E3 LITHIUM

Advancing the Clearwater Project

2023 ANNUAL REPORT

PRESIDENT'S MESSAGE

Dear E3 Lithium Shareholders,

Since its founding in 2017, E3 Lithium has made significant advancements in the critical mineral industry. The company has focused on developing the direct lithium extraction tailored to Alberta's brines while simultaneously establishing the Clearwater Project as one of the more advanced lithium projects in Canada. The successful demonstration of our Direct Lithium Extraction ("DLE") technology and brines-to-battery flow sheet last year, culminating in the production of 99.78% pure battery-grade lithium hydroxide, moved the project and E3's development forward with a major leap. The commercial viability of E3 Lithium's Leduc brines and the plans for its first commercial lithium production facility have been significantly de-risked. The EV penetration rate continues to increase and battery facilities in North America and Europe are increasing in number. Last year alone saw Canada make big moves for its own battery manufacturing industry with the announcement of Volkswagen and North Volt, among others, building their facilities here. Therefore, the long-term demand outlook for lithium remains strong. E3 Lithium is strategically positioned to meet this demand. The Company aims to provide a world-class secure and reliable source of lithium, capable of scaling up to meet demand for strong ESG North American sources of critical minerals. This year is unfolding to be another transformative year for E3 Lithium that will further establish the foundation for future growth.

E3 Lithium's team has been hard at work to achieve its goals in 2024, and I am extremely proud of how far we have come as a company. I want to thank our shareholders, as well as the federal and provincial governments, for their continued support. Together, we are moving towards a future where E3 Lithium and its Clearwater Project stands out as one of the few advanced stage lithium projects in North America.

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, 2023 AND 2022

"Our vision is to be a global leader in responsibly sourced lithium, fueling the global transition towards a brighter energy future."

The following Management's Discussion and Analysis ("MD&A") has been prepared by management as of April 25, 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, 2023 and 2022 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

E3 Lithium's vision is to be a global leader in responsibly sourced lithium, fueling the global transition towards a brighter energy future. The Company is focused on creating long-term, sustainable value for the future by creating a world-class, large-scale, long-life lithium production company. E3 Lithium will be focusing on safe operations, maintaining a strong balance sheet, and taking advantage of the enormous potential across the Company's globally significant asset base.

An Overview of 2023

2023 Highlights: Progression Towards Commercialization

As outlined in E3 Lithium's 2023 guidance announced on March 2, 2023, the Company continues to believe in its comprehensive strategy and focused path to first lithium production. E3 Lithium is well positioned to continue to execute successfully.

E3 Lithium experienced a pivotal year in 2023 that has helped to capitalize on building Western Canada's critical minerals supply chain. E3 Lithium remains committed to spearheading initiatives aimed at strengthening the Company's position for future growth.

Key milestones accomplished:

- **Resource Update:** Upgraded mineral resource to 16.0 million tonnes (Mt) Measured and Indicated (M&I) of Lithium Carbonate Equivalent (LCE). E3 Lithium's resource is the largest in Canada and one of the largest Direct Lithium Extraction (DLE) brine projects and M&I mineral resources globally.
- **Battery Quality of Lithium:** Successfully produced 99.78% pure battery quality Lithium Hydroxide Monohydrate (LHM). The purity of the solid LHM is a critical factor for the sale of the product into the battery industry, with greater than 99.5% generally accepted to be battery quality.
- **Field Pilot Project:** E3 Lithium tested its DLE technology along with four other technologies at its field pilot plant. The most significant information received from all testing of DLE technologies that E3 Lithium completed was that each achieved technical success, which has significantly de-risked the commercial viability of the Company's Leduc brines and Clearwater Project.
- **Funding:** Awarded $3.5 million in funding from Natural Resources Canada's Critical Minerals Research Development and Demonstration ("CMRDD") program. E3 Lithium raised more than $30M CAD through capital raises and grant funding in 2023 and has more than $20M remaining to draw down on from the Strategic Innovation Fund.

E3 Lithium's resource is the largest in Canada.

99.78%

pure battery quality Lithium Hydroxide Monohydrate (LHM) produced.

$3.5 million

(CAD) in funding awarded

Market Outlook

According to Benchmark Mineral Intelligence, the lithium market is set to balance in 2024, as several new projects are expected to enter the market. DLE projects are expected to account for 16% of supply by 2033. In the near term, demand is set to surpass 1Mt LCE by 2024, having experienced a 24% compounded annual growth rate (CAGR) over the last eight years. In the medium-to-long term, strong global electric vehicle growth will continue to support lithium demand over the next 20 years. Global demand is set to grow at 11% CARG to 2040 and will reach 2Mt by 2027[1].

"In the medium-to-long term, strong global electric vehicle growth will continue to support lithium demand over the next 20 years."

–Benchmark Minerals

[1] *Based on the amount of lithium in a typical 68 kg EV battery, based on a Tesla model 3, 150,000 tonnes of production a year = ~2.2M EV batteries*

E3 Lithium's Unique Value Proposition

"Lithium from E3 alone could convert the nation's entire fleet in less than 12 years."

E3 Lithium holds Canada's largest measured and indicated lithium resource, located in a subsurface brine. Located in Alberta, with similar operations to the petroleum industry, E3 Lithium has a clear path to commercializing lithium production. Once fully operational via several commercial facilities across its operating areas, E3 Lithium anticipates being able to produce up to 150,000 tonnes of battery-grade lithium per year, which is enough to supply 2.2M EVs annually. With 26.3M motor vehicles on Canada's roads[2], lithium from E3 Lithium alone could convert the nation's entire fleet in less than 12 years.

Alberta's World-Renowned Regulatory and Permitting Process:

Alberta benefits from a well-established permitting and licensing framework managed by the Alberta Energy Regulator (AER). This framework, coupled with the province's extensive experience in the oil and gas industry, creates a supportive regulatory environment and provides a significant advantage for E3's projects. Recently, thanks to Alberta's efficient energy project regulatory process, led by the Government and the AER, E3 Lithium's permits were converted to Brine-Hosted Mineral Licences. This conversion reflects the province's commitment to regulatory certainty and growth of the lithium industry, as the company progresses its regulatory work in 2024.

