



**LITHIUM**

**Condensed Consolidated Interim Financial Statements (unaudited)**

**As at and for the three months ended March 31, 2023**

## Condensed Consolidated Interim Statements of Financial Position (unaudited)

As at

(CAD\$ thousands)	Notes	<b>March 31, 2023</b>	December 31, 2022
<b>Assets</b>			
Current assets			
Cash and cash equivalents		<b>12,056</b>	13,249
Accounts receivable	12, 13	<b>5,771</b>	4,925
Due from related parties	11, 12	<b>88</b>	88
Prepaid expense		<b>601</b>	531
		<b>18,516</b>	18,793
Exploration and evaluation assets	3	<b>13,045</b>	12,273
Property and equipment	4	<b>173</b>	182
Intangible assets	5	<b>4,081</b>	4,327
Right-of-use assets	6	<b>501</b>	526
<b>Total assets</b>		<b>36,316</b>	36,101
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities			
Accounts payable and accrued liabilities	12	<b>1,839</b>	1,812
Current portion of lease obligations	7	<b>125</b>	92
		<b>1,964</b>	1,904
Lease obligations	7	<b>469</b>	492
Decommissioning obligations	8	<b>235</b>	233
<b>Total Liabilities</b>		<b>2,668</b>	2,629
Share capital	9	<b>54,834</b>	52,701
Contributed surplus		<b>13,137</b>	12,601
Contributed capital		<b>1,987</b>	1,987
Accumulated other comprehensive loss		<b>(75)</b>	(75)
Deficit		<b>(36,235)</b>	(33,742)
<b>Total shareholders' equity</b>		<b>33,648</b>	33,472
<b>Total liabilities and shareholders' equity</b>		<b>36,316</b>	36,101
Nature and continuance of operations	1		
Commitments	15		

See accompanying notes to the condensed consolidated interim financial statements.

Approved by the Board of Directors

Signed "*John Pantazopoulos*"

Chairman

Signed "*Peeyush Varshney*"

Audit Committee Chair

## Condensed Consolidated Interim Statements of Loss and Comprehensive Loss (unaudited)

For the three months ended March 31

(CAD\$ thousands, except share and per share amounts)	Notes	2023	2022
<b>Expenses</b>			
Operating expenses		116	-
Business development and marketing		979	405
General and administrative		850	480
Share-based compensation	10	590	377
Financing expenses		14	6
Depreciation	4, 6	39	56
<b>Total expenses</b>		<b>2,588</b>	<b>1,324</b>
<b>Other Income</b>			
Interest income		95	14
<b>Total other income</b>		<b>95</b>	<b>14</b>
<b>Net loss and comprehensive loss</b>		<b>(2,493)</b>	<b>(1,310)</b>
<b>Per common share</b> (dollars)			
Net loss – basic and diluted		<b>(0.04)</b>	<b>(0.02)</b>
<b>Weighted average number of common shares outstanding</b>			
Basic and diluted		<b>64,088,417</b>	<b>57,951,678</b>

See accompanying notes to the condensed consolidated interim financial statements.

## Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (unaudited)

For the three months ended March 31

(CAD\$ thousands, except share amounts)	Notes	Number of Common Shares	Share Capital	Contributed Surplus	Contributed Capital	Accumulated Other Comprehensive Income	Deficit	Total
<b>January 1, 2022</b>		57,759,871	44,359	5,528	1,987	(75)	(26,798)	25,001
Net loss and comprehensive loss		-	-	-	-	-	(1,310)	(1,310)
Exercise of options and warrants		531,147	561	(25)	-	-	-	536
Share-based compensation		-	-	377	-	-	-	377
<b>March 31, 2022</b>		58,291,018	44,920	5,880	1,987	(75)	(28,108)	24,604
<b>January 1, 2023</b>		63,229,773	52,701	12,601	1,987	(75)	(33,742)	33,472
Net loss and comprehensive loss		-	-	-	-	-	(2,493)	(2,493)
Exercise of options and warrants	9	1,289,409	2,133	(54)	-	-	-	2,079
Share-based compensation	10	-	-	590	-	-	-	590
<b>March 31, 2023</b>		<b>64,519,182</b>	<b>54,834</b>	<b>13,137</b>	<b>1,987</b>	<b>(75)</b>	<b>(36,235)</b>	<b>33,648</b>

See accompanying notes to the condensed consolidated interim financial statements.

