Bacanora Lithium Plc

Annual Report and Financial Statements

31 December 2021

Company Directory

Board of Directors	Wang Xiaoshen (Appointed Chairman 27 January 2022) Peter Secker (CEO) Junichi Tomono Mark Hohnen (Former Chairman, Resigned 17 December 2021) Eileen Carr (Resigned 17 December 2021) Jamie Strauss (Resigned 17 December 2021) Andres Antonius (Resigned 17 December 2021) Graeme Purdy (Resigned 17 December 2021)
Chief Financial Officer	Janet Blas
Company Secretary	Cherif Rifaat
Registered Office	4 More London Riverside London SE1 2AU
Website	www.bacanoralithium.com
Lawyers	Gowling WLG (UK) LLP 4 More London Riverside London SE1 2AU
Auditors	BDO LLP 55 Baker St London W1U 7EU
Registered Number	11189628

Contents

Business Review

Highlights – for the twelve months ended 31 December 2021 and subsequent events:

Completion of cash offer by Ganfeng International Trading (Shanghai) Ltd, a 100% subsidiary of Ganfeng Lithium Co., Ltd (collectively "Ganfeng") for Bacanora Lithium Plc ("Bacanora" or the "Company") share capital

- On 6 May 2021, Bacanora and Ganfeng announced that they had entered into an agreement regarding the terms of a possible cash offer for the entire issued and to be issued share capital of Bacanora that Ganfeng does not already own.
- On 25 August 2021, the Bacanora Independent Directors and the Ganfeng Board reached an agreement on the terms of a recommended conditional cash offer to be made by Ganfeng for the entire issued and to be issued ordinary share capital of Bacanora not already owned by Ganfeng (the "Offer"). The Bacanora Board also intend to make a conditional distribution *in specie*, comprising the shares in Zinnwald Lithium Plc (AIM:ZNWD) ("Zinnwald") currently owned by Bacanora (the "Zinnwald Distribution"), to all Bacanora shareholders (including Ganfeng) on the record date, being the date the Offer becomes or is declared unconditional. The Zinnwald distribution is subject to various conditions. Subject to the conditions being met, Bacanora shareholders were entitled to receive for each Bacanora share 67.5 pence in cash from Ganfeng pursuant to the Offer and 0.23589 Zinnwald shares to be distributed by Bacanora.
- On 17 December 2021, Ganfeng announced that the final condition relating to the Mexican Antitrust clearance was satisfied, and therefore that the offer was unconditional. Furthermore, on 23 December 2021, Ganfeng had received acceptances in excess of 75 percent of Bacanora's issued ordinary share capital and made an application to the London Stock Exchange for the cancellation of the admission of Bacanora shares to trading on AIM. The cancellation took effect at 7.00 am (GMT) on 26 January 2022.
- As at 31 December 2021, Ganfeng have had acceptances or already controlled 333,342,270 Bacanora shares of the 387,136,502 shares in issue, representing 86.1% of Bacanora's issued ordinary share capital. The Offer will remain open for acceptance until further notice, full details are available on the Company's website[1].

Corporate financing for Bacanora's 50% share of the funding requirements of the Sonora Lithium Project ("Sonora Project" or "Project"), Mexico

- On 8 February 2021, Bacanora completed a successful placing and retail offer which raised gross proceeds of £48.1 million (US$66.3 million) through the issue of a total of 106,995,885 new ordinary shares at a price of 45 pence per placing share.
- In addition to the placing and retail offer, Ganfeng, Bacanora's cornerstone investor and offtake partner, exercised its pre-emption right at the placing price and increased its holding in the Company on 26 May 2021. Ganfeng subscribed for a total of 53,333,333 new ordinary shares at the placing price of 45 pence per share, representing gross proceeds of £24.0 million (US$33.9 million). On completion of Ganfeng's investment in May 2021, Bacanora had 384,144,901 shares in issue and Ganfeng had an ownership stake of 28.88%.
- Ganfeng completed its option to increase its stake in Sonora Lithium Ltd ("SLL") from 22.5% to 50% (the "Option") on 26 February 2021. SLL is the operational holding company for the Sonora Project. Consequently, Ganfeng have subscribed for 73,955,680 new ordinary shares in SLL at 29.59 pence per share at a total value of £21.9 million (US$30.4 million). On completion of the transaction, a revised 50:50 Joint Venture Agreement ("JVA") came into force, whereby each party is responsible for their portion of the Project capex.
- After review of the provisions of the revised JVA, the Company has assessed that Bacanora now has joint control over SLL and its subsidiaries (the "Sonora Lithium Group"). Therefore, in the Group financial statements, the Group no longer consolidates the Sonora Lithium Group and instead recognises its investment in the Sonora Lithium Group.
- Bacanora has repaid the Company's outstanding debt notes and associated warrants held by RK Mine Finance ("RK"), in full and early, in line with the terms of the RK loan facility on 7 January 2022, with payments totalling US$42.3 million including warrants, early redemption fees, accrued interest and principal repayment.

[1] www.bacanoralithium.com/investor-relations/ganfeng/

- Bacanora and its subsidiaries (the “Group”) had a strong consolidated cash balance of US$122.1 million as at 31 December 2021. Together with the cash in Sonora Lithium Group of US$26.6 million, the total aggregated cash balance amounted to US$148.7 million as at 31 December 2021.

Sonora Project – focused on finalising engineering processes and early site works

- Whilst COVID-19 has impacted the Company and its partners, work to complete the front-end engineering design (“FEED”) has continued throughout the period. Ganfeng is currently appointing a Chinese Design Institute to complete the FEED with initial site layouts scheduled for Q2 2022.
- Ganfeng is continuing to work with its equipment suppliers and, along with the Company, is maintaining its previously advised project delivery schedule with first lithium production in H2 2024.
- Rescue and removal of surface vegetation and topsoil in the area required for the construction of the lithium processing plant have been completed. Plant site location survey, geotechnical, and hydrogeological works have also been completed.
- Works to build the construction road and early work camp have commenced. Site works for bulk earthworks are expected to commence in late 2022.

Zinnwald Lithium Project, Germany (“Zinnwald Project”) – acquisition of the remaining 50% of Deutsche Lithium and distribution to shareholders of Bacanora

- In June 2021, Zinnwald, Bacanora’s associate company, acquired the remaining 50% of Deutsche Lithium GmbH (“DL”) that it did not already own for a total consideration of €8.8 million consisting of a cash payment of €1.5 million and the issue of approximately 50 million new shares in Zinnwald (the "DL Acquisition"). The DL Acquisition gives Zinnwald full ownership and operational control of the Zinnwald Project and is in line with its corporate objective to become a key supplier to the European lithium market.
- In order to provide additional value to Bacanora shareholders, Ganfeng agreed as part of the Offer, that Bacanora could propose a distribution in specie of Zinnwald shares to Bacanora shareholders, so that for each Bacanora share a Bacanora shareholder would receive 0.23589 Zinnwald shares. The making of this distribution was subject to various conditions, the last of which is the Offer becoming or being declared unconditional, which was met on the record date of 17 December 2021. The distribution of the Zinnwald shares was made to Bacanora shareholders on 22 December 2021.

CEO Statement

Dear Stakeholders,

This year saw many milestones achieved in progressing our flagship Sonora lithium asset from green field asset to the initial stages of construction. This year has been extremely busy both from an operational and corporate perspective beginning with a successful equity placing and retail offer which raised gross proceeds of £48.1 million (US$66.3 million). This marked a pivotal moment in the Company's history and demonstrated the appetite for new lithium assets globally. The fundraising provided the financing to meet the Company's share of the initial development of the Sonora Project and allowed the Project to commence the early site works.

Furthermore, the Company secured an additional US$33.9 million from Ganfeng's exercise of pre-emption rights, the Company's largest shareholder. Ganfeng also completed a US$30.4 million investment in SLL, increasing its stake from 22.5% to 50%.

Subsequent to the aforementioned corporate activities, the Company received a cash offer from Ganfeng. Ganfeng's cash offer for Bacanora, which with the inclusion of the Zinnwald distribution, valued the Company at a premium to the pre-offer share price of 59.4% and delivered an immediate liquidity opportunity for all shareholders. The Offer completed on 17 December 2021 and Ganfeng, as of the date of release, owned a controlling stake of over 90% of the issued shares in the Company.

On the ground and within our in-country teams, Ganfeng's commitment has helped secure the future of the Sonora Project, undoubtedly a world-class asset that is expected to cornerstone their globally significant plans. Under Ganfeng, this Project will continue to empower the area with investment, employment, and tax revenues to the benefit of Mexico. Ganfeng's history and expertise in the lithium battery space cannot be over-emphasised, and their commitment to Sonora will help the asset weather any headway in construction or in the ramp-up stages.

As a result of Ganfeng having control of in excess of 75% of our share capital, Bacanora was recently delisted from the London Stock Exchange. As part of the Offer, the Board of Bacanora successfully negotiated for its Zinnwald shares to be added to the cash offer. This distribution was approved by shareholders and enables shareholders to retain their exposure in this exciting commodity market. Once the transaction went unconditional, Bacanora's independent directors, Jamie Strauss, Eileen Carr, Andres Antonius, and Graeme Purdy, resigned. Furthermore, Mark Hohnen, our longstanding Chairman, who has held executive and non-executive positions at the Company also resigned. I thank them for all their contributions on the Board in guiding the Company through to the successful financing stage.

More recently, the Company also fully repaid the RK loan facility relating to the first tranche drawdown of US$25 million from 2018 and settled the six million warrants issued at the time. Clearing Bacanora's debt allows the removal of all securities and covenants registered under this facility in preparation for constructing our production plant.

The safety of our staff and communities stays at the forefront of our operations. During the year, we continued to work closely with the authorities in Mexico to maintain an appropriate response to the COVID-19 pandemic and the Company remains committed to doing so moving forward. On-site, it has now been over three years with zero lost-time injuries, a record we are incredibly proud of and aim to continue to extend. These achievements would not be possible without the commitment of our staff and managers at site and at the pilot plant.

A global shift towards green energy and a more sustainable future has buoyed the lithium market. COP 26 in Glasgow shone a bright light on reducing our dependence on fossil fuels and limiting global warming. The green transition requires battery technology in our electricity grid and to power electric vehicles. Ganfeng has supply agreements with some of the world's largest car manufacturers, Tesla, VW and BMW, to name a few. They are all committed to driving the global fleet towards a greener future. With booming demand and new assets struggling to come online fast enough, we expect the lithium market to remain buoyant in the foreseeable future.

Despite the current optimism in lithium market forecasts, some lithium producers are facing increased uncertainty in a number of areas, including an increased focus on resource nationalism and increasing cost pressures. In Mexico, on 30 September 2021, politicians from the MORENA party tabled a draft bill to reform Mexico's energy sector including statements that lithium would be included among the minerals considered strategic for the energy transition and indicated that no new concessions could be granted for lithium exploitation by private companies. We are continually reviewing any proposed changes in legislation and continue to meet all obligations to maintain the validity of all of our mineral concessions. Elsewhere, the lithium industry is feeling the effects of global commodity cost inflation, with supply chain disruptions, consumer inflation and significant fluctuations in energy costs. This has been recently demonstrated in the US where natural gas consumers experienced a 39% increase in gas prices in 2021 due to the global economic recovery, cold weather, and supply disruptions, according to the World Bank. Whilst increased energy costs and inflation have the potential to impact operating costs in Sonora, this will also impact the cost curve for all other global lithium producers.

I would also like to take this opportunity to express my sincere thanks to the Board, including those who have recently departed, our management team and employees for their dedication and hard work developing the Sonora Project to the start of construction. I would also like to thank all our stakeholders for their continued support.

Detailed design work continues apace, and I look forward to seeing the Sonora Project develop to production enabling a greener future.

Peter Secker, Chief executive officer

28 February 2022

Strategic Report

Business Model

Our business model is to create shareholder value through the investment in the Sonora Project in Mexico via the 50% holding in SLL and by extension the Sonora Lithium Group.

To capitalise on the fast-growing lithium market, our main focus is to monetise the resources and reserves held in the Sonora Lithium Group, which benefits from a large, scalable and high-grade lithium resource with a global Resource (measured, indicated and inferred) of almost 9 million tonnes lithium carbonate equivalent ("LCE"). This will be initially achieved by developing phase 1 of the mine and processing plant. The Company aims to produce battery-grade lithium product for sale to downstream cathode and battery manufacturers through existing offtake partners Ganfeng and Hanwa Co., Ltd ("Hanwa"). The Company published the Sonora Feasibility Study ("SFS") in January 2018 that showed a pre-tax NPV of US$1.25 billion, 26% IRR and an operating cost of approximately US$4,000 per tonne assuming a long-term price of US$11,000 per tonne. Given the cost profile, the Project remains attractive, even in a low price market, please see market review section on page 33 for more details on the dynamics of the market. Bacanora has ten licences covering almost 100,000 hectares in Sonora, of which seven licences form part of the SFS.

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

1. A world class lithium resource containing approximately 9 million tonnes of LCE.
2. An experienced Board and operational leadership team.
3. Access to strong technical skills either from the Sonora Lithium team, our major shareholder and joint venture partner Ganfeng and our global network of advisers.
4. Over six years of pilot plant operations in Mexico.
5. Emphasis on building strong local organisations and skill sets.
6. Commitment to excellence in Environment, Social and Corporate Governance matters.
7. Long-term lithium offtake agreements with Ganfeng and Hanwa.
8. Disciplined capital management and careful handling of Company resources.

Strategy

Bacanora intends to become a Mexico focussed lithium production company, producing high quality battery-grade products.

The Board's strategy to achieve this goal involves several stages:

1. Identify a world class project that can address the rapidly increasing demand for lithium for electric vehicles and energy storage industries.
   - Sonora has identified its NI 43-101 Measured, Indicated and Inferred Resource of 8.8 million tonnes of LCE resources suitable for open pit mining to ultimately produce battery-grade lithium products.
2. Complete the feasibility study to evaluate and quantify the economic potential of its Sonora Project.
   - 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.
3. Complete the detailed design of the mine and 17,500 tpa processing plant for stage 1 of the Sonora Project.
   - As a result of the completion of the Ganfeng Offer transaction, Ganfeng will be responsible for leading the EPC programme for the Project, which includes the hydrometallurgical part of the processing plant that produces the final battery-grade product.
   - Ganfeng is currently appointing a Chinese Design Institute to complete the FEED with initial site layouts scheduled for Q2 2022, with site works for bulk earthworks expected to commence in late 2022.
4. Validate the quality of its product by securing high quality offtake partners.
   - Bacanora has used its pilot plant, which has been in operation for several years to provide samples of its lithium products to prospective customers, predominantly in Japan and China. This has resulted in Hanwa, one of Japan's largest metals trading houses, signing a ten-year offtake agreement for 50% of stage 1 of production and investing in the Company directly. In October 2019, the Company completed its offtake

agreement with Ganfeng, the world's largest lithium company by Market Capitalisation[2], for 50% of stage 1 production and up to 75% in Stage 2.

5. Complete the funding required to construct its Project.
   - Ganfeng has invested an initial £22.0 million (US$30.1 million) for 29.99% of the Company and 22.5% of the Sonora Project at the project level in 2019.
   - The Company successfully raised £48.1 million (US$66.3 million) from issuance of new ordinary shares with institutional and retail investors in February 2021. In addition to the placing and retail offer, Ganfeng exercised its pre-emption rights, representing gross proceeds of £24.0 million (US$33.9 million).
   - Ganfeng completed its Option to increase its stake in SLL to 50% in February 2021 for £21.9 million (US$30.4 million)
   - Ganfeng Offer to buy the remaining shares in Bacanora that it didn't currently own, became unconditional on 17 December 2021. As majority shareholder of Bacanora, Ganfeng will need to meet further funding requirements for the Sonora Project.
6. Construction and commissioning of the Sonora Project's plant.
   a. Ganfeng is currently appointing a Chinese Design Institute to complete the FEED with initial site layouts scheduled for Q2 2022.
   b. Ganfeng is continuing to work with its equipment suppliers and, along with the Company, is maintaining its previously advised project delivery schedule with first lithium production in H2 2024.
   c. Works to build the construction road and early work camp have commenced. Site works for bulk earthworks are expected to commence in late 2022.
7. Hiring of a team with the expertise to deliver the Sonora Project into production.
   - As at 31 December 2021, the Company had 8 employees, contractors and Directors. Whilst there were 15 employees and contractors in the Sonora Project. Bacanora is led by CEO Peter Secker with over forty years of experience who has built and operated 5 greenfield mining projects.

[2] https://investingnews.com/daily/resource-investing/battery-metals-investing/lithium-investing/top-lithium-producers/

Operations

Bacanora owns 50% of SLL which is the holding company for the Sonora Project which is currently in the early works phase of construction. The Sonora Project will move into full construction once the final commitment by the Ganfeng and Bacanora Boards are received. In terms of how the Company expects SLL's main operations to evolve, this will include inter alia:

1. Environment, Social and Corporate Governance factors
    - We recognise the risks involved in our business and our responsibility to uphold high ESG standards across our business. Responsibility is integral to Bacanora's culture. It defines how we work and how we behave, governing how we interact with our customers, our partners and our communities.
    - The Group monitors its safety 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[3]. As the Sonora Project moves into its construction and production phases, the appropriate local level policies will also be put in place.
2. Property, plant and equipment
    - The Company's property, plant and equipment comprise primarily the evaluated mineral property, pilot plant in Hermosillo, land, and office furniture and IT equipment in Mexico and the UK.
    - As the Sonora Project moves into construction and production, it will purchase the property, plant and equipment as determined by completion of the FEED.
3. Maintenance
    - In the Sonora Project, Bacanora's existing staff maintain the pilot plant and have had no material issues. The pilot plant has completed its primary objective to produce samples of lithium products including lithium carbonate, lithium hydroxide, lithium sulphate and roasted concentrate as proof of concept and provide samples to potential engineering and offtake partners. In future the pilot plant will be used as a training tool for process plant operations personnel and a design facility for lithium process optimisation and improvement.
    - It is envisaged that the construction of the three main portions of the processing plant will be done under EPC/M contracts, which will include all relevant inspections, costs to complete and process guarantees. Once construction is complete, the Company will maintain and operate its facilities.
4. Delivery and transportation
    - The final lithium products will be sold on a Free On Board basis to the Company's offtake partners and will be transported by road from the processing plant to the port of Guaymas in Sonora, Mexico at which point ownership will pass to Hanwa and Ganfeng, who will then ship the product by sea to their end customers.
5. Sales and marketing
    - The Company has signed offtake agreements to sell 100% of its Stage 1 lithium production to its offtake partners, who will either use the lithium products themselves or on-sell the product on to end-users. This is in line with the wider industry practice for battery-grade lithium products, where users typically require long-term supply contracts. The Company will work in conjunction with its offtake partners to assist them in this process but does not envisage a dedicated internal sales and marketing function.
6. Suppliers and contractors
    - At Sonora, the main suppliers of its raw materials, such as soda ash and liquified natural gas ("LNG"), will be local Mexican and US suppliers and the Group is in discussions to secure long-term supply agreements. Energy will primarily come from the consumption of gas, which will be initially supplied by trucked LNG, and then via a gas pipeline as outlined in the SFS.
7. R&D
    - The Company currently has no patents registered on its production techniques and intends to use a well-established sulphate roast processing route.
8. Employees
    - As at 31 December 2021, the Company had 8 employees, contractors and Directors, in the corporate segment, based in the United Kingdom and internationally. Sonora Lithium Group had 15 employees and contractors as at 31 December 2021.

---

[3] https://bacanoralithium.com/investors/documents/csr_documents

Key Challenges

Having secured the financing in early 2021 and subsequently, Ganfeng becoming a controlling shareholder in the Company, the Company intends to move into the project construction stage in late 2022 to develop the Project subject to all relevant approvals. The Company has a world-class majority shareholder and joint venture partner for the Project in Ganfeng. Ganfeng has a wealth of experience in creating operating lithium product plants. The Company intends to begin the construction of the plant in the midst of the worst global pandemic in 100 years, this will bring several challenges to the construction phase, principally, ensuring the safe operation of the construction site. It is a key challenge to ensure that our operation prevents further transmission of the disease amongst workers and local communities and the construction can continue unabated, so that the Project can be delivered on time and within budget.

The production of battery-grade lithium products from the Sonora Project will be from open pit mining operations feeding a three-part chemical processing plant using the conventional sulphate route comprising beneficiation, pyrometallurgical and hydrometallurgical sections. The Company has operated a lithium pilot plant in Sonora for the past 6 years to demonstrate the viability of the Sonora Project. The processing plant will require the supply of both gas and high voltage electricity infrastructure to the site. The long-term plan is for a third-party service provider to provide energy supply via a cogeneration plant using natural gas as the fuel from a pipeline that they will construct. The Company is currently in discussion with a number of contract suppliers. 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.

As is common in commodity markets, there is a degree of pricing uncertainty. The lithium market is no exception and has experienced volatility over the past 5 years. From the high prices in 2018, the lithium markets encountered downward pressure on lithium product pricing as a result of oversupply in the market. In Q4, 2020, prices bottomed out at circa US$5,750 per tonne[4] and 2021 has seen a pricing improvement, with spot prices in Q4 2021 approaching record levels of US$40,000 per tonne [5,6]. However, the longer term views on contract lithium prices from the major banks, the structure under which product from Sonora will be sold, continue to maintain a range forecast of US$15,000 to US$17,500 per tonne[7]. However, there remains a degree of pricing uncertainty surrounding the emerging lithium market as EV demand forecast continue to be updated. Please refer to the *Operational Review* section for more detailed analysis of market dynamics.

Risk management

The Board is responsible for putting in place a system to manage emerging and existing risk and implement internal control. Risks can manifest themselves as threats or can present as opportunities to be exploited, both can affect business performance.

The Board recognises the need for an effective and well-defined risk management process and, whilst it oversees and regularly reviews the current risk management and internal control mechanisms, it has historically delegated this responsibility primarily to the Audit Committee of the Board and Senior Executive Management during the year. Following the delisting of the Company from AIM, the Board committees have been removed and the relevant powers and responsibilities returned to the Board as whole. The Board has considered mechanisms by which the business and the financial risks facing the Group are managed and reported to the Board. The Board acknowledges it has responsibility for reviewing the effectiveness of the systems that are in place to manage risk. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives. Any system can only provide reasonable and not absolute assurance against loss.

All of our employees are responsible for identifying, evaluating and managing risks. Our operational and group management supports the understanding and management of risks at all levels of the business. Executive management provide a framework for managing and reporting material risks to the Management Risk Committee comprising of senior corporate and operational managers. The Management Risk Committee's role is to consolidate, challenge and report risk management information to Executive management, who may escalate in turn to the Board of Directors.

[4] https://seekingalpha.com/article/4396403-lithium-junior-miner-news-for-month-of-december-2020
[5] https://seekingalpha.com/article/4400927-lithium-miners-news-for-month-of-january-2021
[6] https://www.benchmarkminerals.com/membership/lithium-carbonate-prices-break-through-40-kg-barrier/
[7] Canaccord Genuity – EV materials, Analyst note, 24 January 2022

Bacanora has developed procedures for identifying, evaluating and managing significant risks faced by the Group and Sonora Lithium Group.

