



**LITHIUM**

**Interim Consolidated Financial Statements (unaudited)**

**For the Three and Nine Months Ended September 30, 2022 and 2021**

## **NOTICE TO READER**

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

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by management and approved by the Audit Committee and Board of Directors of the Company.

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

**Interim Consolidated Statements of Financial Position (unaudited)**

As at

(CAD\$ thousands)	Notes	September 30, 2022	December 31, 2021
<b>Assets</b>			
Current assets			
Cash and cash equivalents		<b>17,086</b>	17,841
Accounts receivable	14	<b>354</b>	107
Due from related parties	13, 14	<b>88</b>	130
Prepaid expense		<b>429</b>	251
		<b>17,957</b>	18,329
Exploration and evaluation assets	3	<b>14,145</b>	4,823
Property and equipment	4	<b>110</b>	60
Intangible assets	5	<b>4,343</b>	2,539
Right-of-use assets	6	<b>260</b>	240
<b>Total assets</b>		<b>36,815</b>	25,991
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities			
Accounts payable and accrued liabilities	14	<b>4,504</b>	724
Short-term lease obligations	8	<b>85</b>	109
		<b>4,589</b>	833
Long-term lease obligations	8	<b>215</b>	157
Asset retirement obligations	9	<b>230</b>	-
<b>Total liabilities</b>		<b>5,034</b>	990
Share capital	11	<b>48,381</b>	44,359
Contributed surplus		<b>13,242</b>	5,528
Contributed capital	7	<b>1,987</b>	1,987
Accumulated other comprehensive loss		<b>(75)</b>	(75)
Deficit		<b>(31,754)</b>	(26,798)
<b>Total shareholders' equity</b>		<b>31,781</b>	25,001
<b>Total liabilities and shareholders' equity</b>		<b>36,815</b>	25,991

Note 1 – Nature and Continuance of Operations

See accompanying notes to the interim consolidated financial statements.

**Interim Consolidated Statements of Loss and Comprehensive Loss (unaudited)**

For the three and nine months ended September 30

(CAD\$ thousands, except share and per share amounts)	Notes	Three Months Ended		Nine Months Ended	
		2022	2021	2022	2021
<b>Expenses</b>					
Operating expenses		34	-	126	-
Business development and marketing		280	205	1,209	653
General and administrative		677	392	1,925	1,326
Share-based compensation	12	568	318	1,392	1,516
Financing expenses	8, 9	5	5	20	11
Amortization	4, 6	34	32	133	92
Transaction costs		317	-	317	-
Gain on lease		(18)	-	(18)	-
Gain on foreign exchange		(9)	-	(8)	8
<b>Total expenses</b>		<b>1,888</b>	952	<b>5,096</b>	3,606
<b>Other Income</b>					
Interest income		90	9	140	24
<b>Total other income</b>		<b>90</b>	9	<b>140</b>	24
<b>Net loss and comprehensive loss</b>		<b>(1,798)</b>	(943)	<b>(4,956)</b>	(3,582)
<b>Per common share (dollars)</b>					
Net loss – basic and diluted		<b>(0.03)</b>	(0.03)	<b>(0.08)</b>	(0.05)
<b>Weighted average number of common shares outstanding</b>					
Basic and diluted		<b>60,256,276</b>	59,968,836	<b>59,044,675</b>	58,137,272

See accompanying notes to the interim consolidated financial statements.

