**DATE – NOVEMBER 27, 2017**

The following Management's Discussion and Analysis ("**MD&A**") should be read in conjunction with Bacanora Minerals Ltd. ("**Bacanora**" or the "**Company**") unaudited condensed consolidated interim financial statements for the period ended September 30, 2017, together with the accompanying notes.

The following discussion and analysis provides information that management believes is relevant to the assessment and understanding of the Company's results of operations and financial position. In the opinion of management, all adjustments consisting of normal recurring adjustments, considered necessary for a fair presentation of the Company's financial position, results of operations and funds flow, have been included. This MD&A is presented in Canadian dollars, unless stated otherwise. Additional information relating to Bacanora is available on SEDAR at www.sedar.com or on the Company's website at www.bacanoramineral.com.

## THE COMPANY

Bacanora is an exploration and development company focused on developing its Sonora Lithium Project ("**Sonora**") located in Sonora state in Mexico and its newly acquired project, Zinnwald Lithium Project ("**Zinnwald"**), located in southern Saxony, Germany. Bacanora was incorporated in Alberta, Canada in September 2008 and is listed on the TSX Venture Exchange and the AIM Market of the London Stock Exchange, and its common shares trade under the symbol, "BCN" on both exchanges. Please refer to section *Company Structure* for further details on the Company's legal and operational structure.

## QUARTERLY HIGHLIGHTS

### Operational

- On October 20th, 2017, the Company announced that the Environmental Impact Statement, the Manifestacion de Impacto Ambiental ("**MIA**"), for its flagship Sonora project has been approved by SEMARNAT, the Environment Ministry of Mexico. The approval represents a major milestone for Bacanora as it grants the Company government approval to construct an open-pit mine and a large scale beneficiation processing facility at Sonora.

- On November 1, 2017, the Company announced that access and surface rights had been secured for its flagship Sonora Project in Mexico. The access and surface rights mainly relate to the land area covering mineral resources contained within the La Ventana, Fleur and El Sauz areas. The Company has entered into binding agreements to acquire the freehold to two parcels of land which, following completion of the Company's Feasibility Study ("**FS**"), will provide the Company with unrestricted access to develop the Sonora Project and operate it for the initial life of mine.

- Feasibility study activities continue on the Sonora Project. Metallurgical test work is ongoing at the SGS Laboratories in Perth and Ausenco Engineers is currently completing the flow sheet design and mass balance to finalise operating and capital cost estimates. IMC Mining Consultants in Tucson have commenced mine planning and equipment selection for the open pit mining operation. Ongoing optimisation of the hydrometallurgical circuit utilising recycled $Na_2SO_4$ as a sulphate source. Within Sonora, local infrastructure, energy and natural gas supplies and consumable chemicals for the project continue to be a focus as a result of the previously reported increases in operating and capital costs for natural gas and chemical reagents. The FS report, scheduled for later in 2017, will also include an updated Mineral Resource Estimate ("**MRE"**) and geological model by SRK Consulting (UK) Limited based on the infill drilling programme which was completed in Q3 2016.

- The Company continues to operate its large scale lithium carbonate pilot plant in Hermosillo, Mexico currently focusing on:
  - production of battery grade lithium carbonate samples for distribution to potential customers in Asia
  - optimising the metallurgical flow sheet and ongoing FS testwork
  - operator training in preparation for the construction of the large scale plant.

- On November 7th, 2017 the Company announced that its jointly controlled entity, Deutsche Lithium GmbH ("**Deutsche Lithium**"), has been granted a mining licence covering 256.5 hectares of its Zinnwald project. The 30 year mining licence has been issued by the Saxony State Mining Authority. Recent testwork on Zinnwald concentrates has shown that a number of downstream lithium products can be produced from the Zinnwald ores, utilising chemicals and infrastructure available in the Dresden area. As part of the ongoing development of Zinnwald, a Feasibility Study is underway to develop a strategy to demonstrate the economic viability of producing higher value downstream lithium products for the European battery and automotive sectors and is expected to be completed in mid-2019.

  A resource infill drilling programme to upgrade the existing resource model in accordance with National Instrument 43-101 – *Standard of Disclosure for Mineral Projects* ("**NI 43-101**") is ongoing. Four out of 15 planned infill drilling holes have been completed - the remaining holes are scheduled for completion by January 2018.

  Collection of a 100 tonne bulk ore sample from the legacy mine at Zinnwald to provide samples for metallurgical testwork has been completed. On completion of the concentration testwork, hydrometallurgical testwork for downstream processing will be undertaken, focusing on the production of higher value lithium battery chemical products.

**Financial**

- On September 19th, 2017, the Company implemented a restricted share unit plan along with the grant of an aggregate of 1,192,277 restricted share units thereunder. All of the aforementioned restricted share units have been granted to directors, officers and senior management members of the Company and its subsidiaries. The restricted share units vest on the date that is three years from the date of the grant, being September 19, 2020.

- Also on September 19th, 2017, the Company granted an aggregate of 2,227,410 options to acquire common shares in the capital of the Company at a price of £0.80 (approximately $1.32) pursuant to the Stock Option Plan of the Company. All of the aforementioned stock options have been granted to directors, officers and senior management members of the Company and its subsidiaries. The options vest as to 1/3 on the date of grant and an additional 1/3 on each of the first and second anniversaries of the date of grant and are exercisable for a period of three (3) years.

- On September 28th, 2017, 833,333 of the Company's warrants and 50,000 of the common share options were exercised at $0.45 and $0.25 respectively for aggregate gross proceeds of $387,500.

**LITHIUM MINERAL PROPERTIES**

***SONORA LITHIUM PROJECT – MEXICO***

The Sonora Lithium Project consists of ten contiguous concessions covering 97,389 hectares. Two of the concessions (La Ventana, La Ventana 1) are owned 100% by Bacanora through its wholly-owned subsidiary Minera Sonora Borax S.A de C.V. ("**MSB**"). The El Sauz, El Sauz 1, El Sauz 2, Fleur and Fleur 1 concessions are owned by Bacanora's subsidiary, Mexilit S.A. de C.V. ("**Mexilit**") (which is owned 70% by Bacanora and 30% by Cadence Minerals Plc ("**Cadence**")). These concessions are located approximately 190 kilometres northeast of the city of Hermosillo, in Sonora State, Mexico. They are roughly 200 kilometres south of the border with Arizona, USA. The San Gabriel and Buenavista concessions are owned by Bacanora's subsidiary, Minera Megalit S.A. de C.V. ("**Megalit**") (which is owned 70% by Bacanora and 30% by Cadence).

The Company currently holds the Megalit concession in MSB, but intends to transfer it to the Megalit subsidiary once the license is received from the Mexican Federal Mining Ministry. Because of the size of the concession the Mining Ministry is taking longer than usual to grant the license. The Company has held the exploration rights to the concession since the claim application and surveys were submitted to the Mining Ministry on November 7, 2013. The Mining Ministry turned the authorization for title to the General Direction of Mining Regulation on February 3, 2015 but to date the title has not been received. Management has no reason to believe that the license will not be eventually granted, but in the unlikely event that it may not, management does not believe that it will impact the Company's future development activities, as the Megalit concession is not part of the MRE or the Pre-Feasibility Study ("**PFS**").

