



Bacanora Lithium Plc

Annual Report and Financial Statements

Six month period ended 31 December 2019

Company Directory

Board of Directors

Mark Hohnen (Chairman)
Peter Secker (CEO)
Eileen Carr
Jamie Strauss
Andres Antonius
Junichi Tomono
Wang Xiaoshen (Appointed - 18 October 2019)
Derek Batorowski (Resigned - 12 September 2019)

Chief Financial Officer

Janet Blas

Company Secretary

Cherif Rifaat

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Business Review

Highlights - for the six months ended 31 December 2019 and subsequent events:

Corporate - significant progress made in securing funding package for flagship Sonora Lithium Project (“Sonora”) in Mexico

- In October 2019, Bacanora concluded an Investment and Offtake Agreement with Ganfeng Lithium Co., Ltd. (“Ganfeng”), the world’s largest lithium metals producer in terms of production capacity and the world’s third largest lithium compounds producer. Having obtained the government approvals:
 - Ganfeng acquired 29.99% of Bacanora and 22.5% of Sonora Lithium Ltd (“SLL”), the holding company for the Sonora Lithium Project, for £14,400,091 and £7,563,649 respectively. Ganfeng retains pre-emption rights to maintain its shareholding of Bacanora.
 - Mr. Wang Xiaoshen, the Deputy Chairman of Ganfeng, was appointed to the Board of Bacanora.
 - A long-term offtake agreement was signed with Ganfeng for 50% of Stage 1 production at the Sonora Lithium Project and up to 75% during Stage 2 production, both at a market-based price per tonne.
 - Ganfeng initiated a review of the engineering design and capital costs of Stage 1 with a view to optimising capital costs and timetable to construction.
- In November 2019, Bacanora raised £7,729,150 via a placing of ordinary shares with its longest-standing institutional shareholder, M&G Plc (“M&G”), increasing M&G’s strategic holding in Bacanora to 19.9%.
- The Company retains its US\$150 million conditional senior debt facility with RK Mine Finance, signed in July 2018, to finance the development of the Sonora Lithium Project. US\$125 million remains to be drawn.

Sonora - work focused on ensuring project construction may commence after the financing package is completed.

- Work to complete the front-end engineering design (“FEED”) has continued throughout the period, with Ganfeng undertaking a review of the hydrometallurgical engineering.
- Our brokers, Citigroup Global Markets (“Citi”) and Canaccord Genuity (“Canaccord”), continue to progress work to secure full development capital for Stage 1 construction.

Zinnwald Lithium Project, Germany (“Zinnwald”) - Bacanora completes deal securing the future of the Joint venture agreement

- On 14 February 2020, Bacanora and the administrators of SolarWorld AG (“Solarworld”) agreed to cancel Bacanora’s option to purchase the remaining 50% shareholding of Deutsche Lithium GmbH (“DL”), not currently held by the Company. The agreement also cancelled Solarworld’s option to buy back Bacanora’s existing stake which was contingent upon the Bacanora not exercising its option. Bacanora retains its right of first refusal to purchase the remaining 50% currently held by Solarworld. Under the agreement Bacanora will provide €1.35 million funding to DL over the next two years.

Chairman Statement

Bacanora remains focused on its objective to advance the development of the Sonora Project in Mexico with the ultimate objective of becoming a producer of high value lithium products for many years to come. The period under review has been critical for Bacanora and has resulted in a number of significant developments that continue to add incremental shareholder value as we work towards completing the financing to support the construction at Sonora.

The Company celebrated a number of milestone achievements during the six month period with Ganfeng becoming a strategic investor and project partner in Sonora, and long-standing cornerstone shareholder, M&G, increasing its shareholding in the Company to 19.9%. These serve to highlight the compelling investment case behind the Company: Sonora's high-quality product, robust economics, a blue-chip shareholder base, a management team with a proven track record of delivery, a supportive jurisdiction, and excellent access to fast-growing end markets such as electric vehicles and energy storage. Furthermore, Sonora is expected to be one of the lowest cost operators in the industry at around US\$4,000 per tonne production cost. This low-cost profile is a significant advantage at a time when falling spodumene prices are putting Australian hard rock producers' higher cost production models under increasing pressure.

Securing Ganfeng, one of the world's largest lithium producers, in October 2019 as a 29.9% cornerstone investor as well as a 22.5% direct investor in Sonora, not only represents a major step towards securing development capital but also provides us with a highly credible joint-venture development partner with significant development and operational expertise. Furthermore, by signing an offtake agreement with Ganfeng, 100% of Stage 1 production at Sonora is now covered under two guaranteed offtake agreements with Hanwa Co., Ltd ("Hanwa") and now Ganfeng. These key milestone achievements follow the Sonora Feasibility Study for the Project which was completed in January 2018 along with the US\$150 million RK debt financing finalised in July 2018. The achievements move us closer to construction and production at Sonora.

Already, Ganfeng has embarked on metallurgical flow sheet optimisation and FEED work in China in tandem with work being carried out by GR Engineering Services ("GRES"). Ganfeng continues to incorporate the Sonora Project in its ongoing work schedules being undertaken in China, Australia and Argentina as part of a series of planned manufacturing capacity expansions to capitalise on the growing demand for lithium and to solidify its leading position in the lithium products industry. In China, work continues to increase the capacity of Ganfeng's battery-grade lithium carbonate production line in Ningdu County, Jiangxi Province which has reached its 17,500 tonnes per annum designed capacity and achieved its 2019 production targets. In addition, Ganfeng intends to build a battery-grade lithium hydroxide production line with a 50,000 tonnes per annum capacity at Basic Lithium Plant in Xinyu with commissioning targeted in 2020. These initiatives will support Ganfeng's target of 200,000 tonnes per annum lithium carbonate equivalent production capacity by 2025 which would represent 20% of forecast world demand, although final capacity expansion will be based on changes in, and assessment of, future price fundamentals for lithium products.

Both Bacanora and Ganfeng are also developing testwork programmes to evaluate the potential to produce other high value lithium products at Sonora in addition to battery-grade lithium carbonate. The results of this work will be reviewed over the next few months.

In November 2019, the Company raised approximately US\$10 million from one of its long-standing cornerstone shareholders, M&G, increasing its strategic holding in Bacanora to 19.9%. We believe this represents an endorsement of Sonora's potential to become a leading supplier of high-value lithium products to fast-growing industries such as electric vehicles and energy storage.

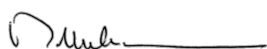
The price of lithium spodumene concentrates continued to fall during the period as significant oversupply from Australian concentrate producers continued to build overcapacity in West Australia and stockpile surplus in China. As a result, we have seen substantial restructuring within the Australian concentrate industry with some mines placed on care and maintenance and production capacities at some mines being reduced by as much as 60%. In addition, proposed expansion plans at downstream lithium plants in West Australia were downsized or halted.

The Australian spodumene oversupply to Chinese end users impacted downstream lithium prices of lithium carbonate and hydroxide in China. The price reduction in China exceeded corresponding reductions in Japan and Korea. The demand for battery-grade lithium products for the electric vehicle industry however, continued to be

supported by milestone vehicle production from Tesla, Volkswagen and other automotive manufacturers. Ongoing environmental legislation and the introduction of affordable family models of EVs continue to focus attention on the growth of the EV industry. The spodumene oversupply situation continues to support Bacanora's strategy to focus on low cost integrated facilities for downstream lithium production of value-added products in Sonora. The ongoing Coronavirus outbreak is having an impact on both Chinese and World economies, and we understand that this will have a knock-on effect on the lithium market and impacting our project schedule.

As demand for lithium is forecast to triple by 2025, Bacanora remains in a strong position to capitalise on this thanks to having one of the world's largest lithium deposits and the financial backing of blue-chip partners.

I sincerely thank the Board, our management team and all our employees for their continued dedication and hard work during this major phase of development. I also welcome the appointment of Mr Wang Xiaoshen to our Board and acknowledge the service of Derek Batorowski, who stood down as Non-Executive Director in September 2019. Lastly, I would like to thank all our shareholders for their continued support, I look forward to providing updates on our progress.



Mark Hohnen, Chairman

28 February 2020

Strategic Report

Business Model

Our business model is to create shareholder value by identifying and investing in undeveloped lithium assets. The Company is achieving this through its investments in two key projects, Sonora and Zinnwald Lithium Projects in Mexico and Germany respectively.

To capitalise on the fast-growing lithium market, our main focus is to monetise the resources and reserves held in Sonora, which benefits from a large, scalable and high-grade lithium resource with a global Resource (measured, indicated and inferred) of almost 9 million tonnes lithium carbonate equivalent (“LCE”). This will be initially achieved by developing phase 1 of the mine and processing plant. The Company aims to produce battery-grade lithium product for sale to downstream cathode and battery manufacturers through existing shareholders and offtake partners Ganfeng and Hanwa. The Company published the Sonora Feasibility Study (“SFS”) in January 2018 that showed a pre-tax NPV of US\$1.25 billion, 26% IRR and an operating cost of approximately US\$4,000 per tonne. Bacanora has 10 licences covering almost 100,000 hectares in Sonora, of which 7 licences form part of the SFS. The Company has invested over US\$31 million on the development of Sonora including a pilot plant in Hermosillo, which has produced high quality battery-grade (>99.5%) lithium carbonate during ongoing test work conducted over the last 4 years.

The Company also holds a 50% investment in DL, which owns the Zinnwald Lithium Project (covering 256.5 ha and with a 30 year mining licence to 31 December 2047), the Falkenhain licence (covering 295.7 ha and with a 5 year exploration licence to 31 December 2022) and the Altenburg licence (covering 4,225.3 ha and with a 5 year exploration licence to 15 February 2024). The Company published the Zinnwald Feasibility Study (“ZFS”) in June 2019, that showed a pre-tax NPV of €428 million and IRR of 27%. The Company is currently evaluating its options to complete the financing of the project as a whole, which may include the spinning-out of the project into a separate company.

Our approach to delivering this core business model is predicated on the following:

1. A world class lithium resource containing approximately 9 million tonnes of lithium carbonate
2. Experienced Board and operational leadership team.
3. Over 4 years of pilot plant operations in Mexico.
4. Access to strong technical skills either from our in-house team or network of advisers.
5. Emphasis on building strong local organisations and skill sets.
6. Commitment to excellence in Health, Safety, Environment and Community matters (“HSEC”).
7. Long-term lithium offtake agreements with key shareholders Ganfeng and Hanwa.
8. Disciplined capital management and careful handling of Company resources.

Strategy

Bacanora intends to become an international lithium production company with a portfolio of global projects.

The Board’s strategy to achieve this goal involves several steps:

1. Find world class projects that can address the rapidly increasing demand for lithium for electric vehicles and energy storage industries.
 - Sonora has identified its NI 43-101 Measured, Indicated and Inferred Resource of 8.8 million tonnes of LCE resources suitable for open pit mining to ultimately produce battery-grade lithium carbonate.
 - Zinnwald has identified its NI 43-101 compliant Measured and Indicated Resource of 124,974 tonnes of contained lithium, which is expected to supply battery-grade lithium fluoride to support local chemical industry requirements.
2. Complete feasibility studies to evaluate and quantify the economic potential of its projects.
 - In January 2018, Bacanora published the SFS on a small part of the concessions in Sonora that showed a pre-tax NPV of US\$1.25 billion, 26% IRR and an operating cost of around US\$4,000 per tonne.
 - In June 2019, Bacanora published the ZFS that showed a pre-tax NPV of €428 million and 27.4% IRR over a 30 year mine plan equating to less than 50% of the current identified mineral resources.
3. Complete the detailed design of the mines and processing plants for Sonora and Zinnwald.

- Bacanora is finalising its FEED for Sonora. GRES is reviewing the process guarantee proposals as part of their FEED and EPC work. Furthermore, Ganfeng will complete a review within the next 6 months, of the engineering design and capital costs of Stage 1 with a view to optimising costs and timetable to construction.
 - Bacanora is currently exploring funding options to further develop the projects.
4. Validate the quality of its product by securing high quality offtake partners.
 - Bacanora has used its pilot plant, which has been in operation for several years to provide samples of its lithium carbonate to prospective customers, predominantly in Japan and China. This has resulted in Hanwa, one of Japan's largest metals trading houses, signing a 10 year offtake agreement for 50% of Stage 1 of production and investing in the Company directly. In October 2019, the Company completed its offtake agreement with Ganfeng, the world's largest lithium metals producer by production capacity and the world's third largest lithium compounds producer, for 50% of Stage 1 production and up to 75% of Stage 2 production, as well as investment in the Company at both a Group level and project level.
 - The Company has commenced discussions with potential offtake partners in Germany for the outputs from Zinnwald.
 5. Complete the funding required to construct its projects.
 - Bacanora has secured US\$150.0 million of debt funding from RK Mine Finance and has a commitment for an additional US\$25.0 million of equity finance from Hanwa. Ganfeng has invested an initial £22.0 million for 29.99% of the Company and 22.5% of the Sonora project at the project level with the option to acquire up to 50% at the project level. M&G have invested a further £7.7 million to increase their holding to 19.9% of the Company. The Company intends to raise the remaining funding requirements required to construct the Stage 1 mining and processing operation in Sonora.
 - Bacanora is in discussions with interested strategic third parties in relation to funding the construction of the Zinnwald Lithium Project, which may include a separate listing of DL.
 6. Construction and commissioning of its lithium plants
 - Bacanora is finalising its FEED work for its Stage 1 17,500 tpa lithium carbonate plant. The Company will also work with Ganfeng on further optimization and cost reductions over the next 6 months. The Company currently envisages Engineering, Procurement and Construction ("EPC") style contracts for the construction of the processing plant.
 7. DL intends to commence the detailed design engineering phase of the Zinnwald Lithium Project, during which a detailed schedule for the project development will be completed.
 8. Hiring of a team with the expertise to deliver the projects into production.
 - As at 31 December 2019, the Group had over 30 employees and contractors. Bacanora is led by CEO Peter Secker who has built and operated 5 greenfield mining projects over the past 35 years.

Operations

Bacanora is currently at the exploration and development stage of its two main projects and will only move into construction on the completion of its next stage of equity fund raising, completion of FEED and Board approval. In terms of how the Company expects its main operations to evolve, this will include inter alia:

1. Property, plant and equipment
 - The Company's property, plant and equipment comprise primarily the pilot plant in Hermosillo, land covering the mining concessions, and office furniture and IT equipment in Mexico and the UK.
 - As the Sonora and Zinnwald Lithium Projects move into construction and production, they will have the property, plant and equipment as determined by completion of the FEED.
2. Maintenance
 - At Sonora, Bacanora's existing staff maintain the pilot plant and have had no material issues. They continue to produce samples of lithium products including lithium carbonate, lithium hydroxide, lithium sulphate and roasted concentrate. It is envisaged that the construction of the three main portions of the processing plant will be done under EPC contracts, which will include all relevant inspections, guaranteed cost to complete and process guarantees. Once construction is complete, the Company will maintain and operate its facilities.
3. Delivery and transportation

- The final lithium products will be sold on an Free On Board basis to its offtake partners and will be transported by road from the processing plant to the port of Guaymas at which point ownership will pass to Hanwa and Ganfeng, who will then ship the product by sea to their end customers.
4. Sales and marketing
 - The Company intends to sell the majority (if not all) of its lithium carbonate production to its offtake partners, who will sell the product on to end-users. This is in line with the wider industry requirements for battery-grade lithium products, where users typically require long-term supply contracts. The Company will work in conjunction with its offtake partners to assist them in this process but does not envisage a dedicated internal sales and marketing function.
 5. Suppliers and contractors
 - At Sonora, the main suppliers of its raw materials, such as soda ash and liquified natural gas (“LNG”), will be local Mexican and US suppliers and the Group is in discussions to secure long-term supply agreements. Energy will primarily come from the consumption of gas, which will be initially supplied by trucked LNG, and then via a gas pipeline as outlined in the SFS.
 6. R&D
 - The Company currently has no patents registered on its production techniques and intends to use a well-established sulphate roast processing route.
 7. Employees
 - As at 31 December 2019, the Group employed 19 people in Mexico, including contractors. There are 12 people at the Company’s head office in the UK, including the Board.
 8. Environmental, occupational, health and safety
 - The Group monitors its HSEC obligations as a basic KPI (see below). It also has a number of Corporate Social Responsibility Policies, which are published on the Company’s website at <https://www.bacanoralithium.com/investor-relations/csr-documents/>. As projects move into its construction and production phases, the appropriate local level policies will also be put in place.

Key Challenges

Since January 2018, Bacanora Lithium has delivered two bankable feasibility studies with a combined independent NPV of more than US\$1.7 billion. The Company has successfully negotiated a US\$150 million debt facility from RK Mine Finance. The business also secured one of the world’s biggest lithium producers in Ganfeng as a cornerstone equity investor with a further vote of confidence from M&G with their investment in November 2019. Offtake agreements with Ganfeng and Hanwa have been secured, subject to conditions and full project financing for Sonora. However, the Sonora Lithium Project is dependent upon significant additional funding being available to fund capital expenditure and working capital requirements. There is no assurance that any such funds will be available. Bacanora is working with Ganfeng to optimise the capital costs required for Stage 1 and plans to re-engage with the equity markets in order to raise sufficient capital. Similarly, funding will be required to develop Zinnwald, although the capital requirement is lower.

The production of battery-grade lithium products from the Sonora Lithium Project will be from open pit mining operations feeding a three-part chemical processing plant using the conventional sulphate route. The Company has operated a lithium pilot plant in Sonora for the past 4 years to demonstrate the viability of Sonora. Sonora’s processing plant will require the supply of both gas and high voltage electricity infrastructure to the site. The long-term plan is for a third-party service provider to provide energy supply via a cogeneration plant using natural gas as the fuel from a pipeline that they will construct. We are currently in discussion with a number of suppliers for this. Due to the long lead time for construction of a gas pipeline and potential delays in construction and permitting, an early stage alternative approach includes trucking liquified natural gas to site.

In response to the attractive demand side fundamentals of the lithium market, lithium producers have responded with new production volumes coming online leading to oversupply in the market. Oversupply has had a downward pressure on prices in 2019. The lower prices have caused existing suppliers to roll back production and postpone expansion plans. The delicate balance of the supply and demand fundamentals currently, and over the next 5 years, creates pricing uncertainty. Please refer to the *Operational Review* section for more detailed analysis of market dynamics.

Principal Risks and Uncertainties

The Board is responsible for putting in place a system to manage risk and implement internal control. The Board has considered mechanisms by which the business and the financial risks facing the Group are managed and reported to the Board. The principal business and financial risks have been identified and control procedures implemented. The Board acknowledges it has responsibility for reviewing the effectiveness of the systems that are in place to manage risk.

The Board has delegated certain authorities of risk management to the Audit Committee, which has its own formal terms of reference. The Committee meets at least bi-annually to coincide with the annual audit and the interim Financial Statements and to assess the effectiveness of the Group's system of internal controls. The Audit Committee is chaired by Eileen Carr, a qualified accountant, and comprises only independent non-executive Directors.

a Financial controls

The Company has an established framework of internal financial controls, the effectiveness of which is regularly reviewed by the senior management team, the Audit Committee and the Board in light of an ongoing assessment of significant risks facing the Company.

- The Board is responsible for reviewing and approving overall Company strategy, approving budgets and plans. Monthly results and variances from plans and forecasts are reported to the Board.
- The Audit Committee assists the Board in discharging its duties regarding the financial statements, accounting policies and the maintenance of proper internal business, and operational and financial controls.
- There are procedures for budgeting and planning, for monitoring and reporting to the Board business performance against those budgets and plans, and for forecasting expected performance over the remainder of the financial period. These cover cash flows, capital expenditures and balance sheets.

b Internal controls

The Board is responsible for ensuring that a sound system of internal control exists to safeguard shareholders' interests and the Group's assets. It is responsible for the regular review of the effectiveness of the systems of internal control. Internal controls are designed to manage rather than eliminate risk as even the most effective system cannot provide assurance that each and every risk, present and future, has been addressed. The key features of the system that operated during the period are described below.

- Regular Board meetings to consider the schedule of matters reserved for Directors' consideration;
- A risk management process;
- An established organisation with clearly defined lines of responsibility and delegation of authority;
- Appointment of staff of the necessary calibre to fulfil their allotted responsibilities;
- Comprehensive budgets, forecasts and business plans, approved by the Board, reviewed on a regular basis, with performance monitored against them and explanations obtained for material variances;
- An Audit Committee of the Board considers significant financial control matters as appropriate;
- Documented whistle-blowing policies and procedures.

c Corporate risk register

The Group's internal risk identification and management process is undertaken by the senior management team who prepares and reviews the risk register for the Group. The risk register details specific risks to the Group and with some mitigating actions to manage these risks and contains a "traffic-light" management system for ongoing review. The risk register is reported to the Audit Committee, and specific risk items may also be discussed at Board level as appropriate.

While the list is not exhaustive, it is derived from the Group's detailed risk register, which was disclosed in full detail in the Company's 2018 Appendix to the AIM Schedule 1 announcement.

The following risks are those that the Group considers could have the most serious adverse effect on its performance and reputation.

Risk 1: Successful development of the Sonora and Zinnwald Lithium Projects

Development of mineral properties involves a high degree of risk and only a 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 Group's control, including but not limited to the following:

- obtain sufficient financing for the development of the Projects (see Risk 2 below);
- inability to attract sufficient numbers of qualified workers (see Risk 4 below);
- change in environmental compliance requirements (see Risk 5 below);
- delays in obtaining or an inability to obtain, or conditions imposed by, regulatory approvals (see Risk 5 below);
- a reduction in the market price of lithium (see Risk 6 below);
- lack of availability of infrastructure capacity (see Risk 7 below);
- non-performance by third party contractors;
- unfavourable weather conditions;
- contractor or operator errors;
- access to and increased costs of inputs, including plant, material, energy and labour costs;
- lack of availability of mining and processing 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;
- disruption caused by external groups e.g. cartel and demonstrators;
- taxes and imposed royalties; and
- shortage of required inputs.

There are numerous activities that need to be completed in order to successfully commence production at Sonora and Zinnwald including, without limitation: optimising 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 Group 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 Group, or that the Group 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 Group 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 Group's business, prospects, financial position, results of operations and cash flows.

Mitigation:

The Company completed the SFS in January 2018. Since that date the Company has secured Ganfeng, the world's third largest lithium producer, as the project's cornerstone investor, obtained additional equity investment from one of its long standing institutional shareholder, M&G, acquired additional land, secured water permits, made key internal hires, concluded offtake contracts with Ganfeng and Hanwa, secured debt financing and is in final stages of its FEED work. The Company is also working towards completing the full financing package to be able to start construction.

For Zinnwald, the ZFS was concluded in June 2019. This mitigates some of the above risks to a degree, e.g. analysis of infrastructure requirements and availability thereof.

Trend:

Reduction in the risk profile due to the investments by Ganfeng who bring financing as well as design and construction expertise to the project, de-risking the project. There have been no significant developments which increase the above risks.

Risk 2: 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 Group to reduce or delay its proposed operations. The financing currently available to the Group for its projects is in a large proportion derived from the issuance of equity. 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. The second and third tranches of RK debt have conditions precedent attached, which must be fulfilled prior to being able to draw on those funds. The raising of debt has introduced financial covenants to the business that must be maintained to avoid defaulting on the loan.

Funding will be required for the €159 million capital cost to develop Zinnwald, as the feasibility study forecasts.

Mitigation:

Bacanora has secured US\$150.0 million of conditional debt funding from RK Mine Finance in 2018. In October 2019, Ganfeng acquired 29.99% of the Company and 22.5% at the project level for a total of £22.0 million while M&G Plc has invested £7.7 million in the Company in November 2019. The business also has a commitment for an additional US\$25.0 million of equity finance from Hanwa. All of these reduce the Company's financing risk. The Company is currently finalising its plans to secure the balance of its funding requirements.

We are actively seeking to secure strategic partners to help fund the €159 million capital cost to develop Zinnwald. As part of this process, we are actively considering a public listing for Deutsche Lithium GmbH ("DL"), our 50%-owned subsidiary that holds Zinnwald.

Trend:

Despite the Company raising significant debt financing and securing funding from cornerstone equity partners, there is still considerable financing risk due to the outstanding capital requirements to fully fund the Projects.

Risk 3: Reserve and resource estimates

The Group's reported mineral reserves and resources are only estimates at this stage. Estimates of mineral reserves and resources are uncertain and may not be representative. There are numerous uncertainties inherent in estimating mineral reserves and resources, including factors beyond the control of the Group. The estimation of mineral reserves and 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 Group proceeds to production or that they will be recovered at the volume, grade and rates estimated.

Mitigation:

The Company engaged reputable third-party organisations to perform the competent persons report on the feasibility of the operations in Mexico and Germany and confirm as far as possible the mineral resources and reserves at Sonora which was published in January 2018 and at Zinnwald, which was published in June 2019.

Trend:

Since 30 June 2019, the risk of the mineral asset not being present in forecast quantities remains unchanged in both projects.

Risk 4: 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 Group has entered into consulting arrangements with its key personnel to secure their services, some of 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.

Mitigation:

The Company is migrating its key senior management team to full time employment contracts. The recruitment of new staff and the development of all staff will enable more robust succession planning. Once funding has been secured for the Project a recruitment programme will start, this will reduce reliance on the key members of staff. Five out of twenty-four employees and contractors excluding the board are female (21%) at 31 December 2019. Staffing levels reduced due to the reduced activity in the pilot plant. One of the seven Board members is female (14%) at 31 December 2019.

Trend:

No change since 30 June 2019. There continues to be a reliance on key personnel.

Risk 5: Environmental impact and compliance

All phases of the Group's operations in Mexico and Germany are subject to environmental regulation of their respective jurisdiction. Environmental approvals and permits are currently, and may also in the future be, required in connection with the Group's operations. 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 ongoing expenditure and considerable capital commitments from the Company. Non-compliance may subject the Group to significant penalties, including the suspension or revocation of its rights in respect of its concessions or assets, causing operations to cease or be curtailed, or requiring corrective measures resulting in significant amounts of capital expenditures, installation of additional equipment, or remedial actions. The Group 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. There is no assurance that existing or future environmental regulation will not materially adversely affect the Group's business, financial condition and results of operations.

During construction and in operation, the mine and processing plant will have an impact on the environment. These impacts include but are not limited to:

- emissions to air (release of carbon dioxide gases from the burning of fossil fuels);
- dust emissions from the mine;
- disposal of mining overburden and solid waste from the plant;
- disposal of spent reagents, batteries, tyres and oils;
- process plant tailings;
- pit dewatering, water abstraction and discharge;
- relocation of vegetation, and;
- disposal of human waste from camp.

Mitigation:

The Company has been granted all environmental and water permits it requires to date and has instituted corporate and companywide environmental policies. The Company has dedicated staff who deal with Health, Safety, Environment and the Community ("HSEC") as well as applying for and maintaining all relevant permits. As the Company moves towards construction of Sonora, the HSEC dedicated staff and local management team will also be engaged with Environmental Social and Governance ("ESG") objectives. Zinnwald will also be in compliance with appropriate environmental law prior to commencement of each part of the project life cycle.

Trend:

The environmental risks have not changed since 30 June 2019.

Risk 6: Market forces of supply / demand and pricing fluctuations

Numerous factors beyond the Company's control do and will continue to affect the marketability and price of lithium products created by the Company. The Company intends to sell most or all of its production of battery-grade lithium products to its offtake partners on long-term supply contracts for on-sale to battery manufacturers. The market for these long-term supply contracts is opaque and not subject to any globally accepted or hedgeable spot market price.

The price of these contracts will be largely dictated by the expected growth in demand for lithium-ion batteries in conjunction with increased supply from other mines. Whilst growth in demand for lithium has been strong in recent years primarily due to increased usage of electric vehicles and grid storage; there is no guarantee that this growth will continue at the same rate. The Company competes on a supply basis with established competitors, who may be able to increase their production to fill any supply shortfalls.

A material decline in prices could result in a reduction of the Company's net production revenue and cash flows from operations, which could in turn impact on profitability and borrowing capacity, and may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. The economics of producing lithium may change because of lower prices, which could result in reduced production of lithium.

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 projects. Downside price cannot currently be mitigated as no derivatives are currently available on the market.

Bacanora has entered into an offtake agreement with Ganfeng for 50% of the lithium produced at Sonora during Stage 1 and 75% of the production during Stage 2. The Company also has an offtake agreement with Hanwa for the remaining 50% of Stage 1 lithium production. The final pricing for both contracts is to be agreed on a quarterly basis based on market price or any other mutually agreeable method. The Company is therefore exposed to the risk of market fluctuations between the present and the commencement of production.

Commodity prices of key production inputs, for instance energy and reagents, could have a material impact on the level of profitability. Commodity prices are driven by general economic factors as well as the world supply of mineral commodities, the stability of exchange rates and political developments. At this stage of the development of the Sonora or Zinnwald, we cannot protect the business against the impact of adverse commodity price movements. However, adverse movements in input costs for global commodities may be coupled with increases in lithium prices, thereby offsetting an adverse cost environment to some extent.

Mitigation:

For budgeting and longer-term forecasting, conservative prices of lithium and input commodities have been assumed. A battery-grade lithium carbonate price of US\$11,000 per tonne was used for the life of mine, compared to long-term pricing estimate from Canaccord of US\$15,000 per tonne. This is felt as reasonable as there is a two year construction time from the start of construction, in which time, the supply and demand fundamentals is expected to rebalance. Sonora has two offtake agreements, contract pricing tends to be less volatile than spot market pricing, reducing the impact of short-term pricing fluctuations. Bacanora is currently in discussion with potential offtake partners for Zinnwald project, looking for long-term supply.

Trend:

Spot prices declined over the second half of 2019 for battery-grade lithium carbonate, Cost, Insurance and Freight China, Japan and Korea to US\$8,750 per tonne¹. The price has stabilised in January and February 2020. The risk of sustained oversupply in the market leading to low prices on the longer term is being addressed in the market, with high cost producers rolling back production. Please see the Lithium Market Update 2019 section of the Operational Review for further details on the supply and demand fundamentals of the lithium market.

¹ <https://www.lme.com/Metals/Minor-metals/Lithium-prices#tabIndex=0>

Risk 7: Infrastructure

The Group’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 gas pipelines, 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 adversely affect the Group’s operations, financial condition and results of operations in a material fashion.

Mitigation:

The technical report on the feasibility study for Sonora has laid the groundwork for the infrastructure requirements and the Company is currently finalising contracts with third parties for the construction of required infrastructure. The technical report on the feasibility study for Zinnwald details the already well-developed surrounding infrastructure that would be available to the project.