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

For the nine months ended September 30

(CAD\$ thousands, except share amounts)	Notes	Number of Common Shares	Share Capital	Contributed Surplus	Contributed Capital	Accumulated Other Comprehensive Loss	Deficit	Total
<b>January 1, 2021</b>		41,664,131	28,052	3,141	997	(75)	(22,018)	10,097
Comprehensive loss		-	-	-	-	-	(3,582)	(3,582)
Share issuance	11	6,793,300	8,050	-	-	-	-	8,050
Share issuance costs	11	-	(2,173)	1,313	-	-	-	(860)
Exercise of options and warrants	12	4,968,975	3,464	(508)	-	-	-	2,956
Share-based compensation	12	-	-	1,515	-	-	-	1,515
Additions to contributed capital	7	-	-	-	990	-	-	990
<b>September 30, 2021</b>		53,426,406	37,393	5,461	1,987	(75)	(25,600)	19,166
Comprehensive loss		-	-	-	-	-	(1,198)	(1,198)
Share issuance		-	-	-	-	-	-	-
Exercise of options and warrants	12	4,333,465	6,966	(179)	-	-	-	6,787
Share-based compensation	12	-	-	246	-	-	-	246
<b>December 31, 2021</b>		57,759,871	44,359	5,528	1,987	(75)	(26,798)	25,001
Comprehensive loss		-	-	-	-	-	(4,956)	(4,956)
Share issuance – Finder's Fee	11	128,024	238	-	-	-	-	238
Share issuance costs		-	(30)	-	-	-	-	(30)
Exercise of options and warrants	12	3,151,454	3,814	(28)	-	-	-	3,786
Prepaid warrants – Imperial	11	-	-	6,350	-	-	-	6,350
Share-based compensation	12	-	-	1,392	-	-	-	1,392
<b>September 30, 2022</b>		61,039,349	48,381	13,242	1,987	(75)	(31,754)	31,781

See accompanying notes to the interim consolidated financial statements.

**Interim Consolidated Statements of Cash Flows (unaudited)**

For the three and nine months ended September 30

(CAD\$ thousands)	Notes	Three Months Ended		Nine Months Ended	
		2022	2021	2022	2021
<b>Cash Used in Operating Activities</b>					
Net loss		<b>(1,798)</b>	(943)	<b>(4,956)</b>	(3,582)
Non-cash items:					
Share-based compensation	12	<b>568</b>	318	<b>1,392</b>	1,516
Amortization	4, 6	<b>34</b>	32	<b>133</b>	92
Interest expense on lease obligations	8	<b>4</b>	5	<b>19</b>	11
Accretion	9	<b>1</b>	-	<b>1</b>	-
Gain on lease	6, 8	<b>(18)</b>	-	<b>(18)</b>	-
Transaction costs	11	<b>238</b>	-	<b>238</b>	-
Change in non-cash working capital	17	<b>(982)</b>	121	<b>(595)</b>	(5)
<b>Cash flow used in operating activities</b>		<b>(1,953)</b>	(467)	<b>(3,786)</b>	(1,968)
<b>Cash Used in Investing Activities</b>					
Acquisition of exploration and evaluation assets	3	-	-	<b>(100)</b>	222
Exploration and evaluation asset expenditures	3	<b>(5,351)</b>	(220)	<b>(8,993)</b>	(1,554)
Property and equipment expenditures	4	<b>(3)</b>	(10)	<b>(98)</b>	(76)
Intangible assets expenditures	5	<b>(976)</b>	(427)	<b>(2,304)</b>	(1,093)
Acquisition of joint operation, net of cash received	7	-	-	-	-
Change in non-cash working capital	17	<b>2,579</b>	-	<b>3,996</b>	-
<b>Cash used in investing activities</b>		<b>(3,751)</b>	(657)	<b>(7,499)</b>	(2,501)
<b>Cash from Financing Activities</b>					
Proceeds from share issuance, net of issuance costs	11	-	-	<b>(30)</b>	7,196
Proceeds from exercise of options and warrants	12	<b>1,694</b>	343	<b>3,786</b>	2,949
Proceeds from Imperial Warrants	11	<b>6,350</b>	-	<b>6,350</b>	-
Government grants	5, 15	-	-	<b>500</b>	643
Repayment of lease obligations	8	<b>(12)</b>	(27)	<b>(76)</b>	(63)
Proceeds (repayment) of long-term notes	10	-	-	-	(150)
Change in non-cash working capital	11, 17	<b>40</b>	-	-	-
<b>Cash from financing activities</b>		<b>8,072</b>	316	<b>10,530</b>	10,575
<b>Change in cash and cash equivalents</b>					
<b>Change in cash and cash equivalents</b>		<b>2,368</b>	(808)	<b>(755)</b>	6,106
Cash and cash equivalents – beginning of period		<b>14,718</b>	13,603	<b>17,841</b>	6,689
<b>Cash and cash equivalents – end of period</b>		<b>17,086</b>	12,795	<b>17,086</b>	12,795

See accompanying notes to the interim consolidated financial statements.

