Bacanora Lithium Plc

Annual Report and Financial Statements

30 June 2019

Company Directory

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Business Review

Highlights – for the year ending 30 June 2019 and subsequent events:
Corporate – significant progress made in securing funding package for flagship Sonora Lithium Project in Mexico

- In June 2019, Bacanora signed an Investment Agreement 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. The required government approvals were obtained post year end, which resulted in:
    - Ganfeng acquiring 29.99% of Bacanora and 22.5% of Sonora Lithium Ltd, the holding company for the Sonora Lithium Project, for £14,400,091 and £7,563,649 respectively;
    - Mr. Wang Xiaoshen, the Deputy Chairman of Ganfeng Lithium being appointed to the Board of Bacanora;
    - A long-term offtake agreement being signed with Ganfeng for 50% of Stage 1 production at the Sonora Lithium Project and up to 75% of Stage 2 production, both at a market-based price per tonne; and
    - Ganfeng initiating a review of the engineering design and capital costs of Stage 1 with a view to optimising capital costs and timetable to construction.
- US$150 million conditional senior debt facility was secured with RK Mine Finance, a leading provider of finance for resources companies in July 2018, to finance the development of the Sonora Lithium Project. The first tranche of US$25 million was drawn down in July 2018.
- Bacanora's offtake partner, Hanwa Co., Ltd. ("Hanwa") made an equity commitment of US$25 million as part of the Sonora Project financing package in July 2018.

Sonora Lithium Project, Mexico ("Sonora") –preparation for project construction begun to ensure prompt commencement after financing package completed.

- Work to complete the front-end engineering design ("FEED") has continued throughout the year. The pilot plant continues to operate to produce samples when required for potential clients and investors and act as a platform to optimise the FEED.
- Unrestricted access to develop and operate the Sonora mine was secured following acquisition of the La Ventana and La Joya parcels of land in Sonora for US$2.9 million with the final consideration settled in August 2018.
- The initial consideration of US$0.2 million was paid in July 2018 for the Las Perdices land for the plant location.
- The *Manifestación de Impacto Ambiental* ("MIA", environmental impact assessment permissions) for permanent road construction was approved in October 2018.
- The plant site's change of use (Estudio Técnico Justificativo de Cambio de Uso de Suelo en Terrenos Forestales "ETJ"), has been approved by the Sonora State forestry council and payment to CONAFOR's Mexican Forestry Fund issued by SEMARNAT was completed by the Company in December 2018.

Zinnwald Lithium Project, Germany ("Zinnwald") – completed feasibility confirms commerciality of high value lithium project in Europe's industrial and automotive heartlands

- NI 43-101 compliant Feasibility Study issued in June 2019 confirms the positive economics for the production of 5,112 tonnes per annum ("tpa") (~7,285 tpa Lithium Carbonate Equivalent ("LCE")) of battery-grade lithium fluoride ("LiF") at Zinnwald:
  Pre-tax project Net Present Value ("NPV") of €428 million (8% discount rate), Internal Rate of Return ("IRR") of 27.4% and 46% EBITDA margin
    - Favourable Life of Mine ("LOM") operating costs
    - Capital costs estimated at €159 million
    - Long 30 year life of project - Mineral reserves (proven and probable) of 94,000 tonnes of contained lithium and a measured and indicated resource of 124,974 tonnes of contained lithium
- Bacanora and SolarWorld AG ("Solarworld") agreed to extend the option to purchase the remaining 50% of Deutsche Lithium GmbH, not held by Bacanora, to February 2020.
- In March 2019, Deutsche Lithium was granted an additional exploration licence (the "Altenberg licence") covering approximately 42km^2 in the Erzgebirge (Ore Mountain) region of Saxony, Germany. The Altenberg

licence, which completely encloses Deutsche Lithium's existing Zinnwald Lithium Project, has the potential to significantly increase the life of mine at Zinnwald.

Chairman's Statement

12 months ago, the results of the feasibility study for our Sonora Lithium Project ("Sonora") in Mexico provided the backbone of the 2018 Bacanora Chairman's Statement. The Sonora feasibility study indicated highly favourable economic indicators, including US$1.25 billion NPV, 26% IRR and operating costs among the lowest in the industry at around US$4,000/t of lithium carbonate. Backed up by such robust numbers, 2019 saw us press on with efforts to assemble a finance package for the US$420 million cost of an initial 17,500 tpa lithium carbonate operation at Sonora.

12 months on, we have in place a conditional US$150 million senior debt facility with leading resource finance provider RK Mine Finance and a strategic investment from Ganfeng, the world's largest lithium metals producer in terms of capacity and the third largest lithium compounds producer. With Ganfeng as a partner at both corporate and project levels, Bacanora not only gains access to development capital, but also to the technical expertise and experience of an industry heavyweight. As a result, we are confident we now have a clear line of sight towards the commencement of the construction phase at Sonora, once the remainder of the development capital can be secured.

Progress during the year under review was not confined to Sonora. We also completed a second feasibility study, this time for the high value Zinnwald Lithium Project ("Zinnwald") located in the industrial heartland of Germany. The Zinnwald feasibility study ("ZFS") estimated a €428 million NPV, a 27.4% IRR, favourable LOM operating costs, and a 46% EBITDA margin for an operation producing 5,112 tpa (~7,285 tpa LCE) of battery-grade lithium fluoride, a high value, downstream product used in lithium battery electrolytes for the European electric vehicle ("EV") industry.

We are now focused on securing strategic partners to help fund the €159 million capital cost to develop Zinnwald, which the Zinnwald feasibility study forecasts will generate average annual EBITDA of €58.5 million over LOM. As part of this process, we are actively considering a public listing for Deutsche Lithium GmbH ("DL"), our 50%-owned subsidiary that holds Zinnwald. Bacanora acquired its 50% interest in DL from SolarWorld in February 2017, along with an option to acquire the outstanding 50%. SolarWorld has since entered into administration and during the year an agreement was reached with the administrators of SolarWorld to extend the option period to February 2020. The year ahead will see us look to finalise the finance structure for Sonora and spin out Zinnwald. These two projects combined have an independently estimated NPV of more than US$1.7 billion and individually are ideally positioned to supply high value, battery-grade lithium products to the fast growing Asian and European EV markets. It seems a day does not go by without a report or study on the rapid rise of EVs appearing in the mainstream media. In July 2019, the BBC[1] covered a report by the European Federation for Transport and Environment, which forecast a tripling in the number of electric car models available to European consumers by 2021 to 214 models from 60 in 2018. In May 2019, the International Energy Agency's Global EV Outlook 2019[2] put forward a scenario where EV sales could reach 43 million vehicles as early as 2030, an eight-fold increase on the 5.1 million vehicles in circulation globally in 2018.

While the numbers vary per report, the direction of travel for the global EV market is clear: forwards. Using a 63kg of Lithium Carbonate Equivalent contained in a Tesla Model S 70kWh battery as a benchmark, the direction of travel for lithium demand is also clear: forwards. Leading commentator of metal and mineral markets Roskill agrees. According to its Lithium Outlook to 2028, 16th Edition[3]: "Demand for lithium is expected to increase five-fold over the coming decade, driven principally by demand for lithium-ion batteries and their use in electric vehicles, energy storage systems and portable electronics. Lithium demand is forecast to increase by over 20% per annum, with demand from battery applications increasing by over 25% per annum through to 2028." Where there is demand, supply tends to follow. Roskill continues, "With this backdrop the lithium industry will require significant investment in additional supply from new mines, process plants and from the nascent recycling industry." We are

[1] https://www.bbc.co.uk/news/business-49022684

[2] https://www.iea.org/publications/reports/globalevoutlook2019/

[3] https://roskill.com/market-report/lithium/

already seeing this. Our own high value projects in Mexico and Germany are just two of a number of new sources of lithium that are at various stages of the development curve including exploration, feasibility and financing.

Not all lithium projects are equal. It is worth noting that a large number of projects, were they to make it to development, will produce low value, non-battery-grade lithium concentrates, which will require processing before they are of a high enough quality to be used in EV batteries. This is not the case with Sonora and Zinnwald, where battery-grade, high value lithium products will be produced on site at favourable cost via conventional, proven processing routes within five to seven days. The combination of favourable costs and short production timescales sets Bacanora apart from other lithium deposits. South American brines benefit from similar low costs to Sonora's soft rock deposit; however production depends on a two to three-year evaporation process. Hard rock producers on the other hand match Sonora's five to seven-day timeframe but not the Mexican project's industry leading low-cost profile.

Not all lithium projects will get developed. Over the last 12-18 months, short term concerns regarding oversupply have seen lithium prices rebase to lower levels, tipping several deposits under consideration for development into uneconomic territory. Expansion plans from some of the existing lithium operators have been put on hold. Lithium carbonate spot pricing is trading at US$11,000-12,500 per tonne compared to circa US$20,000 in June 2018. Encouragingly, contract prices remain above the US$11,000/tonne used to calculate Sonora's US$1.25 billion NPV in the feasibility study and are considerably higher than the project's estimated US$4,000 LOM operating costs. Other projects, both in production and under development, do not benefit from having such a favourable cost profile. These financial hurdles, along with other more technical issues, inform the view held by commentators such as Roskill, that the market should be more concerned about a looming supply deficit rather than a supply-glut: "…developmental challenges, along with the changing cost profile of the industry, highlight the technical and financial hurdles involved with bringing such sizable volumes of new capacity online. We maintain the view that concerns about future refined lithium oversupply are poorly founded and expect the lithium market to enter a period of sustained supply deficit in the early 2020s."[4]

We share Roskill's view and, having signed offtake agreements covering 100% of Sonora's stage 1 production, so too, it would seem, do our strategic partners, Hanwa, the leading battery metals trading house, and Ganfeng, China's top lithium producer. If the ambitious forecasts for EV uptake around the world are to be met, new sources of high-grade lithium will be needed. In Sonora and Zinnwald, Bacanora has two such high quality projects that provide excellent access to key end markets and are both located in supportive, business-friendly jurisdictions. Together with two world class partners and highly experienced management and operational teams on the ground, Bacanora is well placed to play its part in the ongoing global electric revolution for many years to come.

I look forward to providing further updates on our progress during the year ahead. I would like to welcome Mr Wang Xiaoshen as Ganfeng's representative to the board of directors of Bacanora and to take this opportunity to thank our shareholders for their continued support for the Company over the last twelve months. I would like to thank Derek Batorowski and Raymond Hodgkinson for their years of service to the Company since its inception. I would also like to express my thanks to our CEO Peter Secker and his team for their enormous efforts and progress over the past 12 months.

Mark Hohnen

Chairman

19 October 2019

[4] https://roskill.com/market-report/lithium/

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 the Sonora Lithium Project, which benefits from a large, scalable and high-grade lithium resource with a Measured and Indicated Resource of over 5 million tonnes LCE. This will be initially achieved by developing phase 1 of the mine and processing plant. The Company aims to produce battery-grade lithium carbonate for sale through offtake partners, with any additional production sold on the open market, in due course. 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 around US$4,000 per tonne. Bacanora has 10 licenses covering almost 100,000 hectares in Sonora, Mexico. Of these 10 licenses, 7 licenses were covered by the SFS. The Company has invested over US$22 million on exploration, studies and development of 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 Deutsche Lithium, which owns the Zinnwald Lithium Project (covering 256.5 ha and with a 30 year mining license to 31 December 2047), the Falkenhain license (covering 295.7 ha and with a 5 year exploration license to 31 December 2022) and the Altenburg license (covering 4,225.3 ha and with a 5 year exploration license to 15 February 2024). The Company published the ZFS in June 2019, that showed a pre-tax NPV of €428m and IRR of 27%. The Company is currently evaluating its options to complete both the financing of its option to acquire the remaining 50% of DL and 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 will be predicated on the following:

- The business model is supported by the core competencies of the team.
- Experienced and entrepreneurial leadership team.
- Access to strong technical skills either from our in-house team or network of advisers.
- Emphasis on building strong local organisations and skill sets.
- Commitment to excellence in HSEC.
- 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 a number of steps:

1. Find world class projects that can address the rapidly increasing demand for lithium for electric vehicles and energy storage industries.
    - The Sonora Lithium Project has identified its NI 43-101 Measured, Indicated and Inferred Resource of 8.8mt of LCE resources suitable for open-pit mining to ultimately produce battery-grade lithium carbonate.
    - The Zinnwald Lithium Project 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 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 for the Zinnwald Lithium Project in Germany that showed a pre-tax NPV of €428m 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 Front End Engineering Design for the Sonora Lithium Project. Furthermore, Ganfeng will complete a review, within 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 finance the exercise of its option to purchase the remaining 50% of DL and support the detailed design work for the project.

4. Validate the quality of its end product by securing high quality offtake partners.
    - Bacanora has used its pilot plant, which has been in operation for a number of years to provide samples of its lithium carbonate to prospective offtakers. This initially led to Hanwa, one of Japan's largest metals trading houses, signing a 10-year offtake agreement for Stage 1 of production and investing in the Company directly. In June 2019, the Company signed an 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 the Zinnwald Lithium Project.
5. Complete the funding required to construct its projects.
    - Bacanora has secured US$150 million of debt funding from RK Mine Finance and has a commitment for an additional US$25 million of equity finance from Hanwa. Ganfeng has invested an initial £22 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. 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.
    - DL intends to commence the detailed design engineering phase of the Zinnwald Lithium Project in H1 2020, during which a detailed schedule for the project development will be completed.
7. Hiring of a team with the expertise to deliver the projects into production.
    - The Company continues to build both its Board, its Senior Management team and its in-country operational teams in Mexico and Germany. As at 30 June 2019, the Company had over 30 employees and contractors in Mexico alone, many of whom are being trained in the pilot plant. Bacanora is led by CEO Peter Secker who has built and operated more than 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 fund raising. 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 both the Sonora and Zinnwald Lithium Projects move into construction and production, they will have the property, plant and equipment detailed in the Technical Reports for each Feasibility Study.
2. Maintenance
    - At Sonora, Bacanora's existing staff maintain the pilot plant and have had no material issues in ongoing functions and continue to produce regular samples of lithium carbonate. The construction of the chemical processing plant will be done under an Engineering, Procurement and Construction (EPC) contract, which will include all relevant inspections, guaranteed cost to complete and process guarantees. Once construction is complete, the Company will maintain its facilities;
3. Delivery and transportation
    - The Company has only shipped samples to prospective buyers to date by air. Once the project is in production it is envisioned that lithium carbonate will be delivered by road from the chemical plant to

the port of Guaymas at which point ownership will pass to the Group's offtake partners, 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 carbonate, where users typically require long-term supply contracts. The Group 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
    - The main suppliers of its raw materials will be local Mexican and US suppliers and the Group is in discussions to secure such supplies, once the construction phase is completed.
    - 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 Feasibility Study.
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 30 June 2019, the Company employed over 30 people in Mexico, including contractors, who work mainly on the pilot plant. 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 Health, Safety, Environment and Community (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 http://www.bacanoralithium.com/investor-relations/ESG-documents/. As its projects move into its construction and production phases, the appropriate local level policies will also be put in place.

Key Challenges

In the last 18 months, 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, secured one of the world's biggest lithium producers in Ganfeng as its cornerstone equity investor and secured offtake agreements with Ganfeng and Hanwa, 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 has plans to re-engage with the equity markets in order to raise sufficient capital. Similarly, funding will be required to develop the Zinnwald Lithium Project, although the capital requirement is lower.

The production of battery-grade lithium carbonate from the Sonora Lithium Project will be from open pit mining operations feeding a processing plant using the conventional sulphate route. The Company has operated a lithium carbonate pilot plant in Sonora for the past 4 years to demonstrate the viability of the project. The project's processing plant will require the supply of both gas and high voltage electricity infrastructure to the site. The current 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.

Due to the attractive demand side fundamentals of the lithium market, some commentators are forecasting significant volumes of new production to come online over the next five years. The threat of oversupply had a downward pressure on prices in 2018 and 2019, however contract prices remain above the long-term price of US$11,000/t of battery-grade lithium carbonate used in the SFS[5]. Any delays in this additional supply coming to

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[5] https://uk.reuters.com/article/us-metals-lithium-ahome/column-boom-and-bust-lithium-market-needs-a-pricing-rethink-idUKKCN1TP1VC

market should provide an upside on price for those companies who are able to deliver production. 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 quarterly 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 year 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, 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 project (see Risk 2 below)
- financing the exercise of the Deutsche Lithium option to purchase the remaining 50% of the business (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);
- a reduction in the market price of lithium (see Risk 6 below);
- delays in obtaining or an inability to obtain, or conditions imposed by, regulatory approvals (see Risk 5 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 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 the Sonora and Zinnwald Lithium Projects 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 and published the Technical Report in January 2018. Since that date the Company has secured the world's third largest lithium producer (Ganfeng) as the project's cornerstone investor, 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.

The ZFS was concluded in the year, which is progress toward project development. For Zinnwald, this mitigates some of the above risks to a degree, e.g. analysis of infrastructure requirements and availability thereof.