Trend:

No change.

Key Performance Indicators

Our key performance indicators (“KPIs”) help the Board and executive management assess performance against our strategic priorities and business plans. However, as a pre-operational business, our use of KPIs is limited, our current KPIs relate to cost control and safety. Currently, the Board receives update reports on a monthly basis for operational and corporate parts of the business. The reports include measures of operational expenditure and capex spend against the budget as well as the Group’s cash position. The reports also contain operational information, which includes, updates on permissions, safety performance using number of lost time injuries and lost time injury frequency rate.

As the Company progresses toward construction and production, the KPIs will be reassessed in order to drive and monitor business performance and will be aligned to the business strategy. It is likely that this will include financial, operational and HSEC KPIs.

Key Performance indicator	Description	Analysis
Lost time injury frequency rate (LTIFR)	A key safety metric, the number of lost time injuries per 1 million hours worked on a rolling 12-month basis	In the calendar year 2019, there were no LTIs resulting in a LTIFR of 0. In calendar year 2018 there were 2 LTIs resulting in a LTIFR of 22.16 for the year.
Cash Balance	Cash balance available to continue with the activity of the Group, including exploration, development and maintenance on going concern.	At 31 December 2019 the Group’s cash balance was US\$48.9 million (30 June 2019: US\$14.8 million). There is sufficient cash to continue working on its development activities. Please refer to the Financial Review section on page 34 for analysis of movement in cash.
Capex investment	Funds spent on property, plant and equipment (PPE). It is a measure of the investment in the business and the rate at which value is being generated.	For the six months ended 31 December 2019 the Group has spent US\$0.6 million (twelve months ended 30 June 2019: US\$8.3 million) on PPE on a cash basis (see Cash flow Statement). This expenditure is primarily related to the FEED work at Sonora, as well as the continued operation of the pilot plant. Furthermore, a total of US\$0.4 million was spent on Zinnwald during the six months ended 31 December 2019 compared to US\$2.4 million in the twelve months ended 30 June 2019.

Reserves and
Resources held at
year end

As a mining development group, the report of satisfactory mineral reserve and resource results is a key indicator of the value potential of the Group and its projects.

Sonora has 5 million tonnes of lithium carbonate equivalent measured and indicated resources, of that, 4.5 million tonnes are reserves. There has been no change on these resources and reserves estimates.

In June 2019, Zinnwald published its NI 43-101 compliant reserves statement as part of the ZFS, which revealed that the project has mineral reserves of 94,000 tonnes of contained lithium and resources of 125,000 tonnes of contained lithium. Lithium carbonate (Li_2CO_3) contains around 18.8% lithium; therefore, one tonne of lithium is equivalent to 5.3 tonnes of lithium carbonate. No change since the original publication.

Directors' section 172 statement

The following disclosure describes how the Directors have had regard to the matters set out in section 172(1)(a) to (f) and forms the Directors' statement required under section 414CZA of The Companies Act 2006. This new reporting requirement is made in accordance with the new corporate governance requirements identified in The Companies (Miscellaneous Reporting) Regulations 2018, which apply to company reporting on financial years starting on or after 1 January 2019.

The matters set out in section 172(1) (a) to (f) are that a Director must act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- (a) the likely consequences of any decision in the long term;
- (b) the interests of the Company's employees;
- (c) the need to foster the Company's business relationships with suppliers, customers and others;
- (d) the impact of the Company's operations on the community and the environment;
- (e) the desirability of the Company maintaining a reputation for high standards of business conduct; and
- (f) the need to act fairly between members of the Company.

In the above Strategic Report section of this Annual Report, the Company has set out the short to long term strategic priorities, and described the plans to support their achievement.

We have split our analysis into two distinct sections, the first to addresses Stakeholder engagement, which provides information on stakeholders, issues and methods of engagement, disclosed by stakeholder group. The second section addresses principal decisions made by the Board and focuses on how the regard for stakeholders influenced decision-making.

Section 1. Stakeholder mapping and engagement activities within the reporting period.

The Company continuously interacts with a variety of stakeholders important to its success, such as equity investors, joint venture partners, debt providers, workforce, government bodies, local community, vendor partners and offtake partners. The Company strives to strike the right balance between engagement and communication. Furthermore, the Company works within the limitations of what can be disclosed to the various stakeholders with regards to maintaining confidentiality of market and/or commercially sensitive information.

Who: Key Stakeholder groups	Why: why is it important to engage this group of stakeholders	How: how Bacanora engaged with the stakeholder group	What: what came of the engagement
<p>Equity Investors and Joint Venture Partners All substantial shareholders that own more than 3% of the Company's shares are listed on page 51 within the Governance Report.</p> <p>The Company owns 77.5% of Sonora Lithium Ltd holding company for the Sonora Lithium Project and the remaining 22.5% is held by Ganfeng. The Zinnwald Lithium Project is 50:50 joint venture with Solarworld, whose stake in Zinnwald is being managed by its administrators.</p> <p>The Company requires further funding to develop the Sonora and Zinnwald Lithium Projects. As such, existing and prospective equity investors as well as Project level joint venture partners are important stakeholders.</p>	<p>Access to capital is of vital importance to the long-term success of our business to be able to construct the Sonora and Zinnwald Projects. Joint venture partner involvement is vital to the success of the development of these Projects. Without which the Company cannot create value for our shareholders by producing lithium products and therefore a return on the investment.</p> <p>Through our engagement activities, we strive to obtain investor buy-in into our strategic objectives detailed on page 6 and how we go about executing them.</p> <p>We are seeking to promote an investor base that is interested in a long term holding in the Company and will support the Company in achieving its strategic objectives.</p> <p>Over the course of 2019, the number of shares held in public hands has increased and the overall daily volume of shares traded has increased significantly.</p>	<p>The key mechanisms of engagement included: <i>Substantial Shareholders</i></p> <ul style="list-style-type: none"> Both Ganfeng and Hanwa have appointed Directors under the terms of shareholder agreements. The other existing substantial shareholders have regular meetings with the Chairman, CEO and CFO. <p><i>Joint venture partners</i></p> <ul style="list-style-type: none"> Ganfeng has a representative at the Sonora Lithium Ltd board of directors under the terms of the joint venture agreement. The Administrator of Solarworld has a representative on the Deutsche Lithium board of directors. The Administrator of Solarworld has a representative to the advisory board. Regular meetings are held with the joint venture partners. <p><i>Prospective and existing investors</i></p> <ul style="list-style-type: none"> The AGM and Annual and Interim Reports. Investor roadshows and presentations. One-on-one investor meetings with the Chairman, CEO and CFO. Access to the Company's brokers and advisers Regular news and project updates. Social media accounts e.g. Twitter @BacanoraL Site visits for potential cornerstone investors. 	<p>We engaged with investors on topics of strategy, governance, project updates and performance. Please see Dialogue with Shareholders section of the Annual report on page 50. The CEO and CFO presented at a number of investor roadshows and one-to-one meetings.</p> <p>The Company completed a key strategic investment with Ganfeng Lithium to acquire 29.9% of the Company and a further 22.5% at the Project level. Post completion of the investment, we have engaged with Ganfeng to utilise their expertise in the operational development of the Sonora Lithium Project and are undertaking a review of the hydrometallurgical engineering of the lithium processing plant.</p> <p>The Company completed additional investments from its longest standing institutional investor, M&G, to increase their stake to 19.9%. At the Company's AGM all resolutions were duly passed with at least 90% votes in favour demonstrating broad shareholder support.</p> <p>The DL option was cancelled by the administrators of Solarworld and Bacanora thereby ensuring the long-term future of the joint venture. See Note 6 for details.</p>

Who: Key Stakeholder groups	Why: why is it important to engage this group of stakeholders	How: how Bacanora engaged with the stakeholder group	What: what came of the engagement
<p>Debt providers The Company has a six year US\$150 million debt facility with RK Mine Finance that commenced in July 2018.</p>	<p>Access to capital is of vital importance to the long-term success of our business to be able to construct the Sonora and Zinnwald Projects. Ongoing support from Debt providers is crucial to enable the construction of Sonora Lithium Project.</p> <p>Various contractual conditions of the debt finance require regular updates on ongoing progress.</p>	<ul style="list-style-type: none"> • One-on-one meetings with the CEO and CFO. • Monthly reporting on project progress. • Adhoc discussions with management as required. • Tripartite discussions between RK, Ganfeng and management to ensure there were no impediments for the investment from Ganfeng. 	<p>In the period, the Company agreed with RK to convert a number of time-bound covenants to conditions precedent as well as completed other ongoing conditions.</p> <p>The Company's CFO and RK went on a site visit to see Ganfeng's production facilities in China.</p>
<p>Workforce The Company has eleven UK employees including its Directors. Three of the Directors are UK residents and four are overseas resident Directors. Both the CEO and CFO are UK based.</p> <p>The rest of the Company's workforce is based in Mexico.</p>	<p>The vast majority of its employees going forward will be based in Mexico and the Directors consider workforce issues holistically for the Group as a whole.</p> <p>The Company's long-term success is predicated on the commitment of our workforce to our vision and the demonstration of our values on a daily basis.</p> <p>The Board have identified that reliance on key personnel is a known risk (see the corporate risk register on page 9).</p>	<p>General Workforce:</p> <ul style="list-style-type: none"> • The Company maintains an open line of communication between its employees, senior management and Board of Directors. <p>UK employees</p> <ul style="list-style-type: none"> • The CEO and CFO report regularly to the Board, including the provision of board information. Key members of the finance team are invited on some of the audit committee meetings. • There is a formalised employee induction into the Company's corporate governance policies and procedures. <p>Mexico</p> <ul style="list-style-type: none"> • There is a Mexico HR Function. • Senior management regularly visit the operations in Mexico and engage with its employees through one-on-one and staff meetings, employee events, project updates, etc. • Staff safety committee continues to operate. • Employees are expected to be represented by ratified workplace 	<p>UK Employees</p> <p>The Board met with management to discuss long term remuneration strategy. Advisors have been appointed to do the independent review party review to examine Non-executive Director and Executive team remuneration.</p> <p>Board reporting has been optimised to include sections on engagement with workforce.</p> <p>Mexico</p> <p>The team were trained in aspects of corporate policies and procedures to engender positive corporate culture aligned with the Company code of conduct.</p>

Who: Key Stakeholder groups	Why: why is it important to engage this group of stakeholders	How: how Bacanora engaged with the stakeholder group	What: what came of the engagement
		<p>agreements once operations grow sufficiently</p>	<p>Meetings were held with staff to provide project updates and ongoing business objectives.</p> <p>Efforts to focus on plant safety have yielded significant improvements in safety performance, resulting in no lost time injuries in calendar year 2019.</p>
<p>Governmental bodies The Company is impacted by local governmental organisations in the UK, Mexico and Germany.</p>	<p>The Company will only be able to commence production once it receives relevant licences and permits from government to mine and undertake chemical processing.</p>	<ul style="list-style-type: none"> The Company provides general corporate presentations regarding the Sonora Project development as part of ongoing stakeholder engagement with the Sonora state government, Bacadehuachi local government and Mexico federal government. The Company maintained its good relations with the respective government bodies and frequently communicated progress. The Company engages with the relevant departments of the Mexican government in order to progress the operational licences it will require. 	<p>Meetings have been held jointly with Ganfeng with various representatives of the Sonora state government, to discuss the involvement of Ganfeng in the Sonora Lithium Project.</p> <p>The Company has given general corporate presentations to senior federal government officials in Mexico City.</p> <p>To date, the Company has received its requisite environmental and land use permits to enable construction to commence as soon as financing is secured. With this in place, the Company is now focused on secondary permitting such as process water borefield and co-gen power supply.</p>
<p>Community The local community at the mine site in Bacadehuachi, Mexico and the surrounding area.</p>	<p>The community provides social licence to operate.</p> <p>We need to engage with the local community to build trust. Having the</p>	<ul style="list-style-type: none"> The Company has a Community Relations Officer permanently based in Bacadehuachi. 	<p>The Company has ongoing engagements with the local community as part of the</p>

Who: Key Stakeholder groups	Why: why is it important to engage this group of stakeholders	How: how Bacanora engaged with the stakeholder group	What: what came of the engagement
	<p>community's trust will mean it is more likely that any fears the community has can be assuaged and our plans and strategies are more likely to be accepted. Community engagement will inform better decision making.</p> <p>The local community in Bacadehuachi and wider Sonora area will provide employees to the mine and our suppliers.</p> <p>The Company will in due course have a social and economic impact on the local community and surrounding area. The Company is committed to ensuring sustainable growth minimising adverse impacts. The Company will engage these stakeholders as appropriate.</p>	<ul style="list-style-type: none"> • The Company has identified all key stakeholders with the local community within the reporting period. • Bacanora has open dialogue with the Bacadehuachi local government and community leaders regarding the project development. • The Company has existing ESG/CSR policies and management structure at corporate level. The Company will expand on these policies and structures at a local project level as the Company moves into construction and then production. 	<p>development of its sustainability initiatives.</p> <p>Stakeholder identification has enabled the Company to ensure that representatives of all stakeholder groups may participate in the community engagement programme.</p> <p>A more formalised community engagement programme will commence in 2020.</p> <p>Bacanora provided food and water relief to the Bacadehuachi community during the severe flood event in the area.</p> <p>The local community has also granted Bacanora with access rights to the road which provides direct route from the highway via the Bacadehuachi community land to the mine, and this access right has been recorded at the Public Registry.</p>
<p>Suppliers During the construction phase, we will be using key suppliers under commercial engineering contracts to deliver the mine and plant, all of whom are large international vendors.</p> <p>At a local level, we also partner with a variety smaller companies, some of whom are</p>	<p>Our suppliers are fundamental to ensuring that the Company can construct the project on time and budget. Using quality suppliers ensures that as a business we meet the high standards of performance that we expect of ourselves and vendor partners.</p>	<ul style="list-style-type: none"> • Management team continue to work closely with proposed EPC suppliers to finalise their FEED work, contracts and end deliverables. • One on one meetings between management and suppliers. • Vendor site visits and facility audits to ensure supplier able to meet requirements. 	<p>See Page 29 of the CEO's operational report for latest on progress on testwork and finalising EPC contracts.</p> <p>Smaller local vendors were engaged at a broader level to better align with company objectives.</p>

Who: Key Stakeholder groups	Why: why is it important to engage this group of stakeholders	How: how Bacanora engaged with the stakeholder group	What: what came of the engagement
independent or family run businesses.		<ul style="list-style-type: none"> • Contact with procurement department and accounts payable. • Assist local suppliers to address liquidity challenges. 	
<p>Offtake partners The Company has two commercially priced lithium offtake agreements with Ganfeng and Hanwa, both of whom are investors in the Company and have Board seats.</p>	<p>The Company is moving toward the construction stage of its project and a key metric to sourcing the capital required, is securing its offtake agreements.</p> <p>The Company will sell its product under long term offtake agreements.</p>	<ul style="list-style-type: none"> • Non-executive Directors representing both of our offtake partners are engaged at board meetings and receive all Board materials. • They remain informed of project developments and provide management with advice and guidance. • Management prepares monthly project reports for the Board. 	<p>The Company completed commercial offtake agreement with Ganfeng in the period and also updated its existing one with Hanwa. 50% of the production will be sold to Ganfeng and 50% will be sold to Hanwa during Stage 1 production, and up to 75% during Stage 2 production to Ganfeng.</p>

Section 2, Principal decisions by the board during the period.

We define principal decisions as both those that have long-term strategic impact and are material to the Group, but also those that are significant to our key stakeholder groups. In making the following principal decisions, the Board considered the outcome from its stakeholder engagement, the need to maintain a reputation for high standards of business conduct and the need to act fairly between the members of the Company:

a) Strategic Investment and Offtake Agreement with Ganfeng:

The Board originally entered into a Memorandum of Understanding with Ganfeng in the prior period for an investment, in both the Company and at the Project Level, together with a long-term offtake agreement. The investments and the offtake agreement were successfully completed during the period following receipt of all approvals from the Chinese government. This resulted in Ganfeng acquiring 29.99% stake at the Company level and 22.5% stake at the Sonora Project level, with the option to increase their stake up to 50%, within 24 months of the completion of the initial investment. The agreement came with a commitment from Ganfeng to assist in the review of the hydrometallurgical engineering.

The decision is aligned with several of the key parts of the Company's business model, namely:

- Item 3, "Complete the detailed design of the mines and processing plants for Sonora"
- Item 4, "Validate the quality of its end product by securing high quality offtake partners"
- Item 5, "Complete the funding required to construct its projects"

The key stakeholder groups that could be materially impacted: Existing shareholders and potential investors, governmental bodies and offtakers.

Existing shareholders may have conflicting interests with the Ganfeng due to potential dilution of their shareholding. The Directors considered the impact and concluded that obtaining a strategic and cornerstone investor in Ganfeng, significantly de-risks completing the funding package for the development of the Sonora Lithium Project, which will create shareholder value in the longer term. The existing shareholders has also granted authority for the Company to issue up to 500 million shares to support the financing of the Sonora Lithium Project.

The Directors considered whether it would adversely impact the ability to attract further investment in order to fund the Sonora Lithium project, which is considered critical to the long-term success of the Company. The Board concluded that such a substantial investment from Ganfeng would be seen as a vote of confidence from a major player in the Lithium market and would be viewed positively by the capital market.

The Board concluded that the involvement of a proven developer of lithium projects would enhance the credibility of the project and a successful long-term completion of construction. Ganfeng's involvement could also open the possibility of cost savings from sourcing products in China and from Ganfeng's other partners.

The Directors considered the potential impact of the investment on governmental bodies, in particular the Sonora state government. Representatives of the Sonora state government met with Ganfeng and Bacanora to discuss the involvement of Ganfeng in the Sonora Lithium Project.

Prior to Ganfeng's investment in the Project, the Company has an offtake agreement with Hanwa for 100% of the offtake of Stage 1 production. The Directors, including Hanwa's board representative, considered the impact on both its existing offtake partner, Hanwa, as well as potential future offtake partners. The Board concluded that adding an additional offtake partner who would provide capital into the Project would strengthen the likelihood of the project successfully moving into production. Hanwa has agreed to reduce its offtake for Stage 1 production to 50%, with the remaining 50% to be sold to Ganfeng.

b) Additional Strategic Investment in Bacanora by M&G:

The Board accepted an offer of investment from M&G, a longstanding institutional investor in the Company, which resulted to M&G investing additional £7.7 million and increasing its stake in the Company to 19.9% in November 2019. M&G became the first major institutional investor in the Company in November 2015. Prior to the issuance of equity in November 2019, M&G also provided additional equity investment in September 2017.

The decision is aligned with the business model set out in the Company strategy, item 5, “Complete the funding required to construct its projects.”.

In the same way as the Ganfeng investment, the Directors considered the potential impact of the issuance of additional equity to M&G on other existing shareholders and potential investors. The Directors concluded that the additional equity investment from M&G further de-risks the required funding of the Project. The Board concluded that continued support from its longest standing cornerstone investor via substantial investment would be viewed positively by the wider equity market. M&G is a reputable investment institution and their additional investment in the Company represents an endorsement of Sonora’s potential to become on the leading lithium supplier.

As per the Strategic Investment agreement with Ganfeng, Ganfeng has an existing pre-emption rights proportionate to its shareholding in Bacanora. In relation to the issuance of new equity shares to M&G, Ganfeng has agreed to waive this pre-emption rights but reserved the right to subscribe for additional shares in the next equity fund raising to allow it to return to its original shareholding of 29.99%.

In making the above principal decisions, the Directors believe that they have considered all relevant stakeholders, potential impact and conflicts, the Company’s business model and its long-term strategic objectives, and have acted accordingly to promote the success of the Company for the benefit of its members as a whole.

Our Assets:

a Sonora Lithium Project²

The Sonora Lithium Project is located in northern Sonora State, Mexico, approximately three hours’ drive north east of the state capital of Hermosillo, a city of over one million people. Access to the site is by road from either Hermosillo or the US border town of Agua Prieta. Bacanora owns ten mining concession areas covering approximately 100,000 hectares in the northeast of Sonora State in Mexico. Seven of these ten mining concessions (the ‘Sonora Lithium Project’) were included in the SFS published in January 2018.

The SFS revealed positive economics and favourable operating costs for the 35,000tpa battery-grade lithium carbonate operation. The results indicated a US\$1.253 billion pre-tax project Net Present Value at an 8% discount rate and US\$11,000 per tonne lithium carbonate price, 26.1% IRR and US\$4,000 per tonne lithium carbonate LOM operating costs, placing Sonora among the low-cost brine producers of South America. There are no updates on the feasibility study since January 2018.

SLL owns 100% of La Ventana concession via the holding in Minera Sonora Borax S.A. de C.V., accounting for 88% of the mined ore feed in the SFS, covering the initial 19 years of the project mine life. SLL also owns 70% of Mexilit S.A. de C.V. (“Mexilit”) which owns the El Sauz and Fleur concessions. The remaining plant feed is derived from the El Sauz and Fleur concessions.

The Sonora lithium property hosts a large lithium deposit. The polyolithionite mineralisation is hosted within shallow dipping sequences, outcropping on surface. As part of the SFS, a Mineral Resource estimate was prepared by SRK Consulting (UK) Ltd in accordance with the terminology, definitions and guidelines of the Canadian institute of mining, metallurgy and petroleum standards for mineral resources and reserves national instrument 43-101 (“NI 43-101”). The following tables present the summary of current lithium resources for Sonora. These Mineral Resources are inclusive of Mineral Reserves. Mineral reserves and resources are unchanged since they were published.

Measured and Indicated Mineral Resources

Category	Cut-off (Li ppm)	Tonnes ⁽²⁾ (000t)	Li (ppm)	K (%)	LCE (000t)
Measured ⁽¹⁾	1,000	103,000	3,480	1.5	1,910
Indicated	1,000	188,000	3,120	1.3	3,130
Total	1,000	291,000	3,250	1.4	5,038

Inferred Mineral Resources

² <https://www.bacanoralithium.com/pdfs/Bacanora-FS-Technical-Report-25-01-2018.pdf>

Category	Cut-off (Li ppm)	Tonnes ⁽²⁾ (000t)	Li (ppm)	K (%)	LCE ⁽³⁾ (000t)
Inferred	1,000	268,000	2,650	1.2	3,779

Mineral Reserves: (Cut-off grade of 1,500ppm Li)

Category	Tonnes (000t)	Li (ppm)	K (%)	LCE (000t)
Proven	80,146	3,905	1.64	1,666
Probable	163,662	3,271	1.36	2,849
Total	243,808	3,480	1.45	4,515

⁽¹⁾Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability.

⁽²⁾Tonnes rounded to the nearest thousand.

⁽³⁾Reported from a block model above 1,000 ppm Li and above a simple open pit shell generated using the technical and economic parameters established during the SFS, with the exception of the LCE selling price of US\$14,300 (which represents a 30% premium on top of the US\$11,000 used for the Mineral Reserve estimate). All LCE is presented on 100% interest basis.

The mining operation for the Project is planned as an open-pit development using a combination of continuous miners to mine the ore zones and a truck/shovel fleet to remove the waste material. Mining operations will be augmented with an ancillary fleet of dozers, graders and water trucks. During the initial 19-year mine life, 37,058,000 tonnes of ore with a Li grade of 4,151 ppm will be mined and processed with a stripping ratio of 3.4:1.

The process plant design comprises a pre-concentration stage to produce an initial concentrate prior to roasting. The concentrate is subsequently heated in a kiln, at approximately 950 degrees Celsius, in combination with recycled sodium sulphate, which is a by-product produced from the Sonora lithium plant, to produce an intermediate lithium sulphate product. This sulphate material then undergoes hydrometallurgical treatment, filtration, cleaning, precipitation and packaging, to produce a >99.5% lithium carbonate final battery-grade product. The integrated plant has been designed to initially process 1.1 million tonnes of ore per year, during Stage 1 of the Project, subsequently increasing to some 2.2 million tonnes per year at Stage 2, producing 17,500 tpa and 35,000 tpa of lithium carbonate, respectively. The plant design also includes a circuit to produce up to 30,000 tpa of potassium sulphate product through a series of evaporation and precipitation stages.

b Zinnwald Lithium Project³

Zinnwald is located in southeast Germany, some 35 km from Dresden and adjacent to the border of the Czech Republic and within 3 km of the town of Altenberg and 50 km of the town of Freiberg. Zinnwald is in a granite hosted Sn/W/Li belt that has been mined historically for tin, tungsten and lithium at different times over the past 300 years. With an abundant supply of fluorspar/hydrofluoric acid available in the immediate vicinity, DL has chosen to focus on lithium fluoride (“LiF”) production. LiF is one of the two key components in the manufacturing process of LiPF₆, which is the most important conducting salt in lithium electrolytes and serves as the “shuttle” in the battery electrolyte which “ships” the lithium ion between the cathode and the anode. Approximately 95% of all lithium battery electrolytes use LiPF₆ and the percentage used in each cathode is increasing in newer battery types. The strategic location of the Zinnwald allows immediate access to the German automotive and downstream lithium chemical industries.

In June 2019, Deutsche Lithium published the results of the ZFS, which confirmed the positive economics for the production of 5,112 tpa (~7,285 tpa LCE) of battery-grade LiF. With a long project life of 30 years, the ZFS estimates a pre-tax project NPV8 of €428 million; an IRR of 27.4%; and a 46% EBITDA margin.

Mineral Resource Estimates

Zinnwald hosts one of the largest lithium deposits in Europe. The table below provides a breakdown of the upgraded Mineral Resource estimate for Zinnwald as of 30 September 2018. The upgraded resource has been

³ http://www.deuschelithium.de/wp-content/uploads/2019/06/NI43-101-Zinnwald_Feasibility-Study_Summary.pdf

reported in accordance with NI 43-101 and was carried out by G.E.O.S. Ingenieurgesellschaft mbH (“G.E.O.S.”). Mineral reserves and resources are unchanged since they were published.

Lithium Mineral Resource estimate of the Zinnwald Lithium Deposit:

Resource classification*	Ore tonnage (000t)	Mean Li grade (ppm)	Contained Li (tonnes)
Measured	18,510	3,630	67,191
Indicated	17,000	3,399	57,783
Inferred	4,865	3,549	17,266
<i>Demonstrated (Measured + Indicated)</i>	35,510	3,519	124,974
<i>Total (Measured + Indicated + Inferred)</i>	40,375	3,523	142,240

(* Vertical thickness \geq 2 m, cut-off Li = 2,500 ppm)

Notes: (i) Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability.

Using a minimum thickness of 2 m and 2,500 ppm Li cut-off, the Zinnwald Demonstrated Mineral Resource (Measured and Indicated) of 35.5 million tonnes at a grade of 3,519 ppm Li containing 124,974 tonnes of Li. The equivalent total Mineral Resource (Measured, Indicated and Inferred) at a 2 m minimum thickness and 2,500 ppm cut-off grade is 142,240 tonnes of contained Li.

Mineral Reserve Estimates

The Mineral Reserve estimate was prepared by independent mining consultants G.E.O.S with a cut-off of 2,500 ppm lithium metal.

The Mineral Reserves of the Zinnwald lithium deposit is based on the development of the whole deposit including an underground mine. Internal dilution mostly consists of greisen and greisenized granite that shows average lithium grades of roughly 1,900 ppm. External dilution shows average lithium grades of around 1,700 ppm. Approximately 7% of the demonstrated mineral resource cannot be mined due to existing mine workings or which cannot be economically mined due to isolation of the ore bodies or insignificant ore thickness was excluded from the resource. Based on this reduced resource, Mineral Reserves have been estimated based on standard mining technology with optimised back fill applying sublevel stoping with longitudinal stopes.

The portion of the Proven Mineral Reserve accounts for 16.5 million tonnes of ore and contains 51 thousand tonnes Li. This corresponds to 54 % of the total lithium metal Reserve. The Probable Mineral Reserve is 14.7 million tonnes of ore with a content of 43 thousand tonnes Li. It comprises 46 % of the total lithium metal Reserve. For further details see the table below.

Lithium Mineral Reserve estimate of the Zinnwald Lithium Deposit:

Category	Ore and Dilution Tonnage (000t)	Li Grade (ppm)	Li Metal Content (000t)
Mineral Reserve considering mining loss and dilution			
(1) Parameter conform ore	22,270 (71 %)	3,500	78
(2) Internal dilution	2,632 (8 %)	1,929	5
(3) External dilution	6,300 (20 %)	1,700	11
(4) Total Mineral Reserve (1+2+3)	31,203 (100 %)	3,004	94 (100 %)
(5) Proven Mineral Reserve	16,504 (53 %)	3,075	51 (54 %)
(6) Probable Mineral Reserve	14,699 (47 %)	2,933	43 (46 %)

Notes: (i) Tonnes rounded to the nearest thousand.

In January 2018, Deutsche Lithium was granted a five-year exploration licence covering 295 ha of the previously mined Falkenhain lithium deposit in southern Saxony, Germany. Falkenhain, which is located within 5 km of

Zinnwald. As with Zinnwald, Falkenhain lies in a geological setting of granite hosted for tin, tungsten and lithium belts that have been explored and mined historically for those elements.

In March 2019, Deutsche Lithium secured the five-year Altenberg exploration licence, covering an area of around 42km² in the Erzgebirge (Ore Mountain) region of Saxony, Germany. The licence completely encloses the Zinnwald Lithium Project. Altenberg forms part of the same geological unit that hosts the historic deposits at Zinnwald and Falkenhain. The Altenberg and Falkenhain deposits have the potential to increase the life of mine at Zinnwald. Deutsche Lithium plans to investigate these licences and to combine their exploration and development with its Zinnwald licences as appropriate.

CEO Statement

Bacanora is a multi-project lithium development company. The Company's primary asset is its world class Sonora Lithium Project in Mexico which, with 8.8 million tonnes of lithium carbonate resources and a current resource life in excess of 200 years, is one of the world's larger lithium resources. In January 2018 the Sonora Feasibility Study ('SFS') for a 35,000tpa battery-grade lithium carbonate operation at Sonora assigned a pre-tax NPV8 of US\$1.25 billion and an IRR of 26% based on a lithium carbonate price of US\$11,000 per tonne. In addition, with estimated operating costs of just over US\$4,000 per tonne, Sonora is well placed into the lower end of the industry cost curve and substantially below prevailing prices for lithium carbonate. During the period, we secured almost £30 million in equity investment from Ganfeng Lithium, the world's third largest lithium compounds producer, and M&G, our long-standing institutional investor who has supported us since 2015.