Roles and responsibilities for risk management within Bacanora:

Risk oversight	Bacanora Board	• Ultimately responsible for risk management and communicating Group Risk Management Framework. • Confirms that management's strategies are within the Board's risk appetite tolerance.
3rd party review of risk	Assurance activities	• Provides assurance to Executive Management on the effectiveness of the Group Risk Management Framework and its application across the business, as necessary.
Group risk Management	Senior Executive Management	• Responsible for ensuring that operating and group functions implement the Group Risk Management Framework and provide challenge on risk issues, their mitigation, and the overall risk appetite of the Group.
	Management Risk Committee	• Ongoing development and co-ordination of the system of risk management. • Consolidation, challenge and reporting of all risk management information. • Providing support and guidance on the application of risk management
	Setters of Group standards and processes	• Develop, maintain and communicate Group-level controls, including policies, standards and procedures.
Operational risk management	Senior Operational Management	• Responsible for implementing the requirements of the Group Risk Management Framework and for providing assurance to the Management Risk Committee that it has done so.
	Setters of operational standards and processes	• Develop, maintain and communicate operational-level controls, including policies, standards and procedures.
	Functional management: e.g., HSEC, HR, Finance	• Oversight and review of common risk areas (relating to own area of responsibility) across Group and operations.
	Operators	• Responsible Identifying, evaluating and managing risks. • Reporting risk to functional and Senior Operational Management.

The principal business and financial risks have been identified and control procedures implemented.

a) Financial controls

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

- The Board is responsible for reviewing and approving overall strategy of the Company, approving budgets and plans. Monthly results and variances from plans and forecasts are reported to the Board.
- Management assist the Board in discharging its duties regarding the financial statements, accounting policies and the maintenance of robust operational and financial controls.
- Procedures have been implemented for Budgeting and Planning, Procurement to Pay, Financial Close and Reporting and Treasury. These are used for monitoring and reporting business performance to the Board against those budgets and plans, and for forecasting expected performance over the financial period. These cover income statements, cash flows, capital expenditures and balance sheets.

b) Internal controls

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

- Scheduled Board meetings to consider the 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 where there are variances;
- The Board considers significant financial control matters as appropriate; and,
- Documented whistle-blowing policies and procedures.

c) Principal Risks and Uncertainties

The Group's internal risk identification and management process is undertaken by the Executive management team and Management Risk Committee who prepare and review 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 Board (historically via its previously formed Audit Committee), and specific risk items may also be discussed at Board level as appropriate. The risk register is regularly updated as part of the risk management process.

The principal risks and uncertainties outlined in this section reflect the risks that could materially affect Bacanora, or its ability to meet its strategic objectives, either directly or by the triggering of events that become material to the Group or joint venture companies. The principal risks and trends outlined in this report should be viewed through the prism of forward-looking statements and are made with a varying degree of uncertainty.

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 Project

Development of mineral properties involves a high degree of risk. Only a few properties that are explored are ultimately developed into producing mines. Large capital investments require multi-year execution plans and are by nature highly complex. 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:

- geopolitical environment in host country (see Risk 2 below);
- increasing capital costs due to supply chain delays, changes to process flow sheet, product suite optimisations, Covid-19 impacts, price inflation and key equipment availability;
- obtaining sufficient financing for the development of the Sonora Project (see Risk 3 below);
- market price of lithium (see Risk 4 below);
- availability of infrastructure capacity (see Risk 5 below);
- ability to attract sufficient numbers of qualified workers (see Risk 7 below);
- environmental and regulatory compliance requirements (see Risk 10 below);
- delays in completion of FEED;
- increased operating costs due to changes in input costs, including plant, material, energy and labour costs (see Risk 9);
- lack of availability of mining and processing equipment;
- 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;
- non-performance by third party contractors, contractor or operator errors;

- taxes and imposed royalties;
- disruption caused by external groups e.g., cartel and demonstrators;
- unfavourable weather conditions; and
- catastrophic events such as fires, storms or explosions and effects of global pandemics e.g., COVID-19.

The Group's ability to deliver the Sonora Project to plan, principally in terms of safety, cost and schedule depend on the factors outlined above. There are numerous activities that need to be completed in order to successfully commence production at the Sonora Project including, without limitation: 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 and power facility permits; and handling any other infrastructure issues.

There is no certainty that the Group or the joint venture will be able to recruit and train personnel, 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 Sonora Project. Furthermore, there is no guarantee that certain funds will be available to finance construction given that funding is subject to approvals and meeting of conditions. 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, production volume and quality and cash flows.

Mitigation:

The SFS was completed in January 2018. Since that date, the Company has worked to de-risk the Sonora Project's development by securing Ganfeng, the world's largest lithium metals producer, as a JV partner in the Sonora Project, and a controlling shareholder in the Company. Furthermore, the Company has obtained additional equity investments from the equity placings and retail offering, acquired additional land, secured water permits, made key internal hires, concluded offtake contracts with Ganfeng and Hanwa, and is continuing its FEED work. The Sonora Project has started construction on the early works camp and construction access road.

Trend:

As we can see from the above, there are a diverse set of sub-risks which could affect the development of the Sonora Project. Consequently, some risks have increased over the past twelve months e.g. the availability of sufficiently skilled staff at a reasonable cost, whilst others have decreased e.g., equity financing risk and the impact of COVID-19 due to the increased rates of vaccination. These issues are explored in further depth in the other principal risks. Delays to the FEED may mean that the commencement of production is delayed beyond the target date.

Overall, since the last reporting period, we consider that there has been a reduction in the risk profile due to the completion of Ganfeng's takeover of Bacanora and the exercise of the Option to increase its stake in the Sonora Project to 50%, further de-risks Sonora Project development.

Risk 2: Geopolitical uncertainty

Geopolitical risks are challenging for companies as they are hard to predict, interconnected with other business risks and can significantly impact business operations. The COVID-19 crisis has added uncertainty, geopolitical instability taking the form of increased travel restrictions, populism and protectionism, with collective backlashes against globalization coupled with resource nationalism are becoming increasingly prevalent globally.

Beyond contributing to financial uncertainty and volatility, the rise of economic nationalism may mean that Bacanora could operate in markets that may be unreceptive to the globalization which underpins supply chains, financing and capital. Bacanora and the wider mining industry, which is heavily dependent on free trade and growth, will need to be resilient in this new phase of geopolitics.

Many countries around the world have experienced an increase in nationalistic sentiment, which can manifest itself in resource nationalism. On 30 September 2021, politicians from the MORENA party tabled a draft bill to reform

Mexico's energy sector[8]. The bill proposed that the generation, conduction, transformation, distribution, and supply of electric power, including the exploitation of natural resources and assets, would become a strategic area of the state and that lithium would be included among the minerals considered strategic for the energy transition, meaning that no concessions will be granted for its exploitation. However, the bill makes an exception for existing concessions that are under development, such as those held by Bacanora, from these changes. The bill for the nationalisation of Mexico's lithium industry would require a constitutional reform and Article 27/135 of the Constitution establishes that such a reform would require the Chamber of Deputies and the Senate to approve the reform with "a two-thirds majority of all present members". Subsequently, the reform must be approved by a majority of seventeen of the thirty two legislatures of the states and Mexico City. In the Mexican general election on 6 June 2021, the people of Mexico returned President Andrés Manuel López Obrador's political Party to office, but with insufficient majority in order to reform the constitution with 198 of 500 deputies. The MORENA party formed a coalition called Juntos Hacemos Historia with the Ecologist Green party of Mexico and the Labour party with a total of 278 seats in the chamber of deputies (55.6%). The opposition coalition, Va por México, was able to gain enough seats to block Juntos Hacemos Historia from the two-thirds majority required to make constitutional amendments. It is the Company's views that these proposals would only impact new concessions. The proposals are expected to go before the chamber of deputies and senate in the next regular session of Congress, that is due to finish at the end of April 2022[9]. President Andres Manuel Lopez Obrador has said that Mexico will deny any proposal for new private lithium concessions even if Congress rejects the proposal[10].

In further news, the President of the Labour and Social Welfare Commission, MORENA Senator Napoleón Gómez Urrutia announced in October 2021 that he is working on an initiative to reform the Mexican Mining Law, specifically items regarding concessions and their grants. In his announcement, he pointed out that it is necessary to establish better control of non-renewable natural resources due to his opinion, that if concessions are granted without control over these resources, or if they are monopolized by non-Mexican companies, their exploitation will not benefit the country. He commented that some of the concessions granted currently have a term of up to 100 years[11]. He added that he wanted to review and make adjustments to the tax policy of the sector, since Mexico has a 7.5% tax rate on mining production, while in other countries, such as Peru, Bolivia and Chile it is between 25 and 30% and also to review the payment of mining concession fees, among other provisions that he would like to reform so that they are higher cost and less flexible.

Mitigation:

Geopolitical events can manifest themselves in many ways and are not always predictable. Each event carries its own risk and consequence, and therefore needs to be mitigated on a case by case basis. Large scale geopolitical climate is difficult to impact directly, Bacanora focuses on the mitigations it can control such as having an intimate knowledge of the diverse, complex and developing geopolitical dynamic. As such we ensure we monitor developments in the jurisdictions in which we operate and perform due diligence ahead of entering a business partnership including looking at geopolitical implications. We behave as good corporate citizens and add value to the communities in which we operate to maintain the Company's social licence to minimise geopolitical risk. With respect to nationalisation of the Company's concessions, they are currently protected by Mexican and international law.

Trend:

Since 2020, the ongoing COVID-19 crisis continues to impact geopolitics. Increased uptake of COVID-19 vaccinations by the reporting date, has for the time being ameliorated the worst effects of the virus and therefore reduced the impact, however new strains of the virus may reverse this trend. The full impact of the Omicron variant is becoming clearer but there continues to be a risk that further variants could lead to new restrictions or reduced efficacy of existing vaccines to fight the virus.

The increasing rate of change in geopolitics and resource nationalism in Mexico and globally, means that geopolitical risks remain key. The 2021 Mexican election delivered the MORENA party back into power in Mexico, but not with the majority required to alter the Mexican constitution and nationalise the existing lithium concessions. Despite that,

---

[8] https://www.jonesday.com/en/insights/2021/10/2021-mexican-constitutional-reform-bill-proposed-changes-for-foreign-investors-in-the-electricity-sector
[9] https://www.reuters.com/business/energy/mexican-congress-pushes-back-debate-power-bill-into-2022-2021-11-04/
[10] https://www.reuters.com/world/americas/mexico-will-reject-private-lithium-deals-even-if-reform-bill-fails-president-2021-10-07/
[11] https://mexicobusiness.news/mining/news/new-modifications-mining-law

the draft energy bill and attempts to change rules around mining concessions and tax rates provides evidence that the Sonora Project's geopolitical risk remains high.

Risk 3: Financing risk

Financing risk in the context of Bacanora's principal risks is defined as having insufficient capital available to meet the Company's strategic development targets. Other types of financing risk exist, such as foreign exchange risk, however these are not considered to be principal risks for reporting purposes.

In the reporting period, Bacanora has concluded a number of transactions which have reduced the financing risk associated with the Sonora Project; including the equity raise, Ganfeng pre-emption rights exercise, Ganfeng exercising their option to increase their stake in SLL to 50% and Ganfeng becoming a controlling shareholder of the Company in 2021. The resulting 50:50 joint venture structure for SLL entails that each JV partner is responsible for their share of the construction funding. During the reporting period, the Company and RK have agreed that the US$125 million undrawn portion of the US$150 million loan facility will no longer be available for draw down due to the passage of time. The first tranche of the RK debt facility, US$25 million, was drawn down in July 2018. Following the completion of the Ganfeng's Offer, the RK debt facility and associated warrants have been fully repaid in January 2022.

In the event of significant inflationary pressures and cost overruns, further financing may be required, however there is no guarantee that it would be available in this eventuality.

Mitigation:

At the end of 2021, Bacanora Group had US$122.1 million cash on hand and Sonora Lithium Group had US$26.6 million cash on hand. In addition to the existing cash reserves in Bacanora Group and Sonora Lithium Group, Ganfeng, being the majority shareholder of Bacanora, will assist in providing funding for the development of the Sonora Lithium Project.

Trend:

Overall, since the last reporting period Bacanora's financing risk has diminished significantly as a result of Bacanora's aforementioned US$66.3 million equity raise, Ganfeng's exercise of its pre-emption rights for US$33.9 million combined with Ganfeng's completion of the Option to increase its stake in the Sonora Project to 50% for US$30.4 million. The sum of these transactions (US$130.6 million) significantly de-risks the Sonora Project's development and ameliorate the financing risk compared to the previous reporting period. Furthermore, Bacanora settled all obligations to RK by repaying the debt and settling warrants in full on 7 January 2022, thereby reducing financing risk. In December 2021, the Ganfeng Offer became unconditional and had sufficient acceptances to take the Company private, thus funding for Bacanora and by extension, the Sonora Project, rests with Ganfeng.

Current and forecast favourable lithium prices, may support the ability for Bacanora, Ganfeng or a project company to raise further debt financing as required.

Risk 4: Market risks - Supply and demand fundamentals adversely affecting lithium pricing

Numerous factors beyond the Company's control affect the demand for and price of lithium products, please see the market review on page 33 for further details. The Company intends to sell most or all of its production of battery-grade lithium products to its offtake partners on long-term supply contracts. The price Bacanora will receive is linked to the prevailing long term contract price at the time of sale. Therefore, the price will be largely dictated by the expected growth in demand for lithium batteries potentially mitigated by increased or over supply from other mines. Pricing fluctuations can be favourable which may present an opportunity to have additional cash flow. Growth in demand for lithium has been strong in recent years primarily due to increased usage of electric vehicles and grid storage; however, there is no guarantee that this growth will continue at the same rate or increase as quickly as anticipated. The Company competes on a supply basis with established competitors, who may be able to increase their production to fill supply shortfalls.

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

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 Sonora project.

Mitigation:

For budgeting and longer-term forecasting, conservative prices of lithium and input commodities have been assumed at US$11,000 per tonne for battery-grade lithium carbonate. The outlook for the lithium market is positive, with the longer term views on contract lithium prices, the structure under which product from Sonora will be sold, continuing to maintain a range forecast of US$15,000 to US$17,500/t[12]. With a SFS forecast cost of around US$4,000 per tonne, Bacanora would be in the lower quartile for cost, which should insulate the Company from the short term fluctuations in price. Furthermore, Bacanora has entered into an offtake agreement with Ganfeng for 50% of the lithium produced at Sonora during stage 1 and 75% of the production during Stage 2. The Company also has an offtake agreement with Hanwa for the remaining 50% of stage 1 lithium production. The final pricing for both contracts is to be agreed on a quarterly basis based on market price or any other mutually agreeable method. Contract pricing tends to be less volatile than spot market pricing, reducing the impact of short-term pricing fluctuations.

Trend:

Spot prices at the beginning of 2021 Fastmarkets reported lithium carbonate battery-grade spot midpoint prices US$7,250 per tonne, while battery-grade lithium hydroxide continued at a mid-point spot price of US$9,000 per tonne. By the end of December 2021 spot prices had more than tripled to US$34,000 and US$29,350 per tonne for battery-grade lithium carbonate and hydroxide respectively[13], prices in the near term appear buoyant, with demand rising significantly due to the COVID-19 green recovery and the high demand for EVs, however mid to longer term contract lithium prices are forecast to range between US$15,000 to US$17,500/t. The oversupply in the market experienced in 2019 and 2020 and stockpiles of battery-grade lithium products have been eroded. For more details see the market review on page 33.

In July 2021, the London Metal Exchange launched a new cash-settled futures contract for lithium hydroxide which should lower risk along the lithium supply chain and increase transparency, they can be traded monthly out to 15 months[14]. This development may enable the Sonora Project to ameliorate some downside price risk for volumes not covered by the offtake agreements.

Risk 5: Infrastructure

The Sonora Project depends 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, governmental permissions or other interference in the maintenance or provision of such infrastructure or any failure or unavailability in such infrastructure could adversely affect the Group's operations, financial condition and results of operations in a material fashion.

Mitigation:

The technical report on the feasibility study for the Sonora 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 including the energy cogeneration facility and LNG.

Trend:

No material change in the risk.

[12] Canaccord Genuity – EV materials, Analyst note, 24 January 2022
[13] https://seekingalpha.com/article/4476301-lithium-miners-news-for-the-month-of-december-2021
[14] https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/launch-of-lithium-futures-could-entice-new-investors-experts-say-65553977

Risk 6: Health and Safety

Protecting the safety and health of employees, contractors and local community and other stakeholders is a fundamental issue facing the Group and the wider mining industry. Mining is inherently hazardous, with the potential to cause harm. COVID-19 and other pandemics produces additional significant risk to the health of our stakeholders.

Mitigation:

The Company complies with the applicable laws and regulations of the countries in which we operate. Where these prove insufficient, we apply standards based on good international industry practice. Safety is our first consideration, and we provide a place of work that is safe for everyone. We have instituted policies and procedures which ensures we identify the hazards associated with our activities and ensure that they are effectively managed. We investigate all occupational health and safety incidents and provide corrective and preventive actions.

In response to the continuing COVID-19 pandemic, the Company instituted health and safety protocols and social distancing at the pilot plant and offices in Mexico and UK. These will remain in place for the foreseeable future. These controls do not impact the Company's ability to continue to work on site. The Company recognises the additional risks associated with COVID-19 and the construction of stage 1 of the Sonora Project, consequently appropriate working practices will be implemented with Company employees, contractors and communities to minimise the transmission of the virus, such as increasing the length of time in the rotation system, monitoring temperatures and COVID-19 testing.

Trend:

The COVID-19 pandemic is a risk from a health and safety perspective, although the Company has introduced control measures. Furthermore, at the reporting date, 86% of our employees and contractors have received the double vaccination. From that perspective, the risk from COVID-19 has diminished during 2021.

There is no intrinsic change in operations that would increase the risk inherent in our operating model since last reporting period. However, looking forward to the start of construction of the Sonora Project, the potential for health and safety incidences to occur may increase.

Risk 7: Attraction and retention of staff

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

Mitigation:

The recruitment of new staff and the development of all staff will enable more robust succession planning. The Company has started a recruitment programme will start which will reduce reliance on the key members of staff and ensure that there are sufficient staff for the construction of the mine. At the reporting date, in Bacanora, two out of 8 employees and contractors are female (20%) at 31 December 2021.

Bacanora is an attractive place to work due to supporting staff through the pandemic and providing interesting and fulfilling work. The Company and the Sonora Project operates within a growth sector in an environmentally responsible commodity for the future economy, which for some is a major attraction.

Trend:

The COVID-19 situation has intensified competition for talent, particularly in project construction setting. Since the reporting date, Ganfeng have acquired a 50% stake in SLL and a controlling stake in Bacanora. Ganfeng will lead the design of the processing plant. Ganfeng therefore brings extensive and experienced talent pool, thereby de-risking the Sonora Project. There continues to be a reliance on key personnel but to lesser degree as a result. As a result of the recovery from the pandemic, companies are reporting wage inflation and difficulty retaining staff[15, 16]. This could potentially have adverse impacts for the Company and Sonora Project from cost and skills retention perspectives.

Risk 8: Social licence to operate

The social license to operate has been defined as existing when a project has the ongoing approval within the local community and other stakeholders, ongoing approval or broad social acceptance. Social licence to operate is created and maintained slowly over time as the actions of a company build trust with the community it operates in and with other stakeholders. A catastrophic breakdown in trust with our community and governmental partners in Mexico has the potential to significantly impede the construction or operation of the Sonora mine and processing plant.

Mitigation:

Compliance with Group policies and standards which provide guidance concerning risk management, community and social responsibility. Bacanora collaborates with key stakeholders and participates in strategic partnerships to mitigate threats that may deteriorate Bacanora's social licence. Bacanora fosters the development of long-term relationships with a range of local and national stakeholders. The Company has dedicated staff working with community stakeholders.

Trend:

Risks relating to social licence have not materially changed since the previous reporting period. Bacanora continues to build trust with the community and has received approvals for the site's construction access road to cross Ejido land (community based farming co-operative land), as evidence of the health of our social licence. See section 172 statement on page 19 for more details.

Risk 9: Cost of production

Significant increase in the cost of producing battery-grade lithium products in the long-term has the potential to have a material adverse effect on the Company's profitability and cash flow. Cost of production can be significantly affected by the cost of the underlying commodities and materials from which they are made. The price of the raw materials and services depends on a wide variety of factors largely beyond the Company's control. Supplies of materials and services are exposed to adverse events such as physical disruptions, environmental and industrial incidents, etc which may impact our ability to access these materials and services at reasonable costs. Delays in the construction of the gas pipeline to the plant will entail trucking gas for a longer period of time incurring additional costs. The Sonora Project is based in Mexico and is therefore exposed to foreign exchange fluctuations between US Dollar and Mexican Peso. COVID-19 may impact the cost to deliver the Sonora Project due to changes in Rota, COVID-19 safe working practices, testing and changes to accommodation provisions.

Mitigation:

The SFS has assessed the Sonora Project to be potentially a low cost lithium operation. Detailed FEED including detailed energy and mass balances cost estimates will be reviewed and evaluated once completed by the Chinese Design Institute. The Sonora Project is in discussions with potential long-term suppliers to ensure access to long-term supply of key materials, including gas, at competitive prices. Currently, it is the Company's policy not to hedge foreign currency exposure because the Company and Sonora Lithium Group's cash in hand as well as capital and operational cost is primarily denominated in US Dollar. Smaller balances are held in Mexican Peso and Great British Pounds for local operating expenses, in order to mitigate short term swings in the currency pairs.

Trend:

No material change in unit costs is currently anticipated, however all cost estimates will be reviewed and evaluated once completed by the Chinese Design Institute. COVID-19 may increase costs. The natural gas consumers in the US experienced 39% increase in gas prices in 2021 over 2020 due to the global economic recovery, cold weather, and supply disruptions, according to the World Bank. The average price for natural gas of US$2.80/MMBtu in 2021 is still below the real terms (2018) level forecast in the SFS of US$3.00/MMBtu, however towards the end of 2021 Henry Hub and West Texas winter gas pricing was approaching US$4.00/MMBtu and the long term US natural gas price is expected

[15] https://www.ft.com/content/9fd3c498-1014-47ee-8e25-865a91efd594
[16] https://www.wsj.com/articles/companies-plan-big-raises-for-workers-in-2022-11638889200

to increase to US$4.00/MMBtu by 2035. Energy is a key component of the Sonora operating costs and the recent worldwide trends of increasing energy prices are of concern.

Risk 10: Environmental risk, impact and compliance

The Group's operations in Mexico are subject to environmental regulation. Environmental approvals and permits are currently, and may also in the future be, required in connection with the Group's operations. Environmental legislation is evolving in a manner that will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. Compliance with environmental laws requires ongoing expenditure and considerable capital commitments from the Company. Non-compliance may subject the Group to significant penalties, including the suspension or revocation of its rights in respect of its concessions or assets, causing operations to cease or be curtailed, or requiring corrective measures resulting in significant amounts of capital expenditures, installation of additional equipment, or remedial actions. The Group may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil, administrative or criminal fines or penalties imposed for violations of applicable environmental laws or regulations. There is no assurance that existing or future environmental regulation will not materially adversely affect the Group's business, financial condition and results of operations.

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

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

The Sonora Project's future operations will also be at risk from the adverse effects of climate change including the increased likelihood of extreme weather events.

Mitigation:

The Company has been granted all environmental and water permits it requires to date and has instituted corporate and companywide environmental policies. The Company has dedicated staff who deal with Health, Safety, Environment and the Community as well as applying for and maintaining all relevant permits. The Company takes its ESG responsibilities seriously, the Company has published its second annual Corporate Governance and Sustainability report on page 48.

Trend:

The amount of time for environmental permitting to be approved is increasing as a result of COVID-19. Large scale action on global warming is accelerating, with both companies and countries making pledges at COP26. For instance, the newly established Glasgow Financial Alliance for Net Zero announced private financing of US$130 trillion to accelerate the transition to a net-zero economy, however the world is on track for 2.4°C warming[17].