Innovative Approach to Environmentally Sustainable Lithium Production:

E3 Lithium is prioritizing sustainable development and striving for the highest standards of corporate responsibility. A DLE-based process offers several advantages over traditional methods of lithium extraction. E3 Lithium's approach to lithium production aims to revolutionize the industry with several environmental benefits.

E3's land base will be 100% restored to prior land use.

- **Reduced land impact:** A DLE-based process anticipates using less than 3% of the land of a conventional lithium open pit (hard rock) or salar-based (brine) mining project of equivalent capacity. Unlike salars and open pit mines, after operations, E3's land base will be 100% restored to prior land use.
- **No freshwater aquifer interaction:** E3's brine resource is found in the Leduc formation, which is 2,500 metres below the surface and is produced via conventionally drilled vertical wells which have no interaction with freshwater aquifers.
- **Closed loop system/no tailings:** E3's process involves reinjecting lithium-void brine directly back into the Leduc formation post DLE, requiring no waste or tailings ponds.
- **Carbon neutral power:** For its first commercial facility, E3 is exploring options to sequester carbon produced by behind-the-fence natural gas fired generation and/or entering into Power Purchase Agreements (PPAs) with renewable electricity generators.

[2] *Statistics Canada, Automotive Statistics, Vehicle registrations, 2022: https://www.statcan.gc.ca/en/topics-start/automotive*

E3 Lithium Strong Financial Position:

In 2023, E3 Lithium raised over $30 million through a combination of capital raises and grant funding. With $20 million still available from the Strategic Innovation Fund, the Company is in a favorable financial position in 2024. Additionally, E3 Lithium secured substantial funding of $3.5 million from Natural Resources Canada's Critical Minerals Research Development and Demonstration (CMRDD) program, part of the federal Budget 2021 initiative aimed at supporting the development of Canadian critical minerals essential for the energy transition. E3 Lithium was chosen among six organizations across Canada to receive this funding. The Company continues to be committed to sourcing non-dilutive funding avenues to fulfill its ongoing capital requirements.

"As of April 2024, our board reflects E3 Lithium's commitment to gender diversity with the recent addition of two highly qualified female board members."

Diversity, Equity and Inclusion:

E3 Lithium strongly believes in equal opportunity and embracing diversity in our workplace. E3 Lithium's focus on equity and inclusion is core to creating a diverse workplace where team members feel they belong and can build rewarding careers. E3 Lithium firmly upholds the principle that every employee deserves fair treatment based on factors such as their experience and attitude, rather than any biases related to gender, ethnicity, sexual orientation, or other traits. E3 Lithium is proud of its diverse workforce with, as of the end of 2023, over 50% female employees and a broad range of backgrounds. As of April 2024, our board reflects E3 Lithium's commitment to gender diversity with the recent addition of two highly qualified female board members. This deliberate effort not only brings valuable perspectives to our leadership but also sets a clear example of our commitment to gender equality.

2024 Corporate Guidance and Plans to Advance Clearwater Project

E3 Lithium's primary focus is to advance all aspects of its Clearwater Project to achieve commercial operations, as outlined in the Company's 2024 corporate guidance. In 2023, E3 Lithium committed to operating a field pilot plant to test DLE technologies at a continuous scale, demonstrating various extraction methods' technical capability. Operating its proprietary DLE technology alongside third-party options yielded successful results. After evaluating all options, the Company selected a third-party DLE that produced the best technical and economic results for its commercial design. Securing a technology that is at an advanced stage of commercial readiness puts E3 on a clear and demonstrated pathway to commercial operations.

150,000 tonnes

per annum (tpa) of brine production capability.

E3 Lithium plans to advance towards commercialization with the details outlined in the upcoming release of the Prefeasibility Study (PFS) and the NI 43-101 report. The engineering design in the PFS will outline the best combination of flowsheets producing technical viability and positive economics.

The successful development in the Clearwater area supports the value of the remaining land in the Exshaw (northern Bashaw) and Rocky areas. E3 Lithium believes it has enough brine to produce approximately 150,000 tonnes per annum (tpa) through five to six commercial facilities across its permit areas, with operations projected to continue for decades.

As the Company advances towards commercialization, it has identified several key targets, along with the associated activities and anticipated timeline:

2024

- Publish Prefeasibility Study (PFS) results
- Begin Feasibility Study (FS)
- Begin Environmental Surveys
- Begin Consultation and Permitting
- Begin Contract Negotiations with Customers

2025

- Publish FS results
- Begin detailed engineering
- Secure project financing
- Procure equipment and materials
- Commence commercial drilling program, pending regulatory approvals

2026

- Begin construction of first commercial facility
- Continue drilling program and connect wells to commercial facility via pipeline
- Subsequent commercial facilities

E3 Lithium's Advantages Going into 2024:

The demand for electric vehicles ("EV"s) continues to rise as we enter 2024. With North America increasingly aligning its policies with the overarching objective of transitioning to EVs by the 2030s, the momentum toward widespread adoption of electric vehicles is undeniable. As the demand for electric vehicles continues to increase, so does the demand for lithium. E3 Lithium is strategically positioned to capitalize on this global need by aligning its production with the anticipated shortfall in lithium supply. E3 Lithium's expansive resource area, strong financial balance sheet and support from Alberta's efficient regulatory regime position the Company to spearhead the transition into the electrified future.

In Summary

> "E3 Lithium is focused on moving towards building the first lithium production facility in Alberta and one of the first in Canada."

In 2024, E3 Lithium will undergo a significant business transformation, transitioning from a technology and resource developer to a commercialization company. E3 Lithium is committed to responsible lithium production while maintaining a strong financial position. Supported by our dedicated team, E3 Lithium is focused on moving towards building the first lithium production facility in Alberta and one of the first in Canada. We are confident in our ability to strengthen our position in the lithium industry and deliver high purity, battery grade lithium products from one of the best jurisdictions in the world.

