E3 LITHIUM

Focused Path to First Lithium

2022 ANNUAL REPORT

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

Chris Doornbos
President & CEO

MANAGEMENT DISCUSSION & ANALYSIS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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 and SEDAR at 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

E3 Lithium achieved significant key milestones in 2022

The first investment in lithium from a global energy industry leader.

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.

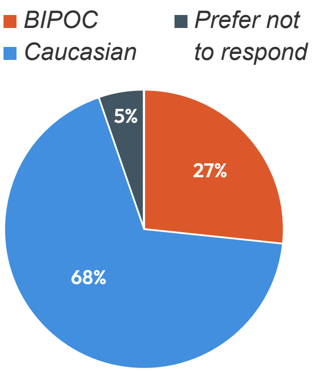
The Company that is E3 Lithium

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.

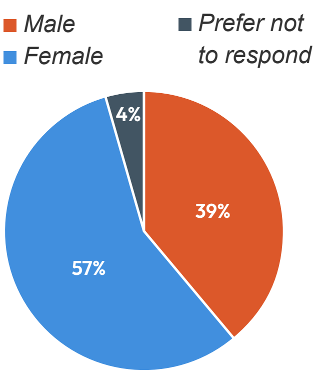
Our core values drive how we approach our work at E3 Lithium and set the tone from the inside out:

- **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



Gender



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.[1]

16.0 million tonnes

M&I upgrade Canada's largest M&I resource

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

We thank the federal and provincial governments for their continued support of E3 Lithium'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.

$32 million

(CAD) in Government funding

- **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.

[1] U.S. Department of Interior, U.S. Geological Survey Mineral Commodity Summaries 2023 page 109

First E3 Lithium Well

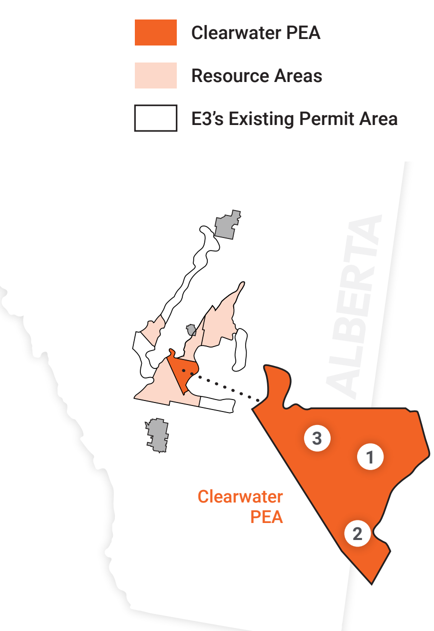
properties of the aquifer, the chemistry of the brine and grade of lithium sampled in all wells

- **Innovation, Science and Economic Development Canada's Strategic Innovation Fund ("SIF"):** The $27 million CAD 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 $3.545 million non-repayable grant announced in March 2023.

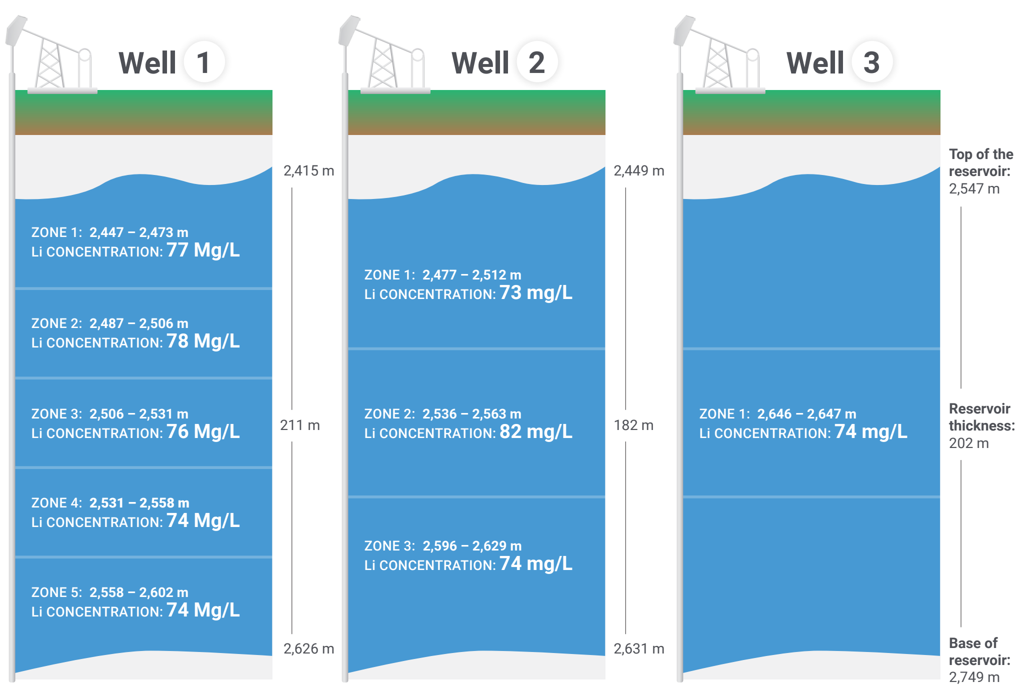
Drill Program Summary: Demonstrating Consistency Across the Leduc Aquifer

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").