Risk 11: 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,

[17] https://www.lawsociety.org.uk/topics/climate-change/reflecting-on-cop26-what-were-the-key-outcomes#:~:text=One%20of%20the%20major%20successes,and%20leaders%20summit%20in%202023.

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 reserves and resources will be recovered if the Group proceeds to production or that they will be recovered at the volume, grade and rates estimated. In the same respect, there is also an opportunity that ore will prove more prolific than previously adjudged.

Mitigation:

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

Trend:

Since the previous reporting period, the risk of the mineral asset not being present in forecast quantities remains unchanged.

Key Performance Indicators

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

As the Company progresses toward construction and production, the KPIs will be reassessed in order to drive and monitor business performance and will be aligned to the business strategy. It is likely that this will include financial, operational and ESG 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 2021, there were no LTIs resulting in a LTIFR of nil. This follows on from Nil LTIs in 2020 and 2019 in Bacanora Group and Sonora Lithium Group combined.
Cash balance	Cash balance available to continue with the activity of the Group, including exploration, development and maintenance on going concern.	At 31 December 2021, the Bacanora's cash balance was US$122.1 million plus SLL's cash balance of US$26.6 million (31 December 2020: US$39.2 million for the group). There is sufficient cash to continue working on its development activities. Please refer to the Financial Review section on page 34 for analysis of movement in cash.
Capital investment in the Sonora Project	Funds spent on property, plant and equipment ("PPE"). It is a measure of the investment in the business and the rate at which value is being generated.	For the year ended 31 December 2021, the Group has spent US$0.2 million (for the year ended 31 December 2020, the Group spent US$2.0 million) on PPE on a cash basis (see Cashflow Statement). 2021 expenditure is primarily related to the FEED work at Sonora, however only represents 2 months expenditure due to deconsolidation of Sonora Lithium Group from 26 February 2021 onwards.
Reserves and Resources held at year end in the Sonora Project	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 Project.	Sonora has 5 million tonnes of LCE measured and indicated resources, of that, 4.5 million tonnes are reserves. There has been no change on these resources and reserves estimates.

As per the Streamlined Energy and Carbon Reporting ("SECR") Regulations published in 2018 quoted companies and large unquoted companies that have consumed, more than 40,000 kilowatt-hours (kWh) of energy in the reporting period must include energy and carbon information within their directors' report. Bacanora Lithium Plc and the Group does not qualify as a quoted company or a large unquoted company and therefore are presently exempt from the SECR reporting requirements. The Company intends to publish energy emissions data in line with the SECR regulations as the Sonora Project develops.

Directors' section 172 statement

The Board of Bacanora is aware that the decisions it makes may affect the lives of many people in the Company and in Sonora Lithium Group. The Board makes a conscious effort to understand the interests of the Group's stakeholders, and to reflect them in the balanced choices it makes in creating long-term sustainable success for the business. The Board views engagement with the shareholders and wider stakeholder groups as essential work. The Board is aware that it needs to listen to each stakeholder group, so that it can understand specific interests and foster effective and mutually beneficial relationships. Given the importance of stakeholder focus, long-term strategy and reputation, these themes are discussed throughout this Annual Report. By understanding of the Group's stakeholders, the Board can adapt its decision making to find optimal outcomes.

This section serves as the Directors' section 172 statement and should be read in conjunction with the Strategic Report and the Report from the Company's Corporate Governance and Sustainability Committee. This disclosure describes how the Directors have had regard to the matters set out in section 172(1)(a) to (f) and forms the Directors' statement required under section 414CZA of The Companies Act 2006.

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

(a) the likely consequences of any decision in the long-term;

(b) the interests of the Company's employees;

(c) the need to foster the Company's business relationships with suppliers, customers and others;

(d) the impact of the Company's operations on the community and the environment;

(e) the desirability of the Company maintaining a reputation for high standards of business conduct; and

(f) the need to act fairly between members of the Company.

Stakeholder mapping and engagement activities within the reporting period.

Due to the entwinned nature of the Company and its JV, the Sonora Lithium Group, the Board regularly reviews our combined principal stakeholders and how it engages with them. The stakeholder voice is heard by the Board throughout the annual cycle through information provided by management and also by direct engagement with stakeholders themselves. The relevance of each stakeholder group to each decision that is made by the Board or management, may change depending on the matter or issue in question, so the Board seeks to consider the needs and priorities of each stakeholder group during its discussions, based on the merits of each issue in question.

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

Who: Key Stakeholder groups	**Why:** why is it important to engage this group of stakeholders	**How:** how Bacanora engaged with the stakeholder group	**What:** what came of the engagement
Equity Investors and Joint Venture Partner The Company requires capital. As such, existing and prospective equity investors as well as Project level joint venture partners are important stakeholders. For the majority of the reporting period, the Company had a number of substantial shareholders that owned more than 3% of the Company's shares. By the end of the reporting period, Ganfeng have had acceptances or already controlled 333,342,270 Bacanora shares of the 387,136,502 shares in issue, representing 86.1% of the Company. The only other remaining substantial shareholder is Hanwa Co Ltd with 3.2%, which has accepted the Ganfeng Offer post year end. In the reporting period, Ganfeng increased their stake in SLL, the holding company for the Sonora Project to 50% from 22.5%.	Prior to the takeover by Ganfeng, the Company was seeking to promote an investor base that is interested in a long-term holding in the Company and will support the Company in achieving its strategic objectives. Access to capital is of vital importance to the long-term success of our business to be able to construct the Sonora Project. Joint venture partner involvement was vital to the success of the development of the Sonora Project. Without their share of the capital funding for the Project and their expertise, the Company could not create value for its shareholders by producing lithium products and therefore a return on the investment. Through the Company's engagement activities, Bacanora strove to obtain investor buy-in into the Group's strategic objectives detailed on page 5 and how it goes about executing them. During the Ganfeng Offer period it was important to engage with shareholders to keep them informed about developments so that they may make informed decisions in respect of the Offer. The Board also have to follow statutory rules and rules from the City code on	The key mechanisms of engagement included: *Substantial shareholders* • Both Ganfeng and Hanwa have appointed Directors under the terms of shareholder agreements. • The other existing substantial shareholders have regular meetings with the Chairman, CEO and CFO. *Joint venture partners - Sonora* • Ganfeng has 50% representation on the SLL board of directors under the terms of the joint venture agreement. Regular meetings are held with Ganfeng. *Prospective and existing investors* • AGM and Annual and Interim Reports • Investor roadshows and presentations • One-on-one investor meetings and calls with the Chairman, CEO and CFO • RNS announcements • Access to the Company's brokers and advisers • Regular news and Project updates • Social media accounts e.g., Twitter @BacanoraL • Site visits for potential cornerstone investors	The Company engaged with investors on topics of strategy, the Ganfeng Offer, Project funding, governance, Project updates and performance. Please see Dialogue with Shareholders section of the Annual Report on page 43. The CEO and CFO presented at a number of investor meetings, analysts interviews and one-to-one meetings. In February 2021, the Company completed an over-subscribed equity fund raise of US$66.3 million from investors. Ganfeng also exercised their pre-emption rights investing US$33.9 million to bring their stake in the Company to 28.88%. Ganfeng exercised its option to raise their stake to 50% of SLL, which completed in February 2021. The Company worked closely Ganfeng to progress the review of the engineering design of the lithium processing plant. During the period, Ganfeng made a takeover offer for the Company, which was declared unconditional on 17 December 2021. The Offer was warmly received by most investors and had significant uptake, resulting in Ganfeng

Who: Key Stakeholder groups	**Why:** why is it important to engage this group of stakeholders	**How:** how Bacanora engaged with the stakeholder group	**What:** what came of the engagement
	takeovers and mergers. The Bacanora Independent Directors recommended the Offer as they were cognisant of the risks that are inherent in single asset companies and elevated in mining development projects. Furthermore, the terms of the Offer allowed Bacanora shareholders to realise their investment in Bacanora, in cash and at a significant premium to the undisturbed share price. In addition, Bacanora shareholders were able to maintain an exposure to the lithium industry by retaining an interest in a quoted lithium project, through the Zinnwald Distribution. Shareholder interests include but are not limited to: • Business sustainability • High standard of governance • Ethical behaviour • Delivering long-term shareholder value • Comprehensive review of financial performance of the business	*Shareholder approvals at GMs:* The Company held its usual AGM in June, after which it held a Q&A Session with shareholders. The Company also held a separate GM to approve the distribution of its shares in Zinnwald Lithium Plc to its shareholders. During the Offer, the Company followed statutory and rules from the City code on takeovers and mergers and published a variety of announcements relating to the Offer during 2021 on the Company website and via the regulatory news service[18,19]. *Dissentient shareholders:* Prior to the reporting period, former shareholders of Bacanora Minerals Ltd were reminded of the 3 year deadline of 23 March 2021 to exchange their old shares in Bacanora Minerals Ltd for new shares in Bacanora Lithium Plc. The Company continued to engage with shareholders during the period.	owning or having acceptances for 86.1% of Bacanora as the end of the year. Ganfeng also announced its intention to delist the company from the AIM stock exchange, which was completed on 26 January 2022. At the 30 June 2021 AGM, all of the resolutions were passed with more than 75% of proxy votes in favour each time. Shareholders approved the share capital reduction, at the 24 September 2021 general meeting to create distributable reserves enabling the distribution of the Zinnwald shares on 22 December 2021. The Trust that held the shares for the dissentient shareholders was dissolved in the period and the remaining shares sold and the resulting funds were returned to shareholders where applicable.

[18] https://bacanoralithium.com/investors/offer.aspx
[19] https://bacanoralithium.com/investors/regulatory_news.aspx

Who: Key Stakeholder groups	**Why:** why is it important to engage this group of stakeholders	**How:** how Bacanora engaged with the stakeholder group	**What:** what came of the engagement
Debt providers During the period, the Company had a US$25 million debt facility with RK Mine Finance that was entered into in July 2018.	Access to capital is of vital importance to the long-term success of our business to be able to construct the Sonora Project. Ongoing support from debt providers is crucial to enable the construction of the Sonora Project. Various contractual conditions of the debt finance require regular updates on ongoing progress.	• One-on-one meetings with the CEO and CFO • Monthly reporting on Project progress. • Ad hoc discussions with management as required • Tripartite discussions between RK, Ganfeng and management to ensure there were no impediments for the investment from Ganfeng's completion of the SLL Option and the Ganfeng Offer.	The Company continued to enjoy a good relationship with RK Mine Finance. Waivers were received relating to Ganfeng's SLL Option transaction and Ganfeng Offer. During the period, the Company and RK agreed that the undrawn US$125 million facility would cease to be available to the Company, however the US$25 million already drawn would continue to be provided on the original terms. After the year end, on 7 January 2022, the RK debt facility was repaid in full and all warrants were settled following the completion of the Ganfeng Offer.
Workforce The Company has eight corporate employees including its Directors on the reporting date. Both the CEO and CFO are UK based. The Sonora Project's workforce is based in Mexico. The Company and the Sonora Project works to attract, develop and retain the high quality talent, equipped with the right skills for the future of Bacanora and the Project.	The vast majority of the workforce in future will be based in Mexico and the Directors consider workforce issues holistically for the Company and Sonora Project as a whole. The Company and Sonora Project's long-term success is predicated on the commitment of our workforce to our vision and the demonstration of our values on a daily basis. The Board have identified that reliance on key personnel is a known risk (see the	*General Workforce:* • The Company maintains an open line of communication between its employees, Senior Executive Management and Board of Directors. *UK employees* • The CEO and CFO report regularly to the Board, including the provision of board information. Key members of the finance team are invited on some of the previous Audit Committee meetings.	*UK Employees* In prior periods, the Board met with management to discuss long-term remuneration strategy based on advice from independent advisers. These new schemes, together with the remuneration report, were approved by shareholders at the 2021 AGM. *Mexico* The team worked from home and operational staff were trained in COVID-19 safe working protocols. Clerical staff who are not double vaccinated continue to work from home.

Who: Key Stakeholder groups	**Why:** why is it important to engage this group of stakeholders	**How:** how Bacanora engaged with the stakeholder group	**What:** what came of the engagement
	Principal Risks and Uncertainties on page 10). Stakeholder interests include but are not limited to: • Job creation, fair worker pay and conditions. • Development opportunities and interesting work. • Clear communication with employees • Excellence in health and safety.	• Employees have been consulted on the potential risk of redundancy as a result of the Ganfeng takeover. • There is a formalised employee induction into the Company's corporate governance policies and procedures. • The Company has a whistleblower hotline in English and Spanish. *Mexico* • Senior Executive Management visit the operations in Mexico and engage with its employees through one-on-one and staff meetings, employee events, Project updates, etc. • Staff safety committee continues to operate. • Employees are expected to be represented by ratified workplace agreements once operations grow sufficiently.	Meetings were held with staff to provide Project updates and ongoing business objectives. Efforts to focus on plant safety have yielded no lost time injuries in 2021.
Governmental and regulatory bodies The Company and Sonora Project are impacted by local governmental organisations in the UK and Mexico respectively.	The Sonora Project will only be able to commence production once it receives relevant licences and permits from government to mine and undertake chemical processing. Stakeholder interests include but are not limited to: • Payment of taxes and statutory benefits. • Compliance with regulations. • Job creation, worker pay and conditions.	• The Company provides general corporate presentations regarding the Sonora Project development as part of ongoing stakeholder engagement with the Secretaría de Economía, Sonora state government, Bacadéhuachi local government and Mexico federal government. The Company maintained its good relations with the respective government bodies and frequently communicated progress.	Bacanora management have remained in close contact with governmental leaders in Sonora.

Who: Key Stakeholder groups	**Why:** why is it important to engage this group of stakeholders	**How:** how Bacanora engaged with the stakeholder group	**What:** what came of the engagement
	• Health and safety. • Waste and environment. • Environmental protection.	• The Company engages with the relevant departments of the Mexican government in order to progress the operational licences it will require. • The Mexican operations followed Sonora state COVID-19 requirements for the operation of the pilot plant, when required.	
Community The local community at the mine site in Bacadéhuachi, Mexico and the surrounding area.	The community provides social licence to operate. The Sonora Project needs to engage with the local community to build trust. Having the community's trust will mean it is more likely that any fears the community has can be assuaged and our plans and strategies are more likely to be accepted. Community engagement will inform better decision making. The local community in Bacadéhuachi and wider Sonora area will provide employees to the mine and our suppliers. The Sonora Project will in due course have a social, environmental and economic impact on the local community and surrounding area. The Sonora Lithium Group is committed to ensuring sustainable growth minimising adverse impacts. The Sonora Lithium Group will engage these stakeholders as appropriate.	• The Company has identified key stakeholders with the local community. • Bacanora has open dialogue with the Bacadéhuachi local government and community leaders regarding the Project's development. • The Company has existing sustainability/ESG policies and management structure at corporate and Project level. • The Sonora Lithium Group continues to develop its local Environmental and Social engagement plans in conjunction with its appointed consultants (Golder). See Sustainability section for more detail.	The Company engages with the local community as part of the development of its sustainability initiatives. Stakeholder identification has enabled the Company to ensure that representatives of all stakeholder groups may participate in the community engagement programme. Minera Sonora Borax "MSB", signed an agreement with community leaders for permission to construct the construction access road on the Ejido land. Unfortunately, due to the COVID-19 crisis, the Company was restricted in its ability to engage more closely in 2021. More active community engagement will take place in 2022 subject to COVID-19 restrictions.
Suppliers During the construction phase, The Sonora Project will be using key	Our suppliers are fundamental to ensuring that the Company can construct the Project on time and budget.	• Management team continue to work closely with proposed EPC suppliers and Ganfeng to finalise	See Page 31 of the operational report for latest on progress on testwork and finalising FEED work.

Who: Key Stakeholder groups	**Why:** why is it important to engage this group of stakeholders	**How:** how Bacanora engaged with the stakeholder group	**What:** what came of the engagement
suppliers under commercial engineering contracts to deliver the mine and plant, all of whom are large international vendors. At a local level, we also partner with a variety of smaller companies, some of whom are independent or family run businesses.	Using quality suppliers ensures that as a business it meets the high standards of performance that we expect of ourselves and vendor partners.	their FEED work, contracts and end deliverables. • One on one meetings between management and suppliers. • Vendor site visits and facility audits to ensure supplier able to meet requirements. • Supplier due diligence. • Contact with procurement department and accounts payable. • Assist local suppliers to address liquidity challenges.	Smaller local vendors were engaged at a broader level to better align with Company objectives.
Offtake partners The Company has two commercially priced lithium offtake agreements with Ganfeng and Hanwa, both of whom are investors in the Company in 2021 and have Board seats.	The Company is moving toward the construction stage of its Sonora Project and a key metric to sourcing the capital required, is securing its offtake agreements. The Company will sell its product under long-term offtake agreements.	• Directors representing both of our offtake partners are engaged at Board meetings and receive all Board materials. • They remain informed of Project developments and provide management with advice and guidance • Management prepares monthly project reports for the Board.	The Company already has commercial offtake agreement with Ganfeng and Hanwa. 50% of the production will be sold to Ganfeng and 50% will be sold to Hanwa during stage 1 production, and up to 75% during Stage 2 production to Ganfeng.

Principal decisions by the Board during and post the reporting period.

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

a) Fundraising:

In February 2021, Bacanora completed a placing and retail offer with gross proceeds of US$66.3 million. In addition, Ganfeng exercised its pre-emptive right at the placing price of 45 pence and to increase its holding in the Company to 28.88% for total amount of US$33.9 million. The Board concluded that these transactions would complete the Company's 50% share of the funding package required to construct stage 1 of its world class Sonora Project. This would maximise shareholder return on the investment and help to fulfil the Company's business model.

Consideration	Outcome
Shareholders	
The Board considered the ability for shareholders to unlock the value of the Sonora Project, by having the Project fully funded and the de-risking of the Project by having Ganfeng involved in the EPC process and fund 50% of the Project level spend. This was balancing the cost of the transactions in terms of dilution for existing shareholders not taking part in the equity raise and the reduction in ownership of SLL by 27.5%.	The Board concluded that greater value for shareholders could be unlocked by concluding the funding package for the construction of the Sonora Project, compared to continuing unfunded. The completing of the funding package fulfils strategic goal 5. "Complete the funding required to construct its Project".
Employees and the local community	
The Board considered the impact of the investment on employees and the local community.	The Board concluded that securing investment would also secure employment for existing employees and future employees, and the communities they inhabit. The communities would benefit from the assured development of the Sonora Project which would flow from finalising the financing package.
Debt holders	
The Board considered the Company's conditions precedent, in order to draw further tranches of the existing debt.	One of the conditions precedent for being able to draw down further tranches from the RK debt facility is to ensure full funding of the Project is achieved. The financing of the development of the Sonora Project facilitates eventual revenues from production, which would have been used to repay RK. Thus, the decision was aligned to RK's interests at the time.

b) Recommendation of Ganfeng cash offer:

On 6 May 2021, the Bacanora Independent Directors and the Ganfeng Board announced details of a possible cash offer by Ganfeng for the remaining shares in Bacanora that it did not own. On 25 August 2021, the Bacanora Independent Directors and the Ganfeng Board reached an agreement on the terms of a recommended conditional cash offer to be made by Ganfeng for the entire issued and to be issued ordinary share capital of Bacanora not already owned by Ganfeng. The Bacanora Board also intend to make a conditional distribution in specie, comprising the shares in Zinnwald currently owned by Bacanora, to all Bacanora Shareholders (including Ganfeng) on the record date, being the date that the Offer becomes or is declared unconditional. The distribution is subject to various conditions. Subject to the conditions being met, Bacanora Shareholders will be entitled to receive for each Bacanora Share 67.5 pence in cash from Ganfeng pursuant to the Offer and 0.23589 Zinnwald Shares to be distributed by Bacanora.

Consideration	Outcome
Shareholders	
The Independent Directors retained Peel Hunt as its financial adviser to provide advice on the "fair and reasonableness" of the Offer based on a range of scenarios for the Company to consider. During the Ganfeng Offer period, the Company kept shareholders informed about Offer developments so that they could make informed decisions in respect of the Offer. The Board have to follow statutory rules and rules from the City code on takeovers and mergers and published announcements on the Company's website and via the regulatory news service.	Peel Hunt has advised that the financial terms of the Offer were fair and reasonable. The Independent Directors considered that, after taking into account the risks and rewards, including risks that are inherent in single asset companies and elevated in mining development projects, the cash consideration representing a premium of between 50% to 59% versus a range of closing and VWAP share prices, the Offer should be recommended to shareholders. A full list of all factors taken into consideration is included in the Offer Document[20]. Furthermore, the Board recognised the intrinsic value of its stake in Zinnwald and negotiated a conditional distribution in specie of the shares in Zinnwald to existing shareholders, thereby unlocking the value in Zinnwald through a distribution in specie. This distribution was made to shareholders on 22 December 2021. The Bacanora Independent Directors unanimously recommended the Offer and the distribution of the Zinnwald shares and consider that this will promote the success of the Company for the benefit of its members as a whole. The Offer allows Bacanora Shareholders to realise their investment in Bacanora, in cash and at a significant premium to the undisturbed share price. The Bacanora shareholders will maintain an exposure to the lithium industry by retaining an interest in a highly prospective quoted lithium project, through the Zinnwald Distribution. On 17 December 2021, Ganfeng announced that the final condition relating to the Mexican Antitrust Clearance was satisfied, and that the Offer became unconditional. Furthermore, on 23 December 2021, Ganfeng had received acceptances in excess of 75 percent of Bacanora's issued ordinary share capital and made an application to the London Stock Exchange for the cancellation of the admission of Bacanora Shares to trading on AIM. The cancellation took effect at 7.00 am (GMT) on 26 January 2022. As at 31 December 2021, Ganfeng owned around 73.1 percent of Bacanora's issued ordinary share capital excluding acceptances for which transfer of shares are yet to be made. When valid acceptances were taken into account, Ganfeng controlled 86.7% of the issued share capital as at 31 December 2021.

[20] https://bacanoralithium.com/_userfiles/pages/files/offer/offer_document_150921.pdf

Debt holders	
The Board gave due consideration to the impact that the recommendation of the Offer would have on the Group's debt providers. The prospective change of control would entail repayment of the debt within 30 days of completion.	The Board concluded that in the event of a change in control, RK would be repaid and there would be sufficient funds available to enable in the Group to fund the repayment. On 7 January 2022, the RK debt and warrants were settled in full.
Employees and Contractors	
The Board gave due consideration to the impact that the recommendation of the Offer would have on the Group's Directors, employees and contractors. As stated in the Rule 2.7 announcement, Ganfeng's initial intention was to use its existing central management functions to manage the Sonora Project. In addition, once Bacanora ceased to be an AIM listed company, a number of listing company-related functions will become unnecessary.	The Independent Directors of Bacanora were expected to and did resign from the Bacanora Board, with effect from the Offer becoming unconditional on 17 December 2021. There are three remaining Directors forming part of the Board of Bacanora. The five roles in the UK office remain unaffected and will continue until the end of 2022 as the London office is to remain open.
Community and governmental stakeholders	
The Board gave due consideration to the impact that the recommendation of the Offer would have on the Group's community and governmental stakeholders.	In considering the Offer, the Bacanora Independent Directors have taken account of both the long-term potential value of Bacanora and the risks in achieving this value. Ganfeng is one of the largest lithium compounds producers in the world and the world's largest lithium metals producer in terms of production capacity. The Board concluded that Ganfeng's expertise in the lithium industry would provide a clear strategic direction and access to funding resources would significantly assist in progressing the development of the Sonora Lithium Project through its construction phase to production.

c) RK loan facility:

Recognising the passage of time from the initial US$150 million debt facility agreement with RK entered into in July 2018, Bacanora and RK signed a non-binding indicative term sheet to amend certain terms to extend the facility during the period. The Company and RK were in discussions for a number of months with a view to agreeing legally binding terms and documentation. However, due to no immediate need to draw down additional tranches, extension fee considerations and the limited availability period for an extension post the expiry date of 18 June 2021, the Company and RK have agreed that the remaining undrawn facility, amounting to US$125 million, will no longer be available for draw down. Subsequently, as part of the Ganfeng Offer, it was agreed that the loan would be voluntarily redeemed within 30 days from the Offer being declared unconditional. Following the Ganfeng Offer becoming unconditional on 17 December 2021, all outstanding liabilities to RK were repaid on 7 January 2022.