Summary of Operations

Operating Expenses

	Three months ended December 31			Year ended December 31		
	2023	2022	% Change	**2023**	2022	% Change
Operating expenses	**(32)**	30	(>100%)	**216**	156	38%

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 and non-core properties. During the three months and year ended December 31, 2023, the Company recognized a minor recovery in expenses and incurred $0.2 million in operating expenses, compared to $0.01 million and $0.2 million in expenses incurred in the prior year comparative periods. The Company recognized higher operating costs during 2023 due to wireline work on its wells in preparation for its field pilot plant.

Business Development and Marketing

	Three months ended December 31			Year ended December 31		
	2023	2022	% Change	**2023**	2022	% Change
Business development and marketing	**563**	326	73%	**2,682**	1,535	75%

Business development expenditures are comprised of costs incurred for building strategic relationships and exploring potential partnership offtake opportunities. Marketing expenditure refers 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, 2023, business development and marketing expenses were $0.6 million and $2.7 million, respectively compared to $0.3 million and $1.5 million in the comparative periods of 2022, as the Company expands on its marketing strategy and relationship development.

General and Administrative

	Three months ended December 31			Year ended December 31		
	2023	2022	% Change	**2023**	2022	% Change
General and administrative	**1,167**	1,072	9%	**4,049**	2,971	36%

General and administrative expenses were $1.2 million and $4.0 million for the three months and year ended December 31, 2023, compared to $1.1 million and $3.0 million in the year prior comparatives. General and administrative costs increased relative to the prior year due to higher staffing costs, insurance, and general office-related expenditures.

Share-Based Compensation

	Three months ended December 31			Year ended December 31		
	2023	2022	% Change	**2023**	2022	% Change
Share-based compensation	**666**	593	12%	**2,527**	1,985	27%

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, 2023, share-based compensation was $0.7 million and $2.5 million compared to $0.6 million and $2.0 million in the comparable prior year periods.

	Stock Options	Weighted Average Exercise Price ($)
Balance, January 1, 2022	2,876,750	1.42
Granted	2,750,000	2.57
Exercised	(67,900)	0.91
Forfeited/expired	(533,083)	2.17
Balance, December 31, 2022	5,025,767	1.98
Granted	**2,045,000**	**2.51**
Exercised	**(1,522,500)**	**0.89**
Forfeited/expired	**(732,017)**	**2.28**
Balance, December 31, 2023	**4,816,250**	**2.50**

Financing Expenses

	Three months ended December 31			Year ended December 31		
	2023	2022	% Change	**2023**	2022	% Change
Accretion	**(3)**	2	(>100%)	**4**	4	-
Interest on leases	**12**	11	9%	**47**	31	58%

Financing expenses relate to interest expense from the Company's vehicle, head office, and laboratory leases as well as accretion on its decommissioning obligations from its evaluation wells and field pilot plant.

Depreciation

	Three months ended December 31			Year ended December 31		
	2023	2022	% Change	**2023**	2022	% Change
Depreciation	**50**	42	19%	**175**	175	-

Depreciation in 2023 remains largely consistent with 2022 comparative periods. The depreciable asset base increased in the prior year as the Company entered into new leases and procured new equipment for its expanding workforce, with minimal additions in the current year.

Other Income

	Three months ended December 31			Year ended December 31		
	2023	2022	% Change	**2023**	2022	% Change
Interest income	**289**	91	>100%	**658**	231	>100%

Interest income results from the Company's short-term savings deposits. Interest income for the three months and year ended December 31, 2023, was $0.3 million and $0.7 million, compared to $0.1 million and $0.2 million in the prior year. The significant increases were a result of higher average cash on hand during the year and rising interest rates.

Net Loss

The Company incurred a net loss of $2.1 million and $0.03 per common share during the three months ended December 31, 2023, compared to a net loss of $2.0 million and $0.03 per common share in the prior year period.

The Company incurred a net loss of $9.0 million and $0.13 per common share during the year ended December 31, 2023, compared to a net loss of $6.9 million and $0.12 per common share in the prior year period.

Capital Expenditures

The Company has three main sources of capital expenditures:

- Exploration and evaluation ("E&E") assets – the acquisition of mineral permits and licenses and pilot plant additions
- 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		
	2023	2022	% Change	**2023**	2022	% Change
Acquisition	**-**	-	-	**-**	100	<100%
E&E expenditures	**5,744**	1,096	>100%	**13,067**	10,089	30%
P&E expenditures	**14**	81	(83%)	**47**	185	(75%)
Intangible asset expenditures	**246**	1,396	(82%)	**2,508**	3,700	(32%)
Total capital expenditures	**6,004**	2,573	>100%	**15,622**	14,074	11%

E&E expenditures were $5.7 million and $13.1 million for the three months and year ended December 31, 2023, compared to $1.1 million and $10.1 million in the comparative prior year periods, respectively. In 2023, the Company incurred higher procurement, construction, and procurement costs as part of its field pilot plant.

Additionally, in March 2023, the Company announced an upgrade of its mineral resource to 16.0 Mt Measured and Indicated ("M&I"), resulting in one of Canada's largest DLE brine projects and M&I mineral resources globally. As a result, the Company incurred higher geological and geophysical costs during the year ended December 31, 2023.

P&E expenditures were $0.01 and $0.01 for the three months and year ended December 31, 2023, compared to $0.1 million and $0.2 million in the comparative prior year periods, respectively. The Company incurred higher P&E expenditures in the prior year from entering new office space as well as the onboarding of additional staff with no such similar increases in the current year.

For the three months and year ended December 31, 2023, intangible asset expenditures were $0.2 million and $2.5 million, respectively compared to $1.4 million and $3.7 million during the three months and year ended December 31, 2022, respectively. In the current year the Company's activities shifted towards testing intangibles for the field pilot plant, resulting in lower development costs compared to prior year.