## 1. NATURE AND CONTINUANCE OF OPERATIONS

E3 Lithium Ltd. (“E3 Lithium” or the “Company”) was incorporated on August 19, 1998 under the *Business Corporations Act* (British Columbia). The Company’s shares trade on the TSX Venture Exchange (the “Exchange”) under the symbol ETL. On July 8, 2022, the Company effectively changed its name to E3 Lithium Ltd., previously known as E3 Metals Corp. The Company’s head office and principal address is located at 1520 – 300 5<sup>th</sup> Avenue SW, Calgary, AB, T2P 3C4.

E3 Lithium is a resource company with mineral properties in Alberta that is currently focused on technology development for lithium extraction from Alberta brines contained in its mineral properties.

The subsidiaries of the Company are as follows:

	Country of Incorporation	Percentage Ownership	
		September 30, 2022	December 31, 2021
1975293 Alberta Ltd.	Canada	100%	100%
Mexigold Resources SA de CV (“Mexigold”) <sup>(1)</sup>	Mexico	100%	100%
2216747 Alberta Ltd. (“ABHI”) <sup>(2)</sup>	Canada	100%	100%
2437798 Alberta Ltd. <sup>(3)</sup>	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 7 for further details.

(3) A new corporation was established on June 10, 2022

These condensed interim consolidated financial statements (the “consolidated financial statements”) have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. These financial statements do not give effect to any adjustments to the amounts or classification of assets and liabilities which might be necessary should the Company be unable to continue as a going concern.

As at September 30, 2022, the Company has not generated revenues from operations and has an accumulated deficit of \$31.8 million (December 31, 2021 – \$26.8 million) including a net loss of \$5.0 million (2021 – \$3.6 million) incurred during the nine months ended September 30, 2022. These events and conditions indicate a material uncertainty that may cast significant doubt on the Company’s ability to continue as a going concern. The Company’s ability to continue as a going concern is dependent upon its ability to raise equity financing to further develop their proprietary technology and commence construction of a pilot project.

## 2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with *International Accounting Standard ("IAS") 34 – Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). They do not contain all disclosures required by IFRS for annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2021. All financial information is presented in Canadian dollars.

The consolidated financial statements have been prepared on a historical cost basis except as disclosed in note 3 of the Company's audited consolidated financial statements for the year ended December 31, 2021. The accounting policies summarized in note 3 have been applied to all periods presented in these consolidated financial statements.

These consolidated financial statements were authorized for issue by the Board of Directors on November 25, 2022.

## 3. EXPLORATION AND EVALUATION ASSETS

<b>Carrying Value</b>	
Balance, January 1, 2021	2,877
Acquisitions	1,099
Additions	847
Balance, December 31, 2021	4,823
Acquisition	100
Additions	8,993
Change in asset retirement costs (note 9)	229
<b>Balance, September 30, 2022</b>	<b>14,145</b>

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.



Notes to the Interim Consolidated Financial Statements (unaudited)  
September 30, 2022 and 2021

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

#### 4. PROPERTY AND EQUIPMENT

<b>Cost</b>	<b>Computer Equipment</b>	<b>Furniture and Fixtures</b>	<b>Software Licenses</b>	<b>Leasehold Improvement</b>	<b>Total</b>
Balance, January 1, 2021	24	3	27	3	57
Additions	44	29	9	-	82
Balance, December 31, 2021	68	32	36	3	139
Additions	41	53	-	4	98
<b>Balance, September 30, 2022</b>	<b>109</b>	<b>85</b>	<b>36</b>	<b>7</b>	<b>237</b>

#### **Accumulated Amortization**

Balance, January 1, 2021	(20)	(2)	(27)	(3)	(52)
Amortization	(14)	(4)	(9)	-	(27)
Balance, December 31, 2021	(34)	(6)	(36)	(3)	(79)
Amortization	(32)	(16)	-	-	(46)
<b>Balance, September 30, 2022</b>	<b>(66)</b>	<b>(22)</b>	<b>(36)</b>	<b>(3)</b>	<b>(125)</b>