Trend:

No major change in risk profile. Partial financing has been secured, but no significant increases in 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 majority of sources of funds currently available to the Group for its projects are in a large portion 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 drawing 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 to exercise the option and €159 million capital cost to develop Zinnwald, as the feasibility study forecasts. In the event that the Group does not exercise this right prior to the termination date, SolarWorld has the right but not obligation to purchase the Group's 50% interest for €1.

Mitigation:

In the financial year, Bacanora has secured US$150 million of conditional debt funding from RK Mine Finance, and in October 2019 Ganfeng acquired 29.99% of the Company and 22.5% at the project level for a total of £22 million, and has a commitment for an additional US$25 million of equity finance from Hanwa, thereby reducing financing risk. The Company is currently finalising its plans to re-engage with the equity markets 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 and fund the purchase of the remaining 50%. As part of this process, we are actively considering a public listing for Deutsche Lithium GmbH ("DL"), our 50%-owned subsidiary that holds Zinnwald. The owner of the other 50% SolarWorld has entered into administration and during the year an agreement was reached with the administrators of SolarWorld to extend the option period to February 2020.

Trend:

Despite the Company raising significant debt financing and securing a cornerstone equity partner, there is still considerable financing risk due to the outstanding capital requirements to fully fund the project.

***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 in the Sonora Lithium Project which was published in January 2018 and the Zinnwald Lithium Project, which was published in June 2019.

Trend:

Reduced risk compared to prior period due to the completion of the feasibility study for the Zinnwald Lithium Project where reserves and resources were published. There has been no change for the Sonora Lithium Project.

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, 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. eight out of thirty five employees excluding the board are female (23%) at 30 June 2019. One of the six Board members is female (17%) at 30 June 2019.

Trend:

No change since the end of the prior financial year. There continues to be a reliance on a number of key personnel.

Risk 5: Environmental impact and compliance

All phases of the Group's operations in Mexico and Germany are subject to environmental regulation in that 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 lithium carbonate 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 and the Environment as well as applying for and maintaining all relevant permits. As the Company moves towards construction of the Sonora project it will institute a local Environmental Social and Governance ("ESG") committee, part of whose remit will be to engage with local environmental matters. Zinnwald will also be in compliance with appropriate environmental law for each part of the project life cycle.

Trend:

The environmental risks have declined due to the mitigations detailed above.

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 carbonate received by the Company. Accordingly, lithium carbonate prices are the Company's most significant financial risk. The Company intends to sell most or all of its production of battery-grade lithium carbonate 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 due primarily 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 would 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 carbonate may change because of lower prices, which could result in reduced production of lithium carbonate.

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 carbonate produced at the Sonora Lithium Project for Stage 1 and up to 75% of the production from Stage 2. The Company also has an offtake agreement with Hanwa for the remaining 50% of Stage 1 lithium carbonate 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 Lithium Projects, 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 to increases in lithium carbonate prices, thereby offsetting an adverse cost environment to some extent.

Mitigation
For budgeting and longer-term forecasting, conservative prices of lithium carbonate and input commodities have been assumed. For example, the budget for 2019 was modelled on a real term US$ basis used in the SFS.
Bacanora is currently in discussion with potential Zinnwald off-takers, looking for long term supply. Contract pricing tends to be less volatile, thereby reducing the impact of short-term pricing fluctuations.

Trend:

Contract prices declined for battery-grade lithium carbonate, Cost, Insurance and Freight China, Japan and Korea in H2 calendar year 2018. The prices also decreased in H1 calendar year 2019 but to a lesser extent. Throughout the financial year, contract prices have been above the price used in the SFS.[6]

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 materially adversely affect the Group's operations, financial condition and results of operations.

Mitigation

The Technical report on the feasibility study for the Sonora Lithium Project 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 the Zinnwald Lithium Project 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 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 financial year 2019, there were 2 LTI resulting in a LTIFR of 22.5. In financial year 2018 there was 1 LTIs resulting in a LTIFR of 11.0 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 30 June 2019 the Group's cash balance was US$14.8 million (2018: US$13.2 million). There is sufficient cash to continue working on its development activities. Please refer to the Financial Review section for analysis of the cash movement.

[6] https://fingfx.thomsonreuters.com/gfx/ce/7/5098/5084/Lithium%20Pricing%20June%202019.png

Capex investment	Funds spent on the exploration and evaluation (E&E) and 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 year ended 30 June 2019 the Group has spent US$0 million (2018: US$2.8 million) on E&E and US$8.3 million (2018: US$5.1 million) on PPE on a cash basis (see Cash flow Statement). This expenditure is primarily related to the FEED work at Sonora, purchase of land, as well as the continued operation of the pilot plant. Furthermore, a total of US$2.4 million was spent on Zinnwald Lithium Project during the year compared to US$4.2 million in 2018.
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.	In the previous financial year, a Feasibility Study on the Sonora Lithium Project was delivered and a maiden reserve and resource estimate was declared. The Sonora Lithium Project 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 year on year. 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.

CEO Statement

Bacanora is a multi-project lithium development company. The Company's most advanced asset is the large-scale 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 feasibility study 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 price of US$11,000 per tonne. In addition, Sonora estimate quartile 1 operating costs of just over US$4,000 per tonne, placing Sonora in the lower end of the industry cost curve and well below prevailing prices for lithium carbonate.

During the financial year, activity undertaken at Sonora was primarily focused on the advancement of the FEED work to update equipment designs and cost estimates. As part of Ganfeng's strategic investment signed in June 2019, the top tier lithium producer will conduct a review of the engineering design work carried out to date as well as the capital cost projections for Sonora with a view to optimising the development of the Sonora project.

In terms of land access and permitting at Sonora, Bacanora has secured ownership of the La Ventana and La Joya land areas by making payments totalling US$1.3 million for two freehold parcels of land in August 2018. In July 2018, additional land at Las Perdices was purchased with initial consideration of US$0.2 million, with the remaining consideration to be paid once liens are cleared. Permission for land use change for the plant site location was also granted via an ETJ. This was approved by the Sonora State forestry council following receipt of the required fee from the Company.

Having secured land access, along with relevant construction water licenses and MIA environmental impact assessment permissions, the Company has embarked on the secondary permitting process for activities such as water borefield and power supply. In October 2018, a MIA for permanent road construction, which augments the project's MIA, was approved. Following these milestones, Bacanora is in a position to commence construction at Sonora, once the project financing package is in place.

The pilot plant continues to operate providing a platform to optimise the production process, produce samples for prospective customers and train employees.

During the financial year, two of our employees suffered lost time injuries. We closely analyse all incidents that occur and where necessary introduce new initiatives and procedures to mitigate the risk of such incidents occurring again. We are 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.

The Company's second project is Zinnwald, which is located approximately 35km south east of Dresden in the industrial heartland of Germany in a world-class granite hosted Sn/W/Li belt that has been mined historically for tin, tungsten and lithium at different times over the past 300 years. In June 2019, the results of the feasibility study for an operation at Zinnwald producing 5,112 tpa (~7,285 tpa LCE) of battery-grade lithium fluoride over a 30 year period estimated a pre-tax project NPV of €428 million, an IRR of 27.4%, favourable LOM operating costs and a 46% EBITDA margin.

The Zinnwald feasibility study included mineral reserves (proven and probable) of 94,000 tonnes of contained lithium and a measured and indicated resource of 124,974 tonnes of contained lithium. The resource estimate represented a 30% increase over the previous resource published in 2014. The original statement was based on the Pan-European Reserves and Resources Reporting Committee ("PERC") standards and included measured and indicated resources of 26.6 million tonnes ore at a grade of 3,620 ppm Lithium containing 96,200 tonnes of the metal. In addition to the updated resource and as part of the Zinnwald feasibility study, mine design, hydrometallurgical test work and basic engineering designs were all completed during the period, the results of which were included in the published Zinnwald feasibility study.

With feasibility studies confirming the commerciality of developing two high value operations, Sonora and Zinnwald are well placed to become key suppliers of battery-grade lithium to the Asian and European markets. In terms of the market, annual demand for lithium continues to grow strongly, having increased to an estimated 300,000 tonnes of lithium carbonate equivalent[7] from approximately 250,000 tonnes in 2018. Growth is being driven by

[7] https://www.metalbulletin.com/Article/3868440/Global-lithium-supply-developing-at-accelerating-pace-on-growing-demand.html

robust end markets, primarily EVs and energy storage for renewable energy projects, which in turn are benefiting from long-term structural drivers, specifically growing calls and initiatives to safeguard the global environment. As a result, further strong demand growth is expected in the years ahead with some forecasts predicting demand for lithium carbonate will be close to 1 million tonnes by 2025 and could surpass two million tonnes by 2030[8], almost 10 times more than today's levels.

Following a number of new spodumene mines in Australia coming on stream LCE production is expected to be 363,000t in 2019[9]. Near-term concerns of oversupply have weighed on lithium prices, which are yet to reflect the robust demand outlook[10]. However, for supply to match forecast demand of approximately one million tonnes per annum by 2025[11], incremental production growth at a compound average growth rate of 19% will be required. This equates to 25 new mines with an average capacity of 25ktpa being commissioned. For supplies to exceed 2 million tonnes by 2030, 37 new mines will need to come into production at the same rate. Bearing in mind only one new greenfield lithium carbonate project has been commissioned in the last 5 years, 25 new mines in the next 5-6 years represents a major challenge, especially when the planned expansions of existing operators have been put on hold, for example Albemarle's 125,000t conversion plant[12]. Furthermore, bringing new sources of lithium into production is not without its difficulties and takes considerable time. Much will therefore need to go right for 25 new mines to come online within such a short timeframe.

No pricing benchmarks currently exist for lithium, although Reuters reported in June 2019 that the London Metal Exchange is looking to develop a benchmark for this critical metal for battery technologies[13]. Until then, pricing levels will continue to be determined from a range of sources including spot and contract prices for spodumene, lithium hydroxide and lithium carbonate. As China remains far and away the largest consumer for lithium, prices coming out of the country serve as a bellwether for the market as a whole. Uncertainty surrounding EV subsidies and their impact on future demand in China has led to spot prices in the country weakening to US$11,000-12,500 from US$16,500/t[14] over the course of the year. In line with common practice in the industry, all lithium produced at Bacanora's Sonora and Zinnwald Lithium Projects will be sold via long-term contracts. Current Cost, Insurance and Freight ("CIF") contract prices for lithium carbonate products continue to trade around the US$12,000 per tonne level, having been as high as US$16,500 as recently as twelve months ago[15].

Certain banking institutions may not yet be convinced of the favourable long-term demand / supply dynamics for lithium[16], however the industry appears to have fewer doubts. Over the last twelve months Albemarle signed a US$1.15 billion joint venture agreement with Mineral Resource Ltd to own and operate the Wodgina lithium mine in Western Australia; Tianqi Lithium Corp invested US$4.1 billion to acquire approximately 25% of SQM and in the process set a new record for the largest deal in the lithium sector; and Ganfeng paid US$160 million to increase its position in an Argentina lithium project with Lithium Americas Corp. Ganfeng's strategic investment in Bacanora at both the corporate and project levels is therefore one of a number of deals by major industry players over the last twelve months, as they seek to position themselves for the supply deficit of the 2020s.

Notwithstanding ongoing price volatility, the presence of Ganfeng on the Bacanora shareholder register and at the Sonora Lithium Project level, together with the strong economics of the planned 35,000tpa lithium carbonate operation, provide reassurance that the total finance package will soon be in place. Similarly, the excellent results of the feasibility study for Zinnwald published towards the end of the period, gives us confidence that strategic partners and investment will be secured for the development of a high value operation in Europe's industrial

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[8] https://www.livewiremarkets.com/wires/8-reasons-lithium-markets-will-stay-tight
[9] https://www.metalbulletin.com/Article/3868440/Global-lithium-supply-developing-at-accelerating-pace-on-growing-demand.html

[11] https://www.bnamericas.com/en/news/lithium-prices-expected-to-fall-in-the-short-term
[12] https://www.australianmining.com.au/news/albemarle-delays-lithium-plant-expansion-plans/
[13] https://uk.reuters.com/article/uk-lithium-electric-prices/how-much-does-lithium-cost-the-industry-cant-seem-to-agree-idUKKCN1TA04R

[14] https://www.benchmarkminerals.com/chinas-lithium-price-decline-is-not-the-full-picture-to-an-industry-surging/
[15] https://fingfx.thomsonreuters.com/gfx/ce/7/5098/5084/Lithium%20Pricing%20June%202019.png

[16] https://www.ft.com/content/6b9e3bdc-a480-11e9-a282-2df48f366f7d

heartland. With this in mind, we are encouraged by the conversations we are having with multiple interested parties. To date, we have identified, acquired and de-risked two high-quality lithium projects. 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 generate in the years ahead.

Peter Secker

Chief Executive Officer

19 October 2019

Operational Review

a Corporate review

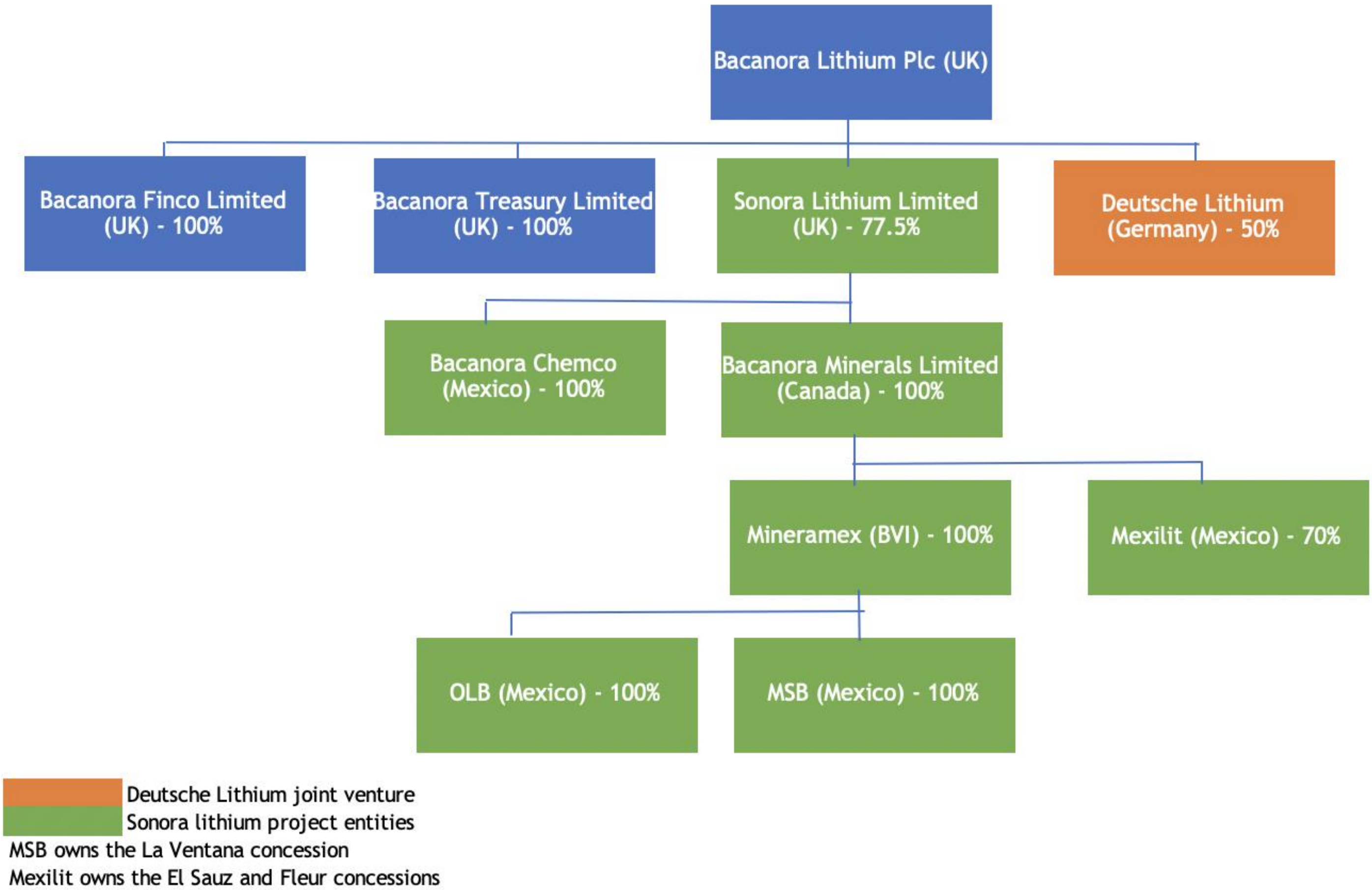
On 19 July 2018, the Company elected not to proceed with its proposed placing to raise gross proceeds of US$100 million due to volatility in global commodities markets. In 2018 there was significant negative market sentiment due to falling spot prices and concerns around supply and demand fundamentals (see Market Review). The placement was postponed in order to await improved market sentiment. On 27 November 2018, Bacanora appointed Citigroup Global Markets Limited ("Citi") to lead the equity financing of the Sonora Lithium Project alongside Canaccord Genuity ("Canaccord"), both of whom also act as joint corporate brokers in order to fulfil the remaining funding requirements for phase 1 of the project.

