

E3 Metals Corp. (TSXV:ETMC, OTCQX:EEMMF, FSE:OU7A)

Initiating Coverage

May 2, 2022

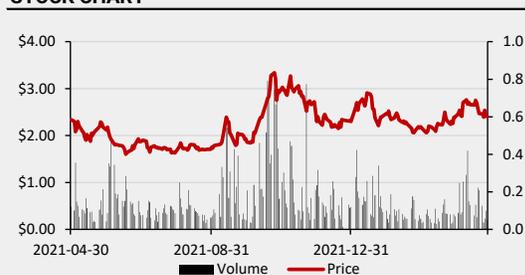
Move Over Oil, Alberta's Next Boom is Lithium

(Currency is CAD\$ unless noted otherwise)

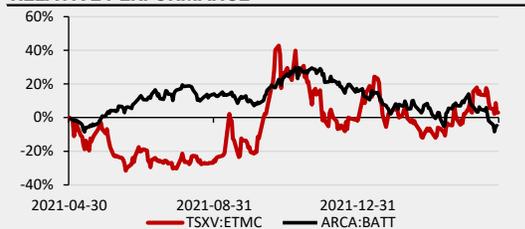
Closing Price	\$2.41
Rating	BUY
Target (\$/sh)	\$7.50
Return to Target	211%
52 Week Low / High	\$1.53 / \$3.49

CAPITALIZATION	Basic	Diluted
Shares Outstanding (M)	57.8	68.3
Market Capitalization (\$M)		\$139.3
Enterprise Value (\$M)		\$122.1
Cash (\$M)		\$17.5
Total Debt (\$M)		\$0.3

STOCK CHART



RELATIVE PERFORMANCE



VALUATION	C\$M	C\$/sh
Alberta Li project	\$862.01	12.62
Adjustments	(\$10.22)	(\$0.15)
Corporate NAV	\$851.79	12.47

RELATIVE VALUATION	US\$EV/t LCE	P/NAV
E3 Metals Corp.	\$13.1	0.19x
Peers*	\$125.3	0.62x

* S&P Cap IQ Pro

MAJOR SHAREHOLDERS

Management (2.49%), U.S. Global Investors, Inc. (0.65%)

DISCLOSURE CODE:

(Please refer to the disclosures listed on the back page)

Source: RCS, Company Information, Capital IQ

Company Description

E3 Metals Corp. is a lithium brine development company that hosts 7Mt of lithium carbonate equivalent Inferred within the world-class Leduc Reservoir. It owns a 100%-interest in the Alberta petro-lithium project covering an area of over 600,000 hectares located in Alberta. The company was founded in 2016 and is headquartered in Calgary, Canada.

We are initiating coverage on E3 Metals Corp. (TSXV:ETMC) with a BUY rating and C\$7.50 target price, representing 211% upside from the current share price. E3 is developing its 100%-owned Alberta Li-brine project, which comprises several properties covering the Leduc Aquifer, host to one of the largest Li resources in the world. The most advanced prospect is Clearwater, which E3 is advancing to commercialization, with planned annual production of at least 20,000 t LHM by 2026 using its proprietary Direct Lithium Extraction (DLE) technology. **While Clearwater's economics are compelling as is, we feel that the real prize is scaling-up production and turning Alberta into a major lithium hub.**

- **The "Alberta Advantage."** E3 owns over 600,000 ha of brine permits in industry-friendly Alberta covering the Leduc, where +7,000 oil and gas wells have been drilled in its permit area. E3 has been able to re-enter these wells to conduct sampling and testing, and leverage +70 years of historical data to gain an understanding of the Li potential at depth and delineate an inferred resource without the need for new, costly, drilling. The province has also provided \$1.8M to E3 in grant funding.
- **One of the largest Li resources globally.** The 7 Mt LCE inferred resource spans three areas that cover only a third of the entire land package. Existing data demonstrates fairly consistent Li grades throughout, suggesting additional upside as exploration across the remaining land package continues. A resource update is due this year, and we expect partial conversion of inferred resources to M&I.
- **DLE: an ESG-friendly approach.** While ion exchange is not new technology, E3 developed its own sorbent material with a high affinity for Li. The process includes pumping Li-enriched brines to the surface and running it through an ion-exchange system with E3's proprietary sorbent to recover up to 99% of the Li and reinjecting the remaining Li void brine back into the reservoir. No evaporation ponds are needed, and the process does not utilize any fresh water, occupying a relatively small footprint when compared to conventional operations. Lab pilot prototype testing is ongoing, and results thus far are encouraging. After, E3 plans to deploy a scaled-up field pilot plant at a near-commercial scale to further de-risk the technology.
- **Fantastic project economics.** The 2020 PEA used <6% of the total 7 Mt LCE resource to outline a 20,000 tpa LHM operation over 20 years. The study returned a post-tax NPV_{8%} and IRR of \$1.1B and 27%, respectively, at low prices of US\$14,079/t LHM. We believe there is strong potential to increase production and extend the project life. A PFS is due next year.

Our target is based on our DCF model for the Alberta Li project. We use a 12% discount rate and a fully diluted NAVPS of \$12.47, upon which we apply a 0.6x risk multiple to derive our C\$7.50 target. **Upcoming catalysts:** 1) Drill testing with three wells (Q2/22), 2) Resource upgrade (Q3/22), 3) Field pilot plant construction (Q4/22), 4) PFS (2023), and 5) Commercial production (2025-26). **Lithium exploration and extraction is inherently risky** and E3 is subject to various geopolitical, technical, corporate, or financial risks.

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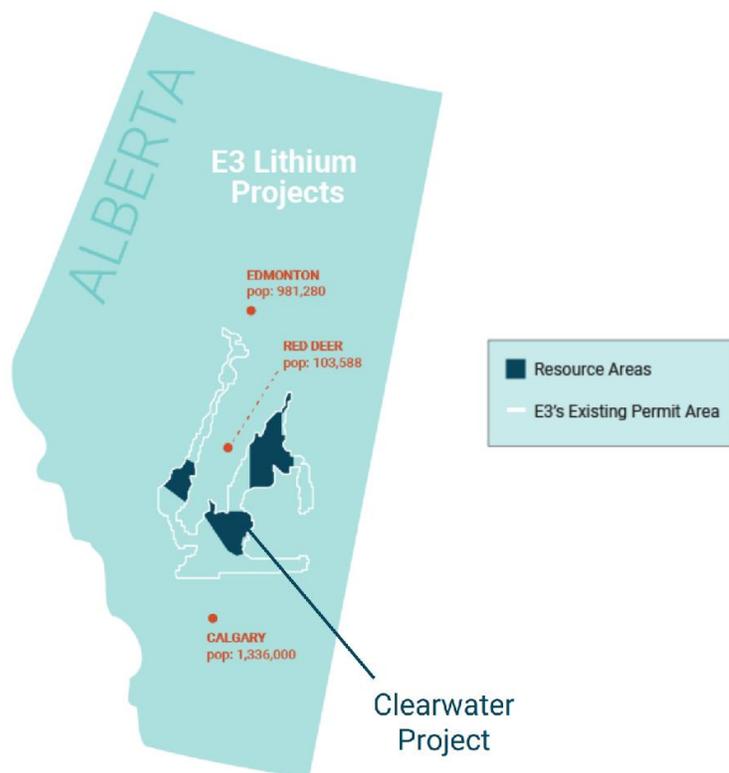
E3's 7 Mt LCE resource is hosted in Alberta's Leduc Aquifer

E3 spent the past 5+ years developing the DLE technology needed to extract Li from its brines

Investment Thesis

E3 Metals is laser focused on developing its lithium resources in Alberta. Its 100%-owned Alberta Li project comprises three main areas over the prolific Leduc Aquifer – a well-understood ancient reef complex historically known for its oil and gas production, but also hosts significant untapped Li-brine resources. These property areas contain inferred resources totaling 7 Mt LCE and only cover a third of E3's entire >600,000 ha land package. The most advanced prospect is the Clearwater project, which has a positive PEA behind it outlining potential to produce 20,000 t lithium hydroxide monohydrate (LHM) per annum over 20 years. To do so, E3 developed its own proprietary sorbent material for use in the Direct Lithium Extraction (DLE) ion-exchange process. Essentially, Li-enriched brine would be pumped to surface through wells and passed through an ion exchange extraction process which has been proven in the lab to successfully extract Li ions using brine samples from the Leduc Aquifer. E3 has spent the past 5+ years developing the technology, working in partnership with the University of Alberta, private labs, as well as at its own Calgary-based development facility. De-risking efforts remain ongoing, with plans in place to construct a field-based pilot facility, convert part of its inferred resource into M&I categories, and complete a PFS ahead of commercial production in 2025-2026. **With a first-mover advantage in pioneering DLE technology in industry-friendly Alberta, excellent infrastructure, a large Li resource, compelling project economics, a strong management team, a pathway to carbon neutrality, and an opportunity to greatly scale up production, we believe E3 is well positioned to become a major global Li player, and we expect its stock could significantly re-rate over the coming years as ongoing de-risking efforts materialize.**

