BACANORA MINERALS LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

DATE – OCTOBER 26, 2016

The following Management's Discussion and Analysis ("**MD&A**") should be read in conjunction with Bacanora Minerals Ltd. ("**Bacanora**" or the "**Company**") audited consolidated financial statements for the year ended June 30, 2016, together with the accompanying notes. The following discussion and analysis provides information that management believes is relevant to the assessment and understanding of the Company's results of operations and financial position. In the opinion of management, all adjustments consisting of normal recurring adjustments, considered necessary for a fair presentation of the Company's financial position, results of operations and funds flow, have been included. This MD&A is presented in Canadian dollars ("**CAD$**"), unless stated otherwise. Additional information relating to Bacanora is available on SEDAR at www.sedar.com.

THE COMPANY

Bacanora Minerals Ltd. is an exploration and development company focused on developing its Sonora Lithium Project (see *Mineral Properties – Lithium*) in Sonora, Mexico. In addition, the Company has a borates project located near the town of Magdalena de Kino, north of Hermosillo, Mexico (see *Mineral Properties – Borates*). Bacanora was incorporated in Alberta, Canada in September 2008 and is listed on the TSX Venture Exchange and the AIM Market of the London Stock Exchange, and its common shares trade under the symbol, "BCN" on both exchanges. Please refer to section *Company Structure* on page 8 for further details on the Company's legal and operational structure.

FISCAL 2016 HIGHLIGHTS

Operational

- The Company has successfully completed a 4,000 metre drilling programme at the Sonora Lithium Project, comprising 3,000 metres focused on upgrading a portion of the current mineral resource from the indicated to measured category, in conjunction with 1,000 metres for geotechnical and hydrological drilling for a Feasibility Study ("**FS**").

- This drilling will update the previously announced Indicated Mineral Resource of 259 Mt averaging 3,200 ppm Li for 4.5 Mt of lithium carbonate equivalent ("**LCE**[1]"). SRK Consulting (UK) Limited ("**SRK**") has started to update the resource model and an updated Mineral Resource Estimate ("**MRE**") is anticipated to be published in calendar Q1 2017 sequential with the commencement of mine planning and open pit designs for the FS. For further information on the drilling programme, MRE and FS please refer to the *Mineral Properties - Lithium* section.

- Battery grade lithium carbonate samples from the Company's pilot plant have been distributed to Japan for preliminary appraisal and testing by potential end-users.

- On April 15, 2016, the Company filed on SEDAR the results of the Pre-Feasibility Study ("**PFS**") for the development of mine and lithium carbonate ("**Li_2CO_3**") processing facility at the Sonora Lithium Project ("**Project**"). The positive results estimate a pre-tax Internal Rate of Return ("**IRR**") of 29% and an associated pre-tax Net Present Value ("**NPV**") of US$776 million at an 8% discount rate. The PFS was prepared in accordance with National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* ("**NI 43-101**"). In addition, the Company filed an amended MRE prepared in accordance with NI 43-101 for the Sonora Lithium Project.

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[1] LCE is the industry standard terminology for, and is equivalent to, Li_2CO_3. 1 ppm Li metal is equivalent to 5.32 ppm LCE / Li_2CO_3.. Use of LCE is to provide data comparable with industry reports and assumes complete conversion of lithium in clays with no recovery or process losses.

The PFS highlighted the strong economic potential of producing up to 35,000 tonnes of battery grade Li_2CO_3, and up to 50,000 tonnes of potassium sulphate (“**K_2SO_4**”) per year. Refer to the *Pilot Plant and Pre-Feasibility Study* section below for the highlights of the PFS, and the Company’s website and SEDAR for the PFS in its entirety.

- Working with the same consultants that prepared the PFS, the Company has commenced a FS for a two stage mine and processing facility to produce up to 35,000 tpa of lithium carbonate. As part of this study we have completed an infill reserve drilling program, provided lithium carbonate samples to potential end-users, appointed international engineering and technical consultants to undertake the geological resource modeling, metallurgical testwork, mine designs and process engineering, as well as recruited additional technical personnel with lithium development and operating expertise. Ausenco Limited (“**Ausenco**”) has now completed approximately 35% of the FS and is scheduled to have the FS completed in late calendar Q1 2017. The Company is fully financed through to the FS, initial project development and the start of the construction stages.

Corporate

- On August 4, 2016, the Company announced the sad passing of the Hon. Colin Orr-Ewing, the founder and Chairman of the Company, following a short illness. Mr. James Leahy was appointed to the position of interim non-executive Chairman.

- During the fiscal year ended June 30, 2016, the Company experienced some changes to its board of directors. Mr. David Lenigas resigned from the board on December 21, 2015. Mr. Mark Hohnen was formally appointed to the board on April 27, 2016. Mr. Hohnen brings with him 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. On October 17th, 2016, the Company also announced the appointment of Mr. Jamie Strauss (subject to completion of normal regulatory checks) as a non-executive independent director to strengthen the Board.

- On September 28, 2016, the Company held its General and Special Annual Meeting, at which the shareholders voted amongst other resolutions, on the Company’s previously announced plans to re-domicile its governing corporate jurisdiction from Canada to the UK by means of a Plan of Arrangement. All resolutions were dully passed with the exception of the re-domicile resolution. Accordingly, the proposed re-domicile did not proceed and the Company will remain a Canadian registered company and pursue its corporate objectives as such. The Company’s common shares will continue to be traded on TSX-V and AIM stock exchanges.

- On September 30, 2016, the Company announced that it has received an unsolicited non-binding indicative proposal (the "**Proposal**") from Rare Earth Minerals plc ("**REM**"), an AIM listed investment vehicle with a 19.1% shareholding in the Company, and the Company’s 30% partner in its Mexilit and Megalit subsidiaries. The Proposal was for an all-share merger of Bacanora and REM with REM acting as the acquiring entity (via a reverse takeover) and issuing newly issued REM shares to Bacanora's shareholders. The merger exchange ratio proposed by REM was between 135 and 141 REM shares for each outstanding Bacanora share. The Board of Bacanora strongly rejected the Proposal, believing that it significantly undervalued the Company and jeopardized the development of the Company’s Sonora Lithium Project.