In June 2019, the Company signed an investment agreement with Ganfeng to acquire 29.99% of Bacanora Lithium plc and 22.5% of Sonora Lithium Ltd ("SLL") with an option to increase its shareholding in SLL within two years. As part of the investment agreement, Ganfeng would appoint 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 Stage 2 production. In October 2019, the Company completed the transaction on the terms previously agreed.

Prior to the investments by Ganfeng, the Group performed a reorganisation in which Sonora Lithium Limited purchased Bacanora Lithium Plc's 100% shareholding in Bacanora Minerals Limited in order to create a single project holding company.

On 28 May 2019, Bacanora Minerals Ltd transferred its shareholding in Deutsche Lithium Gmbh to Bacanora Lithium Plc. On 14 August 2019, Bacanora Lithium plc transferred its shareholding in Bacanora Minerals Ltd to Sonora Lithium Ltd.

The resulting corporate structure showing all operational subsidiaries, is shown in the chart below and a full list of all group companies is detailed in Note 3 of the Consolidated Financial Statements.



b Sonora Lithium Project, Mexico

In January 2018, a feasibility study was published on the Sonora Lithium Project. It revealed positive economics and favourable operating costs of a 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/t lithium carbonate price 26.1% IRR, US$4,000/t 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.

Sonora Lithium Project Development

Work to finalise the FEED and cost to complete quotation is ongoing with potential EPC contractors. Initial proposals for the construction of cogeneration energy facilities have been received from several suppliers. The proposals are currently being assessed.

In July 2018, land at Las Perdices was purchased with initial consideration of US$0.2 million, the land will be used to the optimise the plant location. The transaction will conclude once liens on the land are cleared by the vendor and the remaining US$0.4 million consideration is paid. In August 2018, the Company made the final consideration payments for two parcels of land, La Ventana and La Joya for a combined total of US$1.3 million. The land provides the Company with unrestricted access to develop the Sonora Lithium Project and operate it for the initial life of mine.

In Mexico, the environmental impact assessment procedure begins with the presentation of an environmental impact statement by the developer, known as the MIA. 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 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 licenses and environmental MIA permits in place, the Company is now focussing on secondary permitting such as the process water borefield and co-gen power supply.

Throughout the financial year, the lithium carbonate pilot plant in Sonora Mexico was operated on a "as needs" basis. The pilot plant produced battery-grade lithium carbonate samples which were distributed to potential customers in Asia as well as our FEED partners and consultants for detailed design and test work. The pilot plant enables us to optimise the metallurgical flow sheet and facilitate test work. In addition, the pilot plant forms part of our strategy to train operators in preparation for commissioning of the large-scale plant at the mine site. Significant effort is being placed on training local personnel in all operational aspects of lithium process plant operations.

With regards to energy, it is currently envisaged that LNG gas 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 the Sonora Lithium Project will be initiated. The Company is in detailed discussions with a number of potential Build, Own and Operate (BOO) energy partners for the gas pipeline development to the Project along with the finalisation of the proposed natural gas pipeline routes. Detailed quotes for the supply of LNG are also currently being evaluated.

c Zinnwald Lithium Project, Germany[17]

Bacanora acquired an initial 50% interest in Deutsche Lithium (the 100% owner of Zinnwald) in February 2017 and has an option to acquire the outstanding 50% (the "Option") that it does not own from our joint venture partner, SolarWorld, for €30 million. In May 2019, the Company reached an agreement with the administrators of SolarWorld

[17] http://www.deutschelithium.de/wp-content/uploads/2019/06/NI43-101-Zinnwald_Feasibility-Study_Summary.pdf

to extend the option period from August 2019 to February 2020. Under the agreement, Bacanora has also agreed to invest a further €0.5m in Deutsche Lithium through to the end of the Option period. In the event that Bacanora does not exercise this right within the above stated timeframe, SolarWorld has the right but not the obligation to purchase Bacanora's 50% interest for €1.

In March 2019, Deutsche Lithium was granted the Altenberg Licence covering approximately 42km^2 in the Erzgebirge (Ore Mountain) region of Saxony, Germany. The 5-year Altenberg Licence was issued by Sächsisches Oberbergamt, the Saxony State Mining Authority. It completely encloses Deutsche Lithium's existing Zinnwald Lithium Project and has the potential to significantly increase the life of mine at Zinnwald beyond the existing 30-year mine life.

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 lithium fluoride, a high value, downstream product used in the manufacture of lithium battery electrolytes for the European electric vehicle industry. 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.

Key Elements of the Zinnwald Feasibility Study

Project Introduction

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. The Project 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 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 Project allows immediate access to the German automotive and downstream lithium chemical industries.

Feasibility Study – Key Indicators

Based on a forecast selling price of €22,000 per tonne LiF, the ZFS demonstrates the attractive economics of Zinnwald and the key findings are shown in the table below:

Feasibility Study Key Indicators	Value
Pre-tax NPV (at 8% discount) (€ m)	427.8
Pre-tax IRR (%)	27.4%
Simple Payback (years)	6.1
Initial Construction Capital Cost Stage 1 (€ m)	158.9
Average LOM unit operating costs (€/t LiF)	13,058
Average LOM revenue (€ m pa)	112.4
Post-tax NPV (at 8% discount) (€ m)	270.0
Post-tax IRR (%)	21.5%
Average annual EBITDA with co-products (€ m)	58.5
Annual average LiF production (tonnes)	5,112
Annual K_2SO_4 production capacity (tonnes)	32,000

Mineral Resource Estimates

The Zinnwald Lithium Project hosts one of the largest lithium deposits in Europe. The table below provides a breakdown of the upgraded Mineral Resource estimate for the Zinnwald Lithium Project as of 30 September 2018. The upgraded resource has been reported in accordance with NI 43-101 and was carried Tout by G.E.O.S. Ingenieurgesellschaft mbH ("G.E.O.S.").

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
Demonstrated (Measured + Indicated)	***35,510***	***3,519***	***124,974***
Total (Measured + Indicated + Inferred)	***40,375***	***3,523***	***142,240***

(* Vertical thickness ≥ 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 Mt 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 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.

The portion of the Demonstrated Mineral Resource which cannot be mined due to existing mine workings or which cannot be economically mined due to isolation of ore bodies or insignificant ore thickness, amounts to 7% and 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 Mt of ore and contains 51 kt Li. This corresponds to 54 % of the total lithium metal Reserve. The Probable Mineral Reserve is 14.7 Mt of ore with a content of 43 kt 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)	***31,202 (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.

Mining Operations as defined in the Zinnwald feasibility study

The mining operation for the Zinnwald Project is planned as an underground mine development using a decline for the access to the mine and ore transportation to Freiberg, 50 km away from Zinnwald. The mine technology will be a common LHD – room and pillar technology.

The suggested mining process of the Zinnwald lithium deposit, which can be specifically adjusted to locally changing geological conditions, includes maximum dimensions of the rooms of 7 m x 7 m with 2 m wide safety pillars and 1 m thick horizontal roof pillars. Backfill material is characterized by a compressive strength value of at least 4 to 5 MPa.

Process Design as defined in the Zinnwald feasibility study

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 limestone and gypsum. Following roasting a hot water leaching step recovers lithium and after removal of contaminations LiF is precipitated using potassium fluoride. LiF is filtered and packaging, to produce a >99.5% LiF final battery-grade product. The integrated plant has been designed to initially process 522 kt of ore per year (average of first 5 years of production), producing 5,112 tpa of lithium fluoride. The plant will scale up to process up to 600 kt of ore per year over the life of the mine.

The plant design also includes a circuit to produce up to 32,000 tpa of K_2SO_4/SOP by-product through a series of evaporation and precipitation stages.

Capital Cost Estimates as defined in the Zinnwald feasibility study

The metallurgical processing facility will be located in Freiberg. The capital cost estimate is based on using brown field processing plant site locations for both the concentrator and the lithium processing plants, but all equipment costs are based on all new equipment, to produce the concentrate and the battery-grade lithium fluoride.

The capital cost estimates for the mine, process plant, infrastructure, tailings management, construction, engineering, procurement, and construction management fees, and general and administration are based on basic engineering from G.E.O.S., Köppern, Cemtec and Amproma and were compiled in a financial model by eXnet audit GmbH Wirtschaftsprüfungsgesell-schaft of Dresden, Germany (eXnet).

Summary of Estimated Capital Costs as defined in the Zinnwald feasibility study

Area	€ m
Mining equipment, infrastructure and site	27.4
Beneficiation / mineral processing plant	23.3
Chemical plant	82.0
On-Site infrastructure chemical site	10.6
EPCM / Project management	14.9
Contingency	15.8
Subsidies/grants*	(15.0)
Total:	**159**

Notes: * subsidies/grants (estimated) by the Government of Free state Saxony based on European and national law

Operating Cost Estimate as defined in the Zinnwald feasibility study

The estimated mining and processing operating costs are based on an operation achieving average annual production of approximately 5,112 tonnes of battery-grade, 99.5% LiF, (7,285tpa LCE). The estimated average unit operating cost for the mine, primary and secondary processing facilities are as follows:

Average Annual Operating costs per tonne:

Category	€/t LiF
Mining	2,525
Mechanical Processing	2,699
Chemical Processing	7,448
Environmental and Central	386
Total - Direct Operating Costs	**13,058**
G&A	607
Total - All costs per tonne of LiF	**13,665**

BACANORA lithium

Market Review and Lithium Pricing assumed in the Zinnwald feasibility study

SignumBox has provided the Company with their detailed 20 years analysis of the global lithium market. The Fraunhofer Institute in Germany (www.fraunhofer.de) has provided a detailed analysis of the electrolyte/LiF market. These reports can be summarised as follows:

- By 2037, SignumBox anticipate global annual demand for lithium chemicals to reach about 1,700,000 tonnes of LCE in their base scenario, compared to the current 360,000 tonnes in 2019, equating to an average annual growth rate of about 11.5% over the next 20 years.
- Contract prices for battery-grade lithium carbonate products have increased significantly since Q3 2015, from a global average price of lithium carbonate of approx. US$6,000 per tonne to over approximately US$12,000 per tonne (Q2 2019).
- SignumBox estimate total demand for electrolyte materials reached 142,000 tonnes in 2018, this represents a 11.4% growth compared with 2017, with a value of US$4 billion. They expect annual demand to grow to over 230,000 tonnes by 2030.
- Fraunhofer estimates mid case consumption of LiF in electrolyte production will be in the range 20,000 to 40,000 tonnes annually by 2030, depending on LiF density remaining in the range of 5% to 10% of the electrolyte.

Lithium fluoride pricing for the ZFS has been averaged from a number of sources including Zion Market Research, SignumBox market and price forecast and spot market price in China. For the ZFS cash flow analysis, the Company has taken a consensus approach for pricing and is using a price of €22,000/t for battery-grade lithium fluoride over the 30 years of production. The SOP price is estimated at €500 per tonne. The cash flow analysis was prepared by the Company's financial consultants exNet.

Zinnwald Environment and Permits

DL holds an approved mining license for the Zinnwald deposit and has completed the Zinnwald Project Environmental Impact Assessment. Final approvals for construction and operation would be issued once a project construction timetable is submitted to the local authorities.

d Group Financing

Please refer to the Financial Review section.

e Lithium Market Update 2018 to 2019

Only a limited amount of information is available to the wider investment market on lithium pricing. This is due in part to the scale of the lithium market, and the propensity for mining companies to have long term offtake partners, so only relatively minor volumes are traded on the spot market, which tends to increase reported volatility. Furthermore, the high degree of variability in impurities, even in battery-grade lithium compounds, makes like for like price comparisons across supply sources a challenge. In an attempt to reduce the opacity of the lithium market, in June 2019, Fastmarkets entered into a partnership with the London Metal Exchange (LME) as its partner to develop the lithium price benchmark.

Throughout the first half of calendar year 2018, lithium prices came under pressure on concerns of oversupply. In July 2018 Benchmark Minerals Intelligence reported battery-grade lithium carbonate spot prices US$16,500/t[18]. Prices continued to soften, but at a slower rate in H2 calendar year 2018. At the outturn of the calendar year, Metal Bulletin reported 99.5% lithium carbonate battery-grade spot prices CIF China, Japan & Korea in the range of US$13,000-15,000 per tonne. In H2 calendar year 2018, major lithium producers like SQM and Orocobre reported weak pricing on short term contracts for lithium carbonate. The depressed pricing was blamed on weak demand in China and new supply in Australia ramping up. In H1 calendar year 2019, prices continued to decline and in June 2019, Fastmarkets reported 99.5% lithium carbonate battery-grade spot prices CIF China, Japan & Korea of

[18] https://www.benchmarkminerals.com/chinas-lithium-price-decline-is-not-the-full-picture-to-an-industry-surging/

US$11,000-12,500/t[19]. Andrew Miller, head of price assessment at Benchmark Mineral Intelligence, said in an interview on 19 June 2019, that the lithium hydroxide premium over carbonate would narrow and that there is “not much more to come out of the lithium carbonate price”[20].

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 have been reduced for vehicles with ranges less than 300km. These changes caused lithium consumers to hold back on purchases in the first half of 2018 as they adjusted purchasing strategies and waited for prices to fall further. This oversupply trend continued in H1 calendar year 2019, with prices softening toward US$11,000/t. In July 2019, Morgan Stanley said it expected the price of lithium carbonate from South America to fall from around US$11,500 a tonne currently to below US$10,000 by the end of this year[21]. However, as prices have tightened, producers have begun to call a halt to expansion plans, for instance Albemarle have announced that they will delay investment in a 125,000t per year conversion plant.

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 years, with the number of new projects expected to fall short of expected production amid doubts on capital availability and low prices. As such, any new supply would likely originate from existing low-cost producers rather than marginal cost producers. The lack of available capital acting as a brake on supply, may incentivise battery producers and trading houses to invest directly to secure sources of lithium. 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 1,700kt of LCE by 2037, compared to the current 360kt in 2019, equating to an average annual growth rate of about 11.5% over the next 20 years[22].

2018 saw many new spodumene producers begin production which is one of the factors weighing on the price, however, ramp up has proved slower than expected. Alliance Mineral Assets were first to produce, with first shipments out of the Bald Hill hard rock mine in June 2018, AMG ramped up commissioning the Mibra facility in Brazil towards the end of Q2 2018 with initial shipments in Q4. In addition, initial shipments of concentrate from the Pilgangoora deposits by Pilbara Minerals commenced in Q4 2018, by June 2019 the plant ramped up to ~85% of planned Stage 1 plant capacity[23]. Altura Mining, which also ramped in late 2018 reached nameplate capacity in May 2019. According to a report by Benchmark Mineral Intelligence on 9 January 2019, these new operations have addressed the short-term needs of the conversion market, however, significant additional conversion capacity would be required to convert the concentrate to useful battery-grade products, in the event that all the spodumene projects are able to ramp up to name plate capacity on schedule. The spodumene supply and conversion capacity dynamic is undergoing a process of rebalancing, this is in part due to downwards vertical integration of mines in Australia, H1 calendar year 2019 has seen the initial ramp up of Tianqi’s 48ktpa hydroxide plant at Kwinana, in Western Australia[24]. Furthermore, ramping up of new Chinese converters will further debottleneck the spodumene market. The largest of these will be the start-up of Albermarle’s Xinyu II unit in Jiangxi province, which will have capacity of 20ktpa of lithium hydroxide. Other conversion plants processing hard rock concentrates are expected from Sichuan Energy Investment (10ktpa carbonate) and Hefei Tiansheng Lithium (5ktpa). Other processing plants linked to brine production are set to go into commercial production this year, including Zangge Lithium (10ktpa carbonate), Qinghai Lithium (5ktpa carbonate) and Qinghai Hengxingrong (4.5ktpa carbonate). However the extra converter volume has not fully materialised.

Further acquisitions by the lithium majors in Q4 2018 provided evidence of continued confidence in the underlying fundamentals of the lithium market. In December 2018, Tianqi bought a minority stake in SQM from Nutrien for

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[19] https://seekingalpha.com/article/4272099-lithium-miners-news-month-june-2019
[20] https://investingnews.com/daily/resource-investing/battery-metals-investing/lithium-investing/andrew-miller-more-capital-needed-support-lithium-demand/?mqsc=E4063726
[21] https://www.ft.com/content/6b9e3bdc-a480-11e9-a282-2df48f366f7d
[22] http://www.deutschelithium.de/wp-content/uploads/2019/06/NI43-101-Zinnwald_Feasibility-Study_Summary.pdf
[23] https://seekingalpha.com/article/4272099-lithium-miners-news-month-june-2019
[24] https://thewest.com.au/business/mining/tianqi-fires-up-700m-lithium-game-changer-in-kwinana-ng-b881076970z

US$4.1 billion[25]. In addition, Albemarle acquired a 50% interest in MRL's Wodgina hard rock lithium project in Western Australia for US$1.15 billion and formed a joint venture to produce spodumene concentrate and battery-grade lithium hydroxide[26].