Consideration	Outcome
Shareholders	
The Board of Bacanora considered the impact of the RK debt facilities on shareholders.	Since the initial drawing of the RK debt facility in July 2018, the Company had raised funds in the equity market and had gained a 50:50 joint venture partner in Ganfeng at the Project level. These resulted in the Company having additional cash reserves to support the current development funding requirements of the Sonora Project. There was no immediate need to draw down further tranches from the RK debt facility. In addition, due to extension fee consideration and limited availability period for an extension, the Company and RK have agreed to cancel the remaining undrawn facility amount of US$125 million. The Company will seek alternative terms with debt provides in light of the current favourable debt market conditions as and when the requirement arises.
Debt holders	
The Board considered the impact of the non-extension of the RK debt facility to the debt holders.	The Board concluded that there was no immediate need to draw down further tranches from the RK debt facility due to the significant amount of cash reserves. The Company and RK have agreed to cancel the remaining undrawn facility of US$125 million. This allowed RK to redeploy their committed funds in order to earn a return on those funds.

Our Assets:

a) The Sonora Project[21]

Bacanora holds 50% of SLL which is the holding company for the Sonora Project. The Sonora Project is located in northern Sonora State, Mexico, approximately three hours' drive north east of the state capital of Hermosillo, a city of over one million people. Access to the site is by road from either Hermosillo or the US border town of Agua Prieta. Bacanora owns ten mining concession areas covering approximately 100,000 hectares in the northeast of Sonora State in Mexico. Seven of these ten mining concessions were included in the SFS published in January 2018.

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

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

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

[21] https://www.bacanoralithium.com/pdfs/Bacanora-FS-Technical-Report-25-01-2018.pdf

Measured and Indicated Mineral Resources

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

Inferred Mineral Resources

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

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

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

(1)Mineral resources that are not mineral reserves do not have demonstrated economic viability.

(2)Tonnes rounded to the nearest thousand.

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

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

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

Operational Review

a) Corporate review

Financial year 2021 has seen numerous developments on our path to fulfil the Company's strategic objectives. The Company's primary focus has been to complete the design and funding packages required to construct its Sonora Project.

In February 2021, Ganfeng completed its Option to increase its stake in SLL to 50%. Ganfeng purchased 73,955,680 new ordinary shares in SLL at 29.59 pence at a total value of £21.9 million (US$30.4 million). On completion a new JVA came into force, which replaces the original joint venture agreement entered into on 29 June 2019. The funds received from the exercise of Ganfeng's Option will be applied towards the development of the Project.

At the time, in order to fund Bacanora's share of the Project's capital expenditure, the Company completed a successful placing and retail offer in February 2021. The placing and retail offer raised gross proceeds of £48.1 million (US$66.3 million) through the issue of a total of 106,995,885 new ordinary shares at a price of 45 pence per placing share. Furthermore, in May 2021 Ganfeng exercised its pre-emptive right and increased its shareholding in the Company to 28.88% through the subscription for a total of 53,333,333 new ordinary shares at the placing price of 45 pence per share, representing gross proceeds of £24.0 million (US$33.9 million).

On 25 August 2021, the Bacanora Independent Directors and the Ganfeng Board reached an agreement on the terms of a recommended conditional cash offer to be made by Ganfeng for the entire issued and to be issued ordinary share capital of Bacanora not already owned by Ganfeng. The Bacanora Board also approved a conditional distribution *in specie*, comprising the shares in Zinnwald which was at the time owned by Bacanora, to all Bacanora Shareholders (including Ganfeng) on the record date, being the date the Offer becomes or is declared unconditional. Under the Offer, Bacanora Shareholders were entitled to receive for each Bacanora Share 67.5 pence in cash from Ganfeng pursuant to the Offer and 0.23589 Zinnwald Shares to be distributed by Bacanora. On 17 December 2021, Ganfeng confirmed that all conditions had been met and therefore the Offer was unconditional and they had sufficient level of acceptance for change of control to be deemed to have taken place. Consequently, Mark Hohnen, Eileen Carr, Jamie Strauss, Andres Antonius and Graeme Purdy resigned from the Board of Directors. On 22 December 2021, the shares of Zinnwald were distributed to the shareholders of Bacanora. On 23 December 2021, Ganfeng announced that they had sufficient support for the Offer in order to apply to the London Stock Exchange for the cancellation of the admission of Bacanora Shares to trading on AIM. The cancellation took effect at 7.00 am (GMT) on 26 January 2022.

The Company had a US$150 million senior debt facility with RK which was entered into in July 2018. Throughout the life of the loan, only the first tranche (US$25 million) of the debt facility was drawn upon. Given the change of control, the RK debt facility and all liabilities arising from it was settled on 7 January 2022. The Company will work closely with Ganfeng to fully fund the Project throughout its construction stage. Any further debt financing is subject to Board approvals from both prospective debt providers and the Company and entering into definitive legal agreements with each other. With a consolidated Group cash balance of US$122.1 million and an aggregated cash balance (including cash of US$26.6 million in Sonora Lithium Group) of US$148.7 million as at 31 December 2021, the Company has sufficient funds to support the short-term funding requirements of the ongoing construction programme, even after repaying US$43.3 million to settle the RK debt facility.

Prior to the distribution of Zinnwald shares, in June 2021, Zinnwald completed its strategic acquisition of the remaining 50% of DL that it does not already own from the estate of SolarWorld Aktiengesellschaft, for a total consideration of €8.8 million, settled by a cash payment of €1.5 million and the issue of approximately 50 million new ordinary shares of 1 pence each in Zinnwald[22]. The DL Acquisition gave Zinnwald full ownership and operational control of the Zinnwald Project in Germany. On 14 December 2021, Zinnwald announced that it had completed a placing and retail offer of approximately £5.8 million to enable it to advance further its wholly-owned Zinnwald Lithium Project. On completion of the DL Acquisition and fundraising, Zinnwald's issued share capital consisted of 293,395,464 ordinary shares with one voting right each. Prior to the distribution, Bacanora's shareholding in Zinnwald was 90,619,170 shares representing a dilution in shareholding from the initial holding of 44.3% to 30.9%[23].

[22] https://polaris.brighterir.com/public/zinnwald_lithium/news/rns/story/xozv5mw

[23] https://www.londonstockexchange.com/news-article/ZNWD/result-of-placing-and-retail-offer/15249776

b) Operations review

Sonora Project

Significant preparatory work for the plant site was completed during the reporting period including plant site location survey, geotechnical, and hydrogeological works. Vegetation and topsoil rescue for the plant site has been completed. The work to protect the flora at the plant site area was completed in Q2 2021. The Sonora Lithium Group relocated the flora and is working to ensure that vegetation formerly located at the plant site is preserved. The majority of the workforce for this work has been employed from the local Bacadehuachi area. Recycled shipping containers have been purchased for the first phase of the construction camp and are being converted into habitable units for transport to site in Q1 2022. The rehabilitation of the construction access road was completed in early February 2022.

Test well construction and pumping tests were completed in the period. This work enables the hydrological model to be validated for the selected site so that design of the permanent well can begin to supply process water for the site.

The Sonora Lithium Group has completed the purchase of 1,122 hectares of land for the new plant site location at El Destiero in July 2021, with the payment of the remaining US$0.3 million consideration. This payment was in addition to US$0.2 million initial instalment made in July 2018 and a second instalment of US$0.1 million in December 2020. Post period end, a further 508 hectares were purchased for US$0.2 million at Perciditos.

The Sonora Project's priority remains the health and well-being of staff, partners and its local communities. The Sonora Lithium Group continue to take all appropriate measures to protect them in accordance with the relevant governmental and regional requirements. In January 2022, Sonora was in the yellow (medium) traffic light level of risk[24], meaning all work activities are permitted but with certain limitations for high risk individuals, and activities following preventative measures.

Site works for bulk earthworks have been rescheduled to begin late 2022. Bacanora continues to work with Ganfeng, to mitigate the impact of COVID-19 safety protocols on project construction, optimising work rotations and reducing accommodation population density. By extending work rosters for employees and contractors, the Sonora Lithium Group hopes to provide more time for contractors to be on-site, whilst enabling camp accommodation optimisation. These measures facilitate the success of COVID-19 social distancing outcomes.

Work to complete the front-end engineering design ("FEED") has continued throughout the period. Ganfeng is currently appointing a Chinese Design Institute to complete the FEED with initial site layouts scheduled for Q2 2022. Bulk earthworks are expected to commence in late 2022. Ganfeng is continuing to work with its equipment suppliers and, along with the Company, is maintaining its previously advised project delivery schedule with first lithium production in H2 2024. A short list of LNG suppliers has been completed and supply sources from Mexico and USA are being evaluated with draft supply contracts being reviewed. Evaluation of co-gen power suppliers continued in 2021, with proposals from a shortlist of three providers currently under evaluation.

[24] https://ogletree.com/insights/mexicos-covid-19-traffic-light-monitoring-system-news-for-december-27-2021-january-9-2022/

Lithium Market Update 2021

Despite the continued global disruption precipitated by the COVID-19 pandemic, 2021 saw a sustained revival in market sentiment for lithium. At the end of the year, estimates of consumption was 486,000 tonnes of LCE and production was on par at 485,000 tonnes for 2021. This level of demand represented a 59.3% increase from 305,000 tonnes LCE in 2020, due to the COVID-19 related green recovery, accelerating demand for EVs and battery storage for renewables. Demand is expected to grow to 573,000 tonnes and 724,000 tonnes LCE in 2022 and 2023 respectively. Production volumes have been relatively inelastic in 2021, with volumes increasing from 464,000 thousand tonnes, a 4.7% increase[25]. The narrowing of the supply surplus in 2021 and concerns about future deficits has seen knock on effects on the price of lithium. Macquarie forecasts the lithium market to be in a 2,900 tonnes deficit this year, rising to 20,200 tonnes in 2022, with the shortfall widening further to 61,000 tonnes in 2023. Credit Suisse's deficit projections were at 117,000 tonnes and 248,000 tonnes in 2024 and 2025, respectively[26].

During 2019 and 2020, oversupply and destocking led to weak prices, which in turn led to mine closures and paused capital plans, particularly in higher cost spodumene producers. In December 2020, Fastmarkets reported mid-point battery-grade spot prices CIF China, Japan & Korea for lithium carbonate and lithium hydroxide at US$6,750 and US$9,000 per tonne respectively[27]. The low price in 2020 was attributed to an oversupply of lithium products. This was compounded by dwindling lithium demand caused by rolling regional COVID-19 related lockdowns which restricted manufacturing output and reductions in consumer confidence, thereby dampening lithium demand. 2021 saw meteoric increases in price, across the year. At the turn of 2022, LME spot battery-grade lithium hydroxide was trading at US$33,000 per tonne[28] an increase of 266%. Similarly, Benchmark's lithium carbonate, battery-grade, EX-Works China price has been trading at record prices, which have exceeded US$40,000 per tonne[29]. Market observers such as Fitch Solutions are forecasting average prices for lithium carbonate prices at US$21,000 per tonne in 2022[30]. In the shorter term a price correction may weigh on the market as suppliers look to take advantage of the incentive pricing, with new or restarted production in 2022 from Wodinga (Mineral Resources initially +250,000 tonnes per year of spodumene concentrate[31]), Kemerton Hydroxide refinery (+50,000 tonnes of lithium hydroxide), Allkem Olaroz (formerly Orocobre) +25,000 tonnes LCE), Pilgangoora (Pilbara Minerals, Ngungaju plant +200,000 tonnes of spodumene concentrate[32]), Salar del Carmen (SQM +60,000 tonnes LCE), Cauchari-Olaroz (Lithium Americas +40,000 tonnes) and Bessemer City (Livent +5,000 tonnes of lithium hydroxide)[33]. With production restarting and coming on stream in 2023, lithium carbonate price is expected to reduce to a more moderate US$17,500 per tonne in 2025 according to Canaccord Genuity[34].

In the longer term the broad market outlook for lithium is promising – a rapidly transitioning EV and battery storage sector is expected to see consumption growth outpace production growth, which may result in sustained elevated prices to the benefit of producers[35]. Super majors are taking note, in a presentation to investors, Rio Tinto's head of economics Vivek Tulpule said that by 2030 EV manufacturers would need about three million tonnes of lithium, compared with the roughly 350,000 tonnes they consume today[36]. Rio Tinto estimated that existing operations and projects combined, will contribute one million tonnes of lithium. Filling the supply gap will require over 60 Jadar projects, the Jadar mine will produce 58,000 tonnes of lithium carbonate. With the Sonora Project, due to commence production in H2 2024, the Company is set to benefit from the attractive fundamentals of the lithium industry.

---

[25] https://publications.industry.gov.au/publications/resourcesandenergyquarterlydecember2021/documents/Resources-and-Energy-Quarterly-December-2021.pdf
[26]https://capital.com/lithium-price-forecast#:~:text=In%20November%2C%20Fitch%20Solutions%20revised,%2419%2C000%20a%20tonne%20in%202023
[27] https://seekingalpha.com/article/4396089-lithium-miners-news-for-month-of-december-2020
[28] https://www.lme.com/Metals/EV/Lithium-prices
[29] https://www.benchmarkminerals.com/membership/lithium-carbonate-prices-break-through-40-kg-barrier/
[30] https://capital.com/lithium-price-forecast
[31] https://www.mining.com/web/mineral-resources-to-restart-wodgina-mine-as-ev-demand-boosts-lithium-prices/
[32] https://www.mining-technology.com/news/pilbara-minerals-restart-ngungaju-plant/
[33] https://www.spglobal.com/platts/en/market-insights/latest-news/energy-transition/121421-commodities-2022-global-lithium-market-to-remain-tight-into-2022
[34] Canaccord Genuity – EV materials, Analyst note, 24 January 2022
[35] https://seekingalpha.com/article/4476301-lithium-miners-news-for-the-month-of-december-2021
[36] https://www.miningweekly.com/article/lithium-supply-gap-will-require-60-jadar-projects-rio-tinto-2021-10-21

Financial Review

In the reporting period several corporate transactions had a marked effect on the accounts of the Group. The Group made a total comprehensive income of US$16.3 million for the year ended 31 December 2021 (year ended 31 December 2020: US$15.6 million loss).

On 26 February 2021, Ganfeng completed its option to increase its stake in Sonora Lithium Ltd from 22.5% to 50%. On completion of the transaction, a revised 50:50 JVA came into force. After a review of the provisions of the revised JVA, the Company has assessed that Bacanora now has joint control over the Sonora Lithium Group. Therefore, the Group followed deconsolidation protocols for the Sonora Lithium Group and now utilises equity accounting to record the Company's investment in the Sonora Lithium Group. Recognition of 50% of SLL's net assets led to a gain on the change of control of SLL of US$31.9 million. From the date of deconsolidation to the end of the year, Bacanora's share of Sonora Lithium Group loss was US$1.0 million.

In addition to the gain on deconsolidation other non-recurring items include: a gain on the distribution of the Company's investment in Zinnwald Lithium Plc of US$8.7 million and distribution income of US$4.2 million as a result of the cancellation of a related party payable.

During the year ended 31 December 2021, the Group incurred US$8.0 million general and administrative costs (year ended 31 December 2020: US$4.4 million) and share-based payment expense of US$0.9 million (year ended 31 December 2020: US$0.6 million). The increase in cost was due to increased corporate activities particularly on legal and professional fees, investor relations, employee costs and travel compared to the previous year. The Group's operating loss was US$9.1 million (year ended 31 December 2020: US$5.3 million).

Finance income totalled US$0.9 million during the year ended 31 December 2021 (year ended 31 December 2020: US$0.4 million) being cash interest income on cash reserves of US$0.2 million and interest income on funding to related parties of US$0.7 million.

The Group incurred finance costs of US$15.3 million in relation to the Group's debt financing for the year ended 31 December 2021 (year ended 31 December 2020: US$6.8 million). As a result of the change of control following the Ganfeng Offer becoming unconditional, the Group agreed to repay the RK debt facility early and settle the financial warrant liability. As a result, the Group recognised US$2.8 million interest expense, US$12.2 million accelerated Eurobond transaction costs, discounts and the early repayment fee and a US$0.3 warrant revaluation. The debt and warrants were fully repaid on 7 January 2022.

Other comprehensive income includes net foreign exchange differences recycled through profit and loss of US$3.4 million and US$0.4 million loss on foreign currency translation adjustment (year ended 31 December 2020: US$0.3 million gain).

The net assets of the Group increased to US$134.3 million at 31 December 2021 from US$49.9 million at 31 December 2020, due primarily to the issuance of equity totalling US$96.4 million, the total comprehensive income for the year of US$16.3 million, as well as issuance of shares as a result of exercised share options of US$1.2 million and share-based expense of US$0.9 million. This is offset by the distribution of its investment in Zinnwald Lithium Plc recognised at its fair value of US$16.2 million, deconsolidation of the Sonora Lithium Group of US$12.3 million and vesting of RSUs US$1.9 million as a result of the change of control.

The Group had a consolidated cash balance of US$122.1 million at 31 December 2021, which increased by US$82.9 million from US$39.2 million at 31 December 2020. The increase in cash was mainly a result of total equity raise of US$96.4 million and interest on cash balance of US$0.2 million. This is offset by cash expenditure on operations of US$8.8 million, payments of interest and principal repayments on the RK debt facility of US$3.7 million, reduction in cash on change of control of subsidiaries of US$0.4 million, purchases of property, plant and equipment of US$0.2 million, payments to related parties of US$0.2 million and US$0.2 million foreign exchange loss.

The Sonora Lithium Group has a cash balance of US$26.6 million at 31 December 2021. Together, the total aggregated cash of the Group and Sonora Lithium Group amounts to US$148.7 million at 31 December 2021.

Given the ongoing unprecedented COVID-19 health and ensuing economic crises, many companies have seen their balance sheets come under duress throughout the reporting period. Being in the early works phase of construction and having raised significant sums in the equity market, Bacanora and SLL have not entered into commitments to develop the Sonora Project and retain significant cash balances. Consequently, 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.

Financing update

Despite the impact of the ongoing COVID-19 pandemic on Project financing, the Company has made significant strides in the year, to secure additional funding required for the development costs of the Sonora Project. Bacanora's cornerstone investor and offtake partner, Ganfeng, completed its option to increase its stake in SLL from 22.5% to 50% on 26 February 2021. Ganfeng subscribed for 73,955,680 new ordinary shares in SLL at 29.59 pence at a total value of £21.9 million (US$30.4 million). This investment forms part of the Sonora Lithium Group's assets to fund the Project. The strategic investment from Ganfeng forms a major part of the finance package for the construction of an initial 17,500 tonnes per annum LCE operation for the Sonora Project. As part of the revised JV agreement, Ganfeng and Bacanora will contribute proportionally to the construction funding for the Sonora Project in SLL.

In order to support Bacanora's 50% share of the Sonora Project construction funding requirement, Bacanora embarked on an ambitious fundraising process. On 8 February 2021, Bacanora completed a successful placing and retail offer which raised gross proceeds of £48.1 million (US$66.3 million) through the issue of a total of 106,995,885 new ordinary shares at a placing price of 45 pence per share. On 26 May 2021, Ganfeng completed its pre-emption right to increase its shareholding in the Company to 28.88%. Ganfeng subscribed for a total of 53,333,333 new ordinary shares at the placing price of 45 pence per share, representing gross proceeds of £24.0 million (US$33.9 million).

Subsequent to these fundraisings, Ganfeng announced an offer to acquire the remaining shares in the Company that it did not own at the time. The Ganfeng Offer became unconditional on 17 December 2021. By the end of the year, Ganfeng became the Company's controlling shareholder. Ganfeng has significant amount of cash resources which will provide ongoing support to the development of the Sonora Project.

Throughout the period under review Bacanora maintained the RK debt facility according to the original terms and conditions. However, due to no immediate need to draw down additional tranches, extension fee considerations and the limited availability period for an extension post the expiry date of 18 June 2021, the Company and RK have agreed that the remaining undrawn facility, amounting to US$125 million, will no longer be available for draw down. Subsequently, as part of the Ganfeng Offer, it was agreed that the loan would be voluntarily redeemed within 30 days from the Offer being declared unconditional. Following the Ganfeng Offer becoming unconditional on 17 December 2021, all outstanding liabilities to RK were repaid on 7 January 2022.

Careful stewardship of the Company's capital resources have meant that the Company enjoyed a strong cash position of US$122.1 million at the year end. In addition, Sonora Lithium Group's cash balance of US$26.6 million will enable the Company to commence earthworks for the Project in late 2022.

The management of Bacanora will work closely with Ganfeng to complete the funding and development of the Sonora Project and bring the Project to fruition.

On behalf of the Board of Directors,

Janet Blas, Chief Financial Officer

28 February 2022

The strategic report of Bacanora Lithium Plc, on pages 5 - 35, was approved and authorised for issue by the Board of Directors on 28 February 2022 and were signed on its behalf by:

Peter Secker, Chief Executive Officer

28 February 2022

Governance

Directors and Senior Management

a) Board Composition

For the majority of 2021, the Board comprised a Non-executive Chairman, an Executive Director and six other Non-Executive Directors (NEDs). The Board considered the following Non-Executive Directors to be independent – Jamie Strauss, Eileen Carr, Andres Antonius and Graeme Purdy. None of these Directors had been employees, had a significant business relationship or close family ties with related parties or represent significant shareholders.

On 17 December 2021, following the declaration by Ganfeng that its offer for the Company had become unconditional, in accordance with the Offer Document, the Chairman and the four Independent Non-Executive Directors all resigned from the Board. Consequently, as at 31 December 2021, the Board comprised an Executive Director and two other Non-Executive Directors (NEDs), none of whom would be considered independent. Details of the Directors who served during the year are set out within the list of Directors below. As the Company is now a privately owned company and a subsidiary of Ganfeng, the structure of the Board will be solely determined by Ganfeng.

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.

The Board has a 'Charter' that sets out the role and responsibility of the Board and the manner in which it will exercise and discharge these duties. The role of the Board is to determine the strategic direction of the Company, regularly review the appropriateness of it and oversee its implementation. It is not the role of the Board to manage the Company itself but rather to monitor the management and performance of the business. It does this in the following areas:

- Board composition and organisation;
- Strategy, financial and operational matters;
- Financial expenditure;
- Shareholder engagement and communications;
- Governance and general sustainability (ESG) matters;
- Designated positions of responsibility. The roles of management are covered in relation to their interaction with the Board rather than their day to day operational tasks.

Whilst the Board has delegated the normal operational management of the Company to the Executive Director 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.

Whilst the Company was an independent UK listed Plc, the Non-Executive Directors had 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 Director and other senior members of the management team. The Lead Independent Director held informal meetings with the Non-Executive Directors without the Executives present. The Non-Executive Directors enjoyed open access to the Executives and other senior management with or without the Chairman being present.

c) Director Commitments

The Executive Director, Peter Secker, was employed on a full-time contract during 2021 and will be retained for a limited period by Ganfeng for transitional purposes. Mark Hohnen's contract moved to a Non-Executive Chairman role on 30 June 2021, and he resigned on 17 December 2021.