The Company has previously disclosed the existence of an agreement between the late Mr. Colin Orr-Ewing, the past Chairman of the Company, and the Company subjecting the Sonora Lithium Project to a 3% gross overriding royalty (the "**Royalty**") on production from certain concessions within the Sonora Lithium Project. The Company understands that the Royalty is now held by the estate of Mr. Colin Orr-Ewing. On November 17, 2017, the Company filed a statement of claim with the Court of Queen's Bench (Alberta) seeking to void *ab initio*, the Royalty. The basis of the Company's claim is that the Royalty was originally granted based on the misrepresentation of Mr. Colin Orr-Ewing that he held a pre-existing royalty granted prior to the acquisition of the lithium properties by the Company. The Board of Directors of Bacanora has completed a review of the historical background and concluded that no such pre-existing royalty existed and accordingly there was no basis for the grant of the royalty by the Company.

Based on the Company's updated MRE prepared with accordance with NI 43-101 announced on April 15, 2016, the Sonora Lithium Project concessions have an estimated Indicated Mineral Resource of 4.5[1] Mt LCE contained in 259 Mt of clay, at Li grade of 3,200 ppm, and an estimated Inferred Mineral Resource of 2.7 Mt LCE contained in 160 Mt of clay at a Li grade of 3,200 ppm. A Pre-Feasibility Study completed in Q1 2016 established Probable Mineral Reserve (in accordance with NI 43-101) of 2.1 million tonnes LCE and demonstrated the economics associated with becoming a 35,000 tpa lithium carbonate and 50,000 tpa SOP producer in Mexico.

### *Lithium Pilot Plant*

Over the past twelve months, the Company has continued to expand the production capacity of its pilot plant located in Hermosillo, Sonora, Mexico. Metallurgical optimization is ongoing, comprising flow sheet improvements and chemical reagent optimization, plus ongoing operator training. Some of the specific achievements over the last twelve months are:

- Signing of the off-take agreement with Hanwa Corporation for stage 1 of the project's production. Hydrometallurgical improvements by the addition of gas-fired stationary calcining units for continuous roasting of the lithium concentrate.
- Optimisation of lithium recoveries by calcining with $Na_2SO_4$.

[1] LCE = lithium carbonate ($Li_2CO_3$) equivalent; determined by multiplying Li value in percent by 5.324 to get an equivalent $Li_2CO_3$ value in per cent. Use of LCE is to provide data comparable with industry reports and assumes complete conversion of lithium in clays with no recovery or process losses.

- Increased capacity in the Pregnant Liquor Solution circuits to allow continuous leaching operations.
- Installation of additional resin columns in the lithium carbonate recovery circuit for the refining of the product to battery-grade lithium carbonate.
- Approximately 20 professional and operational personnel are now working at the pilot plant.
- Training and quality control processes are in full swing to negate risk associated with execution of commissioning and operational phases after construction of the Stage 1, 17,500 tpa plant and to ensure accelerated commissioning schedules in terms of operations and quality control.

In addition to the significant flow sheet development and optimisation being undertaken at the pilot plant, all of the flow sheet development is being audited by independent consultants supervised by Ausenco, as part of the ongoing FS process.

Over the next twelve months the Company will continue a recruitment campaign of engineers and operators in order to maintain the plant in continuous operation and to gain expertise in those processes that require supervision and monitoring for optimisation and quality control. To date, the plant has operated continuously on the beneficiation and hydro-metallurgical processes. This investment in people and training is expected to provide significant operational and quality control benefits once commissioning of the full scale lithium carbonate plant commences. Over the fiscal 2018 the Company has budgeted to spend an aggregate of approximately $2.6 million on the pilot plant.

***Feasibility Study***

The Company has continued to work with the same consultants that prepared the PFS. Process engineering for the FS is being carried out by Ausenco. SRK is undertaking the MRE and IMC is carrying out the reserve estimate and mine planning. Other specialised consulting groups will be appointed for additional sections of the FS.

The FS is focussed on delivering the most economically robust development strategy for an initial 17,500 tpa of lithium carbonate production at the Sonora project (subsequently increasing to 35,000 tpa in later years). The FS is budgeted to cost approximately $7.0 million and is now targeted for completion in late 2017. As previously reported, the Company is experiencing rising operating and capital costs, which are also relevant to all of Bacanora's peers, and importantly, are being experienced in tandem with a rise in lithium carbonate pricing. The Company is fully financed through to the completion of FS stage.

***DEUTSCHE LITHIUM PROJECT – GERMANY***

The Company holds 50% interest in a jointly controlled entity, Deutsche Lithium GmbH, which operates the Zinnwald Project located in southern Saxony, Germany, adjacent to the border of the Czech Republic and within 5 kilometres of the towns of Altenberg and Freiberg. The Company acquired its interest in February of 2017 for a cash consideration of €5 million (approximately $7,100,000) and an undertaking to contribute up to €5 million toward the costs of completion of a feasibility study, which is anticipated to take approximately 18 - 24 months. The Company has an option to acquire the remaining 50% of the jointly controlled entity, alone or together with any reasonably acceptable third party within a 24 month period for €30 million. In the event that the Company does not exercise this right within the above stated timeframe, then SolarWorld has the right but not the obligation to purchase the Company's 50% interest for €1.

Deutsche Lithium represents a strategic asset located in close proximity to a thriving market for lithium and energy products, which is being fuelled by Germany's electric automotive industry and the rise of renewable energy storage. Zinnwald is located in a world-class granite hosted Sn/W/Li belt that has been mined historically for tin, tungsten and lithium at different times over the past 300 years.

The project has a historical resource estimate which was reported in accordance with the PERC Code[2], comprised of Measured, Indicated and Inferred Resources[3] A Qualified Person (under NI 43-101) has not done sufficient work to confirm the historical estimate; hence the Company is not treating the historical estimate as current Mineral Resources or Mineral Reserves.

| Classification | Tonnes* (000) | Li Grade(ppm) | Contained LCE** tonnes |
|---|---|---|---|
| Measured | 10,283 | 3,661 | 200,277 |
| Indicated | 16,287 | 3,594 | 311,408 |
| Inferred | 9,867 | 3,704 | 194,484 |

**Notes**:

* Li cut-off 2,500pm and >2 metres vertical thickness.
** LCE is the industry standard terminology for, and is equivalent to, $Li_2CO_3$. 1 ppm Li metal is equivalent to 5.32 ppm LCE / $Li_2CO_3$. Use of LCE is to provide data comparable with industry reports and assumes complete conversion of lithium in clays with no recovery or process losses.

Bacanora believes that both historic work at Zinnwald and the geological context of the deposit demonstrates its potential for economic extraction of lithium products, as well as potential by-products of tin, tantalum and SOP. Bacanora's investment and expertise will facilitate further development in order to achieve higher-value, downstream lithium products which command higher prices in the market.

SolarWorld recently announced its intention to file for bankruptcy protection in Germany due to ongoing pricing pressures in its core solar markets. The Company is confident that the SolarWorld insolvency process will have no material impact on the Company's interest in Deutsche Lithium and the Zinnwald project, nor its agreement with SolarWorld.

## LITHIUM PROPERTIES OUTLOOK

The Company's strategy is to position itself to satisfy ongoing strong growth for lithium carbonate in the fast growing sectors of electric vehicles and energy storage. The Company is fully financed with approximately US$24.0 million in the bank at the date of this MD&A and is therefore fully funded through to the initial project development and the start of the construction stages.

The pricing of lithium carbonate in China remained strong in August 2017, with reported sales by major producers in the region of US$14,000/t and spot sales around US$19,400/t (source: https://seekingalpha.com/article/4117788-lithium-miner-news-month-october-2017). With this in mind, the Company will update the pricing assumptions in its FS and expects to announce the updated long term pricing forecast for lithium carbonate for the FS prior to the FS being released.