Sampling Zones and Lithium Concentrations



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.[2]

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.

[2] *S&P Global Market Intelligence – November 2022*

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	✓ Announce results of the Measured and Indicated upgrade ✓ Publish the NI 43-101 report (within 45 days of March 21, 2023)
Q3 2023	Field pilot plant	✓ Obtain approval on facility license from the Alberta Energy Regulator • Complete Detailed Engineering and Design • Publish Key Performance Indicators (KPIs) on expected pilot performance • Commission equipment on site • Commence pilot operations • Publish results against the previously outlined KPIs
Q3-Q4 2023	Lithium hydroxide samples	• Initiate testing program with an industry leader for lithium hydroxide production • Publish results and specification of the lithium hydroxide produced
End of 2023	Pre-Feasibility Study (PFS)	• Engage Pre-Feasibility EPC firm • Define capacity for the first commercial facility • Publish the results of the PFS

Direct Lithium Extraction (DLE) Pilot Plant on target to be operational in Q3 2023

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

Regulatory improvements create confidence for E3 Lithium in developing Alberta's critical minerals

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.[3] 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.

[3] aer.ca/regulating-development/rules-and-directives/bulletins/bulletin-2023-06

Summary of Operations

Operating Expenses

	Three months ended December 31			Year ended December 31		
	2022	2021	% Change	**2022**	2021	% Change
Operating expenses	**30**	-	100%	**156**	-	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	**326**	221	48%	**1,535**	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	**1,072**	699	53%	**2,971**	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	**593**	246	141%	**1,985**	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	**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**

Financing Expenses

	Three months ended December 31			Year ended December 31		
	2022	2021	% Change	**2022**	2021	% Change
Accretion	**2**	-	100%	**4**	-	100%
Interest on leases	**11**	10	10%	**31**	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	**42**	35	20%	**175**	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	**91**	13	600%	**231**	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	**-**	-	-	**100**	1,099	(91%)
E&E expenditures	**1,096**	329	233%	**10,089**	847	1,091%
P&E expenditures	**81**	7	1,057%	**185**	82	126%
Intangible asset expenditures	**1,396**	464	200%	**3,700**	1,557	137%
Total capital expenditures	**2,573**	800	222%	**14,074**	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 [(1)]	**100,000**	-
Shares issued – Finder's fee	**128,024**	-
Balance, end of period	**63,229,773**	57,759,871

(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:

	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
Broker warrants	**484,722**	**1.65**
Imperial warrants (note 12)	**3,413,979**	**-**
Exercised	**(5,173,978)**	**1.30**
Forfeited/expired	**(92,243)**	**1.40**
Balance, December 31, 2022	**5,650,645**	**0.65**

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 [1]	185	271	245	245	245	82	1,273
Mineral license fees	1,804	1,804	1,804	1,804	1,804	-	9,020
Total	**1,989**	**2,075**	**2,049**	**2,049**	**2,049**	**82**	**10,293**

(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
Total	**1,500**	1,362

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

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 deceases 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.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

To the Shareholders of E3 Lithium Ltd.:

Opinion

We have audited the consolidated financial statements of E3 Lithium Ltd. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and December 31, 2021, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment assessment of intangible assets in development

Key Audit Matter Description

As disclosed in note 7 to the consolidated financial statements, the Company had $4.3 million of intangible asset in development and not yet ready for use as at December 31, 2022. The intangible asset relates to the direct lithium extraction technology that the Company is the process of developing. An impairment assessment is conducted annually at the year-end balance sheet date or earlier if events and circumstances dictate. An impairment loss is recognized if the carrying amount of the intangible asset exceeds its recoverable amount. The assumptions applied by management in estimating the recoverable amount included projected royalties, projected annual revenues and discount rates. No impairment loss was recorded during the year.

We considered this a key audit matter due to the significant judgments made by management in developing the assumptions to determine the recoverable amount as at December 31, 2022.

Audit Response

We responded to this matter by performing procedures in relation to the recoverable amount of the intangible asset as at December 31, 2022. Our audit work in relation to this included, but was not restricted to, the following:

- Evaluated the appropriateness of the model developed by management in determining the recoverable amount of the asset.
- Tested the reasonableness of the inputs used in determining the recoverable amount of the asset to external third party information as well as industry forecasts for the lithium industry.
- With the assistance of professionals with specialized skill and knowledge in the field of valuation, assessed the appropriateness of the royalty and discount rates utilized within the model.
- Performed a sensitivity analysis on the inputs applied in the model.
- Examined the disclosure made in the consolidated financial statements.