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. The Company announced an upgrade of its mineral resource resulting in an increased technical confidence level in the Company's commercialization plans. Additionally, during 2023, the Company operated a field pilot plant testing its proprietary DLE technology and a third-party technology, both of which produced successful results and exceeded the Company's baseline success criteria.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements as at December 31, 2023.

Liquidity and Capital Resources

The Company reported a working capital of $32.0 million at December 31, 2023 (December 31, 2022 - $17.0 million). During the year ended December 31, 2023, the Company:

- used $5.9 million (2022 – $5.5 million) in operating activities primarily due to increases in business development and general and administrative expenses to support the Company's expansion;
- used $13.8 million (2022 – $12.7 million) in investing activities primarily due to site preparation, commissioning, and operations of its field pilot plant;
- generated $36.4 million (2022 – $13.6 million) as a result of a total of $28.6 million in gross proceeds from the issuance of a combined 9.0 million shares from its June and September 2023 bought deal financing with $2.8 million in share issuance costs, as well as the exercise of 2.9 million options and warrants during the year ended December 31, 2023.

As at December 31, 2023, the Company had net cash on hand of $30.0 million compared to cash on hand of $13.2 million at December 31, 2022.

Government Grants

Alberta Innovates ("AI")

On April 6, 2022, the Company was awarded a $1.8 million grant to assist in the scale up and development of its field pilot plant. As at December 31, 2023, life-to-date claims under AI are $1.8 million (December 31, 2022 - $1.1 million) and the Company has received $1.4 million (December 31, 2022 - $1.1 million). Subsequent to year end, the Company received its final progress payment of $0.4 million.

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, 2023 (December 31, 2022 – nil).

As at December 31, 2023, life-to-date claims under the SIF grant are $7.2 million (December 31, 2022 – $4.4 million) and the contingent obligation related to SIF is estimated to be $10.1 million (December 31, 2022 – $6.4 million). As at December 31, 2023, there is $1.9 million in accounts receivable related to SIF grants.

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

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

As at December 31, 2023, life-to-date claims under the NRCan CMRDD grant are $3.2 million. As at December 31, 2023, $2.9 million is included in accounts receivable on the consolidated statement of financial position.

Share Capital

The table below summarizes the change in share capital:

Number of Shares	December 31, 2023	December 31, 2022
Balance, beginning of year	**63,229,773**	57,759,871
Share issuance	**8,985,483**	-
Exercise of stock options and warrants	**2,854,141**	5,241,878
Stock options exercised in prior year (1)	**-**	100,000
Shares issued – Finder's fee	**-**	128,024
Balance, end of year	**75,069,397**	63,229,773

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

2023

During the year ended December 31, 2023, the Company issued 2.9 million common shares from the exercise of stock options and warrants with exercise prices between $0.40 to $2.67. Total proceeds received were $3.6 million year to date.

On September 26, 2023, the Company closed a bought deal public offering (the "September Offering") for gross proceeds of $23.0 million, including full exercise of the overallotment option for proceeds of $3.0 million. Share issuance costs in relation to the September Offering were $2.1 million, comprised of $1.6 million in cash commissions and closing costs, and $0.5 million in broker warrants (note 12) issued to the underwriters. Under the September Offering, the Company issued 6.5 million common shares at a price of $3.55 per common share.

On June 8, 2023, the Company closed a bought deal public offering (the "June Offering") for gross proceeds of $5.6 million. Share issuance costs in relation to the June Offering were $0.7 million, comprised of $0.5 million in cash commissions and closing costs and $0.2 million in broker warrants (note 12) issued to the underwriters. Under the June Offering, the Company issued 2.5 million common shares at a price of $2.25 per common share.

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.

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.

As at April 25, 2024 there were 75,269,397 common shares in the capital of E3 Lithium issued and outstanding.

Warrants

The following table summarizes the change in warrants:

	Warrant (units)	Weighted Average Exercise Price ($)
Balance, January 1, 2022	7,018,165	1.43
Broker warrants	484,722	1.65
Imperial warrants	3,413,979	-
Exercised	(5,173,978)	1.30
Forfeited/expired	(92,243)	1.40
Balance, December 31, 2022	5,650,645	0.65
Broker warrants	**465,669**	**3.16**
Exercised	**(1,331,641)**	**1.71**
Forfeited/expired	**(1,032,257)**	**1.65**
Balance, December 31, 2023	**3,752,416**	**0.32**

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, 2023:

As at December 31,	2024	2025	2026	2027	2028	Thereafter	Total
Office leases (1)	254	248	248	248	81	-	1,079
Mineral license fees	1,804	1,804	1,804	1,804	6,959	16,236	30,411
Total	**2,058**	**2,052**	**2,052**	**2,052**	**7,040**	**16,236**	**31,490**

(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.

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, 2023 and 2022, the remuneration for key management personnel was as follows:

Year ended December 31	**2023**	2022
Salaries and benefits	**1,023**	849
Share-based compensation	**938**	651
Total	**1,961**	1,500

At December 31, 2023, the Company had no balances owing from related parties (2022 - $0.1 million) as withholding taxes remitted on behalf of directors arising from stock option exercises during the year were repaid in full.

Subsequent Events

See Government Grants.

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, 2023, 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, 2023. Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date. The Company's financial instruments are exposed to credit risk, currency risk, and liquidity risk.

Credit Risk

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

Accounts receivable outstanding as at December 31, 2023, relate to government grants and were refundable tax credits which have minimal credit risk.