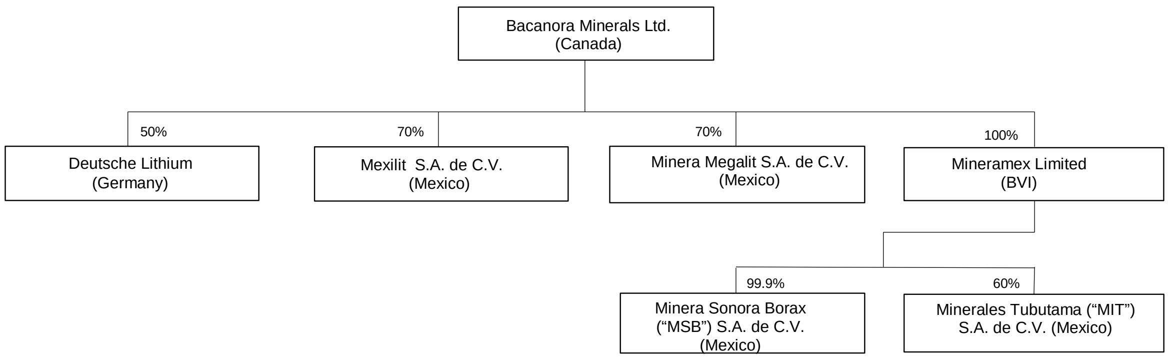
## COMPANY STRUCTURE

The Company is a public company engaged in the exploration and development of mineral deposits in Mexico and Germany. The Company is in various stages of exploration and development on all of its properties. The Company's common shares are listed on the TSX Venture Exchange as a Tier 2 issuer and on the AIM Market of the London Stock Exchange, under the symbol "BCN" on both exchanges.

[2] PERC Code means the Pan European Code for Reporting of Exploration Results, Mineral Resources and Reserves prepared by the Pan-European Reserves and Resources Reporting Committee, as amended.
[3] The foregoing estimates were set forth in a report dated October 1, 2014, prepared by G.E.O.S. Ingenieurgesellschaft mbH and Technical University Bergakademie Freiberg on behalf of SolarWorld Solicium GmbH and entitled, "Zinnwald Lithium Project, Report According to PERC Standard".

In 2013, the Company established the subsidiary Mexilit to hold the El Sauz, El Sauz 1, El Sauz 2, Fleur and Fleur 1 concessions, which are related to its agreement with Cadence. In 2014, the Company established the subsidiary Megalit to hold the San Gabriel, Buenavista and Megalit concessions which are also under a second agreement with Cadence. Cadence owns 30% of the shares of each of Mexilit and Megalit. The Company holds 50% interest in a jointly controlled entity, Deutsche Lithium GmbH, which operates the Zinnwald Project.

The following diagram illustrates the Company's corporate structure.




The Company's main lithium and borates concessions are held in these Mexican companies:

- MSB holds the Magdalena borates and La Ventana lithium concessions.
- MIT holds the Carlos, Carlos I, Carlos II and Carlos III borates concessions.
- Mexilit holds the El Sauz, El Sauz 1, El Sauz 2, Fleur, and Fleur 1 lithium concessions. Cadence owns 30% of this company.
- Megalit holds the Buenavista, and San Gabriel lithium concessions, and will also hold the Megalit concession. Cadence owns 30% of this company.
- Deutsche Lithium holds the Zinnwald Project, of which the Company owns 50%.

## EVALUATION AND EXPLORATION EXPENDITURES

The Company capitalizes all exploration costs subsequent to obtaining the right to explore related to the projects to Exploration and Evaluation assets. Table below summarizes the expenditures capitalized during the year ended June 30, 2017 and the period ended September 30, 2017.

For the year ended June 30, 2017 impairment charge of $8,037,430 was recognized in respect of the Magdalena Borate property, as a result of the Company's decision not to invest any further capital in the project. The recoverable amount is its estimated fair value less costs to sell and is determined to be $679,125. The Company plans to maintain the mining concessions in good standing for the next fiscal period.

| | Magdalena Borate | La Ventana Lithium | Mexilit Lithium | Megalit Lithium | Total |
|---|---|---|---|---|---|
| **Balance, June 30, 2016** | **$ 8,602,183** | **$ 5,147,394** | **$ 3,242,501** | **$ 824,635** | **$ 17,816,713** |
| Concession tax | - | 136,798 | 24,968 | 48,214 | 209,980 |
| Exploration | 10,061 | 290,525 | - | - | 300,586 |
| Drilling | - | 674,938 | - | - | 674,938 |
| Analysis and assays | 30,073 | 818,003 | - | - | 848,076 |
| Technical services | 20,128 | 5,945,743 | - | - | 5,965,871 |
| Travel and miscellaneous | 14,346 | 252,383 | - | - | 266,729 |
| Reimbursement of expenses from Cadence | - | - | (301,000) | - | (301,000) |
| Impairment write down | (8,037,430) | - | - | - | (8,037,430) |
| Foreign exchange adjustments | 39,764 | 25,659 | 16,056 | 2,703 | 84,182 |
| **Balance, June 30, 2017** | **$ 679,125** | **$ 13,291,443** | **$ 2,982,525** | **$ 875,552** | **$ 17,828,645** |
| Concession tax | - | 91,634 | 6,619 | 6,183 | 104,436 |
| Exploration | - | 40,705 | - | - | 40,705 |
| Analysis and assays | - | 268,782 | - | - | 268,782 |
| Technical services | - | 474,738 | - | - | 474,738 |
| Travel and miscellaneous | - | 26,731 | - | - | 26,731 |
| Foreign exchange adjustments | - | 20,864 | 150 | 146 | 21,160 |
| **Balance, September 30, 2017** | **$ 679,125** | **$ 14,214,897** | **$ 2,989,294** | **$ 881,881** | **$ 18,765,197** |

## RESULTS OF OPERATIONS

### Selected annual information

The Company is in the exploration stage and is entering into the development stage, though it does not have any mining operations and has not earned any revenue, except for interest income. While the information set out in the tables below is mandated by *National Instrument 51-102- Continuous Disclosure Obligations* it is management's view that the variations in financial results that occur from year to year and quarter to quarter are not particularly helpful in analyzing the Company's performance. It is in the nature of the business of junior exploration companies that unless they sell a mineral interest for a sum greater than the costs incurred in acquiring such interest, they have no significant net sales or total revenue. Because the majority of their expenditures consist of exploration and evaluation costs that are capitalized, exploration companies' annual and quarterly losses usually result from costs that are of a general and administrative nature.

Significant variances in the Company's reported loss from year to year and quarter to quarter most commonly arise from several factors that are difficult to anticipate in advance or to predict from past results. These factors include: (i) decisions to write off deferred exploration costs when management concludes there has been an impairment in the carrying value of a exploration and evaluation asset, or the property is abandoned, (ii) the vesting of incentive stock options, which results in the recording of amounts for stock based compensation expense that can be quite large in relation to other general and administrative expenses incurred in any given period, and (iii) fluctuations in foreign exchange rates.