#### **Carrying Value**

Balance, December 31, 2021	34	26	-	-	60
<b>Balance, September 30, 2022</b>	<b>43</b>	<b>63</b>	<b>-</b>	<b>4</b>	<b>110</b>

#### 5. INTANGIBLE ASSETS

#### **Carrying Value**

Balance, January 1, 2021	887
Acquisition	738
Additions	1,557
Government grant	(643)
Balance, December 31, 2021	2,539
Additions	2,304
Government grant (note 15)	(500)
<b>Balance, September 30, 2022</b>	<b>4,343</b>

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

## 6. RIGHT-OF-USE ASSETS

<b>Cost</b>	<b>Office and Lab Facility</b>
Balance, January 1, 2021	43
Additions	326
Disposals	(43)
Balance, December 31, 2021	326
Additions	<b>226</b>
Changes in estimates	<b>(252)</b>
<b>Balance, September 30, 2022</b>	<b>300</b>
<b>Accumulated Amortization</b>	
Balance, January 1, 2021	(28)
Amortization	(101)
Disposals	43
Balance, December 31, 2021	(86)
Amortization	<b>(87)</b>
Changes in estimates	<b>133</b>
<b>Balance, September 30, 2022</b>	<b>(40)</b>
<b>Carrying Value</b>	
Balance, December 31, 2021	240
<b>Balance, September 30, 2022</b>	<b>260</b>

## 7. 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 is 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.

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

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 <sup>(1)</sup>	-
<b>Contributed capital</b>	<b>990</b>

(1) Consideration paid was USD \$1.00 dollar.

## 8. LEASE OBLIGATIONS

<b>Carrying Value</b>	<b>Office and Lab Facility</b>
Balance, January 1, 2021	18
Additions	326
Interest	17
Repayments	(95)
Balance, December 31, 2021	266
Additions	226
Interest	19
Repayments	(76)
Changes in estimates	(135)
<b>Balance, September 30, 2022</b>	<b>300</b>
Short term lease obligations	85
Long term lease obligations	215

The Company's leases relate to office space and research lab facilities. Additional office spaces were leased during Q1 2022 to accommodate the Company's growing workforce. A discount rate of 8.00% was used to determine the present value of the lease obligations.

Subsequent to the quarter, the Company entered into a \$0.3 million 5-year lease, discounted at 8.00% for an expanded research lab facility.

Notes to the Interim Consolidated Financial Statements (unaudited)  
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(CAD\$ thousands, except share amounts and where noted)

## 9. ASSET RETIREMENT OBLIGATIONS

	Nine Months Ended September 30, 2022
Balance, January 1, 2022	-
Additions	152
Additions - acquisition	77
Accretion	1
<b>Balance, September 30, 2022</b>	<b>230</b>
Expected to be incurred within one year	-
Expected to be incurred beyond one year	230

The undiscounted and inflated total future liabilities were estimated to be approximately \$0.3 million. The abandonment and reclamation costs are expected to be incurred in the next 10 years.

Asset retirement obligations as at September 30, 2022 were determined using a risk-free rate of 3.23% and inflation rate of 2.00%.

## 10. LONG-TERM NOTES PAYABLE

In September 2020, the Company received a \$0.2 million loan from the Western Economic Diversification Canada agency. The loan can be prepaid at any time without penalty and did not have any covenants. The Company repaid the loan in full in March 2021.

## 11. SHARE CAPITAL

### Authorized Share Capital

Unlimited common shares with no par value.

Number of Shares	Nine Months Ended September 30, 2022	Year Ended December 31, 2021
Balance, beginning of period	57,759,871	41,664,131
Exercise of stock options and warrants	3,051,454	9,302,440
Stock options exercised in prior period <sup>(1)</sup>	100,000	-
Shares issued – Finder's fee	128,024	6,793,300
<b>Balance, end of period</b>	<b>61,039,349</b>	<b>57,759,871</b>

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

### Strategic Agreement with Imperial Oil Limited (“IOL” or “Imperial”)

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 IP, with technical and development support from IOL in areas such as water and reservoir management. The agreement also includes access for E3 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 at a pre-paid price of \$1.86 per warrant and the issuance of 3,413,979 warrants. Each warrant provides IOL the option to exercise the warrant for one common share of E3 at no further cost to IOL. The warrants are immediately exercisable, non-transferrable, and are non-refundable with expiry on July 8, 2024.