With prices close to the US$11,000 per tonne price assumed in the Sonora Lithium Project feasibility study and an estimated production cost profile of around US$4,000 per tonne, the Sonora Lithium Project sits in the lower quartile of lithium production costs, giving it added protection when compared to the higher cost producers such as the new mines being brought on stream in Australia. Whilst there is a degree of uncertainty in the nascent lithium market, Bacanora is well placed to weather significant oversupply related price fluctuations given favourable production costs and the high-quality nature of our product.

There is minimal publicly available information on lithium fluoride, in particular on production capacity, future expansion plans and pricing. However, the current lithium fluoride spot prices in China were around the US$30,000-32,000 per tonne level in Q1 2019[27]. Lithium fluoride has a number of applications including glass and ceramic manufacture, nuclear power generation, optics, metallurgical processes and of course, batteries. Lithium fluoride is an important component in the manufacturing process of $LiPF_6$[28], which is an important conducting salt in existing lithium-ion battery technology. Furthermore, fluoride ion batteries have the potential to be “next-generation” electrochemical storage devices[29] that offer up to eight times higher energy density than existing batteries[30]. Due to the growing utilization of electric vehicles, the lithium fluoride market is expected to grow markedly over the next 30 years. Fluoride battery chemistry could be instrumental in accelerating the development of electric vehicles and allowing for an increased adoption of renewable power. The European lithium market is primed to grow significantly in the coming years, in the latest 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 plant. 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 batteries[31].

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[25] https://www.reuters.com/article/us-chile-tianqi-lithium/tianqi-buys-stake-in-lithium-miner-sqm-from-nutrien-for-4-1-billion-idUSKBN1O217F

[26] https://www.mining-technology.com/news/mineral-resources-albemarle-lithium-deal/

[27] http://www.deutschelithium.de/wp-content/uploads/2019/06/NI43-101-Zinnwald_Feasibility-Study_Summary.pdf

[28] https://www.bacanoralithium.com/pdfs/exec-summary-technical-report-for-zinnwald.pdf

[29] https://science.sciencemag.org/content/362/6419/1144

[30] https://www.caltech.edu/about/news/focusing-negative-good-when-it-comes-batteries-84588

[31] https://www.reuters.com/article/us-lithium-electric-europe/european-lithium-projects-gain-attention-amid-push-toward-electric-vehicles-idUSKCN1TE34V

Financial Review

The Group made an operating loss of US$8.0 million for the year ended 30 June 2019 compared with a loss of US$10.7 million for the year ended 30 June 2018. This includes US$7.0 million general and administrative costs (2018: US$7.3 million) and share-based payment compensation of US$0.8 million (2018: US$1.9 million). Share-based payments decreased by US$1.1 million from US$1.9 million in financial year 2018 due to fewer options being granted in the financial year 2019 and an increased number of options fully vested.

During the year, the Group incurred finance costs of US$4.4 million in relation to the Group's debt financing (2018: US$0.7 million). The current year finance costs mainly relate to the RK debt facility whereas the prior year cost relate to an unwinding of the discount on the Deutsche Lithium obligation. Finance income of US$1.9 million (2018: US$0.2 million) comprised a revaluation of the Group's financial warrants of US$1.7 million and interest on the Group's cash reserves of US$0.2 million. The increase year on year relates to the warrant revaluation which was not present in the prior year.

Deutsche Lithium GmbH, which holds the Zinnwald Lithium Project, had a US$0.4 million loss during the year, of which Bacanora Lithium's 50% share was US$0.2 million loss. The option to purchase the remaining 50% interest was extended by six months to February 2020. The option has been recognised as a derivative asset in the Consolidated Statement of Financial Position as it represents the option to acquire equity instruments at a future point in time. This derivative asset has been recorded at its fair value of US$0.2 million at 30 June 2019, down from US$0.6 million at 30 June 2018. The US$0.4 million write down on the option is a result of the unwinding of the time value of the option using the Black-Scholes option pricing model. The Company expressed its commitment to the Zinnwald Project in agreeing to fund Deutsche Lithium until the end of the option period in February 2020.

The total net assets of the Group decreased to US$32.4 million at 30 June 2019 from US$42.6 million at 30 June 2018, due primarily to the loss for the year offset by share-based payments, exercise of options and warrants. Property, plant and equipment, which includes evaluated mineral property, increased to US$29.8 million from US$26.4 million due to US$3.7 million additions, offset by US$0.2 million of depreciation charge and a US$0.1 million asset disposal. The investment in joint venture increased to US$9.3 million from US$8.4 million due to additional investments of US$1.1 million offset by a loss for the year attributable to the Group of US$0.2 million.

The Group has a cash balance of US$14.8 million at 30 June 2019, which increased by US$1.6 million from US$13.2 million in the prior year. During the year, the first tranche of the RK debt facility has been drawn down providing for a net cash inflow of US$20.9 million, after deduction of fees and transactions costs. This cash inflow has been partially offset by the cash used in the operations which amounted to US$8.9 million, property, plant and equipment and exploration and evaluation assets cash expenditures of US$8.3 million and funding Deutsche Lithium of US$2.4 million. Additional cash inflows include the exercise of warrants and share options of US$0.1 million, US$0.1 million asset disposal and interest income of US$0.2 million.

Financing

a **US$150 million RK Mine Finance debt facility**

In July 2018, a US$150 million senior debt facility was secured with RK Mine Finance for the development of the Sonora Lithium Project in Mexico. The debt facility entered into with RK Mine Finance is structured as two separate Eurobonds listed in Jersey:

- Main 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 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. The main bond is repaid with 12 quarterly payments payable 39 months after the last day of the month of first issuance date (3 July 2018). The quarterly payments comprise 11 payments of 3% of the principal amount followed by a last payment for the remaining balance. However, the loan can be voluntarily redeemed at any stage, subject to early repayment charges; and
- 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 facility may be drawn in three tranches of US$25 million, US$50 million and US$75 million, subject to certain conditions precedents, including, but not limited to: various matters in respect of the execution, registration and perfection of certain security, granting of listing consent by The International Stock Exchange, a minimum equity raise of US$200 million, energy and engineering contracts executed and relevant permits obtained. All drawdowns under the RK debt facility will be pro-rata across the two Eurobond instruments. In July 2018, the Company drew down the first US$25 million of the RK debt facility. Certain covenants have been introduced to the Group as discussed further in Note 10 of the Consolidated Financial Statements for further information on this and the debt facility in general.

Furthermore, the Company granted 6 million warrants exercisable over five years at a 20% premium to the 20-day VWAP, subject to normal anti-dilution provisions, cash settlement at the Company's option, and cashless exercise at either party's option.

b **Strategic investment from Ganfeng Lithium Co., Ltd.**

In June 2019, the Bacanora Group entered into investment and offtake agreements with Ganfeng Lithium Co., Ltd, where Ganfeng would:

- subscribe 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.
- appoint one Director to the Board of the Bacanora Lithium Plc
- acquire an initial 22.5% interest in the Sonora Lithium Limited, 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 the Sonora Lithium Limited 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.
- appoint one Director to the Board of the Sonora Lithium Limited
- acquire a long-term offtake at a market-based price per tonne for 50% of Stage 1 lithium production and up to 75% of Stage 2 lithium production
- complete a review within six months of the EPC engineering design and capital costs of the Sonora Lithium Project with a view to reducing costs and accelerating the timetable
- provide a plant and process commissioning team to assist Bacanora in delivering first production in 2021

The signed agreements for the strategic investment were submitted to the relevant authorities in China for approval and completion. The approvals were acquired post year end with the transaction completing in October 2019.

Prior to the investments by Ganfeng, the Group performed a reorganisation in which Sonora Lithium Limited purchased Bacanora Lithium Plc’s 100% shareholding in Bacanora Minerals Limited in order to create a single project holding company.

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 carbonate operation at the Sonora Lithium Project.

We continue to work towards fully funding the project and will update the market in the future.

On behalf of the Board of Directors

Janet Blas

Chief Financial Officer

19 October 2019

Governance

Directors and Senior Management

a **Board Composition**

As at 30 June 2019, the Board comprised one Executive Director, an Executive Chairman 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 NEDs 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. Further, the Company will voluntarily put its remuneration report for non-executive directors to shareholders at the next AGM to ensure that shareholders have an opportunity to endorse both remuneration and also assessment of independence.

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 senior Executives 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 bi-monthly 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 Board meetings attended in the 12 months to 30 June 2019 is set out below:

			2018						2019		
	2 Jul	9 Jul	1 Aug	29 Aug	12 Oct	13 Dec	17 Jan	7 Feb	2 Apr	16 May	24 Jun
Mark Hohnen	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Peter Secker	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Jamie Strauss	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Eileen Carr	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Derek Batorowski	✓	✓	✓	✓	✓	✓	✓	X	✓	✓	✓
Andres Antonius	X	X	✓	✓	✓	✓	✓	✓	✓	✓	✓
Junichi Tomono	X	✓	✓	✓	✓	✓	✓	X	X	✓	✓
Ray Hodgkinson	✓	✓	✓	✓	✓	n/a	n/a	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 year were Jamie Strauss and Ray Hodgkinson. Ray Hodgkinson stepped down as a Director at the 2018 AGM. Andres Antonius has been appointed to the Committee in July 2019. The Committee has unrestricted access to the Group's Auditor. The CFO is invited to attend Committee meetings.

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 mangement.

The Remuneration Committee is chaired by Jamie Strauss and its other members, who are all considered independent, were Andres Antonius and Ray Hodgkinson. Ray Hodgkinson stepped down as a Director at the 2018 AGM. Eileen Carr has been appointed to the Committee in July 2019.

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 meets annually in the period between the year end and the production of the Annual Report 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.

No new Directors joined the Board during the year to 30 June 2019. Ray Hodgkinson did not stand for re-election at the 2018 AGM and ceased to be a Director on 13 December 2018. Derek Batorowski resigned as Director on 12 September 2019. Mr. Wang Xiaoshen, the Deputy Chairman of Ganfeng Lithium was appointed to the Board on 18 October 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 Peter 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 Limited 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.

Dr 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 also held the role of coordinator for strategy of then President Elect Peña Nieto's transition team in 2012. 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.

Mr. 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 newly formed 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.

Mr. 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 Limited 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 – 12 September 2019)

Mr. Batorowski has over 20 years of experience in the oil and gas and mineral exploration industries. He is experienced in accounting, finance, corporate planning, treasury, and taxation with both public and private large and small oil and gas producers and small cap national and international mineral exploration companies. He currently acts as Chief Financial Officer for Blacksteel Energy Inc. Prior thereto, he was Chief Financial Officer of Westcore Energy Ltd. from March 2009 to June 2014 and Chief Financial Officer of Regal Energy Ltd. from July 2008 to March 2009. Since 1993, he has been an independent consultant to the oil and gas industry, having held various financial positions with junior private and public companies. Mr. Batorowski received his Business Administration Diploma from Mount Royal University in 1989. He has been a member of the Chartered Professional Accountants (CGA) of Alberta since 21 June 2000.

Raymond Hodgkinson, Non-Executive Director

Mr. Hodgkinson did not stand for re-election at the AGM and ceased to be a Director on 13 December 2018.

g Board Advice during the year

During the year, the Board did not commission any external advisers to provide specific assistance on any specific Board related matters.

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 Chair 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 Chair 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.

Audit Committee Report

On behalf of the Board, I am pleased to present this report covering the activities of the Audit Committee for the year ended 30 June 2019.

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 QCA statement on the website.

Audit Committee meetings are held at least twice a year the CFO is invited to attend together with the external auditor. During the year, four meetings of the Committee were held and the following significant issues were considered:

Significant issue	Summary of Significant Issue	Key Action Point
Critical judgement and estimates - Accounting for Eurobonds and Warrants	Classification of warrants as either equity or a financial liability and subsequent valuation using Black-Scholes and treatment of transaction costs relating to the Eurobonds.	Committee action: Consideration of IFRS9, external auditor opinion on common classification, calculation of BS volatility measures and consideration of legal agreements.
Accounting for Transactions - Accounting Standards	Adoption of IFRS9 " Financial Instruments", applied for periods beginning on or after 1 January, 2018; IFRS 15 "Revenue from contracts with customers", applied since 1 January, 2018. New standard, IFRS 16 "Leases" to be applied from 1 January 2019.	Committee action: Eurobonds and Warrants accounted for under IFRS9, otherwise no significant impact to the annual accounts
Critical Judgement and estimates - Impairment of Assets	Review of impairment indicators under IFRS6 and IAS36 resulted in no impairment required.	Committee action: Review of estimates prepared by management and holding meetings and discussions with the external auditor.
Going concern - Accounting basis of preparation	Based on detailed cash flow forecasts, whether it is prudent to account on a going concern basis.	Committee action: Detailed review and interrogation of cash flow forecasts prepared by management; review of scenario planning under different assumptions; consideration of availability of funds from external sources; review of banking covenants and waivers received.

All minutes of the Audit Committee meetings are circulated to the Board and a detailed presentation is given 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 FY2019. 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. Significant work had also been undertaken by BDO during their review of the Financial Statements for the interim report.

BDO has a significant presence in both Mexico (BDO Castillo Miranda) and Germany (BDO Germany Alliance) and used their local teams to undertake their field work and substantive testing on the Company's Mexican subsidiaries and German joint venture.

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 Germany and 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 has, during the year, installed a new and improved accounting system in Mexico. 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 and German 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 financial year ended 30 June 2019 was both effective and efficiently completed.

Fees

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

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 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 year, 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

19 October 2019

Remuneration Committee Report

On behalf of the Board, I am pleased to present the annual 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 year ended 30 June 2019.

Overall 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.

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.

The selected peer group, based on companies at a similar "developer" stage to Bacanora, approved by the Board of Directors, comprises Galaxy, Orocobre, Pilbara Minerals, Nemaska Lithium, Lithium Americas and Critical Elements.

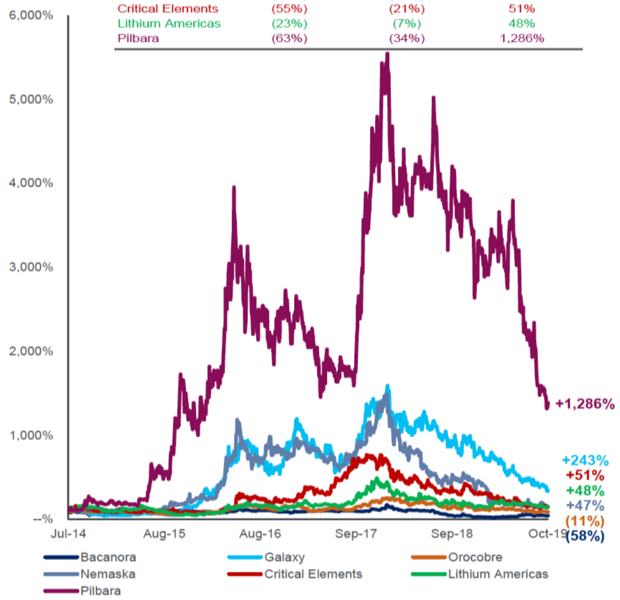
As per QCA Guidelines, the following tables show relative share price performance against each of this peer group and a consolidated index for the period since Bacanora first listed on AIM in July 2014. The second group of charts excludes Pilbara Minerals, due to the distortive effect of its share price movement.

Indexed peer group share price for the period since Bacanora originally listed on AIM in 2014.

BACANORA lithium

Bacanora vs Peer Set 1 (incl. Pilbara)

% Price Change	LTM	L3Y	Since July 2014
Bacanora	15%	(59%)	(58%)
Galaxy	(63%)	(43%)	243%
Orocobre	(40%)	(24%)	(11%)
Nemaska	(69%)	(81%)	47%
Critical Elements	(55%)	(21%)	51%
Lithium Americas	(23%)	(7%)	48%
Pilbara	(63%)	(34%)	1,286%



Bacanora vs Peer Set 1 (Index; incl. Pilbara)

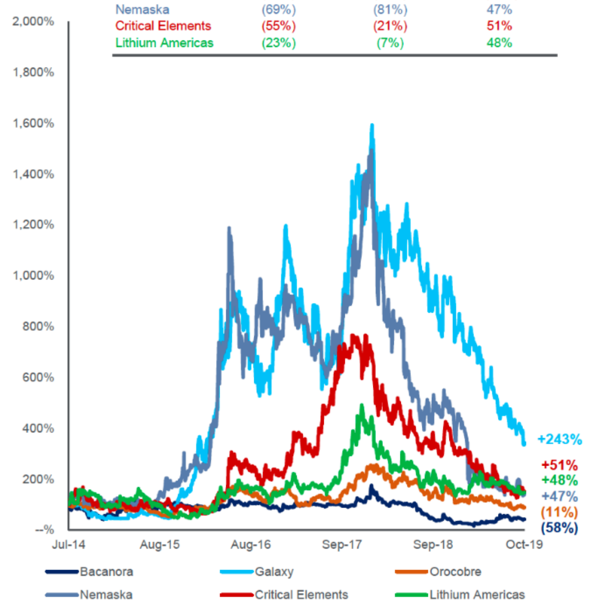
% Price Change	LTM	L3Y	Since July 2014
Bacanora	15%	(59%)	(58%)
Peer Set 1 Index (incl. Pilbara)	(52%)	(35%)	277%

Source: Company filings, FactSet. Market data as of 8 October 2019.
Note: (1) Since Bacanora IPO on 25th July 2014. Prices as of daily close.