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, 2023, the Company has positive working capital of $32.0 million (December 31, 2022 - $17.0 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 use of DLE. There is no guarantee that the Company will be successful in developing a commercial lithium production facility or obtaining funding related to these activities within the timeframes indicated or at all. There is no guarantee that the Company will be successful in developing DLE or utilizing others DLE, and its business and financial condition could 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, 2023. 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 2023	Q3 2023	Q2 2023	Q1 2023
Net loss	**(2,134)**	(2,462)	(1,955)	(2,493)
Net loss per share	**(0.03)**	(0.04)	(0.03)	(0.04)
Total assets	**61,987**	62,650	41,124	36,316
Total liabilities	**4,835**	4,377	3,619	2,668
Common shares outstanding	**75,069,397**	74,750,647	67,518,665	64,519,182

	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

Selected Annual Information

	2023	2022	2021
Net loss	**(9,044)**	(6,944)	(4,780)
Loss per share	**(0.13)**	(0.12)	(0.10)
Total assets	**61,987**	36,101	25,991
Total liabilities	**4,835**	2,629	990
Capital expenditures	**15,622**	14,074	3,585

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, 2023 AND 2022

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of the accompanying consolidated financial statements and for the consistency therewith of all other financial and operating data presented in this report. The consolidated financial statements have been prepared in accordance with the accounting policies detailed in the notes thereto. In Management's opinion, the consolidated financial statements are in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, have been prepared within acceptable limits of materiality, and have utilized supportable, reasonable estimates.

To meet its responsibility for reliable and accurate financial statements, management has established and monitors systems of internal control which are designed to provide reasonable assurance that financial information is relevant, reliable and accurate, and that assets are safeguarded and transactions are executed in accordance with management's authorization.

The Board of Directors approves the consolidated financial statements. Their financial statement-related responsibilities are fulfilled primarily through the Audit Committee. The Audit Committee is composed entirely of independent directors, and includes at least one director with financial expertise. The Audit Committee meets regularly with Management and the external auditors to discuss reporting and control issues and ensures each party is properly discharging its responsibilities. The Audit Committee also considers the independence of the external auditors and reviews their fees.

The consolidated financial statements have been audited by MNP LLP, Chartered Professional Accountants, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders.

Signed *"Chris Doornbos"*
Chief Executive Officer

Signed *"Raymond Chow"*
Chief Financial Officer

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, 2023 and December 31, 2022, 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 material accounting policy information.

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, 2023 and December 31, 2022, 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 $4.5 million of intangible asset in development and not yet ready for use as at December 31, 2023. The intangible asset relates to the direct lithium extraction technology that the Company is in 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, 2023.

Audit Response

We responded to this matter by performing procedures in relation to the recoverable amount of the intangible asset as at December 31, 2023. 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.
- Evaluated the reasonableness of key inputs and assumptions used in the impairment calculation including the future forecasted price of lithium.
- Examined the disclosure made in the consolidated financial statements.

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

April 25, 2024

MNP LLP

Chartered Professional Accountants

MNP

Consolidated Statements of Financial Position

As at

(CAD$ thousands)	Notes	**December 31, 2023**	December 31, 2022
Assets			
Current assets			
Cash and cash equivalents	20	**30,018**	13,249
Accounts receivable	14	**5,458**	4,925
Due from related parties	13, 14	**-**	88
Prepaid expense		**534**	531
		36,010	18,793
Exploration and evaluation assets	5	**20,777**	12,273
Property and equipment	6	**171**	182
Intangible assets	7	**4,511**	4,327
Right-of-use assets	8	**518**	526
Total assets		**61,987**	36,101
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		**3,808**	1,812
Current portion of lease obligations	9	**156**	92
		3,964	1,904
Lease obligations	9	**481**	492
Decommissioning obligations	10	**390**	233
Total Liabilities		**4,835**	2,629
Share capital	11	**83,012**	52,701
Contributed surplus		**15,014**	12,601
Contributed capital		**1,987**	1,987
Accumulated other comprehensive loss		**(75)**	(75)
Deficit		**(42,786)**	(33,742)
Total shareholders' equity		**57,152**	33,472
Total liabilities and shareholders' equity		**61,987**	36,101
Nature and continuance of operations	1		
Subsequent events	15		
Commitments	18		

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

Signed *"John Pantazopoulos"*
Chairman

Signed *"Mike O'Hara"*
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	**2023**	2022
Expenses			
Operating expenses		**216**	156
Business development and marketing		**2,682**	1,535
General and administrative	19	**4,049**	2,971
Share-based compensation	12	**2,527**	1,985
Financing expenses		**53**	35
Depreciation	6, 8	**175**	175
Transaction costs	11	**-**	318
Total expenses		**9,702**	7,175
Other Income			
Interest income		**658**	231
Total other income		**658**	231
Net loss and comprehensive loss		**(9,044)**	(6,944)
Per common share (dollars)			
Net loss – basic and diluted		**(0.13)**	(0.12)
Weighted average number of common shares outstanding			
Basic and diluted	11	**68,211,456**	59,718,910

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, 2022		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	11	128,024	238	-	-	-	-	238
Share issuance costs	11	-	(30)	-	-	-	-	(30)
Exercise of options and warrants	12	5,341,878	8,134	(1,262)	-	-	-	6,872
Prepaid warrants – Imperial	12	-	-	6,350	-	-	-	6,350
Share-based compensation	12	-	-	1,985	-	-	-	1,985
December 31, 2022		63,229,773	52,701	12,601	1,987	(75)	(33,742)	33,472
Net loss and comprehensive loss		-	-	-	-	-	(9,044)	(9,044)
Share issuance	11	8,985,483	28,649	-	-	-	-	28,649
Share issuance costs	11	-	(2,795)	718	-	-	-	(2,077)
Exercise of options and warrants	12	2,854,141	4,457	(832)	-	-	-	3,625
Share-based compensation	12	-	-	2,527	-	-	-	2,527
December 31, 2023		75,069,397	83,012	15,014	1,987	(75)	(42,786)	57,152