During the year ended June 30, 2017, the Company recorded a total comprehensive loss of $19,149,907 (2016 - $11,541,808), used $7,605,727 (2016 – $8,476,706) of cash in operations, incurred $7,965,180 (2016 – $5,499,515) on exploration expenditures as well as $5,059,076 (2016 - $4,226,962) on general and administrative ("**G&A**") expenses.

| $ | For the year ended June 30, 2017 | For the year ended June 30, 2016 | For the year ended June 30, 2015 |
|---|---|---|---|
| Interest income | 94,895 | 114,079 | 108,403 |
| Comprehensive loss | (19,149,907) | (11,541,808) | (1,315,929) |
| Comprehensive loss per share – basic and diluted | (0.15) | (0.13) | (0.03) |
| Funds used in operations | (7,605,727) | (8,476,706) | (1,666,525) |
| Total assets | 73,688,775 | 49,279,201 | 24,728,583 |
| Total liabilities | 7,630,264 | 2,073,440 | 1,083,763 |
| Exploration and evaluation expenditures | 7,965,180 | 5,499,515 | 1,941,318 |
| General and administrative expenses | 5,059,076 | 4,226,962 | 2,753,173 |

For the year ended June 30, 2017 the Company's comprehensive loss increased by approximately $7.6 million due mostly to the impairment write down of its non-core Borates asset of approximately $8.0 million.

During the year ended June 30, 2017, the Company's general and administrative expenses increased by $832,114. Higher G&A expenses were due to higher legal fees associated with the re-domicile effort as well as increased focus on corporate governance matters. Addition of new consultants, and increased corporate travel and accommodation costs also contributed to the higher G&A expenses for the year.

General and administrative expenses for the years ended June 30, 2017 and 2016 were as follows:

| | **Twelve months ended** | |
|---|---|---|
| | **Jun 30, 2017** | Jun 30, 2016 |
| Management fees | **$ 2,192,560** | $ 1,861,713 |
| Legal and accounting fees | **1,420,460** | 1,248,410 |
| Investor relations | **622,320** | 434,753 |
| Office expenses | **158,390** | 317,977 |
| Travel and insurance | **665,346** | 364,109 |
| Total | **$ 5,059,076** | $ 4,226,962 |

**Summary of quarterly results**

**Three months ended September 30, 2017 compared to three months ended September 30, 2016.**

During the first quarter of fiscal 2017, the Company realized a comprehensive loss of $2,669,860 (2016 - $3,079,750), operating activities used $1,199,830 (2016 - $1,784,045), incurred $975,392 (2016 - $1,982,315) on exploration expenditures, as well as $1,260,884 (2016 - $1,283,089) on general and administrative expenses.

| | **Three months ended** | |
|---|---|---|
| | **Sep. 30, 2017** | Sep. 30, 2016 |
| Comprehensive loss | **2,669,860** | 3,079,750 |
| Comprehensive loss per basic and diluted share | **0.02** | 0.03 |
| Funds used in operations | **1,199,830** | 1,784,045 |
| E&E expenditures | **975,392** | 1,982,315 |
| G&A expenses | **1,260,884** | 1,283,089 |

The lower comprehensive loss during the first quarter is due largely to lower realized foreign exchange losses incurred during the period as compared to same period last year. The following table itemizes the individual G&A expense categories:

| | Three months ended | |
|---|---|---|
| | **Sep. 30, 2017** | Sep. 30, 2016 |
| Management fees | **$ 325,403** | $ 397,380 |
| Legal and accounting fees | **391,025** | 564,316 |
| Investor relations | **251,914** | 74,941 |
| Office expenses | **30,380** | 124,820 |
| Travel and insurance | **262,162** | 121,632 |
| Total | **$ 1,260,884** | $ 1,283,089 |

Total current quarterly G&A expenses remained relatively comparable to last year. Management and legal fees were lower this quarter while investor relations and travel expenses were higher comparing to the same period last year.

The following is a summary of the eight most recently completed quarters:

| $ | Three months ended Sep. 30, 2017 | Three months ended Jun. 30, 2017 | Three months ended Mar. 31, 2017 | Three months ended Dec. 31, 2016 |
|---|---|---|---|---|
| Comprehensive loss | (2,669,860) | (14,506,776) | (770,867) | (792,515) |
| Comprehensive loss per basic and diluted share | (0.02) | (0.09) | (0.01) | (0.02) |
| Funds used in operations | 1,199,830 | 3,041,115 | 348,633 | 2,431,934 |
| E&E expenditures | 975,392 | 1,254,700 | 2,430,040 | 2,298,125 |
| G&A expenses | 1,260,883 | 1,639,023 | 914,684 | 1,222,280 |
| $ | Three months ended Sep.30, 2016 | Three months ended Jun. 30, 2016 | Three months ended Mar.31, 2016 | Three months ended Dec. 31, 2015 |
| Comprehensive income/(loss) | (3,079,749) | (5,832,062) | (2,522,100) | (2,761,663) |
| Comprehensive loss per basic and diluted share | (0.03) | (0.05) | (0.02) | (0.03) |
| Funds used in operations | 1,784,045 | 4,494,096 | 1,507,031 | 2,239,498 |
| E&E expenditures | 1,982,315 | 1,879,986 | 1,507,200 | 738,187 |
| G&A expenses | 1,283,089 | 1,726,262 | 1,068,083 | 909,254 |

## LIQUIDITY AND CAPITAL MANAGEMENT

### Working Capital

The Company is not in commercial production on any of its resource properties and accordingly, it does not generate cash from operations. The Company finances its activities by raising capital through equity issuances. As at September 30, 2017, the Company had a working capital surplus of $30,256,014 (June 30, 2017 - $33,887,374). The current working capital is dedicated towards the completion of exploration programs, feasibility studies on the lithium projects along with continued work at the pilot plant. In order to meet the Company's planned growth and development activities, the Company budgets to spend an aggregate of approximately $19.5 million during fiscal 2018, with approximately $6.0 million on the Feasibility Study and related expenditures, approximately $2.6 million on pilot plant related capital expenditures, approximately $4.0 million on the Zinnwald project and approximately $6.9 million on general and administrative corporate expenditures.

At September 30, 2017, the Company did not have any bank debt. The Company intends on meeting its financial commitments through further equity financings, as and when required.

**Capital structure**

The Company's objectives in managing capital are to safeguard its ability to operate as a going concern while pursuing exploration and development and opportunities for growth through identifying and evaluating potential acquisitions or businesses. The Company defines capital as the Company's shareholders equity excluding contributed surplus, of $57,812,632 at September 30, 2017 (2016 - $60,077,541). The Company sets the amount of capital in proportion to risk and corporate growth objectives. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

**Equity instruments**

On August 14, 2015, 200,000 stock options were exercised at a price of $0.30 each for gross proceeds of $101,780.

On November 13, 2015, the Company completed a private financing of 11,476,944 common shares at a price of approximately $1.56 (£0.77) per share for aggregate gross proceeds of approximately $17,871,000 (£8,837,247). The Company paid commission of $354,280 and other share issue expenses of $56,117.

In December 2015 an aggregate of 650,000 stock options were exercised, each at a price of $0.24 per share. In addition, an aggregate of 1,250,000 options to acquire common shares at a price of $1.58 were granted to certain directors, officers, consultants and employees in December 2015.

On January 22, 2016, and April 27, 2016, the Company granted 1,000,000 and 2,000,000 common share options respectively to Mark Hohnen, each such option being exercisable into one common share at a price of $1.58 and $1.59 respectively per share, each option grant expiring on January 22, 2018 and May 27, 2019 respectively.

On April 28, 2016, an aggregate of 850,000 of stock options were exercised at a price of $0.50 each for gross proceeds of $425,000.

On May 20, 2016, the Company completed a private financing of 9,750,000 placing shares and 2,925,000 placing warrants at a price of approximately $1.48 (£0.79) per placing share for aggregate gross proceeds of approximately $14.7 million (£7,702,500). The Company paid commission of $440,450 (£231,075) and other share issue expenses of $64,893.