In 2019, the world consumed approximately 315,000 tonnes of LCE, which is a 21% increase from 261,000 tonnes consumed in 2018⁴, mainly driven by the increasing sales of electric vehicles in USA and Europe. During 2019, battery-grade lithium prices in China softened throughout the year to US\$8,750 per tonne by year end⁵, due to significant oversupply of spodumene concentrates from new Australian mining operations. Pricing for EV grade lithium products in Korea and Japan remained higher than China while the spot prices for US and Europe were around US\$10,000-11,500 per tonne. This reduction in pricing has significantly impacted the Australian high cost spodumene concentrate producers resulting in mines being delayed, closed, decreased production or put on care and maintenance. With these marginal high cost spodumene producers being forced to scale back production, current market forecasts indicate stronger medium to long-term prices, for example in November 2019, Canaccord estimated battery-grade lithium carbonate at US\$13,000 per tonne by 2026 with long-term price of US\$15,000⁶. The current financial difficulties now being reported by the Australian spodumene companies supports the Bacanora strategy of developing a fully integrated lithium project that produces a final EV battery-grade lithium product at much lower costs rather than a low-grade intermediate concentrate.

In 2019, China produced 1.2 million New Energy vehicles⁷ ('NEV') and Tesla produced circa 365,000 vehicles⁸. The German automotive manufacturers led by Volkswagen continue to aim for 50% EV production by 2025. Advances in battery and automotive design to make mass-market NEVs cost competitive are now on the near horizon, which could be the tipping point for the lithium market. Market commentators are forecasting lithium carbonate equivalent demand of approximately 1 million tonnes per annum by 2025, this equates to more than 20 new mines with an average capacity of 25,000 tonnes per annum to be commissioned within the next 5 years to meet demand. Sonora is well placed to become a new key supplier of battery-grade lithium to the Asian market.

Activities undertaken at Sonora were primarily focused on the advancement of the FEED work to update equipment designs and cost estimates. Subsequent to their equity investment, Ganfeng commenced a technical review of the hydrometallurgical circuit, with a view to potentially sourcing key sections of the lithium production equipment from their current equipment suppliers in China. This work has been hampered by the ongoing Coronavirus outbreak in China which has caused delays on testwork. FEED work on the concentrator, mechanical processing and pyrometallurgical engineering are also ongoing. These works are expected to complete within the next 6 months. As the situation develops, we will provide further updates.

Geotechnical engineering, survey and design work for the plant site location and permanent access road are ongoing. Initial proposals for the construction of cogeneration energy facilities and LNG supply have been received from several suppliers and these are being assessed. It is currently envisaged that LNG supplies will be initially utilised at Sonora during the early stages of commissioning, whilst gas consumption is low. Once energy consumption reaches steady state, pipeline supply to Sonora would be initiated.

Significant efforts continue to be made by the team at Bacanora to maintain a safe working environment for all employees and contractors. The product of that work has been translated into zero lost time injuries for the

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<https://publications.industry.gov.au/publications/resourcesandenergyquarterlydecember2019/documents/Resources-and-Energy-Quarterly-December-2019-Lithium.pdf>

⁵ <https://seekingalpha.com/article/4314058-lithium-miners-news-for-month-of-december-2019>

⁶ <https://www.bacanoralithium.com/cms/wp-content/uploads/2019/12/BCN-Presentation-Dec-2019-17.12.19-FINAL.pdf>

⁷ https://www.marklines.com/en/statistics/flash_prod/productionfig_china_2019

⁸ <https://www.statista.com/statistics/715421/tesla-quarterly-vehicle-production/>

Company in the reporting period and calendar year 2019. Whilst this is a great result, complacency cannot be allowed to take hold, the team is constantly evaluating our policies and procedures to ensure our site practices conform with international standards. This is particularly important as we approach the construction phase at Sonora. We continue to work with local communities in the area to ensure that we have a beneficial impact and we may continue to operate with their support. We have recently relocated our Community Liaison Manager to live in the local town of Bacadehuachi and the community engagement programme will continue throughout 2020.

In February 2020, Bacanora successfully reached agreement with the administrators of Solarworld to maintain our 50% ownership of Zinnwald, with a right of first refusal to purchase the remaining 50%. Bacanora will continue to fund and develop the engineering aspects of the project and remain focused on securing strategic partners to help fund the €159 million capital cost to develop Zinnwald.

To date, we have identified, acquired and de-risked two high-quality lithium projects. The year ahead will see us look to finalise the finance structure for Sonora with the support of our cornerstone investors and partners, Ganfeng, M&G, RK Mine Finance and Hanwa. Their continued participation further de-risks the required funding for the Project that continues to be progressed by our brokers, Canaccord and Citi, and which we are aiming to complete in 2020, subject to market conditions. As a result, we continue to focus on the Company moving into the 24-month project construction phase in 2020. We will also seek external financing for Zinnwald and we are encouraged by the conversations we are having with multiple interested parties. Our focus is to ensure Bacanora shareholders benefit from the development of both projects and in turn, the considerable cash flows each are forecast to create in the coming years.



Peter Secker

Chief Executive Officer

28 February 2020

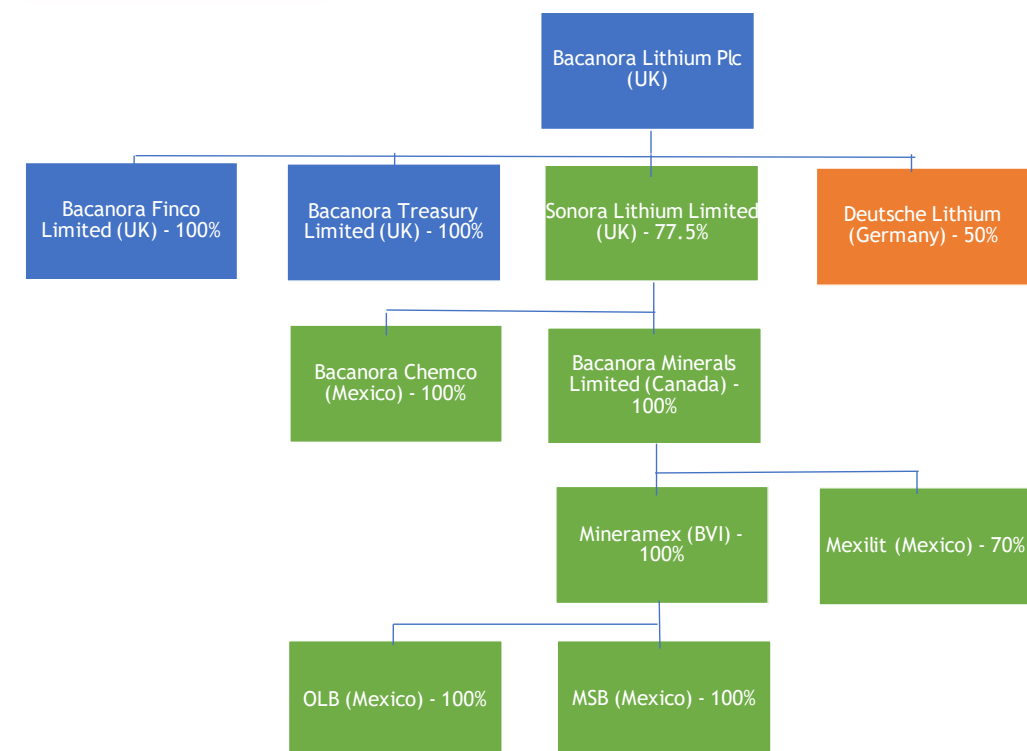
Operational Review



a Corporate review

On 14 August 2019, Bacanora Lithium Plc transferred its shareholding in Bacanora Minerals Ltd to SLL in order to create a single holding company for the Sonora Project. The resulting corporate structure showing all operational subsidiaries, is shown in the chart below.

A full list of all Group companies is detailed in Note 3 of the Consolidated Financial Statements.

Group structure of operational entities at 31 December 2019



 Deutsche Lithium joint venture
 Sonora lithium project entities

MSB owns the La Ventana concession

Mexilit owns the El Sauz and Fleur concessions

On 18 October 2019, the Company completed its investment agreement with Ganfeng whereby Ganfeng acquired 29.99% of Bacanora Lithium Plc and 22.5% of SLL with an option to increase its shareholding up to 50% in SLL within two years. As part of the investment agreement, Ganfeng appointed a director to the Company's Board and also to SLL. In conjunction, the Company also entered into an offtake agreement for Ganfeng to purchase up to 50% of Stage 1 production at the Sonora Lithium Project and up to 75% of production during Stage 2.

Sonora Lithium Project Developments

During the period, Sonora was primarily focused on the progressing the FEED. As part of completing this objective, Ganfeng commenced a technical review of the hydrometallurgical circuit. Ganfeng may source key sections of the lithium production equipment from their current equipment suppliers in China. Representative samples have been sent to Ganfeng in China to facilitate test work. The review is expected to conclude within the next 6 months. In parallel, work to finalise the FEED is ongoing with experienced engineering groups, as follows:

- Front-end ore concentrator and mechanical processing with GR Engineering Services, an ASX listed engineering, consulting and contracting company specialising in fixed priced engineering design and construction services to the resources and mineral processing industry.

- Pyrometallurgical engineering, primarily for the kiln designs, is being engineered by an international manufacturer of industrial furnace, kilns and heating systems.
- The hydrometallurgical plant, including the production of the final battery-grade lithium product, will be engineered by Ganfeng themselves due to their proven expertise in this field.

Like many companies in China, Ganfeng's operations, have been impacted by the outbreak of coronavirus. Precautions to limit the spread of the virus has led to travel restrictions, precautionary working from home and the extension of the Lunar New Year holiday break causing shutdowns at their facilities. At the time of reporting, these measures may continue for some time to come. This in turn will have an impact of the completion of Ganfeng's review, which is now expected within the next 6 months.

Survey, geotechnical and hydrogeological work for the plant site location is being optimised as part of the work with GR Engineering Services. Detailed design for the permanent access road is underway including detailed route survey, geotechnical engineering, slope design and construction material optimisation. The work is expected to be completed by Q2 2020.

We are currently building the access roads for the borefield locations and the Company will commence borehole drilling in Q1 2020, thereafter pump test and equipment installation will be performed. Geotechnical design work for the dry tailings disposal site is also underway.

Furthermore, proposals for the cogeneration energy facilities and LNG supply have been received from several suppliers and are under assessment. It is currently envisaged that trucked LNG supplies will be initially utilised at Sonora during the early stages of commissioning and production, whilst gas consumption is low. Once energy consumption reaches steady state, pipeline supply to Sonora would be initiated.

Our work with the community is ongoing to develop an integrated sustainability programme, that will encompass the construction and operational phases of the Project.

In previous periods the Company has received the relevant approvals to start construction of the plant and mine. The environmental impact assessment procedure begins with the presentation of an environmental impact statement by the developer, known as the *Manifestación de Impacto Ambiental* ("MIA" -Environmental impact assessment permissions). Mexican authority *Secretaría de Medio Ambiente y Recursos Naturales* (SEMARNAT) approved the Project's MIA in October 2017 and its amendment in May 2018 for new site location. Further to these approvals, an exemption to the MIA for the purpose of road maintenance was approved in July 2018, which enables interim access to the project site during construction. In addition, a MIA for permanent road construction was approved in October 2018.

For land zonation purposes, land use change in non-urban areas is made through an *Estudio Técnico Justificativo de Cambio de Uso de Suelo en Terrenos Forestales* ("ETJ"). The plant site's ETJ has been approved by the Sonora State forestry council and payment requirement to CONAFOR's Mexican Forestry Fund has been issued by SEMARNAT and was paid by the Company in December 2018. This will allow the project to begin construction as soon as funding is available. With all relevant construction, land access, water licences and environmental MIA permits in place, the Company is currently focussing on secondary permitting such as the process water borefield and co-gen power supply.

The lithium pilot plant in Sonora Mexico completed its initial objectives including production of bulk samples for feasibility studies, final product samples for customers and proof of design. As such, the plant was operated on an "as needs" basis in the reporting period. The pilot plant produced battery-grade lithium carbonate samples as well as other lithium products such as lithium hydroxide, lithium sulphate and roasted concentrate, which were distributed to potential customers in Asia as well as our FEED partners and consultants for detailed design and test work. Placing the pilot plant into reduced activity led to a reduction in staffing levels, whilst the Company retained key staff. The pilot plant continues to form part of our strategy to train operators in preparation for commissioning of the large-scale plant at the mine site.

Zinnwald Lithium Project Developments

Bacanora acquired an initial 50% interest in Deutsche Lithium (the 100% owner of Zinnwald) in February 2017 and had an option to acquire the outstanding 50% that it does not own from our joint venture partner, SolarWorld, for €30 million. Since then Solarworld entered administration. The option to purchase the remaining 50% interest in DL

(the “Bacanora Call Option”) was extended until 17 February 2020. In the event that the Company does not exercise the Bacanora Call Option, Solarworld had the right but not the obligation to purchase the Company’s 50% interest in DL (the “Solarworld Call Option”). On 14 February 2020, the Company signed an agreement with the administrators of Solarworld to remove both the Bacanora Call Option and Solarworld Call Option. Bacanora retains its right of first refusal to purchase the remaining 50% currently held by Solarworld. As part of the agreement, the Company has committed to providing additional financing of €1.35 million to fund the DL operations over the next two years. The Company is in discussions with prospective investors with various options to fund the project.

b Lithium Market Update 2019

The world consumed approximately 315,000 tonnes of lithium carbonate equivalent in 2019, a 21% increase on 261,000 tonnes in 2018, according to the December 2019 Resources and Energy Report on Lithium from the Australian government⁹. World lithium production is estimated to have grown to 470,000 tonnes in 2019, up 18% on 2018¹⁰. In 2019, oversupply in the lithium market has caused a significant pull back on price. At the outturn of 2018, Fastmarkets reported 99.5% lithium carbonate battery-grade spot prices CIF China, Japan & Korea of US\$13,000-15,000 per tonne¹¹. In 2019, prices declined throughout the year. In June 2019, Fastmarkets reported 99.5% lithium carbonate battery-grade spot prices CIF China, Japan & Korea of US\$11,000-12,500 per tonne¹², by the end of December prices of US\$8,000-9,500 per tonne were reported¹³. The 99.5% lithium carbonate battery-grade spot prices Europe and US were reported at US\$10,000-11,500 per tonne¹⁴.

The outlook for 2020 continues to be bearish with commentators such as Morgan Stanley expecting lithium prices to fall further or to at least be stable in the next 1-2 years¹⁵. However, global lithium production and consumption is expected to align by 2021¹⁶. Consumption is forecast to grow by over 20 per cent a year to reach 485,000 tonnes by 2021¹⁷, based on growing uptake of electric vehicles and improvements in battery capacity. The supply overhang will narrow considerably as production is forecast to reach 489,000 tonnes in 2021 thereby rebalancing of the supply and demand fundamentals over the next 2-3 years¹⁸. Given the lack of incentive pricing for the marginal cost producers, it is our belief that new production will likely originate from existing low-cost producers and projects that have attractive cost bases.

As mentioned, the reduction in lithium pricing has been attributed to an oversupply of lithium products. Oversupply has been caused by a number of new spodumene mines ramping up in Australia. Tightening of credit in China has forced lithium market players to reduce stock levels to secure cash, reducing demand and increasing supply. Subsidies in China’s New Energy Vehicles (NEV) market were reduced in June 2019, when the government cut

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<https://publications.industry.gov.au/publications/resourcesandenergyquarterlydecember2019/documents/Resources-and-Energy-Quarterly-December-2019-Lithium.pdf>

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<https://publications.industry.gov.au/publications/resourcesandenergyquarterlydecember2019/documents/Resources-and-Energy-Quarterly-December-2019-Lithium.pdf>

¹¹ <https://www.metalbulletin.com/Article/3851378/GLOBAL-LITHIUM-WRAP-Chinese-lithium-prices-stable-ahead-of-year-end-other-regional-markets-flat.html>

¹² <https://seekingalpha.com/article/4272099-lithium-miners-news-month-june-2019>

¹³ <https://www.metalbulletin.com/Article/3914427/GLOBAL-LITHIUM-WRAP-Lunar-New-Year-production-logistics-halts-slow-Asian-market-activity.html>

¹⁴ <https://www.metalbulletin.com/Article/3914427/GLOBAL-LITHIUM-WRAP-Lunar-New-Year-production-logistics-halts-slow-Asian-market-activity.html>

¹⁵ <https://www.spglobal.com/platts/en/market-insights/latest-news/metals/110819-lithium-producers-paint-gloomy-picture-for-2020>

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<https://publications.industry.gov.au/publications/resourcesandenergyquarterlydecember2019/documents/Resources-and-Energy-Quarterly-December-2019-Lithium.pdf>

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<https://publications.industry.gov.au/publications/resourcesandenergyquarterlydecember2019/documents/Resources-and-Energy-Quarterly-December-2019-Lithium.pdf>

¹⁸ <https://publications.industry.gov.au/publications/resourcesandenergyquarterlydecember2019/documents/Resources-and-Energy-Quarterly-December-2019-Lithium.pdf>

subsidies in half by as much as 25,000 yuan (US\$3,600) per vehicle¹⁹. Chinese NEV sales then began falling in July and led to a reduction in NEV sales by 47% in October compared with the same month last year²⁰. These changes caused lithium consumers to hold back on purchases. However, as prices have tightened, high cost, marginal producers have begun to cut production and call a halt to expansion plans. In August 2019, Albemarle announced it would delay construction plans for about 125,000 tons of additional lithium processing capacity due to the effect of oversupply on prices²¹. Pilbara Minerals postponed stage two and three expansion projects that would have seen the Pilgangoora lithium-tantalum project in Western Australia produce 7.5 million tonnes a year. In September 2019, Tianqi stopped work on a part-built US\$300 million second stage of the lithium plant in Kwinana²². Tianqi and Albemarle also postponed a planned US\$516 million expansion of their jointly owned Greenbushes mine in Western Australia as they reconsidered their investments in downstream processing capacity. In November 2019, Albemarle and Mineral Resources put the Wodgina project into care and maintenance indefinitely. Albemarle said the Wodgina mine would remain idle until demand for spodumene warranted a re-start²³. The reduction in production from these cutbacks will take time to work through the supply chain to reduce the stockpile levels. Nemaska Lithium suspended operations in October 2019 at its Whabouchi lithium mine and applied for creditor protection in December 2019, thus removing planned production of 37,000 tonnes of LiOH and 205,000 tonnes of concentrate from the market²⁴. In January 2020, Galaxy Resources announced that in response to market conditions, it has reviewed operations at Mount Cattlin, resulting in a reduction in operations by circa 60%²⁵.

Despite the obvious short-term weakness in the lithium market, the future is brighter and the long-term outlook remain strong. In research by Signumbox in April 2019, which was commissioned by Deutsche Lithium for their feasibility study, SignumBox anticipates a global annual demand for lithium chemicals to reach about 1,700 thousand tonnes of LCE by 2037, equating to an average annual growth rate of about 11.5% over the next 20 years²⁶. A key theme at the Fastmarkets' 11th Lithium Supply and Markets Conference (11 June 2019) was that global lithium demand could outpace supply in the coming years²⁷, with the number of new projects expected to fall short of expected production amid doubts on capital availability and low prices. In research from Canaccord Genuity in November 2019, the medium-term pricing for lithium carbonate will reach US\$11,500 per tonne for battery-grade by 2025 with lithium recovering more strongly thereafter as the demand gap is expected to widen, US\$15,000 per tonne by 2027²⁸.

Electric vehicles are the main driver for lithium demand, with forecasts varying widely, based on Chinese uptake. Although China may not re-subsidise EVs, it is thought to be likely that China will maintain pressure on its internal combustion engine automotive sector to incentivise the switch to EVs because cutting carbon pollution is a national goal. Evidence of this came in January 2020, Miao Wei, China's minister for industry and information technology (MIIT), told the EV100 automotive conference in Beijing that the country would not cut subsidies for new energy vehicles (NEV) again in July 2020²⁹. This move was seen as positive support for the EV sector. Nevertheless, EV

¹⁹ <https://www.cnbc.com/2019/06/19/china-subsidy-cuts-for-electric-carmakers-could-lead-to-consolidation.html>
<https://www.bloomberg.com/news/articles/2019-11-08/china-is-considering-cutting-electric-car-subsidies-again>

²⁰ <https://stockhead.com.au/resources/tim-treadgold-lithium-stocks-close-to-the-bottom-its-time-to-revisit-a-sold-down-sector/>

²¹ <https://uk.reuters.com/article/us-albemarle-results/albemarle-to-delay-construction-plans-for-125000-tons-of-lithium-processing-idUKKCN1UY1QS>

²² <https://www.afr.com/companies/mining/tianqi-puts-brakes-on-landmark-wa-lithium-plant-expansion-20190910-p52ppp>

²³ <https://www.afr.com/companies/mining/minres-reaps-us1-3-billion-for-stake-in-mothballed-lithium-mine-20191101-p536h2>

²⁴ <https://www.nemaskalithium.com/en/investors/press-releases/2019/53f0e3be-0d29-475e-b37f-7090e58ede31/>

²⁵ <https://www.reuters.com/article/galaxy-rsrcs-output/australias-galaxy-resources-to-slash-output-at-flagship-lithium-mine-in-2020-idUSL4N29S077>

²⁶ http://www.deuschelithium.de/wp-content/uploads/2019/06/NI43-101-Zinnwald_Feasibility-Study_Summary.pdf

²⁷ <https://www.indmin.com/Article/3878594/LITHIUM-CONF-Lithium-demand-could-outpace-supply-due-to-low-prices-few-projects.html>

²⁸ <https://www.bacanoralithium.com/cms/wp-content/uploads/2020/02/BCN-Presentation-Feb-2020.pdf>

²⁹ https://www.reuters.com/article/us-china-autos-idUSKCN1ZA09Z?taid=5e19c3752f31770001c26e03&utm_campaign=trueAnthem:+Trending+Content&utm_medium=trueAnthem&utm_source=twitter

makers are on the cusp of making vehicles that are cost competitive vs conventional vehicles (Circa US\$20,000)³⁰, enabling mass market uptake. China's population base, its siting of local manufacturers (Volkswagen, BYD, Tesla etc.), developing infrastructure and its short commute distances make it well placed for larger scale electric vehicle uptake³¹. Furthermore, there are currently plans for 103 Gigafactories to be in production by 2030³², which means that we are at the tipping point for affordable mass market production of EVs. For example, Volkswagen is constructing two EV factories in China (at Foshan and Anting), with possible first production in 2020³³. Ultimate capacity of these two factories is said to be 600,000 vehicles per annum. Additionally, Tesla has commenced trial production in Shanghai with planned capacity of 150,000 vehicles that may benefit from subsidies for locally produced vehicles having a range of over 400 kilometres³⁴.

Despite the short-term softness in price caused by oversupply, investment in the development of battery technology and the low cost-high quality battery materials supply chain continues apace. Deal flow and announcements provided evidence of continued confidence in the underlying fundamentals of the lithium market. In October 2019, Ganfeng Lithium completed its strategic investment in Bacanora obtaining 29.99% equity interest in Bacanora Lithium Plc and 22.5% investment at the Sonora Project level. In November 2019, the Pallinghurst group and Traxys announced a joint venture to invest US\$2 billion in battery materials³⁵. Construction continues on Orocobre's the Olaroz Stage 2 Lithium Carbonate expansion project (US\$295 million) which is expected to commission in H1 2021. Furthermore, Orocobre is investing US\$90 million in the Naraha lithium hydroxide converter plant (10 thousand tonnes per annum) commissioning expected in H1 2021³⁶.

With Sonora's estimated cost of production of around US\$4,000 per tonne, the Project sits in the lower quartile of lithium production costs, giving it a significant competitive advantage when compared to the higher cost producers such as the existing spodumene production in Australia. Whilst there is a degree of uncertainty in the nascent lithium market, Bacanora is well placed to weather the near-term oversupply related price fluctuations given favourable production costs and the high-quality nature of our product.

Furthermore, the European lithium market is primed to grow significantly in the coming years. According to S&P Global Platts Analytics monthly EV statistics, European EV sales in the first half of 2019 rose 40% year on year to 198,000, against an overall 2% decline for EU new car sales³⁷. In a sign of growth in Europe's EV market, Sweden's Northvolt said in June 2019, that it had raised US\$1 billion from Volkswagen AG, BMW and others to build the continent's biggest lithium-ion battery plant³⁸. In May 2019, France and Germany teamed up on a plan worth up to €6 billion (US\$6.8 billion) to jointly invest in the European production of EV batteries³⁹. In November 2019, the European Commission approved €3.2 billion euros (US\$3.53 billion) of state aid from seven European Union countries for research and innovation in battery technology⁴⁰. As part of its expansion into EVs, the BMW Group is deepening its existing relationship with Ganfeng Lithium. They have signed a 5-year (2020 - 2024) supply contract for the Lithium Hydroxide. BMW estimated the value of the contract at €540 million⁴¹. Clearly, efforts are being made by the European battery market to rival China's existing dominance. We believe Zinnwald is strategically positioned to take advantage of this burgeoning European EV market.

³⁰ <https://electrek.co/2019/05/23/skoda-citigo-iv-electric-car-cheap/>

³¹ <https://info.ornl.gov/sites/publications/files/Pub72210.pdf>

³² <https://seekingalpha.com/article/4314058-lithium-miners-news-for-month-of-december-2019>

³³ <https://cleantechnica.com/2019/05/15/volkswagen-continues-to-ramp-up-its-electric-car-push/>

³⁴ <https://insideevs.com/news/378294/tesla-production-sites-model-capacity/>

³⁵ <https://www.ft.com/content/3723f12e-0549-11ea-a984-fbbacad9e7dd>

³⁶ <https://www.orocobre.com/wp/?mdocs-file=6638>

³⁷ <https://www.spglobal.com/platts/en/market-insights/latest-news/metals/110819-lithium-producers-paint-gloomy-picture-for-2020>

³⁸ https://www.just-auto.com/news/volkswagen-leads-us1bn-northvolt-capital-raise_id189176.aspx

³⁹ <https://www.reuters.com/article/us-lithium-electric-europe/european-lithium-projects-gain-attention-amid-push-toward-electric-vehicles-idUSKCN1TE34V>

⁴⁰ <https://www.reuters.com/article/us-eu-batteries/eu-approves-3-2-billion-euro-state-aid-for-battery-research-idUSKBN1YD0WJ>

⁴¹ <https://www.greencarcongress.com/2019/12/20191211-bmwganfeng.html>

Financial Review

The Company took the decision to move the year end from 30 June to 31 December in order to align the financial year for Group companies with local statutory reporting requirements and stakeholder reporting. Consequently, the reporting period presented herein is the six month period from 1 July to 31 December 2019, which may not be directly comparable to the prior twelve month period of 1 July 2018 to 30 June 2019 previously reported.

The Group made an operating loss of US\$4.9 million for the six month period ended 31 December 2019 compared with a loss of US\$11.1 million for the year ended 30 June 2019. This six month operating loss includes US\$2.8 million general and administrative costs (year ending 30 June 2019: US\$7.0 million) and share-based payment compensation of US\$0.3 million (year ending 30 June 2019: US\$0.8 million). Overall, the operating loss reduced in the six month period ended 31 December 2019 due to reduced corporate activities in the period compared to the prior period.

During the six month period ended 31 December 2019, the Group incurred finance costs of US\$2.4 million in relation to the Group's debt financing (year ended 30 June 2019: US\$4.4 million). Finance income of US\$0.9 million (year ended 30 June 2019: US\$1.9 million) comprised a revaluation of the Group's financial warrants of US\$0.7 million and interest on the Group's cash reserves of US\$0.2 million.

DL, which holds the Zinnwald Lithium Project, had a US\$0.2 million loss during the six month period, of which, Bacanora Lithium's 50% share was US\$0.1 million loss. At 31 December 2019, the Company had an option valid until 17 February 2020 to purchase the remaining 50% interest in DL. In the event that the Company does not exercise the Bacanora Call Option, Solarworld has the right but not the obligation to purchase the Company's 50% interest in DL. The Bacanora Call Option was revalued to nil as at 31 December 2019 as a result of the unwinding of the time value of the option using the Black-Scholes option pricing model, driving a US\$0.2 million charge in the income statement. On 14 February 2020, the Company has signed an agreement with the administrators of Solarworld to remove both the Bacanora Call Option and Solarworld Option, consequently the option was derecognised, see note 6 for details. As part of the agreement, Bacanora retains its right of first refusal to purchase the remaining 50% currently held by Solarworld. Bacanora has committed to providing additional financing of €1.35 million to fund the DL operations over the next two years.

The total net assets of the Group increased to US\$65.0 million at 31 December 2019 from US\$32.4 million at 30 June 2019, due primarily to the issuance of share capital, net of issue costs, of US\$27.7 million to Ganfeng and M&G, plus an investment in SLL by Ganfeng of US\$9.5 million, offset by the loss for the six month period of US\$4.9 million. See below for further detail on the share issuances in the six month period.

The Group has a cash balance of US\$48.9 million as at 31 December 2019, which increased by US\$34.2 million from US\$14.8 million in the prior year. During the six month period, the Group received cashflows from the issues of share capital of US\$27.7 million, sale of non-controlling interest in subsidiaries of US\$9.5 million and interest income of US\$0.2 million on the Group's cash reserves. These cash inflows are partially offset by the cash used in the operations which amounted to US\$2.3 million, property, plant and equipment and exploration and evaluation assets cash expenditures of US\$0.6 million and funding DL of US\$0.4 million.

Financing

In addition to the existing US\$150 million debt facility with RK Mine Finance, of which US\$125 million remains undrawn, the following strategic investments were completed during the reporting period.

a Strategic investment from Ganfeng Lithium Co., Ltd.

On 18 October 2019, the Bacanora Group completed investment and offtake agreements with Ganfeng where Ganfeng:

- subscribed for a 29.99% equity interest in Bacanora for a cash consideration of £14,400,091, being 57,600,364 new ordinary shares in the Company at a price of 25 pence per share, representing the volume weighted average price ("VWAP") on AIM of the Company's shares over the previous 20 trading days at the time of negotiation;
- acquired an initial 22.5% interest in SLL, for a cash payment of £7,563,649, equivalent to a price of 25 pence per share, with an option to increase its interest in SLL to up to 50% from 22.5%, within 24 months of

the completion of the initial investment. The valuation of any additional investment by Ganfeng would be based on the share price of Bacanora Lithium Plc at the time of the additional purchase;

- appointed Mr. Wang Xiaoshen as a Director to the boards of the Bacanora Lithium Plc and SLL;
- acquired a long-term offtake at a market-based price per tonne for 50% of lithium production during Stage 1 and up to 75% of lithium production during Stage 2;
- would complete a review of the engineering design and capital costs of Sonora with a view to reducing costs and accelerating the timetable, and;
- provide a plant and process commissioning team to assist Bacanora in delivering first production in 2022.