Figure 1: Overview map of E3's project area, showing Li-brine resource areas



Source: Company Reports

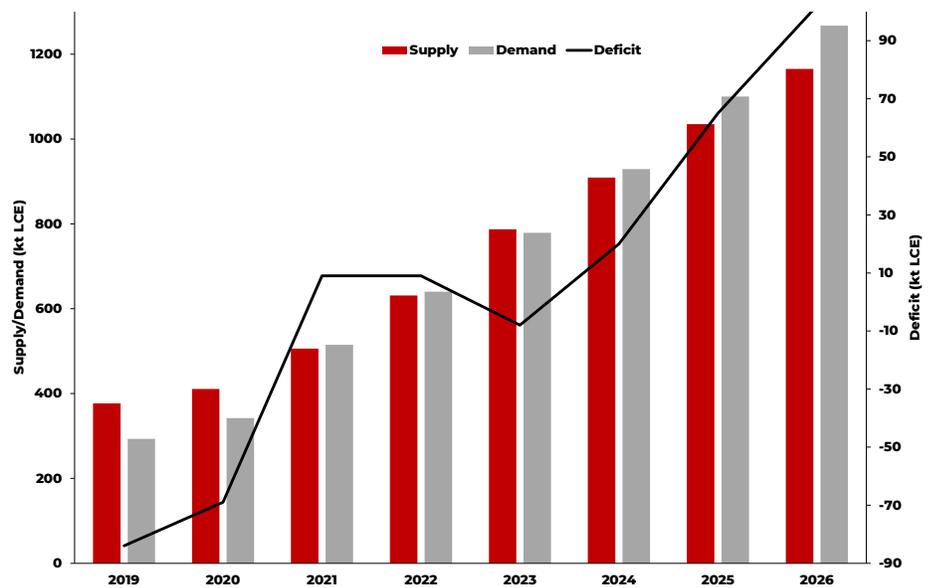
Li has serious risk of supply chain disruptions

Anticipated Li supply constraints are expected to coincide with E3's planned production timeline

Alberta serves as industrial hub for the O&G sector, and there is plenty of overlap with Li

A favourable macro environment for Canadian lithium. The global lithium market is currently in deficit, and this deficit is expected to worsen over the coming years on the back of increasing demand for EVs and energy storage (Figure 2). With supplies extremely tight, end-users have demonstrated their willingness to pay premium prices; lithium chemicals (including Li-hydroxide) are currently trading at or near all-time highs, with Benchmark Mineral Intelligence's Li Index showing YoY increases of >400%. According to the USGS, just four mining operations in Australia, two brine operations in each Argentina and Chile, and two brine and one mining operation in China account for most global Li production. With no significant local Li production, Canada relies entirely on imports – with just four countries (Chile, China, Russia, and the USA) accounting for 91% of the country's imports ([read more](#)), putting Canada at serious risk of supply chain disruptions. The Government of Canada has taken note and identified Li as one of 31 critical minerals that are considered essential to Canada's economic security and required to support the country's transition to a low-carbon economy. The recent federal budget ([read more](#)) included a proposal for up to \$3.8B for the development of a critical mineral supply chain in Canada. **This is where E3 Metals comes in: the company has one of the largest Li resources globally which happens to be in a favourable jurisdiction (Alberta), and the anticipated Li supply constraints are expected to coincide with E3's planned production timeline.**

Figure 2: Lithium chemical supply/demand forecast



Source: S&P Global Market Intelligence (February 23, 2022)

Bringing the “Alberta Advantage” to E3's projects. Alberta's oil and gas (O&G) sector has formed a major part of Canada's economy over the last century, and has provided a well-established industrial base, skilled workforces, and heaps of geological data – all of which E3 has leveraged during the development of its Alberta Li project. Regional infrastructure, particularly within and surrounding the Leduc Aquifer, is vast, as the O&G sector has led to the development road networks, water pipelines, grid electricity, and local communities. While Li from brines has yet to be commercially produced in the province, we note that its extraction parallels that of O&G: both processes involve drilling deep wells and pumping out fluids and require a solid understanding of subsurface geology. These similarities make for a well-developed regulatory framework in terms of

social licencing and permitting, with a well-defined royalty and tax regime already in place. With over 7,000 O&G wells already drilled in its project area, E3 has been able to collect key data on the cheap, with various O&G operators allowing the company access to existing infrastructure for brine collection and enabling Li resource delineation without the costly requirement of drilling a well. However, Canada's O&G sector (which primarily stems from Alberta's oil sands) is struggling; Statistics Canada reported a ~65% decrease in capital investment into O&G from 2013 to 2021 (full-year, seasonally adjusted basis; [read more](#)). With a paradigm shift away from fossil fuels and towards green energy underway, and a large portion of its economy dependant on the former, Alberta is looking to diversify its industrial base, and we believe that E3 could stand to benefit. This is evidenced by the fact that the Alberta government has already provided E3 with a C\$1.8M grant to help fund its proposed field-based DLE pilot plant, which we consider a major stamp of approval from the province.

One of the largest Li resources globally, covering only a third of the land package

One of the largest lithium resources in the world, with plenty of upside.

With 7 Mt LCE in inferred resources, E3's Alberta Li project represents one of the largest Li resources globally. Importantly, we feel that the resource is not done growing: the resource spans three areas (Clearwater, Rocky, and Exshaw) that collectively cover only a third of E3's >600,000 ha land package, and existing data suggests fairly consistent Li grades throughout E3's entire permit area. Clearwater, the most advanced prospect, spans ~12% of the overall permit area and accounts for ~31% of the resource. Up to three Li wells are planned to be drilled at Clearwater this summer, with subsequent sampling expected to feed into a resource update. While Clearwater's 2.2 Mt LCE resource may grow, the company is primarily targeting an upgrade from inferred resources into measured and indicated categories. We note that E3's immense resource growth potential was not factored into our valuation.

Figure 3: Resource summary

Resource Area	Proportion of land package (%)	Brine Volume (M m3)	Li Grade (mg/L)	Contained LCE (Mt)
Clearwater	12%	5,500	74.6	2.2
Rocky	5%	3,300	52.9	0.9
Exshaw	17%	9,800	75	3.9
Total	34%	18,600	71.0	7.0

*Numbers may differ from what was reported due to rounding

Source: Company Reports

DLE could allow for highly efficient Li extraction without the need for evaporation ponds

An ESG-friendly approach to lithium extraction. E3's proprietary DLE technology allows for recovery of Li (up to 99%) without the need for large-scale mining (per typical hard-rock operations) nor large evaporation ponds (per typical brine operations). This translates to a lower environmental footprint: the estimated land footprint of E3's well pads and process facility at Clearwater is ~98 ha, representing a fraction (~3%) of the land use required by typical Li projects that produce similar volumes. Other operations are typically freshwater intensive, while E3's project is expected to require only minimal fresh water, as its DLE process uses saline brine water from reservoirs located deep below the groundwater table, and once the Li is extracted, the Li-void brine is injected back into the reservoir in a closed loop system (Figure 4). In fact, E3's process is expected to make Clearwater a net positive freshwater producer through the reverse osmosis stage (more on page 13). The DLE approach may also bode well economically; compared to evaporation methods, DLE eliminates the long

lead times to obtaining a concentrated Li product (minutes as opposed to months) and eliminates costs of constructing and maintaining evaporation and tailings ponds. We note that E3 is targeting carbon neutrality; while the PEA contemplates natural gas cogeneration with grid-connected backup power, the company is evaluating procurement of nearby renewable sources (notably, an 80 MW wind farm is located near site), as well as potential for carbon sequestration ([read more](#)).

Figure 4: Simplified flowsheet



Potential for net carbon zero Li

Source: Company Reports

Fantastic project economics. The 2020 Clearwater PEA demonstrated potential to produce 20,000 tpa of high-purity, battery-grade LHM over 20 years, for direct sale to battery manufacturers without the need for intermediary processing. Included in the US\$602M CapEx are the costs of production and reinjection wells, pipeline infrastructure, and DLE, concentrate polishing, and LHM production equipment required for the central processing facility. Using conservative LHM prices of US\$14,079/t (~80% lower than current spot prices), the project can generate ~US\$209M in average annual EBITDA, translating to post-tax economics of ~US\$820M NPV_{8%} and 27% IRR. We also note that Clearwater’s project economics are in-line with other DLE projects being advanced by companies trading at several times E3’s market cap.