Strategic Innovation Fund

Key Audit Matter Description

As disclosed in note 16 to the consolidated financial statements, the Company entered into the Strategic Innovation Fund agreement with the Government of Canada that outlines that the Company will be reimbursed for eligible costs not exceeding $27.0 million. Repayment of the Strategic Innovation Fund will occur the second fiscal year that the Company commences to generate revenue and shall be repaid over a period of 20 years.

We considered this a key audit matter as there may be judgement in determining when the Strategic Innovation Fund creates a liability to the Company.

Audit Response

We responded to this matter by performing procedures in relation to accounting for the Strategic Innovation Fund. Our audit work in relation to this included, but was not restricted to, the following:

- With the assistance of professionals with specialized skill and knowledge in the field of complex transactions, assessed the appropriateness of the accounting and disclosures in the consolidated financial statements relating to the Strategic Innovation Fund.
- Obtained confirmation from the Government of Canada of the amount receivable as at December 31, 2022.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Leanne Bjalek.

Calgary, Alberta

MNP LLP

April 20, 2023

Chartered Professional Accountants

Consolidated Statements of Financial Position

As at

(CAD$ thousands)	Notes	**December 31, 2022**	December 31, 2021
Assets			
Current assets			
Cash and cash equivalents		**13,249**	17,841
Accounts receivable	15	**4,925**	107
Due from related parties	14, 15	**88**	130
Prepaid expense		**531**	251
		18,793	18,329
Exploration and evaluation assets	5	**12,273**	4,823
Property and equipment	6	**182**	60
Intangible assets	7	**4,327**	2,539
Right-of-use assets	8	**526**	240
Total assets		**36,101**	25,991
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	15	**1,812**	724
Current portion of lease obligations	10	**92**	109
		1,904	833
Lease obligations	10	**492**	157
Decommissioning obligations	11	**233**	-
Total Liabilities		**2,629**	990
Share capital	12	**52,701**	44,359
Contributed surplus		**12,601**	5,528
Contributed capital	9	**1,987**	1,987
Accumulated other comprehensive loss		**(75)**	(75)
Deficit		**(33,742)**	(26,798)
Total shareholders' equity		**33,472**	25,001
Total liabilities and shareholders' equity		**36,101**	25,991
Nature and continuance of operations	1		
Subsequent events	16		
Commitments	19		

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

Signed *"John Pantazopoulos"*
Chairman

Signed *"Peeyush Varshney"*
Audit Committee Chair

Consolidated Statements of Loss and Comprehensive Loss

For the years ended December 31

(CAD$ thousands, except share and per share amounts)	Notes	**2022**	2021
Expenses			
Operating expenses		**156**	-
Business development and marketing		**1,535**	874
General and administrative	20	**2,971**	2,033
Share-based compensation	13	**1,985**	1,761
Financing expenses		**35**	21
Depreciation	6, 8	**175**	128
Transaction costs	12	**318**	-
Total expenses		**7,175**	4,817
Other Income			
Interest income		**231**	37
Total other income		**231**	37
Net loss and comprehensive loss		**(6,944)**	(4,780)
Per common share (dollars)			
Net loss – basic and diluted		**(0.12)**	(0.10)
Weighted average number of common shares outstanding			
Basic and diluted	12	**59,718,910**	50,235,220

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31

(CAD$ thousands, except share amounts)	Notes	Number of Common Shares	Share Capital	Contributed Surplus	Contributed Capital	Accumulated Other Comprehensive Income	Deficit	Total
January 1, 2021		41,664,131	28,052	3,141	997	(75)	(22,018)	10,097
Net loss and comprehensive loss		-	-	-	-	-	(4,780)	(4,780)
Share issuance	12	6,793,300	8,050	-	-	-	-	8,050
Share issuance costs	12	-	(2,173)	1,313	-	-	-	(860)
Exercise of options and warrants	13	9,302,440	10,430	(687)	-	-	-	9,743
Share-based compensation	13	-	-	1,761	-	-	-	1,761
Additions to contributed capital	9	-	-	-	990	-	-	990
December 31, 2021		57,759,871	44,359	5,528	1,987	(75)	(26,798)	25,001
Net loss and comprehensive loss		-	-	-	-	-	(6,944)	(6,944)
Share issuance – Finder's Fee	12	128,024	238	-	-	-	-	238
Share issuance costs	12	-	(30)	-	-	-	-	(30)
Exercise of options and warrants	12	5,341,878	8,134	(1,262)	-	-	-	6,872
Prepaid warrants	13	-	-	6,350	-	-	-	6,350
Share-based compensation	13	-	-	1,985	-	-	-	1,985
December 31, 2022		63,229,773	52,701	12,601	1,987	(75)	(33,742)	33,472