Financial

- During the quarter ended December 31, 2015, the Company completed a private placement financing of approximately $17.9 million (approximately £8.8 million) via the placing of 11,476,944 new common shares at a price of $1.51 (£0.77) per share. Through the financing, the Company secured its first major institutional shareholder, M&G Investments, as well as receiving support from existing shareholders.

- During the quarter end June 30, 2016, the Company had raised approximately $14.7 million (approximately £7.7 million) via the placing of 9,750,000 units at a price of approximately $1.48 (£0.79) per unit with certain funds and accounts managed by BlackRock. Each unit was comprised of one new common share of the Company and 0.3 of one warrant, with each whole warrant being exercisable into one common share at a price of approximately $1.48 (£0.79) at any time subsequent to July 25, 2016, but on or before September 30, 2016. Accordingly, an aggregate of 9,750,000 common shares and 2,925,000 warrants were issued. On September 30, 2016, all of the 2,925,000 warrants were exercised into 2,925,000 new common shares, for total proceeds of approximately $3,938,200.

MINERAL PROPERTIES - LITHIUM

The Sonora Lithium Project consists of ten contiguous concessions covering 97,389 hectares. Two of the concessions (La Ventana, La Ventana 1) are owned 100% by Bacanora through its wholly-owned subsidiary Minera Sonora Borax S.A de C.V. (“**MSB**”). The El Sauz, El Sauz 1, El Sauz 2, Fleur and Fleur 1 concessions are owned by Bacanora’s subsidiary, Mexilit S.A. de C.V. (“**Mexilit**”) (which is owned 70% by Bacanora and 30% by REM). The San Gabriel and Buenavista concessions are owned by Bacanora’s subsidiary, Minera Megalit S.A. de C.V. (“**Megalit**”) (which is owned 70% by Bacanora and 30% by REM). REM had the option to negotiate an increase to its interest of up to 49.9% of Megalit. This option expired on January 12, 2016.

The Company currently holds the Megalit concession in MSB, but intends to transfer it to the Megalit subsidiary once the license is received from the Mexican Federal Mining Ministry. Because of the size of the concession the Mining Ministry is taking longer than usual to grant the license. The Company has held the exploration rights to the concession since the claim application and surveys were submitted to the Mining Ministry on November 7, 2013. The Mining Ministry turned the authorization for title to the General Direction of Mining Regulation on February 3, 2015 but to date the title has not been received. To date no work has been done, nor any expenses incurred on the Megalit concession. Management has no reason to believe that the license will not be eventually granted, but in the unlikely event of that it may not, management does not believe that it will impact the Company’s future development activities, as the Megalit concession is not part of the Mineral Resource Estimate or the PFS.

The Sonora Lithium Project is subject to a 3% gross overriding royalty on production from certain concessions within the Sonora Lithium Project payable to the estate of Mr. Colin Orr-Ewing, past Chairman of the Company

These concessions are located approximately 190 kilometres northeast of the city of Hermosillo, in Sonora State, Mexico. They are roughly 200 kilometres south of the border with Arizona, USA.

Based on the Company’s updated NI 43-101 MRE announced on April 15, 2016, the Sonora Lithium Project concessions have an estimated Indicated Mineral Resource of 4.5 Mt LCE contained in 259 Mt of clay, at Li grade of 3,200 ppm, and an estimated Inferred Mineral Resource of 2.7 Mt LCE contained in 160 Mt of clay at a Li grade of 3,200 ppm. For further details on the Company’s lithium resource refer to the *Mineral Resource Estimate* section below.

Mineral Resource Estimate

On April 15, 2016, the Company filed an *Amended Mineral Resource Estimate for the Sonora Lithium Project*, prepared in accordance with NI 43-101. The lead author of the amended report is Mr. Martin Pittuck (MSc., C.Eng., FGS, MIMMM) of SRK Consulting (UK) Limited (“**SRK**”), who is a "qualified person" within the meaning of NI 43-101 and is independent of the Company. The amended report has been filed on SEDAR, and is also available on the Company's website.

The foregoing report provides an amendment to the MRE given in the Company's announcement dated March 2, 2016 (as the Li cutoff grade subsequently changed) and supersedes the previous technical report for the Project that was released and filed in January 2016. The amended report incorporates the results of the PFS metallurgical testwork conducted by the Company, which also highlighted that a potassium ("**K**") product can be recovered as a by-product from Li_2CO_3 production, along with updated operating cost estimates in early 2016 (subsequent to the release of the January 2016 MRE). Following this testwork, SRK interpolated grades of potassium into the block model, updated the cut-off grade to 1,000 ppm lithium (previously 450 ppm), which is confined to a resource pit shell based on updated reasonable optimisation parameters, PFS process operating costs and lithium selling prices. Based on these PFS numbers SRK has produced an amended MRE.

The current MRE comprises an Indicated Mineral Resource estimated at 259 Mt averaging 3,200 ppm Li for 4.5 Mt of LCE, in addition to an Inferred Mineral Resource estimated at 160 Mt averaging 3,200 ppm Li for 2.7 Mt of LCE. Mineral Resources are stated inclusive of Mineral Reserves.