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

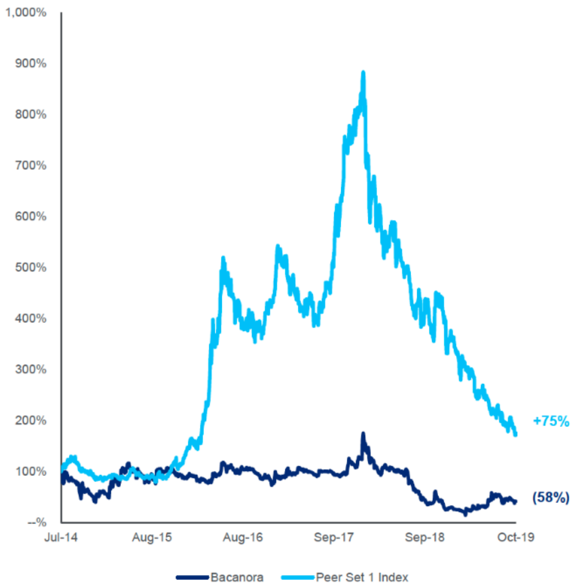
Bacanora vs Peer Set 1

% Price Change	LTM	L3Y	Since July 2014
Bacanora	15%	(59%)	(58%)
Galaxy	(63%)	(43%)	243%
Orocobre	(40%)	(24%)	(11%)
Nemaska	(69%)	(81%)	47%
Critical Elements	(55%)	(21%)	51%
Lithium Americas	(23%)	(7%)	48%



Bacanora vs Peer Set 1 (Index)

% Price Change	LTM	L3Y	Since July 2014
Bacanora	15%	(59%)	(58%)
Peer Set 1 Index	(50%)	(35%)	75%



Source: Company filings, FactSet. Market data as of 8 October 2019.
Note: (1) Since Bacanora IPO on 25th July 2014. Prices as of daily close.

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 equity incentive plan that may result in the award of Option and/or RSUs. These contracts do not include any variable elements in the form of cash bonuses. Through to the end of FY 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. Awarded Options generally vest at the rate of one-third each year, with the first vesting occurring immediately on grant and generally have an expiry life of three years from date of grant. RSUs vest after 3 years of grant.

Executive Director Service Contracts and Salaries:

Name	Mark Hohnen	Peter Secker
Role	Executive Chairman	CEO
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 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 financial year 2019 with comparative figures for 2018. The salaries above represent the contractual 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 and reviewable by the Company in December 2019.

Due to the extended close periods during the financial year 2019, Options and RSUs related to the financial year 2019 will be awarded post the publication of the 2019 Annual Report and Financial Statements based on the review of the Executive Directors and Senior Management performance as detailed below.

FY 2019 Review of Executive Directors and Senior Management

During the financial year, the Remuneration Committee met and;

- Reviewed and set salary levels of Executive Directors,
- 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.

The Remuneration Committee acknowledged many significant corporate targets were achieved during the financial year, such as the securing of US$150 million in debt funding and the cornerstone investment and offtake agreement agreed with world's largest lithium producer, Ganfeng Lithium.

For the financial year to June 2019, it was decided by the Remuneration Committee that for both CEO and Chairman the year would be split into two halves in order to focus on specific short term goals critical to the Company's strategic plans. Other Senior Management had scorecards based on the full year.

In January 2019, the Remuneration Committee met to discuss the first half of the financial year with regards bonus awards for the CEO and Chairman – while it was acknowledged that significant effort had been given to the agreed upon strategy, none of the KPI's had been met and no bonus would be paid. The Remuneration Committee also agreed a new scorecard for both CEO and Chairman which related principally to the financing of the Sonora Project, securing a strategic investor into the Company and/or Project, commencing development of Sonora along with other milestones relating to ESG related items and corporate budget.

The Remuneration Committee met in July and September 2019 to evaluate CEO and Chairman scorecards for second half of the financial year as well as the full financial year for the balance of the Senior Management.

Awards for Senior Management excluding the Executive Chairman and CEO for the financial year 2019 will be recommended by the Remuneration Committee to the Board based on achieving an average 73% of target. Awards for the second half of financial year 2019 will be recommended by the Committee to the Board for the Executive Chairman and CEO, based on average 64.6% of target.

The actual number of Options and RSUs to be awarded in relation to the financial year 2019 will be determined after the Company exits its closed period with the publication of these accounts and with regards the CEO and Chairman awards, they were subject to the closing of the Ganfeng transaction.

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 £35,000, £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
Derek Batorowski	Basic Fee of US$96,000	3 Years	1 Month
Junichi Tomono	Nil Fees	3 Years	1 Month

For details of Non-Executive Directors emoluments, please refer to Note 19 for the dollarised total remuneration for the Directors in the financial year 2019 with comparative figures for 2018. The salaries above represent the contractual base salaries.

The Board and the Committee recognise that the provision of Options/RSU's to Non-Executive Directors requires transparency and explanation in order to satisfy its requirements under the QCA code. 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. The Board is aware that this issue should be resolved according to UK best practice and have decided to withhold any award through to June 2019 until an independent compensation review has been conducted.

Jamie Strauss

Chairman of the Remuneration Committee

19 October 2019

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, Half-Yearly and Quarterly 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 Annual General Meeting ("AGM") is held in London following the publication of its annual results and all shareholders are invited to attend. Bacanora included in the 2018 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.

Over the last 12 months, the Company has had increased contact with both current and prospective institutional shareholders as part of the fund-raise process for the Sonora Lithium Project.

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, St Brides Partners, to facilitate engagement with its shareholders.

Following its move to the UK, the Company has now instituted a regular shareholder conference call by the CEO, whereby shareholders are encouraged to submit questions in advance to the Company's PR Advisers, St Brides Partners. 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 Broker. 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 year ended 30 June 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 year were:

- Mark Hohnen
- Peter Secker
- Jamie Strauss
- Andres Antonius
- Junichi Tomono
- Eileen Carr
- Derek Batorowski (resigned 12 September 2019)
- Ray Hodgkinson (resigned 13 December 2018)

c **Directors' interests**

The Directors' interests in the share capital of the Company as at 30 June 2019 are as follows:

Director	No of Shares	% of Issued Share Capital
Mark Hohnen	2,514,951	1.9%
Peter Secker	-	0.0%
Jamie Strauss	102,857	0.1%
Derek Batorowski	573,400	0.4%
Andres Antonius	-	0.0%
Junichi Tomono	-	0.0%
Eileen Carr	-	0.0%
Total	3,191,208	2.4%

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 30 June 2019.

Major Shareholder	No of Shares	% of Issued Share Capital
M&G Investments Funds	13,456,784	10.0%
Hanwa Co Ltd	12,333,261	9.2%
Igneous Capital Limited (2)	9,883,774	7.4%
The Capital Group	6,438,925	4.8%
D&A Income Limited (2)	4,738,030	3.5%

(2)Igneous Capital Limited 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 Limited.

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 30 June 2019.

k Future developments

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

l Auditor

BDO LLP were appointed as auditor to the Company and in accordance with section 485 of the Companies Act 2006, a resolution proposing that they be re-appointed will be put at a General Meeting.

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

19 October 2019

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;
- 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.

Corporate Governance Report

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 first QCA statement on 28 September 2018.

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 website[32] and has been translated into Spanish for use in our operations in Mexico.

[32] https://www.bacanoralithium.com/cms/wp-content/uploads/2018/09/Bacanora-Lithium-QCA-statement.pdf

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 year ended 30 June 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 30 June 2019 and of the Group's loss for the year 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	**Carrying value of evaluated mineral property** As at 30 June 2019 the Group's evaluated mineral property totalled US$25.4 million. The details of these assets are disclosed in note 7. 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 4b, 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.

Audit Response	Our audit work included:
	• We have assessed management's impairment review and our procedures included the following :
	  ○ We have reviewed the feasibility study prepared by 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.
	• We evaluated the adequacy of the disclosures provided within the Financial Statements in relation to impairment assessment against the requirements of the accounting standards.

Key observations	Based on our work we agree with management's assessment of the carrying value of the Group's evaluated mineral property.

Key Audit Matter	**Accounting for the Eurobonds and associated warrants** In July 2018 the Group secured a US$150 million borrowing facility with RK Mine Finance and drew down on the first tranche of US$25 million during the year. The facility is structured as two separate Eurobonds which are listed on the International Stock Exchange. The group also granted 6 million warrants to the lender which are required to be fair valued. The details of these liabilities are provided in notes 10 and 11. Due to the complexity of the debt structure and the requirement to fair value the warrants these matters were identified as a key audit area for our audit.

Audit Response	Our audit work included:
	• We have assessed management's accounting for the loans and warrants and our testing included the following work:
	  ○ We have challenged management's assessment of the classification of the warrants in accordance with the accounting standards.
	  ○ We have reviewed management's assessment of the warrant valuation using the Black-Scholes model and challenged the key inputs including share price, volatility and term.
	  ○ We have checked the accuracy of the amortised cost of the bonds, confirming the inputs to underlying agreements, assessed the reasonableness of the effective interest rate and finance charges and also considered the reasonableness of the allocation of the proceeds and transaction costs between the two bonds.
	• We evaluated the adequacy of the disclosures provided within the Financial Statements in relation to presentation and classification of the debt and warrants.

Key observations	Based on the work performed we consider that management's calculation of the loan carrying value, finance charges and warrant valuations are reasonable and adequately disclosed.

Key Audit Matter	**Carrying value of the investment in a joint venture** The Group holds a 50% investment in Deutsche Lithium GmbH, an entity involved in the exploration of a Lithium deposit in Germany. During the year the Group have continued to provide funding to the project and in May 2019 the feasibility study for the Zinnwald Lithium Project was completed. Its carrying value at 30 June 2019 is £9.4m and details are provided in note 6. 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 notes 4e and f and given the subjectivity of these judgements and estimates, this was assessed to be a key area of focus for our audit work.
Audit Response	Our audit work included: We have assessed management's consideration of the carrying value of the investment and have performed the following work: • 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. • We have confirmed the Group's contributions to the project with the contractual arrangements. • We have considered the option to purchase the remaining 50% of the investment, and the joint venture partners SolarWorld's right to acquire the asset for a nominal amount if the option is not exercised and challenged management on their planned approach to completing the transaction. • We have considered management's estimate of the market value of the investment. • We evaluated the adequacy of the disclosures provided within the Financial Statements in relation to the carrying value of the investments.
Key observations	Based on the work performed we concur with management's assessment regarding the carrying value of the investment.

Our application of materiality

Group materiality was US$860,000 (2018: US$760,000) based on 1.5% of total assets.

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.

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 80% of Group materiality at US$690,000 (2018: US$610,000). Component materiality ranged from US$160,000 to US$690,000.

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 US$645,000 (2018: US$570,000) at a Group level, and US$520,000 (2018: US$460,000) 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 US$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, Bacanora Minerals Limited and Minera Sonora Borax, S.A de CV, and Bacanora Finco Limited. 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.

In addition, specific audit procedures in respect of the joint venture, Deutsche Lithium GmbH were performed by BDO Germany in accordance with specific instructions and procedures issued by BDO LLP and under the direction of the group audit team.

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 year 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.

BDO LLP

Stuart Barnsdall (Senior Statutory Auditor)
For and on behalf of BDO LLP Statutory Auditor
London, UK

19 October 2019

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

Consolidated Statement of Financial Position

As at 30 June 2019

In US$	Note	30 June 2019	30 June 2018
Assets			
Current assets			
Cash and cash equivalents		**14,763,706**	13,203,052
Other receivables and prepayments	5	**2,404,304**	1,472,120
Derivative asset	6c	**193,902**	-
Total current assets		**17,361,912**	14,675,172
Non-current assets			
Investment in joint venture	6a	**9,347,086**	8,426,134
Derivative asset	6c	**-**	615,011
Property, plant and equipment	7	**29,806,113**	26,391,422
Exploration and evaluation assets	8	**523,947**	502,947
Total non-current assets		**39,677,146**	35,935,514
Total assets		**57,039,058**	50,610,686
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	9	**1,474,543**	6,383,830
Joint venture obligation	6b	**237,105**	1,591,652
Total current liabilities		**1,711,648**	7,975,482
Non-current liabilities			
Borrowings	10	**21,622,167**	-
Warrant liability	11	**1,259,923**	-
Total non-current liabilities		**22,882,090**	-
Total liabilities		**24,593,738**	7,975,482
Shareholders' equity			
Share capital	14	**18,996,790**	18,958,033
Share premium	14	**153,366**	140,592
Merger reserve	14	**53,557,251**	53,557,251
Share-based payment reserve	14	**5,417,193**	6,138,085
Foreign currency translation reserve		**3,568,358**	3,568,358
Retained earnings		**(48,539,746)**	(39,029,014)
Equity attributable to equity shareholders of Bacanora Lithium Plc.		**33,153,212**	43,333,305
Non-controlling interest		**(707,892)**	(698,101)
Total shareholders' equity		**32,445,320**	42,635,204
Total liabilities and shareholders' equity		**57,039,058**	50,610,686

The accompanying notes on pages 58 - 92 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 19 October 2019 and were signed on its behalf by:

Mark Hohnen

19 October 2019

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2019

In US$	Note	30 June 2019	30 June 2018
Expenses			
General and administrative	16	**(7,041,319)**	(7,327,651)
Depreciation	7	**(163,581)**	(149,724)
Share-based payment expense	14	**(800,846)**	(1,877,095)
Foreign exchange gain		**17,581**	(763,278)
Impairment of exploration and evaluation assets	8	-	(559,468)
Operating loss		**(7,988,165)**	(10,677,216)
Finance and other income	17	**1,919,124**	212,678
Finance costs	17	**(4,423,032)**	(662,299)
Joint venture investment loss	6a	**(168,679)**	(147,403)
Revaluation of derivative asset	6c	**(421,698)**	(1,521,046)
Gain/(loss) on fixed asset disposals		**28,702**	(51,119)
Loss before tax		**(11,053,748)**	(12,846,405)
Tax charge	15	**(5,012)**	60,544
Loss after tax		**(11,058,760)**	(12,785,861)
Other comprehensive income			
Foreign currency translation adjustment		-	886,679
Total comprehensive loss		**(11,058,760)**	(11,899,182)
Loss attributable to shareholders of Bacanora Lithium Plc		**(11,048,969)**	(12,731,306)
Loss attributable to non-controlling interests		**(9,791)**	(54,555)
Loss after tax		**(11,058,760)**	(12,785,861)
Total comprehensive loss attributable to shareholders of Bacanora Lithium Plc		**(11,048,969)**	(11,844,627)
Total comprehensive loss attributable to non-controlling interests		**(9,791)**	(54,555)
Total comprehensive loss		**(11,058,760)**	(11,899,182)
Net loss per share (basic and diluted)	14	**(0.08)**	(0.09)

The accompanying notes on pages 58 - 92 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2019

In US$	Share capital: Number of shares	Share capital: Value	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
30 June 2017	131,906,539	70,268,394	-	-	5,042,706	2,681,679	(26,297,708)	51,695,071	(643,546)	51,051,525
Comprehensive income for the year:										
Loss for the year	-	-	-	-	-	-	(12,731,306)	(12,731,306)	(54,555)	(12,785,861)
Foreign currency translation adjustment	-	-	-	-	-	886,679	-	886,679	-	886,679
Total comprehensive loss	-	-	-	-	-	886,679	(12,731,306)	(11,844,627)	(54,555)	(11,899,182)
Contributions by and distributions to owners:										
Shares issued on exercise of options	1,425,000	1,944,576	140,592	-	(781,716)	-	-	1,303,452	-	1,303,452
Shares issued on exercise of warrants	833,333	302,314	-	-	-	-	-	302,314	-	302,314
Corporate reorganisation	-	(53,557,251)	-	53,557,251	-	-	-	-	-	-
Share-based payment expense	-	-	-	-	1,877,095	-	-	1,877,095	-	1,877,095
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	**300,000**	**38,757**	**12,774**	**-**	**(60,950)**	**-**	**77,449**	**68,030**	**-**	**68,030**
Lapsed option charge	**-**	**-**	**-**	**-**	**(1,460,788)**	**-**	**1,460,788**	**-**	**-**	**-**
Share-based payment expense	**-**	**-**	**-**	**-**	**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**

The accompanying notes on pages 58 - 92 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2019

In US$	Note	30 June 2019	30 June 2018
Cash flows from operating activities			
Loss for the year before tax		**(11,053,748)**	(12,846,405)
Adjustments for:			
Depreciation of property, plant and equipment	7	**163,581**	149,724
Share-based payment expense	14	**800,846**	1,877,095
Foreign exchange		**66,931**	763,278
Impairment of exploration & evaluation assets	8	**-**	559,468
Finance and other income	17	**(1,919,124)**	(198,810)
Finance costs	17	**4,423,032**	662,299
Loss on investment in joint venture	6a	**168,679**	147,403
Revaluation of derivative asset	6c	**421,698**	1,521,046
(Gain)/Loss on disposal of PPE		**(28,702)**	51,119
Changes in working capital items:			
Other receivables		**(844,708)**	(932,379)
Accounts payable and accrued liabilities		**(1,108,972)**	1,758,497
Income tax paid		**(5,012)**	(42,070)
Net cash used in operating activities		**(8,915,499)**	(6,529,735)
	-		
Cash flows from investing activities:			
Interest received		**249,422**	198,810
Purchase of property, plant and equipment		**(8,262,991)**	(5,079,681)
Purchase of exploration & evaluation assets	8	**(21,000)**	(2,774,255)
Proceeds on disposal of property, plant and equipment		**119,759**	-
Payments to the joint venture	6a/b	**(2,421,090)**	(4,177,381)
Net cash used in investing activities		**(10,335,900)**	(11,832,507)
Cash flows from financing activities			
Proceeds from borrowing, net of fees	10	**20,875,000**	-
Exercise of options	14	**68,501**	1,303,452
Exercise of warrants		**-**	302,314
Net cash flows from financing activities		**20,943,501**	1,605,766
Change in cash and cash equivalents during the year		**1,692,102**	(16,756,476)
Exchange rate effects		**(131,448)**	69,675
Cash and cash equivalents, beginning of year		**13,203,052**	29,889,853
Cash and cash equivalents, end of year		**14,763,706**	13,203,052

The accompanying notes on pages 58 – 92 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.