Clearwater’s project economics are in-line with other DLE projects being advanced by companies trading at several times E3’s market cap

Figure 5: E3 Metals project economics vs. DLE peers

Project	E3 Metals Alberta Li	Standard Lithium Smackover	Vulcan Energy Zero Carbon Li	Lake Resources Kachi
Market Cap (C\$M)*	\$139	\$1,451	\$1,019	\$2,427
Location	Alberta	Arkansas	Germany	Argentina
M&I+I Resource (Mt LCE)	7.0	4.3	15.9	4.4
Study	PEA (Clearwater)	PFS (Lanxess)	PFS**	PFS
Primary End Product	LiOH-H2O	Li2CO3	LiOH-H2O	Li2CO3
Base Case Price (US\$/t)	\$14,079	\$13,550	\$14,925	\$15,500
Project Life (years)	20	25	30	25
Annual Production (t)	20,000	20,900	39,400	25,500
Recovery (%)	94%	90%	88%	83%
OpEx (US\$/t)	\$3,656	\$4,319	\$2,904	\$4,178
Initial CapEx (US\$M)	\$602	\$437	\$1,180	\$540
Post-tax NPV 8% (US\$M)	\$820	\$989	\$2,087	\$1,580
Post-tax IRR (%)	27%	36%	26%	35%

*S&P Capital IQ; **Zero Carbon project parameters based on non-phased scenario, lithium business only, converted to USD using FX of 1.1 EUR/USD

Source: Company Reports, RCS

Potential for a much higher production rate and longer operating life

The real long-term prize: production scale-up. In our view, the Clearwater PEA alone does not do E3 justice. It was based upon only ~17% of Clearwater's 2.2 Mt LCE resource, or ~5% of the Alberta Li project's total 7 Mt LCE endowment. Given the vast resources not captured in the PEA (along with the immense resource expansion potential), we believe the project life could extend well beyond 20 years. Further, the PEA did not account for the scalability of the Alberta Li project; the 20,000 tpa LHM target was selected somewhat arbitrarily, and management has hinted at long-term expansion potential to ~150,000 tpa LHM. In order to do so, E3 would need to increase the CapEx (i.e. increase the number of wells, expand the central processing facility, and increase the distance between the reinjection wells and production wells so as not dilute the resource) and perhaps tap into the resources outside of the Clearwater area, likely by using a "hub and spoke" type model – where the central facility would be located in the Clearwater area and a series of underground pipelines would connect wells from other permit areas to the facility. We expect to see the upcoming PFS partially demonstrate the scalability of the project with a longer project life and/or higher production rate, which could greatly improve project economics. We also note that other companies have begun exploring for Li in brines within and/or near the Leduc Aquifer. However, as a first mover, E3 remains the most advanced amongst these explorers, as it is the only one to have proprietary DLE technology developed specifically for the Leduc brines, a lab-based pilot plant, and an economic study completed, to our knowledge. We therefore anticipate that other regional explorers may seek licensing agreements to use either E3's central processing facility or its proprietary technology. While a scaled-up production rate (by 50% of the PEA target, which may be conservative given management's indications) was captured in our model, the additional upside through licensing/partnering with other explorers was not.

Leveraging the knowledge gained from the O&G sector

Management brings technical expertise from Alberta's O&G sector. President, CEO, and Director, Chris Doornbos, P.Geo, founded E3 Metals in 2016 after spending years in the global mineral exploration and Alberta's petroleum sector, with the vision of developing the technology required to tap into Alberta's vast lithium resources. Working closely with him are Chris Ward, Director of Projects, and Peter Ratzlaff, Director of Resource Development – both of whom provide significant technical expertise, from process development to project management, from the O&G sector. The company appointed Jonathan Nielsen as Director of Technology, a veteran metallurgical engineer, to help drive the R&D, scale-up, and de-risking of E3's DLE technology. As work begins to move to the field, E3 has been rapidly expanding its team, including the addition of a Director of Corporate Strategy and Sustainability ([read more](#)). At the board and advisory level, E3 is stacked with entrepreneurs, technical experts, and financial specialists from across the resource sector (see page 17).

2022 is expected to be very catalyst-rich

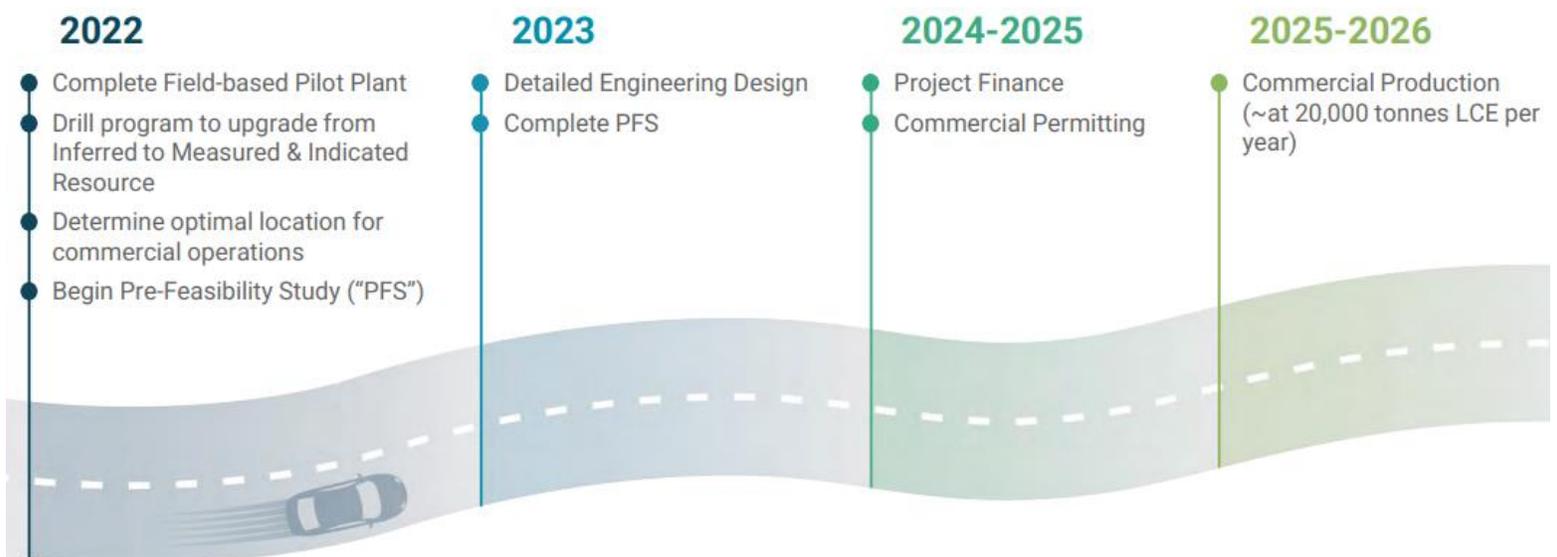
Catalysts

De-risking its DLE technology and enhancing project economics. E3 commissioned its Calgary-based lab pilot prototype last year, and has been testing samples from the Leduc via two separate trains, each with a different DLE sorbent, at rates up to 120 L/hr or 18 bbl/d. One sorbent has returned excellent results thus far, with consistently high Li extraction rates ([read more](#)), while results from the secondary sorbent remain pending. The lab results are expected to lay the foundation for the construction and operation of a field-based DLE pilot plant, to be commissioned at the Clearwater area this year. The field-based program is expected to guide flowsheet optimization and provide Li concentrate, which E3 plans to upgrade to battery-grade LHM samples using commercially available technology, to market to potential offtake partners. Meanwhile, the company is preparing to drill up to three test wells to: 1) attain necessary data to determine optimal locations and operating parameters for commercial production, and 2) upgrade a portion of its resource to M&I categories. Upgrading to M&I is a necessary step for the planned PFS due in 2023. Project financing (including offtakes), detailed planning and commercial permitting are then expected to be the main value drivers ahead of commercial production in 2025-2026.

Upcoming catalysts for E3 Metals include:

1. Further lab prototype results (Q2/22)
2. Drill testing with three wells (Q2/22)
3. Resource upgrade (Q3/22)
4. Field-based pilot plant construction and testing (Q4/22)
5. LHM sample production (Q4/22)
6. Pre-feasibility study (2023)
7. Offtakes and project financing (2024-25)
8. Commercial permitting (2024-25)
9. Commercial production (2025-26)

Figure 6: E3's planned commercialization timeline



Source: Company Reports

Valuation and Financial Analysis

Our valuation for E3 Metals is based on a discounted cash flow (DCF) model for the Alberta lithium project which includes the three areas with 7Mt LCE in inferred resources (Clearwater, Rocky and Exshaw). Our assumptions for the DCF are based largely on the 2020 PEA published for the Clearwater project but have been modified to reflect our opinions and estimates.