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. In 2021, the ongoing COVID-19 pandemic led to most meetings being conducted remotely.

d) Board Meetings

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

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

A summary of attendance at full Board meetings in the year ended 31 December 2021 is set out below:

	22 January	1 February	31 March	30 June	23 November	17 December
Mark Hohnen	X	✓	✓	X	✓	✓
Peter Secker	✓	✓	✓	✓	✓	✓
Jamie Strauss	✓	✓	✓	✓	X	X
Eileen Carr	✓	✓	✓	✓	✓	✓
Andres Antonius	✓	✓	✓	✓	X	✓
Junichi Tomono	✓	✓	✓	✓	X	X
Wang Xiaoshen	✓	X	✓	✓	X	X
Graeme Purdy	✓	✓	✓	✓	✓	✓

As part of the Ganfeng Offer process, the Board held regular meetings of the Independent Directors to consider all matters relating to the Offer. The Independent Directors were those as defined under the Takeover Code as being independent of the Offeror, Ganfeng Lithium Ltd. These Independent Directors were Mark Hohnen, Peter Secker, Jamie Strauss, Eileen Carr, Andres Antonius, Graeme Purdy and Junichi Tomono. A summary of attendance at these Independent Director meetings is set out below.

	31 Mar	1 Apr	9 Apr	5 May	6 May	10 Jun	30 Jun	19 Jul	18 Aug	24 Aug	13 Sep	20 Oct
Mark Hohnen	✓	✓	✓	✓	✓	✓	X	✓	✓	✓	✓	✓
Peter Secker	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Jamie Strauss	✓	✓	✓	X	✓	✓	✓	✓	✓	✓	✓	✓
Eileen Carr	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Andres Antonius	✓	X	✓	✓	X	✓	✓	X	X	✓	✓	✓
Junichi Tomono	✓	✓	✓	✓	✓	X	✓	✓	✓	✓	✓	✓
Graeme Purdy	✓	✓	✓	✓	✓	✓	✓	X	✓	X	✓	✓

e) Board Committees

The Board has historically delegated specific responsibilities to the Audit, Remuneration and Corporate Governance and Sustainability Committees, details of which are set out below. Each Committee has written terms of reference setting out its duties, authority and reporting responsibilities, which are all kept on the Company's website. These were kept under continuous review to ensure they remained appropriate and reflect any changes in legislation, regulation or best practice. Following the resignation of the Chairman and four Independent Non-Executive Directors on 17 December 2021 and the Company's delisting from AIM on 26 January 2022, the Committees were all disbanded and the relevant powers and responsibilities returned to the Board as whole.

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 was 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 Committee was responsible for overseeing for the Company, subsidiaries, joint venture companies as a whole, the following matters:

- Financial reporting;
- Internal control and risk management systems;
- Internal audit function;
- External audit and the relationship with the external auditors;
- and Whistleblower and fraud programmes

The Audit Committee met at least three times in 2021 and comprised independent non-executive Directors only, with the Chief Financial Officer in attendance and not a member. The Committee had unrestricted access to the Group's Auditor, who may attend all meetings. During 2021. the Audit Committee comprised Eileen Carr as Chairman, Andres Antonius and Graeme Purdy.

The Audit Committee Report contains more detailed information on the Committee's role and activities during the year.

ii) Remuneration Committee

The Remuneration Committee assumed general responsibility for assisting the Board in respect of remuneration policies and strategies for the Company and ensuring they are designed to support strategy and promote long-term sustainable success. It ensured that the Company offers competitive remuneration that is aligned to company purpose and values, and clearly linked to the successful delivery of the Group's long-term strategy, whilst remaining financially responsible. It also ensured formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration.

The Committee was responsible for overseeing for the Company, major subsidiaries and the Group as a whole, the following matters:

- Remuneration policies, including long- and short-term incentives;
- Review of Executive Management performance and recommendations for incentive awards;
- Annual Reporting of the Company's remuneration activities;
- Administration of incentive plans;
- Company policies regarding pension and other benefits; and
- The engagement and independence of external remuneration advisers.

The Remuneration Committee met as and when necessary and comprised independent non-executive Directors only. During 2021, the Remuneration Committee comprised Jamie Strauss as Chairman, Eileen Carr and Andres Antonius.

The Remuneration Committee report contains more detailed information on the Committee's role and activities during the year, as well as the Directors' remuneration and fees.

iii) Corporate Governance and Sustainability Committee

The Corporate Governance and Sustainability Committee was incorporated to emphasise the Company's commitment to Sustainability / ESG Matters. The Board and Management of the Company are committed to maintaining a high standard of corporate governance. The Company chose to adhere to the Quoted Companies Alliance ("QCA") Corporate Governance Guidelines for Small and Mid-Size Companies, which was updated in April 2018 and comprises ten key principles. The purpose of the Corporate Governance and Sustainability Committee was to provide for the Board's effectiveness and continuing development in meeting these ten principles.

The Committee was also responsible for overseeing, on behalf of the Board, the development, implementation and monitoring of the Company's sustainable development in all its internal policies and operations around the three pillars of a Sustainability framework – Environment, Social and Governance ("ESG"). These are based on the United Nations' set of 17 Sustainable Development Goals (SDGs), of which for mining companies, the key takeaways are to extract responsibly, waste less, use safer processes, incorporate new sustainable technologies, promote the improved wellbeing of local communities, curb emissions, and improve environmental stewardship

The Committee was responsible for overseeing for the Company, subsidiaries joint venture companies and the Group as a whole, the following matters:

- Corporate Governance matters highlighted by the QCA Code
- Sustainability matters and policies across the 3 main pillars
- Undertake and report on an annual basis an ESG Materiality assessment to identify key issues as the Company moves through its evolution from exploration to construction and into production
- Reporting of all ESG and Corporate Governance matters in Company publications.

The Corporate Governance and Sustainability Committee comprised Mark Hohnen, Eileen Carr and Jamie Strauss, the latter being Committee Chairman. The Committee met during the period and all members attended the meeting.

iv) Board as a whole

The skills and experience of the Directors who served during the year are set out in their biographical details below. During 2021, the experience and knowledge of each of the Directors gave them the ability to constructively challenge strategy and to scrutinise performance. Prior to the resignations in December 2021, the Board believed it had 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 did 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 was satisfied that the Chairman and each of the Non-Executive Directors were able to devote sufficient time to the Group's business.

During the period, Mark Hohnen, Jamie Strauss, Eileen Carr, Graeme Purdy and Andres Antonius all resigned on 17 December 2021.

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

f) List of Directors

Peter Secker, Chief Executive Officer and Director

Mr Secker is a mining engineer with over 35 years of experience in the resources industry. During his career he has built and operated a number of mines and metallurgical processing facilities in Africa, Australia, China and Canada. His operating and project experience spans a number of commodities, including titanium, copper, iron ore, gold and lithium. For the past fifteen years Mr. Secker has been Chief Executive of a number of publicly listed companies in Canada, UK and Australia. He is also a director of Zinnwald Lithium Plc.

Wang Xiaoshen, Non-Executive Chairman

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 GLF International Co. Ltd, Reed Industrial Minerals Pty Ltd. and Lithium Americas Corp. 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.

Junichi Tomono, Non-Executive Director

Mr Tomono has over 24 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 Hanwa's 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.

Mark Hohnen, Non-Executive Chairman and Director (Resigned – 17 December 2021)

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 a director of Pensana Rare Earths Plc, the ASX and LSE listed rare earth metals explorer. He also served as Non-Executive Chairman of BOSS Resources Ltd and director of Salt Lake Potash Limited.

Jamie Strauss, Non-Executive Director (Resigned – 17 December 2021)

Mr Strauss has 30 years of experience within the stockbroking and mining finance sector. He is founder and director of Digbee Ltd, a data, research and ESG Reporting platform specifically focused on 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 and serves on the Advisory Panel for Mines & Money.

Eileen Carr, Non-Executive Director (Resigned – 17 December 2021)

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 board and the audit committee of Sylvania Platinum Ltd. Her first non-executive role was for Banro Corp in 1998 and more recently she was a non-executive director for Talvivaara Mining Co, the Finnish nickel company, and Goldstar Resources NL, an ASX listed gold company. Ms Carr is a Fellow of the Association of Certified Chartered Accountants, holds an MSc in Management from London University and is a SLOAN fellow of London Business School.

Andres Antonius, Non-Executive Director (Resigned – 17 December 2021)

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

Graeme Purdy, Non-Executive Director (Resigned – 17 December 2021)

Mr Purdy has over 25 years' experience in the resources and battery industries and is Chief Executive Officer of AIM-listed Ilika Plc (ticker: IKA), a solid-state lithium battery technology developer. Since joining Ilika in 2004, Graeme has led two successful rounds of venture funding before floating the company on AIM in 2010. Earlier in his career, Graeme worked with Shell, a global energy group, focusing on the design, construction and commissioning of large process engineering projects in remote locations, including Latin America. Mr Purdy holds a Master's degree in Chemical Engineering from Cambridge and an MBA from INSEAD business school in France. Graeme is a Chartered Engineer and a Sainsbury Management Fellow.

g) Board advice during the period

During the period, the Independent Directors of the Board (as defined by the Takeover Code) appointed Peel Hunt as its Financial Adviser during the Offer from Ganfeng.

h) Internal Advisory Roles

i) Lead Independent Director

Whilst Bacanora had an Executive Chairman, the Company decided to have a Lead Independent Director, Jamie Strauss. His primary role was 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 acted as an alternative route of access for shareholders and other Directors who have a concern that cannot be raised through the normal channels of the Chairman or the Executive Directors. The Lead Independent Director attended 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, acted as a trusted adviser to the Chairman and the Board. He has been heavily involved with Bacanora since its listing on AIM in 2014 and drove the corporate restructuring that led to the re-domicile in 2018. He had a significant role in relation to the Company's legal and regulatory compliance, including being the MAR designee and played a proactive and central role in ensuring good governance. He has been retained for a limited period to assist with the transition process. He is also a director and CFO of Zinnwald Lithium Plc.

The Company Secretary assisted the Chairman in preparing for and running effective Board meetings, including the timely dissemination of appropriate information. The Company Secretary also acted 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 acted as one of the links between the Company and shareholders on matters of governance and investor relations. The Company Secretary reported directly to the Chairman on governance matters.

iii) Annual Board Appraisal

In accordance with current best practice and the Code, the Board historically undertakes an annual formal evaluation of its performance and effectiveness and that of each Director and its Committees. This evaluation would be 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 would meet, informally, without the Chairman present and evaluated his performance. The Board considered that the use of external consultants to facilitate the Board evaluation process would be unlikely to be of significant benefit to the process.

The Chairman stated that he valued 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. This review would ordinarily have happened over the year-end period, but with the resignation of the majority of the Board in December 2021, no review was undertaken in 2021.

i) Ongoing Board Development

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

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

j) Dialogue with Shareholders

i) All Investors

The Board attaches great importance to providing shareholders with clear and transparent information on the Group's activities, strategy and financial position. Communications with all investors was challenging during 2021 due to the significant restrictions imposed by the Takeover Panel during an Offer Period. The Company was restricted in what matters could be discussed and a member of the Company's Financial Adviser, Peel Hunt, was in attendance on all calls or meetings. The Company engaged directly on several occasions with the shareholder investor group that opposed the Ganfeng Offer.

General communication with shareholders is co-ordinated by the Chairman, Chief Executive Officer and Chief Financial Officer. In addition, the Lead Independent Director provided 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 the Sonora Project;
- All Annual and Interim Financial Statements going back to the Company's original inception as Bacanora Minerals Ltd in 2008;
- All Company press releases issued under the RNS service going back to its IPO on AIM in 2014;
- Details on the proxy voting results of all resolutions put to a vote at the most recent AGMs;
- Contact details including a dedicated email address info@bacanoralithium.com through which investors can contact the Company.

The Company's AGMs are held in London following the publication of its annual results and all shareholders are invited to attend. In 2021, the Company conducted a question and answer session that included electronic access as part of its AGM. Furthermore, a general meeting was held on 24 September 2021 to approve the cancellation of the share premium account and approve the Zinnwald Distribution subject to certain conditions being met.

Bacanora includes in its annual AGM documents a "Deemed consent" letter for new shareholders to be moved 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.

ii) Institutional Investors

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

The Company has had increased contact with both current and prospective institutional shareholders as part of the fund-raise process for Sonora in early 2021.

iii) Private Investors

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

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

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

iv) Board review

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

BACANORA lithium

Directors Report

The Directors present their Annual Report and Financial Statements of the Company and Group for year ended 31 December 2021.

a) Results and dividends

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

The Company made a distribution in specie of its investment in Zinnwald Lithium Plc as part of the Ganfeng Offer. The making of this distribution was subject to various conditions, the last of which is the Offer becoming or being declared unconditional, which was met on the record date of 17 December 2021. The distribution of the Zinnwald shares was made to Bacanora shareholders on 22 December 2021. The holder of each Bacanora share received 0.23589 Zinnwald shares.

The Directors do not recommend any further distribution in specie or payment of a dividend.

b) Directors

The Directors who served during the period were:

- Peter Secker
- Junichi Tomono
- Wang Xiaoshen
- Mark Hohnen (resigned 17 December 2021)
- Jamie Strauss (resigned 17 December 2021)
- Andres Antonius (resigned 17 December 2021)
- Eileen Carr (resigned 17 December 2021)
- Graeme Purdy (resigned 17 December 2021)

c) Directors' interests

The Directors' interests in the share capital of the Company as at 31 December 2021 are as follows and relate to shares issued on the exercise of options on 17 December 2021. Other shareholdings held by Directors during the year had accepted the Offer from Ganfeng and transferred to Ganfeng by the year end:

Director	No of Shares	% of Issued Share Capital
Mark Hohnen	330,490	0.1%
Peter Secker	421,288	0.1%
Jamie Strauss	-	0.0%
Andres Antonius	-	0.0%
Junichi Tomono	-	0.0%
Eileen Carr	-	0.0%
Wang Xiaoshen	-	0.0%
Total	751,778	0.2%

d) Substantial shareholdings

The Directors are aware of the following substantial interests or holdings in 3% or more of the Company's ordinary called up share capital as at 31 December 2020. The Ganfeng shareholding relates to shares already transferred to Ganfeng, whilst as at 31 December 2021, Ganfeng had received valid acceptances in relation to its Offer totalling 333,342,270 or 86.1% of total issued share capital.

Major Shareholder	No of Shares	% of Issued Share Capital
Ganfeng Lithium Co., Ltd[1]	282,924,334	73.1%
Hanwa Co Ltd	12,333,261	3.2%

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

e) Directors' and Officers' insurance

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

f) Supplier payment policy

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

g) Branches

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

h) Political donations

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

i) Financial risks

Please refer to note 14 in the Consolidated Financial Statements for a detailed discussion on financial risk.

j) Post balance sheet events

Please refer to note 24 in the Consolidated Financial Statements for a detailed discussion on events that occurred subsequent to 31 December 2021.

k) Future developments

The Company will continue to focus on its efforts to commence construction of Stage 1 of Sonora.

l) Auditor

BDO LLP were reappointed as auditor to the Company at the Annual General Meeting held on 30 June 2021.

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

Wang Xiaoshen, Chairman

28 February 2022

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 UK adopted international accounting standards in conformity with the requirements of the Companies Act 2006. 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 with UK adopted international accounting standards in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the Financial Statements; and,
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Website publication

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

Corporate Governance and Sustainability Committee Report

Part 1 – Corporate Governance Statement from the CEO

On behalf of the Board, I am pleased to present the Directors' Corporate Governance and Sustainability Report summarising the Company's Corporate Governance and Sustainability (ESG) policies and activities for the year ended 31 December 2021. We use the words sustainability and ESG (Environmental, Social and Governance) on an interchangeable basis. A summary of the Committee's role, membership and relevant qualifications can be found in the corporate governance section herein or the QCA statement on the website.

Following the acquisition of the Company by Ganfeng and the resignation of the Chairman and four independent Non-Executive Directors on 17 December 2021, the Corporate Governance and Sustainability Committee ceased to exist, and its delegated responsibilities were returned to the Board as a whole. At the time of publication, the Corporate Governance and Sustainability Committee has not been reformed and no further appointments have been made to it accordingly.

The Bacanora Board continues to provide leadership and support to our senior management team in order to achieve sustainable added value for shareholders. The Board is responsible for enabling the efficient operation of the Company by providing adequate financial and human resources and an appropriate system of financial control to ensure these resources are fully monitored and utilised. 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, employees, 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 addition, the Company recognises its responsibility across ESG more widely through incorporation of transparent environmental and social policies and metrics within its business plan. 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 and has been translated into Spanish for use in our operations in Mexico.

Part 2 – Bacanora's Sustainability Philosophy

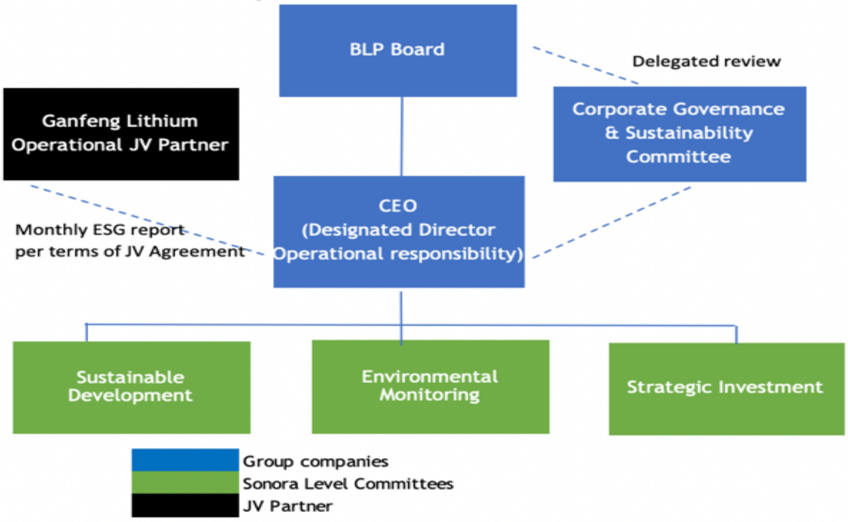
At Bacanora, we view sustainability as a guiding principle of our development strategy and are dedicated to delivering on the commitments to our shareholders, debt holders, clients, employees, local communities, and other stakeholders with this in mind. We believe that transparency and ethical behaviour are central to any successful company and undertake all development with respect to the environment and neighbouring communities. We have the following over-arching Sustainability Philosophy that governs everything we do:

- Promote responsibility for the environment within the organisation and communicate and implement this policy at all levels within the workforce;
- integrate positively with local communities;
- Reduce the use of energy, water and other resources;
- Minimise waste by reduction, re-use and recycling methods;
- Comply with all relevant environmental legislation/regulation;
- Ensure that our policies and services are developed in a way that is complimentary to this policy;
- Do not prioritise funding needs ahead of sustainability requirements;
- Encourage all stakeholders to commit to the sustainable development philosophy;
- Identify and provide appropriate training, advice and information for staff and encourage them to develop new ideas and initiatives;
- Provide appropriate resources to meet the commitments of this policy;
- Promote and encourage involvement in local environmental initiatives/schemes;

Part 3 – Group Sustainability Structure and Reporting

The chart below outlines Bacanora's sustainability structure and lines of reporting. The Board retains ultimate responsibility for all matters but had delegated regular review and oversight to the Corporate Governance and Sustainability Committee.

Bacanora ESG / Sustainability Structure



Following the delisting of the Company from AIM, all Board committees have been removed and the relevant powers and responsibilities returned to the Board as whole. The CEO has operational responsibility. The Company also has ongoing reporting responsibilities to its JV Partner and now parent company, Ganfeng, to feed into their own sustainability structures. The Company has established a conceptual structure for its future local committees in Sonora that will manage its sustainability activities on a community and regional level in Mexico in 3 key areas. These committees will commence operations once the Covid-19 pandemic has receded and construction has commenced.

- Sustainable Development - municipal planning, economic development, regional stability
- Environmental Monitoring - water, air, life, health
- Strategic Investment (regional) - selection, design and implementation of initiatives, partnerships

In terms of reporting, Bacanora had developed a regular reporting structure to ensure its sustainability philosophy is adhered to, monitored and reported on an appropriate basis. As with the local committee structure, this reporting will commence once the project moves into full construction mode.

- Monthly – the local committees report into the CEO on progress of key deliverables and selected KPI metrics, which is in turn summarised for review by the Board on a high-level basis;
- Quarterly – the local committees will meet with key stakeholders; the local committees will report to the CEO on key relevant matters. The CEO will report to the Board any material matters arising.
- Annual – the local committees will hold annual meetings and report on the annual KPIs and metrices to the CEO, who will report to the Board.

Part 4 - Current Sustainability Focus and Deliverables

Group Sustainability Framework

At a Corporate level, the Company has well-established systems and policies to ensure good corporate governance, which are detailed in its annual QCA Statement and on the Company’s website. At a local operational level, the Company has a comprehensive sustainability programme and structure in operation at Sonora. The Company’s focus in 2021 has been to put in place a holistic “joined-up” framework to create a long term Sustainability Framework to govern all Group’s policies and activities.

Operational Level

On an **Environmental** level, as part of securing of permits and licenses to operate, the Company has already produced multiple environmental reports, policies and procedures which cover how the Company can operate. On a **Social** level the Company commissioned Solum in 2017/18 to produce an extensive baseline review and reports of Social / Community requirements and engagement. The Company also has a number of local initiatives (new access road, educational assistance) in place to bring significant benefits to the local economy. On a **Governance** basis, as noted earlier, the Company has established local committees to manage its key requirements going forward.

Since early 2020, the Company has commissioned Golder's environmental review team on site to complete primary stakeholder mapping, prioritisation and contact scheduling. Their current focus is on updating the existing documentation around Environmental and Social Management Plans ("ESMP") and developing an integrated Environmental and Social Impact Assessment ("ESIA") combining all existing documentation. Their key deliverables are:

- Environmental and Social Management System ("ESMS"), which incorporates:
  - (i) policy; (ii) identification of risks and impacts; (iii) management programs; (iv) organizational capacity and competency; (v) emergency preparedness and response; (vi) stakeholder engagement; and (vii) monitoring and review.
- ESMS is the overarching system – below it are 2 main next levels:
  - ESMP;
  - ESIA;
  - Separate ones for mine and chemical plant and also co-gen facility.
- Stakeholder engagement plan with local communities – including assessment on any potential resettlement;
- Grievance mechanisms for local communities and external stakeholders;
- Best available technology study assessment – ongoing to improve efficiency;
- Influx management plan to address impact during construction and operation.

Other Items that are already contracted and in progress include:

- Greenhouse Gas (GHG) monitoring assessment and reporting framework;
- Human rights framework;
- Biodiversity - critical habitats screening, impacts and mitigation;
- Ecosystems baseline assessment, impacts and mitigation;
- Site security and safety strategy.

I look forward to updating Project stakeholders about the Company's ESG progress.

Peter Secker, Chief Executive Officer

28 February 2022

Audit Committee Report

Dear Shareholders,

I am pleased to present this report on behalf of the Board and its former Audit Committee, covering the activities for the twelve months ended 31 December 2021.

The principal roles of the Audit Committee are to support the Board in fulfilling its oversight responsibilities to ensure integrity of financial reporting, the efficacy of the risk management framework and the internal control system as well as consideration of compliance matters. Following the acquisition of the Company by Ganfeng and the resignation of the four independent Non-Executive Directors on 17 December 2021, the Audit Committee ceased to exist, and its delegated responsibilities were returned to the Board as a whole. At the time of publication, the Audit Committee has not been reformed and no further appointments have been made to it accordingly.