On 12 December 2017, the Group announced the results of the feasibility study for the Sonora Lithium Project in Mexico. The feasibility study confirmed the positive economics and favourable operating costs of a 35,000tpa 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 4b.

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 NPV8) of €428 million, an IRR 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 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.

The Annual Consolidated Financial Statements were authorised for issue by the Board of Directors on 19 October 2019. The Board of Directors has the power and authority to amend these Financial Statements after they have been issued.

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 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 the Zinnwald Lithium Project, the total commitments entered into by the Company in relation to the extended option period amounts to US$0.4 million. In addition, as explained in note 22, since year end, the Group has received additional equity funding of £22 million. Thus, the going concern basis of accounting in preparing the Financial Statements continues to be adopted.

3 Significant accounting polices

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 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 30 June 2019:

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

*Held indirectly through Bacanora Minerals Ltd

** Held indirectly though Mineramex Limited and Bacanora Minerals Ltd

***Held indirectly though Sonora Lithium 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.

On 28 May 2019, Bacanora Minerals Ltd and SolarWorld AG agreed to novate Bacanora Minerals Ltd's 50% in Deutsche Lithium to Bacanora Lithium Plc. For further details of the novation see Note 6.

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).

b New accounting standards adopted

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

Standard	Detail	Effective date
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 2	Amendment – classification and measurement of share-based payment transactions	1 January 2018

i) IFRS 9, Financial instruments

IFRS 9 provides a comprehensive new standard for accounting for all aspects of financial instruments. The focus is on three main areas:

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value and replaces the multiple category and measurement models in IAS 39. The approach in IFRS 9 focuses on how an entity manages its financial instruments in the context of its business model, as well as the contractual cash flow characteristics of the financial assets.

The new standard replaces incurred loss model for impairment under IAS 39 with a forward looking expected credit loss model.

Although the classification criteria for financial liabilities did not change under IFRS 9, the fair value option requires different accounting for changes to the fair value of a financial liability resulting from changes to an entity's own credit risk.

New hedge accounting requirements were incorporated into IFRS 9 that increase the scope of items that can qualify as a hedged item and change the requirements of hedge effectiveness testing that must be met to use hedge accounting. The Group has no hedging arrangements.

On 1 July 2018, the Group adopted IFRS 9. The new standard has been applied retrospectively but did not result in a restatement of prior period financial assets and liabilities. An impairment review using IFRS 9's expected credit loss model did not result in an impairment provision.

ii) IFRS 15, Revenue from contracts with customers

IFRS 15 provides a single model to determine how and when an entity should recognise revenue, as well as requiring entities to provide more informative, relevant disclosures in respect to its revenue recognition criteria.

On 1 July 2018, the Group adopted IFRS 15. The new standard had no impact on prior period financial assets and liabilities.

c Standards, amendments and interpretations effective in future periods

At the date of authorisation of these 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 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
IAS 1	Amendment - regarding the definition of material	1 January 2020

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. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's Financial Statements are provided below.

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 will change substantially under this new standard while there is little change for the lessor. IFRS 16 eliminates the classification of leases as either operating leases or financing leases and, instead, introduces a single lessee accounting model. A lessee will be 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 will be required to present depreciation of leased assets separately from interest on lease liabilities in the Consolidated Statement of Comprehensive Income. A lessor will continue to classify its leases as operating leases or financing leases, and to account for those two types of leases separately.

IFRS 16 is effective for fiscal periods beginning on or after 1 January 2019. The Group is in the process of evaluating the impact of IFRS 16. However given the Group currently has no significant lease agreements in place, the impact of IFRS 16 is expected to be limited.

d **Change of functional currency**

On 23 March 2018 Bacanora Minerals Ltd became a subsidiary of Bacanora Lithium Plc through the corporate reorganisation. This moved corporate expenditure to Bacanora Lithium Plc and on 3 July 2018 Bacanora Lithium Plc raised US$150 million in debt financing, removing the requirement for Bacanora Minerals Ltd to provide funding for corporate expenses. As a result, Bacanora Minerals Ltd's primary purpose moved to providing funding to its subsidiaries and thus the functional currency of its principal operating environment had permanently changed to US$. Effective from 1 July 2018, Management, under guidance from IAS 21, have determined that Bacanora Minerals Ltd's functional currency has changed to US$.

e **Foreign currency transactions and balances**

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.

f **Cash and cash equivalents**

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

g **Other receivables**

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

h **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, less dividends received 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.

i **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".

j **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 a 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.

v) 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 year ended 30 June 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.

- **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 its 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 year 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 accounts.

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 Group'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. 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 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 the 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, 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.

b **Property, plant and equipment**

The estimates and judgements pertaining to property, plant and equipment falls into two categories; 1) Non-critical judgements and estimates relating to; land, buildings, machinery, office equipment and transportation. These are classified in this way due to their standard treatment and materiality; and 2) Critical, which comprises evaluated mining 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 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 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.

c **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.

d **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, and the expected life of the share options and restricted share units. Any changes in these assumptions could have a material impact on the share-based payment calculation value. See note 14g 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.

e **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.

f Derivative asset

The Group's joint venture arrangement with SolarWorld AG stated above gives 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 Euros (herein referred to as the "Option"). This Option is available to the Group within 6 months of the earlier of the completion of the Feasibility Study or the second anniversary of the agreement (the "Option Period"). The Option Period was triggered on the 17 February 2019, being the second anniversary of the agreement. On 28 May 2019, as part of the supplemental agreement to the joint venture agreement, it was agreed between both parties to extend the Option Period for 6 months, to the 17 February 2020. If the option is not exercised, Solarworld AG has option to purchase Bacanora's 50% for 1 Euro.

The Group used judgement to determine the fair value of this Option using the Black-Scholes option pricing model. The Group re-assesses its inputs and other factors to determine change in the valuation of the Option at each event date and reporting period. Any changes in the assumptions could have a material impact on the Option value. The Deutsche Lithium feasibility study was released on 5 June 2019, the impact of this on the option has been incorporated into the option valuation. Refer to note 6 regarding inputs used and sensitivity analysis of judgements applied.

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$	30 June 2019	30 June 2018
Other receivables	**1,375,886**	640,701
Prepayments and deposits	**1,028,418**	831,419
Total	**2,404,304**	1,472,120

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 Alterberg-Zinnwald region of the Eastern Ore Mountains in Germany. 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 dollars	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 dollars	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 Solarworld. It was agreed that:

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

During the year, the original €5 million obligation for funding the feasibility study was fully paid by Bacanora to Deutsche Lithium. Further funding of US$1,089,631 was provided by Bacanora in the year, of which US$852,526 was made by Bacanora prior to the supplemental agreement and US$237,105 is payable by Bacanora under the supplemental agreement at year end.

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

In US$	**Joint venture investment**
30 June 2017	8,418,518
Joint venture investment loss	(147,403)
Translation gain	155,019
30 June 2018	8,426,134
Joint venture investment loss	**(168,679)**
Additional investment	**1,089,631**
30 June 2019	**9,347,086**

Summarised financial information in respect of the Group's joint venture in Deutsche Lithium is set out below. 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$	**30 June 2019**	30 June 2018
Cash and cash equivalents	**132,071**	1,423,330
Current assets including cash and cash equivalents	**184,095**	1,508,791
Non-current assets	**27,291,419**	24,182,266
Current liabilities	**(4,438,664)**	(4,582,873)
Depreciation	**10,407**	9,303
Loss from continuing operations	**(127,690)**	(294,806)
Other comprehensive income	**-**	(37,811)
Total comprehensive income	**(127,690)**	(332,618)

b Deutsche Lithium obligation

The Group's undertaking to contribute up to €5 million toward the costs of completion of a feasibility study within 18-24 months from acquisition was recorded initially as a liability in the Consolidated Statement of Financial Position, presented in accordance with its due date, between current and non-current portions. The Group used a discounted cash flow method with 20% discount rate to determine the present value of the obligation on initial recognition. The discount is now fully accreted.

As part of the supplemental agreement, discussed in note 6a, Bacanora agreed to further fund the joint venture until the end of the Option Period in February 2020, for a total of €543,221. Of this amount €210,000 was payable at year end, of which €175,000 was paid post year end. The remaining €333,221 is committed prior to February 2020.

The movement in the obligation is detailed below:

In US$	Joint venture liability
30 June 2017	(4,937,882)
Payments of joint venture obligation	4,177,381
Accretion of joint venture obligation	(662,299)
Foreign exchange	(168,852)
30 June 2018	(1,591,652)
Payments of joint venture obligation	**1,568,565**
Foreign exchange gain	**23,087**
Supplemental agreement obligation	**(237,105)**
30 June 2019	**(237,105)**

c Derivative asset - Deutsche Lithium option

The Group, alone or together with any reasonably acceptable third party, has the Option to acquire the remaining 50% of the jointly controlled entity for €30 million, this Option originally was due to terminate in August 2019. As part of the supplemental agreement, discussed in note 6a, it was agreed that the Option exercise period be extended for six months to February 2020. In the event that the Group does not exercise this right prior to the termination date, SolarWorld has the right but not the obligation to purchase the Group's 50% interest for €1.

The Option to purchase the remaining 50% interest has been recognised as a derivative asset in the Consolidated Statement of Financial Position as it represents the option to acquire equity instruments at a future point in time. This derivative asset has been recorded at its fair value of US$193,902 (2018 – US$615,011). During the year, the derivative asset has been classified from long-term to short-term due to its realisation being in February 2020. The fair value was determined using the Black-Scholes option pricing model with the following inputs:

	30 June 2019	30 June 2018
Term	**0.64**	1.08
Share Price (€)	**8,614,053**	5,100,000
Exercise Price (€)	**30,000,000**	30,000,000
Volatility	**88%**	124%
Risk Free rate	**2%**	2%

The movement in the fair value of the derivative is due to the passage of time. The increase in share price and reduction in volatility are driven by the published feasibility study on 5 June 2019 which determines the economic feasibility of the asset and reduced the inherent risk of the project.

A 10% increase in volatility equates to an increase in the value of the derivative of US$116,638 to US$310,540. A 10% decrease in volatility equates to a decrease in the value of US$86,822 to US$107,080.

A 10% increase in share price equates to an increase in the value of the derivative of US$89,076 to US$282,978. A 10% decrease in share price equates to a decrease in the value of US$68,385 to US$125,517.

7 Property, plant and equipment

a Sonora Lithium Project

The Group owns ten contiguous mineral concessions in Sonora, Mexico. The Company through its wholly-owned Mexican subsidiary, MSB, has a 100% interest in two of these concessions: La Ventana and La Ventana 1, covering 1,820 hectares. Of the remaining concessions, five are owned 100% by Mexilit - El Sauz, El Sauz 1, El Sauz 2, Fleur and Fleur 1 covering 6,334 hectares. Mexilit is owned 70% by the Group and 30% by Cadence Minerals Plc ("Cadence") formerly known as Rare Earth Minerals Plc. These seven concessions form the "Sonora Lithium Project" covered by the technical Feasibility Study released in the prior year.

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/t Li2CO3. Thus, there is no impairment for these mining assets as the combined value of the exploration and evaluation assets only totalled US$16,918,190, giving significant headroom. As a result, these costs were transferred to evaluated mining property.

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 and enforceability 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. Both sides have continued to provide evidence as part of the process. There is expected to be a hearing later in 2019. 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	Evaluated mineral property	Land	Buildings	Plant and machinery	Office furniture and equipment	Transportation	Total
30 June 2017	-	195,614	893,881	711,194	259,697	146,142	2,206,528
Additions	5,906,000	2,800,000	116,136	26,072	12,479	-	8,860,687
Disposals	-	-	(35,768)	-	-	(25,408)	(61,176)
Transfers from exploration and evaluation assets	16,029,716	-	-	-	-	-	16,029,716
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**

Depreciation							
30 June 2017	-	-	144,103	197,634	64,110	98,819	504,666
Charge for the year	-	-	41,393	63,926	26,950	17,455	149,724
Disposals	-	-	-	-	-	(10,057)	(10,057)
30 June 2018	-	-	185,496	261,560	91,060	106,217	644,333
Charge for the year	**-**	**-**	**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**

Net Book Value							
30 June 2017	-	195,614	749,778	513,560	195,587	47,323	1,701,862
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**

8 Exploration and evaluation assets

The balance of investment in exploration and evaluation assets as of 30 June 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$	Magdalena Borate	La Ventana Lithium	Mexilit Lithium	Megalit Lithium	Total
30 June 2017	500,000	10,451,151	2,879,169	487,556	14,317,876
Additions	30,745	2,711,774	16,345	15,391	2,774,255
Impairment loss	(530,745)	(28,723)	-	-	(559,468)
Transfer to PPE	-	(13,134,202)	(2,895,514)	-	(16,029,716)
30 June 2018	-	-	-	502,947	502,947
Additions	**-**	**-**	**-**	**21,000**	**21,000**
30 June 2019	**-**	**-**	**-**	**523,947**	**523,947**

Specific descriptions of such 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 past Chairman of the Group on sales of borate produced from this property.

During the year ended 30 June 2018, the Group determined there to be indicators of impairment on the exploration and evaluation assets located in the Magdalena Borate property based on the Group's decision to not further explore borates or be able to find a buyer for the asset. As such, the Group recognised an impairment of US$530,745, to reduce the carrying value to nil.

During the year ended 30 June 2019, management have no evidence to write back any of the impairments to date.

b Sonora Lithium Project (La Ventana Lithium and Mexilit Lithium)

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, when the technical feasibility and commercial viability of extracting a mineral resource becomes demonstrable, the asset falls outside the scope of IFRS 6 and therefore the project assets were reclassified to property, plant and equipment.

c 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 Company and Cadence. As at 31 December 2019, Buenavista, Megalit and San Gabriel concessions were owned by Megalit. Megalit is owned 70% by the Group and 30% by Cadence.

9 Accounts payable and accrued liabilities

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

In US$	30 June 2019	30 June 2018
Trade payables	**602,708**	4,028,738
Accrued liabilities	**774,574**	2,060,934

Other payables	**97,261**	294,158
Total	**1,474,543**	6,383,830

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 and relevant permits obtained. 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 RK debt facility has a financial covenant to maintain a minimum working capital balance of US$10 million measured monthly for a period 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 non-financial covenants, including but not limited to the completion of certain operational permits and entering into a direct agreement in relation to the offtake agreement, which were due on 30 June 2019. The due dates for these covenants were predicated on construction commencing in July 2018, when it was anticipated that the full financing for the Sonora Project development to have been completed. The Company received extension of these due dates to 30 September 2019, and subsequently converted these covenants to conditions precedent to the second drawdown of the debt facility.

The effective interest rate of the primary and secondary Eurobonds is 22.4% and 23.4% respectively.

The carrying value of the Group's borrowings at 30 June 2019 is as follows:

In US$	Interest rate	Maturity	30 June 2019	30 June 2018
Primary Eurobond	LIBOR + 8%	2024	**19,418,800**	-
Secondary Eurobond	Zero interest bearing	2038	**2,203,367**	-
Total non-current borrowings			**21,622,167**	-

The movement in the Group's borrowings in the year ended 30 June 2019 is as follows:

In US$	Primary Eurobond	Secondary Eurobond
Opening balance	-	-
Initial recognition	20,304,746	1,765,630
Transaction fees	(4,871,235)	-
Primary Eurobond finance cost	2,768,480	-
Eurobond unwinding	1,216,809	437,737
Total non-current borrowings	19,418,800	2,203,367

11 Financial Warrants

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 current liability, at their level 3 hierarchy fair value on 3 July 2018 of US$2.9 million and subsequently revalued on 30 June 2019, determined using the Black-Scholes pricing model with the following inputs. Expected volatility was 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.