Completion of the strategic investment from Ganfeng forms a major part of the Company's finance package for the construction of an initial 17,500 tonnes per annum lithium operation at Sonora.

b Strategic investment from M&G Plc.

On 25 November 2019, Bacanora raised £7,729,150 via the placing of 30,916,601 new ordinary shares in the Company with M&G, one of our long-standing cornerstone shareholders. The transaction completed at a price of 25 pence per share. The investment increased M&G's strategic shareholding in Bacanora to 19.9%. The net proceeds of the placing will be used to support pre-construction works at the Sonora project.

These financing milestones bring us closer to completing the construction funding for Stage 1 development of Sonora.

We continue to work towards full financing and development of our Projects and will update the market in the future.

On behalf of the Board of Directors

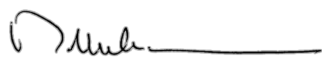


Janet Blas

Chief Financial Officer

28 February 2020

The strategic report of Bacanora Lithium Plc, on pages 6 - 35, was approved and authorised for issue by the Board of Directors on 28 February 2020 and were signed on its behalf by:



Mark Hohnen

28 February 2020

Governance

Directors and Senior Management

a Board Composition

As at 31 December 2019, the Board comprised an Executive Chairman, an Executive Director, and five other Non-Executive Directors. Details of the current Directors are set out within the list of Directors below. The Board will continue to review its structure in order to provide what it considers to be an appropriate balance of executive and non-executive experience and skills.

The Board considers the following Non-Executive Directors to be independent - Jamie Strauss, Eileen Carr and Andres Antonius. None of these Directors have been employees, have a significant business relationship or close family ties with related parties or represent significant shareholders, although they all hold options to acquire ordinary shares in the Company.

In reviewing the independence criteria for Non-Executive Directors, the Board believes it important to note that prior to the re-domicile in March 2018, Bacanora was a Canadian registered company listed on the TSX Exchange under whose rules options granted to non-executive directors are not considered to impinge on their independence. Under the QCA Code, non-executive directors should not have a significant interest in a company share option scheme as it is considered that this may compromise their independence. The Board is aware that this issue should be resolved according to UK best practice. To reflect the inherent conflict of interest in Non-executive Directors approving their own remuneration, the Company's Remuneration Committee will seek advice on their remuneration from an independent external source and take soundings from significant shareholders on that matter.

b Board Terms of Reference and Powers

The Board sets the Company's strategic aims and ensures that necessary resources are in place in order for the Company to meet its objectives. All members of the Board take collective responsibility for the performance of the Company and all decisions are taken in the interests of the Company.

Whilst the Board has delegated the normal operational management of the Company to the Executive Directors and other senior management, there are detailed specific matters subject to decision by the Board of Directors. These include acquisitions and disposals, joint ventures and investments and projects of a capital nature.

The Non-Executive Directors have a particular responsibility to challenge constructively the strategy proposed by the Chairman and Executive Director, to scrutinise and challenge performance, to ensure appropriate remuneration and that succession planning arrangements are in place in relation to Executive Directors and other senior members of the management team. The Lead Independent Director holds informal meetings with the Non-Executive Directors without the Executives present. The Non-Executive Directors enjoy open access to the Executives and other senior management with or without the Chairman being present.

c Director Commitments

The two Executive Directors, Mark Hohnen and Peter Secker, are employed on full time contracts.

All Non-Executive Directors acknowledge in their letter of appointment that the nature of the role makes it impossible to be specific on maximum time commitment and that at certain times of increased activity, then preparation and attendance at meetings will increase. All Directors are expected to attend all Board meetings (either in person or by phone), the AGM, one annual Board strategy meeting a year, committee meetings, meetings with the Non-Executive Directors, meetings with shareholders, any meetings forming part of the Board evaluation process and training meetings.

d Board Meetings

The Board meets in a formal manner on a quarterly basis, with additional meetings held as required to review the corporate and operational performance of the Group. Each Board Committee has compiled a schedule of work, to ensure that all areas for which the Board has responsibility are addressed and reviewed during the course of the year.

The Chairman, aided by the Company Secretary is responsible for ensuring that the Directors receive accurate and timely information. The Company Secretary compiles the Board and Committee papers which are circulated to Directors well in advance of all meetings. The Company Secretary provides minutes of each meeting and every Director is aware of the right to have any concerns minuted.

A summary of attendance at Board meetings in the six months to 31 December 2019 is set out below:

	24 July	12 September	12 October	19 October	12 December
Mark Hohnen	✓	✓	✓	✓	✓
Peter Secker	✓	✓	✓	✓	✓
Jamie Strauss	✓	✓	✓	✓	✓
Eileen Carr	✓	✓	✓	✓	✓
Andres Antonius	✓	✓	✓	X	✓
Junichi Tomono	✓	✓	✓	✓	✓
Wang Xiaoshen	n/a	n/a	n/a	✓	X
Derek Batorowski	✓	n/a	n/a	n/a	n/a

e Board Committees

The Board has delegated specific responsibilities to the Audit, Remuneration and Corporate Governance Committees, details of which are set out below. Each Committee has written terms of reference setting out its duties, authority and reporting responsibilities. It is intended that these will be kept under continuous review to ensure they remain appropriate and reflect any changes in legislation, regulation or best practice.

There is currently no internal audit function, given the size of the Group, although the Audit Committee keeps this under annual review.

The Board considers that, at this stage in its development, it is not necessary to establish a formal nominations committee and that this process shall be carried out by the Board. This decision will be kept under review by the Directors on an on-going basis.

i Audit Committee

The Audit Committee's overall goal is to ensure that the Company adopts and follows a policy of proper and timely disclosure of material financial information and reviews all material matters affecting the risks and financial position of the Company. The Audit Committee, inter alia, meets with the Company's external auditor and its senior financial management to review the annual and interim Financial Statements of the Company, oversees the Company's accounting and financial reporting processes, the Company's internal accounting controls and the resolution of issues identified by the Company's auditors. It also advises the Board on the appointment of the Auditor, reviews their fees and discusses the nature, scope and results of the audit with the Auditor.

The Audit Committee is chaired by Eileen Carr and its other members, who are all considered independent during the period were Jamie Strauss and Andres Antonius. The Committee has unrestricted access to the Group's Auditor. The CFO is invited to attend Committee meetings. The Committee meets at least bi-annually.

The Audit Committee Report contains more detailed information on the Committee's role.

ii Remuneration Committee

The Remuneration Committee assumes general responsibility for assisting the Board in respect of remuneration policies for the Company and to review and recommend remuneration strategies for the Company and proposals relating to compensation for the Company's Officers, Directors and consultants. The Committee reviews the performance of the Executive Directors and makes recommendations to the Board on matters relating to their remuneration and terms of employment. It has the responsibility for, inter alia, administering share and cash incentive plans and programmes for Directors and other senior management for approving (or making recommendations to the Board on) share and cash awards for Directors and other senior management.

The Remuneration Committee is chaired by Jamie Strauss and its other members, who are all considered independent, during the period were Andres Antonius and Eileen Carr. The Remuneration Report contains more detailed information on the Committee's role and the Directors' remuneration and fees.

iii Corporate Governance Committee

The responsibility of the Corporate Governance Committee is to provide for the Board's effectiveness and continuing development. The Corporate Governance Committee will generally assist the Board in developing the Company's approach to its own governance by:

- Overseeing the Company's corporate governance policies, including compliance with the 10 core principles of good corporate governance identified in the QCA Guidelines 2018. This includes making policy recommendations aimed at enhancing Board effectiveness and interaction with shareholders;
- Managing and overseeing the terms of reference for the Board, its Committees and key management and ensuring effective communication between all parties, whilst maintaining their independence from each other. This includes ongoing evaluation of Directors and the Board as a whole, identifying and recommending potential new Directors; and overseeing succession planning for key individuals; and
- Ensuring the Company maintains a robust two-way interaction with its shareholders and adopts disclosures in the Company's Annual Report to shareholders and on the corporate website in line with the requirements set out in the QCA Guidelines.

The Corporate Governance Committee is comprised of three members of whom, one is an executive Director, Mark Hohnen, and two are Non-Executive Directors, Eileen Carr and Jamie Strauss, the latter being Committee Chairman. The Committee met during the period and all members attended the meeting.

iv Board as a whole

The skills and experience of the Board are set out in their biographical details below. The experience and knowledge of each of the Directors gives them the ability to constructively challenge strategy and to scrutinise performance. The Board believes it has the requisite blend of experience in financial and operational matters, as well as improving gender balance, at a Board and Senior Management level to deliver on its strategy.

The Board do not believe that any of the Directors have too many Directorship roles at other listed companies and hence at risk of "over-boarding" as defined by ISS voting guidelines but will continue to monitor this on an ongoing basis. The Board is satisfied that the Chairman and each of the Non-Executive Directors are able to devote sufficient time to the Group's business.

During the six months to 31 December 2019, Mr. Wang Xiaoshen, the Deputy Chairman of Ganfeng Lithium was appointed to the Board on 18 October 2019. Derek Batorowski resigned as Director on 12 September 2019.

New Directors receive a formal induction to the Company including a briefing memo on the Company from the Company Secretary.

f List of Directors

Mark Hohnen, Executive Chairman and Director

Mr Hohnen has experience in the Japanese, Chinese and Korean markets, all of which play a significant role in the production of lithium-ion batteries and the development of electric vehicle technology. Mr. Hohnen has been involved in the mineral resource sector since the late 1970s. He has had extensive international business experience in a wide range of industries including mining and exploration, property, investment, software and agriculture. He has held a number of directorships in both public and private companies, including Anglo Pacific Resources Plc. Mr. Hohnen was also a director of Kalahari Minerals and Extract Resources, having successfully negotiated the sale of both companies to Taurus (CGN). Mr Hohnen is currently a director of Pensana Metals Ltd, the ASX listed rare earth metals explorer and Non-Executive Chairman of BOSS Resources Ltd, the ASX listed Uranium mining company.

Peter Secker, Chief Executive Officer and Director

Mr Secker is a mining engineer with over 30 years of experience in the resources industry. During his career he has built and operated a number of mines and metallurgical processing facilities in Africa, Australia, China and Canada. His operating and project experience spans a number of commodities, including titanium, copper, iron ore, gold and lithium. For the past fifteen years Mr. Secker has been Chief Executive of a number of publicly listed companies in Canada, UK and Australia.

Jamie Strauss, Non-Executive Director

Mr Strauss has 30 years of experience within the stockbroking and mining finance sector. Currently he is founder and director of Digbee Ltd, an Expert Network and Alternative Research Platform that is transforming due diligence within the mining industry. He is also director of mining finance boutique, Strauss Partners Ltd, based in London, UK. He was managing director at BMO Capital Markets from 2007 to 2009. He has raised in excess of US\$1 billion for projects spanning the globe in both energy and mineral world on behalf of leading institutions in UK, Europe, North America and Australia. Mr. Strauss is an independent director of Altius Minerals and Gold Standard Ventures.

Eileen Carr, Non-Executive Director

Ms Carr has been a key member of teams behind the development of a number of successful mining operations across the world, including the Freda Rebecca gold mine in Zimbabwe, the Ayanfuri gold mine in Ghana, the Kalsaka gold mine in Burkina Faso and the Angovia gold mine in Ivory Coast. She has served as Finance Director/ CFO for both private and public companies starting with Cluff Resources in 1993. She has since gone on to hold several executive directorships in the resource sector, including CFO at both AIM traded Monterrico Metals Plc and Alexander Mining Plc, and director at European Goldfields Inc. Ms Carr has also held a number of non-executive directorships and currently sits on the boards and the audit committees of the AIM listed companies Sylvania Platinum Ltd and Firestone Diamonds Plc. Her first non-executive role was for Banro Corp in 1998 and more recently she was a non-executive director for Talvivaara Mining Co, the Finnish nickel company, and Goldstar Resources NL, an ASX listed gold company. Ms Carr is a Fellow of the Association of Certified Chartered Accountants, holds an MSc in Management from London University and is a SLOAN fellow of London Business School.

Andres Antonius, Non-Executive Director

Dr Antonius is a Mexican national who has held positions in the Government of Mexico as well as in the private sector and academia. Dr. Antonius previously served as undersecretary for Energy Policy and prior to that was a staff member at the Agriculture Secretariat. Dr. Antonius is currently CEO of Plan B, a provider of strategic advice to a range of clients. Prior to founding Plan B, he was the president of the Consulting Services Group at Kroll, a world leader in risk management, business intelligence, and investigations. Dr. Antonius has also held the position of director of strategic planning at the Instituto Tecnológico Autónomo de México (“ITAM”) and has taught economic theory, game theory, and crisis management at both the ITAM and the Universidad Iberoamericana. He received a B.A., Masters and PhD degree in Economics from Harvard University.

Junichi Tomono, Non-Executive Director

Mr Tomono has over 23 years of experience with Hanwa, during which time he has worked in the metals, chemicals, alloys, scrap metals and mining divisions. Mr. Tomono has a special focus on the battery chemicals sector including lithium. As head of the Primary Metal department and as a director of two of the companies Hanwa has invested in, Mr. Tomono has played a key role in Hanwa adopting a more global focus in response to the rapid growth in the lithium battery sector.

Wang Xiaoshen (Appointed - 18 October 2019)

Mr Wang Xiaoshen is the Vice President of Ganfeng and the vice-chairman of its board of directors. Mr. Wang Xiaoshen is primarily responsible for the marketing, investment and overseas business of Ganfeng and has over 25 years of experience in sales and marketing of lithium products. He is a director of Ganfeng Lithium Co., Ltd International, Mariana Lithium, RIM and Lithium Americas. Mr. Wang obtained a bachelor’s degree in industrial engineering management from North China University of Technology in the People’s Republic of China in 1990 and an EMBA from the China Europe International Business School in the People’s Republic of China in 2002.

Derek Batorowski, Non-Executive Director (Resigned)

Mr Batorowski resigned effective 12 September 2019.

g Board advice during the period

During the period, the Remuneration Committee of Board commissioned a third party review of remuneration of its Board and Executive Management. The highlight recommendations from this review are included in the Remuneration report on page 45.

h Internal Advisory Roles

i Lead Independent Director

Whilst Bacanora currently has an Executive Chairman, the Company has decided to have a Lead Independent Director, Jamie Strauss. His primary role is to chair the (usually annual) meeting of the independent Directors, as well as act as a sounding board and intermediary for the Chairman or other Board members, as necessary. The Lead Independent Director also acts as an alternative route of access for shareholders and other Directors who have a concern that cannot be raised through the normal channels of the Chairman or the Executive Directors. The Lead Independent Director attends sufficient meetings with major shareholders and analysts to obtain a balanced understanding of the issues and concerns of shareholders.

ii Company Secretary

The Company Secretary, Cherif Rifaat, acts as a trusted adviser to the Chairman and the Board. He has been heavily involved with Bacanora since its listing on AIM in 2014 and drove the corporate restructuring that led to the re-domicile in 2018. He has a significant role in relation to the Company's legal and regulatory compliance, including being the MAR designee and plays a proactive and central role in ensuring good governance. The Company Secretary assists the Chairman in preparing for and running effective Board meetings, including the timely dissemination of appropriate information. The Company Secretary also acts as a conduit for all the Directors, particularly the NEDs, into the workings of the Company, providing not only an induction programme but information, advice and guidance. The Company Secretary often acts as one of the links between the Company and shareholders on matters of governance and investor relations. The Company Secretary reports directly to the Chairman on governance matters.

iii Annual Board Appraisal

In accordance with current best practice and the Code, the Board undertakes an annual formal evaluation of its performance and effectiveness and that of each Director and its Committees. This evaluation was conducted by way of a questionnaire from the Chairman, co-ordinated by the Company Secretary and concluded by Chairman interviews where necessary. In addition, the Non-Executive Directors met, informally, without the Chairman present and evaluated his performance. The Board currently considers that the use of external consultants to facilitate the Board evaluation process is unlikely to be of significant benefit to the process, although the option of doing so is kept under review.

The Chairman has stated that he values this annual evaluation opportunity and consider it key to his role in creating an effective Board, is an effective assimilation of feedback received, and the development and effective application of germane recommendations. He has reported that the Board was satisfied that the Board was effective and well run.

i Ongoing Board Development

Executive Directors are subject to the Company's annual review process through which their performance against predetermined objectives is reviewed and their personal and professional development needs considered.

Non-Executive Directors are encouraged to raise any personal development or training needs with the Chairman or through the Board evaluation process.

The Company Secretary ensures that all Directors are kept abreast of changes in relevant legislation and regulations, with the assistance of the Company's advisers where appropriate.

i Succession Planning

The Board has a minuted emergency succession plan for the Senior Management team. On an ongoing basis, Board members maintain a watching brief to identify relevant internal and external candidates who may be suitable additions to or backup for current Board members.

Corporate Governance Code

All members of the Board believe strongly in the value and importance of good corporate governance and in its accountability to all of the stakeholders in Bacanora including our shareholders, advisers, regulators and other suppliers. Robust corporate governance improves performance and mitigates risk and therefore is an important factor in achieving the medium to long-term success of the Company. In the statement which follows, we explain our approach to governance, and how the Board and its committees operate.

Changes to AIM rules on 30 March 2018 required AIM companies to apply a recognised corporate governance code from 28 September 2018. Bacanora has chosen to adhere to the Quoted Company Alliance's ("QCA") Corporate Governance Code for Small and Mid-Size Quoted Companies (revised in April 2018) to meet these requirements of AIM Rule 26. The Company published its second annual QCA statement on 12 September 2019⁴².

The QCA Code is constructed around ten broad principles and a set of disclosures. The QCA has stated what it considers to be appropriate arrangements for growing companies and asks companies to provide an explanation about how they are meeting the principles through the prescribed disclosures. We have considered how we apply each principle to the extent that the Board judges these to be appropriate in the circumstances, and in our QCA statement on our website we provide an explanation of the approach taken in relation to each. Like all aspects of the QCA Code, addressing the disclosure requirements should not be approached as a compliance exercise; rather it should be approached with the mindset of explaining and demonstrating the Company's good governance to external stakeholders

The Chair has the overall responsibility for implementing an appropriate corporate governance regime at the Company.

At Bacanora, we view sustainability as a guiding principle of our development strategy and are dedicated to delivering on the commitments to our shareholders, clients, employees, partners and other stakeholders with this in mind.

We believe that transparency and ethical behaviour are central to any successful company and undertake all development with respect to the environment and neighbouring communities. We seek to do this by:

- Minimising our environmental impacts,
- Fulfilling legal requirements and other requirements applicable to the Group,
- Identifying new ways to foster positive relationships in the local community,
- Safeguarding our people's health and wellbeing, as well as positive relationships in the work environment,
- Providing sustainability to the business for our shareholders and our partners, and
- We continuously review and improve our sustainability policy and productivity systems to ensure we meet these objectives.

The Board believes that the promotion of a corporate culture based on sustainability, sound ethical values and behaviours is essential to maximise shareholder value.

The Company maintains a Code of Conduct that includes clear guidance on what is expected of every employee and officer of the Company. Adherence of these standards is a key factor in the evaluation of performance within the Company, including during annual performance reviews. The Code of Conduct is included on the Company's website⁴³ and has been translated into Spanish for use in our operations in Mexico.

⁴² <https://www.bacanoralithium.com/cms/wp-content/uploads/2020/02/20190912-Bacanora-Lithium-QCA-Statement-2019-1-1.pdf>

⁴³ <https://www.bacanoralithium.com/investor-relations/csr-documents/>

Audit Committee Report

Dear Shareholders,

I am pleased to present this report covering the activities of the Audit Committee for the six months ended 31 December 2019, which is in line with the decision taken to change our reporting period end to 31 December in order to align our reporting with that of Mexican fiscal reporting and our other stakeholder reporting periods.

This report is prepared in accordance with the Quoted Companies Alliance (QCA) corporate governance code for small and mid-sized quoted companies, revised in April 2018. A summary of the Audit Committee's role, membership and relevant qualifications can be found in the corporate governance section herein or the AIM Rule 26 disclosure on the website.

Committee meetings are held at least bi-annually, and the CFO is invited to attend together with the external auditor. During the period, three meetings of the Committee were held, and the following significant issues were considered:

Significant issue	Summary of Significant Issue	Key Action Point
Accounting for Transactions - Accounting Standards	Accounting for the corporate re-organisation and the Ganfeng transaction under IFRS 10 - consolidated financial statements and IAS 27 - separate financial statements have been considered in assessing the impact on Group, Bacanora Lithium Plc. and SLL's financial statements.	Committee action: Review of accounting treatment.
Critical Judgement and estimates - Impairment of Mexican Assets	Review of impairment indicators under IAS 36 resulted in no impairment required.	Committee action: Review of estimates prepared by management.
Critical Judgement and estimates - Accounting estimates relating to Deutsche Lithium joint venture and option	Review of impairment indicators under IAS 36 resulted in no impairment required. The Deutsche Lithium option concluded and was written to Nil value.	Committee action: Review of accounting treatment.
Going concern - Accounting basis of preparation	Based on detailed cashflow forecasts, whether it is prudent to account on a going concern basis.	Committee action: Detailed review and interrogation of cashflow forecasts prepared by management; consideration of existing cash balances and review of changes to debt covenants received ensuring no going concern issues.
Controls Processes - Review of key controls processes e.g. procurement to pay, month end close & reporting and cash and treasury management.	Upgrade of existing systems, controls and procedures to ensure compliance with corporate governance requirements.	The review is ongoing and will continue to be monitored as the Sonora Project progresses into development to ensure adequate controls are in place.
Risk Management Process - Review of identification and management process of both strategic and operational risks.	Development of the control framework for the management and mitigation of risk.	Strategic and operational risks were identified and a control process is being developed to manage/mitigate risk. This process will be developed and monitored over the coming period.

A detailed presentation of the results of the Audit Committee meetings is given at the board explaining the points discussed as and when appropriate.

External auditor

The Company's external auditor, BDO LLP ("BDO") presented their detailed audit plan and final audit findings and recommendations for the six months ended 31 December 2019. The Committee agreed with the audit approach at the planning stage and agreed with the materiality thresholds, identification of the key risk areas and significant judgements and estimates.

BDO has a significant presence in Mexico (BDO Castillo Miranda) and used their local team to undertake their field work and substantive testing on the Company's Mexican subsidiaries.

BDO was appointed to the role of Company auditor in May 2018 following the decision to re-domicile to the UK from Canada. BDO's strong presence in both Mexico and a good working relationship with our previous audit firm in Canada was taken into consideration when deciding upon their appointment.

Substantive testing and technology

The Company recognises the efficiency offered through IT systems and technology and installed a new and improved accounting system in Mexico in the previous accounting year. Implementation of the system has continued throughout the period under review and further rollout will take place in 2020. This development will greatly assist the reliance on controls going forward but in the short term, substantive procedures continue to provide the most effective audit approach.

The audit team has visited the Mexican operations to undertake audit testing and to assess the controls and the level of substantive testing.

The Audit Committee is satisfied that the audit engagement for the six months ended 31 December 2019 was both effective and efficiently completed.

Fees

There was no significant non-audit work carried out by BDO during the period with the majority of tax advisory work undertaken by PwC. Full details of fees paid during the period may be found in note 16 to the financial statements.

Objectivity and Independence

The Audit Committee continues to monitor the auditor's objectivity and independence and is satisfied that BDO and the Group have appropriate policies and procedures in place to ensure that these requirements are not compromised.

Re-appointment of External Auditor

The Audit Committee recommends to the Board the re-appointment of BDO as auditor at the forthcoming annual general meeting ("AGM") and BDO has expressed its willingness to continue in office as auditor.

Internal Auditor

The requirement for the appointment of an internal auditor is continually assessed by the Audit Committee; the level of spend and complexity of the operations being taken into account when considering this decision. To date, the Committee has decided that an internal audit function is not required but will continue to assess the situation on a regular basis.

Going Concern

The Directors considered it appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements. The going concern statement is detailed in full in note 2c to the Financial Statements.

Conclusion

The Committee is satisfied with the quality of the external audit and believes that by virtue of this work, it is able to take a measured and diligent view of the quality of financial and other systems of reporting and control within the Company. In respect of its own performance, the Committee considers that it has directed the finance function towards areas relevant to the risks facing the Company. It has constructively challenged and received a high level of cooperation and support from all concerned. As a result of the work during the period, the Audit Committee concluded that it has acted in accordance with its terms of reference and has ensured the independence and objectivity of the external auditor.

For and on behalf of the Audit Committee of Bacanora Lithium Plc.



Eileen Carr

Chairman of the Audit Committee

28 February 2020

Remuneration Committee Report

Part 1 - Background Statement from the Chairman

On behalf of the Board, I am pleased to present the Directors' Remuneration Report summarising the Company's remuneration policy and providing information on the Company's remuneration approach and arrangements for Executive Directors, Non-Executive Directors and senior executive management for the six months ended 31 December 2019.

This report is prepared in accordance with the Quoted Companies Alliance (QCA) Remuneration Committee Guide for small and mid-sized quoted companies, revised in 2016. A summary of the Remuneration Committee's role, membership and relevant qualifications can be found in the corporate governance section herein or the QCA statement on the website.

Remuneration Committee meetings are held at least twice a year with the primary focus of setting goals for the coming period and then assessing results at the end of that period. During the six month period, the Remuneration Committee met two times and;

- Reviewed salary levels of Executive Directors,
 - It was agreed that a full independent remuneration review for both Executives and Directors would be carried out and completed in early 2020.
- Reviewed the suspended Option and RSU awards from the previous period,
- Reviewed, monitored and scored targets for FY 2019 period, and
- Determined new targets for the next financial period.

In the period the committee approached a number of independent remuneration consultants to tender for a comprehensive review of its remuneration policies and structures. In December 2019, the committee formally appointed Pearl Meyer to complete and report to the Company on the following key deliverables:

1. Defining the peer group for Bacanora;
2. Benchmarking remuneration for key executive roles, namely the Executive Chairman, CEO, CFO and Chief Operating Officer. This will include Salary, Pensions, Other Benefits and Bonus schemes.
3. Reviewing policy for remuneration arrangements for the Non-Executive Directors and providing a benchmark for NED pay including committee fees and the role of Senior Independent Director;
4. Update a Pay Philosophy for Bacanora;
5. Reviewing remuneration policy for Bacanora;
6. Designing pay packages, based on company requirements, underlying strategy and market norms

Part 2 - General Remuneration policy

In determining the remuneration of Executive Directors and senior management, the Remuneration Committee seeks to enable the Company to attract, retain and motivate high calibre talent in order for the Company to pursue its strategy and achieve its annual business plan and budgets as approved by the Board. In addition, it recommends to the Board whether to grant share options and or Restricted Share Units in the Company and, if these are to be granted who the recipients should be and how much they should receive.

The Committee has agreed with the Board a framework for the remuneration of the Executive Directors and senior management of the Company, which is reviewed annually. The principal objectives of the Committee are to ensure Management are provided with incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the ongoing success of the Company. We believe this is essential to the Company achieving its strategic goals and generating shareholder value over the long term.

The remuneration policy is based on the following broad principles set by the Committee

- To provide a competitive remuneration package to attract and retain quality individuals
- To align remuneration to the overall objectives of the business
- To act in the interest of the Company by being financially responsible
- To align the interests of management with the interests of stakeholders, including its shareholders; and

- To set the pay of the Executive Directors and senior management with due account of Health, Safety, Environment and Sustainability including alignment with its Overall Environmental and Social Governance policies.

Part 3: Summary of existing pay structures

Remuneration policy for Executive Directors and Senior Management

For details of directors' emoluments, please refer to note 19 to the Consolidated Financial Statements.

All Executive Directors and Senior Management are paid a fixed annual salary and, subject to meeting appropriate targets within their scorecard, are included in the long-term incentive plans noted below. These contracts do not currently include any short-term variable incentive elements in the form of cash bonuses. Through to the end of FY June 2019, this incentive plan relates to a maximum number of options/RSUs for both the Executive Chairman and CEO. In the case of all other members it relates to a percentage of salary.

Executive Director Service Contracts and Salaries:

Name	Mark Hohnen	Peter Secker
Role	Executive Chairman	CEO
Annual Salary as at 31 December 2019	£240,000	£300,000
Annual Salary as at 30 June 2019 ^[1]	£240,000	£300,000
Annual Salary as at 30 June 2018 ^[1]	£240,000	£300,000
Options and RSUs - Related to FY June 2019	151,439 Options 204,970 RSUs	205,800 Options 278,546 RSUs
Options and RSUs - Related to FY June 2018 ^[2]	Nil	Nil
Notice period ^[3]	3 months	12 months

^[1] Please refer to note 19 for the dollarised total remuneration for the directors in the six month period to 31 December 2019 compared with the financial year to 30 June 2019. The salaries above represent the contractual annual base salaries.

^[2] Due to the challenging financial circumstances at the end of the financial year 2018, the Committee reviewed the proposed awards and concluded that the Executive Chairman and CEO would have their Option and RSU awards suspended until end of calendar 2018. Consequently, the Options and RSUs awarded for the financial year 2018 are currently nil.

^[3] In October 2018 Mr. Hohnen extended his contract until 31st December 2020 with a 3 month notice period.

Remuneration of Non-Executive Directors

The Non-Executive Directors have each entered into appointment letters as part of the redomicile process. The table below shows key terms:

	Annual Fees	Initial Term	Notice
Jamie Strauss	Basic Fee of £33,000, £7,000 as Chair of Remuneration Committee, £7,000 as Chair of Corporate Governance Committee, £6,000 for Lead Independent Director	3 Years	1 Month
Eileen Carr	Basic Fee of £33,000, £7,000 as Chair of Audit Committee	3 Years	1 Month
Andres Antonius	Basic Fee of US\$50,000	3 Years	1 Month
Junichi Tomono	Nil Fees	3 Years	1 Month
Xiaoshen Wang	Nil Fees	3 Years	1 Month

Junichi Tomono and Xiaoshen Wang are appointed as Non-Executive Directors subject to the investment agreements in place between the Company and Hanwa and Ganfeng respectively.

For details of Non-Executive Directors emoluments, please refer to Note 19 for the dollarised total remuneration for the Directors six month period to 31 December 2019 compared with the financial year to 30 June 2019. The salaries above represent the contractual base salaries.