We model initial production of 18kt LHM increasing to 27kt in 2030

As detailed on page 12, lithium is extracted from brine using E3's proprietary DLE technology. We assume a one-year construction period starting in 2025, for drilling of the production and injection wells, and completion of the central processing facility, with an initial CapEx of ~\$975M – 20% higher than the PEA, as we assume cost inflation and increased CapEx necessary to plan for a future expansion scenario. We anticipate production to begin in 2026 (vs. management estimates of 2025-26). The PEA accounted for ~17% of the Clearwater resource alone, whereas we assumed 17% of the entire Alberta Li project resource for our mineral inventory, i.e. 3,162M m³ at 71 mg/L Li for ~1.2 Mt LCE.

We left processing capacity at 140,000 m³/day initially with 92% availability (unchanged from PEA) and lowered the recovery to 90% (vs. PEA recovery of ~94%), and assuming constant grades of 71 mg/L, we estimate annual production of 18.2kt LHM from 2026 to 2029. We then assumed an expansion scenario whereby processing capacity increases by 50% to 210,000 m³/day in 2030, resulting in 27.3kt LHM annually for the remainder of the mine life. We assume that the capital cost of this expansion scenario is half of our initial capital assumption, i.e. ~\$488M. We applied a 15% OpEx inflator to the PEA figure for ~\$5,678/t LHM. While the PEA assumes a mine life of 20 years, we believe the vast resources not included in the study could allow for a much longer LOM. We also note that our expansion scenario is still significantly lower than management's long-term target of 150kt LHM per annum. With these assumptions, we model a 55-year operational life, with production concluding in 2072.

Assuming cash costs of C\$5,678/t LHM and initial CapEx of C\$975M, we estimate NAVPS of C\$12.47/sh.

While LHM prices are currently trading in the +US\$70,000/t range, we use a more conservative price of US\$18,000/t to estimate revenues from production, and apply an FX of 0.75 CAD/USD. We assumed a tax rate of 23% (per the PEA) and corporate G&A of \$3M/year. We also assumed exploration and development expenses of \$10M/year from 2022-2024 to help cover the test wells, pilot plant program, the \$800k royalty buyback, amongst other pre-construction activities. We applied a 12% discount rate to the unlevered future cash flows to account for financing costs, which we envision would likely be a combination of debt and equity considering that the initial CapEx is significantly above E3's current capitalization. Finally, we add back current cash of \$17.5M to arrive at our NAV_{12%} and NAVPS_{12%} (fully-diluted basis) estimate of ~\$852M and \$12.47, respectively. **We apply a 0.60x multiple to our NAVPS to account for the risk involved with relying on an early-stage study (PEA) and on new technology that has yet to be proven on a commercial scale, to arrive at our C\$7.50 price target. Our price target generates a 211% return to target and justifies our BUY rating.**

Figure 7: NAV sensitivity to discount rate

	Discount Rate										
	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%
Alberta Li project (C\$M)	\$3,732.78	\$2,977.55	\$2,394.47	\$1,938.34	\$1,577.10	\$1,287.73	\$1,053.47	\$862.01	\$704.16	\$572.99	\$463.23
<i>Corporate adjustments</i>											
G&A (C\$M)	\$57.57	\$50.09	\$44.21	\$39.51	\$35.69	\$32.55	\$29.93	\$27.72	\$25.83	\$24.20	\$22.79
Cash (C\$M)	\$17.50	\$17.50	\$17.50	\$17.50	\$17.50	\$17.50	\$17.50	\$17.50	\$17.50	\$17.50	\$17.50
Debt (C\$M)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Corporate NAV (C\$M)	\$3,692.70	\$2,944.96	\$2,367.77	\$1,916.34	\$1,558.91	\$1,272.68	\$1,041.04	\$851.79	\$695.83	\$566.29	\$457.95
NAVPS (C\$)	\$54.07	\$43.12	\$34.67	\$28.06	\$22.82	\$18.63	\$15.24	\$12.47	\$10.19	\$8.29	\$6.70

Multiple	0.6x
Target	\$7.50

Source: RCS Estimates

The project may still be highly profitable at lower recoveries

Sensitivity

In our view, the two most important long-term risks for E3 include future LHM price uncertainty and the viability of its proprietary DLE technology when applied on a commercial scale. Figure 8 shows our NAV_{12%} for the Alberta Li project across different prices and recoveries. We note that at current spot prices, the project's NAV_{12%} would be a whopping ~\$7.7B, highlighting high leverage to rising Li prices. We also note that the DLE technology does not need to work perfectly: even at our conservative long-term price assumption of US\$18,000/t LHM, we still arrive at a positive NAV_{12%} of ~\$73M at Li recoveries of only 50%. While we assume Li recoveries of 90%, it is important to note that lab-pilot plant testing in Q4/21 returned recoveries as high as 97%.

Figure 8: Alberta Li project NAV_{12%} sensitivity to LHM price and Li recoveries

	LHM Price (US\$/t)								
	\$ 10,000	\$ 12,000	\$ 14,000	\$ 16,000	\$ 18,000	\$ 20,000	\$ 22,000	\$ 24,000	\$ 26,000
75%	-C\$296.6	-C\$81.2	C\$137.0	C\$350.8	C\$573.3	C\$779.8	C\$985.2	C\$1,188.8	C\$1,405.9
78%	-C\$273.6	-C\$46.4	C\$180.6	C\$403.0	C\$619.9	C\$849.2	C\$1,062.7	C\$1,274.5	C\$1,500.3
81%	-C\$247.4	-C\$11.5	C\$224.2	C\$455.2	C\$680.5	C\$904.1	C\$1,125.7	C\$1,360.2	C\$1,594.7
84%	-C\$221.3	C\$23.4	C\$258.2	C\$507.3	C\$741.0	C\$972.9	C\$1,202.7	C\$1,445.9	C\$1,689.1
87%	-C\$195.1	C\$51.3	C\$301.4	C\$559.5	C\$801.5	C\$1,041.7	C\$1,279.7	C\$1,531.6	C\$1,759.4
90%	-C\$173.2	C\$85.9	C\$344.7	C\$597.5	C\$862.0	C\$1,096.2	C\$1,356.8	C\$1,617.3	C\$1,852.9
93%	-C\$147.2	C\$120.6	C\$388.0	C\$649.2	C\$908.2	C\$1,164.5	C\$1,433.8	C\$1,703.0	C\$1,946.5
96%	-C\$121.2	C\$155.2	C\$431.2	C\$700.9	C\$968.2	C\$1,232.9	C\$1,510.8	C\$1,764.6	C\$2,040.0
99%	-C\$95.2	C\$189.8	C\$474.5	C\$752.6	C\$1,028.3	C\$1,301.2	C\$1,587.8	C\$1,849.5	C\$2,133.6

Source: RCS Estimates

Capital Structure

E3 Metals has a clean balance sheet with no debt ~\$17.5M in the bank, making it well funded for the catalyst-rich year ahead. We note that there is potential for a non-dilutive \$0.7M cash injection via provincial grant, should E3 successfully commission its field pilot plant ([read more](#)). E3 has ~57.8M shares outstanding and ~10.5M options/warrants.

Trading at a discount to peers

Relative Valuation

E3 Metals has one of the larger resources in its peer group and further stands out by having its own proprietary DLE technology. **When compared to other companies with lithium brine assets, including those that plan to use DLE technology, E3 Metals trades at a discount to its peers on both, an EV/t and P/NAV basis.** E3 trades at an EV/t of ~US\$13 and a P/NAV of 0.19x vs. peers at ~US\$125 and 0.62x, respectively. We believe E3 should warrant a premium valuation given its prime location in industry-friendly Alberta.