Prior to being disbanded, the Audit Committee was responsible for assessing the quality of the audit performed by and the independence of the auditor. During the period, three meetings of the Committee were held and the CFO was invited to attend together with the external auditor. Significant issues considered during the year are listed below:

Issue	Summary of Issue	Key Action Point
Accounting for Transactions – Completion of Ganfeng Option to purchase remaining 27.5% of SLL.	Accounting for the completion of the Ganfeng Option under IFRS 10 - Consolidated Financial Statements and IAS 27 - separate financial statements have been considered in assessing the impact on the Group, Bacanora Lithium Plc and SLL's financial statements.	Committee action: Review of accounting treatment prepared by management.
Critical judgement and estimates - Impairment assessment of Sonora Project assets	Review of impairment indicators under IAS 36 resulted in no impairment required for the Sonora Project assets.	Committee action: Review of estimates and accounting treatment prepared by management.
Going concern - Accounting basis of preparation	Based on detailed cashflow forecasts, whether it is prudent to account on a going concern basis.	Committee action: Detailed review and interrogation of cashflow forecasts prepared by management; consideration of existing cash balances and review of changes to debt covenants received ensuring no going concern issues. Special consideration was given to the potential impact of COVID-19 on the business.
Controls Processes – Review of key controls	Upgrade of existing systems, controls and procedures to ensure compliance with corporate governance requirements.	Committee action: Review of controls. Monitoring of controls will continue as the Sonora Project progresses into development to ensure adequate controls are in place.
Risk Management Process Review continued operation of the risk management process	In 2020, the Company developed a control framework for the management and mitigation of risk. This risk process is now embedded.	Committee action: Review of risk management processes. This process will continue to be monitored over the coming period.

Audit Tender Process Review of auditor tenure	QCA guidelines recommend a tender process at least every 10 years.	Committee action: Reviewed the steps for initiating a tender process and recommended tendering once the Ganfeng offer is concluded (see below).

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

External auditor

The Company's external auditor, BDO LLP ("BDO") presented their detailed audit plan and final audit findings and recommendations for the twelve months ended 31 December 2021. The Committee agreed with the audit approach at the planning stage and agreed with the materiality thresholds, identification of the key risk areas and significant judgements and estimates. BDO has a significant presence in Mexico (BDO Castillo Miranda) and used their local team to undertake substantive testing on the Company's Mexican subsidiaries.

Previously, BDO Canada LLP was the auditor for Bacanora Minerals Ltd, the then ultimate parent company of the Group. BDO Canada LLP was first appointed for the audit of the accounts for Bacanora Minerals Ltd ending 30 June 2011. Bacanora Minerals Ltd was formerly dually listed on the TSX and AIM markets. In 2018, the Company re-domiciled to the UK from Canada which resulted in Bacanora Lithium Plc becoming the ultimate parent company of the Group. Following the decision to re-domicile to the UK from Canada, BDO LLP, a limited liability partnership registered in England and Wales, was appointed to the role of Company auditor in May 2018. BDO's strong presence in both Mexico and a good working relationship with our previous audit firm in Canada was taken into consideration when deciding upon their appointment.

However, in accordance with QCA guidelines and the Audit Committee charter, the role of the external auditor should be reviewed and put to tender every ten years and it has been recommended to the Board that the re-tender for the external auditor should be dependent upon the Ganfeng transaction. The recommendation in no way implied a dis-satisfaction with our current BDO, but was instead driven by compliance with our own internal controls.

Objectivity and Independence

The Audit Committee and the Board monitored the auditor's objectivity and independence. The Audit Committee and the Board was satisfied that BDO and the Group have appropriate policies and procedures in place to ensure that these requirements are not compromised in the interim accounts review and the year-end audit.

Fees

There was no significant non-audit work carried out by BDO during the period with the majority of tax advisory work undertaken by PwC. Full details of fees paid during the period may be found in note 17 to the Consolidated Financial Statements.

Whistle blower process

One of the Audit Committee's key delegated responsibilities is to oversee the whistle blower policy and process. Bacanora is committed to conducting its business with honesty and integrity, and expect all staff to maintain high standards in accordance with its Code of Conduct. However, all organisations face the risk of things going wrong from time to time, or of unknowingly harbouring illegal or unethical conduct. A culture of openness and accountability is essential in order to prevent such situations occurring and to address them when they do occur.

To that end the Audit committee and the Board approved an updated group policy. The aim of the policy is to encourage persons to report suspected wrongdoing as soon as possible, in the knowledge that their concerns will be taken seriously and investigated appropriately, and that confidentiality will be respected. The policy provides guidance as to how to raise the aforementioned concerns. The policy also aims to reassure persons that they should be able to raise genuine concerns without fear of reprisals, even if they turn out to be mistaken.

The new policy includes the use of an independent whistle blower hotline, Safecall[37]. The hotline is supported 24 hours a day in a variety of languages and media. Whistleblower reports can be made in Spanish and English, in written or telephone form. The policy is published on the Company's website.

Internal Auditor

The requirement for the appointment of an internal auditor has been assessed by the Audit Committee and the Board; the level of spend and complexity of the operations being taken into account when considering this decision. The Bacanora Board and by extension Audit Committee members receive monthly management information which includes financial and operational updates, covering various business functions such as human resources, security and health and safety. The Management Risk Committee regularly reports its activities to the Audit Committee and the Board. In this way, the Company conducts certain internal audit activities even though there is no internal audit function. To date, the Board 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 Consolidated Financial Statements. The going concern statement is detailed in full in note 2 to the Consolidated Financial Statements.

Janet Blas, Chief Financial Officer

28 February 2022

[37] https://www.safecall.co.uk

Remuneration Committee Report

Part 1 - Background Statement from the Chairman

On behalf of the Board, I am pleased to present the Directors' Remuneration Report summarising the Company's remuneration policy and providing information on the Company's remuneration approach and arrangements for Executive Director, Non-Executive Directors (NEDs) and senior executive management for the year ended 31 December 2021.

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

Remuneration Committee meetings are held at least twice a year with the primary focus of setting goals for the coming period and then assessing results at the end of that period. During the year, the Remuneration Committee met twice primarily to review, monitor and score the targets for the first performance periods for the new Restricted Share Unit ("RSU") and Performance Share Unit ("PSU") schemes.

Following the acquisition of the Company by Ganfeng and the resignation of the four Independent Non-Executive Directors on 17 December 2021, the Remuneration Committee ceased to exist, and its delegated responsibilities were returned to the Board as a whole. At the time of publication, the Remuneration Committee has not been reformed and no further appointments have been made to it accordingly.

Part 2 – 2021 AGM Approval of New Share Incentive Schemes ("New Schemes") and 2020 Remuneration Report

Whilst it is not a regulatory requirement for AIM to put their Remuneration Reports to shareholders for annual approval, the Committee believed that it would be good corporate governance for Bacanora to do this at the time given its size and stage of development. Accordingly, the terms of the New Schemes were put to shareholders for their approval at the 2021 Annual General Meeting along with the Company's remuneration report for 2020. These New Schemes were developed in conjunction with Pearl Meyer and were based on current best practices and the proxy companies ISS and Glass Lewis duly recommended them to shareholders for approval. The proxy voted results for the 2021 AGM saw the 2020 Remuneration Report approved with 90.1% of votes in favour and the New Schemes were approved with 95.7% of votes in favour.

Part 3 - Summary of basic remuneration structures in 2021

Remuneration for Executive Director and Senior Management

For details of Directors' emoluments, please refer to note 22 to the Consolidated Financial Statements.

All Executive Director and Senior Management are paid a fixed annual salary and, subject to meeting appropriate targets within their scorecard, are included in the historic and new share-based incentive plans noted below. Through to the end of December 2019, the awards under the historic plans relate to a maximum number of options/RSUs for both the former Executive Chairman and CEO. The new short term RSU and long-term PSU incentive schemes came into effect from 1 January 2020 and were formally approved by shareholders at the June 2021 AGM.

Executive Director service contracts and salaries for the periods covered by this report:

Name	Mark Hohnen	Peter Secker
Role	Non-Executive Chairman	CEO
Annual Salary as at 31 December 2021[1]	Nil	£300,000
Annual Salary as at 31 December 2020	£240,000	£300,000
Notice period[1]	3 months	12 months
Awards under historic schemes		
Options and RSUs – Related to FY December 2020[2]	Nil	Nil

BACANORA lithium

Awards under new incentive schemes		
RSUs – Related to first performance period from 1 January 2020 to 31 December 2021[2,3]	54,183	150,850
PSUs - Related to first performance period from 1 January 2020 to 31 December 2022[2,3]	Nil	Nil
Applicable Maximum % of Salary under new schemes		
Short Term Scheme (new RSUs)	60%	60%
Long Term Scheme (PSUs)	100%	100%

[1] In December 2020 Mr. Hohnen extended his Executive Chairman contract until 30 June 2021, after which he became Non-Executive Chairman on a fixed fee basis of £100,000 per annum. The contract had a 3 month notice period. Mr Hohnen resigned along with the four Independent Non-executive Directors on 17 December 2021, when the Ganfeng Offer became unconditional.

[2] The new incentive schemes came into effect from 1 January 2020 and the initial assessment period for RSUs was due to run for 2 years to 31 December 2021 (one year thereafter) and for PSUs to run for 3 years to 31 December 2022. Awards would ordinarily only have been made at the end of the assessment period but were brought forward to 13 September 2021 due to the nature of the Offer from Ganfeng. No further awards were made under the historic schemes with effect from the end of 2019. The share-based payment charges in the accounts commence from the date of award.

[3] Due to the terms and timing of the Ganfeng Offer, the Initial Performance Period was shortened to 1 January 2020 to 13 September 2021.

For details of Executive Directors emoluments, please refer to note 22 for the dollarised total remuneration for the Directors for the year ended 31 December 2021 compared with the year ended 31 December 2020. The salaries above represent the contractual base salaries.

Remuneration of Non-Executive Directors

On 17 December 2021, four Independent Non-Executive Directors resigned as the takeover Offer from Ganfeng became unconditional on that date. Prior to that, the Non-Executive Directors had all entered into appointment letters with the table below showing the key terms.

	Annual Fees	Initial Term	Notice
Independent Non-Executive Directors			
Jamie Strauss	Basic Fee of £40,000, £7,000 as Chair of Remuneration Committee, £7,000 as Chair of Corporate Governance & Sustainability Committee, £6,000 for Lead Independent Director	3 Years	1 Month
Eileen Carr	Basic Fee of £40,000, £7,000 as Chair of Audit Committee	3 Years	1 Month
Andres Antonius	Basic Fee of US$50,000	3 Years	1 Month
Graeme Purdy	Basic Fee of £40,000	3 Years	1 Month
Non-independent Non-Executive Directors			
Junichi Tomono[1]	Nil Fees	3 Years	1 Month
Xiaoshen Wang[1]	Nil Fees	3 Years	1 Month

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

For details of Non-Executive Directors emoluments, please refer to note 22 for the dollarised total remuneration for the Directors for the year ended 31 December 2021 compared with the year ended 31 December 2020. The salaries above represented the contractual base salaries.

Part 4 - Historic Long Term Incentive Schemes

Historically, the variable pay component for Directors and Executive Management comprised the long-term Option and Restricted Share Units (RSU) schemes. Whilst these schemes were replaced by the new incentive schemes with effect from 1 January 2020, the schemes continued to run until the Ganfeng Takeover Offer activated the change of control clauses within these schemes, which triggered an immediate vesting in full of all unvested Options or RSUs. The basic terms of these schemes were as follows:

- Option scheme:
  - Options vest one third on date of grant, one third after 12 months from grant date, and one third after 24 months from grant date;

- Options expire 90 days after recipient ceases to be a Director, officer, employee or consultant, unless the Board specifically agrees in writing otherwise; and
  - Options expire on the third anniversary of the date of grant, if unexercised.
- RSU Scheme
  - RSUs vest on the third anniversary of the date of grant;
  - The Participant receive on vesting, either ordinary shares in the Company, a cash equivalent or a combination thereof as determined by the Company. The value is subject to applicable UK withholding taxes regardless of the domicile of the participant; and
  - RSUs expire 90 days after recipient ceases to be a Director, officer, employee or consultant, unless the Board specifically agrees in writing otherwise.

The table below shows all existing options and RSUs granted to Directors that automatically vested on 17 December 2021 when Ganfeng's Offer became unconditional:

Name	Date of Grant	Vested Options	Unvested Options	Expiry Date	Price
Mark Hohnen	28 Oct 19	151,439	-	27 Oct 22	£0.3325
Mark Hohnen	2 Oct 20	119.668	59,833	1 Oct 23	£0.2440
Peter Secker	28 Oct 19	205,800	-	27 Oct 22	£0.3325
Peter Secker	2 Oct 20	143,659	71,829	1 Oct 23	£0.2440

The table below shows all existing RSUs for Directors as at 17 December 2021:

Name	Date of Grant	RSUs Granted	Vesting Date
Mark Hohnen	28 Oct 19	204,970	27 Oct 22
Mark Hohnen	2 Oct 20	97,811	1 Oct 23
Peter Secker	28 Oct 19	278,546	27 Oct 22
Peter Secker	2 Oct 20	117,420	1 Oct 23

The second tranche of RSUs originally issued in September 2018 reached their vesting date during the year, and in accordance with the rules of the scheme vested at a price of 67 pence being the higher of the closing price on 10 September 2021 or the 5-day closing VWAP to 10 September 2021. At its discretion, the Board elected to pay the net amount due, after the payment of withholding taxes, under these awards in cash. None of these RSUs had been issued to Directors.

Part 5 - New Short Term RSU Incentive Scheme - Awards for first performance period

With effect from 1 January 2020, the Company adopted the 'Short-term Restricted Unit Scheme' ("**RSU Scheme**"). The key features of this scheme were detailed in both the 2020 Annual Report and the 2021 Notice of AGM, at which meeting the scheme was approved by shareholders.

All awards granted under the RSU Scheme were to be subject to annual performance criteria set by the Remuneration Committee each financial year, relating to each eligible employee's performance against personal, financial, strategic and 'Environmental, Social, and Corporate Governance' ("ESG") metrics. Each eligible person was set a minimum performance threshold which must be satisfied to trigger any issuance of RSUs to them ("Threshold"). In addition, a base target ("Target") and maximum amount ("Maximum") were also set.

The first performance period was to run with an effective date from 1 January 2020 until 31 December 2021 ("RSU Initial Performance Period"). This initial two-year period was put in place to reflect cash preservation measures in 2020, as well reflecting the overall strategy of the Company as it transitions towards its construction phase. Due to the terms and timing of the Ganfeng Offer, the RSU Initial Performance Period was shortened to 1 January 2020 to 13 September 2021.

The Company calculated any awards under the RSU Scheme based on a percentage of base salary as recommended by the Remuneration Committee at the start of each performance period. Pay-outs were split 50% Cash and 50% in RSUs at the end of the assessment period and the number of RSUs issued was based on the share price of the Company at the date of award. All RSUs issued were due to automatically vest three years from the date of grant, being 13

September 2024 and the related shares (or cash alternative at the Company's discretion) would be issued on that date. All RSUs had a standard clause of immediate vesting in the event of a change in control, accordingly when the Ganfeng Offer became unconditional, then these RSUs vested on that date.

The awards granted to Directors were as follows:

Name	Role	Cash	No of RSUs	Vesting Date[1]
Mark Hohnen	Non-Executive Chairman	£ 36,357	54,183	13 September 2024
Peter Secker	CEO	£ 101,221	150,850	13 September 2024

[1] These RSUs automatically vested on 17 December 2021, the date when the Ganfeng Offer became unconditional.

Part 6 - New Long Term PSU Incentive Scheme - Awards for first performance period

With effect from 1 January 2020, the Company adopted the 'Long term Performance Stock Unit Scheme' ("**PSU Scheme**"). The key features of this scheme were detailed in both the 2020 Annual Report and the 2021 Notice of AGM, at which meeting the scheme was approved by shareholders.

All awards granted under the PSU Scheme were to be subject to three-year performance criteria set by the Remuneration Committee each financial year, relating to objective corporate metrics as follows:

- 'Relative Total Shareholder Return ("RTSR")' against the peer group (see below); and
- Any additional objective goals relating to corporate strategy for the three-year measurement period, if deemed appropriate at the beginning of the period.

Each eligible person was set a (i) minimum performance threshold which must be satisfied in order to trigger any issuance of PSUs to them ("Threshold"). In addition, a base target ("Target") and maximum amount ("Maximum") will also be set. Performance criteria for RTSR shall be calculated as Maximum being in the top quartile relative to the peer group, Target being in the top half and Threshold being in the third quartile.

The first performance period was to be with an effective date from 1 January 2020 to 31 December 2022 (the "PSU Initial Performance Period"). The Company was to calculate any awards under the PSU Scheme based on a percentage of base salary as recommended by the Remuneration Committee at the start of each performance period and the share price at the start of the period. For the PSU Initial Performance Period, the Committee recommended the following:

- performance below Threshold – no PSUs issued
- performance equal to Threshold – PSUs issued to 25 percent of salary
- performance equal to Target – RSUs issued to 50 percent of salary
- performance equal to Maximum – RSUs issued to 100 percent of salary

The recommended Peer Group was Pilbara Minerals (ASX:PLS), Lithium Americas (TSX:LAC), Orocobre (ASX:ORE), Galaxy Resources (ASX:GXY), Piedmont Lithium (Nasdaq:PLL), Ioneer (ASX:INR), AVZ Minerals (ASX:AVZ), EMH (ASX:EMH), Neo Lithium (TSX:NLC, Critical Elements (TSX:CRE), Lake Resources (ASX:LKE) and Millennial Lithium (TSX:ML).

Due to the terms and timing of the Ganfeng Offer, the Initial Performance Period was shortened to 1 January 2020 to 13 September 2021. The Committee reviewed the Company's RTSR performance against this peer group and concluded it fell into the bottom quartile and accordingly no PSUs could be recommended to be issued to Executive Management or Directors.

For and on behalf of the Remuneration Committee

Wang Xiaoshen, Chairman of Bacanora Lithium Plc
28 February 2022

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

Opinion on the financial statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with UK adopted International Accounting Standards;
- the Parent Company Financial Statements have been properly prepared in accordance with UK adopted International Accounting Standards 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.

We have audited the Financial Statements of Bacanora Lithium Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise the Consolidated Statement of Financial Position, the Consolidated Statement of Comprehensive Income, 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 is applicable law and UK adopted international accounting standards and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain 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.

Conclusions relating to going concern

In auditing the Financial Statements , we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

Reviewing cash flow forecasts for the period to June 2023 and challenging the Directors on the completeness and accuracy of the forecasts. This included a comparison of forecast overhead expenditure with historic expenditure, agreeing available cash balances, reviewing Group commitments to check these are accurately reflected in the cash flow forecasts.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the Financial Statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

<table>
<tr><td>Coverage</td><td>99% (2020: 99%) of Group profit before tax

99% (2020: 99%) of Group total assets</td></tr>
<tr><td>Key audit matters</td><td>
<table>
<tr><td></td><td>2021</td><td>2020</td></tr>
<tr><td>Carrying value of investment</td><td>X</td><td></td></tr>
<tr><td>Accounting for the exercise of the Ganfeng option</td><td>X</td><td>X</td></tr>
<tr><td>Carrying value of Evaluated mineral property</td><td></td><td>X</td></tr>
</table>
Carrying value of Evaluated mineral property is no longer considered to be a key audit matter because the Group lost control of Sonora Lithium Project and now has joint control, so its investment in Sonora Lithium Ltd is accounted for as a joint venture using the equity method.</td></tr>
<tr><td>Materiality</td><td>Group Financial Statements as a whole

US$1,810,000 (2020: US$820,000) based on 1% (2020: 1%) of total assets</td></tr>
</table>

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the Financial Statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

The Group audit covered the UK Parent Company, Bacanora Finco Ltd, Bacanora Treasury Ltd and a number of subsidiaries of Sonora Lithium Limited (the joint venture) which are incorporated in Mexico and Canada. We have performed a full scope audit over the Group's significant components comprising Bacanora Lithium Plc and Minera Sonora Borax S.A. de C.V. Specific audit procedures were carried out on Sonora Lithium Ltd, Bacanora Chemco S.A. de C.V. and Bacanora Finco Limited. Each of the audits were conducted by the group audit team. 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 the group audit team.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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) that 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		**How the scope of our audit addressed the key audit matter**
Carrying value of investment	As at 31 December 2021, the Group held a joint venture investment in Sonora Lithium Ltd. The Group's investment totalled US$50.1 million. The details of this investment are disclosed in note 7. There are a number of judgements and estimates used by management in assessing the investment for indicators of impairment under the accounting standards. There are also judgements and estimates included in the feasibility study which management have relied upon. These are set out in note 4a, and the subjectivity of the judgements and estimates together with the significant carrying value of the investment made this a key area of focus for our audit.	We assessed management's review of indicators of impairment and our procedures included the following: • We reviewed and challenged, where appropriate, management's impairment indicators assessment against the criteria in the Group's accounting policy and applicable accounting standards in order to determine whether management's assessment was complete and in accordance with the requirements of the accounting standard. • We obtained and checked the feasibility study prepared by management's external experts and assessed their competence and independence. • We corroborated management's assumptions on future lithium prices against market data to confirm whether management's projection of future lithium prices was reasonable. • We reviewed the mineral licenses held by the Group and made enquiries with management to determine whether there were any reasons the licenses would not remain valid. • We reviewed board minutes and RNS announcements to check whether there were any indicators of impairment. **Key observations:** Based on our work we have no matters to communicate in respect of management's assessment of the carrying value of the Group's investment in Sonora Lithium Ltd.
Accounting for the exercise of the Ganfeng option and assessing the impact of this option on the Group's control of Sonora Lithium Ltd	Ganfeng held a 22.5% non controlling stake in Sonora Lithium Ltd. On 13 November 2020 Ganfeng gave notice to exercise its option to acquire an additional 27.5% interest in Sonora Lithium Ltd for approximately £21 million consideration. As described in note 7, on 26 February 2021 the transaction was completed and Ganfeng's stake increased to 50%. Management has considered whether the Group still controls Sonora Lithium Ltd or retains joint control. The assessment of control in accordance with the relevant accounting standards involves significant judgement. The judgements applied by	We have reviewed management's assessment of whether the Group still controls Sonora Lithium Ltd or exercises a joint control from 26 February 2021. Our audit procedures included the following: • We have reviewed the Joint Venture agreement dated February 2021 and confirmed the conditions were met for the completion of the transaction. • We have reviewed management's control assessment in accordance with the accounting standards. We have involved our financial reporting technical experts in review of management's assessment, supporting documents, and basis for conclusion. • We reviewed management's valuation methods used to value the fair value the investment on the transaction date and consulted with our valuations specialist on the appropriateness of this method. • We also considered whether alternative valuation methods were more appropriate, including

	management are set out in note 4a and 7 to the Financial Statements, with management concluding from 26 February 2021 the Group lost control and retained joint control of the Sonora Lithium project and its investment in Sonora Lithium Ltd is accounted for as a joint venture using the equity method. The joint venture investment in Sonora Lithium Ltd is required to be measured initially at fair value. As disclosed in note 4, the initial fair value involves estimates and judgements. Given the subjectivity of these judgements and estimates, this was assessed to be a key area of focus for our audit work.	consideration of whether the value implied using a discounted cash flow method was a better estimate. We concurred with management that the use of uncertain and long-term forecasts prior to development and production included more estimates than basing the valuation on the transaction price. We concurred that the transaction price is an observable valuation agreed to be fair by two independent parties. • We reviewed the calculation for the gain on disposal of the subsidiary, including the net asset position as at date of disposal. • We confirmed there have been no changes to the shareholding/joint venture. • We also reviewed the disclosures in the Financial Statements relating to this transaction. **Key observations:** Based on our audit procedures, we found the judgements applied by management in the assessment of accounting treatment as joint control over Sonora Lithium Ltd and the estimation of the initial fair value of the investment to be appropriate.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the Financial Statements .