Scorecards

The Committee continues to use an annually reviewed scorecard system first introduced in 2017 to align management with key Corporate goals. These strategic goals are established with the intention of generating outstanding returns for shareholders while also prioritising key responsibilities for its multiple stakeholders. The Committee continues to review its key remuneration policies against QCA guidelines, market best practice and a review of the risk environment surrounding the Group's remuneration arrangements.

All members of the scheme are aligned to ensuring Health, Safety, Environmental and Sustainability standards are prioritised, in addition all scorecards have goals aligned to share price performance relative to the peer group and adherence to approved corporate budget.

Long Term Incentive Schemes

The variable pay component is performance-related and currently comprises the long-term Option and Restricted Share Units (RSU) schemes. The existing terms of these schemes, prior to the conclusion of the independent review, are as follows:

- Option scheme:
 - Options vest one third on date of grant, one third after 12 months from Grant Date, and one third after 24 months from Grant Date;
 - In the event of a takeover or privatisation of the Company, all unvested Options shall vest immediately;
 - Options expire 90 days after recipient ceases to be a Director, office, employee or consultant, unless the Board specifically agrees in writing otherwise; and
 - Options expire on the third anniversary of the date of grant, if unexercised.
- RSU Scheme
 - RSUs vest on the third anniversary of the date of grant;
 - In the event of a takeover or privatisation of the company, all unvested RSUs shall vest immediately;
 - The Participant receive on vesting, either Ordinary Shares in the Company, a Cash equivalent or a combination thereof as determined by the Company. The value is subject to applicable UK withholding taxes regardless of the domicile of the Participant; and
 - RSUs expire 90 days after recipient ceases to be a Director, office, employee or consultant, unless the Board specifically agrees in writing otherwise.

The Table below shows all existing Options Directors:

Name	Date of Grant	Vested Options	Unvested Options	Expiry Date	Price
Executive Directors					
Mark Hohnen	02-Mar-17	249,900	0	01-Mar-20	£0.8500
Mark Hohnen	20-Sep-17	224,910	0	19-Sep-20	£0.8000
Mark Hohnen	28-Oct-19	50,480	100,959	27-Oct-22	£0.3325
Peter Secker	02-Mar-17	300,000	0	01-Mar-20	£0.8500
Peter Secker	20-Sep-17	240,000	0	19-Sep-20	£0.8000
Peter Secker	28-Oct-19	68,600	137,200	27-Oct-22	£0.3325
Non-Executive Directors					
Jamie Strauss	02-Mar-17	750,000	0	01-Mar-20	£0.8500
Jamie Strauss	20-Sep-17	750,000	0	19-Sep-20	£0.8000
Andres Antonius	15-May-17	500,000	0	15-May-20	£0.8650
Andres Antonius	20-Sep-17	750,000	0	19-Sep-20	£0.8000
Eileen Carr	18-Apr-18	208,333	104,167	17-Apr-21	£0.8950
Junichi Tomono	n/a				
Xiaoshen Wang	n/a				

The Table below shows all existing RSUs for Directors:

Name	Date of Grant	RSUs Granted	Vesting Date
Executive Directors			
Mark Hohnen	20-Sep-17	557,843	19-Sep-20
Mark Hohnen	28-Oct-19	204,970	27-Oct-22
Peter Secker	20-Sep-17	634,434	19-Sep-20
Peter Secker	28-Oct-19	278,546	27-Oct-22

Part 4: Six Months to 31 December 2019 Review of Executive Directors and Senior Management

Due to the extended close periods during the financial year to 30 June 2019, Options and RSUs relating to the financial year 2019 were awarded after the publication of the 2019 Annual Report and Financial Statements.

For the six month period to 31 December 2019, the Remuneration Committee acknowledged the completion of two key corporate targets being the cornerstone investment and offtake agreement with Ganfeng Lithium and the increased investment from the Company's longest standing investor, M&G.

The Remuneration Committee met in July and September 2019 to set the scorecards for the Executive Team for the six months to 31 December 2019. In February 2020, the Committee met to undertake its initial review of performance against the scorecards. The final recommendations to the Board on percentage achievement together with the actual number of Options and RSUs to be awarded will be determined after the Company exits its closed period with the publication of these accounts.

Part 5: Initial recommendations from Independent Review

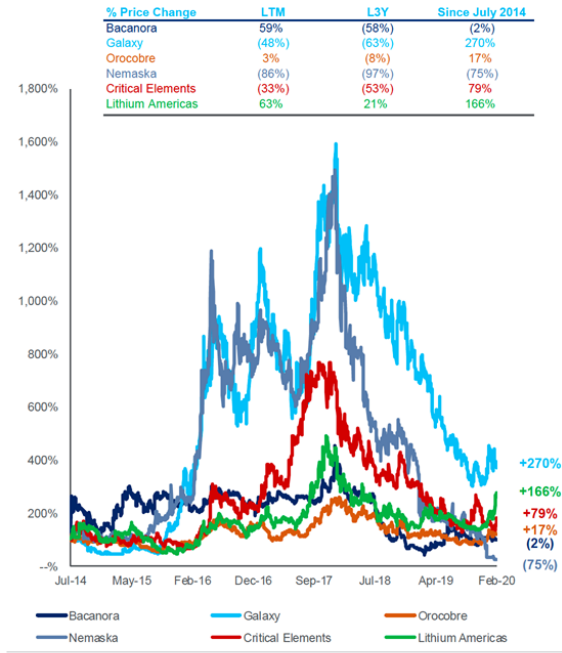
As noted in the last Annual Report, Bacanora has commissioned an independent review into its remuneration structure, which is being conducted by Pearl Meyer and whose final recommendations for 2020 onwards will be laid out once the work is complete. This review will include benchmarking remuneration for both the Executive Management Team and also for Non-Executive Directors; as well as recommendations on revisions to the Company's Short-Term and Long-Term Incentive Plans.

In regard to Non-Executive Directors participation in the Company's long-term incentive schemes. Pearl Meyer recommended that going forward this should be discontinued in line with current best practice in the UK, whilst acknowledging that this practice differs to companies listed in other countries and that the QCA Code is not explicit on the subject. The Board believes it important to note that prior to the re-domicile in March 2018, Bacanora was a Canadian registered company listed on the TSX Exchange under whose rules, options granted to Non-Executive Directors are not considered to impinge on their independence. Accordingly, any unexercised Options already granted to Non-Executive Directors shall remain in place subject to their existing terms.

For the purpose of share price performance, Bacanora has historically used a peer group, based on companies at a similar "developer" stage to Bacanora within the Lithium space comprising Galaxy, Orocobre, Pilbara Minerals, Nemaska Lithium, Lithium Americas and Critical Elements. Bacanora continues to use its existing comparator peer group for price comparison and the following tables show relative share price performance against each of this peer group and a consolidated index for the period since Bacanora first listed on AIM in July 2014. The second group of charts excludes Pilbara Minerals, due to the distortive effect of its share price movement. Pearl Meyer will include in their recommendations an updated peer group for the purposes of executive and director remuneration.

Indexed peer group, excluding Pilbara, for the period since Bacanora originally listed on AIM in 2014

Bacanora vs Peers (ex Pilbara)



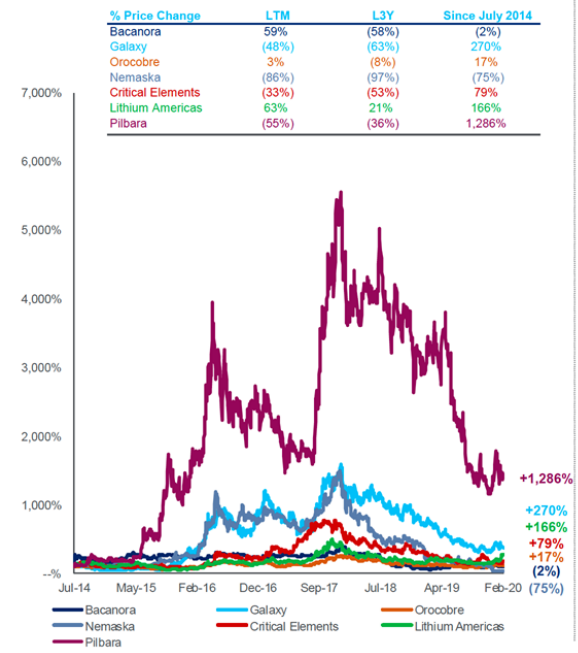
Bacanora vs Peers (Index; ex Pilbara)



Source: Company filings, FactSet. Market data as of 20 February 2020.
Notes: (1) Since Bacanora IPO on 25th July 2014. Peer prices as of daily close. Bacanora IPO price of 33p/sh.

Indexed peer group, for the period since Bacanora originally listed on AIM in 2014

Bacanora vs Peers



Bacanora vs Peers (Index)



Source: Company filings, FactSet. Market data as of 20 February 2020.
Notes: (1) Since Bacanora IPO on 25th July 2014. Peer prices as of daily close. Bacanora IPO price of 33p/sh.

For and on behalf of the Remuneration Committee



Jamie Strauss
Chairman of the Remuneration Committee
28 February 2020

Dialogue with Shareholders

a All Investors

The Board attaches great importance to providing shareholders with clear and transparent information on the Group's activities, strategy and financial position. General communication with shareholders is co-ordinated by the Chairman, Chief Executive Officer and Chief Financial Officer. In addition, the Lead Independent Director provides a further avenue for engagement with investors.

The Company publishes on its website the following information, which the Board believes play an important part in presenting all shareholders with an assessment of the Group's position and prospects:

- Updated investor presentations
- The Company's most up to date technical reports on each of its projects;
- All Annual and Interim Financial Statements going back to the Company's original inception as Bacanora Minerals Ltd in 2008;
- All Company press releases issued under the RNS service going back to the Bacanora Minerals IPO on AIM in 2014;
- Details on the proxy voting results of all resolutions put to a vote at the most recent AGM;
- Contact details including a dedicated email address info@bacanoralithium.com through which investors can contact the Company.

The Company's AGM is held in London following the publication of its annual results and all shareholders are invited to attend. Bacanora included in the 2019 AGM documents a "Deemed consent" letter to move to a default setting that all statutory documents be supplied to shareholders in electronic form and via the website rather than in hard copy. The Company believes that not only is this a more cost efficient and environmentally friendly option, but it also better serves private shareholders who may hold their shares in nominee accounts and hence not be entitled to direct receipt of these documents.

b Institutional Investors

In general, the Board maintains a regular dialogue with its major institutional investors, providing them with such information on the Company's progress as is permitted within the guidelines of the AIM Rules, MAR and requirements of the relevant legislation. The Company typically holds meetings with institutional investors and other large shareholders following the release of interim and financial results.

The Company has had increased contact with both current and prospective institutional shareholders as part of the fund-raise process for Sonora.

c Private Investors

The Company acknowledges that the majority of its private investors hold their shares via nominee shareholders and may not be able to fully exploit their shareholder rights effectively. Accordingly, the Company is committed to engaging with all shareholders and not just institutional shareholders.

As the Company is too small to have a dedicated investor relations department, the CEO is responsible for reviewing all communications received from shareholders and determining the most appropriate response. The CEO works in conjunction with the Company's PR advisers to facilitate engagement with its shareholders.

Following its move to the UK, the Company held shareholder conference calls by the CEO, whereby shareholders were encouraged to submit questions in advance to the Company's PR advisers. The Company also regularly participates at investor shows offering smaller and private investors similar insight into the Company and access to management.

d Board review

The Board as a whole is kept informed of the views and concerns of major shareholders by briefings from the CEO, Chairman and the Company's Brokers. Any significant investment reports from analysts are also circulated to the Board.

Directors Report

The Directors present their Annual Report and Financial Statements of the Company and Group for the six months ended 31 December 2019.

a Results and dividends

The results for the year are set out in the Consolidated Financial Statements.

No ordinary dividends were paid. The Directors do not recommend payment of a dividend.

b Directors

The Directors who served during the period were:

- Mark Hohnen
- Peter Secker
- Jamie Strauss
- Andres Antonius
- Junichi Tomono
- Eileen Carr
- Wang Xiaoshen (appointed 19 October 2019)
- Derek Batorowski (resigned 12 September 2019)

c Directors' interests

The Directors' interests in the share capital of the Company as at 31 December 2019 are as follows:

Director	No of Shares	% of Issued Share Capital
Mark Hohnen	2,514,951	1.1%
Peter Secker	-	0.0%
Jamie Strauss	102,857	0.1%
Andres Antonius	-	0.0%
Junichi Tomono	-	0.0%
Eileen Carr	-	0.0%
Wang Xiaoshen	-	0.0%
Total	2,617,808	1.2%

d Substantial shareholdings

The Directors are aware of the following substantial interests or holdings in 3% or more of the Company's ordinary called up share capital as at 31 December 2019.

Major Shareholder	No of Shares	% of Issued Share Capital
Ganfeng Lithium Co., Ltd ⁽¹⁾	57,600,364	25.8%
M&G Plc	44,373,385	19.9%
Hanwa Co Ltd	12,333,261	5.5%
Igneous Capital Ltd ⁽²⁾	9,883,774	4.4%
D&A Income Ltd ⁽²⁾	4,738,030	2.1%

⁽¹⁾The shareholding is legally owned by Ganfeng International Trading (Shanghai) Ltd, a 100% subsidiary of Ganfeng Lithium Co., Ltd

⁽²⁾Igneous Capital Ltd is a private corporation incorporated under the laws of the British Virgin Islands that is controlled by and ultimately beneficially owned by Mr. Graham Edwards. Mr. Edwards is also one of the potential beneficiaries of a trust that owns D&A Income Ltd.

e Directors' and Officers' insurance

The Company has made qualifying third-party indemnity provisions for the benefit of its Directors and Officers, which were made during the period and remain in force at the reporting date.

f Supplier payment policy

The Company's current policy concerning the payment of trade creditors is to follow the Confederation of British Industry's Prompt Payers Code (copies are available from the CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU).

g Branches

Bacanora does not have any branches of the Company outside of the United Kingdom as defined in s1046(3) of the Companies Act 2006.

h Political donations

Bacanora and its subsidiaries have not made any political donations during the financial year.

i Financial risks

Please refer to note 13 in the Consolidated Financial Statements for a detailed discussion on financial risk.

j Post balance sheet events

Please refer to note 22 in the Consolidated Financial Statements for a detailed discussion on events that occurred subsequent to 31 December 2019.

k Future developments

The Company will continue to focus on its efforts to complete the fund-raising for Stage 1 of Sonora.

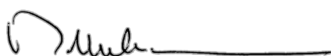
l Auditor

BDO LLP were reappointed as auditor to the Company at the Annual General Meeting held on 12 December 2019.

m Statement of disclosure to auditor

So far, as each person who was a Director at the date of approving this report is aware, there is no relevant audit information of which the Company's auditor is unaware. Additionally, the Directors individually have taken all the necessary steps that they ought to have taken as Directors in order to make themselves aware of all relevant audit information and to establish that the Company's auditor is aware of that information.

On behalf of the Board of Directors



Mark Hohnen

28 February 2020

Directors Statement of Responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Group and Company Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the Financial Statements; and,
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The Directors are responsible for ensuring the Annual Report and the Financial Statements are made available on a website. Financial Statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the Financial Statements contained therein.

Independent Auditor's Report to the members of Bacanora Lithium Plc

Opinion

We have audited the financial statements of Bacanora Lithium Plc (the 'parent company') and its subsidiaries (the 'group') for the 6 month period ended 31 December 2019 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, the parent company statement of financial position, the parent company statement of changes in equity, the parent company statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group and of the parent company's affairs as at 31 December 2019 and of the group's loss for the 6 month period then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	<p>Carrying value of evaluated mineral property</p> <p>As at 31 December 2019 the group's evaluated mineral property totalled \$26.1m. The details of these assets are disclosed in note 7.</p> <p>There are a large number of judgements and estimates used by management in assessing these assets for impairment under the accounting standards. These are set out in note 4c, and the subjectivity of the judgements and estimates together with the significant carrying value of the assets make this a key area of focus for our audit.</p>
How we addressed the Key Audit Matter in the Audit	<p>We have assessed management's impairment review and our procedures included the following:</p> <ul style="list-style-type: none"> • We have reviewed the feasibility study prepared by managements independent consultants for consistency with management's representations and assessed the competence and independence of the experts used by management. • We have reviewed the projected cash flows prepared by management which assume a 20 year life of mine. In our review of the forecasts we checked for consistency against the feasibility study report. • We have assessed the key inputs for reasonableness, namely lithium prices, costs and overheads and production output, against market data and supporting documentation. <p>We evaluated the adequacy of the disclosures provided within the financial statements in relation to impairment assessment against the requirements of the accounting standards.</p>
Key observations	<p>Based on our work we have no matters to communicate in respect of management's assessment of the carrying value of the group's evaluated mineral property.</p>

Key Audit Matter	<p>Carrying value of the investment in a joint venture</p> <p>The group holds a 50% investment in Deutsche Lithium GmbH, an entity involved in the exploration of a Lithium deposit in Germany. During the period the group have continued to provide funding to the project. Its carrying value at 31 December 2019 is \$9.5m and details are provided in note 6.</p> <p>Management have used judgements and estimates to assess the carrying value of the investment and to determine whether any indicators of impairment exist. These are set out in note 4f, and given the subjectivity of these judgements and estimates, this was assessed to be a key area of focus for our audit work.</p>
How we addressed the Key Audit Matter in the Audit	<p>We have assessed management's consideration of the carrying value of the investment and have performed the following work:</p> <ul style="list-style-type: none"> • We have reviewed the feasibility study prepared by independent experts and confirmed the inputs used by management in assessing the recoverability of the investment. • We have reviewed management's assessment for impairment indicators as required by accounting standards corroborated their assessment to supporting documentation, including the project feasibility study. • We have checked the group's contributions to the project against the contractual arrangements. • We have considered the impact on the valuation of the amendment to the agreement with the administrator of Solarworld AG which has been signed since the year end. • We evaluated the adequacy of the disclosures provided within the financial statements in relation to the carrying value of the investments.
Key observations	<p>Based on the work performed we have no matters to communicate in respect of management's assessment regarding the carrying value of the investment.</p>

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial, as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Group materiality was \$860,000 (June 2019: \$860,000) being 0.9% of total assets (June 2019: 1.5% of total assets). The materiality for the period was set after taking into account the short reporting period and the high level of cash held by the group.

Because the group is developing its main project and has no revenue, we consider assets to be one of the principal considerations for the users of the financial statements. Each significant component of the group has had an individual component materiality threshold set, with the parent materiality being set at 90% (June 2019: 80%) of group materiality at \$750,000 (June 2019: \$690,000). Component materiality ranged from \$320,000 to \$750,000.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at \$645,000 (June 2019: \$645,000) at a group level, and \$560,000 (June 2019: \$520,000) at a parent level, which represents 75% of the above materiality level. The level of performance materiality was set after considering a number of factors including the expected value of known and likely misstatements and management's attitude towards proposed adjustments.

We agreed with the audit committee that differences above \$17,000 (June 2019: \$17,000) will be reported to those charged with governance. We also agreed to report differences below the above threshold which warranted reporting on qualitative grounds.

An overview of the scope of our audit

The group comprises of the UK parent company and a number of subsidiaries which are incorporated in Mexico and Canada. We have performed a full scope audit over the group's significant components comprising Bacanora Lithium Plc and Minera Sonora Borax, S.A de CV, and Bacanora Finco Ltd. Each of the audits were conducted by BDO LLP with members of the group audit team visiting the Mexican operations. In respect of the other components which were deemed to be non-significant, these components were principally subject to analytical review procedures together with certain substantive tests over areas relating to group risks by BDO LLP.

Other information

The directors are responsible for the other information and financial statements. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the parent company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the parent company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

A handwritten signature in blue ink that reads 'BDO LLP'.

Stuart Barnsdall (Senior Statutory Auditor)

For and on behalf of BDO LLP Statutory Auditor

London, UK

28 February 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).


Consolidated Statement of Financial Position

As at 31 December 2019

In US\$	Note	31 December 2019	30 June 2019
Assets			
Current assets			
Cash and cash equivalents		48,903,551	14,763,706
Other receivables and prepayments	5	1,777,421	2,404,304
Derivative asset	6c	-	193,902
Total current assets		50,680,972	17,361,912
Non-current assets			
Investment in joint venture	6a	9,545,993	9,347,086
Property, plant and equipment	7	30,443,640	29,806,113
Exploration and evaluation assets	8	534,588	523,947
Total non-current assets		40,524,221	39,677,146
Total assets		91,205,193	57,039,058
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	9	1,451,346	1,474,543
Joint venture obligation	6b	113,697	237,105
Total current liabilities		1,565,043	1,711,648
Non-current liabilities			
Borrowings	10	24,051,610	21,622,167
Warrant liability	11	587,315	1,259,923
Total non-current liabilities		24,638,925	22,882,090
Total liabilities		26,203,968	24,593,738
Shareholders' equity			
Share capital	14	30,240,469	18,996,790
Share premium	14	16,646,060	153,366
Merger reserve	14	53,557,251	53,557,251
Share-based payment reserve	14	3,807,562	5,417,193
Foreign currency translation reserve		3,568,358	3,568,358
Retained earnings		(55,464,190)	(48,539,746)
Equity attributable to equity shareholders of Bacanora Lithium Plc		52,355,510	33,153,212
Non-controlling interest	23	12,645,715	(707,892)
Total shareholders' equity		65,001,225	32,445,320
Total liabilities and shareholders' equity		91,205,193	57,039,058

The accompanying notes on pages 62 - 95 are an integral part of these Consolidated Financial Statements.

The Consolidated Financial Statements of Bacanora Lithium Plc, registered number 11189628, were approved and authorised for issue by the Board of Directors on 28 February 2020 and were signed on its behalf by:



Mark Hohnen

28 February 2020

Consolidated Statement of Comprehensive Income

For the six month period ended 31 December 2019

In US\$	Note	Six months ended 31 December 2019	Twelve months ended 30 June 2019
Expenses			
General and administrative	16	(2,763,202)	(7,041,319)
Depreciation	7	(101,549)	(163,581)
Share-based payment expense	14	(290,391)	(800,846)
Foreign exchange (loss)/gain		(18,307)	17,581
Operating loss		(3,173,449)	(7,988,165)
<hr/>			
Finance and other income	17	928,796	1,919,124
Finance costs	17	(2,429,443)	(4,423,032)
Joint venture investment loss	6a	(80,887)	(168,679)
Revaluation of derivative asset	6c	(191,066)	(421,698)
Loss on fixed asset disposals		-	28,702
Loss before tax		(4,946,049)	(11,053,748)
<hr/>			
Tax charge	15	-	(5,012)
Loss after tax		(4,946,049)	(11,058,760)
<hr/>			
Other comprehensive income		-	-
Total comprehensive loss		(4,946,049)	(11,058,760)
<hr/>			
Loss attributable to shareholders of Bacanora Lithium Plc		(4,864,910)	(11,048,969)
Loss attributable to non-controlling interests		(81,139)	(9,791)
Loss after tax		(4,946,049)	(11,058,760)
<hr/>			
Total comprehensive loss attributable to shareholders of Bacanora Lithium Plc		(4,864,910)	(11,048,969)
Total comprehensive loss attributable to non-controlling interests		(81,139)	(9,791)
Total comprehensive loss		(4,946,049)	(11,058,760)
<hr/>			
Net loss per share (basic and diluted)	14	(0.03)	(0.08)

The accompanying notes on pages 62 - 95 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

For the six month period ended 31 December 2019

In US\$	Note	Share capital		Share premium	Merger reserve	Share-based payment reserve	Foreign currency translation reserve	Retained earnings	Total equity attributable to Bacanora Lithium Plc	Non-controlling interest	Total equity
		Number of shares	Value								
30 June 2018		134,164,872	18,958,033	140,592	53,557,251	6,138,085	3,568,358	(39,029,014)	43,333,305	(698,101)	42,635,204
Comprehensive income for the year:											
Loss for the year		-	-	-	-	-	-	(11,048,969)	(11,048,969)	(9,791)	(11,058,760)
Total comprehensive loss		-	-	-	-	-	-	(11,048,969)	(11,048,969)	(9,791)	(11,058,760)
Contributions by and distributions to owners:											
Shares issued on exercise of options	14	300,000	38,757	12,774	-	(60,950)	-	77,449	68,030	-	68,030
Lapsed option charge	14	-	-	-	-	(1,460,788)	-	1,460,788	-	-	-
Share-based payment expense	14	-	-	-	-	800,846	-	-	800,846	-	800,846
30 June 2019		134,464,872	18,996,790	153,366	53,557,251	5,417,193	3,568,358	(48,539,746)	33,153,212	(707,892)	32,445,320
Comprehensive income for the period:											
Loss for the period		-	-	-	-	-	-	(4,864,910)	(4,864,910)	(81,139)	(4,946,049)
Total comprehensive loss		-	-	-	-	-	-	(4,864,910)	(4,864,910)	(81,139)	(4,946,049)
Contributions by and distributions to owners:											
Issue of share capital - Ganfeng investment	14	57,600,364	7,251,886	10,877,829	-	-	-	-	18,129,715	-	18,129,715
Issue of share capital - M&G investment	14	30,916,601	3,991,793	5,987,690	-	-	-	-	9,979,483	-	9,979,483
Share issue costs	14	-	-	(372,825)	-	-	-	-	(372,825)	-	(372,825)
Adjustment arising from change in non-controlling interest	14	-	-	-	-	-	-	(3,959,556)	(3,959,556)	13,434,746	9,475,190
Lapsed option charge	14	-	-	-	-	(1,900,022)	-	1,900,022	-	-	-
Share-based payment expense	14	-	-	-	-	290,391	-	-	290,391	-	290,391
31 December 2019		222,981,837	30,240,469	16,646,060	53,557,251	3,807,562	3,568,358	(55,464,190)	52,355,510	12,645,715	65,001,225

The accompanying notes on pages 62 - 95 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

For the six month period ended 31 December 2019

In US\$	Note	Six months ended 31 December 2019	Twelve months ended 30 June 2019
Cash flows from operating activities			
Loss for the period before tax		(4,946,049)	(11,053,748)
Adjustments for:			
Depreciation of property, plant and equipment	7	101,549	163,581
Share-based payment expense	14	290,391	800,846
Foreign exchange		58,755	66,931
Finance and other income	17	(928,796)	(1,919,124)
Finance costs	17	2,429,443	4,423,032
Joint venture investment loss	6a	80,887	168,679
Revaluation of derivative asset	6c	191,066	421,698
Gain on disposal of property, plant and equipment		-	(28,702)
Changes in working capital items:			
Other receivables		525,594	(844,708)
Accounts payable and accrued liabilities		(82,356)	(1,108,972)
Income tax paid		-	(5,012)
Net cash used in operating activities		(2,279,516)	(8,915,499)
Cash flows from investing activities:			
Interest received		214,408	249,422
Purchase of property, plant and equipment		(560,950)	(8,262,991)
Purchase of exploration & evaluation assets		(10,641)	(21,000)
Proceeds on disposal of property, plant and equipment		-	119,759
Proceeds on sale of subsidiaries		9,475,190	-
Payments to the joint venture	6b	(401,972)	(2,421,090)
Net cash from/(used) in investing activities		8,716,035	(10,335,900)
Cash flows from financing activities			
Issues of share capital, net of share costs	14	27,736,373	-
Proceeds from borrowing, net of fees	10	-	20,875,000
Exercise of options	14	-	68,501
Net cash flows from financing activities		27,736,373	20,943,501
Change in cash and cash equivalents during the period		34,172,892	1,692,102
Exchange rate effects		(33,047)	(131,448)
Cash and cash equivalents, beginning of the period		14,763,706	13,203,052
Cash and cash equivalents, end of the period		48,903,551	14,763,706

The accompanying notes on pages 62 - 95 are an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1 Corporate information

Bacanora Lithium Plc (the “Company” or “Bacanora”) was incorporated under the Companies Act 2006 of England and Wales on 6 February 2018. The Company is listed on the AIM market of the London Stock Exchange, with its common shares trading under the symbol, “BCN”. The registered address of the Company is 4 More London Riverside, London, SE1 2AU.

The Group is a development stage mining group engaged in the identification, acquisition, exploration and development of mineral properties located in Mexico and Germany.

The Group issued the results of the feasibility study for the Sonora Lithium Project in Mexico on 25 January 2018, effective from 12 December 2017. The feasibility study confirmed the positive economics and favourable operating costs of a 35,000 tpa battery-grade lithium carbonate operation. The feasibility study estimates a pre-tax project net present value of US\$1.253 billion at an 8% discount rate and an internal rate of return of 26.1%. Key estimates and judgements assessed by management on the Group’s Sonora Lithium Project assets have been disclosed in Note 4.

In June 2019, Deutsche Lithium published the results of the feasibility study for the Zinnwald Lithium Project in Germany, which confirmed the positive economics and favourable operating costs for the production of 5,112 tpa (-7,285 tpa LCE) of battery-grade lithium fluoride, a high value, downstream product used in the manufacture of lithium battery electrolytes for the European electric vehicle industry. With a long life of project of 30 years, the feasibility estimates a pre-tax project net present value of €428 million at an 8% discount rate, an internal rate of return of 27.4%, and a 46% EBITDA operating profit margin.

For assets outside of the feasibility studies, the Group has not yet determined whether its mineral properties contain economically recoverable reserves. The recoverability of amounts capitalised is dependent upon the discovery of economically recoverable reserves, maintaining title in the properties and obtaining the necessary financing to complete the exploration and development of these projects and upon attainment of future profitable production. The amounts capitalised as exploration and evaluation assets represent costs incurred to date, and do not necessarily represent present or future values.

2 Basis of preparation

a Statement of compliance

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively “IFRS”) as adopted by the European Union (“EU”) applied in accordance with the provisions of the Companies Act 2006.

IFRS is subject to amendment and interpretation by the International Accounting Standards Board (“IASB”) and the IFRS Interpretations Committee, and there is an ongoing process of review and endorsement by the European Commission.

They have been prepared for the short period of six months from 1 July 2019 to 31 December 2019. The Company changed its accounting period end from 30 June to 31 December to align its reporting period with Mexican financial and tax reporting and other stakeholders reporting period.

The Consolidated Financial Statements were authorised for issue by the Board of Directors on 28 February 2020.

b Basis of measurement

These Consolidated Financial Statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value.