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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. 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.

During the nine months ended September 30, 2022, the Company issued 3.2 million common shares from the exercise of stock options and warrants with exercise prices between \$0.40 to \$1.65. Total proceeds received were \$3.8 million year to date.

On February 8, 2021, the Company closed its brokered private placement by issuing 6,793,300 units at a price of \$1.185 per unit for gross proceeds of \$8.1 million. Each unit was comprised of one common share and one unit warrant. Each unit warrant entitled the holder to acquire one additional common share at an exercise price of \$1.65 for a period of 24 months following the date of issuance. The broker warrants carried the same terms as the unit warrants. As the closing price of the Company's common shares on the issue date exceeded the unit price of the private placement, no residual value was allocated to the warrants. Share issuance costs consisted of \$0.7 million in cash and 0.6 million broker warrants fair valued at \$1.3 million.

During the year 2021, the Company issued 9.3 million common shares from the exercise of stock options and warrants with exercise prices between \$0.40 to \$1.65 per share. Total proceeds received were \$9.7 million.

## 12. 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	<b>476,784</b>	<b>1.65</b>
Imperial warrants	<b>3,413,979</b>	-
Exercised	<b>(2,991,554)</b>	<b>1.20</b>
<b>Balance, September 30, 2022</b>	<b>7,917,374</b>	<b>0.86</b>

Notes to the Interim Consolidated Financial Statements (unaudited)  
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(CAD\$ thousands, except share amounts and where noted)

Warrants outstanding and exercisable as at September 30, 2022:

Grant date	Exercise price (\$)	Expiry Date	Remaining Life (years)	Warrants Outstanding and Exercisable
December 17, 2020	1.40	December 17, 2022	0.21	2,106,855
December 17, 2020 <sup>(1)</sup>	0.85	December 17, 2022	0.21	17,877
February 8, 2021	1.65	February 8, 2023	0.36	2,047,454
February 8, 2021 <sup>(2)</sup>	1.185	February 8, 2023	0.36	92,400
June 30, 2021	1.40	December 17, 2022	0.21	94,897
May 10, 2022	1.65	December 17, 2022	0.36	143,912
July 8, 2022 <sup>(3)</sup>	-	July 8, 2024	1.77	3,413,979
	<b>0.86</b>		<b>0.93</b>	<b>7,917,374</b>

(1) Upon exercise of each warrant, the warrant holder is entitled to one common share and one-half additional warrant of the Company. Each additional warrant carries an exercise price of \$1.40 and has the same expiry date as the original warrant.

(2) 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.

(3) 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.

The following table summarizes the change in stock options:

	Stock Options	Weighted Average Exercise Price (\$)
Balance, January 1, 2021	2,938,000	0.48
Granted	2,105,000	1.89
Exercised	(1,981,250)	0.51
Forfeited	(116,750)	1.65
Expired	(68,250)	0.95
Balance, December 31, 2021	2,876,750	1.42
Granted	<b>2,320,000</b>	<b>2.59</b>
Exercised	<b>(59,900)</b>	<b>0.81</b>
Forfeited/expired	<b>(313,500)</b>	<b>0.58</b>
<b>Balance, September 30, 2022</b>	<b>4,823,350</b>	<b>1.95</b>

The weighted average remaining life of options outstanding is 2.94 years (December 31, 2021 – 2.40).

Notes to the Interim Consolidated Financial Statements (unaudited)  
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The fair value of options was estimated using the Black-Scholes option pricing model based on the date of grant and the following assumptions:

	<b>2022</b>	<b>2021</b>
Risk-free interest rate	1.46% to 2.58%	0.21% to 0.84%
Expected stock price volatility	95% to 96%	92% to 98%
Expected life	One to four years	One to four years
Expected dividend yield	-	-
Fair value per option granted	\$1.92 to \$1.96	\$0.63 to \$3.00
Forfeiture rate	2.63% to 3.48%	2.68%

During the nine months ended September 30, 2022, the company incurred \$1.4 million (2021 - \$1.5 million) in share-based compensation expenses in relation to the stock option plan.