## Condensed Consolidated Interim Statements of Cash Flows (unaudited)

For the three months ended March 31

(CAD\$ thousands)	Notes	2023	2022
<b>Cash Used in Operating Activities</b>			
Net loss and comprehensive loss		(2,493)	(1,310)
Non-cash items:			
Share-based compensation	10	590	377
Depreciation	4, 6	39	56
Interest expense on lease obligations	7	12	6
Accretion	8	2	-
Change in non-cash working capital	16	407	(42)
Cash flow used in operating activities		(1,443)	(913)
<b>Cash Used in Investing Activities</b>			
Exploration and evaluation asset expenditures	3	(984)	(1,171)
Property and equipment expenditures	4	(6)	(24)
Intangible assets expenditures	5	(771)	(573)
Change in non-cash working capital	16	(67)	-
Cash used in investing activities		(1,828)	(1,768)
<b>Cash from Financing Activities</b>			
Proceeds from exercise of options and warrants	9, 10	2,079	536
Government grants	3, 5, 13	1,229	500
Repayment of lease obligations	7	(1)	(32)
Change in non-cash working capital	16	(1,229)	(40)
Cash from financing activities		2,078	964
<b>Change in cash and cash equivalents</b>		<b>(1,193)</b>	<b>(1,717)</b>
Cash and cash equivalents – beginning of period		13,249	17,841
<b>Cash and cash equivalents – end of period</b>		<b>12,056</b>	<b>16,124</b>

See accompanying notes to the condensed consolidated interim financial statements.

## 1. NATURE AND CONTINUANCE OF OPERATIONS

E3 Lithium Ltd. (“E3 Lithium” or the “Company”) 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. On July 8, 2022, the Company effectively changed its name to E3 Lithium Ltd., previously known as E3 Metals Corp. The Company’s head office and principal address is located at 1520, 300-5<sup>th</sup> Avenue SW, Calgary, AB, T2P 3C4.

As at March 31, 2023, the Company has not generated revenues from operations and has an accumulated deficit of \$36.2 million (December 31, 2022 – \$33.7 million) including a net loss of \$2.5 million (March 31, 2022 – \$1.3 million) as at and for the three months ended March 31, 2023. 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.

These interim financial statements have been prepared on a going concern basis as the Company has sufficient liquidity with \$16.7 million in positive working capital as at March 31, 2023 and does not foresee a cash shortfall within the next twelve months (note 12).

## 2. BASIS OF PRESENTATION

### Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 – Interim Financial Reporting. Certain information and footnote disclosures normally included in the annual audited consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) in effect on January 1, 2023, have been omitted or condensed. These condensed consolidated interim financial statements should be read in conjunction with the Company’s December 31, 2022 audited consolidated financial statements. These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 25, 2023.

### Basis of measurement

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value. All financial information is presented in the Company’s functional currency, which is Canadian dollars.