SRK Mineral Resource Statement as of April 12, 2016

Classification	**Clay Tonnes (Mt)**	**Clay Grade**		**Contained Metal**			**LCE attributable to BCN**
		Li ppm	**K %**	**Kt Li**	**Kt LCE**	**Kt K**	**Kt LCE**
Indicated	259	3,200	1.4	839	4,463	3,555	3,607
Inferred	160	3,200	1.3	515	2,740	2,130	2,369

Notes:

1. Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. All figures are rounded to reflect the relative accuracy of the estimate and have been used to derive sub-totals, totals and weighted averages. Such calculations inherently involve a degree of rounding and consequently introduce a margin of error. Where these occur, SRK does not consider them to be material.
2. The reporting standard adopted for the reporting of the MRE uses the terminology, definitions and guidelines given in the CIM Standards on Mineral Resources and Mineral Reserves (May 2014) as required by NI 43-101 and JORC.
3. SRK assumes the Sonora Lithium deposit to be amenable to surface mining methods. Using results from initial metallurgical test work, suitable surface mining and processing costs, and forecast LCE price SRK has reported the Mineral Resource at a cut-off 1,000 ppm Li (5,320 ppm Li_2CO_3).
4. SRK completed a site inspection of the deposit by Mr. Martin Pittuck, MSc, C.Eng, MIMMM, an appropriate "independent qualified person" as such term is defined in NI 43-101.
5. LCE is the industry standard terminology for, and is equivalent to, Li_2CO_3. 1 ppm Li metal is equivalent to 5.32 ppm LCE / Li_2CO_3. Use of LCE is to provide data comparable with industry reports and assumes complete conversion of lithium in clays with no recovery or process losses.

The amended Mineral Resource is inclusive of the probable reserves, which form the basis of the attractive economics highlighted in the PFS; the probable reserves remain unchanged since the March 3rd, 2016 announcement and are summarized in the table below:

Probable Mineral Reserves: (Cut-off grade of 1,200 ppm)

Classification	**Tonne Ore (Mt)**	**Li (ppm)**	**K (%)**	**LCE (000t)**	**LCE attributable to BCN (000t)**
Probable	129.7	3,015	1.28	2,083	1,813

For the Stage 1 and Stage 2 mining design, a total of 52 Mt of ore at a grade of 3,525 Li ppm and 1.49% K and a stripping ratio of 3.1:1 will be mined over the initial 20-year mine life which forms the basis of the PFS economics.

During the year two infill drilling programmes were undertaken. Initially in July 2015, a 3,000 metre infill drilling program which resulted in an updated MRE. Secondly, in July 2016, a 4,000 metre programme comprising 3,000 metres focused on upgrading a portion of the current mineral resource from the indicated to measured category, in conjunction with 1,000 metres for geotechnical and hydrological drilling for the FS.

- A total of 3,896 metres were drilled in 31 in-fill holes on La Ventana; along with 560 metres in 5 geotech holes. 16 more holes are programmed to complete the geotech study.
- Intercepts of the upper clay range from 6.1 to 49.2 metres in length with an average thickness of 30.8 metres and those for the lower clay range from 3.4 to 26.9 metres with an average thickness of 20.45 metres, these including all of the conducted drilling in this area.
- Core splitting is ongoing and samples have been shipped to the ALS-Chemex laboratory for assays. Standards, blanks and duplicates are intercalated within the samples for QA/QC controls. Final sample batches are in the lab and waiting for assay results.

SRK has now received additional drilling data from the July 2016 drilling programme and will prepare an updated MRE for the FS. This updated MRE is currently scheduled for calendar Q1, 2017.

Lithium Pilot Plant

Over the past twelve months, the Company has continued to expand the production capacity of its pilot plant located in Hermosillo, Sonora, Mexico. Metallurgical test work is ongoing with a significant focus on off-taker samples, continuous flow sheet development plus plant operations and ongoing operator training. The initial focus has been the production of battery-grade lithium carbonate samples for delivery to off-takers in Asia and Europe. Some of the specific achievements over the last twelve months are:

- Ore-to-product metallurgical test work on bulk samples taken from trenches on the clay units from the planned mining areas within the 100% owned La Ventana concession is in progress.
- Upgrading of concentrate and pre-concentrate front-end processes to optimise lithium recovery.
- Hydrometallurgical recoveries have been improved by the addition of gas-fired stationary calcining units for continuous roasting of the lithium concentrate.
- Optimisation of gypsum consumption and evaporation and crystalisation parameters.
- Increased capacity in the Pregnant Liquor Solution circuits to allow continuous leaching operations.
- Installation of additional resin columns in the lithium carbonate recovery circuit for the refining of the product to battery-grade lithium carbonate.
- Over 40 professional and operational personnel are now working at the pilot plant.
- Training and quality control processes are in full swing to negate risk associated with execution of commissioning and operational phases after construction of the Stage 1, 17,500 tpa plant and to ensure accelerated commissioning schedules in terms of operations and quality control.
- Additional operations and technical personnel will continue to be employed at the pilot plant as sample production continues to ramp up.

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

Over the next 12 months the Company will continue a recruitment campaign of engineers and operators in order to maintain the plant in continuous operation and to gain expertise in those processes that require supervision and monitoring for optimisation and quality control. To date, the plant has operated continuously on the beneficiation and hydro-metallurgical processes. This investment in people and training is expected to provide significant operational and quality control benefits once commissioning of the full scale lithium carbonate plant commences. Over the fiscal 2017 the Company has budgeted to spend an aggregate of approximately $2 million dollars on the pilot plant.

Pre-Feasibility Study

The PFS that was published on April 15, 2016 was prepared in accordance with NI 43-101 and is entitled, *Technical Report on the Pre-Feasibility Study for the Sonora Lithium Project, Mexico, Apri 15, 2016.* The authors of the PFS are Ausenco, SRK and Independent Mining Consultants Inc. ("**IMC**"). The PFS has been filed on SEDAR and is also available on the Company's website.

The PFS comprises a two phase open-pit mine and lithium carbonate processing facility with a life of over 20 years, with the following production profile:

- Phase 1: 17,500 tonnes per year of battery-grade Li_2CO_3, for the first 2 years.
- Phase 2: Expansion to 35,000 tonnes Li_2CO_3 per year in or around the 3rd year of operations; and
- Designed to produce up to 50,000 tonnes per year of K_2SO_4 in the third year, for sale to the fertilizer industry.