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31

(CAD$ thousands)	Notes	**2022**	2021
Cash Used in Operating Activities			
Net loss and comprehensive loss		**(6,944)**	(4,780)
Non-cash items:			
Share-based compensation	13	**1,985**	1,761
Depreciation	6, 8	**175**	128
Interest expense on lease obligations	10	**31**	17
Accretion	11	**4**	-
Loss on lease		**(24)**	-
Transaction costs	12	**238**	-
Change in non-cash working capital	20	**(951)**	29
Cash flow used in operating activities		**(5,486)**	(2,845)
Cash Used in Investing Activities			
Acquisition of exploration and evaluation assets	5	**(100)**	(1,099)
Exploration and evaluation asset expenditures	5	**(10,089)**	(847)
Property and equipment expenditures	6	**(185)**	(82)
Intangible assets expenditures	7	**(3,700)**	(1,557)
Acquisition of joint operation, net of cash received	9	**-**	222
Change in non-cash working capital	20	**1,367**	-
Cash used in investing activities		**(12,707)**	(3,363)
Cash from Financing Activities			
Proceeds from share issuance, net of issuance costs	12	**(30)**	7,190
Proceeds from exercise of options and warrants	12	**6,872**	9,743
Proceeds from prepaid warrants	12	**6,350**	-
Government grants	5, 7, 16	**4,880**	643
Repayment of lease obligations	10	**(91)**	(95)
Repayment of long-term notes		**-**	(150)
Change in non-cash working capital	20	**(4,380)**	-
Cash from financing activities		**13,601**	17,331
Change in cash and cash equivalents		**(4,592)**	11,123
Cash and cash equivalents – beginning of year		**17,841**	6,718
Cash and cash equivalents – end of year		**13,249**	17,841

See accompanying notes to the consolidated 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 5th Avenue SW, Calgary, AB, T2P 3C4.

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.

These consolidated financial statements have been prepared on a going concern basis as the Company has sufficient liquidity with $17.0 million in positive working capital as at December 31, 2022 and does not foresee a cash shortfall within the next twelve months (note 15).

2 | Basis of Presentation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") in effect on January 1, 2022. The policies set out below are consistently applied to all periods presented, unless otherwise noted. These consolidated financial statements were authorized for issue by the Board of Directors on April 20, 2023.

Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, except as disclosed in note 3. All financial information is presented in the Company's functional currency, which is Canadian dollars.

Use of estimates and judgements

The preparation of the consolidated financial statements requires that management make estimates, judgments, and assumptions based on available information at the date of the financial statements. Actual results may differ from estimates as future confirming events occur. Significant estimates and judgments used in the preparation of the consolidated financial statements are disclosed in note 4.

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

3 | Summary of Significant Accounting Policies

Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. Assets, liabilities, revenues and expenses of the subsidiaries are recognized in accordance with the Company's accounting policies. Intercompany balances and transactions, including unrealized income and expenses arising from intercompany transactions, are eliminated on consolidation.

The subsidiaries of the Company are as follows:

	Country of Incorporation	Percentage Ownership December 31, 2022	December 31, 2021
1975293 Alberta Ltd.	Canada	100%	100%
Mexigold Resources SA de CV ("Mexigold") (1)	Mexico	100%	100%
2216747 Alberta Ltd. ("ABHI") (2)	Canada	100%	100%
2437798 Alberta Ltd. (3)	Canada	100%	-

(1) Mexigold is inactive and has no assets.
(2) On January 25, 2021, the Company acquired the remaining 50% of ABHI from its joint venture partner. See note 9 for further details.
(3) A new corporation was established on June 10, 2022

Functional currency

The functional currency of each legal entity is measured using the currency of the primary economic environment in which it operates. The Company's functional and presentation currency is Canadian dollars.

Foreign currency translation

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items are measured at historical cost using the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined. Realized and unrealized gains and losses arising on the translation or settlement of foreign currency transactions are recognized in the consolidated statements of loss and comprehensive loss in the period in which they arise.

Cash and cash equivalents

Cash includes cash held at financial institutions, term deposits, and other highly liquid investments with maturity of three months or less at the time of purchase.

Joint operation

The Company accounts for its share of the assets, liabilities and expenditures of a jointly controlled entity using the proportionate consolidation method.

Financial instruments

E3 Lithium's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and due from related parties. The Company recognizes financial assets and financial liabilities when the Company becomes a party to the contractual provisions of the instrument.

Measurement

Financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on the financial instrument's classification, as described below. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or when the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are removed from the financial statements when the liability is extinguished either through settlement of or release from the obligation of the underlying liability.

Amortized Cost

Financial assets are measured at amortized cost if the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual cash flows give rise on specified dates to cash flows that are solely payments of principal and interest. Financial liabilities are measured at amortized cost using the effective interest method. Accounts receivable, accounts payable and accrued liabilities and due from related parties are carried at amortized cost.

Fair Value Through Other Comprehensive Income ("FVTOCI")

A financial asset shall be measured at FVTOCI if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payment of Principal and Interest ("SPPI") on the principal amount outstanding. The Company has no financial instruments carried at FVTOCI.

Fair Value Through Profit or Loss ("FVTPL")

All financial assets that do not meet the definition of being measured at amortized cost or FVTOCI are measured at FVTPL. A financial liability is classified as measured at FVTPL if it is held-for-trading, or designated as FVTPL on initial recognition. For financial assets and liabilities, the Company may make an irrevocable election to designate an asset at FVTPL. If the election is made it is irrevocable, meaning that asset, liability, or group of financial instruments must be recorded at FVTPL until that asset, liability or group of financial instruments are derecognized. The Company has cash carried at FVTPL.