Figure 9: Peer analysis

Company	Ticker	Price (C\$/sh)	YTD Perf.	Shares (M)	Mkt. Cap C\$M	Cash C\$M	Debt C\$M	EV C\$M	Resources Mt LCE	EV/t US\$	P/NAV
E3 Metals Corp.	TSXV:ETMC	\$2.41	4.78%	58	\$139.3	\$17.5	\$0.3	\$122.1	7.0	\$13.1	0.19x
Lake Resources NL	ASX:LKE	\$1.79	77.40%	1354	\$2,426.9	\$65.4	\$0.0	\$2,361.5	4.4	\$402.5	0.90x
Standard Lithium Ltd.	TSXV:SLI	\$8.24	-32.84%	176	\$1,451.9	\$139.5	\$0.4	\$1,312.7	4.3	\$227.1	0.54x
Alpha Lithium Corporation	TSXV:ALLI	\$0.96	-16.52%	166	\$159.2	\$47.0	\$0.0	\$112.2	NA	NA	0.60x
International Lithium Corp.	TSXV:ILC	\$0.11	-12.50%	286	\$30.0	\$16.6	\$5.7	\$19.0	NA	NA	NA
Bearing Lithium Corp.	TSXV:BRZ	\$0.28	-12.70%	113	\$31.1	\$0.8	\$0.0	\$30.4	1.9	\$12.0	NA
Pure Energy Minerals Limited	TSXV:PE	\$1.26	-23.17%	33	\$41.7	\$0.5	\$0.0	\$41.3	0.2	\$142.1	NA
Lithium Americas Corp.	TSX:LAC	\$32.38	-12.06%	135	\$4,385.1	\$646.2	\$345.9	\$4,084.8	37.8	\$81.1	0.69x
Highwood Asset Management Ltd.	TSXV:HAM	\$10.75	-14.00%	6	\$64.7	\$0.1	\$0.3	\$64.8	18.1	\$2.7	NA
Vulcan Energy Resources Limited	ASX:VUL	\$7.71	-25.84%	132	\$1,019.4	\$208.4	\$1.9	\$812.8	15.9	\$38.5	0.37x
Lithium South Development Corporation	TSXV:LIS	\$0.71	-12.35%	110	\$78.3	\$4.8	\$0.0	\$73.5	0.6	\$96.6	NA
Median								\$92.9	4.4	\$88.8	0.60x
Average								\$891.3	10.4	\$125.3	0.62x

*Peer financial metrics as of latest financial statements; peer P/NAV based on analyst consensus

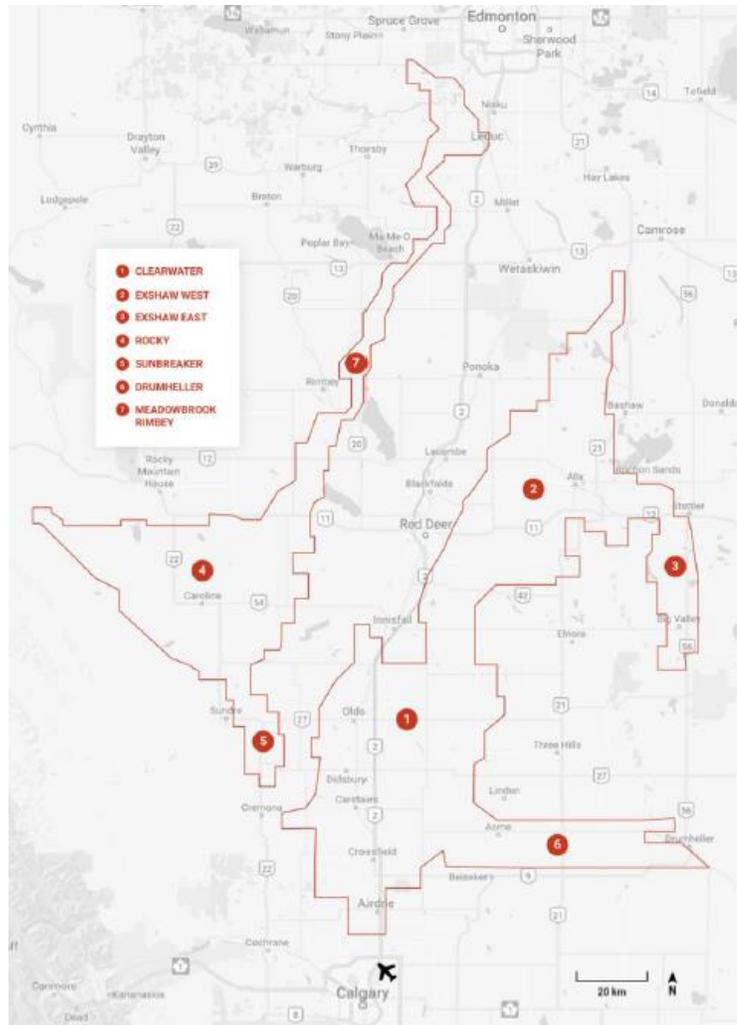
Source: RCS, S&P Capital IQ, Company Reports

E3 Metals owns a 100% of the Alberta lithium project, host to 7Mt LCE in inferred resources

Asset Overview

The Alberta lithium project consists of 80 mineral permits spanning 600,333 ha that overlie the Leduc Aquifer in southern Alberta. The project is subdivided into six areas namely Clearwater, Rocky, Exshaw, Drumheller, Sunbreaker and Meadowbrook-Rimbey (Figure 10). While three of these areas currently host 7Mt LCE in inferred resources (Figure 3), focus continues to be on advancing the PEA-stage Clearwater project to the next stage of development.

Figure 10: Property map of the Alberta lithium project



Source: Company Reports

Location and Infrastructure

The project is located between Edmonton to the north, and Calgary to the south (Figure 1) and is easily accessible via air and ground transportation. Most infrastructure was developed to support oil and gas operations in the Leduc Aquifer area, playing a vital role in Alberta's economy for over 70 years. International airports are located in Calgary and Edmonton, while the city of Red Deer has a regional airport. Provincial highways and all-weather roads are also available to support exploration activities and a future brine operations. Two rail lines can provide connectivity to major cities and all of North America. Importantly, the Clearwater permit and surrounding areas can be accessed all-year round.

Supported by infrastructure developed for oil and gas operations

All supplies required to support exploration and operations activities can be sourced from Red Deer. Given the history of oil and gas production in the area, a skilled labour force is available to support development activities for the project. Power is readily available from the grid to support current and future needs.

A 2.25% royalty is applicable to the project which we expect to be repurchased in Q3/22

Ownership

While all permits for the project are 100% held by a wholly owned subsidiary of E3 Metals Corp, a royalty is applicable to eight permits. In Sep/20, the company signed a royalty agreement equal to 2.25% of gross proceeds from all products extracted from the project. The agreement allows E3 to repurchase all or a portion of the royalty prior to Sep 30/22 by paying \$800k for the entire royalty, or \$100k for each 0.25% of the royalty. Our model and valuation for E3 and the Clearwater project accounts for this royalty and we assume that it will be repurchased for \$800k by Q3/22.

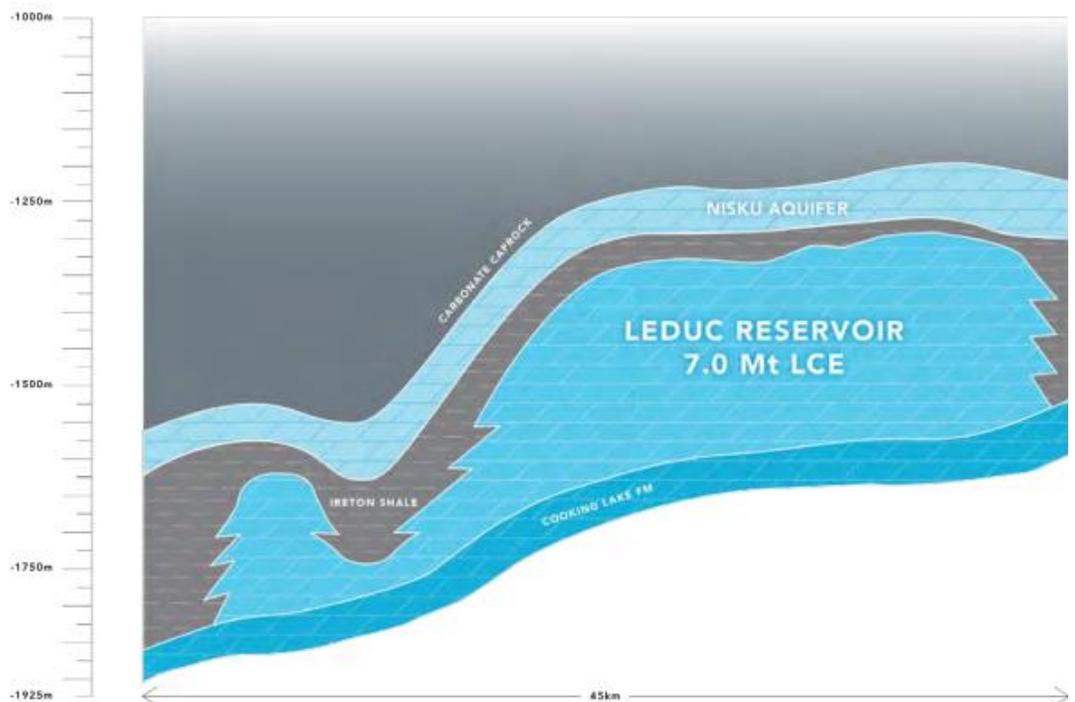
History, Exploration and Geology

Exploration and drilling programs in the permit area were first conducted as part of routine chemical analysis by oil and gas operators, such as Husky Oil and Shell, who have been active in the Leduc Aquifer area since the 1950s. One of the first oil wells drilled into the Late Devonian Leduc formation was by Imperial Oil in 1947.