	30 June 2019	03 July 2018
Term	**4.01**	5.00
Share Price (£)	**0.50**	0.83
Exercise Price (£)	**0.99**	0.99
Volatility	**0.65**	0.54
Risk Free rate	**0.02**	0.03

12 Financial instruments

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

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	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)**

As at 30 June 2018 (In US$)	At amortised cost	At fair value through profit or loss	Total
Financial assets			
Derivative asset	-	615,011	615,011
Cash and cash equivalents	13,203,052	-	13,203,052
Other receivables and prepayments	1,472,120	-	1,472,120
Total financial assets	14,675,172	615,011	15,290,183
Financial liabilities			
Accounts payable and accrued liabilities	6,383,830	-	6,383,830
Joint venture obligation	1,591,652	-	1,591,652
Total financial liabilities	7,975,482	-	7,975,482
Net financial assets/(liabilities)	6,699,690	615,011	7,314,701

13 Financial risk management

The Group is exposed to risks that arise from its use of financial instruments. The principle financial instruments used by the Group, from which financial risk arises, are set out in note 12. The types of risk exposure the Group is subjected to in the financial year 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 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.

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 30 June 2019, US$975,293 (2018 - US$997,935) of the Group's cash is restricted 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 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*	-	-	-	-

As at 30 June 2018 (In US$)	Within 30 days	30 days to 6 months	6 to 12 months	Over 12 months
Accounts payable and accrued liabilities	5,083,830	-	-	1,300,000
Joint venture obligation	982,297	609,355	-	-

*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 US dollars, Great British Pound, Euros and Mexican pesos and are therefore subject to fluctuation in exchange rates.

As at 30 June 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 derivative asset and warrant liability are disclosed in notes 6c and 11, respectively.

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, of US$27,736,019 (2018 - US$37,195,220). 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 2017	**131,906,539**	**70,268,394**	**-**
Shares issued on exercise of options	1,425,000	1,944,576	140,592
Shares issued on exercise of warrants (1)	833,333	302,314	-
Corporate reorganisation (2)	-	(53,557,251)	-
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**

(1) On 28 September 2017, the Company issued 833,333 new common shares in pursuant to the exercise of the remaining Warrants that were issued as part of the fund-raising in March 2013 at CAD$0.45 (28p) each.

(2) On 23 March 2018, the Company executed a Plan of Arrangement to re-domicile the Group from Canada to the UK. Accordingly, 134,039,872 ordinary shares of 10p each in the capital of Bacanora Lithium Plc were admitted to trading on AIM. All existing shareholders of Bacanora Minerals Ltd were issued shares in Bacanora Lithium Plc in a one for one share exchange. Through merger relief adoption per the Companies Act a merger reserve has been created to account for the difference in share capital issued in Bacanora Lithium Plc and the net assets acquired. In addition, using common control business acquisition accounting, all assets and liabilities have been consolidated at existing carrying values with the difference being recognised in the merger reserve.

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 year ended 30 June 2019:

	Number of options	Weighted average exercise price (£)
30 June 2017	7,937,400	0.81
Exercised	(1,425,000)	0.67
Expired	(500,000)	0.85
Issued	2,539,910	0.81

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**

Grant date	Number outstanding at 30 June 2019	Exercise price (£)	Weighted average remaining contractual life (Years)	Expiry date	Number exercisable at 30 June 2019
02 December 2015	800,000	0.78	1.43	02 December 2020	800,000
27 April 2016	1,000,000	0.96	0.31	21 October 2019	1,000,000
01 March 2017	350,000	0.85	2.67	01 March 2022	350,000
01 March 2017	1,687,400	0.85	0.67	01 March 2020	1,687,400
15 May 2017	500,000	0.87	0.88	15 May 2020	42,870
20 September 2017	2,127,410	0.80	1.22	19 September 2020	1,418,273
18 April 2018	312,500	0.90	1.80	17 April 2021	208,333
06 September 2018*	432,729	0.39	2.19	05 September 2021	144,243
	7,210,039				5,651,119

* Options granted in the year on 06 September 2018 were valued using the Black-Scholes method with a volatility of 54.73%, calculated using Bacanora's historic share price, option term of 3 years, a risk free interest rate of 3% 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 year ended 30 June 2019:

	Number of units	Weighted average exercise price (£)
30 June 2017	-	-
Issued	1,192,277	0.80
30 June 2018	1,192,277	0.80
Issued	**205,491**	**0.39**
30 June 2019	**1,397,768**	**0.74**

Grant date	Number outstanding at 30 June 2019	Exercise price (£)	Weighted average remaining vesting period (Years)	Vesting date	Number exercisable at 30 June 2019
20 September 2017	1,192,277	0.80	1.2	19 September 2020	-
06 September 2018	205,491	0.39	2.2	05 September 2021	-

e Equity warrants

The following tables summarise the activities and status of the Company's warrants as at and during the year ended 30 June 2019:

	Number of warrants	Remaining contractual life (Years)	Expiry date	Weighted Average Exercise price (In US$)
30 June 2017	833,333	0.8	26 March 2018	0.41
Exercised	(833,333)	-	-	-
30 June 2018	-	-	-	-
30 June 2019	**-**	**-**	**-**	**-**

f Share-based payment reserve

The following table presents changes in the Group's share-based payment reserve during the year ended 30 June 2019:

In US$	**Share-based payment reserve**
30 June 2017	5,042,706
Exercise of share options	(781,716)
Share-based payment expense	1,877,095
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**

g Share-based payment expense

During the year ended 30 June 2019, the Group recognised US$800,846 (2018 - US$1,877,095) 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 year ended	30 June 2019	30 June 2018
Risk-free interest rate	**0.77% - 3.0%**	0.77% - 2.01%
Expected volatility[1]	**54.73% - 91.07%**	55.26% - 91.07%
Expected life (years)	**3 - 5**	3 - 5
Fair value per option	**18.9c - 85.7c**	45.6c - 85.7c

[1] Expected volatility is derived from the Company's historical share price volatility.

h 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.

i Per share amounts

Basic and diluted loss per share is calculated using the weighted average number of shares of 134,406,516 for the year ended 30 June 2019 (2018 – 134,097,164). 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 year ended	30 June 2019	30 June 2018
Loss for the year attributable to owners of equity (US$)	**(11,048,969)**	(12,731,306)
Weighted average number of common shares for the purposes of basic and diluted loss per share	**134,406,516**	134,097,164
Basic and diluted loss per share (US$)	**(0.08)**	(0.09)

15 Taxation

a Current taxation

The tax charge for the year comprises:

For the year ended (In US$)	30 June 2019	30 June 2018
Current tax expense		
Overseas tax - Mexico	**5,012**	42,070
Deferred tax expense		
Adjustments to deferred tax liability	**-**	(102,614)
Total tax expense	**5,012**	(60,544)

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

For the year ended (In US$)	30 June 2019	30 June 2018
Loss before tax	**(11,053,748)**	(12,846,405)
Expected income tax recovery at 19% (2018 - 19%)	**(2,100,212)**	(2,440,817)
Expenses not deductible for tax purposes	**353,810**	1,056,587
Different tax rates applied in overseas jurisdictions	**(144,070)**	(1,094,707)
Unrecognised taxable losses and timing differences	**1,895,484**	2,505,879
Adjustment for under/(over) provision in previous periods	**-**	(87,486)
Total income taxes	**5,012**	(60,544)

b **Deferred tax**

The movement on the deferred tax account is as shown below:

For the year ended (In US$)	30 June 2019	30 June 2018
Opening balance	**-**	104,118
Foreign exchange	**-**	(1,504)
Recognised in the statement of comprehensive income	**-**	(102,614)
Closing balance	**-**	-

As at 30 June 2019, the Group has, for tax purposes, non-capital losses available to carry forward to future years as follows:

For the year ended (In US$)	30 June 2019	30 June 2018	Expiry Date
UK	**7,035,229**	1,758,411	N/A
Canada	**14,676,479**	13,716,453	2028-2041
Mexico	**49,931,872**	10,099,601	2020-2030
As at 30 June	**71,643,580**	25,574,465	

16 General and administrative expenses

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

For the year ended (In US$)	30 June 2019	30 June 2018
Legal and accounting fees	**2,758,577**	3,810,158
Management fees	**2,708,967**	1,510,622
Office expenses	**358,721**	121,072
Investor relations	**332,759**	828,499
Audit fee	**141,046**	138,091
Audit related services	**25,880**	30,419
Travel and other expenses	**715,369**	888,790
Total	**7,041,319**	7,327,651

17 Finance income and costs

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

For the year ended (In US$)	30 June 2019	30 June 2018
Interest income	**249,422**	212,678
Warrant liability revaluation	**1,669,702**	-
Finance income	**1,919,124**	212,678
Primary Eurobond interest expense	**(2,768,480)**	-
Other finance costs(1)	**(1,654,552)**	-
Accretion of joint venture obligation	**-**	(662,299)
Finance costs	**(4,423,032)**	(662,299)
Net finance (costs)/income	**(2,503,908)**	(449,621)

(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 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 earnt; 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:

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	**(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 costs	**-**	**-**	**(4,423,032)**	**(4,423,032)**
Finance income	**784**	**-**	**1,918,340**	**1,919,124**
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)**

30 June 2018 (In US$)	Mexico	Germany	Head Office	Consolidated
Current assets	1,948,810	-	12,726,362	14,675,172
Investment in jointly controlled entity	-	8,426,134	-	8,426,134
Derivative asset	-	615,011	-	615,011
Property, plant and equipment	26,391,422	-	-	26,391,422
Exploration and evaluation assets	502,947	-	-	502,947
Total assets	28,843,179	9,041,145	12,726,362	50,610,686
Current liabilities	4,084,320	1,591,652	2,299,510	7,975,482
Total liabilities	4,084,320	1,591,652	2,299,510	7,975,482
Property, plant and equipment additions	8,860,687	-	-	8,860,687
Exploration and evaluation asset additions	2,774,255	-	-	2,774,255

For the year ended 30 June 2018 (In US$)	Mexico	Germany	Head Office	Consolidated
General and administrative	(572,382)	-	(6,755,269)	(7,327,651)
Depreciation	(149,724)	-	-	(149,724)
Share-based payment expense	(83,256)	-	(1,793,839)	(1,877,095)
Foreign exchange loss	(139,311)	-	(623,967)	(763,278)
Impairment of exploration and evaluation assets	(559,468)	-	-	(559,468)
Operating loss	(1,504,141)	-	(9,173,075)	(10,677,216)
Finance income	17,569	-	195,109	212,678
Finance costs	-	(662,299)	-	(662,299)
Joint venture investment loss	-	(147,403)	-	(147,403)
Revaluation of derivative asset	-	(1,521,046)	-	(1,521,046)
Gain/loss on fixed asset disposals	(51,119)	-	-	(51,119)
Income tax	60,544	-	-	60,544
Segment loss for the year	(1,477,147)	(2,330,748)	(8,977,966)	(12,785,861)

19 Related party disclosures

a Related party expenses

The Group’s related parties include Directors and Officers and companies which have directors in common.

During the year ended 30 June 2019, Directors remuneration totalled US$1,939 610 (2018 - US$3,124,989). Of the total amount incurred as Directors fees, US$5,826 (2018 - US$40,092) remains in accounts payables and accrued liabilities on 30 June 2019.

During the year ended 30 June 2018, the Group paid US$95,508 to Grupo Ornelas Vidal S.A. de C.V., a consulting firm of which Martin Vidal, former Director of the Group and president of MSB, is a partner. Martin Vidal resigned as Director on 30 November 2017. These services were incurred in the normal course of operations for geological exploration and pilot plant operation. As of 30 June 2018, US$nil remained in accounts payable and accrued liabilities. No services were rendered by Grupo Ornelas Vidal S.A. de C.V. in the year ended 30 June 2019.

b **Key management personnel compensation**

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 year is presented below:

For the year ended (In US$)	**30 June 2019**					30 June 2018				
	Fees	**Gross Salary**	**Consultancy**	**Share-based payment remuneration**	**Total**	Fees	Gross Salary	Consultancy	Share-based payment remuneration	Total
Director's and key management's remuneration:										
Mark Hohnen	-	**310,380**	-	**156,789**	**467,169**	-	324,429	-	252,268	576,697
Eileen Carr	**51,742**	-	-	**54,584**	**106,326**	22,792	-	-	56,842	79,634
Raymond Hodgkinson [(1)]	**21,908**	-	-	**-**	**21,908**	44,560	-	-	98,026	142,586
Jamie Strauss	**71,145**	-	-	**148,305**	**219,450**	78,778	-	-	518,407	597,185
Dr Andres Antonius	**50,000**	-	-	**143,914**	**193,914**	50,000	-	-	454,915	504,915
Derek Batorowski	**96,000**	-	**38,263**	**8,538**	**142,801**	32,000	-	248,929	36,131	317,060
Peter Secker	-	**442,453**	-	**177,351**	**619,804**	-	385,510	-	285,118	670,628
Janet Blas	-	**297,431**	-	**35,570**	**333,001**	-	104,571	-	-	104,571
Martin Vidal	**-**	-	-	**-**	**-**	95,582	-	-	36,131	131,713
Total Director's and management's remuneration	**290,795**	**1,050,264**	**38,263**	**725,051**	**2,104,373**	323,712	814,510	248,929	1,737,838	3,124,989
Operational consulting fees:										
Grupo Ornelas Vidal SA CV					**-**					95,508

[(1)] Resigned – 13 December 2018

As at 30 June 2019, the following options were held by Directors of the Company:

	Date of grant	Exercise price (£)	Number of options
Mark Hohnen	27 April 2016	0.9625	1,000,000
	01 March 2017	0.80	249,900
	20 September 2017	0.80	224,910
Eileen Carr	18 April 2018	0.90	312,500
Andres Antonius	15 May 2017	0.865	500,000
	20 September 2017	0.80	750,000
Jamie Strauss	01 March 2017	0.85	750,000
	20 September 2017	0.80	750,000
Derek Batorowski	02 December 2015	0.78	175,000
	01 March 2017	0.80	125,000
Peter Secker	01 March 2017	0.80	300,000
	20 September 2017	0.80	240,000

As at 30 June 2019, the following restricted share units were held by Directors of the Company:

	Date of grant	Exercise price (£)	Number of RSUs
Mark Hohnen	20 September 2017	0.80	557,843
Peter Secker	20 September 2017	0.80	634,434

In the year ended 30 June 2019, gains on the exercise of share options were made by Directors totaling US$69,894.

c Change of Control

During the period ended December 31, 2017, the Company amended the employment and consultancy arrangements respectively between the Company and each of Peter Secker, Chief Executive Officer, and Fernan Pty Ltd, which provides the services of Mark Hohnen, Executive Chairman. Peter Secker's service contract has been amended as follows: (i) the removal of performance bonus provisions of up to £250,000; (ii) the removal of a £250,000 change of control payment; (iii) an increase of £50,000 in annual salary; (iv) the inclusion of new pensions arrangements; and (v) the inclusion of a cash payment representing an acceleration of unvested options in the event of a change of control of the Company at an acquisition price of at least 130 pence per Bacanora share. Such cash payment will be calculated on the basis of the difference between the acquisition price per Bacanora share and 102 pence (being the middle market price of a Bacanora share at close of business in London on 17 November 2017), multiplied by 2,550,000 in the event that such change of control is completed prior to the award of options in relation to the financial year ended 30 June 2018 and a further 2,550,000 in the event that such change of control is completed prior to the award of performance based options in relation to the financial year ended 30 June 2019. In the event the Board has resolved upon Mr. Secker's award in the relevant financial year (which may be zero) then the right to the relevant payment terminates for that period.

The consultancy agreement with Fernan Pty Ltd. has been amended to provide Mark Hohnen also with a cash payment representing an acceleration of unvested options in the event of a change of control of the Company on the same terms as Peter Secker, save that the multiplier for each relevant financial year is 2,124,150.

No cash payments in relation to acceleration of unvested options as a result of change of control have been awarded in the financial years ended 30 June 2018 and 30 June 2019.

20 Directors and employees

Employees of the Company are all employees including key management personnel. Details of key management personnel are disclosed in note 19. The below information relates to all employees:

For the year ended (US$)	30 June 2019			30 June 2018		
	Corporate	**Mexico**	**Total**	Corporate	Mexico	Total
Gross salaries	**1,640,350**	**448,101**	**2,088,451**	1,435,924	437,379	1,873,303
Share-based payments	**725,051**	**-**	**725,051**	1,737,838	4,326	1,742,164
Social security costs	**177,136**	**67,776**	**244,912**	11,413	89,399	100,812
Pension costs	**7,881**	**19,903**	**27,784**	96,936	-	96,936
Total cost	**2,550,418**	**535,780**	**3,086,198**	3,282,111	531,104	3,813,215
Average number of employees	12	32	44	9	31	40

Directors' remuneration totalled the following:

For the year ended (US$)	30 June 2019	30 June 2018
Directors' salaries	**1,081,891**	1,282,580
Share-based payment expense	**689,481**	1,737,838
Total remuneration	**1,771,372**	**3,020,418**
Number of Directors	8	8

In addition to the above remuneration, Directors made gains on the exercise of options of US$69,894 (2018 – US$0)

The highest paid Director in the year received remuneration, excluding notional gains on share options, of US$619,804 (2018 - US$670,628).