On September 30, and October 10, 2016, 2,925,000 warrants at a price of approximately $1.35 (£0.79) were exercised into 2,925,000 new common shares, for total proceeds of approximately $3.9 million (£2,310,750).

On February 1, 2017, the Company issued 200,000 common shares as a result of 200,000 stock options exercised at a price of $0.30 each, for total proceeds of $60,000.

On March 1, 2017, the Company issued an aggregate of 2,012,400 common share options at a price of $1.39.

On May 2, 2017, the Company issued 12,333,261 new common shares at a price of £0.83 (approximately $1.46) per share for gross proceeds of £10,175,000 (approximately $18.1 million).

On May 24, 2017, the Company issued 8,573,925 common shares at price of £0.86 (approximately $1.49) per share for gross proceeds of approximately £7.4 million (approximately $12.8 million).

On September 20, 2017, the Company issued 1,192,277 restricted share units and 2,227,410 options to acquire common shares in the capital of the Company at a price of £0.80 (approximately $1.32).

On September 28, 2017, 833,333 of the Company's warrants and 50,000 of the common shares options were exercised at $0.45 and $0.25 each respectively for aggregate gross proceeds of $387,500.

The following tables summarize the outstanding securities issued by the Company as at June 30, 2017, and as of the date of this MD&A.

| | November 27, 2017 | September 30, 2017 |
|---|---|---|
| Common shares | 132,789,872 | 132,789,872 |
| Stock options | 9,564,810 | 9,564,810 |
| Restricted share units | 1,192,277 | 1,192,277 |
| Total equity instruments outstanding | 143,546,959 | 143,546,959 |

The following table summarizes the outstanding options as at September 30, 2017.

| Grant date | Number outstanding at Sep. 30, 2017 | Exercise price | Weighted average remaining contractual life (Years) | Expiry date | Number exercisable at Sep. 30, 2017 |
|---|---|---|---|---|---|
| September 11, 2013 | 500,000 | 0.30 | 1.2 | Sept. 11, 2018 | 500,000 |
| December 2, 2015 | 925,000 | 1.58 | 3.4 | Dec. 2, 2020 | 925,000 |
| January 22, 2016 | 1,000,000 | 1.56(1) | 0.6 | Jan. 22, 2018 | 1,000,000 |
| April 27, 2016 | 2,000,000 | 1.94(2) | 2.0 | May 27, 2019 | 2,000,000 |
| March 1, 2017 | 400,000 | 1.39(3) | 4.7 | March 1, 2022 | 400,000 |
| March 1, 2017 | 2,012,400 | 1.39(3) | 2.7 | March 1, 2020 | 664,092 |
| May 15, 2017 | 500,000 | 1.53(4) | 2.9 | May 15, 2020 | 165,000 |
| September 20, 2017 | 2,227,410 | 1.32(5) | 3.0 | Sept. 20, 2017 | 735,045 |
| | 9,564,810 | | | | 6,389,137 |

(1) Exercise price of £0.77 per share
(2) Exercise price of £0.96 per share
(3) Exercise price of £0.85 per share
(4) Exercise price of £0.87 per share
(5) Exercise price of £0.80 per share

## SEGMENTED INFORMATION

The Company currently operates in two operating segments, the exploration and development of mineral properties in Mexico and the exploration and development of mineral properties in Germany. Before this year, the Company operated only in one segment in Mexico. Management of the Company makes decisions about allocating resources based on two operating segments. Summary of the identifiable assets, liabilities and net loss by operating segment are as follows:

| September 30, 2017 | Mexico | Germany | Head Office | Consolidated |
|---|---|---|---|---|
| Current assets | $ 3,640,263 | $ - | $ 31,390,448 | $ 35,030,711 |
| Long-term derivative asset | - | - | 2,689,639 | 2,689,639 |
| Property and equipment | 3,936,241 | - | 95,492 | 4,031,733 |
| Investment in jointly controlled entity | - | 11,739,831 | - | 11,739,831 |
| Exploration and evaluation assets | 18,765,197 | - | - | 18,765,197 |
| **Total assets** | $ 26,341,701 | $ 11,739,831 | $ 34,175,579 | $ 72,257,111 |
| Current liabilities | $ 671,689 | $ - | $ 4,103,008 | $ 4,774,697 |
| Joint Venture obligation | - | - | 2,147,559 | 2,147,559 |
| Deferred tax liability | - | - | 135,000 | 135,000 |
| **Total liabilities** | $ 671,689 | - | $6,385,567 | $ 7, 057,256 |

| For the period ended September 30, 2017 | Mexico | Germany | Head Office | Consolidated |
|---|---|---|---|---|
| Interest income | $ - | $ - | $ 45,434 | $ 45,434 |
| General and administrative | 92,072 | - | 1,168,812 | 1,260,884 |
| Accretion of Joint Venture obligation | - | - | 219,933 | 219,933 |
| Depreciation | 48,824 | - | - | 48,824 |
| Stock-based compensation | - | - | 681,144 | 681,144 |
| **Loss before other items** | $ (140,896) | $ - | $ (2,024,455) | $ (2,165,351) |

## FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

This note presents information about the Company’s exposure to credit, liquidity and market risks arising from its use of financial instruments and the Company’s objectives, policies and processes for measuring and managing such risks.

### *a) Credit risk*

Credit risk is the risk of financial loss if a counterparty fails to meet its contractual obligations. The Company’s credit risk relates primarily to Input Tax Credits (“**ITC**”) receivables in Canada and Value Added Tax (“**VAT**”) receivables in Mexico. The Company works to continue to collect the refunds on regular and complete basis. Any changes in management’s estimate of the recoverability of the amount due will be recognized in the period of determination and any adjustment may be significant. The carrying amount of accounts and related party receivables represents the maximum credit exposure.

All of the other receivables represent amounts due from the Canadian and Mexican governments and accordingly the Company believes them to have minimal credit risk. The Company considers all of its other receivables fully collectible, and therefore has not provided an allowance against this balance nor reclassified the balance as a non-current asset.

The Company’s cash is held in major Canadian, Mexican and UK banks, and as such the Company is exposed to the risks of those financial institutions.

The Board of Directors monitors the exposure to credit risk on an ongoing basis and does not consider such risk significant at this time.

***b) Liquidity risk***

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet its obligations when due, under both normal and stressed conditions, without incurring unacceptable losses.

***c) Market risk***

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the value of the Company's financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing long-term returns.

The Company conducts exploration projects in Mexico. As a result, a portion of the Company's expenditures, accounts receivables, and accounts payables and accrued liabilities are denominated in US dollars and Mexican pesos and are therefore subject to fluctuation in exchange rates.

***d) Fair values***

The carrying value approximates the fair value of the financial instruments due to the short term nature of the instruments.

## RELATED PARTY TRANSACTIONS

**a. Related party expenses**

The Company's related parties include directors and officers and companies which have directors in common.

During the period ended September 30, 2017, directors and management fees in the amount of $430,429 (2016 - $351,170) were paid to directors and officers of the Company which was expensed as general and administrative costs. Of the total amount incurred as directors and management fees, $55,048 (2016 – $56,574) remains in accounts payables and accrued liabilities on September 30, 2017.

During the period ended September 30, 2017, the Company paid $90,444 (2016 - $351,170) to Grupo Ornelas Vidal S.A. de C.V., a consulting firm of which Martin Vidal, director of the Company and president of MSB, is a partner. These services were incurred in the normal course of operations for geological exploration and pilot plant operation. As of September 30, 2017, $Nil (2016 - $$107,906) remains in accounts payable and accrued liabilities.