Exploration for oil and gas deposits began in the mid 20th century

Occurring about 2,500m below the surface, the Leduc formation is an extensively dolomitized ancient reef complex that spans 100's of square kilometres and is over 200 metres thick. The Leduc reefs were a prevalent target for hydrocarbons from the mid to late century due to their size, high porosity and permeability. The area which covers the Clearwater resource contains two major Leduc oil pools of note, the Innisfail oil field on the western edge and the Wimborne field on the eastern edge. It is the Leduc formation and underlying Cooking Lake formation that is of significance for mineral brine potential (Figure 11).

Figure 11: Schematic through the Leduc Aquifer



Source: Company Reports

A rich database of well log information exists in the area due to oil and gas development, with over 7,000 wells being drilled across the entire project area and 1,846 wells drilled in the Clearwater area alone. Well logs provide the information required to interpret depth, lithology and fluid composition of rock formations. Furthermore, significant volumes of hydrocarbons and brine have been produced in the area since the 1960's and this has also resulted in a rich database of aquifer and production data.

Historical production of oil and gas peaked in this area in the 1970s and has decreased since then as hydrocarbons have been depleted. The Devonian petroleum system represents a mature petroleum field and today, most, if not all of the wells produce far more water than petroleum products. The first comprehensive review of mineral potential from this water was compiled by the Government of Alberta in the early 1990s. Data showed the highest concentrations of Li in this water occurred in the Middle to Late Devonian aquifers associated with the Swan Hills, Leduc and Nisku formations.

The main accumulation of Li at the Clearwater project occurs within dolomitized reefs of the Devonian Leduc age

As such, the main accumulation of Li on E3's project occurs within brines contained within dolomitized reefs of Devonian Leduc age, with a secondary accumulation occurring at a higher elevation in the biostromal development in the Nisku formation of the Devonian Winterburn Group. Consequently, Li-brine mineralization in the project area consists of Li-enriched Na-Ca brines that are hosted in porous and permeable aquifers associated with the Devonian carbonate reef complexes.

Importantly, Li brines associated with oil wells have been known for some time, but are typically lower in grade when compared to the major lithium deposits of the world such as the Salar de Atacama in Chile, Salar de Hombre Muerto in Argentina, and Clayton Valley, USA (the only significant lithium production facility in North America). With the advancement of modern metal recovery technology such as DLE, extraction of these lower grade brines may become economically viable.

Multiple oil and gas operators have allowed E3 to access existing wells for brine collection – in essence allowing the company to execute an exploration program without drilling the resource area. A total of 99 samples were collected from different wells for analysis, of which 34 were used to prepare the inferred resource estimate for the Clearwater project (Figure 3).

Lithium Extraction

Per the PEA, lithium at the Clearwater project is to be sourced from the production of brine water from deep vertical wells in the Leduc Aquifer and then transported to a central processing facility (CPF) via a 15km-long underground pipeline. Lithium is to be extracted from the brine using direct lithium extraction (DLE) technology which has been developed by E3. Lithium void brine is then returned back to the Leduc Aquifer via injection wells.

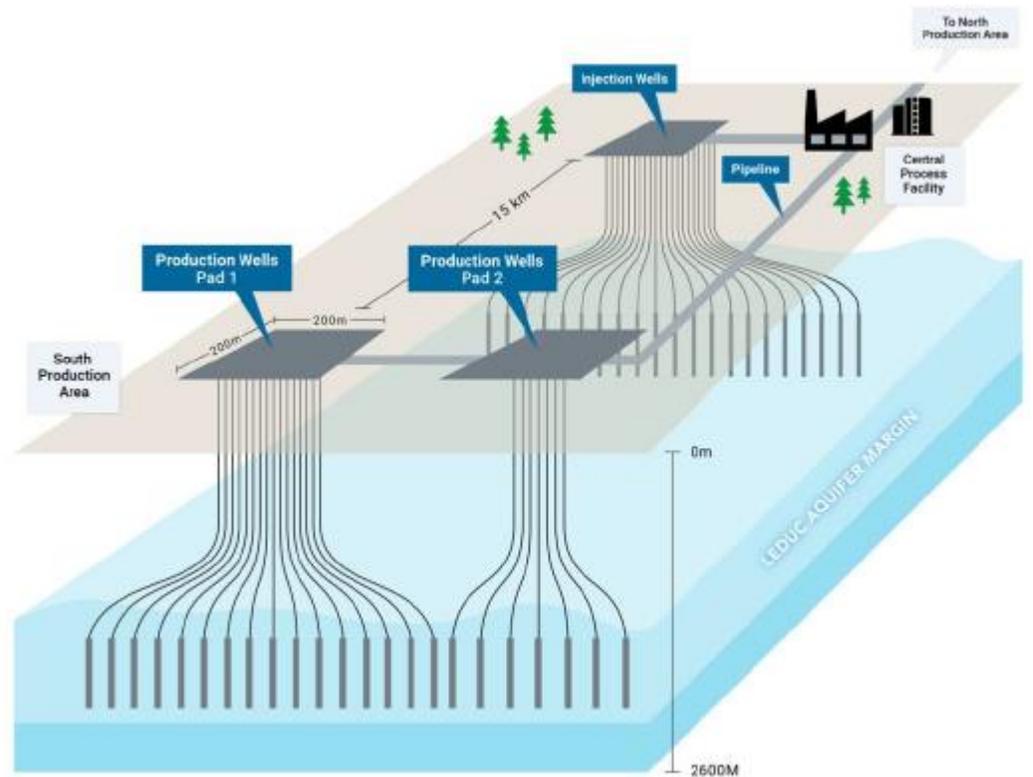
Brine is to be extracted using 42 wells from four well pads in two areas

Brine production

To minimize surface land use and environmental impact, and optimize capital costs, E3 plans to place multiple surface wells from a single pad. To extract brine from the Clearwater project, it is expected that a total of four well pads (in two groupings to the north and south) and 42 wells would be required, along with one well pad and 21 injection wells (Figure 12). It is estimated to take 26.5 days to drill one well at a cost of ~C\$3M per well. The

company plans to complete all 63 wells with 4 drill rigs bringing the total amount of drilling days required to 417 days. The selected layout and associated infrastructure is estimated to produce 140,000 m³/day of brine over a 20 year period resulting in the production of 20,000t of LHM/year. The production and injection wells are designed as such that the lithium void brine from the injection wells would reach the production wells after 20 years.