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. 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.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole and performance materiality as follows:

	Group Financial Statements		Parent Company Financial Statements	
	2021 US$	2020 US$	2021 US$	2020 US$
Materiality	1,810,000	820,000	1,450,000	660,000
Basis for determining materiality	1% of total assets	1% of total assets	80% of Group materiality	80% of Group materiality
Rationale for the benchmark applied	The materiality has been based on total assets as the Group is in the exploration and development phase of its operations and is not revenue generating or profit making. The audit team considers assets to be one of the principal considerations for users of the Financial Statements.		The Parent Company materiality has been set on a % of Group materiality.	
Performance materiality	1,357,500	615,000	1,080,000	495,000
Basis for determining performance materiality	75% of Group materiality	75% of Group materiality	75% of Parent Company materiality	75% of Parent Company materiality

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 misstatements.

Component materiality

We set materiality for each component of the Group based on a percentage of between 15% and 80% of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from US$270,000 to US$1,450,000. In the audit of each component, we further applied performance materiality levels of 75% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of US$36,000 (2020:US$16,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements, 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. 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 course of 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 this gives rise to a material misstatement in the Financial Statements themselves. 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.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

<table>
<tr><td>Strategic report and Directors' report</td><td>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.
In the light of the knowledge and understanding of the Group and 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.</td></tr>
<tr><td>Matters on which we are required to report by exception</td><td>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.</td></tr>
</table>

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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- Holding discussions with management and the Board of Directors to understand the laws and regulations relevant to the Group and Parent Company. These included elements of financial reporting framework, tax legislation and environmental regulations
- Holding discussions with management and the audit committee to consider any known or suspected instances of non-compliance with laws and regulations or fraud
- Testing appropriateness of journal entries made through the year by applying specific risk criteria to detect possible irregularities or fraud
- Assessing the judgements made by management when making key accounting estimates and judgements, and challenging management on the appropriateness of these judgements (see also Key audit matters above)
- Reviewing minutes from board meetings of those charges with governance to identify any instances of noncompliance with laws and regulations
- We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the Financial Statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the Financial Statements, the less likely we are to become aware of it.

A further description of our responsibilities is available 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.

DocuSigned by:

Jack Draycott

4FB34D873A17477...

Jack Draycott (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

London, UK

28 February 2022

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

Consolidated Statement of Financial Position

As at 31 December 2021

In US$	Note	31 December 2021	31 December 2020
Assets			
Current assets			
Cash and cash equivalents		**122,105,953**	39,238,496
Receivables from related parties	21	**2,726,934**	-
Other receivables and prepayments	5	**820,704**	2,044,988
Total current assets		**125,653,591**	41,283,484
Non-current assets			
Investment in joint venture	7	**50,144,596**	-
Receivables from related parties	21	**4,626,712**	-
Investment in associate	6	-	7,865,575
Property, plant and equipment	8	-	32,217,934
Exploration and evaluation assets	9	-	570,732
Total non-current assets		**54,771,308**	40,654,241
Total assets		**180,424,899**	81,937,725
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	10	**3,889,497**	1,329,214
Borrowings	11	**40,505,348**	-
Financial warrants liability	12	**1,750,000**	-
Total current liabilities		**46,144,845**	1,329,214
Non-current liabilities			
Borrowings	11	-	29,197,920
Financial warrants liability	12	-	1,549,576
Total non-current liabilities		-	30,747,496
Total liabilities		**46,144,845**	32,076,710
Shareholders' equity			
Share capital	15	**53,014,057**	30,348,183
Share premium	15	**813,170**	16,801,168
Merger reserve	15	**53,557,251**	53,557,251
Share-based payment reserve	15	-	977,738
Foreign currency translation reserve		-	3,872,567
Retained earnings		**26,895,576**	(68,021,565)
Equity attributable to equity shareholders of Bacanora Lithium Plc		**134,280,054**	37,535,342
Non-controlling interest		-	12,325,673
Total shareholders' equity		**134,280,054**	49,861,015
Total liabilities and shareholders' equity		**180,424,899**	81,937,725

The accompanying notes on pages 69 - 101 are an integral part of these Consolidated Financial Statements.

The Consolidated Financial Statements of Bacanora Lithium Plc, registered number 11189628, were approved and authorised for issue by the Board of Directors on 28 February 2022 and were signed on its behalf by:

Peter Secker, CEO

28 February 2022

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021

In US$	Note	Year ended 31 December 2021	Year ended 31 December 2020
Expenses			
General and administrative	17	**(8,032,383)**	(4,425,964)
Share-based payment expense	15	**(864,228)**	(590,665)
Depreciation	8	**(30,943)**	(189,130)
Foreign exchange loss		**(205,988)**	(66,257)
Operating loss		**(9,133,542)**	(5,272,016)
Finance and other income	18	**845,963**	355,913
Finance costs	18	**(15,307,525)**	(6,829,405)
Share of loss in investment in joint venture	7	**(1,011,167)**	-
Gain on change in control of subsidiaries	7	**31,920,796**	-
Distribution income on release of payable	21	**4,169,666**	-
Profit/(loss) before tax from continuing operations		**11,484,191**	(11,745,508)
Tax charge	16	**(4,103)**	(5,114)
Profit/(loss) after tax from continuing operations		**11,480,088**	(11,750,622)
Gain/(loss) on discontinued operation - Zinnwald Lithium	19	**8,661,803**	(102,791)
Loss on discontinued operation - Deutsche Lithium	19	**-**	(4,068,697)
Profit/(loss) after tax		**20,141,891**	(15,922,110)
Other comprehensive income/(loss):			
Foreign currency translation adjustment	6	**(432,084)**	304,209
Recycled translation difference to profit and loss - Zinnwald Lithium	19	**127,875**	-
Recycled translation difference to profit and loss - Change of control of subsidiaries	7	**(3,568,358)**	-
Total comprehensive income/(loss)		**16,269,324**	(15,617,901)
Profit/(loss) after tax attributable to shareholders of Bacanora Lithium Plc		**20,205,660**	(15,602,068)
Loss after tax attributable to non-controlling interests		**(63,769)**	(320,042)
Profit/(loss) after tax		**20,141,891**	(15,922,110)
Total comprehensive income/(loss) attributable to shareholders of Bacanora Lithium Plc		**16,333,093**	(15,297,859)
Total comprehensive loss attributable to non-controlling interests		**(63,769)**	(320,042)
Total comprehensive income/(loss)		**16,269,324**	(15,617,901)
Net earnings/(loss) per share (Continuing operations) (basic & diluted)	15	**0.03**	(0.05)
Net earnings/(loss) per share (Discontinued operations) (basic & diluted)	15	**0.02**	(0.02)

The accompanying notes on pages 69 - 101 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

In US$	Note	Share capital		Share premium	Merger reserve	Share-based payment reserve	Foreign currency translation reserve	Retained earnings	Total equity attributable to Bacanora Lithium Plc	Non-controlling interest	Total equity
		Number of shares	Value								
31 December 2019		222,981,837	30,240,469	16,646,060	53,557,251	3,807,562	3,568,358	(55,464,190)	52,355,510	12,645,715	65,001,225
Comprehensive income for the year:											
Loss for the year		-	-	-	-	-	-	(15,602,068)	(15,602,068)	(320,042)	(15,922,110)
Other comprehensive income		-	-	-	-	-	304,209	-	304,209	-	304,209
Total comprehensive loss		-	-	-	-	-	304,209	(15,602,068)	(15,297,859)	(320,042)	(15,617,901)
Contributions by and distributions to owners:											
Issue of share capital - RSUs	15	833,846	107,714	155,108	-	(708,097)	-	332,301	(112,974)	-	(112,974)
Lapsed option charge	15	-	-	-	-	(2,712,392)	-	2,712,392	-	-	-
Share-based payment expense	15	-	-	-	-	590,665	-	-	590,665	-	590,665
31 December 2020		223,815,683	30,348,183	16,801,168	53,557,251	977,738	3,872,567	(68,021,565)	37,535,342	12,325,673	49,861,015
Comprehensive income for the year:											
Profit/(loss) for the year		-	-	-	-	-	-	20,205,660	20,205,660	(63,769)	20,141,891
Other comprehensive loss including recycled translation difference		-	-	-	-	-	(3,872,567)	-	(3,872,567)	-	(3,872,567)
Total comprehensive income/(loss)		-	-	-	-	-	(3,872,567)	20,205,660	16,333,093	(63,769)	16,269,324
Contributions by and distributions to owners:											
Issue of share capital - Capital raise	15	106,995,885	14,730,123	48,129,302	-	-	-	-	62,859,425	-	62,859,425
Issue of share capital - Ganfeng pre-emption	15	53,333,333	7,537,067	26,023,740	-	-	-	-	33,560,807	-	33,560,807
Issue of share capital - Options	15	2,991,601	398,684	813,170	-	(495,812)	-	495,812	1,211,854	-	1,211,854
Lapsed option charge	15	-	-	-	-	(125,353)	-	125,353	-	-	-
Vesting of RSUs	15	-	-	-	-	(981,448)	-	(880,078)	(1,861,526)	-	(1,861,526)
Share-based payment expense	15	-	-	-	-	864,228	-	-	864,228	-	864,228
Change in control of subsidiaries	7	-	-	-	-	(239,353)	-	239,353	-	(12,261,904)	(12,261,904)
Share premium reduction	15	-	-	(90,954,210)	-	-	-	90,954,210	-	-	-
Distribution of investment in Zinnwald	6	-	-	-	-	-	-	(16,223,169)	(16,223,169)	-	(16,223,169)
31 December 2021		**387,136,502**	**53,014,057**	**813,170**	**53,557,251**	-	-	**26,895,576**	**134,280,054**	-	**134,280,054**

The accompanying notes on pages 69 - 101 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows
For the year ended 31 December 2021

In US$	Note	Year ended 31 December 2021	Year ended 31 December 2020
Cash flows from operating activities			
Total profit/(loss) before tax for the year		**20,145,994**	(15,916,996)
Adjustments for:			
Share-based payment expense	15	**675,549**	590,665
Depreciation of property, plant and equipment	8	**30,943**	189,130
Foreign exchange		**156,316**	8,109
Finance and other income	18	**(845,963)**	(355,913)
Finance costs	18	**15,307,525**	6,829,405
Share of loss on investment in joint venture	7	**1,011,167**	-
Gain on change in control of subsidiaries	7	**(31,920,796)**	-
Distribution income on release of payable	21	**(4,169,666)**	-
(Gain)/loss on discontinued operation - Zinnwald Lithium	19	**(8,661,803)**	102,791
Loss on discontinued operation - Deutsche Lithium	19	**-**	4,068,697
Changes in working capital items:			
Other receivables		**(708,772)**	(241,538)
Accounts payable and accrued liabilities		**(23,285)**	(122,130)
Net cash used in operating activities		**(9,002,791)**	(4,847,780)
Cash flows from investing activities:			
Interest received		**202,653**	355,913
Purchase of property, plant and equipment	8	**(179,117)**	(1,994,569)
Purchase of exploration and evaluation assets	9	**(18,751)**	(36,144)
Payments to related parties	21	**(160,704)**	-
Cash reduction on the change of control of subsidiaries	7	**(421,708)**	-
Purchase of investment in associate		**-**	(1,627,642)
Payments to Deutsche Lithium		**-**	(679,458)
Net cash used in investing activities		**(577,627)**	**(3,981,900)**
Cash flows from financing activities			
Proceeds from share capital, net of share costs	15	**96,420,232**	(112,974)
Repayment of borrowings	11	**(926,780)**	-
Interest paid	11	**(2,818,966)**	(710,585)
Net cash flows from financing activities		**92,674,486**	(823,559)
Change in cash and cash equivalents during the year		**83,094,068**	(9,653,239)
Exchange rate effects		**(226,611)**	(11,816)
Cash and cash equivalents, beginning of the year		**39,238,496**	48,903,551
Cash and cash equivalents, end of the year		**122,105,953**	39,238,496

The accompanying notes on pages 69 - 101 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 was previously listed on the AIM market of the London Stock Exchange, with its common shares trading under the symbol, "BCN". On 26 January 2022, the Company delisted from the AIM market of the London Stock Exchange. The registered address of the Company is 4 More London Riverside, London, SE1 2AU.

The Group is a mining group primarily engaged in the identification, acquisition, exploration and development of mineral properties located in Mexico, through its 50% holding in the Sonora Project.

2 Basis of preparation

a) Statement of compliance

These Consolidated Financial Statements have been prepared in accordance with UK adopted International Accounting Standards and applied in accordance with the provisions of the Companies Act 2006.

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted international accounting standards, with future changes being subject to endorsement by the UK Endorsement Board.

The Consolidated Financial Statements were authorised for issue by the Board of Directors on 28 February 2022.

b) Basis of measurement

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

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

c) Going Concern

The Directors have, at the time of approving the Consolidated Financial Statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Group has a significant cash balance of US$122.1 million as at 31 December 2021 and has not entered into funding commitments to its investments in associate or joint venture. On 7 January 2022, the Group repaid its RK debt facility and associated warrants totalling US$42.3 million. The Company retained adequate resources to continue in operational existence for the foreseeable future. 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 Consolidated Financial Statements are disclosed in note 4.

a) Basis of consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Company and following subsidiaries at 31 December 2021:

Name of subsidiary	Country of incorporation	Shareholding on 31 December 2021	Shareholding on 31 December 2020	Nature of business
Bacanora Finco Ltd	UK	100%	100%	Financing company
Bacanora Treasury Ltd	UK	100%	100%	Financing company
Battery Finance (Jersey) Ltd[1]	Jersey	N/A	100%	Dissolved
Bacanora Battery Metals Ltd[2]	UK	N/A	100%	Dissolved
Sonora Lithium Group Companies[3]				
Sonora Lithium Ltd	UK	N/A	77.5%	Holding company
Bacanora Chemco S.A. de C.V.	Mexico	N/A	77.5%	Lithium processing
Bacanora Minerals Ltd	Canada	N/A	77.5%	Holding company
Mexilit S.A. de C.V.	Mexico	N/A	54.25%	Lithium Mining/exploration
Minera Megalit S.A. de C.V.	Mexico	N/A	54.25%	Mineral exploration
Mineramex Ltd	BVI	N/A	77.5%	Holding company
Minera Sonora Borax, S.A. de C.V.	Mexico	N/A	77.5%	Lithium mining/exploration
Operadora de Litio Bacanora S.A. de C.V.	Mexico	N/A	77.5%	Mexican service organisation
Minerales Industriales Tubutama, S.A. de C.V.	Mexico	N/A	46.5%	Dormant

[1]Battery Finance (Jersey) Ltd was dissolved on 4 May 2021.
[2]Bacanora Battery Metals Ltd was dissolved on 4 May 2021.
[3]The Company has joint control over SLL and its subsidiaries (the "Sonora Lithium Group") from 26 February 2021, and therefore performed deconsolidation procedures during the year.

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. A change in ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

On 26 February 2021, Ganfeng International Trading (Shanghai) Ltd, a 100% subsidiary of Ganfeng Lithium Co., Ltd (collectively "Ganfeng") completed its option to increase its stake in Sonora Lithium Ltd ("SLL") from 22.5% to 50%. SLL is the operational holding company for the Sonora Lithium Project. Consequently, Ganfeng subscribed for 73,955,680 new ordinary shares in SLL at 29.59 pence at a total value of £21.9 million (US$30.4 million). On completion of the transaction, a revised 50:50 JVA came into force, whereby each party is responsible for their portion of Project capex. After performing a detailed control assessment including a review of the provisions of the revised JVA, management have assessed that the Company now has joint control over the Sonora Lithium Group, and therefore the results of the Sonora Lithium Group have been consolidated to 26 February 2021. Subsequently, the Group's investment in the Sonora Lithium Group has been accounted for using the equity method. For further detail see note 7.

For the duration of the RK debt facility, the legal title to the shareholdings in each of Minera Sonora Borax ("MSB"), Bacanora Chemco, Operador Lithium Bacanora ("OLB"), Mexilit, Minera Megalit ("Megalit") was transferred to CiBanco SA as part of the debt security. Economic and voting rights for these shares all remain with the original relevant Group companies. The Group extinguished the RK debt facility in January 2022. See Note 11 for further information.

b) Standards, amendments and interpretations adopted

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

Standard	Detail	Effective date
IFRS 7, IFRS 9, IAS 39	Amendments regarding pre-replacement issues in the context of the IBOR reform	1 January 2021

The adopted amendments have not resulted in any changes to the Consolidated Financial Statements.

c) Standards, amendments and interpretations effective in future periods

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

Standard	Detail	Effective date
IFRS 1	Amendments resulting from Annual Improvements to IFRS Standards 2018-2020 (subsidiary as a first-time adopter)	1 January 2022
IFRS 3	Amendments updating a reference to the Conceptual Framework	1 January 2022
IFRS 9	Amendments resulting from Annual Improvements to IFRS Standards 2018-2020 (fees in the '10 percent' test for derecognition of financial liabilities)	1 January 2022
IAS 1	Amendment – regarding the classification of liabilities	1 January 2023
IAS 1	Amendment – regarding the disclosure of accounting policies	1 January 2023
IAS 8	Amendment – regarding the definition of accounting estimate	1 January 2023
IAS 12	Amendment – regarding deferred tax on leases and decommissioning obligations	1 January 2023
IAS 16	Amendments prohibiting a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use	1 January 2022
IAS 37	Amendments regarding the costs to include when assessing whether a contract is onerous	1 January 2022

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

d) Foreign currency transactions and translations

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

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

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

e) Cash and cash equivalents

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

f) Other receivables

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

g) Investment in associate – Zinnwald Lithium Plc

Where the Group has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the Consolidated Statement of Financial Position at cost. Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

Subsequently associates are accounted for using the equity method, where the Group's share of post-acquisition profits and losses and other comprehensive income is recognised in the Consolidated Statement of Other Comprehensive Income (except for losses in excess of the Group's investment in the associate unless there is an obligation to make good those losses).

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

When an associate is disposed of, the Group discontinues the use of the equity method from the date when its investment ceases to be an associate. Any retained interest in the associate is recognised as a financial asset at fair value. Any difference between the retained interest at fair value plus any consideration received and the carrying amount of the investment on the date of disposal, is recognised in the Statement of Comprehensive Income.

When an investment is distributed to its owners, the liability to pay shall be recognised when the distribution is appropriately authorised and is no longer at the discretion of the Group and measured at its fair value. When the Group settles the distribution payable, it recognises the difference, if any, between the carrying amount of the investment distributed and the carrying amount of the dividend payable in profit or loss.

h) Investment in joint venture – Sonora Lithium Ltd

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

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

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

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

When joint ventures are disposed of, the Group discontinues the use of the equity method from the date when its investment ceases to be a joint venture. Any retained interest in the joint venture is recognised as a financial assets at fair value. Any difference between the retained interest at fair value plus any consideration received and the carrying amount of the investment on the date of disposal, is recognised in the statement of comprehensive income.

i) Property, plant and equipment

i) Evaluated mineral property

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

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

ii) Land

Land is held at cost less accumulated impairment losses.

iii) Short lived property, plant and equipment

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

iv) Depreciation and amortisation

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

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

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

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

j) 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 and 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.

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".

k) 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 31 December 2021.

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.

1. Cash and cash equivalents 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.

2. 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.

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, and the Group's primary and secondary Eurobonds. The Group accounts for the financial warrants at fair value through profit or loss.

1. Warrant liabilities

The warrants granted to RK 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.

2. 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.

When the Group revises its estimates of cashflows on the primary and secondary Eurobonds, it adjusts the amortised cost of the Eurobond to reflect the actual and revised estimated contractual cash flows. The Group recalculates the amortised cost of the Eurobond as the present value of the estimated future contractual cash flows that are discounted at the financial instrument's original effective interest rate or, when applicable, the revised effective interest rate for market rate changes. The adjustment is recognised in Consolidated Statement of Comprehensive Income as finance income or cost.

When the Group extinguishes its borrowings, the financial liability is removed from its Statement of Financial Position. The difference between the carrying amount of the financial liability extinguished and the consideration paid, shall be recognised in profit or loss. All unamortised transaction costs and discounts are accelerated through the profit and loss.

o) Impairment of assets

i) Financial assets

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

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

ii) Non-financial assets

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

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

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

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

p) Income taxes

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

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

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

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

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

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

The Group has no deferred tax assets or liabilities.

q) Earnings/loss per share

Basic earnings/loss per share is calculated by dividing the earnings/loss attributable to the common shareholders of the Group by the weighted average number of common shares outstanding during the reporting period. Diluted earnings/loss per share is calculated by adjusting the earnings/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/loss per share.

t) Segmental reporting

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

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

4 Critical accounting estimates and judgements

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

a) Investment in joint venture

On 26 February 2021, the Ganfeng Option Exercise completed with Ganfeng owning 50% of the enlarged issued share capital of SLL and a new 50:50 joint venture agreement came into effect. The Company assessed that it had lost control of SLL and that its investment in SLL should be accounted for as a joint venture using the equity method.

On the change of control from subsidiaries to joint venture, management have applied judgement in determining the fair value of its retained interest in SLL. The fair value of the retained interest has been determined by reference to the Company market price at which the shares in SLL were issued to Ganfeng, therefore utilising level 2 hierarchy inputs.

The investment is assessed at each reporting period date for impairment in accordance with IAS 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.

b) Distribution of investment in Zinnwald Lithium Plc

When an investment is distributed to its owners, the liability to pay shall be recognised when the distribution is appropriately authorised and is no longer at the discretion of the Group and measured at its fair value. When the Group settles the distribution payable, it recognises the difference, if any, between the carrying amount of the investment distributed and the carrying amount of the dividend payable in profit or loss.

On 17 December 2021, the Ganfeng Offer became unconditional and therefore the distribution of the Group's investment in Zinnwald Lithium Plc became appropriately authorised and no longer at the discretion of the Group. The distribution payable was recognised at its fair value being the market price of the shares distributed.

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.

The Group's Parent Company, subsidiaries and the Sonora Lithium Ltd joint venture have a functional currency of US$, this is driven by the primary economic environment of each entity ultimately relating to the lithium market. The lithium market, being sales of lithium products, labour, materials and professional services, is primarily transacted in US$.

Zinnwald Lithium Plc has a functional currency of EUR. The results and financial position of Zinnwald Lithium Plc are translated into the presentational currency, US$, assets and liabilities are translated at the balance sheet date; income statements are translated at average rates. All resulting exchange differences are recognised directly, through other comprehensive income, in the foreign currency translation reserve. On disposal of the foreign operation, all exchange differences recognised directly, through other comprehensive income have been recycled to profit and loss.

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, the expected life of the share options and restricted share units and the expected number of share which will vest. As a consequence of all "in the money" unvested options, vesting in full upon the Ganfeng Offer becoming unconditional on 17 December 2021, the remaining share-based payment expense of these options has been accelerated through the Consolidated Statement of Comprehensive Income in the year.

See note 15 for further details regarding these inputs.

5 Other receivables and prepayments

Other receivables and prepayments contain short term receivables from VAT and other indirect taxes, prepaid expenses and deposits paid. All receivables are due within one year.