**b. Key management personnel compensation**

Key management of the Company are directors and officers of the Company and their remuneration includes the following:

| For the period ended, | **September 30, 2017** | September 30, 2016 |
|---|---|---|
| Director's remuneration: | | |
| Estate of Colin Orr-Ewing | **$ -** | $ 10,056 |
| James Leahy | **-** | 12,863 |
| Shane Shircliff | **-** | 3,546 |
| Derek Batorowski | **-** | 3,546 |
| Kiran Morzaria | **-** | 4,375 |
| Raymond Hodgkinson | **13,566** | - |
| Jamie Strauss | **24,666** | - |
| Andres Antonius | **15,641** | - |
| Junichi Tomono | **-** | - |
| Total directors' remuneration | **53,873** | $ 34,386 |
| Management's remuneration: | | |
| Mark Hohnen | **$ 98,535** | $ 87,852 |
| Peter Secker | **123,169** | 107,118 |
| Martin Vidal | **78,203** | 58,689 |
| Derek Batorowski | **76,649** | 63,125 |
| Total management's remuneration | **$ 376,556** | $ 316,784 |
| Total directors' and management's remuneration | **$ 430,429** | $ 351,170 |
| Operational consulting fees: | | |
| Groupo Ornelas Vidal SA CV | **$ 90,444** | $ 257,654 |
| Stock-based compensation expense to directors and management | **$ 571,759** | $ 784,743 |

As at September 30, 2017, the following options were held by directors of the Company:

| | **Date of grant** | **Exercise price** | **Number of options** |
|---|---|---|---|
| | September 11, 2013 | $0.30 | 200,000 |
| | December 2, 2015 | $1.58 | 175,000 |
| Martin Vidal | March 1, 2017 | $1.39 | 125,000 |
| | September 11, 2013 | $0.30 | 200,000 |
| | December 2, 2015 | $1.58 | 175,000 |
| Derek Batorowski | March 1, 2017 | $1.39 | 125,000 |
| | December 2, 2015 | $1.58 | 1,000,000 |
| | January 22, 2016 | $1.94 | 2,000,000 |
| | March 31, 2017 | $1.39 | 249,900 |
| Mark Hohnen | September 19, 2017 | $1.32 | 224,910 |
| | March 1, 2017 | $1.39 | 750,000 |
| Jamie Strauss | September 19, 2017 | $1.32 | 750,000 |
| | March 1, 2017 | $1.39 | 200,000 |
| Raymond Hodgkinson | September 19, 2017 | $1.33 | 100,000 |
| | May 15, 2017 | $1.53 | 500,000 |
| Andres Antonius | September 19, 2017 | $1.32 | 750,000 |

## COMMITMENTS AND CONTINGENCIES

The Company has commitments for lease payments for field office and camp with no specific expiry dates. The total annual financial commitment resulting from these agreements is $9,156. In addition, the Company has commitments for lease payments for its UK office in the amount of $49,000 per year until July, 2018.

The properties in Mexico are subject to spending requirements in order to maintain title of the concessions. The capital spending requirement for 2017 is $744,060. The properties are also subject to semi-annual payments to the Mexican government for concession taxes, which will be approximately $167,586 in fiscal 2018.

The Company, as part of a land purchase agreement, has committed to making a payment of $650,000 USD on December 15, 2020.

## RISKS AND UNCERTAINTIES

The mineral exploration industry is subject to numerous risks and uncertainties that can affect the Company's ability to explore and develop its mineral deposits and to ultimately generate cash flows from operations. In addition to the risks described in Note 5 of the audited consolidated financial statements for the year ended June 30, 2017, these risks and uncertainties include, but are not limited to the following:

- **Resource estimates**

  The Company's reported mineral resources are only estimates at this stage. Mineral resource estimates are uncertain and may not be representative. There are numerous uncertainties inherent in estimating mineral resources, including factors beyond the control of the Company. The estimation of mineral resources is a subjective process and the accuracy of any such estimate is a function of the quality of available data and of engineering and geological interpretation and judgement. Results of drilling, metallurgical testing, production, and exploration activities subsequent to the date of any estimate may justify revision (up or down) of such estimates. The Company and the directors cannot give any assurance that the estimated mineral resources will be recovered if the Company proceeds to production or that they will be recovered at the volume, grade and rates estimated.

- **Successful development of the Company's lithium and borate assets, and start of mining operations**

  Development of mineral properties involves a high degree of risk and few properties that are explored are ultimately developed into producing mines. The commercial viability of a mineral deposit is dependent upon a number of factors which are beyond the Company's control, including but not limited to the following:

  - a reduction in the market price of lithium and or borates;
  - delays in obtaining or an inability to obtain, or conditions imposed by, regulatory approvals;
  - non-performance by third party contractors;
  - inability to attract sufficient numbers of qualified workers;
  - change in environmental compliance requirements;
  - unfavourable weather conditions;
  - contractor or operator errors;
  - lack of availability of infrastructure capacity;
  - increases in extraction costs including plant, material, energy and labour costs;
  - lack of availability of mining equipment and other exploration services;

- catastrophic events such as fires, storms or explosions;
- the breakdown or failure of equipment or processes;
- construction, procurement and/or performance of the processing plant and ancillary operations falling below expected levels of output or efficiency;
- violation of permit requirements;
- the lack of progress with respect to the development of appropriate extraction technologies;
- the political stability of Mexico; and
- taxes and imposed royalties.

There are numerous activities that need to be completed in order to successfully commence production at the Sonora Lithium,  and Zinnwald projects including, without limitation: completing a feasibility study, acquiring of land and access rights, optimizing the mine plan, recruiting and training personnel, negotiating contracts for transportation and for the sale of products, updating, renewing and obtaining, as required, all necessary permits, including, without limitation, environmental permits; and handling any other infrastructure issues. There is no certainty that the Company will be able to recruit and train personnel, have available funds to finance construction and development activities, avoid potential increases in costs, negotiate transportation or product sales agreements on terms that would be acceptable to the Company, or that the Company will be able to update, renew and obtain all necessary permits to start or to continue to operate the projects. Most of these activities require significant lead times, and the Company will be required to manage and advance these activities concurrently in order to begin production. A failure or delay in the completion of any one of these activities may delay production, possibly indefinitely, and would have a material adverse effect on the Company’s business, prospects, financial position, results of operations and cash flows.

As such, there can be no assurance that Bacanora will be able to commence the development of the Sonora Lithium Project and/or Zinnwald project at all, or in accordance with any timelines or budgets that may be established due to the factors described above.

- **Financing risk**

Additional funding will be required in order to complete the proposed future exploration and development plans on the projects. There is no assurance that any such funds will be available.

Failure to obtain additional financing, on a timely basis, could cause the Company to reduce or delay its proposed operations. The majority of sources of funds currently available to the Company for its projects are in large portion derived from the issuance of equity. While the Company has been successful in the past in obtaining equity financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

- **Dependence on key personnel**

The success of the Company, in common with other businesses of a similar size, will be highly dependent on the expertise and experience of its directors and senior management. The loss of any key personnel could harm the business or cause delay in the plans of the Company while management time is directed at finding suitable replacements. The future success of the Company is in part dependent upon its ability to identify, attract, motivate and retain staff with the requisite expertise and experience. Although the Company has entered into consulting arrangements with its key personnel to secure their services, the agreements are not subject to any minimum notice periods and the Company cannot guarantee the retention of such key personnel. Should key personnel leave, the Company’s business, prospects, financial condition or results of operations may be materially adversely affected.