Figure 12: Proposed layout of CPF, production and injections wells



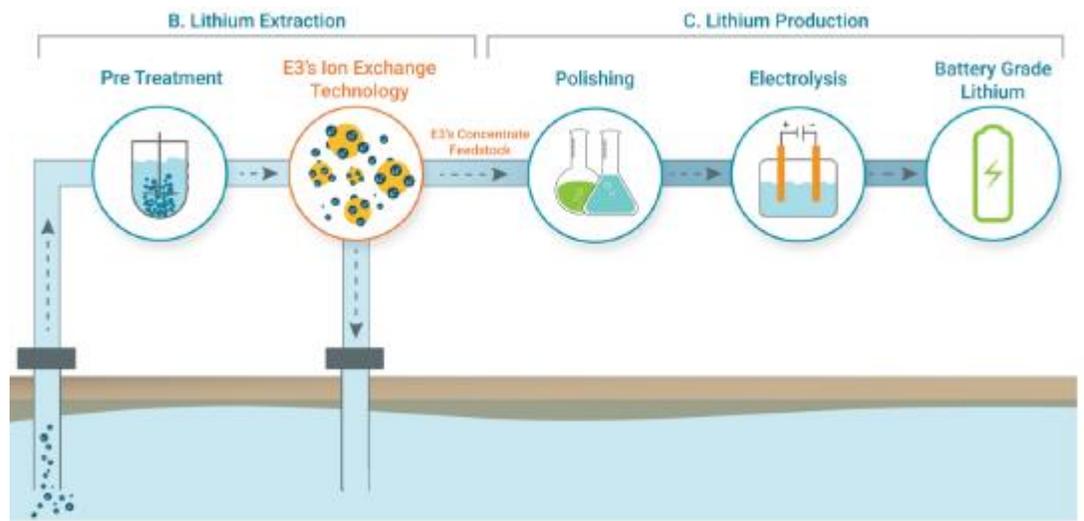
Source: Company Reports

E3's proprietary sorbent can recover Li from low concentrate brine solutions

Lithium recovery

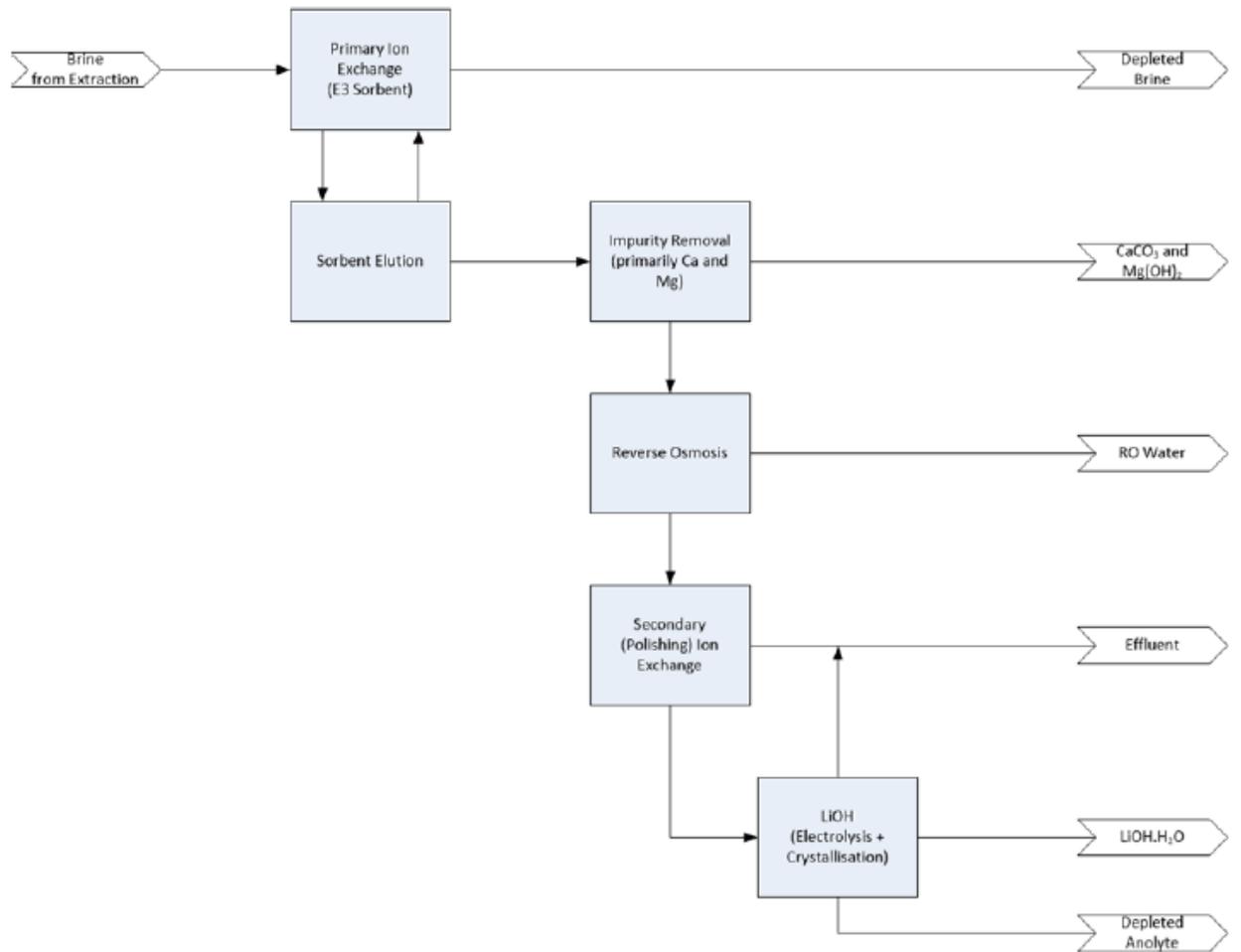
Lithium is to be recovered using E3's ion-exchange (IX) technology which is capable of recovering Li from low concentrate brine solutions. Prior to the lithium extraction process, the brine undergoes a pre-treatment process to remove H₂S from the brine (Figure 13). Following this, the brine is first absorbed into the proprietary sorbent material in vessels. Lithium is stripped from the loaded sorbent using the anolyte of an electrolysis circuit while the lithium void brine is returned to the well field for re-injection into the aquifer. Any lithium stripped from the sorbent, including cationic impurities (primarily Ca²⁺ and Mg²⁺), are eluted into sulphuric acid. The impurities are then precipitated using Li₂CO₃ and LiOH. Importantly, this method does not lead to any significant losses of lithium. The purified solution of lithium is then concentrated in a reverse osmosis (RO) circuit. Ca and Mg are further removed in a secondary, IX circuit prior to electrolysis. In an electrolyser, the purified brine is electrochemically split to produce LiOH and NaOH. The product is crystallized, separated and dried to produce final dry LiOH.H₂O (LHM) crystals.

Figure 13: Flow diagram of lithium extraction process



Source: Company Reports

Figure 14: Flow diagram of LHM production process



Source: Company Reports

PEA

The PEA for the Clearwater project was released in Q4/2020. Assuming production of 20,000t LHM/year for a period of 20 years, initial capital costs of US\$602M (\$813M), sustaining capital costs of US\$109M (\$147M) and operating costs of US\$3,656/t (\$4,936/t), the PEA generated an after-tax NPV_{8%} of US\$820M (\$1.1B) and IRR of 27%.

Figure 15: Select metrics from the 2021 PEA for the Clearwater project

	Unit	Value	
Production	LHM/year	20,000t	
Project life	years	20	
Average brine grade	mg/L	74.6	
	Unit	C\$	US\$
Initial capex	M	812.7	602
Sustaining capex	M	146.7	108.7
Cash operating costs	/t LHM	\$4,936.0	\$3,656.0
Pre-tax NPV _{8%}	M	\$1,516.1	\$1,123.1
After-tax NPV _{8%}	M	\$1,106.8	\$819.9
Pre-tax IRR	%	32%	
After-tax IRR	%	27%	
Pre-tax payback period	years	3.0	
After-tax payback period	years	3.4	

Source: Company Reports

Testing

In Oct/21 construction of E3's lab-pilot prototype was completed ([read more](#)). The prototype is E3's largest scale, DLE system constructed to date and has two separate trains capable of processing brine flow rates of up to 120 L/hr. An initial series of 11 tests conducted in Dec/21 recorded recoveries as high as 97%, with average Li recoveries of 95%. Subsequently, a 50-cycle test was completed with a single batch of E3's proprietary sorbent. Similar to the initial testing from Dec/21, results showed peak recoveries of 97% indicating a high-quality sorbent and consistent Li recoveries. Management has indicated that these results are better than ~94% recoveries assumed in the PEA indicating an improvement in the project economics. A second test on another form of E3's sorbent is currently underway on train #2 with results expected in the near-term.

Next Steps

Once lab testing is complete, we expect a field pilot plant to be constructed and commissioned. The company has already received C\$1.1M of a C\$1.8M grant from Alberta Innovates (Alberta's largest and Canada's first provincial research and innovation agency) for the design, construction, commissioning and operation of a field pilot plant. In late Jan/21 the company also announced that it plans to drill up to three wells program at Clearwater. This is a historic event as these wells are the first wells to be drilled for the purpose of Li evaluation in a province traditionally known for its oil endowment. The drilling program is expected to serve two main purposes: 1) help upgrade the current inferred resources to the M&I categories and 2) determine optimal locations for commercial operations. The conversion to the M&I categories is a necessary step ahead of the PFS, expected in 2023. Commercial production at Clearwater is expected in 2025-2026, targeting annual production of at least 20,000t LHM.

Initial testing has returned Li recoveries of 97%

A three well drilling program is underway at the Clearwater project

Risks

Exploration, development, and mining projects are inherently risky investments given the large initial expenses that are required in advance of any potential revenue. Our view is based on publicly available information and conversations with management. We note that our estimates and view are not without political, social, technical, geological, or financing risks typical for production-stage or developing, critical mineral companies. For E3 Metals Corp., four risks are of note.