These Consolidated Financial Statements are presented in United States dollars (“US\$”). The functional currency of the Company and its subsidiaries is the United States dollar.

c Going Concern

The Directors have, at the time of approving the Consolidated Financial Statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Group has not entered into commitments to develop the Sonora Lithium Project. In relation to Deutsche Lithium, the total commitments entered into by the Company amounts to US\$1.58 million. Thus, the going concern basis of accounting in preparing the Financial Statements continues to be adopted.

3 Significant accounting policies

The preparation of Consolidated Financial Statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgement in applying the Group's accounting policies. Below are the significant accounting policies applied by management. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in note 4.

a Basis of consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Company and following subsidiaries at 31 December 2019:

Name of subsidiary	Country of incorporation	Shareholding on 31 December 2019	Shareholding on 30 June 2019	Nature of business
Bacanora Finco Ltd	UK	100%	100%	Financing company
Bacanora Treasury Ltd	UK	100%	100%	Financing company
Sonora Lithium Ltd	UK	77.5%	100%	Holding company
Zinnwald Lithium Ltd	UK	100%	100%	Dormant
Battery Finance (Jersey) Ltd	Jersey	100%	100%	Dormant
Bacanora Chemco S.A. de C.V.*	Mexico	77.5%	100%	Lithium processing
Bacanora Minerals Ltd*	Canada	77.5%	100%	Holding company
Mexilit S.A. de C.V.**	Mexico	54.25%	70%	Lithium mining/exploration
Minera Megalit S.A. de C.V.**	Mexico	54.25%	70%	Mineral exploration
Mineramex Ltd**	BVI	77.5%	100%	Holding company
Minera Sonora Borax, S.A. de C.V***	Mexico	77.5%	100%	Lithium mining/exploration
Operador Lithium Bacanora S.A. de C.V.***	Mexico	77.5%	100%	Mexican service organisation
Minerales Industriales Tubutama, S.A. de C.V***	Mexico	46.5%	60%	Dormant

*Held indirectly through Sonora Lithium Ltd

** Held indirectly through Sonora Lithium Ltd and Bacanora Minerals Ltd

***Held indirectly through Sonora Lithium Ltd, Bacanora Minerals Ltd and Mineramex Ltd

Subsidiaries are controlled by the Company where the Company is exposed to, or has rights to, variable returns from its involvement with the subsidiary and has the ability to affect those returns through its application of this power. Subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intercompany balances and transactions are eliminated in full. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

In August 2019, Bacanora Lithium Plc's 100% ownership of Bacanora Minerals Ltd and all its subsidiaries were transferred to Sonora Lithium Ltd (a 100% subsidiary of Bacanora Lithium Plc at that time). In October 2019, Ganfeng Lithium Co., Ltd purchased 22.5% of the shareholding of Sonora Lithium Ltd and its subsidiaries. In

addition, Ganfeng Lithium Co., Ltd were issued an option to purchase a further 27.5% to reach a shareholding of 50% within 2 years of the initial investment (the “Ganfeng Option”). See Note 14 for further details.

The Group considers that it has the rights to the variable returns from Sonora Lithium Ltd and its subsidiaries and has the ability to affect those returns through the application of its power from its controlling members of the Board and its shareholder voting rights. In assessing control, the Group has considered future voting rights and note that in the event of exercise of the Ganfeng Option, a joint venture agreement must be agreed, and a number of key stakeholders including the Board and shareholders of Bacanora Lithium Plc may need to provide consent to the transaction, for these reasons the Board does not consider these potential voting rights to be substantive and the Group believes that it has control of the Project and does not have available reliable information to conclude that it does not have control. At the event of an exercise of the Ganfeng Option and successful completion of the transaction, the Group will be required to make an assessment, in accordance with IFRS, of whether it continues to have power over the project, rights to the variable returns of the Project and has the ability to affect those returns. This assessment will be subject to, among others, the terms of the new joint venture agreement. The Group notes the completion of such a transaction could potentially have significant impact on the consolidation procedures of the Group Consolidated Financial Statements.

b Standards, amendments and interpretations adopted

During the period, the following standards and amendments have been implemented.

Standard	Detail	Effective date
IFRS 16	Leases	1 January 2019
IFRS 11	Amendment - annual improvements 2015-2017 cycle	1 January 2019
IAS 19	Amendment - regarding plan amendments, curtailments or settlements	1 January 2019
IAS 23	Amendment - annual improvements 2015-2017 cycle	1 January 2019
IAS 28	Amendment - regarding long-term interests in associates and joint ventures	1 January 2019
IFRIC 23	Uncertainty over income tax treatments	1 January 2019

i IFRS 16, Leases

IFRS 16, which supersedes IAS 17, sets out principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (“lessee”) and the supplier (“lessor”). Lessee accounting has changed substantially under this new standard while there is little change for the lessor. IFRS 16 has removed the classification of leases as either operating leases or financing leases and, instead, introduced a single lessee accounting model. A lessee is required to recognise assets and liabilities for all leases with a term of more than 12 months (unless the underlying asset is of low value) and is required to present depreciation of leased assets separately from interest on lease liabilities in the Consolidated Statement of Comprehensive Income. A lessor continues to classify its leases as operating leases or financing leases, and to account for those two types of leases separately.

On 1 July 2019, the Group adopted IFRS 16. The Group has reviewed its contracts and agreements and have not identified any leases. The impact of IFRS 16 is nil on both current and prior periods.

c Standards, amendments and interpretations effective in future periods

At the date of authorisation of these Consolidated Financial Statements, the following new standards, amendments and interpretations to existing standards have been published but are not yet effective and have not been adopted early by the Group.

Standard	Detail	Effective date
IFRS 17	Insurance contracts	1 January 2021
IAS 1	Amendment - regarding the definition of material	1 January 2020
IAS 1	Amendment - regarding the classification of liabilities	1 January 2022

Management anticipates that all the pronouncements will be adopted in the Group’s accounting policies for the first period beginning after the effective date of the pronouncement.

d Foreign currency transactions and translations

In preparing the financial statements of each individual Group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated at the end of each reporting period.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise. Foreign exchange differences which arise on differences in functional currencies between entities and the Group reporting currency are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

The results and financial position of a foreign operation are translated into the presentational currency, assets and liabilities are translated at the balance sheet date; income statements are translated at average rates. All resulting exchange differences are recognised directly, through other comprehensive income, in a separate component of equity.

e Cash and cash equivalents

Cash and cash equivalents are comprised of cash held on deposit and other short-term, highly liquid investments with original maturities of three months or less. These deposits and investments are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

f Other receivables

All receivables are held at amortised cost less any provision for impairment. A loss allowance for expected credit losses is made to reflect changes in credit risk since the initial recognition.

g Joint arrangements

Certain Group activities are conducted through joint arrangements in which two or more parties have joint control. A joint arrangement is classified as either a joint operation or a joint venture, depending on the rights and obligations of the parties to the arrangement.

Joint operations arise when the Group has a direct ownership interest in jointly controlled assets and obligations for liabilities. The Group does not currently hold this type of arrangement.

Joint ventures arise when the Group has rights to the net assets of the arrangement. For these arrangements, the Group uses equity accounting and recognises initial and subsequent investments at cost, adjusting for the Group's share of the joint venture's income or loss, dividends received and other comprehensive income thereafter. When the Group's share of losses in a joint venture equals or exceeds its interest in a joint venture it does not recognise further losses. The transactions between the Group and the joint venture are assessed for recognition in accordance with IFRS.

Joint ventures are tested for impairment whenever objective evidence indicates that the carrying amount of the investment may not be recoverable under the equity method of accounting. The impairment amount is measured as the difference between the carrying amount of the investment and the higher of its fair value less costs of disposal and its value in use. Impairment losses are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised.

h Exploration and evaluation assets

Costs incurred prior to acquiring the right to explore an area of interest are expensed as incurred.

Exploration and evaluation assets are intangible assets. Exploration and evaluation assets represent the costs incurred on the exploration and evaluation of potential mineral resources, and include costs such as exploratory drilling, sample testing, activities in relation to the evaluation of technical feasibility and commercial viability of

extracting a mineral resource, and general & administrative costs directly relating to the support of exploration and evaluation activities.

The Group assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. The recoverable amount is the higher of the assets fair value less costs to sell and value in use. Assets are allocated to cash generating units not larger than operating segments for impairment testing.

Purchased exploration and evaluation assets are recognised as assets at their cost of acquisition or at fair value if purchased as part of a business combination. They are subsequently stated at cost less accumulated impairment. Exploration and evaluation assets are not amortised. Where the Group's exploration commitments for a mineral property are performed under option agreements with a third party, the proceeds of option payments under such agreements are applied to the mineral property to the extent costs are incurred. The excess, if any, is recorded to the Statements of Comprehensive Loss. Asset swaps are recognised at the carrying amount of the asset being swapped when the fair value of the assets cannot be determined.

Once the work completed to date on an area of interest is sufficient such that the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be an evaluated mineral property. Exploration and evaluation assets are tested for impairment before the assets are transferred to "Evaluated mineral property".

i Property, plant and equipment

i Evaluated mineral property

Following determination of the technical feasibility and commercial viability of a mineral resource, the relevant expenditure is transferred from exploration and evaluation assets to evaluated mineral property.

Further development costs are capitalised to evaluated mineral properties, if and only if, it is probable that future economic benefits associated with the item will flow to the entity and the cost can be measured reliably. Cost is defined as the purchase price and directly attributable costs. Once the asset is considered to be capable of operating in a manner intended by management, commercial production is declared, and the relevant costs are depreciated. Evaluated mineral property is carried at cost less accumulated depreciation and accumulated impairment losses.

ii Land

Land is held at cost less accumulated impairment losses.

iii Short lived property, plant and equipment

Short lived property, plant and equipment consists of buildings, plant and machinery, office furniture and equipment, transportation assets and computer equipment. Short lived property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of short lived property, plant and equipment consists of the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

iv Depreciation and amortisation

Evaluated mineral property is not depreciated prior to commercial production but is reviewed for impairment annually (see "Impairment of assets" section below). Upon commencement of commercial production, evaluated mineral property is transferred to a mining property and is depreciated on a units-of-production basis. Only proven and probable reserves are used in the tonnes mined units of production depreciation calculation.

Land is not depreciated. All other short-lived property, plant and equipment depreciation is provided at rates calculated to expense the cost of property, plant and equipment, less their estimated residual value, using the straight-line method over their estimated useful life of the asset as follows:

Buildings	20 years
Plant and machinery	1 - 10 years
Office furniture and equipment	1 - 10 years
Transportation assets	1 - 5 years

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively if appropriate.

j Borrowings costs

The Group only capitalises borrowing costs which are directly attributable to the acquisition, construction or production of an asset, that necessarily takes a substantial period to get ready for its intended use, as part of the cost of that asset. Borrowing costs that are eligible to be capitalised are those which would have been avoided if the expenditure on the qualifying asset had not been made. The Group has not capitalised any borrowing costs in the six month period ended 31 December 2019.

k Rehabilitation provision

The Group recognises provisions for contractual, constructive or legal obligations, including those associated with the reclamation of mineral interests and property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a provision for the rehabilitation is recognised at its present value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding provision is added to the carrying amount of the related asset and the cost is amortised as an expense over the economic life of the asset. Following the initial recognition of the rehabilitation provision, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, and amount or timing of the underlying cash flows needed to settle the obligation. Currently the Group has not done any significant mining or earth moving at the Sonora Lithium Project and thus management have assessed that no rehabilitation provision is necessary.

l Provisions

Provisions are recognised when the Group has a present obligation, legal or constructive, that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at management's best estimate of the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in any provision due to passage of time is recognised as an accretion expense.

m Interest income

Interest income is recorded on an accrual basis using the effective interest method.

n Financial instruments

Financial assets and liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expired.

Except for trade and other receivables which do not contain a significant financing component, financial assets and financial liabilities are measured initially at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition or issue of the financial instrument. Trade receivables which do not contain a significant financing component are recognised at their transaction price. Financial assets and financial liabilities are subsequently measured as described below.

i Financial assets

Financial assets are subsequently recognised at amortised cost under IFRS 9 if it meets both the hold to collect and contractual cash flow characteristics tests. A financial asset is measured at fair value through other comprehensive income if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If neither of the above classification are met the asset is classified as fair value through the profit and loss or unless management elect to do so provided the classification eliminates or significantly reduces a measurement or recognition inconsistency.

(a) Cash and cash equivalents and trade and other receivables

Cash and cash equivalents and trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment, if any.

(b) Fair value through profit or loss

Financial assets measured at fair value through profit or loss are subsequently measured at fair value with changes in those fair values recognised in the profit and loss statement.

Assets held at fair value through profit or loss comprise of the derivative asset.

ii Financial liabilities

Financial liabilities are subsequently measured at amortised cost using the effective interest method, except for financial liabilities designated at fair value through profit or loss, that are carried subsequently at fair value with gains and losses recognised in the profit and loss statement.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

The Group's financial liabilities initially measured at fair value and subsequently recognised at amortised cost include accounts payables and accrued liabilities, the joint venture obligation and the Group's primary and secondary Eurobonds. The Group accounts for the financial warrants at fair value through profit or loss.

(a) Warrant liabilities

The warrants granted to RK Mine Finance can be settled in cash at the Company's option or equity at either party's option. As a result, the warrants have been classified as financial liability. The financial warrants issued with the primary and secondary Eurobonds are detachable instruments meeting the criteria to be separated from the host contract and thus recognised as a separate financial instrument. Management have classified the financial warrants at fair value through profit and loss. The initial and subsequent fair values are measured using the Black-Scholes valuation method.

(b) Borrowings

The Group's primary and secondary Eurobonds have been initially recognised at fair value less directly attributable transaction costs, using the present value of future cash flows. Given the warrant liabilities and Eurobonds were issued as a package of financial instruments the warrants have been accounted for at their known fair value and the remaining fair value has been allocated to the Eurobonds based on the ratio of the purchase price of the Eurobonds. Subsequently the Eurobonds are measured at amortised cost using the effective interest rate method.

o Impairment of assets

i Financial assets

A financial asset that is not carried at fair value through profit or loss is assessed at each reporting date to determine a loss allowance for expected credit losses. If the credit risk on a financial instrument has increased significantly since initial recognition, the loss allowance is equal to the lifetime expected credit losses. If the credit risk has not increased significantly, the loss allowance is equal to the twelve month expected credit losses.

The expected credit losses are measured in a way that reflects the unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes; the time value of money and reasonable and supportable information that is available about past events, current conditions and forecasts of future economic conditions.

ii Non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that the assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate largely independent cash inflows, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amount is the higher of fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than the carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss statement.

With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. Where an impairment loss is subsequently reversed, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior periods. A reversal of an impairment loss is recognised in the profit and loss statement.

p Income taxes

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years.

Deferred income taxes are calculated based on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not recognised on the initial recognition of goodwill, on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss at the time of the transaction, and on temporary differences relating to investments in subsidiaries and jointly controlled entities where the reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future.

Deferred income tax assets and liabilities are measured, without discounting, at the tax rates that are expected to apply when the assets are recovered, and the liabilities settled, based on tax rates that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

The Group has no deferred tax assets or liabilities.

q Earnings/loss per share

Basic loss per share is calculated by dividing the loss attributable to the common shareholders of the Group by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share is calculated by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise share options and warrants granted.

r Share premium

Share premium represents the excess of proceeds received over the nominal value of new shares issued.

s Share-based payments

i Share-based payment transactions

The Company grants share options and restricted share units to acquire common shares to Directors, Officers and employees (“equity-settled transactions”). The Board of Directors determines the specific grant terms within the limits set by the Company’s share option plan and restricted share unit plan.

ii Equity-settled transactions

The costs of equity-settled transactions are measured by reference to the fair value at the grant date and are recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant persons become fully entitled to the award (the “vesting date”). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the Company’s best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and the corresponding amount is represented in share option reserve. No expense is recognised for awards that do not ultimately vest.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification.

Where equity-settled transactions are awarded to employees, the fair value of the options at the date of grant is charged to the profit and loss statement over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of the options that will eventually vest.

Where equity-settled transactions are entered into with non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the equity instruments issued. Otherwise, share-based payments to non-employees are measured at the fair value of the goods or services received.

Upon exercise of share options, the proceeds received are allocated to share capital and premium if applicable, with any value previously recorded in share-based payment reserve relating to those options being transferred to retained earnings. When options expire any value previously recorded in share-based payment reserve relating to

those options is transferred to retained earnings. The dilutive effect of outstanding options is reflected as additional dilution in the computation of diluted earnings per share.

t Segmental reporting

The reportable segments identified make up all of the Group's activities. The reportable segments are an aggregation of the operating segments within the Group as prescribed by IFRS 8. The reportable segments are based on the Group's management structures and the consequent reporting to the Chief Operating Decision Maker, the Board of Directors. These reportable segments also correspond to geographical locations such that each reportable segment is in a separate geographic location. Income and expenses included in profit or loss for the period are allocated directly or indirectly to the reportable segments.

Non-current segment assets comprise the non-current assets used directly for segment operations, including intangible assets and property, plant and equipment. Current segment assets comprise the current assets used directly for segment operations, including other receivables and deferred costs. Inter-company balances comprise transactions between operating segments making up the reportable segments. These balances are eliminated to arrive at the figures in the Consolidated Financial Statements.

u Non-controlling interests

The total comprehensive income of non-wholly owned subsidiaries is attributed to the owners of the Parent Company and to the non-controlling interests in proportion to their relative ownership of the subsidiary.

4 Critical accounting estimates and judgements

The preparation of the Consolidated Financial Statements in accordance with IFRS requires management to make certain judgements, estimates, and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results are likely to differ from these estimates. Information about the significant judgements, estimates, and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

a Basis of consolidation

In October 2019, Ganfeng Lithium Co., Ltd were issued an option to purchase a further 27.5% to reach a shareholding of 50% within 2 years of the initial investment. The Group considers that it has the rights to the variable returns from Sonora Lithium Ltd and its subsidiaries and has the ability to affect those returns through the application of its power from its controlling members of the Board and its shareholder voting rights. In assessing control, the Group has considered future voting rights and note that in the event of exercise of the Ganfeng Option, a joint venture agreement must be agreed, and a number of key stakeholders including the Board and shareholders of Bacanora Lithium Plc may need to provide consent to the transaction, for these reasons the Board does not consider these potential voting rights to be substantive and the Group believes that it has control of SLL and does not have available reliable information to conclude that it does not have control. At the event of an exercise of the Ganfeng Option and successful completion of the transaction, the Group will be required to make an assessment, in accordance with IFRS, of whether it continues to have power over SLL, rights to the variable returns of SLL and has the ability to affect those returns. This assessment will be subject to, among others, the terms of the new joint venture agreement. The Group notes the completion of such a transaction could potentially have significant impact on the consolidation procedures of the Consolidated Financial Statements.

b Exploration and evaluation assets

The application of the Group's accounting policy for exploration and evaluated assets requires judgement in determining the potential for commercially viable quantities of mineral resource and whether it is likely that costs incurred will be recovered through successful development or sale of the asset under review when assessing impairment. Estimates and assumptions made may change if new information becomes available. If, after expenditures are capitalised, information becomes available suggesting that the recovery of expenditures is unlikely, the amount capitalised is written off in net profit or loss in the period when the new information becomes available. In situations where indicators of impairment are present for the Group's exploration and evaluation

assets, estimates of recoverable amount must be determined as the higher of the estimated value in use or the estimated fair value less costs to sell.

c Evaluated mineral property

The recoverability of carrying values for evaluated mineral property is dependent upon the ability of the Group to obtain the financing necessary to complete development and the success of future operations.

The application of the Group's accounting policy for evaluated mineral properties assets requires judgement in determining whether it is likely that costs incurred will be recovered through successful 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. If, after expenditures are capitalised, information becomes available suggesting that the recovery of expenditures is unlikely, the amount capitalised is written off in the profit or loss in the period when the new information becomes available. In situations where indicators of impairment are present for the Group's evaluated mineral properties, estimates of recoverable amount must be determined as the higher of the estimated value in use or the estimated fair value less costs to sell.

Costs are capitalised to evaluated mineral properties which are directly attributable to the development of the mineral asset. Estimates and judgements are made when determining whether costs are directly attributable. Employee costs are capitalised based on their job role and time spent developing the project.

d Functional currency

The Group transacts in multiple currencies. The assessment of the functional currency of each entity within the consolidated Group involves the use of judgement in determining the primary economic environment each entity operates in. The Group first considers the currency that mainly influences sales prices for goods and services, and the currency that mainly influences labour, material and other costs of providing goods or services. In determining functional currency, the Group also considers the currency from which funds from financing activities are generated, and the currency in which receipts from operating activities are usually retained. When there is a change in functional currency, the Group exercises judgement in determining the date of change.

All Group companies have a functional currency of US\$, this is driven by the primary economic environment of each entity ultimately relating to the lithium market. The lithium market, being sales of lithium products, labour, materials and professional services, is primarily transacted in US\$.

e Share-based payments

The Group utilises the Black-Scholes Option Pricing Model to estimate the fair value of share options and restricted share units granted to Directors, Officers and employees. The use of the Black-Scholes Option Pricing Model requires management to make various estimates and assumptions that impact the value assigned to the share options and restricted share units including the forecast future volatility of the share price, the risk-free interest rate, dividend yield, the expected life of the share options and restricted share units and the expected number of share which will vest. See note 14 for further details regarding these inputs.

The same estimates are required for transactions with non-employees where the fair value of the goods or services received cannot be reliably determined.

f Joint venture investment

The Group applies IFRS 11 to all joint arrangements and classifies them as either joint operations or joint ventures, depending on the contractual rights and obligations of each investor. The Group holds 50% of the voting rights of its joint arrangement with SolarWorld AG. The Group has determined to have joint control over this arrangement as under the contractual agreements, unanimous consent is required from all parties to the agreements for certain key strategic, operating, investing and financing policies. The Group's joint arrangement is structured through a limited liability entity, Deutsche Lithium GmbH, and provides the Group and SolarWorld AG (parties to the joint venture agreement) with rights to the net assets of Deutsche Lithium under the arrangements. Therefore, this arrangement has been classified as a joint venture.

The investment is assessed at each reporting period date for impairment in accordance with IFRS 28. An impairment is recognised if there is objective evidence that events after the recognition of the investment have had an impact on the estimated future cash flows which can be reliably estimated. In addition, the assessment as to whether economically recoverable reserves exist is itself an estimation process.

5 Other receivables and prepayments

Trade and other receivables contain amounts receivable for VAT and other indirect taxes, prepaid expenses and deposits paid. All receivables are due within one year.

In US\$	31 December 2019	30 June 2019
Other receivables	973,217	1,375,886
Prepayments and deposits	804,204	1,028,418
Total	1,777,421	2,404,304

6 Investments in jointly controlled entities

a Investment in Deutsche Lithium

On 17 February 2017, the Group acquired a 50% interest in a jointly controlled entity, Deutsche Lithium GmbH located in southern Saxony, Germany that is involved in the exploration of a lithium deposit in the Altenberg-Zinnwald region of the Eastern Ore Mountains in Germany. The joint venture has a functional currency of euros. The determination of Deutsche Lithium as a joint venture was based on Deutsche Lithium's structure through a separate legal entity whereby neither the legal form nor the contractual arrangement gives the owners the rights to the assets and obligations for the liabilities within the normal course of business, nor does it give the rights to the economic benefits of the assets or responsibility for settling liabilities associated with the arrangement. Accordingly, the investment is accounted for using the equity method.

The Group acquired its interest in Deutsche Lithium for a cash consideration of €5.1 million from SolarWorld AG and an obligation to contribute €5 million toward the costs of completion of a feasibility study. Additionally, legal fees of US\$0.2 million were paid in connection to this transaction.

The following table summarises the purchase price allocation for the joint venture acquisition:

In US\$	17 February 2017
Working capital	136,578
Exploration and evaluation assets	10,486,400
Property, plant and equipment	83,270
Less deferred tax liability	(2,485,090)
Enterprise value	8,221,158

Consideration for the joint venture acquisition consisted of the following:

In US\$	17 February 2017
Cash (including transaction costs)	5,616,886
Joint venture obligation	4,595,457
Less derivative asset	(1,991,185)
Total consideration	8,221,158

The value of Deutsche Lithium is substantially attributed to the exploration and evaluation assets, and therefore, on recognition, the contribution paid in excess of the carrying value of net assets was attributed to the exploration and evaluation assets.

On 28 May 2019 a supplemental agreement was signed between the Bacanora Lithium Plc, Bacanora Minerals Ltd and the nominated administration of Solarworld. As a result:

- 1) Bacanora Minerals Ltd's 50% share in Deutsche Lithium was novated to Bacanora Lithium Plc
- 2) The Deutsche Lithium option exercise period extended for six months until February 2020, see note 6c for further details.
- 3) Additional funding will be provided by Bacanora Lithium Plc, totalling €543,221, becoming payable progressively throughout the option period.

On 14 February 2020, Bacanora Lithium Plc and the nominated administrator of Solarworld, signed a second supplemental agreement. As a result:

- 1) Bacanora Lithium Plc will provide a further €1.35 million prior to 28 February 2022, the first payment was made on 21 February 2020 for €30,000 and subsequently, €55,000 per month will be payable for a further 24 months.
- 2) The call option which gives Bacanora Lithium Plc the option to purchase the remaining 50% of the joint venture for €30 million was cancelled.
- 3) The call option which gives Solarworld the right to purchase the remaining 50% of the joint venture for €1, if Bacanora Lithium Plc did not exercise the above option, was cancelled.
- 4) Bacanora retains its right of first refusal to purchase the remaining 50% currently held by Solarworld.

Reconciliation of the carrying amount of net investment in joint venture is as follows:

In US\$	Joint venture investment
30 June 2018	8,426,134
Joint venture investment loss	(168,679)
Additional investment	1,089,631
30 June 2019	9,347,086
Joint venture investment loss	(80,887)
Additional investment	279,794
31 December 2019	9,545,993

Summarised financial information in respect of the Group's joint venture in Deutsche Lithium is set out below on a stand-alone basis. The summarised information represents amounts shown in Deutsche Lithium's financial statements, as adjusted for differences in accounting policies and fair value adjustments required related to the Group's investment in the joint venture. Amounts have been translated in accordance with the Group's accounting policy on foreign currency translation.

In US\$	31 December 2019	30 June 2019
Cash and cash equivalents	189,671	132,071
Current assets including cash and cash equivalents	208,594	184,095
Non-current assets	28,470,901	27,291,419
Current liabilities	(4,440,433)	(4,438,664)
Depreciation	10,124	22,069
Loss from continuing operations	(161,773)	(493,639)
Total comprehensive income	(161,773)	(493,639)

b Deutsche Lithium obligation

As part of the first supplemental agreement, discussed in note 6a, Bacanora agreed to further fund the joint venture until the end of the option period on 17 February 2020, for a total of €543,221. Of this amount €101,400

(US\$113,697) was payable at 31 December 2019, of which €nil was paid post period end. The remaining €80,421 is committed until 17 February 2020. As part of the second supplemental agreement, a further €1.35 million was committed prior to 28 February 2022, of which €30,000 was paid post period end.

The movement in the obligation is detailed below:

In US\$	Joint venture liability
30 June 2018	(1,591,652)
Payments of joint venture obligation	1,568,565
Foreign exchange gain	23,087
First supplemental agreement obligation	(237,105)
30 June 2019	(237,105)
Payments of joint venture obligation	401,972
Foreign exchange gain	1,230
First supplemental agreement obligation	(279,794)
31 December 2019	(113,697)

c Derivative asset - Deutsche Lithium option

The Group's joint venture arrangement with SolarWorld AG stated above gave it the right, either alone or together with another party, to purchase the remaining 50% of the voting rights of Deutsche Lithium for €30 million. In the event that the Group did not exercise this right prior to the termination date, SolarWorld had the right but not the obligation to purchase the Group's 50% interest for €1. As at 31 December 2019, the Option was revalued at its fair value using the following inputs to the Black-Scholes option pricing model. The fair value of the Option at 31 December 2019 was US\$nil (30 June 2019: US\$193,902)

	31 December 2019	30 June 2019
Term	0.13	0.64
Share Price (€)	8,541,182	8,614,053
Exercise Price (€)	30,000,000	30,000,000
Volatility	87.83%	87.97%
Risk Free rate	1.92%	2.00%

On 14 February 2020, Bacanora Lithium Plc and the nominated administrator of Solarworld, signed a second supplemental agreement which agreed that the above option was cancelled.

7 Property, plant and equipment

a Sonora Lithium Project

The Group owns ten contiguous mineral concessions in Sonora, Mexico. Seven of these ten concessions form the "Sonora Lithium Project" covered by the technical Feasibility Study released in January 2018.

Group company owner	Concession name	Group ownership
MSB	La Ventana	77.5%
MSB	La Ventana 1	77.5%
Mexilit	El Sauz	54.25%
Mexilit	El Sauz 1	54.25%
Mexilit	El Sauz 2	54.25%
Mexilit	Fleur	54.25%
Mexilit	Fleur 1	54.25%

On 25 January 2018, the Group published a technical Feasibility Study for the Sonora Lithium Project in accordance with NI 43-101. Under IFRS 6 – Exploration for and Evaluation of Mineral Resources, an impairment test is required when the technical feasibility and commercial viability of extracting a mineral resource become demonstrable, at which point the asset falls outside the scope of IFRS 6 and was reclassified in the Financial Statements. The Feasibility Study financial assessment performed by independent mining specialists, IMC, SRK and Ausenco, gave a post-tax discounted cash flow valuation of US\$802 million at 8% discount factor based on a long-term price of US\$11,000 per tonne Li₂CO₃. Thus, there was no impairment for these mining assets as the combined value of the exploration and evaluation assets totalled US\$16,918,190, at the point of transfer, giving significant headroom. As a result, these costs were transferred to evaluated mining property on 25 January 2018.