- **History of losses and no immediate foreseeable earnings**

  The Company has a history of losses and there can be no assurance that it will be profitable. The Company expects to continue to incur losses until such time as it develops and commences profitable mining operations on its projects. The development of the properties will require the commitment of substantial financial resources. The amount and timing of expenditures will depend on a number of factors, some of which are beyond the Company's control, including the progress of ongoing exploration, studies and development, the results of consultant analysis and recommendations, the rate at which operating losses are incurred and the execution of any joint venture agreements with any strategic partners. There can be no assurance that the Company will achieve profitability.

- **Government Legislation and regulatory risk**

  The mining industry in each of Mexico and Germany is subject to extensive controls and regulations imposed by various levels of government. All current legislation is a matter of public record, but the Company is unable to predict what additional legislation or amendments may be enacted. Amendments to current laws, regulations and permits governing operations and activities of mining companies, including tax and environmental laws and regulations which are evolving in Mexico and Germany, or more stringent implementation thereof, could have a material adverse impact on the Company.

- **The concessions may be impacted by undetected defects, litigation, revocation, non-renewal or alteration by regulatory authorities**

  While the Company has diligently investigated its title to, and rights and interests in, the concessions granted to the Company and, to the best of its knowledge, such title, rights and interests are in good standing, this should not be construed as a guarantee of the same. The concessions may be subject to undetected defects. If a defect does exist, it is possible that the Company may lose all or part of its interest in one or more of the concessions to which the defect relates and its exploration, appraisal and development programmes and prospects may accordingly be adversely affected.

  While the directors have no reason to believe that the existence and extent of any of the concessions are in doubt, title to mineral properties is subject to potential litigation by third parties claiming an interest in them. The failure to comply with all applicable laws and regulations, including failure to pay taxes, meet minimum expenditure requirements or carry out and report assessment work may invalidate title to or rights under all or portions of the concessions.

  All of the concessions in which the Company has or may earn an interest will be subject to applications for renewal or grant (as the case may be). The renewal or grant of the terms of each concession is usually at the discretion of the relevant local government authority. If a concession is not renewed or granted, the Company may suffer significant damage through loss of the opportunity to develop and discover any mineral resources on that concession area.

  Contractual agreements to which the Company is, or may in the future become party to, may become subject to payment and other obligations. In particular, for certain concessions, the Company is required to expend the funds necessary to meet the minimum work commitments attaching to such concessions. Failure to meet these work commitments will render the concession liable to be revoked. Further, if any contractual obligations are not complied with when due, in addition to any other remedies which may be available to other parties, this could result in dilution or forfeiture of interests held by the Company.

- **Expropriation of private assets by Mexican authorities**

  As regulated by the Mexican Law of Expropriation, the Mexican government has the right to expropriate privately owned land when deemed necessary in certain limited circumstances, for example if needed for the purposes of defence, conservation or development. In the event of an expropriation, the government will compensate the landowner at market value for the land expropriated. Therefore, it remains a risk that the Mexican authorities could expropriate the Company's mining concessions although compensation would be payable in such event.

- **Applications**

  Title has not yet been granted by Mexican Federal Mining Ministry in respect to the Megalit concession in the Sonora Lithium Project. Application has been made for this area which has been "Approved for Title" by the Mexican Federal Mining Ministry. While the directors believe that there is minimal risk of title not being granted in respect of this application, there is no guarantee that title will be granted in respect of this concession.

- **Maintenance of the Company's concessions**

  The Company's concessions in Mexico are subject to spending requirements in order to maintain the title of the concessions. The concessions are also subject to semi-annual payments to the Mexican government for concession taxes. Should the Company not, or not be able, to pay the spending requirements there is a material risk that the Company's ownership of its concessions may be revoked.

- **Share Capital of Mexican Subsidiaries**

  If the shareholders' equity of any of the Company's subsidiaries incorporated in Mexico decrease to an amount less than one third of their share capital, according to Mexican laws, this may be a cause for dissolving that subsidiary at the request of any interested third party. None of the Company's subsidiaries equity is currently at less than one thirds of its share capital.

- **Exploration uncertainty**

  The Company is in the process of exploring its Sonora Lithium and Zinnwald projects and has not yet determined whether the properties contain economically recoverable mineral reserves. The recoverability of carrying values for mineral properties is dependent upon the discovery of economically recoverable mineral reserves, the ability of the Company to obtain the financing necessary to complete exploration and development, and the success of future operations.

  The application of the Company's accounting policy for exploration and evaluation assets requires judgment in determining whether it is likely that costs incurred will be recovered through successful exploration and development or sale of the asset under review when assessing impairment. Furthermore, the assessment as to whether economically recoverable reserves exist is itself an estimation process. Estimates and assumptions made may change if new information becomes available and may therefore impact the Company's financial estimations and reported results.

- **Negative conclusions from further economic assessments**

  The Company's cash resources will be used, inter alia, for general working capital purposes and in particular, to fund the continuation of the work programme to develop its Sonora Lithium Project, and to establish the economic potential of its Zinnwald project. Until such time as any further economic assessments are concluded, uncertainty will exist as to the economic viability of the Company's lithium projects. In the event that any further economic assessments have negative conclusions, shareholders may lose some or all of their investment.

- **Internal controls**

  The Company has established a system of internal controls for financial reporting. Effective internal controls are necessary for the Company to provide reliable financial reports and to help prevent fraud. Although the Company has procedures in place in order to help ensure the reliability of its financial reports, including those imposed on it under Canadian securities laws, the Company cannot be certain that such measures will ensure that the Company will maintain adequate control over financial processes and reporting. Failure to implement required controls, or difficulties encountered in their implementation, could harm the Company's results of operations or cause it to fail to meet its reporting obligations. If the Company or its independent auditor discovers a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Company's financial statements and adversely affect the market price of the common shares.

- **Environmental compliance**

  All phases of the Company's operations in Mexico and Germany are subject to environmental regulation in that jurisdiction. Environmental legislation is evolving in a manner that will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. Compliance with environmental laws requires on-going expenditure and considerable capital commitments from the Company. Non-compliance may subject the Company to significant penalties, including the suspension or revocation of its rights in respect of its concessions or assets. There is no assurance that existing or future environmental regulation will not materially adversely affect the Company's business, financial condition and results of operations.

- **Environmental approvals**

  Environmental approvals and permits are currently, and may also in future be, required in connection with the Company's operations. Failure to comply with applicable environmental laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities against the Company, causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations, including the Company, may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil, administrative or criminal fines or penalties imposed for violations of applicable environmental laws or regulations.

- **Further licences and permits required**

  The Company's concessions for its lithium projects will need to obtain further licences and permits prior to commencing commercial operations. The Company will also be required to obtain further environmental and technical permits for the construction and development of its commercial operations. There is a risk that these further permits, concessions and licences may not be granted which would have a significant material adverse effect on the Company.

  In addition, the granting of such approvals and consents may be withheld for lengthy periods, or granted subject to satisfaction of certain conditions which the Company cannot or may consider impractical or uneconomic to meet. As a result of any such delays or inability to exploit such discoveries, the Company may incur additional costs or losses.

- **Unknown environmental hazard**

  Environmental hazards may also exist on the properties in which the Company holds interests, that are unknown to the Company at present and that have been caused by previous or existing concession holders or operators.