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31

(CAD$ thousands)	Notes	2023	2022
Cash Used in Operating Activities			
Net loss and comprehensive loss		**(9,044)**	(6,944)
Non-cash items:			
Share-based compensation	12	**2,527**	1,985
Depreciation	6, 8	**175**	175
Interest expense on lease obligations	9	**47**	31
Accretion	10	**4**	4
Gain on lease		**-**	(24)
Transaction costs	11	**-**	238
Change in non-cash working capital	19	**433**	(951)
Cash flow used in operating activities		**(5,858)**	(5,486)
Cash Used in Investing Activities			
Acquisition of exploration and evaluation assets	5	**-**	(100)
Exploration and evaluation asset expenditures	5	**(13,067)**	(10,089)
Property and equipment expenditures	6	**(47)**	(185)
Decommissioning liability expenditures	10	**(72)**	-
Intangible assets expenditures	7	**(2,508)**	(3,700)
Change in non-cash working capital	19	**1,886**	1,367
Cash used in investing activities		**(13,808)**	(12,707)
Cash from Financing Activities			
Proceeds from share issuance, net of issuance costs	11	**26,572**	(30)
Proceeds from exercise of options and warrants	12	**3,625**	6,872
Proceeds from prepaid warrants	12	**-**	6,350
Government grants	5, 7, 15	**7,113**	4,880
Repayment of lease obligations	9	**(103)**	(91)
Change in non-cash working capital	19	**(772)**	(4,380)
Cash from financing activities		**36,435**	13,601
Change in cash and cash equivalents		**16,769**	(4,592)
Cash and cash equivalents – beginning of year		**13,249**	17,841
Cash and cash equivalents – end of year	20	**30,018**	13,249
The following are included in cash flows from operating activities:			
Interest received in cash		**658**	231

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, the OTCQX, and Frankfurt Stock Exchange under the symbols ETL, EEMMF, and OW3, respectively. 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, 2023, the Company has not generated revenues from operations and has an accumulated deficit of $42.8 million (2022 – $33.7 million) including a net loss and comprehensive loss of $9.0 million (2022 – $6.9 million) as at and for the year ended December 31, 2023. The Company's ability to continue as a going concern is dependent upon its ability to raise equity financing to evaluate and confirm the economics of using Direct Lithium Extraction ("DLE") technology in its upcoming Pre-Feasibility Study and move towards commercial production of battery grade Lithium Hydroxide Monohydrate ("LHM").

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, 2023. 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 25, 2024.

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. Material estimates and judgments used in the preparation of the consolidated financial statements are disclosed in note 4.

3 | Summary of Material Accounting Policies

New and amended standards adopted by the Company

The following IFRS amendments were adopted in 2023.

- Amendments to IAS 1, *Presentation of Financial Statements – Disclosure of Accounting Policies*, requiring entities to disclose material, instead of significant, accounting policy information. The accounting policies disclosed in these consolidated financial statements were not impacted by the adoption of these amendments.
- Amendments to IAS 8, *Accounting Policies – Changes in Accounting Estimates and Errors*, clarifying the definition of "accounting policies" and "accounting estimates". The adoption of these amendments did not have a material impact on these consolidated financial statements.

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

- Amendments to IAS 12, *Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction*, which narrow the scope for exemption when recognizing deferred taxes. These amendments did not have a material impact on the consolidated financial statements on adoption.

Recent accounting pronouncements not yet adopted

The IASB has issued the following new standard and amendments to existing standards that will become effective in future years:

- Amendments to IAS, Presentation of Financial Statements – Classification of liabilities as current or non-current, are effective from January 1, 2024.
- Amendments to IAS 7 and IFRS 7, *Supplier finance arrangements*, are effective from January 1, 2024.
- Amendments to IFRS 16, *Leases – lease liability in a sale and leaseback transaction*, are effective from January 1, 2024.

The Company is assessing the impacts, if any, these amendments to existing standards will have on our consolidated financial statement and does not expect a significant impacts.

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, 2023	Percentage Ownership December 31, 2022
1975293 Alberta Ltd.	Canada	100%	100%
Mexigold Resources SA de CV ("Mexigold") (1)	Mexico	100%	100%
2216747 Alberta Ltd. ("ABHI") (2)	Canada	-	100%
2437798 Alberta Ltd.	Canada	100%	100%

(1) Mexigold is inactive and has no assets.
(2) ABHI was voluntarily dissolved on December 22, 2023.

Functional currency

The functional currency of each legal entity is measured using the currency of the primary economic environment in which it operates. The presentation currency for the Company 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.

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 or the interest rate implicit in the lease, 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.

Decommissioning obligations

The Company recognizes a decommissioning obligation, with a corresponding increase to the carrying amount of the related Property and Equipment, or exploration and evaluation assets, in the period in which a reasonable estimate of the fair value can be made of the statutory, contractual, constructive, or legal liabilities associated with the cost of dismantling, site restoration, and remediation activities of the Company's well sites. The amount recognized is the estimated cost of the decommissioning, discounted to its present value using the credit adjusted discount rate. The estimates are reviewed periodically. Changes in the provision because of changes to the timing of expenditures, costs, or risk-free rates are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to property and equipment, or exploration and evaluation assets. The unwinding of the discount on the decommissioning obligation is charged to the consolidated statements of loss and comprehensive loss. Actual costs incurred upon settlement of the obligations are charged against the provision to the extent of the liability recorded and the remaining balance of the actual costs is recorded in the consolidated statements of loss and comprehensive loss.

4 | Material Accounting Estimates, Judgments, and Assumptions

The preparation of these consolidated 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.

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, 2023 and 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.

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

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.

Decommissioning obligations

Decommissioning obligations are present obligations for the cost of dismantling, site restoration, and remediation activities of the Company's well sites. 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, 2022	4,823
Acquisition	100
Additions	10,089
Change in decommissioning costs (note 10)	229
Government grant (note 15)	(2,968)
Balance, December 31, 2022	12,273
Additions	**13,067**
Change in decommissioning costs (note 10)	**226**
Government grant (note 15)	**(4,789)**
Balance, December 31, 2023	**20,777**

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

6 | Property and Equipment

Cost	Computer Equipment	Furniture and Fixtures	Software Licenses	Leasehold Improvement	Total
Balance, January 1, 2022	68	32	36	3	139
Additions	69	82	5	29	185
Balance, December 31, 2022	137	114	41	32	324
Additions	**22**	**3**	**11**	**11**	**47**
Balance, December 31, 2023	**159**	**117**	**52**	**43**	**371**
Accumulated Depreciation					
Balance, January 1, 2022	(34)	(6)	(36)	(3)	(79)
Depreciation	(42)	(18)	(2)	(1)	(63)
Balance, December 31, 2022	(76)	(24)	(38)	(4)	(142)
Depreciation	**(33)**	**(18)**	**(7)**	**-**	**(58)**
Balance, December 31, 2023	**(109)**	**(42)**	**(45)**	**(4)**	**(200)**
Carrying Value					
Balance, December 31, 2022	61	90	3	28	182
Balance, December 31, 2023	**50**	**75**	**7**	**39**	**171**

7 | Intangible Assets

Carrying Value	
Balance, January 1, 2022	2,539
Additions	3,700
Government grant (note 15)	(1,912)
Balance, December 31, 2022	4,327
Additions	**2,508**
Government grant (note 15)	**(2,324)**
Balance, December 31, 2023	**4,511**

The Company's intangible assets relate to its DLE technology.