Financial assets and liabilities are offset and the net amount is reported on the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Exploration and evaluation ("E&E") assets

E&E costs include expenditures for an area where technical and commercial feasibility has not yet been demonstrated. E&E costs include but are not limited to: mineral permit acquisition costs, geological, geochemical, and geophysical studies, land acquisitions, technical services, seismic, exploratory drilling, and estimated decommissioning costs.

E&E costs are recognized on the date that the Company acquires legal rights to explore a mineral property and are classified within E&E until technical and economic feasibility is determined, at which time E&E assets are tested for impairment and reclassified to property and equipment. E&E assets are not depleted. Gains and losses on disposal of any E&E is determined by comparing the proceeds from disposal with the carrying amount of the related E&E and is recognized as a gain or loss on disposal in the consolidated statements of loss and comprehensive loss.

Property and equipment ("P&E")

P&E expenditures are recorded at cost less accumulated depreciation and impairment losses. P&E costs include its purchase price and costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Subsequent expenditures are measured if the cost can be measured reliably and future economic benefits are probable. Gains and losses on disposal of any P&E is determined by comparing the proceeds from disposal with the carrying amount of the related P&E and is recognized as a gain or loss on disposal in the consolidated statements of loss and comprehensive loss.

P&E is depreciated over their estimated useful economic lives at the following rates and basis:

Asset Class	Depreciation Policy
Computer Equipment	55% declining balance
Furniture and Fixtures	20% declining balance
Software Licenses	100% declining balance
Leasehold Improvement	Straight-line over term of lease

Intangible assets

Development expenditures are capitalized as intangible assets only if the expenditure can be measured reliably, the process is technically and commercially feasible, future economic benefits are probable to the Company and the Company has sufficient resources to complete the development and use or sell the asset. Otherwise, it is recognized in the consolidated statements of loss and comprehensive loss as incurred. Subsequent to initial recognition, development expenditures are measured at costs less accumulated amortization and any accumulated impairment losses.

Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At commencement date, right-of-use assets are measured at cost, where cost comprises (a) the amount of the initial measurement of the lease liability; (b) any lease payments made at or before the commencement date, less any lease incentives received; (c) any initial direct costs incurred by the Company; and (d) an estimate of costs to be incurred by the Company in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Company subsequently measures a right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses; and adjusted for any re-measurement of the lease liability. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term.

A lease liability is initially measured at the present value of the unpaid lease payments, discounted using the lessee's incremental borrowing rate applied to the lease liabilities. Subsequently, the Company measures a lease liability by: (a) increasing the carrying amount to reflect interest on the lease liability; (b) reducing the carrying amount to reflect the lease payments made; and (c) remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

Share capital

The Company records proceeds from share issuances net of share issue costs as equity.

Proceeds and issue costs from unit placements are allocated between shares and warrants. The value of the share component and warrant is credited to share capital with any residual value attributed to the warrant. Upon exercise of the warrant, consideration paid by the warrant holder together with the amount previously recognized is recorded as an increase to share capital. In the event there is a change to the warrant terms (price or exercise date), no change is made to the initial value recognized for the warrant.

Impairment of assets

Financial assets

The Company makes use of a simplified approach in recognizing lifetime expected credit losses for financial assets measured at amortized cost. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix. The Company assesses impairment of financial assets measured at amortized cost on a collective basis when they possess shared credit risk characteristics

Non-financial assets

The Company assesses whether there are indications of impairment of non-financial assets at each reporting date. If indications of impairment exist, the Company estimates the asset or Cash Generating Unit ("CGU")s recoverable amount, which is the higher of an asset or CGUs fair value less costs of disposal ("FVLCD") and its value-in-use ("VIU"). See note 4 for the Company's determination of CGUs.

FVLCD represents the value for which an asset or CGU could be sold in an arms-length transaction. VIU is estimated as the discounted present value of future cash flows expected to arise from the continued use of the asset or CGU. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and an impairment loss is recognized in the consolidated statements of loss and comprehensive loss.

Intangible assets with indefinite useful lives, intangible assets not yet available for use, and goodwill are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Government grants

The Company has applied for, and received, grants from various provincial and federal government agencies. These grants are recognized as eligible costs are incurred and/or defined milestones are achieved and there is reasonable certainty the Company will be in compliance with the conditions of the grant agreements. Grant funds received are offset against the related costs incurred.

Share-based compensation

Share-based compensation to employees is measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based compensation to non-employees is measured at the fair value of goods or services received unless the fair value of the goods or services cannot be reliably measured. The transaction would then be measured at the fair value of the equity instruments issued. For stock options, the cost of the option is expensed or capitalized as an addition to non-monetary assets depending on the reason for the grant. The corresponding amount is recorded to contributed surplus. The fair value of options granted is determined using the Black–Scholes Option Pricing Model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

Income taxes

Income tax expense is comprised of current and deferred tax. Taxes are recognized in the consolidated statements of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity.

Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recognized on temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill, the initial recognition of assets or liabilities that affect both accounting and taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it provides a valuation allowance against that excess.

Loss per share

Loss per share is computed by dividing net loss by the weighted average number of shares outstanding during the reporting period.

Diluted loss per share is computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

Provisions, contingent liabilities, and contingent assets

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Contingent assets and liabilities are not recognized. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic resources is remote. Contingent assets are disclosed where an economic inflow of resources is probable.

4 | Significant Accounting Estimates, Judgments, and Assumptions

The preparation of financial statements in accordance with IFRS requires management to make estimates, judgments, and assumptions concerning the future. Management reviews these estimates, judgments, and assumptions on an ongoing basis by relying on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Revisions to estimates are adjusted prospectively in the period in which the estimates are revised.

Going concern

Management has applied judgment in the assessment of the Company's ability to continue as a going concern when preparing the consolidated financial statements. Management prepares the financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management considers a wide range of factors relating to current and expected profitability and potential sources of financing.

Joint arrangements

The accounting for investments in other companies can vary depending on the degree of control and influence over those other companies. Management is required to assess at each reporting date the Company's control and influence over other companies. Management has used its judgment to determine when control exists and consolidation is required or when the Company has joint control and proportional consolidation is required. Determination of the date that the Company's interest in the subsidiary changed from joint control to control also requires significant judgment.

Establishing CGUs

For the purpose of assessing impairment of its non-financial assets the Company determines the CGU, defined as being the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The determination and classification of CGUs is subject to estimation uncertainty and may have a significant impact on subsequent impairment analysis. The Company has one CGU as at December 31, 2022.

Amortization of E&E assets and Intangible assets

Amortization of E&E assets usually does not commence until assets are placed in service. Amortization of intangible assets begins when the asset is available for use. The Company applies judgement with respect to its determination of whether E&E and intangible assets have reached a feasible stage to commence amortization.

Impairment of E&E Assets

The Company's exploration and evaluation assets are evaluated every reporting period to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of recoverable amounts is performed and an impairment loss is recognized to the extent that the carrying values exceeds the recoverable amounts. The evaluation of indications of impairment for E&E assets includes consideration of both external and internal sources of information, including such factors as market and economic conditions, commodity prices, future plans for the Company's mineral properties and mineral resources and/or reserve estimates.

Impairment of other non-financial assets

In assessing impairment, management estimates the recoverable amount of each asset or CGU. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Share-based compensation

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Determining the fair value of such share- based awards requires estimates as to the appropriate valuation model and the inputs for the model which require assumptions including the rate of forfeiture of options granted, the expected life of the option, the Company's share price and its expected volatility, the risk-free interest rate and expected dividends.

Income taxes

The calculations for current and deferred taxes require management's interpretation of tax regulations and legislation in the various tax jurisdictions in which the Company operates, which are subject to change. The measurement of deferred tax assets and liabilities requires estimates of the timing of the reversal of temporary differences identified and management's assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire, which involves estimating future taxable income.

The Company is subject to assessments by various taxation authorities in the tax jurisdictions in which it operates and these taxation authorities may interpret the tax legislation and regulations differently. In addition, the calculation of income taxes involves many complex factors. As such, income taxes are subject to measurement uncertainty and the actual amounts of taxes may vary from the estimates made by management.

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

Decommissioning obligations

Decommissioning obligations are present obligations for the cost of dismantling, site restoration, and remediation activities. Decommissioning obligations are recognized at the present value of future liabilities using a risk-free discount rate and accretion of the provision over time is recognized in the consolidated statements of loss and comprehensive loss.

Changes in the timing of restoration, estimated future cash flows, and discount rates are reflected in changes in estimates. Decommissioning costs are capitalized in the underlying asset and depreciated on a unit of production basis.

5 | Exploration and Evaluation Assets

Carrying Value	
Balance, January 1, 2021	2,877
Acquisitions	1,099
Additions	847
Balance, December 31, 2021	4,823
Acquisition	**100**
Additions	**10,089**
Change in decommissioning costs (note 11)	**229**
Government grant (note 16)	**(2,968)**
Balance, December 31, 2022	**12,273**

On September 8, 2022 the Company closed its $0.1 million acquisition of a third party well located in the Clearwater Project Area within the Bashaw District.

On September 30, 2022 the Company purchased a gross overriding royalty for $0.8 million in the Clearwater Project Area. As part of the original agreement, the Company had the option to purchase the royalty by September 30, 2022. The royalty would have provided the original owner with 2.25% of gross revenue from any metallic and industrial mineral production in the Clearwater Project Area within the Bashaw District.