As previously reported to shareholders, Bacanora is challenging the validity of the previously reported 3% royalty over the MSB concessions within the Sonora Lithium Project, payable to the Orr-Ewing Estate, and is seeking a judgment of the Court in Alberta declaring such royalty invalid. Bacanora Minerals Ltd is currently challenging the validity of such royalty. The basis of Bacanora Minerals Ltd claim is that the royalty was originally granted based on a negligent or fraudulent misrepresentation by Mr. Orr-Ewing that he held a pre-existing royalty granted prior to the acquisition of the MSB concessions by Bacanora Minerals Ltd. The Company engaged in voluntary, independent mediation in early 2019, but was unable to reach an agreement with the Estate's advisers. The Estate applied for a Summary Trial of the action in December 2019. At this time, the Alberta Court has decided to hear only the preliminary issue of whether the action is limitation barred in May 2020. Otherwise, both sides continue to provide evidence as part of the process. The Company has at all times taken a conservative approach to the treatment of the purported royalty and included it fully in the financial model for the Feasibility Study published in 2018, as well as all financial projections to investors and debt funding partners

Cost (US\$)	Evaluated mineral property	Land	Buildings	Plant and machinery	Office furniture and equipment	Transportation	Total
30 June 2018	21,935,716	2,995,614	974,249	737,266	272,176	120,734	27,035,755
Additions	3,465,438	39,386	-	-	164,505	-	3,669,329
Disposals	-	-	(133,777)	-	(984)	-	(134,761)
30 June 2019	25,401,154	3,035,000	840,472	737,266	435,697	120,734	30,570,323
Additions	739,076	-	-	-	-	-	739,076
31 December 2019	26,140,230	3,035,000	840,472	737,266	435,697	120,734	31,309,399
Depreciation							
30 June 2018	-	-	185,496	261,560	91,060	106,217	644,333
Charge for the period	-	-	46,733	70,427	36,782	9,639	163,581
Disposals	-	-	(42,693)	-	(1,011)	-	(43,704)
30 June 2019	-	-	189,536	331,987	126,831	115,856	764,210
Charge for the period	-	-	18,665	46,417	34,049	2,418	101,549
31 December 2019	-	-	208,201	378,404	160,880	118,274	865,759
Net Book Value							
30 June 2018	21,935,716	2,995,614	788,753	475,706	181,116	14,517	26,391,422
30 June 2019	25,401,154	3,035,000	650,936	405,279	308,866	4,878	29,806,113
31 December 2019	26,140,230	3,035,000	632,271	358,862	274,817	2,460	30,443,640

8 Exploration and evaluation assets

The balance of investment in exploration and evaluation assets as at 31 December 2019 relate to concession taxes on exploration licenses and costs of exploration on the Group's Megalit lithium concessions. Movements in the periods are as follows:

In US\$	Megalit Lithium
30 June 2018	502,947
Additions	21,000
30 June 2019	523,947
Additions	10,641
31 December 2019	534,588

Specific descriptions of the Group's exploration properties are as follows:

a Magdalena Borate property

The Magdalena Borate project consists of seven concessions, with a total area of 7,095 hectares. The concessions are 100% owned by MSB. The Magdalena Borate property is subject to a 3% gross overriding royalty payable to Minera Santa Margarita S.A. de C.V., a subsidiary of Rio Tinto Plc, and a 3% gross overriding royalty payable to the estate of the Colin Orr-Ewing on sales of borate produced from this property.

Based on the Group's decision to not further explore borates or be able to find a buyer for the asset, the Group, in prior periods fully impaired the carrying value to nil. During the period ended 31 December 2019, management have no evidence to write back any of the impairments to date.

b Megalit Lithium property

Three concessions, in Sonora Mexico, Buenavista, Megalit and San Gabriel, fall outside of the scope of the Sonora Lithium Project Feasibility Study. They cover 89,235 hectares and are subject to a separate agreement between the Group and Cadence Minerals Plc. As at 31 December 2019, Buenavista, Megalit and San Gabriel concessions were owned by Megalit. Megalit is owned 70% by the Sonora Lithium Ltd and 30% by Cadence Minerals Plc.

9 Accounts payable and accrued liabilities

The Group's other payables relate to Mexican and withholding taxes and social security taxes.

In US\$	31 December 2019	30 June 2019
Trade payables	563,457	602,708
Accrued liabilities	578,754	774,574
Other payables	309,135	97,261
Total	1,451,346	1,474,543

10 Borrowings

On 3 July 2018, the Group entered into a US\$150 million senior debt facility with RK Mine Finance ("RK"), a specialist in the provision of senior debt capital to mining companies, for the development of Stage 1 of the Sonora Lithium Project in Mexico.

The Facility is structured as two separate Eurobonds, listed in Jersey:

Primary bond: US\$150 million nominal amount secured notes issued at a purchase price of US\$138 million with a 6-year term and bearing an interest rate of three months USD LIBOR + 8% per annum based on a nominal amount of US\$150 million but payable only on drawn down principal. Interest will be capitalised every three months for the first 24 months and thereafter interest will be paid every three months in cash;

Second bond: US\$56 million nominal amount, zero interest-bearing, secured notes issued at a purchase price of US\$12 million with a 20-year term. The nominal amount is repayable by reference to monthly production of lithium at a rate of US\$160 per tonne of lithium produced, with any remaining amount repayable at the end of the 20-year term.

The bonds may be drawn in three tranches of US\$25 million, US\$50 million and US\$75 million, subject to certain conditions precedent. The first tranche was drawn down in July 2018. The conditions precedent to further drawdowns include but are not limited to: various matters in respect of the execution, registration and perfection of certain security, the granting of listing consent by The International Stock Exchange, a minimum of US\$200 million equity funding raised, energy and engineering contracts executed, relevant permits obtained and security over offtake agreements. All drawdowns under the RK Facility will be pro-rata across the two Eurobond instruments. The loans can be voluntarily redeemed at any stage by repayment of the principal and any outstanding interest and early repayment charges.

RK holds a fixed charge security over the shares of various subsidiaries of the Group except for Bacanora Lithium Plc, Deutsche Lithium GmbH and Zinnwald Lithium Ltd. RK also holds a fixed charge security over certain bank accounts held by the relevant UK and Canadian holding companies and Mexican subsidiaries. RK holds a floating charge over Bacanora Lithium Plc's assets not covered by the fixed charge. RK holds fixed and floating charge over the assets of the relevant Mexican subsidiaries related to the Sonora Lithium Project.

The Facility has a debt covenant for the Group to maintain a minimum working capital balance of US\$10 million measured monthly until 31 March 2020, after which it increases to US\$15 million. Working capital for the purpose of the debt covenant is defined as current assets minus current liabilities, excluding assets and liabilities relating to the German assets and overdue VAT receivables. In addition, there are certain conditions precedent to the second drawdown to the debt facility, including but not limited to a minimum equity funding raise of US\$200 million, the completion of certain operational permits and entering into direct agreement in relation to the offtake agreements.

The effective interest rate of the primary and secondary Eurobonds is 21.2% and 23.5% respectively.

The carrying value of the Group's borrowings at 31 December 2019 is as follows:

In US\$	Interest rate	Maturity	31 December 2019	30 June 2019
Primary Eurobond	LIBOR + 8%	2024	21,607,156	19,418,800
Secondary Eurobond	Zero interest bearing	2038	2,444,454	2,203,367
Total non-current borrowings			24,051,610	21,622,167

The movement in the Group's borrowings in the six month period ended 31 December 2019 is as follows:

In US\$	Primary Eurobond	Secondary Eurobond	Total
Opening balance	-	-	-
Initial recognition	20,304,746	1,765,630	22,070,376
Transaction fees	(4,871,235)	-	(4,871,235)
Primary Eurobond finance cost	2,768,480	-	2,768,480
Eurobond unwinding	1,216,809	437,737	1,654,546
30 June 2019	19,418,800	2,203,367	21,622,167
Primary Eurobond finance cost	1,466,824	-	1,466,824
Eurobond unwinding	721,532	241,087	962,619
31 December 2019	21,607,156	2,444,454	24,051,610

11 Financial warrants liability

The Company granted RK with 6 million warrants alongside the above Eurobonds. The warrants are exercisable over five years at an exercise price of a 20% premium to the 20-day VWAP determined on 3 July 2018, subject to normal anti-dilution provisions, cash settlement at the Company's option, and share exercise at either party's option. The warrants have been initially recorded, as a non-current liability, at their level 3 hierarchy fair value on 3 July 2018 of US\$2.9 million and subsequently revalued at each reporting period, determined using the Black-Scholes pricing model with the following inputs.

The expected volatility has been determined by calculating the historical volatility of the Company's share price since listing. The term used in the model has been adjusted to reflect the period in which the warrants can be exercised.

	31 December 2019	30 June 2019
Term	3.50	4.01
Share Price (£)	0.35	0.50
Exercise Price (£)	0.99	0.99
Volatility	65.06%	64.95%
Risk Free rate	1.92%	2.05%
Valuation (\$)	587,315	1,259,923

A 10% increase in volatility equates to an increase in value of US\$132,680 to US\$719,995. A 10% decrease in volatility equates to a decrease in value of US\$117,539 to US\$469,779

A 10% increase in share price equates to an increase in value of US\$120,912 to US\$708,227. A 10% decrease in share price equates to a decrease in value of US\$102,251 to US\$485,064.

12 Financial instruments

The Group's financial instruments are classified as follows:

As at 31 December 2019 (In \$US)	At amortised cost	At fair value through profit or loss	Total
Financial assets			
Cash and cash equivalents	48,903,551	-	48,903,551
Other receivables	973,217	-	973,217
Total financial assets	49,876,768	-	49,876,768
Financial liabilities			
Accounts payable and accrued liabilities	1,451,346	-	1,451,346
Joint venture obligation	113,697	-	113,697
Borrowings	24,051,610	-	24,051,610
Warrant liability	-	587,315	587,315
Total financial liabilities	25,616,653	587,315	26,203,968
Net financial assets/(liabilities)	24,260,115	(587,315)	23,672,800

As at 30 June 2019 (In US\$)	At amortised cost	At fair value through profit or loss	Total
Financial assets			
Derivative asset	-	193,902	193,902
Cash and cash equivalents	14,763,706	-	14,763,706
Other receivables and prepayments	1,375,886	-	1,375,886
Total financial assets	16,139,592	193,902	16,333,494
Financial liabilities			
Accounts payable and accrued liabilities	1,474,543	-	1,474,543
Joint venture obligation	237,105	-	237,105
Borrowings	21,622,167	-	21,622,167
Warrant liability	-	1,259,923	1,259,923
Total financial liabilities	23,333,815	1,259,923	24,593,738
Net financial assets/(liabilities)	(7,194,223)	(1,066,021)	(8,260,244)

13 Financial risk management

a Credit risk

Credit risk arises from the risk that a counter party will fail to perform its obligations. Financial instruments that potentially subject the Group to concentrations of credit risk consist of cash and cash equivalents and other receivables.

The Group's cash is held in major UK, Canadian and Mexican banks, and as such the Group is exposed to the risks of those financial institutions. Under Standard & Poor's short term credit ratings, the Group's cash balance is held in institutions with the following ratings:

Credit rating	Cash held at 31 December 2019
A-1+	48,053,137
A-1	662,745
A-2	186,119
Not rated	1,550
Total	48,903,551

The Group's other receivables relate to input tax receivables in the UK and value added tax receivables in Mexico. Substantially all of the receivables represent amounts due from the UK and Mexican governments and accordingly the Group believes them to have minimal credit risk. Any changes in management's estimate of the recoverability of the amount due will be recognised in the period of determination and any adjustment may be significant.

The total carrying amount of cash and cash equivalents and other receivables represents the Group's maximum credit exposure.

The Board of Directors monitors the exposure to credit risk on an ongoing basis and does not consider such risk significant at this time. The Group considers all its accounts receivables fully collectible.

b Liquidity risk

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

As at 31 December 2019, US\$964,005 (30 June 2019: US\$975,293) of the Group's cash is ring fenced to be spent on drilling and exploration activities in Megalit's concessions.

The following table illustrates the contractual maturity analysis of the Group's gross financial liabilities based on exchange rates on the reporting date. Contractual gross financial liabilities, shown below, are undiscounted estimated cash outflows which were applicable includes estimated future interest payments.

As at 31 December 2019 (In US\$)	Within 30 days	30 days to 6 months	6 to 12 months	Over 12 months
Accounts payable and accrued liabilities	1,451,346	-	-	-
Joint venture obligation	113,697	-	-	-
Borrowings	-	-	-	50,936,306
Warrant liability*	-	-	-	-

As at 30 June 2019 (In US\$)	Within 30 days	30 days to 6 months	6 to 12 months	Over 12 months
Accounts payable and accrued liabilities	1,474,543	-	-	-
Joint venture obligation	237,105	-	-	-
Borrowings	-	-	-	51,918,845
Warrant liability*	-	-	-	-

*No gross cash financial liability is present as the Company has the option to settle the warrants in equity or cash.

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 Group's financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximising long-term returns.

The Group conducts development and exploration projects in Mexico and Germany. As a result, a portion of the Group's expenditures, other receivables, accounts payables and accrued liabilities are denominated in the United States dollar, Great British pound, euros and Mexican pesos and are therefore subject to fluctuation in exchange rates.

As at 31 December 2019, a 10% change in the exchange rate between the United States dollar and Mexican peso, euro or Great British pound, which is a reasonable estimation of volatility in exchange rates, would have an approximate US\$0.1 million change to the Group's total comprehensive loss.

d Fair values

The fair value of cash, other receivables, accounts payable and accrued liabilities and the joint venture obligation approximate their carrying values due to the short-term nature of the instruments.

Fair value measurements recognised in the statement of financial position subsequent to initial fair value recognition can be classified into Levels 1 to 3 based on the degree to which fair value is observable.

Level 1 - Fair value measurements are those derived from quoted prices in active markets for identical assets and liabilities.

Level 2 - Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly, or indirectly.

Level 3 - Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The level 3 fair value for the warrant liability is disclosed in notes 11.

There were no transfers between any levels of the fair value hierarchy in the current or prior years.

e Capital management

The Group'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 equity attributable to equity shareholders of the Company excluding the share-based payment reserve. At 31 December 2019 the Group held US\$48,560,292 (30 June 2019 - US\$27,736,019) of capital. The Group sets the amount of capital in proportion to risk and corporate growth objectives. The Group manages its capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets.

14 Equity

a Authorised share capital

The authorised share capital of the Company consists of an unlimited number of voting common shares of par value £0.10.

b Common shares issued

	Shares	Share Capital (In US\$)	Share Premium (In US\$)
30 June 2018	134,164,872	18,958,033	140,592
Shares issued on exercise of options	300,000	38,757	12,774
30 June 2019	134,464,872	18,996,790	153,366
Issue of share capital - Ganfeng investment ¹	57,600,364	7,251,886	10,877,829
Issue of share capital - M&G investment ²	30,916,601	3,991,793	5,987,690
Share issue costs	-	-	(372,825)
31 December 2019	222,981,837	30,240,469	16,646,060

¹ Ganfeng Lithium Co., Ltd agreed a cornerstone strategic investment of 29.99% in Bacanora Lithium Plc for £14,400,091 (US\$18,129,715). Ganfeng has been granted pre-emption rights proportionate to its shareholding in Bacanora and shall appoint one Director to the Board of Bacanora. In addition, Ganfeng made a project level investment of 22.5% in Sonora Lithium Ltd ("SLL"), the holding company for the Sonora Lithium Project, for £7,563,649 (US\$9,522,634). Ganfeng were granted an option to increase its interest in SLL to 50% within 24 months at a valuation based on the share price of Bacanora Lithium Plc at the time of subsequent investment, see Note 3a for further details. Ganfeng have appointed one Director to the Board of Sonora Lithium Ltd. An additional long-term offtake at a market-based price per tonne for 50% of Stage 1 lithium production and up to 75% during Stage 2 lithium production was also agreed.

² M&G Plc, a long-standing cornerstone shareholder, purchased £7,729,150 (US\$9,979,483) via an ordinary placing of 30,916,601 new ordinary shares at a price of 25 pence per Placing Share.

c Share options

All share options are issued under the Group's share option plan. Options generally vest as to one third on the date of grant and an additional one third on each of the first and second anniversaries of the date of grant. All options expire after three months of an employee leaving the Company. The options have no other vesting conditions. The following tables summarise the activities and status of the Company's share option plan as at and during the six month period ended 31 December 2019:

	Number of options	Weighted average exercise price (£)
30 June 2018	8,552,310	0.83
Exercised	(300,000)	0.18
Expired	(1,475,000)	0.91
Issued	432,729	0.39
30 June 2019	7,210,039	0.82
Granted	1,300,862	0.33
Expired	(1,900,000)	(0.89)
31 December 2019	6,610,901	0.70

Grant date	Number outstanding at 31 December 2019	Exercise price (£)	Weighted average remaining contractual life (Years)	Expiry date	Number exercisable at 31 December 2019
02 December 2015	200,000	0.78	0.92	02 December 2020	200,000
01 March 2017	175,000	0.85	2.17	01 March 2022	175,000
01 March 2017	1,562,400	0.85	0.17	01 March 2020	1,562,400
15 May 2017	500,000	0.87	0.37	15 May 2020	500,000
20 September 2017	2,127,410	0.80	0.72	19 September 2020	2,127,410
18 April 2018	312,500	0.90	1.30	17 April 2021	208,333
06 September 2018	432,729	0.39	1.68	05 September 2021	288,486
28 October 2019	1,300,862	0.33	2.82	27 October 2022	433,621
	6,610,901				5,495,250

Options granted in the six month period on 28 October 2019 were valued using the Black-Scholes method with a volatility of 57.53%, calculated using Bacanora's historic share price, an option term of 3 years, a risk-free interest rate of 1.85% and no expected dividends.

d Restricted share units

On 20 September 2017, the Company implemented a Restricted Share Unit ("RSU") Plan. The RSU Plan is administered by the Remuneration Committee under the supervision of the Board of Directors. The Remuneration Committee determines the terms and conditions upon which a grant is made, including any performance criteria or vesting period.

Upon vesting, each RSU entitles the participant to receive one common share, provided that the participant is continuously employed with or providing services to the Company. RSUs track the value of the underlying common shares, but do not entitle the recipient to the underlying common shares until such RSUs vest, nor do they entitle a

holder to exercise voting rights or any other rights attached to ownership or control of the common shares, until the RSU vests and the RSU participant receives common shares.

The maximum number of RSUs issuable under the RSU Plan is fixed at 13,190,653, provided however that at no time may the number of RSUs issuable under the RSU Plan, together with the number of common shares issuable under options that are outstanding under the Company's Share Option Plan, exceed 10% of the issued and outstanding common shares as at the date of a grant under the RSU Plan or the Share Option Plan, as the case may be.

The following tables summarise the activities and status of the Company's restricted share unit plan as at and during the period ended 31 December 2019:

	Number of units	Weighted average exercise price (£)
30 June 2018	1,192,277	0.80
Issued	205,491	0.39
31 December 2019	1,397,768	0.74
Issued	1,075,832	0.33
31 December 2019	2,473,600	0.56

Grant date	Number outstanding at 31 December 2019	Weighted average remaining vesting period (Years)	Vesting date	Number exercisable at 31 December 2019
20 September 2017	205,491	0.72	19 September 2020	-
06 September 2018	205,491	1.68	05 September 2021	-
28 October 2019	1,075,832	2.82	27 October 2022	-

e Share-based payment reserve

The following table presents changes in the Group's share-based payment reserve during the six month period ended 31 December 2019:

In US\$	Share-based payment reserve
30 June 2018	6,138,085
Exercise of share options	(60,950)
Expired options	(1,460,788)
Share-based payment expense	800,846
30 June 2019	5,417,193
Expired options	(1,900,022)
Share-based payment expense	290,391
31 December 2019	3,807,562

f Share-based payment expense

During the six month period ended 31 December 2019; the Group recognised US\$290,391 (30 June 2019: US\$800,846) of share-based compensation expense. The fair value of the share-based compensation was estimated on the dates of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

For the period ended	31 December 2019	30 June 2019
Risk-free interest rate	0.77% - 3.0%	0.77% - 3.0%
Expected volatility ⁽¹⁾	54.73% - 91.07%	54.73% - 91.07%
Expected life (years)	3 - 5	3 - 5
Fair value per option	17.0c - 85.7c	18.9c - 85.7c

⁽¹⁾ Expected volatility is derived from the Company's historical share price volatility.

g Merger reserve

On 23 March 2018, the Plan of Arrangement to re-domicile the Bacanora Group from Canada to the UK became effective resulting in Bacanora Lithium Plc becoming the new holding company for Bacanora Minerals Ltd. Under the Company's Act 06 Section 612, a merger reserve has been utilised to account for the difference between the share capital and net asset investment in Bacanora Minerals Ltd. In addition, on consolidation the difference between the net investment in Bacanora Lithium Plc and share capital in Bacanora Minerals Ltd is accounted for in the merger reserve.

h Per share amounts

Basic and diluted loss per share is calculated using the weighted average number of shares of 163,679,136 for the six month period ended 31 December 2019 (year ended 30 June 2019: 134,406,516). Options and warrants were excluded from the dilution calculation as they were anti-dilutive however at a time in the future, they may have an impact on earnings per share.

For the period ended	Six months ended 31 December 2019	Twelve months ended 30 June 2019
Loss for the period attributable to owners of equity (US\$)	(4,864,910)	(11,048,969)
Weighted average number of common shares for the purposes of basic and diluted loss per share	163,679,136	134,406,516
Basic and diluted loss per share (US\$)	(0.03)	(0.08)

15 Taxation

a Current taxation

The tax charge for the period comprises:

For the period ended (In US\$)	Six months ended 31 December 2019	Twelve months ended 30 June 2019
Current tax expense		
Overseas tax - Mexico	-	5,012
Deferred tax expense		
Adjustments to deferred tax liability	-	-
Total tax expense	-	5,012

The reasons for the difference between the actual tax charge for the period and the standard rate of corporation in the United Kingdom applied to loss for the six month period is as follows:

For the period ended (In US\$)	Six months ended 31 December 2019	Twelve months ended 30 June 2019
Loss before tax	(4,946,049)	(11,053,748)
Expected income tax recovery at 19% (2018 - 19%)	(939,749)	(2,100,212)
Expenses not deductible for tax purposes	312,340	353,810
Different tax rates applied in overseas jurisdictions	354,546	(144,070)
Unrecognised taxable losses and timing differences	272,863	1,895,484
Adjustment for under/(over) provision in previous periods	-	-
Total income taxes	-	5,012

b Deferred tax

The Group has no recognised deferred tax balance or gain/loss for the six month period ended 31 December 2019. As at 31 December 2019, the Group has, for tax purposes, non-capital losses available to carry forward to future years as follows:

For the period ended (In US\$)	31 December 2019	30 June 2019	Expiry Date
UK	9,583,031	7,035,229	N/A
Canada	18,008,582	14,676,479	2028-2039
Mexico	14,132,701	14,800,305	2020-2029
As at 30 June	41,724,314	36,512,013	

16 General and administrative expenses

The Group's general and administrative expenses include the following:

For the period ended (In US\$)	Six months ended 31 December 2019	Twelve months ended 30 June 2019
Management fees	1,184,934	2,708,967
Legal and accounting fees	992,063	2,758,577
Travel and other expenses	208,669	715,369
Investor relations	147,696	332,759
Office expenses	138,844	358,721
Audit fee	90,996	141,046
Audit related services	-	25,880
Total	2,763,202	7,041,319

17 Finance income and costs

The Group's finance income and costs are as follows:

For the period ended (In US\$)	Six months ended 31 December 2019	Twelve months ended 30 June 2019
Interest and other income	214,408	249,422
Warrant liability revaluation	714,388	1,669,702
Finance income	928,796	1,919,124
Primary Eurobond interest expense	(1,466,824)	(2,768,480)
Other finance costs ⁽¹⁾	(962,619)	(1,654,552)
Finance costs	(2,429,443)	(4,423,032)

⁽¹⁾ Other finance costs include unwinding of transaction costs and discounts.

18 Segmental information

The Group currently operates in three operating segments which includes the exploration and development of mineral properties in Mexico through the development of the Sonora mining concessions and the exploration and development of mineral properties in Germany through its interest in the Deutsche Lithium joint venture. The Group's head office is located in London, UK. Operating segments as per IFRS 8 are identified by management of the Group as those who, engage in business activities from which revenues may be earned, whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the operating segments and to assess its performance, and for which discrete financial information is available. A summary of the identifiable assets, liabilities and net losses by operating segment are as follows:

31 December 2019 (In US\$)	Mexico	Germany	Head Office	Consolidated
Current assets	1,840,652	-	48,840,320	50,680,972
Investment in jointly controlled entity	-	9,545,993	-	9,545,993
Property, plant and equipment	30,443,640	-	-	30,443,640
Exploration and evaluation assets	534,588	-	-	534,588
Total assets	32,818,880	9,545,993	48,840,320	91,205,193
Current liabilities	417,864	113,697	1,033,482	1,565,043
Borrowings	-	-	24,051,610	24,051,610
Warrant liability	-	-	587,315	587,315
Total liabilities	417,864	113,697	25,672,407	26,203,968
Property, plant and equipment additions	739,076	-	-	739,076
Exploration and evaluation asset additions	10,641	-	-	10,641

For the period ended 31 December 2019 (In US\$)	Mexico	Germany	Head Office	Consolidated
General and administrative expense	(432,753)	-	(2,330,449)	(2,763,202)
Depreciation	(101,549)	-	-	(101,549)
Share-based payment expense	-	-	(290,391)	(290,391)
Foreign exchange gain/(loss)	345	-	(18,652)	(18,307)
Operating loss	(533,957)	-	(2,639,492)	(3,173,449)
Finance income	18,962	-	909,834	928,796
Finance costs	-	-	(2,429,443)	(2,429,443)
Joint venture investment loss	-	(80,887)	-	(80,887)
Revaluation of derivative asset	-	(191,066)	-	(191,066)
Segment loss for the period	(514,995)	(271,953)	(4,159,101)	(4,946,049)

30 June 2019 (In US\$)	Mexico	Germany	Head Office	Consolidated
Current assets	2,489,568	193,902	14,678,442	17,361,912
Investment in jointly controlled entity	-	9,347,086	-	9,347,086
Property, plant and equipment	29,806,113	-	-	29,806,113
Exploration and evaluation assets	523,947	-	-	523,947
Total assets	32,819,628	9,540,988	14,678,442	57,039,058
Current liabilities	436,613	237,105	1,037,930	1,711,648
Borrowings	-	-	21,622,167	21,622,167
Warrant liability	-	-	1,259,923	1,259,923
Total liabilities	436,613	237,105	23,920,020	24,593,738
Property, plant and equipment additions	3,669,329	-	-	3,669,329
Exploration and evaluation asset additions	21,000	-	-	21,000

For the year ended 30 June 2019 (In US\$)	Mexico	Germany	Head Office	Consolidated
General and administrative expense	(1,188,846)	-	(5,852,473)	(7,041,319)
Depreciation	(163,581)	-	-	(163,581)
Share-based payment expense	-	-	(800,846)	(800,846)
Foreign exchange gain/(loss)	67,928	-	(50,347)	17,581
Operating loss	(1,284,499)	-	(6,703,666)	(7,988,165)
Finance income	784	-	1,918,340	1,919,124
Finance costs	-	-	(4,423,032)	(4,423,032)
Joint venture investment loss	-	(168,679)	-	(168,679)
Revaluation of derivative asset	-	(421,698)	-	(421,698)
Gain/loss on fixed asset disposals	28,702	-	-	28,702
Tax charge	(5,012)	-	-	(5,012)
Segment loss for the year	(1,260,025)	(590,377)	(9,208,358)	(11,058,760)

19 Related party disclosures

a Related party transactions

The Group's related parties include key management personnel, companies which have directors in common, its subsidiaries and entities who share an interest in Group subsidiaries, Ganfeng Lithium Co., Ltd and Cadence Minerals Plc.

Transactions with key management personnel have been disclosed below. There were no transactions with companies which have directors in common in the period to 31 December 2019 (30 June 2019: None). There were no transactions with Cadence Minerals Plc in the period to 31 December 2019 (30 June 2019: None). In the period to 31 December 2019, Ganfeng Lithium Co., Ltd, made a project level investment of 22.5% in Sonora Lithium Ltd, see Note 14 for further details.

b Key management personnel compensation

During the six month period ended 31 December 2019, Directors remuneration totalled US\$803,469 (year ended 30 June 2019: US\$2,104,373). Of the total amount incurred as Directors fees, US\$nil (30 June 2019: US\$5,826) remains in accounts payables and accrued liabilities on 31 December 2019.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel are considered to be the Directors of the Company and the CFO, their remuneration for the period is presented below:

In US\$	Six months ended 31 December 2019				Twelve months ended 30 June 2019				
	Fees	Gross Salary	Share-based payment remuneration	Total	Fees	Gross Salary	Consultancy	Share-based payment remuneration	Total
Mark Hohnen	-	151,637	56,692	208,329	-	310,380	-	156,789	467,169
Eileen Carr	25,273	-	8,171	33,444	51,742	-	-	54,584	106,326
Raymond Hodgkinson ⁽¹⁾	-	-	-	-	21,908	-	-	-	21,908
Jamie Strauss	30,257	-	11,628	41,885	71,145	-	-	148,305	219,450
Andres Antonius	25,000	-	11,628	36,628	50,000	-	-	143,914	193,914
Derek Batorowski ⁽²⁾	16,000	-	-	16,000	96,000	-	38,263	8,538	142,801
Peter Secker	-	217,160	66,474	283,634	-	442,453	-	177,351	619,804
Janet Blas	-	145,319	38,230	183,549	-	297,431	-	35,570	333,001
Total Director's and management's remuneration	96,530	514,116	192,823	803,469	290,795	1,050,264	38,263	725,051	2,104,373

¹ Resigned - 13 December 2018

² Resigned - 12 September 2019

As at 31 December 2019, the following options were held by Directors of the Company:

	Date of grant	Exercise price (£)	Number of options
Mark Hohnen	02 March 2017	0.85	249,900
	20 September 2017	0.80	224,910
	28 October 2019	0.33	151,439
Eileen Carr	18 April 2018	0.90	312,500
Andres Antonius	15 May 2017	0.87	500,000
	20 September 2017	0.80	750,000
Jamie Strauss	02 March 2017	0.85	750,000
	20 September 2017	0.80	750,000
Peter Secker	02 March 2017	0.85	300,000
	20 September 2017	0.80	240,000
	28 October 2019	0.33	205,800

As at 31 December 2019, the following restricted share units were held by Directors of the Company:

	Date of grant	Number of RSUs
Mark Hohnen	20 September 2017	557,843
	28 October 2019	204,970
Peter Secker	20 September 2017	634,434
	28 October 2019	278,546

20 Directors and employees

Employees of the Company are all employees including key management personnel. The below information relates to all employees:

In US\$	Six months ended 31 December 2019			Twelve months ended 30 June 2019		
	Corporate	Mexico	Total	Corporate	Mexico	Total
Gross salaries	733,823	163,677	897,500	1,640,350	448,101	2,088,451
Share-based payments	192,823	-	192,823	725,051	-	725,051
Social security costs	102,505	20,961	123,466	177,136	67,776	244,912
Pension costs	6,717	11,165	17,882	7,881	19,903	27,784
Total cost	1,035,868	195,803	1,231,671	2,550,418	535,780	3,086,198
Average number of employees	11	22	34	12	32	44

Directors' remuneration totalled the following:

In US\$	Six months ended 31 December 2019	Twelve months ended 30 June 2019
Directors' salaries	465,327	1,081,891
Share-based payment expense	154,593	689,481
Total remuneration	619,920	1,771,372
Average number of Directors	7	8

The highest paid Director in the six month period ended 31 December 2019 received remuneration, excluding notional gains on share options, of US\$283,634 (year ended 30 June 2019: US\$619,804).