1. **Geopolitical/jurisdictional risks** – Some of these risks may be out of the control of the company, including royalty and taxation levels, land agreement liabilities, regulatory, environmental and permit requirements and timing, global trade wars and political instability. We note that E3's assets are located in Alberta, a jurisdiction with a long history of resource development and extraction activity.
2. **Technical risks** – This covers a wide variety of issues that we see associated with resource companies including exploration, development and exploitation strategies and methods. It would cover such issues as accuracy of geological interpretation, resource/reserve estimates and economic studies and inputs such as commodity prices, cost and grade fluctuations, assay reconciliation, metallurgical issues, and exploration success. Our positive view relies on using existing technical data, recent exploration results and to a limited extent, expected positive results from future drilling. Future results may differ and negatively impact our assumptions. We note that while the extraction of lithium from brine using DLE technology has proven successful in laboratory or pilot plant settings, it has yet to be completed on a commercial scale, to our knowledge.
3. **Corporate risks** – These may include project execution by management, investor relations effectiveness, or market sentiment. Management pedigree and performance are paramount, and market sentiment may also be an issue. While we expect the lithium market to remain robust in the near future, our estimates may be negatively impacted by a change in market sentiment.
4. **Financial risks** – These may occur at the project or corporate level, including variation in valuation parameters/metrics, commodity price or foreign exchange fluctuations, access to credit including debt, equity financing or potential for shareholder dilution.

As new information becomes available, we may refine our numbers and update our risks.

Appendix: Management, Directors, and Advisors

Chris Doornbos – President, CEO & Director

Mr. Doornbos has a strong technical background and has successfully driven mining projects from the development stages through to production using innovative and out of the box thinking. He has a long history of developing companies, both privately and in the public capital markets. This includes developing and negotiating large corporate transactions, the sale and acquisition of mineral properties and strategic capital raising. Mr. Doornbos emphasizes risk management, developing and managing an exceptional technical team and well-strategized project generation, with a clear focus on developing and capturing value for shareholders. He was formerly the CEO/Director of Revere Development Corp. and Vice-President of Exploration for MinQuest Ltd.

Raymond Chow – CFO

Mr. Chow is a dynamic senior finance professional with more than 17 years of finance and accounting experience in high growth companies and corporate financial services. He served at ATB Financial in the project finance group and previously held progressively senior roles within the energy industry including serving as interim CFO for a private equity backed, intermediate private oil and gas producer. His experience includes go-public initiatives, M&A transactions totaling over a billion dollars in value and expertise in the financial reporting functions for public companies. Mr. Chow is a Chartered Professional Accountant (CPA, CA) and articulated at PricewaterhouseCoopers.

Jonathan Nielsen – Director, Technology

Mr. Nielsen brings over 30 years of experience and technical expertise in process development and optimization specific to base metals and lithium processing technology development from lab to commercial commissioning. He has held senior roles with several internationally recognized companies including FLSmidth where Mr. Nielsen was Director of their Global Hydromet Process Line, managing several significant roles including base metal and lithium brine business development, process design, testing, and project costing. Prior to his time with FLSmidth, Mr. Nielsen spent 11 years with Engitec Technologies (USA Division) where he held progressively senior roles including Site Technology Manager where he worked internationally managing the scale-up of proprietary hydrometallurgical technologies and plant commissioning, and ultimately holding the position of Managing Director where he oversaw all activities and development under the USA operations.

Chris Ward – Director, Projects

Mr. Ward is a seasoned project manager with over 25 years of experience in both design and operation of mining assets across North and South America. He has completed several +\$1B mining and mineral processing projects in his career, which spans multiple commodities including mineable oil sands, copper, molybdenum, lead, zinc, silica, and gold. Mr. Ward has a deep background in process design, as well as a comprehensive knowledge of project design and project management. He most recently worked on tailings and infrastructure projects for Imperial Oil and Syncrude.

Peter Ratzlaff – Director, Resource Development

Mr. Ratzlaff has over 25 years of diversified engineering and production/operations experience. His experience includes management of the overall production strategy, field operations, and capital programs in

the oil and gas industry. Prior to joining E3 Metals in 2021, Mr. Ratzlaff was Manager Operations at Huron Resources Corp. from 2016 to 2020. From 2010 to 2016, he held the role of Production Manager at Cequence Energy Ltd. Prior to Cequence, he held progressively senior roles with public companies including Canadian Hunter Exploration, Burlington Resources and ConocoPhillips. Mr. Ratzlaff has a Bachelor of Science in Chemical Engineering from the University of Calgary and is an APEGA Registered Professional Engineer.

Leigh Clarke – Director, Corporate Strategy and Sustainability

Mr. Clarke has over 30 years of wide-ranging experience and a deeply strategic mindset. Originally trained as a lawyer, he has had a diverse career ranging from corporate communications, investor relations and indigenous engagement, most recently serving as the General Counsel and Corporate Secretary for the Balancing Pool of Alberta. He has also spent over a decade enhancing value at AltaLink, as a Senior VP, enabling billions in value creation by identifying and mitigating a broad cross-section of legal, compliance and engagement risks. He has demonstrated strong skills in building relationships in private and publicly-traded company settings.

Kevin Stashin – Independent Director

Mr. Stashin is an oil and gas executive with over 40 years of industry experience with both junior and major companies, including Devon Canada Corporation, Anderson Exploration, and Petro-Canada. His expertise includes over 20 years as an executive in various business, technical and management roles including developing strategic direction, organizational effectiveness, reservoir development, new ventures, production, operations, and business development. Mr. Stashin is currently a member of APEGA, APEGS, and the Society of Petroleum Engineers..

Mike O’Hara – Independent Director

Mr. O’Hara is an oil & gas executive and registered professional engineer with 35 years’ experience in founding, developing and managing profitable, growth-oriented oil and gas companies. He has a solid track record in the evaluation, negotiation and acquisition of high-quality oil & gas properties and joint venture opportunities. Formerly, he was the President of Bernum Petroleum Ltd, President, Director and Founder of Xergy Processing Inc and CEO, President, Director & Founder of Calahoo Petroleum Ltd., a TSX listed E&P company, sold in 2000 to Samson Petroleum for ~\$130M.

Peeyush Varshney – Independent Director

Mr. Varshney has been actively involved in the capital markets since 1996 and has been a principal of Varshney Capital Corp., a private merchant banking, venture capital and corporate advisory firm since 1996. Mr. Varshney obtained a Bachelor of Commerce degree (Finance) in 1989 and a Bachelor of Laws in 1993, both from the University of British Columbia. He then articulated at a large regional business law firm in Vancouver, British Columbia, from 1993 to 1994, and has been a member of the Law Society of British Columbia since September 1994.

John Pantazopoulos – Board Chair, Director

Mr. Pantazopoulos is a finance and capital markets professional with over 20 years of energy industry and senior banking experience. He is currently Interim CEO and CFO of Next Hydrogen Corporation, which is developing a new electrolyser system designed to generate green hydrogen utilizing renewable energy sources. Previously, he served as Vice President with ATB Financial and was responsible for the credit portfolio within energy, oil field

services, project finance, and financial markets. Prior to this, Mr. Pantazopoulos co-founded and held the position of Senior Vice President Finance and CFO of an Alberta-based, private equity-backed intermediate E&P producer. He is a CFA Charterholder and holds an ICD.D designation. In 2017, John was recognized as a Calgary “Top 40 under 40”.

Dr. Wayne Monnery – Technical Advisor

Specialist in Chemical Engineering (thermodynamics, physical properties, and process design) with 30+ years experience in process engineering development and design in the chemical and petroleum industries.

Dr. Shaun Presow – Technical Advisor

Strong background in inorganic chemistry. Experienced in lithium-ion battery cathode material specifications. Senior auditor for BASF, a major chemical company, and manufacturer of battery components.

Dr. Mike Dixon – Technical Advisor

Global expert in desalination and water treatment technology. Experienced in the entire value chain from technologies to end-users. CTO for WaterNEXT and CEO of IoT company Synauta.

Jean Croteau – Corporate Advisor

Financial markets expert with significant experience at large Canadian financial institutions. Specialist in global macro-economic and geopolitical backdrops and their incidence on the financial markets.

Brad Wall – Corporate Advisor

Previously served as the Premier of Saskatchewan where he demonstrated a consistent ability to bring political and business leaders together as he implemented creative ways to bolster the province’s economic well-being.

Tim Reimer – Corporate Advisor

Calgary-based oil and gas expert in project management, joint ventures, operations, and commercial optimization of energy facilities.

Steven Goldman – Corporate Advisor

President and CEO of Comstock Metals and founding partner of the law firm Goldman Hine. An experienced public company board member.

Koby Kushner | Mining Analyst
Alina Islam | Senior Research Associate
Daniel Kozelewicz | Research Associate
Shikhar Sarpal | Research Associate

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Disclosure Statement
 Updated May 1, 2022

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2021-08-17	NA	NA	BUY (S)	21%
2021-10-20	NA	NA	HOLD	0%
2022-03-03	NA	NA	SELL / Tender	0%
2022-04-08	NA	NA	NA	2%
2022-04-26	NA	NA	Under Review	1%

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Company Name	Ticker Symbol	Disclosures
E3 Metals Corp.	TSXV:ETMC	

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