### Use of estimates and judgments

The preparation of these condensed consolidated interim financial statements requires that management make estimates, judgments, and assumptions based on available information at the date of the condensed consolidated interim financial statements. Actual results may differ from estimates as future confirming events occur. Significant estimates and judgments used in the preparation of the condensed consolidated interim financial statements have been prepared using the same judgments, estimates, and assumptions as reported in the Company’s December 31, 2022 annual audited consolidated financial statements.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)  
 March 31, 2023 and 2022

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

### 3. EXPLORATION AND EVALUATION ASSETS

<b>Carrying Value</b>	
Balance, January 1, 2022	4,823
Acquisition	100
Additions	10,089
Change in decommissioning costs (note 8)	229
Government grant (note 13)	(2,968)
Balance, December 31, 2022	12,273
Additions	984
Government grant (note 13)	(212)
<b>Balance, March 31, 2023</b>	<b>13,045</b>

### 4. PROPERTY AND EQUIPMENT

<b>Cost</b>	<b>Computer Equipment</b>	<b>Furniture and Fixtures</b>	<b>Software Licenses</b>	<b>Leasehold Improvement</b>	<b>Total</b>
Balance, January 1, 2022	68	32	36	3	139
Additions	69	82	5	29	185
Balance, December 31, 2022	137	114	41	32	324
Additions	3	-	-	3	6
<b>Balance, March 31, 2023</b>	<b>140</b>	<b>114</b>	<b>41</b>	<b>35</b>	<b>330</b>

<b>Accumulated Depreciation</b>					
Balance, January 1, 2022	(34)	(6)	(36)	(3)	(79)
Depreciation	(42)	(18)	(2)	(1)	(63)
Balance, December 31, 2022	(76)	(24)	(38)	(4)	(142)
Depreciation	(8)	(5)	(2)	-	(15)
<b>Balance, March 31, 2023</b>	<b>(84)</b>	<b>(29)</b>	<b>(40)</b>	<b>(4)</b>	<b>(157)</b>

<b>Carrying Value</b>					
Balance, December 31, 2022	61	90	3	28	182
<b>Balance, March 31, 2023</b>	<b>56</b>	<b>85</b>	<b>1</b>	<b>31</b>	<b>173</b>

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)  
 March 31, 2023 and 2022

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

**5. INTANGIBLE ASSETS**

<b>Carrying Value</b>	
Balance, January 1, 2022	2,539
Additions	3,700
Government grant (note 13)	(1,912)
Balance, December 31, 2022	4,327
Additions	771
Government grant (note 13)	(1,017)
<b>Balance, March 31, 2023</b>	<b>4,081</b>

The Company's intangible assets relate to its Direct Lithium Extraction technology.

**6. RIGHT-OF-USE ASSETS**

<b>Cost</b>	
Balance, January 1, 2022	326
Additions	561
Disposals	(89)
Changes in estimates	(239)
Balance, December 31, 2022	559
<b>Balance, March 31, 2023</b>	<b>559</b>
<b>Accumulated Depreciation</b>	
Balance, January 1, 2022	(86)
Depreciation	(112)
Disposals	34
Changes in estimates	131
Balance, December 31, 2022	(33)
Depreciation	(25)
<b>Balance, March 31, 2023</b>	<b>(58)</b>
<b>Carrying Value</b>	
Balance, December 31, 2022	526
<b>Balance, March 31, 2023</b>	<b>501</b>



Notes to the Condensed Consolidated Interim Financial Statements (unaudited)  
 March 31, 2023 and 2022

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

## 7. LEASE OBLIGATIONS

<b>Carrying Value</b>	
Balance, January 1, 2022	266
Additions	561
Disposals	(61)
Interest	31
Repayments	(91)
Changes in estimates	(122)
Balance, December 31, 2022	584
Interest	12
Repayments	(2)
<b>Balance, March 31, 2023</b>	<b>594</b>

  

<b>Carrying Value</b>	
Future minimum lease payments	729
Discount	(135)
<b>Balance, March 31, 2023</b>	<b>594</b>
Current portion of lease obligations	125
Lease obligations	469

The Company's leases at March 31, 2023 relate to the corporate head office and a research lab facility. A discount rate of 8.00% was used to determine the present value of the lease obligations.