21 Commitments

The Group has the following commitments:

- land purchases totalling US\$0.4 million due on the clearance of liens expected in the next twelve months,
- concession taxes on the license properties, which are expected to total US\$182,765 in the following twelve months,
- short term funding of Deutsche Lithium until the end of the option period in February 2020, totalling US\$88,616 under the first supplemental agreement.
- UK office rent of US\$50,077 until the end of June 2020.

Post year end, the Group has made the following additional commitments:

- long term funding of Deutsche Lithium totalling €1.35 million (US\$1.5 million) under the second supplemental agreement prior to 28 February 2022.
- rental payments totalling US\$47,718 in Hermosillo, Sonora over the next 12 months.

22 Subsequent events

On 14 February 2020, Bacanora Lithium Plc and the nominated administrator of Solarworld, signed a second supplemental agreement. It was agreed that:

- 1) Bacanora Lithium Plc would provide a further €1.35 million prior to 28 February 2022, the first payment paid on 21 February 2020 for €30,000 and subsequently, €55,000 per month for a further 24 months.
- 2) The call option which gives Bacanora Lithium Plc the option to purchase the remaining 50% of the joint venture for €30 million was cancelled
- 3) The call option which gives Solarworld the right to purchase the remaining 50% of the joint venture for €1, if Bacanora Lithium Plc did not exercise the above option, was cancelled.
- 4) Bacanora retains its right of first refusal to purchase the remaining 50% currently held by Solarworld.

23 Non-controlling interests

The following are summaries of the Group's entities with non-controlling interests for the six months ended 31 December 2019 and twelve months ended 30 June 2019:

a Minerales Industriales Tubutama, S.A. de C.V.

In US\$	31 December 2019	30 June 2019
Non-current assets	30,619	30,619
Accumulated non-controlling interest loss	(633,022)	(633,022)
Loss for the period	-	(13,173)
Loss attributed to the NCI	-	(5,270)

b Mexilit S.A. de C.V.

In US\$	31 December 2019	30 June 2019
Current assets	100,678	115,341
Non-current assets	2,953,739	2,943,016
Non-current liabilities	1,909,860	1,909,860
Accumulated non-controlling interest loss	(43,109)	(41,927)
Loss for the period	(3,940)	(2,790)
Loss attributed to the NCI	(1,182)	(837)
Net cash flow from operating activities	(104)	(3,015)
Net cash flow from investing activities	(11,611)	(22,742)
Net cash flow from financing activities	-	(5,846)
Net change in cash	(11,716)	(28,563)
Cash beginning of the period	89,093	117,656
Cash end of the period	77,377	89,093

c Minera Megalit S.A de C.V.

In US\$	31 December 2019	30 June 2019
Current assets	67,952	79,798
Non-current assets	625,015	617,433
Non-current liabilities	368,994	368,994
Accumulated non-controlling interest loss	(34,222)	(32,943)
Loss for the period	(4,263)	(12,280)
Loss attributed to the NCI	(1,279)	(3,684)
Net cash flow from operating activities	(648)	(3,028)
Net cash flow from investing activities	(10,641)	(20,852)
Net cash flow from financing activities	-	23,273
Net change in cash	(11,289)	453
Cash beginning of the period	50,431	49,978
Cash end of the period	39,142	50,431

d Sonora Lithium Ltd

In US\$	31 December 2019
Non-current assets	59,712,689
Non-current liabilities	50,152
Accumulated non-controlling interest loss	13,356,068
Loss attributed to the NCI	(78,678)

24 Note to the statement of cash flows

Below is a reconciliation of borrowings from financing transactions:

In US\$	31 December 2019	30 June 2019
Opening balance	21,622,167	-
Cashflows	-	20,875,000
Non cash flows:		
Fair value attributed to Financial warrants	-	(2,929,624)
Transaction costs	-	(746,235)
Primary Eurobond finance cost	1,466,824	2,768,480
Eurobond unwinding	962,619	1,654,546
Total non-current borrowings	24,051,610	21,622,167

25 Exemptions for a dormant subsidiary

On the date of the Consolidated Financial Statements, Bacanora Lithium Plc, incorporated in the United Kingdom, company number 11189628, gives a guarantee over all outstanding liabilities, that Bacanora Treasury Ltd, company number 11413519, may be subject to at the end of the financial period ended 31 December 2019 until they are satisfied in full. This guarantee is enforceable against Bacanora Lithium Plc by any person to whom Bacanora Lithium Plc company is liable in respect of those liabilities.

Parent Company Statement of Financial Position


As at 31 December 2019

In US\$	Note	31 December 2019	30 June 2019
Assets			
Current assets			
Cash and cash equivalents		47,986,997	12,994,188
Other receivables and prepayments	6	121,554	248,004
Derivative asset	8	-	193,902
Total current assets		48,108,551	13,436,094
Non-current assets			
Intercompany receivables		47,459	-
Investment in subsidiaries	7	46,275,266	59,709,985
Investment in joint venture	8	8,542,529	8,343,621
Total non-current assets		54,865,254	68,053,606
Total assets		102,973,805	81,489,700
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	9	653,770	697,929
Joint venture obligation	8	113,697	237,105
Total current liabilities		767,467	935,034
Non-current liabilities			
Intercompany payables	14	32,264,513	29,893,379
Warrant liability	10	587,315	1,259,923
Total non-current liabilities		32,851,828	31,153,302
Total liabilities		33,619,295	32,088,336
Shareholders' equity			
Share capital	13	30,240,469	18,996,790
Share premium	13	16,646,060	153,366
Merger reserve	13	40,708,662	40,708,662
Share-based payment reserve	13	1,454,591	1,177,722
Retained earnings		(19,695,272)	(11,635,176)
Total shareholders' equity		69,354,510	49,401,364
Total liabilities and shareholders' equity		102,973,805	81,489,700

The accompanying notes on pages 99 - 108 are an integral part of these Parent Company Financial Statements.

The Company's loss after tax for the six month period ended 31 December 2019 was US\$8,073,618 (year ended 30 June 2019: US\$8,894,553).

The Parent Company Financial Statements of Bacanora Lithium Plc, registered number 11189628, were approved and authorised for issue by the Board of Directors on 28 February 2020 and were signed on its behalf by:



Mark Hohnen

28 February 2020

Parent Company Statement of Changes in Equity

For the six month period ended 31 December 2019

In US\$	Note	Share capital		Share premium	Merger reserve	Share-based payment reserve	Retained earnings	Total equity
		Number of shares	Value					
30 June 2018		134,164,872	18,958,033	140,592	40,708,662	391,962	(2,833,158)	57,366,091
Comprehensive income for the year:								
Loss for the year		-	-	-	-	-	(8,894,553)	(8,894,553)
Contributions by and distributions to owners:								
Shares issued on exercise of options	13	300,000	38,757	12,774	-	-	77,449	128,980
Lapsed options charge	13	-	-	-	-	(15,086)	15,086	-
Share-based payment expense	13	-	-	-	-	800,846	-	800,846
30 June 2019		134,464,872	18,996,790	153,366	40,708,662	1,177,722	(11,635,176)	49,401,364
Comprehensive income for the period:								
Loss for the period		-	-	-	-	-	(8,073,618)	(8,073,618)
Contributions by and distributions to owners:								
Issue of share capital - Ganfeng investment	13	57,600,364	7,251,886	10,877,829	-	-	-	18,129,715
Issue of share capital - M&G investment	13	30,916,601	3,991,793	5,987,690	-	-	-	9,979,483
Share issue costs	13	-	-	(372,825)	-	-	-	(372,825)
Lapsed option charge	13	-	-	-	-	(13,522)	13,522	-
Share-based payment expense	13	-	-	-	-	290,391	-	290,391
31 December 2019		222,981,837	30,240,469	16,646,060	40,708,662	1,454,591	(19,695,272)	69,354,510

The accompanying notes on pages 99 - 108 are an integral part of these Parent Company Financial Statements.

Parent Company Statement of Cash Flows

For the six month period ended 31 December 2019

In US\$	Note	31 December 2019 6 months	30 June 2019 12 months
Cash flows from operating activities			
Loss for the year before tax		(8,073,618)	(8,894,553)
Adjustments for:			
Share-based payment expense		290,391	800,846
Foreign exchange		77,764	46,888
Finance and other income		(909,834)	(1,885,993)
Finance costs		2,633,848	4,423,027
Share of loss on investment in joint venture		80,887	12,741
Revaluation of derivative asset		191,066	78,324
Loss on sale of investment		3,912,112	-
Changes in working capital items:			
Other receivables		126,373	(98,327)
Accounts payable and accrued liabilities		(45,313)	(1,363,005)
Net cash flows used in operating activities		(1,716,324)	(6,880,052)
Cash flows from investing activities:			
Interest received		195,447	216,291
Proceeds from sale of subsidiaries, net of share costs		9,475,190	-
Payments to joint venture		(401,972)	-
Net cash flows from investing activities		9,268,665	216,291
Cash flows from financing activities			
Issues of share capital, net of share costs		27,736,373	-
Exercise of options		-	68,501
(Repayment of)/proceeds from intercompany borrowing	18	(262,756)	19,628,312
Net cash flows from financing activities		27,473,617	19,696,813
Change in cash during the period		35,025,958	13,033,052
Exchange rate effects		(33,149)	(52,067)
Cash, beginning of period		12,994,188	13,203
Cash, end of period		47,986,997	12,994,188

The accompanying notes on pages 99 - 108 are an integral part of these Parent Company Financial Statements.

Notes to the Parent Company Financial Statements

1 Corporate information

These Financial Statements represent the individual financial statements of Bacanora Lithium Plc (the “Parent Company”), the parent company of the Bacanora Group.

The Parent Company was incorporated under the Companies Act 2006 of England and Wales on 6 February 2018. The Parent Company is listed on the AIM market of the London Stock Exchange, with its common shares trading under the symbol, “BCN”. The registered address of the Parent Company is 4 More London Riverside, London, SE1 2AU.

2 Basis of preparation

a Statement of compliance

These Parent Company Financial Statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively “IFRS”) as adopted by the European Union (“EU”) applied in accordance with the provisions of the Companies Act 2006.

IFRS is subject to amendment and interpretation by the International Accounting Standards Board (“IASB”) and the IFRS Interpretations Committee, and there is an ongoing process of review and endorsement by the European Commission.

They have been prepared for the short period of six months from 1 July 2019 to 31 December 2019. The Company changed its accounting period end from 30 June to 31 December to align its reporting period with Mexican financial and tax reporting and other stakeholders reporting period. This resulted to a shortened financial period of six months ended 31 December 2019 for the current reporting period.

The Parent Company Financial Statements were authorised for issue by the Board of Directors on 28 February 2020. The Board of Directors has the power and authority to amend these Financial Statements after they have been issued.

b Basis of measurement

These Financial Statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value.

The presentation currency of these Financial Statements is United States dollars (“US\$”). The functional currency of the Company is deemed to be the US\$ under IAS 21.

c Going concern

The Directors have, at the time of approving the Financial Statements, a reasonable expectation that the Parent Company has adequate resources to continue in operational existence for the foreseeable future. Thus, the going concern basis of accounting in preparing the Financial Statements is adopted.

3 Accounting policies

In addition to the accounting policies in note 3 of the Consolidated Financial Statements, the following accounting policies are relevant only to the Parent Company Financial Statements.

a Investments in subsidiaries

Unlisted investments are carried at cost, being the purchase price, less provisions for impairment except for the investment in Bacanora Minerals Ltd as a result of the 2018 corporate reorganisation.

In August 2019 the Sonora Lithium Ltd purchased 100% of the share capital of Bacanora Minerals Ltd from the Parent Company in return for a 100% investment in Sonora Lithium Ltd. The Parent Company’s investment in Sonora

Lithium Ltd is measured at cost being defined as the cost of the Parent Company's original investment in Bacanora Minerals Ltd.

In October 2019, Ganfeng Lithium Co., Ltd purchased 22.5% of the shareholding of Sonora Lithium Ltd and its subsidiaries. In addition, Ganfeng Lithium Co., Ltd were issued an option to purchase a further 27.5% to reach a shareholding of 50% within 2 years of the initial investment.

4 Critical accounting estimates and judgements

The preparation of the Parent Company's Financial Statements in accordance with IFRS requires management to make certain judgements, estimates, and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results are likely to differ from these estimates. In addition to the critical accounting estimates and judgements in note 4 of the Consolidated Financial Statements, the following information about the significant judgements, estimates, and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses that are relevant only to the Parent Company Financial Statements are discussed below.

a Value of investments in subsidiaries

Investments in subsidiaries are reviewed for impairment if events or changes indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future cash flows of the relevant generating unit, which may span multiple trading entities, or disposal value, if higher. No impairment indicators were identified in the period ended 31 December 2019.

5 Loss for the period

The Parent Company has taken advantage of the exemption under section 408 (3) of the Companies Act 2006 and thus has not presented its statement of comprehensive income in these Parent Company Financial Statements. The Parent Company's loss after tax for the six month period is US\$8,073,618 (Year ended 30 June 2019 - US\$8,894,553).

6 Other receivables and prepayments

Other receivables contain amounts receivable for VAT, prepaid expenses and deposits paid. All receivables are held at cost less any provision for impairment. A provision for impairment is made where there is objective evidence that the receivable is irrecoverable. All receivables are due within one year.

In US\$	31 December 2019	30 June 2019
Other receivables	66,282	113,272
Prepayments and deposits	55,272	134,732
Total	121,554	248,004

7 Investments in subsidiaries

The Parent Company has the following subsidiaries, held at cost, at 31 December 2019:

Name of subsidiary	Country of incorporation	Shareholding on 31 December 2019	Shareholding on 30 June 2019	Nature of business
Bacanora Finco Ltd	UK	100%	100%	Financing company
Bacanora Treasury Ltd	UK	100%	100%	Financing company
Sonora Lithium Ltd	UK	77.5%	100%	Holding company
Zinnwald Lithium Ltd	UK	100%	100%	Dormant
Battery Finance (Jersey) Ltd	Jersey	100%	100%	Dormant
Bacanora Chemco S.A. de C.V.*	Mexico	77.5%	100%	Lithium processing
Bacanora Minerals Ltd*	Canada	77.5%	100%	Holding company
Mexilit S.A. de C.V.**	Mexico	54.25%	70%	Lithium mining/exploration
Minera Megalit S.A. de C.V.**	Mexico	54.25%	70%	Mineral exploration
Mineramex Ltd**	BVI	77.5%	100%	Holding company
Minera Sonora Borax, S.A. de C.V***.	Mexico	77.5%	100%	Lithium mining/exploration
Operador Lithium Bacanora S.A. de C.V.***	Mexico	77.5%	100%	Mexican service organisation
Minerales Industriales Tubutama, S.A. de C.V****	Mexico	46.5%	60%	Dormant

*Held indirectly through Sonora Lithium Ltd

** Held indirectly through Sonora Lithium Ltd and Bacanora Minerals Ltd

***Held indirectly through Sonora Lithium Ltd, Bacanora Minerals Ltd and Mineramex Ltd

In August 2019, Bacanora Lithium Plc's 100% ownership of Bacanora Minerals Ltd and all its subsidiaries were transferred to Sonora Lithium Ltd (a 100% subsidiary of Bacanora Lithium Plc at that time). In October 2019, Ganfeng Lithium Co., Ltd purchased 22.5% of the shareholding of Sonora Lithium Ltd and its subsidiaries. In addition, Ganfeng Lithium Co., Ltd were issued an option to purchase a further 27.5% to reach a maximum shareholding of 50% within 2 years of the initial investment. See Note 13 for further details.

For UK registered subsidiaries, the registered address for each subsidiary is 4 More London Riverside, London, SE1 2AU. For Jersey registered subsidiaries, the registered address for each subsidiary is 47 Esplanade St Helier Jersey JE1 0BD. For Canadian registered subsidiaries, the registered address for each subsidiary is 1250, 639 - 5th Av SW, Calgary, AB, T2P 0M9. For Mexican registered subsidiaries, the registered address for each subsidiary is Calle Uno No. 312, Colonia Bugambillas, Hermosillo, Sonora, Mexico.

8 Investments in jointly controlled entities

a Investment in Deutsche Lithium GmbH

Bacanora Lithium Plc owns 50% of the ordinary share capital of Deutsche Lithium GmbH whose registered address is Trident Chambers, Wickhams Cay, PO Box 146, Road Town, Tortola, BVI.

On 28 May 2019 a supplemental agreement was signed between the Bacanora Lithium Plc, Bacanora Minerals Ltd and the nominated administration of Solarworld. As a result:

- 1) Bacanora Minerals Ltd's 50% share in Deutsche Lithium was novated to Bacanora Lithium Plc
- 2) The Deutsche Lithium option exercise period extended for six months until February 2020, see note 6 of the Consolidated Financial Statements for further details.
- 3) Additional funding will be provided by Bacanora Lithium Plc, totalling €543,221, becoming payable progressively throughout the option period.

Bacanora Lithium Plc and Bacanora Minerals Ltd agreed a total purchase consideration of €7,500,000 (US\$8,386,776), of which US\$267,519 was attributed to the derivative asset, valued using a Black-Scholes valuation method, see note 8c below for further details, and the remaining US\$8,119,257 was attributed to the investment.

On 14 February 2020, Bacanora Lithium Plc and the nominated administrator of Solarworld, signed a second supplemental agreement. As a result:

- 1) Bacanora Lithium Plc will provide a further €1.35 million prior to 28 February 2022, the first payment became payable 18 February 2020 for €30,000 and subsequently, €55,000 per month for a further 24 months.
- 2) The call option which gives Bacanora Lithium Plc the option to purchase the remaining 50% of the joint venture for €30 million was cancelled.
- 3) The call option which gives Solarworld the right to purchase the remaining 50% of the joint venture for €1, if Bacanora Lithium Plc did not exercise the above option, was cancelled.
- 4) Bacanora retains its right of first refusal to purchase the remaining 50% currently held by Solarworld.

Reconciliation of the carrying amount of net investment in joint venture is as follows:

In US\$	Joint venture investment
28 May 2019	-
Purchase consideration	8,119,257
Joint venture investment loss	(12,740)
Additional investment	237,105
30 June 2019	8,343,622
Joint venture investment loss	(80,887)
Additional investment	279,794
31 December 2019	8,542,529

b Deutsche Lithium obligation

The Company holds an obligation to fund Deutsche Lithium until February 2022. This obligation has been disclosed in note 6 of the Consolidated Financial Statements.

c Derivative asset - Deutsche Lithium option

The Company's option relating to Deutsche Lithium has been disclosed in note 6 of the Consolidated Financial Statements.

9 Accounts payable and accrued liabilities

At 31 December 2019, the Parent Company held accounts payable and accrued liabilities of US\$653,770 (30 June 2019: US\$697,929) mainly in respect of legal, accounting and professional services.

10 Financial warrants

The Parent Company's warrant liability has been disclosed in note 11 of the Consolidated Financial Statements. All such warrants, and only those, disclosed are held by the Parent Company.

11 Financial Instruments

The Company's financial assets and liabilities are classified as follows:

As at 31 December 2019 (In US\$)	At amortised cost	At fair value through profit or loss	Total
Financial assets			
Cash and cash equivalents	47,986,997	-	47,986,997
Other receivables	973,220	-	973,220
Intercompany receivables	47,459	-	47,459
Total financial assets:	49,007,676	-	49,007,676
Financial liabilities			
Accounts payable and accrued liabilities	653,770	-	653,770
Joint venture obligation	113,697	-	113,697
Intercompany payables	32,264,513	-	32,264,513
Warrant liability	-	587,315	587,315
Total financial liabilities:	33,031,980	587,315	33,619,295
Net financial assets/(liabilities):	15,975,696	(587,315)	15,388,381
As at 30 June 2019 (In US\$)			
Financial assets			
Derivative asset	-	193,902	193,902
Cash and cash equivalents	12,994,188	-	12,994,188
Other receivables	113,272	-	113,272
Total financial assets:	13,107,460	193,902	13,301,362
Financial liabilities			
Accounts payable and accrued liabilities	697,929	-	697,929
Joint venture obligation	237,105	-	237,105
Intercompany payables	29,893,379	-	29,893,379
Warrant liability	-	1,259,923	1,259,923
Total financial liabilities:	30,828,413	1,259,923	32,088,336
Net financial liabilities:	(17,720,953)	(1,066,021)	(18,786,974)

12 Financial Risk Management

The Company is exposed to risks that arise from its use of financial instruments. The principle financial instruments used by the Company, from which financial risk arises, are set out in note 11. The types of risk exposure the Company is subjected to in the financial period are as follows:

a Credit risk

Credit risk arises from the risk that a counter party will fail to perform its obligations. Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, other receivables and intercompany receivables.

The Company's cash is held in major UK banks, and as such the Company is exposed to the risks of those financial institutions. Under Standard & Poor's short term credit ratings, the Company's total cash balance is held in institutions with a A-1+ rating.

The Company's other receivables relate to input tax receivables due from the UK government and accordingly the Company believes them to have minimal credit risk. Any changes in management's estimate of the recoverability of the amount due will be recognised in the period of determination.

The total carrying amount of cash and cash equivalents and other receivables represents the Company's maximum credit exposure.

The Board of Directors monitors the exposure to credit risk on an ongoing basis and does not consider such risk significant at this time. The Company considers all its accounts receivables fully collectible.

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 liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses.

The following table illustrates the contractual maturity analysis of the Company's gross financial liabilities based on exchange rates on the reporting date.

As at 31 December 2019 (In US\$)	Within 30 days	30 days to 6 months	6 to 12 months	Over 12 months
Accounts payable and accrued liabilities	653,770	-	-	-
Joint venture obligation	113,697	-	-	-
Intercompany payables	-	-	-	32,264,513
Warrant liability*	-	-	-	-

As at 30 June 2019 (In US\$)	Within 30 days	30 days to 6 months	6 to 12 months	Over 12 months
Accounts payable and accrued liabilities	697,929	-	-	-
Joint venture obligation	237,105	-	-	-
Intercompany payables	-	-	-	29,893,379
Warrant liability*	-	-	-	-

*No gross cash financial liability is present as the Company has the option to settle the warrants in equity or cash.

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 maximising long-term returns.

A portion of the Company's expenditures, other receivables, accounts payables and accrued liabilities are denominated in US dollars, Great British pounds and euros and are therefore subject to fluctuation in exchange rates.

As at 31 December 2019, a 10% change in the exchange rate between the United States dollar and euro or Great British pound, which is a reasonable estimation of volatility in exchange rates, would have an approximate US\$0.1 million change to the Parent Company's total comprehensive loss.

d Fair values

The fair value of cash, other receivables, and accounts payable and accrued liabilities and joint venture obligation approximate their carrying values due to the short-term nature of the instruments.

Fair value measurements recognised in the Statement of Financial Position subsequent to initial fair value recognition can be classified into Levels 1 to 3 based on the degree to which fair value is observable.

Level 1 - Fair value measurements are those derived from quoted prices in active markets for identical assets and liabilities.

Level 2 - Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly, or indirectly.

Level 3 - Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The level 3 fair value for the warrant liability are disclosed in note 11 of the Consolidated Financial Statements,.

There were no transfers between any levels of the fair value hierarchy in the current period or prior years.

13 Equity

a Authorised share capital

The authorised share capital of the Parent Company consists of an unlimited number of voting common shares of par value £0.10.

b Common shares issued

The Parent Company has the following shares in issue:

	Shares	Share Capital (US\$)	Share Premium (US\$)
30 June 2018	134,164,872	18,958,033	140,592
Shares issued on exercise of options	300,000	38,757	12,774
30 June 2019	134,464,872	18,996,790	153,366
Issue of share capital - Ganfeng investment ¹	57,600,364	7,251,886	10,877,829
Issue of share capital - M&G investment ²	30,916,601	3,991,793	5,987,690
Share issue costs	-	-	(372,825)
31 December 2019	222,981,837	30,240,469	16,646,060

¹ Ganfeng Lithium Co., Ltd agreed a cornerstone strategic investment of 29.99% in Bacanora Lithium Plc for £14,400,091. Ganfeng has been granted pre-emption rights proportionate to its shareholding in Bacanora and shall appoint one Director to the Board of Bacanora. In addition, Ganfeng made a project level investment of 22.5% in Sonora Lithium Ltd ("SLL"), the holding company for the Sonora Lithium Project, for £7,563,649. Ganfeng were granted an option to increase its interest in SLL to 50% within 24 months at a valuation based on the share price of Bacanora Lithium Plc at the time of subsequent investment. Ganfeng have appointed one Director to the Board of Sonora Lithium Ltd. An additional long-term offtake at a market-based price per tonne for 50% of Stage 1 lithium production and up to 75% during Stage 2 lithium production was also agreed.

² M&G Plc, a long-standing cornerstone shareholder, purchased £7,729,150 via an ordinary placing of 30,916,601 new ordinary shares at a price of 25 pence per Placing Share.

c Share options

The Parent Company's share option plan has been disclosed in note 14 of the Consolidated Financial Statements. All such options, and only those, disclosed are held by the Parent Company.

d Restricted share units

The Parent Company's restricted share unit plan has been disclosed in note 14 of the Consolidated Financial Statements. All such units, and only those, disclosed are held by the Parent Company.

e Share-based payment reserve

The following table presents changes in the Parent Company's share-based payment reserve.

In US\$	Share-based payment reserve
30 June 2018	391,962
Lapsed options charge	(15,086)
Share-based payment expense	800,846
30 June 2019	1,177,722
Lapsed options charge	(13,522)
Share-based payment expense	290,391
31 December 2019	1,454,591

f Share-based payment expense

During the six month period ended 31 December 2019, the Parent Company recognised US\$290,391 (year ended 30 June 2019: US\$800,846) of share-based payment expense. The fair value of share-based compensation was estimated on the dates of grant using the Black-Scholes option pricing model with the assumptions contained within note 14 of the Consolidated Financial Statements.

g Merger reserve

On 23 March 2018, the Plan of Arrangement to re-domicile the Bacanora Group from Canada to the UK became effective resulting in Bacanora Lithium Plc becoming the new holding company for Bacanora Minerals Ltd. Under the Company's Act 06 Section 612, a merger reserve has been utilised to account for the difference between the share capital and net asset investment in Bacanora Minerals Ltd.

h Per share amounts

Basic and diluted loss per share is calculated using the weighted average number of shares of 163,679,136 for the six month period ended 31 December 2019 (year ended 30 June 2019: 134,406,516). Options and warrants were excluded from the dilution calculation as they were anti-dilutive however at a time in the future they may have an impact on earnings per share.

For the period ended	31 December 2019	30 June 2019
Loss for the period attributable to owners of equity	(8,073,618)	(8,894,553)
Weighted average number of common shares for the purposes of basic and diluted loss per share	163,679,136	134,406,516
Basic and diluted loss per share (\$)	(0.05)	(0.07)

14 Related party disclosures

The Parent Company's related parties include key management personnel, companies which have directors in common, its subsidiaries and entities who share an interest the Company's subsidiaries, Ganfeng Lithium Co., Ltd and Cadence Minerals Plc.

Transactions with its Directors and key management personnel have been disclosed in note 19 of the Consolidated Financial Statements.

There were no transactions with companies which have directors in common in the period to 31 December 2019 (30 June 2019: None). There were no transactions with Cadence Minerals Plc in the period to 31 December 2019 (30 June 2019: None). In the period to 31 December 2019, Ganfeng Lithium Co., Ltd, made a project level investment of 22.5% in Sonora Lithium Ltd, see Note 13 for further details.

The Parent Company traded with undertakings within the same Group during the six month period ended 31 December 2019. A summary of the sum of absolute transactions and outstanding balances at the period end with each is set out below:

Name of related party	Nature of relationship	Commercial terms	Absolute transaction value	Balance owed by / (owed to) related parties
Bacanora Finco Ltd	Subsidiary	Interest bearing - Interest rate 21%	3,169,795	(24,020,603)
Bacanora Minerals Ltd	Subsidiary	Non-interest bearing	152,189	(8,243,910)
Sonora Lithium Ltd	Subsidiary	Non-interest bearing	47,444	47,444
Bacanora Treasury Ltd	Subsidiary	Non-interest bearing	-	15

15 Directors and employees of the Parent Company

Employees of the Company are all employees including key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. Key management personnel are considered to be the Directors of the Parent Company and the CFO. Details of key management personnel are disclosed in note 19 of the Consolidated Financial Statements. The below information relates to employees of the Parent Company:

In US\$	Six months ended 31 December 2019	Twelve months ended 30 June 2019
Gross salaries	733,823	1,640,350
Share-based payments	192,823	725,051
Social security costs	102,505	177,136
Pension costs	6,717	7,881
Total cost	1,035,868	2,550,418

Directors' remuneration totalled the following:

In US\$	Six months ended 31 December 2019	Twelve months ended 30 June 2019
Directors' salaries	465,327	1,081,891
Share-based payment expense	154,593	689,481
Total remuneration	619,920	1,771,372
Number of Directors	7	8

16 Commitments

The Company has the following commitments:

- short term funding of Deutsche Lithium until the end of the option period in February 2020, totalling US\$88,616.
- UK office rent of US\$50,077 until the end of June 2020.

Post year end, the Company has made the following additional commitments:

- long term funding of Deutsche Lithium totalling €1.35 million (US\$1.5 million) under the second supplemental agreement prior to 28 February 2022.

17 Subsequent events

Subsequent events relating to the Parent Company have been disclosed in note 22 of the Consolidated Financial Statements.

18 Note to the statement of cash flows

Below is a reconciliation of intercompany financing from financing transactions:

In US\$	Intercompany payables 31 December 2019	Intercompany payables 30 June 2019
Opening balance	29,893,379	1,131,175
Cash flows	(262,756)	19,674,324
Non cash flows		
Deutsche Lithium novation	-	8,386,776
Transaction costs	-	(746,286)
Intercompany recharges	204,447	(46,018)
Intercompany recharge of interest costs	2,429,443	4,423,032
Warrant liability	-	(2,929,624)
Total	32,264,513	29,893,379