The PFS demonstrates the attractive economics of the Project and key findings are shown in the table below: All costs are in US dollars, and rounded to nearest $'000.

Pre-tax Net Present Value	$776M
Pre-tax IRR	29%
Simple Payback	5 years
Initial Construction Capital Cost	$240M
Stage 2 Construction Capital Cost	$177M
Average LOM operating costs ($/t Li_2CO_3)	$2,689
Average operating costs ($/t Li_2CO_3 net of K_2SO_4 credits)	$2,100
Post-tax NPV (at 8% discount)	$542M
Post-tax IRR	25%
Average annual EBITDA with co-products	$134M
Average Annual Li_2CO_3 production capacity (Years 1 and 2)	17,500 t
Average Annual Li_2CO_3 production capacity (Years 3 to 20)	35,000 t
Average Annual K_2SO_4 production (Years 3 to 20)	50,000 t

- Estimated Project pre-tax IRR of 29%; NPV of US$776M, (at an 8% discount rate); and simple payback of five years, based on a flat US$6,000/t for battery grade lithium carbonate over the Life-Of-Mine ("**LOM**"). Recent price increases have seen spot prices of Li_2CO_3 in Asia increase to above US$6,000/t.
- Average annual earnings before interest, taxes, depreciation and amortisation ("**EBITDA**") estimated at US$134 million per annum.
- Phase 1 capital cost estimate of US$240M includes processing plant, on and off site infrastructure, Tailings Management Facility construction, and general administration costs.
- Mine design indicates a total of 52 Mt of ore to be mined over the planned 20-year mine life with a stripping ratio of approximately 3:1 over LOM.

- Integrated plant designed to initially process 1.4 million tonnes of ore per year, during the first 2 years of the project, subsequently increasing to 2.7 million tonnes per year subsequent to year three.
- The Company intends to complete a Feasibility Study by calendar Q1 2017 and subject to a successful outcome of the FS, Board approval and project financing, commence detailed design and site preparation work in calendar Q2 2017.

For complete details on the PFS please refer to the Company's April 15, 2016 press release and the report itself on the Company's website or on SEDAR.

Feasibility Study

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

The FS is focussed on delivering the most economically robust development strategy for an initial 17,500 tonne per annum ("**tpa**") of lithium carbonate production at the Project (subsequently increasing to 35,000 tpa in later years). The FS is budgeted to cost approximately $7 million and is targeted for completion in late Q1, 2017. The Company is fully financed through to the FS phase and initial project development and the start of the construction stages.

The Company is also continuing to develop a number of strategic relationships with international lithium trading companies and mining companies for the sale of its lithium carbonate product. The management team has provided potential off-takers with battery grade lithium carbonate samples, completed a number of detailed site and plant visits with these potential customers to facilitate and expedite lithium sample optimisation. Negotiations in respect to offtake agreements with these potential partners are ongoing and will continue in tandem with the preparation of the FS.

Lithium property outlook

The Company's strategy is to position itself to satisfy ongoing strong growth for lithium carbonate in the fast growing sectors of electric vehicles and energy storage. The Company is fully financed with approximately $25 million in the bank at the date of this MD&A and is therefore fully funded through to the initial project development and the start of the construction stages. In the immediate term, a number of activities are underway to support this future development, as set forth below

- Ongoing refinement and optimisation of the lithium carbonate flow sheet and the developed at the pilot plant operations in Hermosillo will continue over the next 18 months.
- Completion of the FS in late calendar Q1 of 2017.
- Ongoing review of initial metallurgical testwork for the production of battery grade lithium hydroxide material, whilst focusing on the larger lithium carbonate market for the FS.
- Distribution of additional lithium samples to potential off-takers in calendar Q4, 2016.
- Recent reports in the press have indicated strengthening of lithium carbonate pricing in the Chinese spot market, with some research revealing battery grade spot pricing above $10,000/t.

MINERAL PROPERTIES - BORATES

Magdalena Borate

The Magdalena Borate Project consists of eight concessions, with a total area of 7,105 hectares. The Magdalena Borates Project is road accessible and located immediately east of the town of Magdalena de Kino, north of Hermosillo, Mexico.

Three main borate zones have been located on the Magdalena Borates Project: the Cajon Borate Deposit ("**Cajon**"); Bellota and Pozo Nuevo. Other targets include the Represo prospect, which is a new colemanite discovery that was made by Bacanora during a drilling campaign in 2014. Cajon is the most advanced of the main borate zones on which the Company has estimated drill-indicated boron resources in accordance with NI 43-101.

Initial metallurgical test work has indicated that a colemanite concentrate grading 38% - 42% B_2O_3 can be produced from an average feed of 10.5% B_2O_3 from El Cajon using a combination of scrubbing, de-sliming and flotation. The Company has constructed a pilot plant in order to conduct detailed metallurgy and improve the borate content of the colemanite concentrate. Metallurgical work at Magdalena will continue in 2016 and 2017.

The Magdalena 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 past Chairman of the Company on sales of borate produced from this property.

Borates property outlook

Drilling results from the 2014 Magdalena drilling program have been utilized in a preliminary mine plan for Unit B, in conjunction with the previous mine plan for Unit A. Additional metallurgical testwork programs are being developed for the production of boric acid from howlite mineralization. The Company has budgeted approximately $300,000 for the borates related activities during fiscal 2017.

