	73	1,099	(93)
Total capital expenditures	1,268	1,178	8

Exploration and evaluation asset expenditures were 1,759% higher during the three months ended March 31, 2022 compared to the same period in 2021. The higher expenditures were due to the Company proactively securing materials for its upcoming drill program in order to avoid increasing costs from the more active oil and gas drilling activities.



E3 METALS CORP

Management Discussion & Analysis
March 31, 2022

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Corporate asset expenditures were higher in 2022 due to suppling the increased workforce with appropriate equipment and expansion of the Company's office and lab research space.

Intangible asset expenditures were 26% higher during the three months ended March 31, 2022 compared to the same period in 2021 excluding acquisition activities. The Company will continue to allocate significant resources to develop and commercialize its proprietary lithium extraction technology.

The Company's joint venture partner elected to withdraw from an existing technology development joint venture arrangement in Q1 2021. All the joint venture's assets and liabilities were assumed by the Company in exchange for consideration of USD \$1.00 dollar.

The Company received \$0.5 million in government grant in Q1 2022 from Alberta Innovates for its efforts in developing and commercializing a novel technology to address a gap or market need in Alberta. Further grants may be received and they will be recognized during the periods in which the Company has achieved the required milestones.

Impairment Analysis

The Company does not consider its exploration and evaluation or intangible assets to be impaired. The Company's ability to realize on the value of these assets is dependent on the successful completion of an economically feasible pilot plant, followed by the construction of commercial lithium production facilities. Based on the current development progress of its proprietary direct lithium extraction technology, 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 March 31, 2022.

RELATED PARTY TRANSACTIONS

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

SHAREHOLDERS' EQUITY
Share Capital

The table below summarizes the change in share capital:

Number of Shares	Three months ended March 31, 2022	Year ended December 31, 2021
Balance, beginning of period	57,759,871	41,664,131
Exercise of stock options and warrants	431,147	9,302,440
Stock options exercised in prior period ⁽¹⁾	100,000	-
Issuance of shares by private placement	-	6,793,300
Balance, end of period	58,291,018	57,759,871

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

During the three months ended March 31, 2022, the Company issued 531,147 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 \$0.5 million.

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.

During the year 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.

The regulatory fees and legal fees attributable to shares issuance for the year 2021 were \$0.1 million.

Warrants

The table below summarizes the change in warrants:

	Warrant (units)	Weighted Average Exercise Price (\$)
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
Exercised	(374,147)	1.01
Balance, March 31, 2022	6,644,018	1.40



Stock Options

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

CRITICAL ACCOUNTING ESTIMATES

Information provided in this report, including the interim consolidated financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future value for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements. 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.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company’s financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, due to/from related parties, and lease obligations. The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and due to/from related parties approximate fair value due to their short-term nature. 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 three months ended March 31, 2022. 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 accounts receivable and due from related parties. The accounts receivable outstanding as at March 31, 2022 were refundable tax credits which carry have no credit risk. Due from related parties as at March 31, 2022 were withholding taxes triggered by the Company’s current and former employees exercising their stock options. Based on management’s assessment, the risk of default by the associated former and current employees was 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 readily available cash-on-hand in order to meet its liquidity requirements at any point in time.

As at March 31, 2022, the Company had a positive working capital of \$16.0 million (December 31, 2021 - \$17.6 million) and does not foresee a shortfall in capital within the following 12 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 the timeframes as indicated in this Prospectus or at all. 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.

COVID-19 Risks

The Company's business, operations and financial condition, and the market price of the Common Shares, could be materially and adversely affected by the outbreak of epidemics or pandemics or other health crises, including the recent outbreak of COVID-19. To date, there have been a large number of temporary business closures, quarantines, and a general reduction in consumer activity in a number of countries. The outbreak has caused companies and various international jurisdictions to impose travel, gathering and other public health restrictions. While these effects are expected to be temporary, the duration of the various disruptions to businesses locally and internationally and the related financial impact cannot be reasonably estimated at this time. Similarly, the Company cannot estimate whether or to what extent this outbreak and the potential financial impact may extend to countries outside of those currently impacted. Such public health crises can result in volatility and disruptions in the supply and demand for lithium and other minerals, global supply chains and financial markets, as well as declining trade and market sentiment and reduced mobility of people, all of which could affect commodity prices, interest rates, credit ratings, credit risk, share prices and inflation. The risks to the Company of such public health crises also include risks to employee health and safety, a slowdown or temporary suspension of operations in geographic locations impacted by an outbreak, increased labor and fuel costs, regulatory changes, political or economic instabilities or civil unrest. At this point, the extent to which COVID-19 will or may impact the Company is uncertain and these factors are beyond the Company's control; however, it is possible that COVID-19 may have a material adverse effect on the Company's business, results of operations, and financial condition and the market price of the common shares.

Ongoing travel restrictions and border closures could result in delays in the execution of the business objectives of the Company, and ultimately the timeline for reaching a commercialization decision in respect of the Company's proprietary process for lithium extraction.



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 the three months ended March 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.

GOING CONCERN

As at March 31, 2022, the Company has not generated revenues from operations and has an accumulated deficit of \$28.1 million (December 31, 2021 – \$26.8 million) including a net loss of \$1.3 million (Q1 2021 – \$1.6 million) incurred during the three months ended March 31, 2022. These events and conditions indicate a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to raise equity financing to further develop their proprietary technology and commence construction of a pilot project.

LIQUIDITY AND CAPITAL RESOURCES

The Company reported a working capital of \$16.0 million at March 31, 2022 (December 31, 2021 - \$17.6 million), representing a decrease in working capital of \$1.6 million due to expenditures during the quarter; offset by cash inflows from the exercises of stock options and warrants during the quarter.

As at March 31, 2022, the Company had net cash on hand of \$16.1 million compared to cash on hand of \$17.8 million at December 31, 2021.

During the three months ended March 31, 2022, the Company:

- used \$0.9 million (Q1 2021 – \$0.6 million) in operating activities;
- used \$1.8 million (Q1 2021 – \$0.3 million) in investing activities including \$1.2 million for exploration expenditures and \$0.6 million in for intangible assets; and
- generated \$1.0 million (Q1 2021 – \$9.3 million) from its financing activities. The funds were received from the exercise of 0.4 million stock options and warrants. In addition, \$0.5 million of government grants were received during the quarter.

Management Discussion & Analysis
 March 31, 2022

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SUMMARY OF QUARTERLY INFORMATION

	Q1 2022	Q4 2021	Q3 2021	Q2 2021
Net loss	(1,310)	(1,198)	(942)	(1,053)
Net loss per share	(0.02)	(0.02)	(0.02)	(0.02)
Total assets	25,729	25,991	19,890	20,052
Total liabilities	1,125	990	725	606
Common shares outstanding	58,291,018	57,759,871	53,426,406	52,968,406

	Q1 2021	Q4 2020	Q4 2020	Q3 2020
Net loss	(1,587)	(951)	(951)	(370)
Net loss per share	(0.03)	(0.03)	(0.03)	(0.01)
Total assets	20,348	10,641	10,641	7,195
Total liabilities	520	544	544	878
Common shares outstanding	52,509,731	41,664,131	41,664,131	30,496,151

SELECTED ANNUAL INFORMATION

	2021	2020	2019
Net loss	(4,780)	(2,095)	(2,372)
Loss per share	(0.10)	(0.07)	(0.10)
Total assets	25,991	10,641	4,479
Total liabilities	990	544	456
Capital expenditures	3,680	796	448



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 Metals 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 than 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 Metals 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 Metals' 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.