6 | Property and Equipment

Cost	**Computer Equipment**	**Furniture and Fixtures**	**Software Licenses**	**Leasehold Improvement**	**Total**
Balance, January 1, 2021	24	3	27	3	57
Additions	44	29	9	-	82
Balance, December 31, 2021	68	32	36	3	139
Additions	**69**	**82**	**5**	**29**	**185**
Balance, December 31, 2022	**137**	**114**	**41**	**32**	**324**

Accumulated Depreciation					
Balance, January 1, 2021	(20)	(2)	(27)	(3)	(52)
Depreciation	(14)	(4)	(9)	-	(27)
Balance, December 31, 2021	(34)	(6)	(36)	(3)	(79)
Depreciation	**(42)**	**(18)**	**(2)**	**(1)**	**(63)**
Balance, December 31, 2022	**(76)**	**(24)**	**(38)**	**(4)**	**(142)**

Carrying Value					
Balance, December 31, 2021	34	26	-	-	60
Balance, December 31, 2022	**61**	**90**	**3**	**28**	**182**

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

7 | Intangible Assets

Carrying Value	
Balance, January 1, 2021	887
Acquisition (note 9)	738
Additions	1,557
Government grant (note 16)	(643)
Balance, December 31, 2021	2,539
Additions	**3,700**
Government grant (note 16)	**(1,912)**
Balance, December 31, 2022	**4,327**

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

8 | Right-Of-Use Assets

Cost	
Balance, January 1, 2021	43
Additions	326
Disposals	(43)
Balance, December 31, 2021	326
Additions	**561**
Disposals	**(89)**
Changes in estimates	**(239)**
Balance, December 31, 2022	**559**

Accumulated Depreciation	
Balance, January 1, 2021	(28)
Depreciation	(101)
Disposals	43
Balance, December 31, 2021	(86)
Depreciation	**(112)**
Disposals	**34**
Changes in estimates	**131**
Balance, December 31, 2022	**(33)**

Carrying Value	
Balance, December 31, 2021	240
Balance, December 31, 2022	**526**

The Company entered into two new leases during 2022 for the corporate head office and research lab facility. Lease terms for the previous corporate head office and research lab facility were remeasured resulting in a change in estimates.

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

9 | Joint Operation

Under the terms of the Unanimous Shareholder Agreement ("USA") entered in September 2019 with FMC Lithium USA Corp ("Livent"), the Company acquired a 50% ownership interest of ABHI. As part of the USA, the Company granted ABHI a perpetual and royalty-free license for its proprietary Ion-Exchange technology. Per IFRS 11 – Joint Arrangements, the Company's ownership interest in ABHI was considered a joint operation and recognizes the assets, liabilities, and expenses in relation to its interest in ABHI through proportionate consolidation.

In October 2019, Livent contributed USD $1.5 million (approximately CAD $2.0 million) to ABHI as funding for its research and development project. The contribution was made without recourse and the Company's share of contribution was recognized as contributed capital.

Livent elected to withdraw from its participation in ABHI in January 2021. The terms of the withdrawal are outlined below per the USA:

- The Company had the right to acquire Livent's 50% working interest in ABHI for USD $1.00 dollar free and clear of all encumbrances.
- All ABHI Intellectual Property and developments was transferred to the Company for USD $1.00 dollar.
- Any remaining funds from Livent's capital contribution to ABHI shall be for the sole benefit of ABHI.

The acquisition of Livent's working interest in ABHI was accounted for as an asset purchase since ABHI did not meet the definition of a business per IFRS 3 – Business Combinations. The difference between the fair value of ABHI's assets and the Company's consideration was recorded as an addition to contributed capital:

Cash	222
Accounts receivable	30
Intangible assets	738
Total assets acquired	990
Consideration paid (1)	-
Contributed capital	**990**

(1) Consideration paid was USD $1.00 dollar.

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

10 | Lease Obligations

Carrying Value	
Balance, January 1, 2021	18
Additions	326
Interest	17
Repayments	(95)
Balance, December 31, 2021	266
Additions	**561**
Disposals	**(61)**
Interest	**31**
Repayments	**(91)**
Changes in estimates	**(122)**
Balance, December 31, 2022	**584**

Carrying Value	
Future minimum lease payments	732
Discount	(148)
Balance, December 31, 2022	**584**
Current portion of lease obligations	92
Lease obligations	492

The Company's leases at December 31, 2022 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.

11 | Decommissioning Obligations

Carrying value	
Balance, January 1, 2022	**-**
Additions	**152**
Additions - acquisition	**77**
Accretion	**4**
Balance, December 31, 2022	**233**
Expected to be incurred within one year	**-**
Expected to be incurred beyond one year	**233**

Decommissioning obligations as at December 31, 2022 were determined using a risk-free rate of 3.23% and inflation rate of 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.

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

12 | Share Capital

Authorized Share Capital

Unlimited common shares with no par value.

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 (1)	**100,000**	-
Shares issued – Finder's fee	**128,024**	-
Balance, end of period	**63,229,773**	57,759,871

(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 Imperial Oil Limited ("IOL" or "Imperial")

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.