The following activities are proposed to be undertaken over the next 12 months:

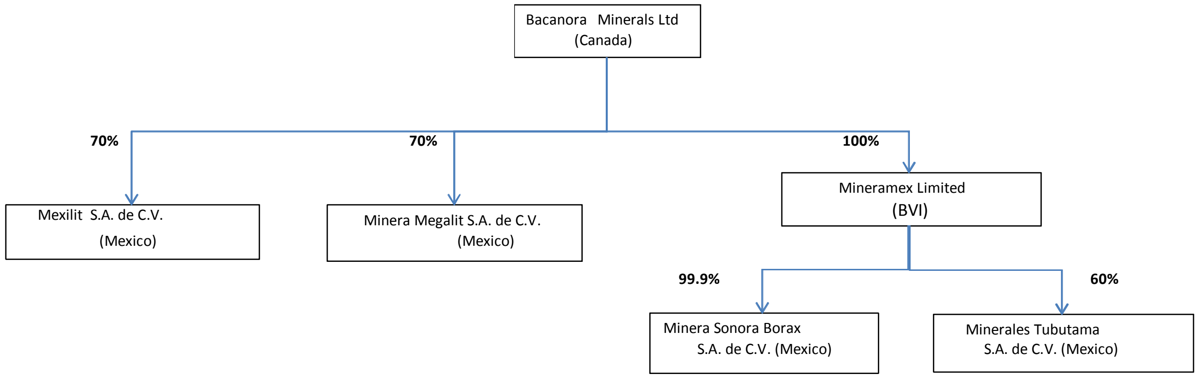
- Bulk sampling results for drilling and metallurgical tests of Unit B results;
- Commencement of a Pre-Feasibility Study report with:
    - Detailed full scale boric acid plant design and costing
    - Revised mine plan; and
    - Environmental baseline studies and mine permitting activities

COMPANY STRUCTURE

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

In 2013, the Company established the subsidiary Mexilit to hold the El Sauz, El Sauz 1, El Sauz 2, Fleur and Fleur 1 concessions, which are related to its agreement with REM. In 2014, the Company established the subsidiary Megalit to hold the San Gabriel, Buenavista and Megalit concessions which are also under a second agreement with REM. REM owns 30% of the shares of each of Mexilit and Megalit.

The following diagram illustrates the Company's corporate structure.



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

- MSB holds the Magdalena borates and La Ventana lithium concessions;
- MIT holds the Carlos, Carlos I, Carlos II and Carlos III borates concessions.
- Mexilit the El Sauz, El Sauz 1, El Sauz 2, Fleur, and Fleur 1 lithium concessions. REM owns 30% of this company.
- Megalit holds the Buenavista, and San Gabriel lithium concessions, and will also hold the Megalit concession. REM owns 30% of this company.

EVALUATION AND EXPLORATION EXPENDITURES

The Company capitalizes all exploration costs subsequent to obtaining the right to explore related to the projects to Exploration and Evaluation assets. Below is a summary of expenditures capitalized during the years ended June 30, 2016 and June 30, 3015.

	Magdalena Borate	La Ventana Lithium	Mexilit Lithium	Megalit Lithium	Total
Balance, June 30, 2014	**$ 6,179,591**	**$ 610,661**	**$ 2,051,522**	**$ -**	**$ 8,841,774**
Additions:					
Concession tax	97,074	43,194	7,033	-	147,301
Exploration	164,538	150,096	-	5,647	320,281
Drilling	53,029	579,306	-	262,671	895,006
Analysis and assays	11,523	61,630	4,371	32,627	110,151
Technical services	60,802	154,842	21,380	71,435	308,459
Travel	9,372	27,369	1,103	836	38,680
Miscellaneous and foreign exchange adjustments	670,229	304,739	6,118	264,689	1,245,775
Total additions	$ 1,066,567	$ 1,321,176	$ 40,005	$ 637,905	$ 3,065,653
Balance, June 30, 2015	**$ 7,246,158**	**$ 1,931,837**	**$2,091,527**	**$ 637,905**	**$ 11,907,427**
Additions:					
Concession tax	$ 21,988	$ 62,662	$ 70,791	$ 14,772	$ 170,213
Exploration	-	489,444	113,086	-	602,530
Drilling	-	1,053,428	496,699	-	1,550,127
Analysis and assays	-	262,032	15,589	-	277,621
Technical services	976,336	2,351,573	373,525	37,689	3,739,123
Travel and miscellaneous	17,368	286,807	9,300	73,114	386,589
Foreign exchange adjustments	(537,109)	(60,295)	(186,935)	(32,578)	(816,917)
Total additions	$ 478,583	$ 4,445,651	$ 892,055	$ 92,997	$ 5,909,286
Balance, June 30, 2016	**$ 7,724,741**	**$ 6,377,488**	**$ 2,983,582**	**$ 730,902**	**$ 17,816,713**

RESULTS OF OPERATIONS

Selected annual information

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

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

During the year ended June 30, 2016, the Company recorded a total comprehensive loss of \$11,541,808 (2015 - \$1,315,929), used \$6,476,706 (2015 – \$1,666,525) of cash in operations, incurred \$6,726,203 (2015 – \$1,941,318) on exploration expenditures as well as \$4,226,962 (2015 - \$2,763,164) on general and administrative expenses.

(\$, except shares amounts)	For the year ended June 30, 2016	For the year ended June 30, 2015	For the year ended June 30, 2014
Interest income	114,079	108,403	10,710
Total expenses (includes foreign exchange loss/gain)	10,535,032	2,849,567	2,665,669
Comprehensive loss	(11,541,808)	(1,315,929)	(2,411,234)
Comprehensive loss per share – basic and diluted	(0.11)	(0.03)	(0.04)
Funds used in operations	(6,476,706)	(1,666,525)	(1,128,057)
Total assets	49,279,201	24,728,583	13,458,386
Total liabilities	2,073,440	1,083,763	1,014,229
Exploration and evaluation expenditures	6,726,203	1,941,318	3,213,451
General and administrative expenses	4,226,962	2,753,173	1,068,668

During the year ended June 30, 2016, the Company's general and administrative expenses increased by \$1,473,789. Higher G&A expenses were due to the increase in management and directors' fees (refer to the Related Party Transaction section below) as well as higher legal and consulting fees associated with the Company's re-domiciled process.