## 8. DECOMMISSIONING OBLIGATIONS

<b>Carrying value</b>	
Balance, January 1, 2022	-
Additions	152
Additions - acquisition	77
Accretion	4
Balance, December 31, 2022	233
Accretion	2
<b>Balance, March 31, 2023</b>	<b>235</b>
Expected to be incurred within one year	-
Expected to be incurred beyond one year	235

Decommissioning obligations as at March 31, 2023 were determined using a risk-free rate of 3.23% (December 31, 2022 – 3.23%) and inflation rate of 2.00% (December 31, 2022 – 2.00%). The undiscounted and inflated total future decommissioning obligations were estimated to be approximately \$0.3 million with abandonment and reclamation costs expected to be incurred in the next 10 years.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)  
March 31, 2023 and 2022

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

## 9. SHARE CAPITAL

### Authorized Share Capital

Unlimited common shares with no par value.

Number of Shares	March 31, 2023	December 31, 2022
Balance, beginning of period	63,229,773	57,759,871
Exercise of stock options and warrants	1,289,409	5,241,878
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>64,519,182</b>	<b>63,229,773</b>

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

## 10. SHARE-BASED COMPENSATION

### Warrants

The following table summarizes the change in warrants:

	Warrant (units)	Weighted Average Exercise Price (\$)
Balance, January 1, 2022	7,018,165	1.43
Broker warrants	484,722	1.65
Imperial warrants	3,413,979	-
Exercised	(5,173,978)	1.30
Forfeited/expired	(92,243)	1.40
Balance, December 31, 2022	5,650,645	0.65
Exercised	(1,204,409)	1.65
Forfeited/expired	(1,032,257)	1.65
<b>Balance, March 31, 2023</b>	<b>3,413,979</b>	<b>-</b>

Warrants outstanding and exercisable as at March 31, 2023:

Grant date	Exercise price (\$)	Expiry Date	Remaining Life (years)	Warrants Outstanding and Exercisable
July 8, 2022 <sup>(1)</sup>	-	July 8, 2024	1.27	3,413,979

(1) The Company received a prepayment of \$6.35 million for the warrants issued at an exercise price of \$1.86 per warrant from Imperial Oil Limited ("IOL"). The warrants can be exercised at no further cost to IOL.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)  
 March 31, 2023 and 2022

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

### Stock Options

The shareholders of the Company have approved a stock option plan (the “Plan”) pursuant to which options can be granted to the Company’s directors, officers, employees and other contractors to purchase the Company’s common shares. The Company follows the policies of the Toronto Stock Exchange where the number of common shares issued through the options granted under the Plan may not exceed 10% of the issued and outstanding common shares of the Company at the date of granting of options. Each option agreement with the grantee sets forth, among other things, the number of options granted, the exercise price and the vesting conditions of the options.

The following table summarizes the change in stock options:

	Stock Options	Weighted Average Exercise Price (\$)
Balance, January 1, 2022	2,876,750	1.42
Granted	2,750,000	2.57
Exercised	(67,900)	0.91
Forfeited/expired	(533,083)	2.17
Balance, December 31, 2022	5,025,767	1.98
Exercised	<b>(85,000)</b>	<b>1.08</b>
Forfeited/expired	<b>(55,767)</b>	<b>2.41</b>
<b>Balance, March 31, 2023</b>	<b>4,885,000</b>	<b>1.99</b>

The weighted average life of options outstanding at March 31, 2023 is 2.63 years (December 31, 2022 – 2.84).

The fair value of options was estimated using the Black-Scholes Option Pricing Model based on the date of grant and the following assumptions:

	2023	2022
Risk-free interest rate	-	1.46% to 3.52%
Expected stock price volatility	-	90% to 96%
Expected life	-	One to five years
Expected dividend yield	-	-
Fair value per option granted	-	\$1.74 to \$1.96
Forfeiture rate	-	2.82%

During the three months ended March 31, 2023 the company incurred \$0.6 million (March 31, 2022 - \$0.4 million) in share-based compensation expense in relation to the stock option plan.