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

13 | Share-Based Compensation

Warrants

The following table 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
Broker warrants	**484,722**	**1.65**
Imperial warrants (note 12)	**3,413,979**	**-**
Exercised	**(5,173,978)**	**1.30**
Forfeited/expired	**(92,243)**	**1.40**
Balance, December 31, 2022	**5,650,645**	**0.65**

Warrants outstanding and exercisable as at December 31, 2022:

Grant date	Exercise price ($)	Expiry Date	Remaining Life (years)	Warrants Outstanding and Exercisable
February 8, 2021	1.65	February 8, 2023	0.11	2,144,266
February 8, 2021 (1)	1.185	February 8, 2023	0.11	92,400
July 8, 2022 (2)	-	July 8, 2024	1.52	3,413,979
	0.65		**0.96**	**5,650,645**

(1) Upon exercise of each warrant, the warrant holder is entitled to one common share and one additional warrant of the Company. Each additional warrant carries an exercise price of $1.65 and has the same expiry date as the original warrant.

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

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.

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

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/expired	(185,000)	1.39
Balance, December 31, 2021	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**

The weighted average life of options outstanding at December 31, 2022 is 2.84 years (2021 – 2.40).

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

	2022	2021
Risk-free interest rate	1.46% to 3.52%	0.21% to 0.84%
Expected stock price volatility	90% to 96%	92% to 98%
Expected life	One to five years	One to four years
Expected dividend yield	-	-
Fair value per option granted	$1.74 to $1.96	$0.63 to $3.00
Forfeiture rate	2.82%	2.68%

During the year ended December 31, 2022, the company incurred $2.0 million (2021 - $1.8 million) in share-based compensation expense in relation to the stock option plan.

Stock options outstanding and exercisable as at December 31, 2022:

Exercise price ($)	Weighted average exercise price	Weighted average remaining Life (years)	Outstanding
$0.40 - $0.70	$0.55	0.58	1,000,000
$1.08 - $1.77	$1.50	2.05	1,220,767
$2.05 - $3.00	$2.56	4.38	2,480,000
$3.20 - $3.57	$3.68	1.14	325,000
Outstanding, end of year	**$1.98**	**2.84**	**5,025,767**
Exercisable, end of year	**$1.18**	**0.95**	**2,029,417**

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

14 | 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:

For the year ended December 31,	2022	2021
Salaries and benefits	**849**	500
Share-based compensation	**651**	862
Total	**1,500**	1,362

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.

15 | 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 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.

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

16 | Government Grants

Alberta Innovates ("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.

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 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.

Natural Resources Canada's ("NRCan") Critical Minerals Research, Development, and Demonstration ("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.

17 | Capital Management

The Company's objective is to maintain a strong balance sheet 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.

18 | Income Taxes

For the year ended December 31,	**2022**	2021
Loss before income taxes	**(6,944)**	(4,780)
Combined statutory tax rate	**23.0%**	23.0%
Computed tax recovery	**(1,597)**	(1,099)
Effects resulting from:		
Share-based compensation	**457**	405
Other	**55**	(352)
Change in unrecognized deferred tax assets	**1,085**	1,046
Total	**-**	-

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

The Company has the following unrecognized deductible temporary differences and unused losses for which no deferred tax asset has been recognized:

As at December 31,	**2022**	2021
Exploration and evaluation assets	**-**	511
Investment tax credits	**3,147**	739
Lease obligation	**584**	-
Share issuance costs	**1,642**	2,225
SR&ED	**380**	380
Non-capital loss carry-forward	**14,578**	11,961
Other	**231**	27
Total	**20,562**	15,843

The deferred tax asset (liability) is comprised of the following:

As at December 31,	**2022**	2021
Exploration and evaluation assets	**(5,175)**	**(276)**
Non-capital loss carry-forward	**5,175**	**276**
Total	**-**	-

At December 31, 2022, the Company has non-capital losses of $20.7 million that will expire between 2022 and 2042.

19 | 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 (1)	185	271	245	245	245	82	1,273
Mineral license fees	1,804	1,804	1,804	1,804	1,804	-	9,020
Total	**1,989**	**2,075**	**2,049**	**2,049**	**2,049**	**82**	**10,293**

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

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

20 | Supplemental Disclosures

The Company's general and administrative expenses consist of the following:

For the year ended December 31,	2022	2021
Wages and benefits [(1)]	**1,376**	624
General expenses	**1,595**	1,409
Total	**2,971**	2,033

(1) Total wages and benefits were $3,312 (2021 - $1,678), of which $1,936 (2021 - $1,054) were capitalized to exploration and evaluation and intangible assets.

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

For the year ended December 31,	2022	2021
Accounts receivable	**(4,818)**	(24)
Due to/from related parties	**42**	(196)
Prepaid expenses	**(280)**	(165)
Accounts payable and accrued liabilities	**1,092**	414
Total change in non-cash working capital	**(3,964)**	29
Operating activities	**(951)**	29
Investing activities	**1,367**	-
Financing activities	**(4,380)**	
Total change in non-cash working capital	**(3,964)**	29

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