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

8 | Right-Of-Use Assets

Cost	
Balance, January 1, 2022	326
Additions	561
Disposals	(89)
Changes in estimates	(239)
Balance, December 31, 2022	559
Additions	**109**
Balance, December 31, 2023	**668**

Accumulated Depreciation	
Balance, January 1, 2022	(86)
Depreciation	(112)
Disposals	34
Changes in estimates	131
Balance, December 31, 2022	(33)
Depreciation	**(117)**
Balance, December 31, 2023	**(150)**

Carrying Value	
Balance, December 31, 2022	526
Balance, December 31, 2023	**518**

9 | Lease Obligations

Carrying Value	
Balance, January 1, 2022	266
Additions	561
Disposals	(61)
Interest	31
Repayments	(91)
Changes in estimates	(122)
Balance, December 31, 2022	584
Additions	**109**
Interest	**47**
Repayments	**(103)**
Balance, December 31, 2023	**637**

Carrying Value	
Future minimum lease payments	751
Discount	(114)
Balance, December 31, 2023	**637**
Current portion of lease obligations	156
Lease obligations	481
Balance, December 31, 2023	**637**

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

The Company's leases at December 31, 2023, relate to vehicle leases, corporate head office, and the research lab facility. A discount rate between 4.99% and 8.00% per annum was used to determine the present value of the lease obligations.

10 | Decommissioning Obligations

Carrying value	
Balance, January 1, 2022	-
Additions	152
Additions – acquisition	77
Accretion	4
Balance, December 31, 2022	233
Additions	**199**
Additions – rate change	**28**
Additions – estimate change	**(2)**
Accretion	**4**
Expenditures	**(72)**
Balance, December 31, 2023	**390**
Expected to be incurred within one year	**-**
Expected to be incurred beyond one year	**390**

Decommissioning obligations as at December 31, 2023, were determined using a risk-free rate of 3.23% (December 31, 2022 – 3.23%) and inflation rate of 3.00% (December 31, 2022 – 2.00%). The undiscounted and inflated total future decommissioning obligations were estimated to be approximately $0.4 million with abandonment and reclamation costs expected to be incurred in the next 10 years.

11 | Share Capital

Authorized Share Capital

Unlimited common shares with no par value.

Number of Shares	**December 31, 2023**	December 31, 2022
Balance, beginning of year	**63,229,773**	57,759,871
Share issuance	**8,985,483**	-
Exercise of stock options and warrants	**2,854,141**	5,241,878
Stock options exercised in prior year (1)	**-**	100,000
Shares issued – Finder's fee	**-**	128,024
Balance, end of year	**75,069,397**	63,229,773

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

2023

During the year ended December 31, 2023, the Company issued 2.9 million common shares from the exercise of stock options and warrants with exercise prices between $0.40 to $2.67. Total proceeds received were $3.6 million year to date.

On September 26, 2023, the Company closed a bought deal public offering (the “September Offering”) for gross proceeds of $23.0 million, including full exercise of the overallotment option for proceeds of $3.0 million. Share issuance costs in relation to the September Offering were $2.1 million, comprised of $1.6 million in cash commissions and closing costs, and $0.5 million in broker warrants (note 12) issued to the underwriters. Under the September Offering, the Company issued 6.5 million common shares at a price of $3.55 per common share.

On June 8, 2023, the Company closed a bought deal public offering (the “June Offering”) for gross proceeds of $5.6 million. Share issuance costs in relation to the June Offering were $0.7 million, comprised of $0.5 million in cash commissions and closing costs and $0.2 million in broker warrants (note 12) issued to the underwriters. Under the June Offering, the Company issued 2.5 million common shares at a price of $2.25 per common share.

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.

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.

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

12 | Share-Based Compensation

Warrants

The following table summarizes the change in warrants:

	Warrant (units)	Weighted Average Exercise Price ($)
Balance, January 1, 2022	7,018,165	1.43
Broker warrants	484,722	1.65
Imperial warrants (1)	3,413,979	-
Exercised	(5,173,978)	1.30
Forfeited/expired	(92,243)	1.40
Balance, December 31, 2022	5,650,645	0.65
Broker warrants	**465,669**	**3.16**
Exercised	**(1,331,641)**	**1.71**
Forfeited/expired	**(1,032,257)**	**1.65**
Balance, December 31, 2023	**3,752,416**	**0.32**

Warrants outstanding and exercisable as at December 31, 2023:

Grant date	Exercise price ($)	Expiry Date	Remaining Life (years)	Warrants Outstanding and Exercisable
July 8, 2022 (1)	-	July 8, 2024	0.5	3,413,979
June 8, 2023	2.25	June 8, 2025	1.4	14,137
September 26, 2023	3.55	September 26, 2025	1.7	324,300

(1) 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, 2022	2,876,750	1.42
Granted	2,750,000	2.57
Exercised	(67,900)	0.91
Forfeited/expired	(533,083)	2.17
Balance, December 31, 2022	5,025,767	1.98
Granted	**2,045,000**	**2.51**
Exercised	**(1,522,500)**	**0.89**
Forfeited/expired	**(732,017)**	**2.28**
Balance, December 31, 2023	**4,816,250**	**2.50**

The weighted average life of options outstanding at December 31, 2023, is 3.36 years (2022 – 2.84).