- **Exploration, development and operating risks**

  It is impossible to ensure that the development programmes planned by the Company will result in a profitable commercial operation. Whether the Company's lithium projects will be commercially viable depends on a number of factors, some of which are: (i) the particular attributes of the material excavated from the Company's concessions; (ii) the performance of the full-scale commercial production operations; (iii) the end prices that can be achieved by the Company for products offered to customers, which may be volatile; and (iv) government regulations, including regulations relating to prices, taxes, royalties, land use, importing and exporting of minerals and environmental protection. While the directors of the Company believe that the results of the small scale mineral extraction processes that have been achieved at the Pilot Plant are encouraging, the performance, yields, operating costs and capital costs of the full scale mineral production plant may differ materially from expectations, and the economic returns from processing the extracted ore into commercially saleable lithium may be lower than anticipated. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

- **Reliance on third parties**

  The Company will be reliant on third party service providers and suppliers to provide equipment, infrastructure and raw materials required for the Company's business and operations and there can be no assurance that such parties will be able to provide such services in the time scale and at the cost anticipated by the Company.

- **Operations**

  The Company's lithium projects involves a number of risks and hazards, including industrial accidents, labour disputes, unusual or unexpected geological conditions, equipment failure, changes in the regulatory environment, environmental hazards and weather and other natural phenomena such as earthquakes and floods. The Company may experience a plant shutdown or periods of reduced production as a result of any of the above factors. Such occurrences could result in material damage to, or the destruction of, production facilities, human exposure to pollution, personal injury or death, environmental and natural resource damage, monetary losses and possible legal liability, any of which could materially adversely affect the Company's results of operations.

- **Commodity prices**

  The profitability of the Company's operations will be dependent upon the market price of the products able to be sold by the Company. Mineral prices fluctuate widely and are affected by numerous factors beyond the control of the Company. General economic factors as well as the world supply of mineral commodities, the stability of exchange rates and political developments can all cause significant fluctuations in prices. The price of mineral commodities has fluctuated widely in recent years and future price declines could cause commercial production to be impracticable, thereby having a material adverse effect on the Company's business, financial condition and results of operations. The Company has entered into an Off-take Agreement for up to 100% of $Li_2CO_3$ produced at the Sonora Lithium Project, with final pricing to be at market price, to be finalized prior to commencement of production. The Company is therefore exposed to the risk of market fluctuations between the present and the commencement of production.

Furthermore, reserve estimates and feasibility studies using different commodity prices than the prevailing market price could result in material write-downs of the Company's investment in its assets, increased amortisation, reclamation and closure charges or even a reassessment of the feasibility of the Company's lithium and borate projects.

- **Single Purchaser Risk**

  The Company has entered into an Off-take Agreement with Hanwa, pursuant to which Hanwa has agreed to purchase 70-100% of lithium carbonate produced by the Company during Stage 1 production at the Sonora Lithium Project. Accordingly, the Company is subject to certain risks associated with having all of its production from the Sonora Lithium Project being purchased by a single purchaser. Such risks include, but are not limited to: potential decreased negotiation power; risks associated with the liquidity and solvency of Hanwa; any delays from Hanwa in terms of deliverables under the agreement could have potentially material adverse effects on the Company.

- **Infrastructure**

  The Company's lithium projects depend to a significant degree on adequate infrastructure. In the course of developing its operations the Company may need to construct and support the construction of infrastructure, which includes permanent water supplies, power, transport and logistics services which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure or any failure or unavailability in such infrastructure could materially adversely affect the Company's operations, financial condition and results of operations.

- **Canadian corporate income taxes**

  The Company has filed, and will file, all required income tax returns. However, such returns are subject to reassessment by the applicable taxation authority. In the event of a successful reassessment of the Company whether by re-characterisation of exploration and development expenditures or otherwise, such reassessment may have an impact on current and future taxes payable.

- **Tax considerations**

  Changes in tax laws in the countries that are applicable to the Company, in particular Mexico, Canada, BVI, UK or Germany, or any other subordinate legislation or the practice of any relevant taxation authority could have a material adverse effect on the Company. An investment in the Company may involve complex tax considerations which may differ for each investor and each investor is advised to consult their own tax advisers. Any tax legislation and its interpretation and the legal and regulatory regimes which apply in relation to an investment in the Company may change at any time.

- **Uninsured hazards**

  The Company may be subject to substantial liability claims due to the inherently hazardous nature of its business or for acts and omissions of contractors, sub-contractors or operators. Any indemnities the Company may receive from such parties may be limited or may be difficult to enforce if such contractors, sub-contractors or operators lack adequate resources.

  The Company can give no assurance that the proceeds of insurance applicable to covered risks will be adequate to cover expenses relating to losses or liabilities. Accordingly, the Company may suffer material losses from uninsurable or uninsured risks or insufficient insurance coverage. The

Company is also subject to the risk of unavailability, increased premiums or deductibles, reduced cover and additional or expanded exclusions in connection with its insurance policies and those of operators of assets it does not itself operate.

- **Exposure to economic cycle**

  Market conditions may affect the value of the Company's share price regardless of operating performance. The Company could be affected by unforeseen events outside its control including economic and political events and trends, inflation and deflation, terrorist attacks or currency exchange fluctuation. The combined effect of these factors is difficult to predict and an investment in the Company could be affected adversely by changes in economic, political, administrative, taxation or other regulatory factors in any jurisdiction in which the Company may operate.

- **Health and safety**

  The Company's activities will be subject to health and safety standards and regulations. Failure to comply with such requirements may result in fines and or penalties being assessed against the Company.

- **Geopolitical climate**

  The political climate in Mexico is currently stable and generally held to offer a favourable outlook for foreign investments. There is no guarantee that it will remain so in the future. Changes in government, regulatory and legislative regimes cannot be ruled out.

- **Foreign currency exchange rates**

  The Company's revenues will be derived in Mexico and the Company's operations and profitability may be adversely affected by movements in foreign currency exchange rates, particularly by movements in the US Dollar relative to Sterling, the Canadian dollar, the Euro, and the Mexican Peso, through both transaction and conversion risks.

- **Supply Agreement**

  On November 23, 2016, the Company announced that the financing condition in the conditional lithium hydroxide supply agreement previously announced on August 28th, 2015 has not been met under the terms of the agreement. The Company advised that it had extensive discussions with the customer as to the feasibility of securing project specific financing pursuant to the terms and conditions of the agreement, that those discussions have now concluded, and therefore we are discontinuing further efforts to secure project specific financing pursuant to the agreement.

- **SolarWorld Insolvency**

  SolarWorld recently announced its intention to file for bankruptcy protection in Germany due to ongoing pricing pressures in its core solar markets. The Company believes that the SolarWorld insolvency process will have no material impact on the Company's interest in Deutsche Lithium and the Zinnwald project, nor its agreement with SolarWorld.

While many of these risks are beyond the Company's control and it is impossible to ensure that the Company's exploration and development initiatives will result in commercial operations, Bacanora strives to minimize the aforementioned risks by:

- Employing management and technical staff and consultants with extensive industry and/or area experience;

- Maintaining an appropriate working capital position to cover the Company's capital and overhead requirements;

- Maintaining a low cost structure and a tight cost control system; and

- Maintaining insurance in accordance with industry standards to address the risk of liability for property damage, personal injury, and other hazards.

## ADVISORY REGARDING FORWARD LOOKING STATEMENTS

*This discussion includes certain statements that may be deemed "forward-looking statements". All statements in this discussion other than statements of historical facts, that address future acquisitions and events or developments that the Company expects are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements are summarized herein under the section entitled "Risks and Uncertainties" and include among other things, risks relating to the successful development of the Company's projects and the start of mining operations, market prices, continued availability of capital and financing, government and regulatory risks and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements. Except as required by applicable securities laws, the Company does not undertake any obligation to publicly update or revise any forward looking statements.*