Stock options outstanding and exercisable as at March 31, 2023:

	Exercise price (\$)	Weighted average exercise price	Weighted average remaining Life (years)	Outstanding
\$0.00 - \$1.00		\$0.55	0.34	1,000,000
\$1.01 - \$2.00		\$1.53	1.94	1,130,000
\$2.01 - \$3.00		\$2.57	4.14	2,430,000
\$3.01 - \$4.00		\$3.68	0.89	325,000
<b>Outstanding, end of period</b>		<b>\$1.99</b>	<b>2.63</b>	<b>4,885,000</b>
<b>Exercisable, end of period</b>		<b>\$1.43</b>	<b>0.88</b>	<b>2,213,750</b>

## 11. RELATED PARTY TRANSACTIONS

Amounts due from related parties of \$0.1 million as at March 31, 2023 (December 31, 2022 - \$0.1 million) were withholding taxes remitted on behalf of employees arising from previous stock option exercises.

## 12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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, 2023. 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 March 31, 2023 relate to government grants (note 13) and refundable tax credits which have minimal credit risk. Due from related parties as at March 31, 2023 were withholding taxes remitted on behalf of current and former employees from exercising their stock options (note 11). 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 March 31, 2023, the Company has positive working capital of \$16.7 million (December 31, 2022 - \$17.0 million) and does not foresee a shortfall in capital within the next twelve months.

### 13. GOVERNMENT GRANTS

#### *Alberta Innovates (“AI”)*

In the prior year, on April 6, 2022, the Company was awarded a \$1.8 million grant to assist in the scale up and development of its field pilot plant. As at March 31, 2023, life-to-date claims under AI is \$1.1 million (December 31, 2022 - \$1.1 million) and the Company has received \$1.1 million (December 31, 2022 - \$1.1 million). The remaining amount is expected to be claimed upon the completion of the field pilot plant in 2023.

#### *Strategic Innovation Fund (“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 March 31, 2023 (December 31, 2022 – nil).

As at March 31, 2023, life-to-date claims under the SIF grant is \$4.9 million (December 31, 2022 - \$4.4 million) and the contingent obligation related to SIF is estimated to be \$6.7 million (December 31, 2022 - \$6.4 million). Subsequent to the quarter, in April 2023, the Company received \$4.4 million related to the Company’s first claim.

#### *Natural Resources Canada’s (“NRCan”) Critical Minerals Research, Development, and Demonstration (“CMRDD”)*

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.

As at March 31, 2023, life-to-date claims under the NRCan CMRDD grant are \$0.7 million.

### 14. CAPITAL MANAGEMENT

The Company’s objective is to maintain a strong structure and sufficient liquidity to meet its short and long-term business objectives. Sources of capital for the Company include equity issuances and funding and grants from various government agencies.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)  
 March 31, 2023 and 2022

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

## 15. COMMITMENTS

The following is a summary of the Company's estimated commitments as at March 31, 2023:

As at March 31,	2023	2024	2025	2026	2027	Thereafter	Total
Office leases <sup>(1)</sup>	193	271	245	245	245	82	1,281
Mineral license fees	1,804	1,804	1,804	1,804	1,804	-	9,020
<b>Total</b>	<b>1,997</b>	<b>2,075</b>	<b>2,049</b>	<b>2,049</b>	<b>2,049</b>	<b>82</b>	<b>10,301</b>

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

## 16. SUPPLEMENTAL DISCLOSURES

The following table provide a detailed breakdown of changes in non-cash working capital:

For the three months ended March 31,	2023	2022
Accounts receivable	(846)	(65)
Due to/from related parties	-	32
Prepaid expenses	(70)	16
Accounts payable and accrued liabilities	27	(65)
<b>Total change in non-cash working capital</b>	<b>(889)</b>	<b>(82)</b>
Operating activities	407	(42)
Investing activities	(67)	-
Financing activities	(1,229)	(40)
<b>Total change in non-cash working capital</b>	<b>(889)</b>	<b>(82)</b>