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

	2023	2022
Risk-free interest rate	3.15% to 4.40%	1.46% to 3.52%
Expected stock price volatility	86% to 92%	90% to 96%
Expected life	One to five years	One to five years
Expected dividend yield	-	-
Fair value per option granted	$1.51 to $3.07	$1.74 to $1.96
Forfeiture rate	3.95%	2.82%

During the year ended December 31, 2023, the Company incurred $2.5 million (2022 - $2.0 million) in share-based compensation expense in relation to the stock option plan.

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

Exercise price	Weighted average exercise price	Weighted average remaining Life (years)	Outstanding
$1.01 - $2.00	$1.59	1.62	570,000
$2.01 - $3.00	$2.50	3.84	3,861,250
$3.01 - $4.00	$3.72	0.14	300,000
$4.01 - $5.00	$4.40	4.69	85,000
Outstanding, end of year	**$2.50**	**3.36**	**4,816,250**
Exercisable, end of year	**$2.52**	**1.76**	**1,217,500**

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

13 | 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, 2023 and 2022, the remuneration for key management personnel was as follows:

For the year ended December 31,	**2023**	2022
Salaries and benefits	**1,023**	849
Share-based compensation	**938**	651
Total	**1,961**	1,500

At December 31, 2023, the Company had no balances owing from related parties (2022 - $0.1 million) as withholding taxes remitted on behalf of directors arising from stock option exercises during the year were repaid in full.

14 | 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, 2023. Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date. The Company's financial instruments are exposed to credit risk, currency risk, and liquidity risk.

Credit Risk

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

Accounts receivable outstanding as at December 31, 2023, relate to government grants and were refundable tax credits which have minimal credit risk.

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, 2023, the Company has positive working capital of $32.0 million (December 31, 2022 - $17.0 million) and does not foresee a shortfall in capital within the next twelve months.

16 | Government Grants

Alberta Innovates ("AI")

On April 6, 2022, the Company was awarded a $1.8 million grant to assist in the scale up and development of its field pilot plant. As at December 31, 2023, life-to-date claims under AI is $1.8 million (December 31, 2022 - $1.1 million) and the Company has received $1.4 million (December 31, 2022 - $1.1 million). Subsequent to year end, the Company received its final progress payment of $0.4 million.

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, 2023 (December 31, 2022 – nil).

As at December 31, 2023, life-to-date claims under the SIF grant is $7.2 million (December 31, 2022 – $4.4 million) and the contingent obligation related to SIF is estimated to be $10.1 million (December 31, 2022 – $6.4 million). As at December 31, 2023, there is $1.9 million in accounts receivable related to SIF grants.

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

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

As at December 31, 2023, life-to-date claims under the NRCan CMRDD grant are $3.2 million. As at December 31, 2023, $2.9 million is included in accounts receivable on the consolidated statement of financial position.

16 | Capital Management

The Company's objective when managing capital is to maintain a strong balance sheet and sufficient liquidity to meet its short and long-term business objectives. The Company's capital structure is comprised of shareholders' equity of $57.2 million (2022 - $33.5 million) and working capital (defined as current assets less current liabilities) of $32.0 million (2022 - $17.0 million). Sources of capital for the Company include equity issuances and funding and grants from various government agencies. The Company's capital management objectives have not changed over the years presented. The Company is not exposed to any external capital requirements.

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

17 | Income Taxes

For the year ended December 31,	2023	2022
Loss before income taxes	**(9,044)**	(6,944)
Combined statutory tax rate	**23.0%**	23.0%
Computed tax recovery	**(2,080)**	(1,597)
Effects resulting from:		
Share-based compensation	**581**	457
Other	**(684)**	55
Change in unrecognized deferred tax assets	**2,183**	1,085
Total	**-**	-

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,	2023	2022
Exploration and evaluation assets	**-**	-
Investment tax credits	**3,147**	3,147
Lease obligation	**638**	584
Share issuance costs	**3,271**	1,642
SR&ED	**380**	380
Non-capital loss carry-forward	**22,227**	14,578
Other	**390**	231
Total	**30,053**	20,562

The deferred tax asset (liability) is comprised of the following deductible (taxable) temporary differences:

As at December 31,	2023	2022
Exploration and evaluation assets	**(6,202)**	(5,175)
Non-capital loss carry-forward	**6,202**	5,175
Total	**-**	-

At December 31, 2023, the Company has non-capital losses of $29.4 million that will expire between 2023 and 2043.

18 | Commitments

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

As at December 31,	2024	2025	2026	2027	2028	Thereafter	Total
Office leases [1]	254	248	248	248	81	-	1,079
Mineral license fees	1,804	1,804	1,804	1,804	6,959	16,236	30,411
Total	**2,058**	**2,052**	**2,052**	**2,052**	**7,040**	**16,236**	**31,490**

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

(2)

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

19 | Supplemental Disclosures

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

For the year ended December 31,	2023	2022
Wages and benefits [(1)]	2,074	1,376
General expenses	1,975	1,595
Total	4,049	2,971

(1) Total wages and benefits were $4.1 million (2022 - $3.3 million), of which $2.1 million (2022 - $1.9 million) 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,	2023	2022
Accounts receivable	(533)	(4,818)
Due to/from related parties	88	42
Prepaid expenses	(3)	(280)
Accounts payable and accrued liabilities	1,995	1,092
Total change in non-cash working capital	1,547	(3,964)
Operating activities	433	(951)
Investing activities	1,886	1,367
Financing activities	(772)	(4,380)
Total change in non-cash working capital	1,547	(3,964)

20 | Cash and Cash Equivalents

As at December 31,	2023	2022
Bank balances	29,960	13,191
Term deposits	58	58
Cash and cash equivalents in the statement of financial position	30,018	13,249

investor@e3lithium.ca
e3lithium.ca

TSX.V: ETL | **FSE:** OW3 | **OTCQX:** EEMMF

E3 LITHIUM