General and administrative expenses for the years ended June 30, 2016 and 2015 were as follows:

	Twelve months ended	
	June 30, 2016	June 30, 2015
Management fees	**\$ 1,861,713**	\$ 705,084
Legal and accounting fees	**1,248,410**	1,041,619
Investor relations	**434,753**	427,862
Office expenses	**317,977**	177,495
Travel and insurance	**364,109**	401,113
Total	**\$ 4,226,962**	\$ 2,753,173

Summary of quarterly results

Three months ended June 30, 2016 compared to three months ended June 30, 2015.

During the fourth quarter of fiscal 2016, the Company realized a comprehensive loss of \$5,832,062 (2015 – \$128,448), operating activities used \$2,494,096 (2015 – \$1,507,160), incurred \$3,106,674 (2015 – \$500,453) on exploration expenditures, as well as \$1,726,262 (2015 - \$1,151,472) on general and administrative expenses.

	Three months ended	
	June 30, 2016	June 30, 2015
Comprehensive loss	**$ (5,832,062)**	$ (128,448)
Comprehensive loss per basic and diluted share	**(0.05)**	(0.01)
Funds used in operations	**(2,494,096)**	(1,507,160)
E&E expenditures	**3,106,674**	500,453
G&A expenses	**1,726,262**	1,151,472

The higher comprehensive loss during the fourth quarter is due largely to the higher G&A expenses of $574,790, higher share based compensation of $554,534, higher foreign exchange losses of $1,822,131, and higher foreign currency translation adjustment of $2,618,313 incurred during the period as compared to same period last year. The following table itemizes the individual G&A expense categories:

	Three months ended	
	June 30, 2016	June 30, 2015
Management fees	**$ 893,621**	$ 302,811
Legal and accounting fees	**617,574**	574,726
Investor relations	**112,622**	106,946
Office expenses	**29,029**	15,052
Travel and insurance	**73,416**	151,937
Total	**$ 1,726,262**	$ 1,154,472

Higher G&A expenses incurred during the fourth quarter were due to the increase in management fees which were the result of expanding the Company's executive team, and higher legal and consulting fees associated with the re-domicile process.

Twelve months ended June 30, 2016 compared to twelve months ended June 30, 2015.

During the twelve month period ended June 30, 2016, the Company realized a comprehensive loss of $11,541,808 (2015 - $1,315,929), used $6,476,706 (2015 - $1,666,525) in operations, incurred $6,726,203 (2015 - $1,941,318) on exploration activities as well as $4,226,962 (2015 - $2,753,173) on general and administrative expenses.

	Twelve months ended	
	June 30, 2016	June 30, 2015
Comprehensive loss	**(11,541,808)**	(1,315,929)
Comprehensive loss per basic and diluted share	**(0.11)**	(0.03)
Funds used in operations	**(6,476,706)**	(1,666,525)
E&E expenditures	**6,726,203**	1,941,318
G&A expenses	**4,226,962**	2,753,173

The higher comprehensive loss is due largely to the higher G&A expenses of $1,473,789, higher share based compensation of $3,277,615, higher foreign exchange of $2,688,677, and foreign currency translation adjustment losses of $2,568,090 incurred during the period as compared to the same period last year.

The following table itemizes the individual G&A expense categories:

	Twelve months ended	
	June 30, 2016	June 30, 2015
Management fees	**$ 1,861,713**	$ 705,084
Legal and accounting fees	**1,248,410**	1,041,619
Investor relations	**434,753**	427,862
Office expenses	**317,977**	177,495
Travel and insurance	**364,109**	401,113
Total	**$ 4,226,962**	$ 2,753,173

Higher G&A expenses incurred during the year were due to the Company's expanded executive team, higher legal and consulting fees related to re-domicile process.

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

$	Three months ended Jun. 30, 2016	Three months ended Mar. 31, 2016	Three months ended Dec. 31, 2015	Three months ended Sept. 30, 2015
Comprehensive loss	(5,832,062)	(2,522,100)	(2,761,663)	(425,983)
Comprehensive loss per basic and diluted share	(0.05)	(0.02)	(0.03)	(0.01)
Funds (used) provided in operations	(2,494,096)	(1,507,031)	(2,239,498)	(236,081)
E&E expenditures	3,106,674	1,507,200	738,187	1,374,142
G&A expenses	1,726,262	1,068,083	909,254	523,363
$	Three months ended Jun. 30, 2015	Three months ended Mar. 31, 2015	Three months ended Dec. 31, 2014	Three months ended Sept. 30, 2014
Comprehensive income/(loss)	(128,448)	102,179	(767,946)	(521,714)
Comprehensive income/(loss) per basic and diluted share	(0.01)	(0.00)	(0.01)	(0.01)
Funds provided (used) in operations	(1,507,160)	699,915	(533,824)	(325,456)
E&E expenditures	500,453	341,835	823,251	275,779
G&A expenses	1,151,472	567,526	637,236	396,939

LIQUIDITY AND CAPITAL MANAGEMENT

Working Capital

The Company is not in commercial production on any of its resource properties and accordingly, it does not generate cash from operations. The Company finances its activities by raising capital through equity issuances. As at June 30, 2016, the Company had a working capital surplus of $27,159,677 (June 30, 2015 - $9,451,590). The current working capital is dedicated towards the completion of exploration programs, obligations and operations under the Company's principal supply agreement, feasibility studies on the lithium and borate projects along with continued work at the pilot plant. In order to meet the Company's planned growth and development activities, the Company budgets to spend an aggregate of approximately $18 million during fiscal 2017, with approximately $7 million on the Feasibility Study and related expenditures, approximately $6 million on pilot plant related capital expenditures and approximately $5 on general and administrative corporate expenditures.