Stock options outstanding and exercisable as at September 30, 2022:

<b>Grant date</b>	<b>Number of Options Outstanding</b>	<b>Exercise price</b>	<b>Expiry date</b>
April 22, 2020	500,000	0.40	April 22, 2023
November 9, 2020	500,000	0.70	November 9, 2023
January 8, 2021	85,000	1.08	January 8, 2023
January 13, 2021	623,350	1.38	January 13, 2024
February 8, 2021	25,000	3.20	February 8, 2024
February 17, 2021	200,000	3.80	February 17, 2024
March 1, 2021	100,000	3.57	March 1, 2024
March 19, 2021	25,000	3.00	March 19, 2024
April 19, 2021	50,000	2.05	April 19, 2024
June 23, 2021	570,000	1.70	June 23, 2026
July 1, 2021	25,000	1.77	July 1, 2026
January 4, 2022	465,000	2.32	January 2, 2027
June 24, 2022	1,655,000	2.67	June 23, 2027
<b>Outstanding, End of Period</b>	<b>4,823,350</b>	<b>1.95</b>	
<b>Exercisable, End of Period</b>	<b>2,062,417</b>	<b>1.19</b>	

### 13. RELATED PARTY TRANSACTIONS

Due from related parties of \$0.1 million as at September 30, 2022 (December 31, 2021 – \$0.1 million) were in respect of withholding taxes remitted on behalf of employees arising from stock option exercises.

### 14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, due from related parties, lease obligations, and asset retirement obligations.

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and due from related parties approximate fair value due to their short-term nature. Those financial instruments are classified as Level 1 in the fair value measurement hierarchy. Asset retirement obligations are classified as Level 2 in the fair value measurement hierarchy. There were no transfers between levels during the nine months ended September 30, 2022.

The Company's financial instruments are exposed to credit risk, currency risk, and liquidity risk.

#### **Credit Risk**

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation and cause the Company to incur a financial loss. The Company is exposed to credit risk with respect to its accounts receivable and due from related parties. The accounts receivable outstanding as at September 30, 2022 were refundable tax credits which carry have no credit risk. Due from related parties as at September 30, 2022 were withholding taxes triggered by the Company's current and former employees exercising their stock options. Based on management's assessment, the risk of default by the associated former and current employees was considered low.

#### **Currency Risk**

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

#### **Liquidity Risk**

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

As at September 30, 2022, the Company had a positive working capital of \$13.5 million (December 31, 2021 - \$17.6 million) and does not foresee a shortfall in capital within the following 12 months.

### **15. GOVERNMENT GRANT**

The Company received \$0.5 million in government grants in Q1 2022 from Alberta Innovates for its efforts in developing and commercializing a technology to address a gap or market need in Alberta. A previous grant of \$0.6 million was received in 2021.

Further grants may be received for completion of certain milestones and will be recognized during the periods in which the Company has achieved the required milestones.

### **16. 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 issuance and funding/grants from various government agencies.



Notes to the Interim Consolidated Financial Statements (unaudited)  
September 30, 2022 and 2021

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

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## 17. SUPPLEMENTAL DISCLOSURES

The following table provide a detailed breakdown of changes in non-cash working capital during the three and nine months ended September 30:

<b>Changes in Non-Cash Working Capital</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>2022</b>	2021	<b>2022</b>	2021
Accounts receivable	<b>(208)</b>	(33)	<b>(246)</b>	(53)
Due to/from related parties	<b>10</b>	-	<b>42</b>	(66)
Prepaid expenses	<b>39</b>	13	<b>(178)</b>	(9)
Accounts payable and accrued liabilities	<b>1,796</b>	141	<b>3,783</b>	123
Total change in non-cash working capital	<b>1,637</b>	121	<b>3,401</b>	(5)
Operating activities	<b>(982)</b>	121	<b>(595)</b>	(5)
Investing activities	<b>2,579</b>	-	<b>3,996</b>	-
Financing activities	<b>40</b>	-	-	-
Total change in non-cash working capital	<b>1,637</b>	121	<b>3,401</b>	(5)