21 Commitments

The license properties are also subject to semi-annual payments to the Mexican government for concession taxes, which are expected to total US$122,859 in the following 12 months.

The Group is committed to land purchases totalling US$0.4 million due on the clearance of liens expected in the next 12 months.

The Group has committed payments for its UK office of US$32,029 until the end of December 2019.

The Group has committed to short term funding of Deutsche Lithium until the end of the option period in February 2020, totalling US$379,177.

22 Subsequent events

In June 2019, the Bacanora Group entered into a strategic investment agreement with Ganfeng Lithium Co., Ltd, were Ganfeng would

- subscribe 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
- appoint one Director to the Board of the Bacanora Lithium Plc
- Acquire the right to an initial 22.5% interest in the Sonora Lithium Limited, for a cash payment of £7,563,649, equivalent to a price of 25 pence per share
- Ganfeng would have an option to increase its interest in the Sonora Lithium Limited 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.
- appoint one Director to the Board of the Sonora Lithium Limited

- acquire a long-term offtake at a market-based price per tonne for 50% of Stage 1 lithium production and up to 75% of Stage 2 lithium production
- complete a review within six months of the EPC engineering design and capital costs of the Sonora Lithium Project with a view to reducing costs and accelerating the timetable
- provide a plant and process commissioning team to assist Bacanora in delivering first production in 2021

The signed agreements for the strategic investment were submitted to the relevant authorities in China for approval and completion. The approvals were acquired post the balance sheet date of 30 June 2019, with the transaction completing on 18 October 2019.

Prior to the investments by Ganfeng, the Group performed a reorganisation in which Sonora Lithium Limited purchased Bacanora Lithium Plc's 100% shareholding in Bacanora Minerals Limited in order to create a single project holding company.

On 12 September 2019, Derek Batorowski resigned from the Board of Directors of the Company.

On 18 October 2019, Mr. Wang Xiaoshen, the Deputy Chairman of Ganfeng Lithium, joined the Board of Directors of the Company.

23 Non-controlling interests

The following are summaries of the Group's entities with non-controlling interests:

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

For the year ended (In US$)	**30 June 2019**	30 June 2018
Current assets	**30,619**	30,619
Accumulated non-controlling interest loss	**(633,022)**	(627,753)
Loss for the year	**(13,173)**	(14,415)
Loss attributed to the NCI	**(5,270)**	(5,766)

Mexilit S.A. de C.V.

For the year ended (In US$)	**30 June 2019**	30 June 2018
Current assets	**115,341**	142,761
Non-current assets	**2,943,016**	2,924,641
Non-current liabilities	**1,909,860**	1,916,115
Accumulated non-controlling interest loss	**(41,927)**	(41,090)
Loss for the year	**(2,790)**	(91,604)
Loss attributed to the NCI	**(837)**	(27,481)
Net cash flow from operating activities	**(3,015)**	(6,122)
Net cash flow from investing activities	**(22,742)**	(23,186)
Net cash flow from financing activities	**(5,846)**	302
Net change in cash	**(28,563)**	(29,006)
Cash beginning of year	**117,656**	146,662
Cash end of year	**89,093**	117,656

Minera Megalit S.A de C.V.

For the year ended (In US$)	**30 June 2019**	30 June 2018
Current assets	**79,798**	78,101
Non-current assets	**617,433**	608,273

Non-current liabilities	**368,994**	345,856
Accumulated non-controlling interest loss	**(32,943)**	(29,258)
Loss for the year	**(12,280)**	(71,027)
Loss attributed to the NCI	**(3,684)**	(21,308)
Net cash flow from operating activities	**(3,028)**	1,142
Net cash flow from investing activities	**(20,852)**	(15,391)
Net cash flow from financing activities	**23,273**	(37,318)
Net change in cash	**453**	(51,567)
Cash beginning of year	**49,978**	101,545
Cash end of year	**50,431**	49,978

24 Note to the statement of cash flows

Below is a reconciliation of borrowings from financing transactions:

In US$	
Opening balance	-
Cashflows	20,875,000
Non cash flows	
Fair value attributed to Financial warrants	(2,929,624)
Transaction costs	(746,235)
Primary Eurobond finance cost	2,768,480
Eurobond unwinding	1,654,546
Total non-current borrowings	21,622,167

Parent Company Statement of Financial Position

As at 30 June 2019

In US dollars	Note	30 June 2019	30 June 2018
Assets			
Current assets			
Cash and cash equivalents		**12,994,188**	13,203
Other receivables and prepayments	6	**248,004**	895,961
Derivative asset	8	**193,902**	-
Total current assets		**13,436,094**	909,164
Non-current assets			
Investment in subsidiaries	7	**59,709,985**	59,649,036
Investment in joint venture	8	**8,343,621**	-
Total non-current assets		**68,053,606**	59,649,036
Total assets		**81,489,700**	60,558,200
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	9	**697,929**	2,060,934
Joint venture obligation	8	**237,105**	-
Total current liabilities		**935,034**	2,060,934
Non-current liabilities			
Intercompany payables	14	**29,893,379**	1,131,175
Warrant liability	10	**1,259,923**	-
Total non-current liabilities		**31,153,302**	1,131,175
Total liabilities		**32,088,336**	3,192,109
Shareholders' equity			
Share capital	13	**18,996,790**	18,958,033
Share premium	13	**153,366**	140,592
Merger reserve	13	**40,708,662**	40,708,662
Share-based payment reserve	13	**1,177,722**	391,962
Retained earnings		**(11,635,176)**	(2,833,158)
Total shareholders' equity		**49,401,364**	57,366,091
Total liabilities and shareholders' equity		**81,489,700**	60,558,200

The Company's loss after tax for the year ended 30 June 2019 was US$8,894,553 (2018 - US$2,833,158).

The accompanying notes on pages 97 - 105 are an integral part of these Parent Company Financial Statements.

The Parent Company Financial Statements of Bacanora Lithium Plc, registered number 11189628, were approved and authorised for issue by the Board of Directors on 18 October 2019 and were signed on its behalf by:

Mark Hohnen

19 October 2019

Parent Company Statement of Changes in Equity

For the year ended 30 June 2019

In US dollars	Share capital: Number of shares	Share capital: Value	Share premium	Merger reserve	Share-based payment reserve	Retained earnings	Total equity
06 February 2017	-	-	-	-	-	-	-
Comprehensive income for the period:							
Loss for the period	-	-	-	-	-	(2,833,158)	(2,833,158)
Contributions by and distributions to owners:							
Shares issued	134,039,872	18,940,370	-	40,708,662	-	-	59,649,032
Shares issued on exercise of options	125,000	17,663	140,592	-	(16,500)	-	141,755
Share-based payment expense	-	-	-	-	408,462	-	408,462
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 period:							
Loss for the period	**-**	**-**	**-**	**-**	**-**	**(8,894,553)**	**(8,894,553)**
Contributions by and distributions to owners:							
Shares issued on exercise of options	**300,000**	**38,757**	**12,774**	**-**	**-**	**77,449**	**128,980**
Lapsed options charge	-	-	-	**-**	**(15,086)**	**15,086**	**-**
Share-based payment expense	**-**	**-**	**-**	**-**	**800,846**	**-**	**800,846**
30 June 2018	**134,464,872**	**18,996,790**	**153,366**	**40,708,662**	**1,177,722**	**(11,635,176)**	**49,401,364**

The accompanying notes on pages 97 – 105 are an integral part of these Parent Company Financial Statements.

Parent Company Statement of Cash Flows

For the year ended 30 June 2019

In US$	Note	30 June 2019	30 June 2018
Cash flows from operating activities			
Loss for the year before tax		**(8,894,553)**	(2,833,158)
Adjustments for:			
Share-based payment expense		**800,846**	408,462
Foreign exchange		**46,888**	-
Finance and other income		**(1,885,993)**	-
Finance costs		**4,423,027**	-
Loss on investment in joint venture		**12,741**	-
Revaluation of derivative asset		**78,324**	-
Changes in working capital items:			
Other receivables		**(98,327)**	(895,961)
Accounts payable and accrued liabilities		**(1,363,005)**	2,060,934
Net cash flows from operating activities		**(6,880,052)**	(1,259,723)
Cash flows from investing activities:			
Interest received		**216,291**	-
Net cash flows from investing activities		**216,291**	**-**
Cash flows from financing activities			
Exercise of options		**68,501**	141,755
Proceeds from intercompany borrowing	18	**19,628,312**	1,131,171
Net cash flows from financing activities		**19,696,813**	1,272,926
Change in cash during the year		**13,033,052**	13,203
Exchange rate effects		**(52,067)**	-
Cash, beginning of year		**13,203**	-
Cash, end of year		**12,994,188**	13,203

The accompanying notes on pages 97 – 105 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.

The Parent Company Financial Statements were authorised for issue by the Board of Directors on 19 October 2019. 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 polices

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.

The Parent Company's investment in Bacanora Minerals Ltd is measured cost being defined as the carrying amount of its share of the equity items shown in the separate Financial Statements of the amalgamated Bacanora Mineral Ltd at the date of the reorganisation.

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 year ended 30 June 2019.

5 Loss for the year

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 year ended 30 June 2019 is US$8,894,553 (2018 - US$2,833,158).

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 dollars	**30 June 2019**	30 June 2018
Other receivables	**113,272**	66,485
Prepayments and deposits	**134,732**	829,476
Total	**248,004**	895,961

7 Investments in subsidiaries

The Parent Company has the following subsidiaries:

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

*Held indirectly through Bacanora Minerals Ltd

** Held indirectly though Mineramex Limited and Bacanora Minerals Ltd

***Held indirectly though Sonora Lithium Ltd

See note 22 of the Consolidated Financial Statements for disclosure of a post year end reorganisation of the Group relating to the investment from Ganfeng.

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 Solarworld AG. It was agreed that:

1) Bacanora Minerals Ltd's 50% share in Deutsche lithium GmbH would be novated to Bacanora Lithium Plc
2) The Deutsche lithium option exercise period would be extended for 6 months until February 2020
3) Additional funding would be provided by Bacanora Lithium Plc, totalling €543,221, becoming payable progressively throughout the option period, at year end US$237,105 of the additional investment was payable to Deutsche Lithium, the remaining being committed.

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.

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	**(12,741)**
Additional investment	**237,105**
30 June 2019	**8,343,621**

Summarised financial information in respect of the Parent Company's joint venture in Deutsche Lithium has been disclosed in note 6 of the Consolidated Financial Statements.

b Deutsche Lithium obligation

The Company holds an obligation to fund Deutsche Lithium until February 2020. This obligation has been disclosed in note 6 of the Consolidated Financial Statements.

c Derivative asset - Deutsche Lithium option

On 28 May 2019, as part of the supplemental agreement, discussed above in note 8a, acquired an option to acquire the remaining 50% of Deutsche Lithium. The specific terms of this option has been disclosed in note 6 of the Consolidated Financial Statements.

The option to purchase the remaining 50% interest has been recognised as a derivative asset in the Company Statement of Financial Position as it represents the option to acquire equity instruments at a future point in time. This derivative asset has been recorded at its fair value of US$193,902. The derivative asset has been classified as short-term due to its realisation being in February 2020. The fair value was determined on recognition at 28 May 2019 and at 30 June 2019 using the Black-Scholes option pricing model with the following inputs:

	30 June 2019	28 May 2019
Term	**0.64**	0.73
Share Price (€)	**8,614,053**	8,614,053
Exercise Price (€)	**30,000,000**	30,000,000
Volatility	**88%**	88%
Risk Free rate	**2%**	2%

The movement in the fair value of the derivative is due to the passage of time. The increase in share price and reduction in volatility are driven by the published feasibility study on 5 June 2019 which determines the economic feasibility of the asset and reduced the inherent risk of the project.

The impact of changes in volatility has been disclosed in note 6 of the Consolidated Financial Statements.

9 Accounts payable and accrued liabilities

At 30 June 2019, the Parent Company held accounts payable and accrued liabilities of US$697,929 (2018 - US$2,060,934) mainly in respect of legal, accounting and professional services and funding payable to Deutsche Lithium.

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 principle financial assets and liabilities are classified as follows:

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	**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	**29,893,406**	**-**	**29,893,406**
Warrant liability	**-**	**1,259,923**	**1,259,923**
Total financial liabilities:	**30,828,440**	**1,259,923**	**32,088,363**

Net financial assets/(liabilities):	**(17,720,980)**	**(1,066,021)**	**(18,787,001)**

As at 30 June 2018 (In $US)	At amortised cost	At fair value through profit or loss	Total
Financial assets			
Cash and cash equivalents	13,203	-	13,203
Other receivables	66,485	-	66,485
Total financial assets:	79,688	-	79,688
Financial liabilities			
Accounts payable and accrued liabilities	2,060,934	-	2,060,934
Intercompany payables	1,131,175	-	1,131,175
Total financial liabilities:	3,192,109	-	3,192,109
Net financial assets/(liabilities):	(3,112,421)	-	(3,112,421)

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.

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 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*	**-**	**-**	**-**	**-**

As at 30 June 2018 (In US$)	Within 30 days	30 days to 6 months	6 to 12 months	Over 12 months
Accounts payable and accrued liabilities	2,060,934	-	-	-
Intercompany payables	-	-	-	1,131,175

*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 Pound and Euros and are therefore subject to fluctuation in exchange rates.

As at 30 June 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 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 derivative asset and warrant liability are disclosed in notes 8c and 10, respectively.

There were no transfers between any levels of the fair value hierarchy in the current 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$)	Share Premium (US$)
07 February 2018	-	-	-
Shares issued	134,039,872	18,940,370	-
Shares issued on exercise of options	125,000	17,663	140,592
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**

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
07 February 2018	-
Exercise of share options	(16,500)
Share-based payment expense	408,462
30 June 2018	391,962
Lapsed options charge	**(15,086)**
Share-based payment expense	**800,846**
30 June 2019	**1,177,722**

f Share-based payment expense

During the year ended 30 June 2019, the Parent Company recognised US$800,846 (2018 - US$408,462) 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 134,406,516 for the year ended 30 June 2019 (2018 – 134,097,164). 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 year ended	30 June 2019	30 June 2018
Loss for the year attributable to owners of equity ($'000)	**(8,894,553)**	(2,833,158)
Weighted average number of common shares for the purposes of basic and diluted loss per share	**134,406,516**	134,164,872
Basic and diluted loss per share ($)	**(0.07)**	(0.02)

14 Related party disclosures

The Parent Company's related parties include Directors and Officers and companies which have directors in common. Transactions with its Directors and key management personnel have been disclosed in note 19 of the Consolidated Financial Statements.

The Parent Company traded with undertakings within the same Group during the year ended 30 June 2019. A summary of the sum of absolute transactions and outstanding balances at year end with each is set out below:

Name of related party	Nature of relationship	Commercial terms	Transaction value	Balance owed by / (owed to) related parties
Bacanora Minerals Ltd	Subsidiary	Non-interest bearing	15,144,933	(8,239,177)
Bacanora Treasury Ltd	Subsidiary	Non-interest bearing	15	14
Bacanora Finco Ltd	Subsidiary	Interest bearing - Interest rate 21%	25,646,978	(21,654,216)
Minera Sonora Borax, S.A. de C.V.	Subsidiary	Non-interest bearing	2,492,118	-

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 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 Company:

For the year ended (US$)	30 June 2019	30 June 2018
Gross salaries	**1,640,350**	730,554
Share-based payments	**725,051**	408,462
Social security costs	**177,136**	7,036
Pension costs	**7,881**	96,936
Total cost	**2,550,418**	1,242,988
Average number of employees	**12**	9

Directors' remuneration totalled the following:

For the year ended (US$)	30 June 2019	30 June 2018
Directors' salaries	**1,081,891**	534,408
Share-based payment expense	**689,481**	408,462
Total remuneration	**1,771,372**	942,870
Number of Directors	**8**	8

In addition to the above remuneration, Directors made gains on the exercise of options of US$69,894 (2018 – US$0)

16 Commitments

The Parent Company has committed payments for its UK office of US$32,029 until the end of December 2019.

The Group has committed to short term funding of Deutsche Lithium until the end of the option period in February 2020, totalling US$379,177.

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
Opening balance	**1,131,175**
Cash flows	**19,674,324**
Non cash flows	
Deutsche Lithium novation	**8,386,776**
Transaction costs	**(746,286)**
Intercompany recharges	**(45,991)**
Intercompany recharge of interest costs	**4,423,032**
Warrant liability	**(2,929,624)**
Total	**29,893,406**