At June 30, 2016, the Company did not have any bank debt and does not plan on securing any long-term debt. The Company intends on meeting its financial commitments through further equity financings, as and when required.

Capital structure

The Company's objectives in managing capital are to safeguard its ability to operate as a going concern while pursuing exploration and development of its assets. The Company defines capital as the Company's shareholders equity excluding contributed surplus, of $44,482,529 at June 30, 2016 (June 30, 2015 - $23,667,847), The Company sets the amount of capital in proportion to risk and corporate growth objectives. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company is not subject to any externally imposed capital requirements.

Equity instruments

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

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

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

On December 2, 2105 and January 22, 2016, the Company granted 1,000,000 and 2,000,000 common share options respectively to Mark Hohnen, each such option being exercisable into one common share at a price of $1.58 and $1.59 respectively per share, each option grant expiring on January 22, 2018 and May 27, 2019 respectively.

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

On May 20, 2016, the Company completed a private financing of 9,750,000 placing shares and 2,925,000 placing warrants at a price of approximately $1.48 (£0.79) per placing share for aggregate gross proceeds of approximately $14.7 million (£7,702,500). The Company paid commission of $440,450 (£231,075) and other share issue expenses of $64,940.

On September 30, 2016, 2,925,000 warrants at a price of approximately $1.35 (£0.79) were exercised into 2,925,000 new common shares, for total proceeds of approximately $3,938,200 (£2,310,750).

The following tables summarize the outstanding securities issued by the Company as at June 30, 2016, and as of the date of this MD&A.

	October 26, 2016	June 30, 2016
Common shares	110,799,353	107,874,353
Stock options	4,975,000	4,975,000
Warrants	833,333	3,758,333
Total equity instruments outstanding	116,607,686	116,607,686

The following table summarizes the outstanding options as at June 30, 2016.

Grant date	Number outstanding at June 30, 2016	Exercise price	Weighted average remaining contractual life (Years)	Expiry date	Number exercisable at June 30, 2016
September 28, 2012	50,000	0.25	1.5	Sept. 28, 2017	50,000
September 11, 2013	725,000	0.30	2.2	Sept. 11, 2018	725,000
December 2, 2015	1,200,000	1.58	4.4	Dec. 2, 2020	1,200,000
January 22, 2016	1,000,000	1.56(1)	1.6	Jan. 22, 2018	1,000,000
April 27, 2016	2,000,000	1.94(2)	2.9	May 27, 2019	-
	4,975,000				2,975,000

(1) Exercise price of £0.77 per share.
(2) Exercise price of £ 0.96 per share.

SEGMENTED INFORMATION

The Company currently operates in one operating segment, the exploration and development of mineral properties in Mexico. The Company has an office in Calgary, and London but it does not generate any revenues or hold any non-current assets at these locations. Management of the Company makes decisions about allocating resources based on the one geographic operating segment. A geographic summary of the identifiable assets by country is as follows:

	Exploration and Evaluation Activities		**Consolidated**	
	June 30, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
Property and equipment	**$ 2,364,371**	$ 2,570,803	**$ 2,364,371**	$ 2,570,803
Exploration and evaluation assets	**$17,816,713**	$11,907,427	**$17,816,713**	$11,907,427

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

a) Credit risk

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

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

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

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

b) Liquidity risk

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

c) Market risk

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

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

d) Fair values

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

RELATED PARTY TRANSACTIONS

a. Related party expenses

During the three and twelve months ended June 30, 2016, directors and management fees in the amount of $826,748 and $1,801,511 respectively (2015 - $314,439 and $705,084, respectively) were paid to directors and officers of the Company. Of this amount, $Nil (2015 - $Nil and $157,353, respectively) was capitalized to exploration and evaluation assets, and $826,748 and $1,801,511 respectively (2015 - $314,439 and $547,731 respectively) was expensed as general and administrative costs. Of the total amount incurred as directors and management fees, $38,075 (2015 – $58,706) remained in due to related parties on June 30, 2016.

During the three and twelve months ended June 30, 2016, the Company paid $Nil and $44,147 respectively (2015 - $11,468 and $67,723, respectively) to a daughter of the Chairman of the Board of

Directors of the Company. These services were incurred in the normal course of operations for office administrative services. As of June 30, 2016, $Nil (2015 - $Nil) remains in due to this related party.

During the three and twelve months ended June 30, 2016, the Company paid $225,107 and $856,061 respectively (2015 - $167,167 and $978,946 respectively) to Grupo Ornelas Vidal S.A. de C.V., a consulting firm of which Martin Vidal, director of the Company and president of MSB, is a partner. These services were incurred in the normal course of operations for geological exploration and pilot plant operation services. As of June 30, 2016, $77,416 (2015 - $80,080) remains in due to related parties.

b. Key management personnel compensation

The Company's related parties include directors and officers and companies which have directors in common. Transactions made with related parties are made in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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

For the year ended,	**June 30, 2016**	June 30, 2015
Directors' fees:		
Colin Orr-Ewing	**$ 59,706**	$ 60,000
James Leahy	**28,011**	20,000
Guy Walker	**4,396**	19,389
Shane Shircliff	**16,671**	17,500
Derek Batorowski	**16,671**	17,500
Kiran Morzaria	**16,794**	12,072
Mark Hohnen	**224,058**	-
Total directors' fees:	**$ 366,307**	$ 146,461
Management and consulting fees:		
Paul Conroy[(1)]	**$ -**	$ 50,000
Peter Secker	**972,418**	76,442
Martin Vidal	**240,336**	222,706
Shane Shircliff	**-**	77,000
Derek Batorowski	**222,450**	132,475
Total management and consulting fees	**$ 1,435,204**	$ 558,623
Employee's salary:		
Cordelia Orr-Ewing	**$ 44,147**	$ 67,723
Total employee's salaries	**$ 44,147**	$ 67,723
Total director's, management's, consultant's and employee's salaries and fees	**$ 1,845,658**	$ 772,807
Operational consulting fees:		
Groupo Ornelas Vidal SA CV	**$ 856,061**	$ 978,946
Stock-based compensation	**$ 2,020,881**	$ -

(1) Mr. Conroy resigned his positions as Director and VP, Special Projects on June 20, 2014. He remained with the Company as a consultant until October 31, 2014

The Company's directors currently hold the following common share options:

	Date of grant	Exercise price	Number of options
	September 11, 2013	$0.30	200,000
Shane Shircliff	December 2, 2015	$1.58	175,000
	September 11, 2013	$0.30	200,000
Martin Vidal	December 2, 2015	$1.58	175,000
	September 11, 2013	$0.30	200,000
Derek Batorowski	December 2, 2015	$1.58	175,000
	December 2, 2015	$1.58	1,000,000
Mark Hohnen	January 22, 2016	$1.94	2,000,000

COMMITMENTS AND CONTINGENCIES

The Company has commitments for lease payments for field offices with no specific expiry dates. The total annual financial commitment resulting from these agreements is $10,735.

The properties in Mexico are subject to spending requirements in order to maintain title of the concessions. The capital spending requirement for 2017 is $333,180. The properties are also subject to semi-annual payments to the Mexican government for concession taxes.

SUBSEQUENT EVENTS

On September 30, 2016, 2,925,000 warrants at a price of approximately $1.35 (£0.79) were exercised into 2,925,000 new common shares, for total proceeds of approximately $3,938,200 (£2,310,750).

RISKS AND UNCERTAINITES

The mineral exploration industry is subject to numerous risks and uncertainties that can affect the Company's ability to explore and develop its mineral deposits and to ultimately generate cash flows from operations. In addition to the risks described in Note 5 of the audited consolidated financial statements for the year ended June 30, 2016, these risks and uncertainties include, but are not limited to the following:

- **Resource estimates**

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

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

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

- a reduction in the market price of lithium and or borates;
- delays in obtaining or an inability to obtain, or conditions imposed by, regulatory approvals;
- non-performance by third party contractors;
- inability to attract sufficient numbers of qualified workers;
- change in environmental compliance requirements;
- unfavourable weather conditions;
- contractor or operator errors;
- lack of availability of infrastructure capacity;
- increases in extraction costs including plant, material and labour costs;
- lack of availability of mining equipment and other exploration services;
- catastrophic events such as fires, storms or explosions;
- the breakdown or failure of equipment or processes;
- construction, procurement and/or performance of the processing plant and ancillary operations falling below expected levels of output or efficiency;
- violation of permit requirements;
- the lack of progress with respect to the development of appropriate extraction technologies;
- the political stability of Mexico; and
- taxes and imposed royalties.

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

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

- **Financing risk**

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

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

- **Dependence on key personnel**

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

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

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

- **Government Legislation and regulatory risk**

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

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

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

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

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

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

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

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

- **Applications**

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

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

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

- **Share Capital of Mexican Subsidiaries**

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

- **Exploration uncertainty**

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

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

- **Negative conclusions from further economic assessments**

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

- **Internal controls**

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

- **Environmental compliance**

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

- **Environmental approvals**

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

- **Further licences and permits required**

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

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

- **Unknown environmental hazard**

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

- **Exploration, development and operating risks**

  It is impossible to ensure that the development programmes planned by the Company will result in a profitable commercial operation. Whether the Company's lithium and borate projects will be commercially viable depends on a number of factors, some of which are: (i) the particular attributes of the material excavated from the Company's concessions; (ii) the performance of the full-scale commercial production operations; (iii) the end prices that can be achieved by the Company for products offered to customers, which may be volatile; and (iv) government regulations, including regulations relating to prices, taxes, royalties, land use, importing and exporting of minerals and environmental protection. While the directors of the Company believe

  that the results of the small scale mineral extraction processes that have been achieved at the Pilot Plant are encouraging, the performance, yields, operating costs and capital costs of the full scale mineral production plant may differ materially from expectations, and the economic returns from processing the extracted ore into commercially saleable lithium or borate may be lower than anticipated. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

- **Reliance on third parties**

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

- **Operations**

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

- **Commodity prices**

  The profitability of the Company's operations will be dependent upon the market price of the products able to be sold by the Company. Mineral prices fluctuate widely and are affected by numerous factors beyond the control of the Company. General economic factors as well as the world supply of mineral commodities, the stability of exchange rates and political developments can all cause significant fluctuations in prices. The price of mineral commodities has fluctuated widely in recent years and future price declines could cause commercial production to be impracticable, thereby having a material adverse effect on the Company's business, financial condition and results of operations. The Company has entered into Conditional Lithium Sales Agreements and is in discussions for further Agreements for lithium product sales, these Agreements use different commodity prices than the prevailing market price and could result in material write-downs of the Company's assets.

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

- **Infrastructure**

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

- **Canadian corporate income taxes**

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

- **Tax considerations**

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

- **Uninsured hazards**

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

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

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

- **Exposure to economic cycle**

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

- **Health and safety**

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

- **Geopolitical climate**

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

- **Foreign currency exchange rates**

  The Company's revenues will be derived n Mexico and the Company's operations and profitability may be adversely affected by movements in foreign currency exchange rates,

  particularly by movements in the US Dollar relative to Sterling, the Canadian Dollar and the Mexican Peso, through both transaction and conversion risks.

- **Supply Agreement**

  The Company has entered into a material long-term lithium hydroxide supply agreement, which is subject to a number of conditions. There is no guarantee that the Company will be able to satisfy the key conditions to that agreement. Details of the supply agreement are set out in the Company's press release dated August 27th, 2015.

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

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

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

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

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

ADVISORY REGARDING FORWARD LOOKING STATEMENTS

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