In US$	**31 December 2021**	31 December 2020
Other receivables	**684,413**	1,138,579
Prepayments and deposits	**136,291**	906,409
Total	**820,704**	2,044,988

6 Investment in associate

The following entity has been included in the Consolidated Financial Statements as an associate using the equity method:

Name	**Country of incorporation**	**Principal place of business**	**Shareholding 31 December 2021**	Shareholding 31 December 2020
Zinnwald Lithium Plc	UK	UK	0%	44.3%

a) Prior period - Initial recognition

On 29 October 2020, the Group acquired its interest in Zinnwald Lithium Plc in exchange for its 50% investment in Deutsche Lithium GmbH and a cash consideration, a total consideration valued at US$7.7 million.

The investment in associate has been equity accounted for under IAS 28 based on the significant influence the Group has over Zinnwald Lithium Plc. This influence is derived through its shareholding, its right to a seat on the company's board of directors and its rights to a net royalty. No value has been attributed to the net royalty rights due to it not meeting the recognition principles of IFRS 9.

In US$	Consideration
Investment in Deutsche Lithium	6,036,515
Cash	1,627,642
Total	7,664,157

The following table summarises the purchase price allocation for the transaction:

In US$	Purchase price
Net current assets	2,725,594
Non-current assets	4,938,563
Total	7,664,157

b) Current period

In June 2021, Zinnwald Lithium Plc acquired the remaining 50% of Deutsche Lithium GmbH that, prior to the transaction, it did not already own, for a total consideration of €8.8 million consisting of a cash payment of €1.5 million and the issue of approximately 50 million new shares. This resulted in Zinnwald Lithium Plc owning 100% of Deutsche Lithium GmbH and obtaining control of Deutsche Lithium GmbH. Bacanora's shareholding in Zinnwald Lithium Plc decreased to 35.5%. The Company has recognised the associated increase in share of net assets.

In December 2021, Zinnwald Lithium Plc completed a placing and retail offer, raising a total of approximately £5.8 million (before expenses). Bacanora's shareholding in Zinnwald Lithium Plc decreased to 30.9%. The Company has recognised the associated increase in share of net assets.

As part of the Ganfeng Offer, the Board and shareholders of Bacanora have approved the distribution to Bacanora shareholders of the 90,619,170 shares held by Bacanora in Zinnwald Lithium Plc subject to certain conditions being met including the Ganfeng Offer becoming unconditional. The Ganfeng Offer became unconditional on 17 December 2021. On 22 December 2021, the distribution was made to the relevant Bacanora shareholders. The distribution payable was recognised at its fair value being the market value of the shares to be distributed. A gain on distribution of US$5,457,308, being the difference between the distribution payable of US$16,223,169 and the carrying value of the investment of US$10,765,862 has been recognised in the Consolidated Statement of Comprehensive Income.

Zinnwald Lithium Plc made a loss after tax and total comprehensive loss of €1,727,303 for the year, of which, the Company has recognised its share of total comprehensive loss for the year.

The reconciliation of the carrying amount of the investment in associate is as follows:

In US$	**31 December 2021**	31 December 2020
Opening carrying value	**7,865,575**	-
Initial recognition	**-**	7,664,157
Share of loss on investment in associate	**(120,522)**	(102,791)
Increase in share of net assets	**3,452,893**	-
Foreign exchange translation (loss)/gain (OCI)	**(432,084)**	304,209
Derecognition on distribution	**(10,765,862)**	-
Closing carrying value	**-**	7,865,575

7 Investment in joint venture

The following entity has been included in the Consolidated Financial Statements using the equity method:

Name	Country of incorporation	Principal place of business	Shareholding 31 December 2021
Sonora Lithium Ltd	UK	UK	50.0%

a) Change of control - initial recognition

On 26 February 2021, Ganfeng completed its option to increase its stake in SLL from 22.5% to 50%. Consequently, Ganfeng subscribed for 73,955,680 new ordinary shares in SLL at 29.59 pence at a total value of £21.9 million (US$30.4 million). On completion of the transaction, a revised 50:50 JVA came into force, whereby each party is responsible for their portion of Project capex. After performing a detailed control assessment including a review of the provisions of the revised JVA, which include the unanimous consent of both parties over certain relevant activities, management have assessed that the Company now has joint control over SLL and its subsidiaries, and therefore performed deconsolidation procedures. Subsequently, the Group's investment in the Sonora Lithium Group has been accounted for using the equity method.

The following is an analysis of the assets and liabilities over which the Group lost control and the net liabilities which were recognised on 26 February 2021:

In US$	26 February 2021
Current assets	**(2,455,859)**
Non-current assets	**(32,999,937)**
Current liabilities	**737,535**
Net assets deconsolidated	**(34,718,261)**
Receivables from related parties	**3,822,698**
Payables to related parties	**(8,339,332)**
Net liabilities recognised	**(4,516,634)**
Net asset impact of loss of control	**(39,234,895)**

The total cash and cash equivalents deconsolidated on 26 February 2021 was US$421,708.

As a result, a gain on change in control of subsidiaries has been recognised:

In US$	26 February 2021
Fair value of interest retained	**55,325,429**
Net asset impact of loss of control	**(39,234,895)**
Non-controlling interest	**12,261,904**
Gain on deconsolidation of subsidiary	**28,352,438**
Gain on deconsolidation of subsidiary	**28,352,438**
Gain on recycle of foreign currency translation reserve	**3,568,358**
Total gain on change in control of subsidiaries	**31,920,796**

b) Investment reconciliations

The reconciliation of the carrying amount of the investment in joint venture is as follows:

In US$	31 December 2021
Opening carrying value	-
Initial recognition	**55,325,429**
Share of loss on investment in joint venture	**(1,011,167)**
Distribution received on release of payable	**(4,169,666)**
Closing carrying value	**50,144,596**

The summarised financial information of the Sonora Lithium Group and reconciliation to the investment carrying value is set out below. The summarised information represents amounts shown in Sonora Lithium's consolidated financial statements, as adjusted for differences in accounting policies and fair value adjustments related to the Company's investment in joint venture.

In US$	31 December 2021
Current assets	**28,329,253**
Non-current assets	**76,579,768**
Current liabilities	**(732,352)**
Non-current liabilities	**(4,626,704)**
Net assets (100%)	**99,549,965**
Net assets attributable to non-controlling interests	**739,227**
Share of net assets attributable to the equity shareholders of SLL	**100,289,192**
Group share of net assets (50%)	**50,144,596**

Included in the amounts above are

In US$	31 December 2021
Cash and cash equivalents	**26,593,063**
Non-current financial liabilities	**4,626,704**

Summarised financial information relating to the consolidated loss of the Sonora Lithium Group for the period between 26 February and 31 December 2021 is presented below:

In US$	31 December 2021
Depreciation	**(154,064)**
Interest income	**49,544**
Interest expense	**(643,310)**
Total loss after tax and total comprehensive loss	**(2,044,759)**
Group share of total loss after tax and total comprehensive loss	**(1,011,167)**

c) Commitments

The Sonora Lithium Group had the following commitments at 31 December 2021:

- concession taxes on the license properties, which are expected to total approximately US$231,875 in the following year.
- rental payments totalling US$24,041 in Hermosillo, Sonora over the next six months.

d) Legal cases

On 24 August 2021, the Company provided an update on the litigation with the Estate of Colin Orr-Ewing (the "Estate") in regard to its challenge to the validity of the lithium royalty over the Sonora Lithium Project. The Alberta Court held a hearing on 9 March 2021 to hear the Estate's application for Summary Trial on the grounds that the Company's action was time limitation barred. The Court has issued its judgement that found in favour of the Estate. The Company has appealed this judgement. The Company maintains that the royalty is invalid on the grounds of misrepresentation and a lack of consideration and intends to exhaust all legal avenues on behalf of all its shareholders to ensure that the Alberta Courts adjudicate fully on the merits of the case, rather than restricting their review to a technical time limitation defence. 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 Sonora Feasibility Study published in 2018, as well as all financial projections to investors and debt funding partners.

8 Property, plant and equipment

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

On 26 February 2021, management have assessed that the Company now has joint control over SLL and its subsidiaries, and therefore the results of the Sonora Lithium Group have been consolidated to 26 February 2021. Subsequently, the Group's investment in the Sonora Lithium Group has been accounted for using the equity method. For further detail see note 7.

The movements within of property, plant and equipment as at 31 December 2021 are set out below:

Cost (US$)	Evaluated mineral property	Land	Buildings	Plant and machinery	Office furniture and equipment	Transportation	Total
31 December 2019	26,140,230	3,035,000	840,472	737,266	435,697	120,734	31,309,399
Additions	1,957,320	-	-	-	6,104	-	1,963,424
31 December 2020	28,097,550	3,035,000	840,472	737,266	441,801	120,734	33,272,823
Additions	**475,840**	**-**	**-**	**-**	**-**	**-**	**475,840**
Deconsolidation of subsidiaries[1]	**(28,573,390)**	**(3,035,000)**	**(840,472)**	**(737,266)**	**(441,801)**	**(120,734)**	**(33,748,663)**
31 December 2021	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Depreciation							
31 December 2019	-	-	208,201	378,404	160,880	118,274	865,759
Charge for the year	-	-	42,913	74,665	69,092	2,460	189,130
31 December 2020	-	-	251,114	453,069	229,972	120,734	1,054,889
Charge for the year	**-**	**-**	**7,043**	**12,417**	**11,483**	**-**	**30,943**
Deconsolidation of subsidiaries[1]	**-**	**-**	**(258,157)**	**(465,486)**	**(241,455)**	**(120,734)**	**(1,085,832)**
31 December 2021	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net Book Value							
31 December 2019	26,140,230	3,035,000	632,271	358,862	274,817	2,460	30,443,640
31 December 2020	28,097,550	3,035,000	589,358	284,197	211,829	-	32,217,934
31 December 2021	**-**	**-**	**-**	**-**	**-**	**-**	**-**

[1]Disposals are a result of not consolidating the balance sheet of the Sonora Lithium Group from 26 February 2021. See Note 7 for further information.

9 Exploration and evaluation assets

Movement in the year is as follows:

In US$	
31 December 2019	534,588
Additions	36,144
31 December 2020	570,732
Additions	**6,306**
Deconsolidation of subsidiaries[1]	**(577,038)**
31 December 2021	**-**

[1]Disposals are a result of not consolidating the balance sheet of the Sonora Lithium Group from 26 February 2021. See Note 7 for further information.

10 Accounts payable and accrued liabilities

The Group's other payables mainly relate to payables resulting from options and RSUs to key management personnel.

In US$	31 December 2021	31 December 2020
Trade payables	**4,587**	223,620
Accrued liabilities	**599,455**	759,200
Other payables	**3,285,455**	346,394
Total	**3,889,497**	1,329,214

11 Borrowings

On 3 July 2018, the Group entered into a US$150 million senior debt facility with RK, drawing down US$25 million. On 22 June 2021, it was agreed with RK that the remaining undrawn facility of US$125 million would no longer be available for drawdown. As part of the Ganfeng Offer, it was agreed that the loan would be voluntarily redeemed within 30 days from the Offer being declared unconditional. The repayment of the RK debt facility occurred on the 7 January 2022. As a result, all unamortised transaction costs and discounts have been accelerated through the Consolidated Statement of Comprehensive Income in the year.

During the year, RK held a fixed charge security over the shares of various subsidiaries of the Group except for Bacanora Lithium Plc and Bacanora Battery Metals Limited. RK also held a fixed charge security over certain bank accounts held by the relevant UK, Canadian and Mexican entities. RK held a floating charge over Bacanora Lithium Plc's assets not covered by the fixed charge. RK held fixed and floating charge over the assets of the relevant Mexican entities related to the Sonora Lithium Project. All charges are in process of being released following the repayment of the RK debt facility.

The facility had a debt covenant for the Group to maintain a minimum working capital balance of US$15 million measured monthly. Working capital for the purpose of the debt covenant is defined as current assets minus current liabilities, excluding assets and liabilities relating to Zinnwald Lithium Plc, Bacanora Battery Metals Limited and overdue VAT receivables. On repayment of the debt, post year end, all covenants were cancelled.

The carrying value of the Group's borrowings at 31 December 2021 is as follows:

In US$	Interest rate	Maturity	31 December 2021	31 December 2020
Current				
Primary Eurobond	LIBOR with a 1% minimum + 8%	2022	**31,172,015**	-
Secondary Eurobond	Zero interest bearing	2022	**9,333,333**	-
Total current borrowings			**40,505,348**	**-**
Non-current				
Primary Eurobond	LIBOR with a 1% minimum + 8%	2024	**-**	25,394,438
Secondary Eurobond	Zero interest bearing	2038	**-**	3,803,482
Total non-current borrowings			**-**	29,197,920
Total borrowings			**40,505,348**	29,197,920

The movement in the Group's borrowings in the year ended 31 December 2021 is as follows:

In US$	Primary Eurobond	Secondary Eurobond	Total
31 December 2019	21,607,156	2,444,454	24,051,610
Primary Eurobond interest expense	2,839,013	-	2,839,013
Eurobond unwinding	1,658,804	583,673	2,242,477
Re-estimation cost	-	775,355	775,355
Interest payments	(710,535)	-	(710,535)
31 December 2020	25,394,438	3,803,482	29,197,920
Primary Eurobond interest expense	**2,804,832**	**-**	**2,804,832**
Eurobond unwinding	**5,969,344**	**5,529,851**	**11,499,195**
Early repayment fee	**749,147**	-	**749,147**
Repayment of borrowings	**(926,780)**	-	**(926,780)**
Interest payments	**(2,818,966)**	-	**(2,818,966)**
31 December 2021	**31,172,015**	**9,333,333**	**40,505,348**

12 Financial warrants liability

The Company granted RK with 6 million warrants alongside the above Eurobonds in July 2018. 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 were initially recorded, as a non-current liability, at their level 3 hierarchy fair value on 3 July 2018 of US$2.9 million and subsequently revalued at each reporting period, determined using the Black-Scholes pricing model. As part of the Ganfeng Offer, it was agreed between the Company and RK that the warrants would be settled at an agreed fair value of US$1.75 million. The warrants were settled on 7 January 2022.

13 Financial instruments

The Group's financial instruments are classified as follows:

As at 31 December 2021 (In US$)	**At amortised cost**	**At fair value through profit or loss**	**Total**
Financial assets			
Cash and cash equivalents	**122,105,953**	**-**	**122,105,953**
Receivables from related parties	**7,353,646**	**-**	**7,353,646**
Other receivables	**684,413**	**-**	**684,413**
Total financial assets	**130,144,012**	**-**	**130,144,012**
Financial liabilities			
Accounts payable and accrued liabilities	**3,889,497**	**-**	**3,889,497**
Borrowings	**40,505,348**	**-**	**40,505,348**
Financial warrants liability	**-**	**1,750,000**	**1,750,000**
Total financial liabilities	**44,394,845**	**1,750,000**	**46,144,845**
Net financial assets/(liabilities)	**85,749,167**	**(1,750,000)**	**83,999,167**

As at 31 December 2020 (In US$)	At amortised cost	At fair value through profit or loss	Total
Financial assets			
Cash and cash equivalents	39,238,496	-	39,238,496
Other receivables	1,138,579	-	1,138,579
Total financial assets	40,377,075	-	40,377,075
Financial liabilities			
Accounts payable and accrued liabilities	1,329,214	-	1,329,214
Borrowings	29,197,920	-	29,197,920
Financial warrants liability	-	1,549,576	1,549,576
Total financial liabilities	30,527,134	1,549,576	32,076,710
Net financial assets/(liabilities)	9,849,941	(1,549,576)	8,300,365

14 Financial risk management

a) Credit risk

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

The Group's cash is held in major UK banks, and as such the Group is exposed to the risks of those financial institutions. Under Standard & Poor's short term credit ratings, the Group's cash balance as at 31 December 2021, is held in institutions with an A-1 rating.

The Group's other receivables relate to input tax receivables in the UK. Its current receivables from related parties relate to a receivable from Ganfeng Lithium relating to the vesting of the Company's share options.

The Company's non-current receivables from related parties mainly relate to receivables from joint venture companies, all of which will generate cash flows from future lithium sale profits at the Sonora Lithium Project 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.

Substantially all of the receivables represent amounts due from the Group's majority shareholder and the UK government 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, other receivables and receivables from related parties 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 other receivables and receivables from related parties 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.

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

As at 31 December 2021 (In US$)	Within 30 days	30 days to 6 months	6 to 12 months	Over 12 months
Accounts payable and accrued liabilities	3,889,497	-	-	-
Borrowings	40,505,348	-	-	-
Financial warrants liability	1,750,000	-	-	-

As at 31 December 2020 (In US$)	Within 30 days	30 days to 6 months	6 to 12 months	Over 12 months
Accounts payable and accrued liabilities	1,329,214	-	-	-
Borrowings	710,535	687,364	2,347,848	45,656,639
Financial warrants liability*	-	-	-	-

*No gross cash financial liability is present as the Company had 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 is a joint venture partner in a lithium project in Mexico. As a result, a portion of the Group's expenditures, cash, other receivables, accounts payables and accrued liabilities, borrowings and financial warrants liability are denominated in the United States dollar, Great British pound and Euro and are therefore subject to fluctuation in exchange rates.

As at 31 December 2021, a 10% change in the exchange rate between the United States dollar and Euro and Great British pound, which is a reasonable estimation of volatility in exchange rates, would result in less than US$0.1 million change to the Group's total comprehensive income.

d) Fair values

The fair value of cash, other receivables, receivables from related parties, accounts payable and accrued liabilities 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 financial warrants liability is disclosed in note 12.

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

e) Capital management

The Group's objectives in managing capital are to safeguard its ability to operate as a going concern while pursuing exploration and development and opportunities for growth through identifying and evaluating potential acquisitions or businesses. The Company defines capital as the equity attributable to equity shareholders of the Company excluding the share-based payment reserve.

At 31 December 2021, the Group held US$134,280,054 (31 December 2020 - US$36,557,604) of capital. The Group sets the amount of capital in proportion to risk and corporate growth objectives. The Group manages its capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets.

15 Equity

a) Authorised and issued share capital

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

	Shares	Share Capital (In US$)	Share Premium (In US$)
31 December 2019	222,981,837	30,240,469	16,646,060
Issue of share capital - RSUs[1]	833,846	107,714	155,108
31 December 2020	223,815,683	30,348,183	16,801,168
Issue of share capital - Capital raise[2]	**106,995,885**	**14,730,123**	**48,129,302**
Issue of share capital - Ganfeng pre-emption[3]	**53,333,333**	**7,537,067**	**26,023,740**
Share premium reduction	**-**	**-**	**(90,954,210)**
Issue of share capital - Options[4]	**2,991,601**	**398,684**	**813,170**
31 December 2021	**387,136,502**	**53,014,057**	**813,170**

[1] The issuance of 833,846 new ordinary shares in relation to the vesting of RSUs granted in September 2017 at an issue price of 24.4p.

[2] The issuance of 101,395,885 new ordinary shares in the Company to institutional and professional investors at a price of 45p. In addition, retail and other investors subscribed for 5,600,000 new ordinary shares at a price of 45p. Amounts are shown net of transaction costs.

[3] Ganfeng exercised its pre-emption rights in relation to the above capital raise and subscribed to a total of 53,333,333 new ordinary shares at a price of 45p. Amounts are shown net of transaction costs.

[4] The issuance of 2,991,601 new ordinary shares in relation to the Company's options being exercised. 1,258,009 were issued at an issue price of 24.4p, 1,300,863 were issued at an issue price of 33.25p and 432,729 were issued at an issue price of 39.25p.

b) Share options

All share options were issued under the Group's Share Option Plan. Options generally vested as 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.

Under the Group's Share Option Plan, all "in the money" unvested options, vested in full on the Ganfeng Offer becoming unconditional on 17 December 2021. 2,991,601 options were exercised by option holders on the same date.

The following table summarises the activities and status of the Company's share option plan as at and during the year ended 31 December 2021:

	Number of options	Weighted average exercise price (£)
31 December 2019	6,610,901	0.70
Granted[1]	1,258,009	0.24
Expired	(4,389,810)	(0.82)
31 December 2020	3,479,100	0.38
Expired	**(487,499)**	**(0.88)**
Exercised	**(2,991,601)**	**(0.30)**
31 December 2021	**-**	**-**

[1] The options granted on 2 October 2020, were valued using the Black-Scholes method with a volatility of 66.80%, calculated using Bacanora's historic share price, an option term of 3 years, a risk-free interest rate of 0.70% and no expected dividends.

c) 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 Group'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.

Under the Group's Share RSU Plan, all unvested RSUs, vested in full on the Ganfeng Offer becoming unconditional on 17 December 2021.

The following table summarises the activities and status of the Company's RSU plan as at and during the year ended 31 December 2021:

	Number of units
31 December 2019	2,473,600
Granted	466,805
Vested	(1,192,277)
31 December 2020	1,748,128
Granted	**316,994**
Vested	**(2,065,122)**
31 December 2021	**-**

d) Share-based payment reserve

The following table presents changes in the Group's share-based payment reserve during the year ended 31 December 2021:

In US$	**Share-based payment reserve**
31 December 2019	3,807,562
Issue of share capital - RSUs	(708,097)
Expired options	(2,712,392)
Share-based payment expense	590,665
31 December 2020	977,738
Issue of share capital - Options	**(495,812)**
Lapsed option charge	**(125,353)**
Vesting of RSUs	**(981,448)**
Share-based payment expense	**864,228**
Change in control of subsidiaries	**(239,353)**
31 December 2021	**-**

e) Share-based payment expense

During the year ended 31 December 2021, the Group recognised US$864,228 (year ended 31 December 2020: US$590,665) of share-based compensation expense. The fair value of the share-based expense was estimated on the dates of grant using the Black-Scholes option pricing model with the following weighted average assumptions. As a consequence of all "in the money" unvested options, vesting in full upon the Ganfeng Offer becoming unconditional on 17 December 2021, the remaining share-based payment expense of these options has been accelerated through the Consolidated Statement of Comprehensive Income in the year.

	Year ended 31 December 2021	Year ended 31 December 2020
Risk-free interest rate	**1.85% - 3.0%**	0.7% - 3.0%
Expected volatility[(1)]	**54.73% - 65.01%**	54.73% - 91.07%
Expected life (years)	**3**	3
Fair value per option	**17.0c - 49.7c**	13.9c - 62.2c

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

f) 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.

g) Profit/(loss) per share

Basic and diluted profit/(loss) per share for the year ended 31 December 2021 were as follows:

	Year ended 31 December 2021 Continuing operations	**Year ended 31 December 2021** Discontinued operations	Year ended 31 December 2020 Continuing operations	Year ended 31 December 2020 Discontinued operations
Profit/(loss) after tax attributable to shareholders of Bacanora Lithium Plc (US$)	**11,543,857**	**8,661,803**	(11,533,371)	(4,068,697)
Weighted average number of common shares for the purposes of basic and diluted loss per share	**351,379,131**	**351,379,131**	223,186,881	223,186,881
Profit/(loss) per share (US$)	**0.03**	**0.02**	(0.05)	(0.02)

Warrants were excluded from the dilution calculation as they were anti-dilutive.

16 Taxation

a) Current taxation

There was a US$4,103 tax charge for the year ended 31 December 2021 (year ended 31 December 2020: US$5,114).

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

In US$	**Year ended 31 December 2021**	**Year ended 31 December 2020**
Profit/(loss) before tax	**20,145,994**	(15,916,996)
Expected income tax recovery at 19% (2019 - 19%)	**3,827,739**	(3,024,229)
Unrecognised taxable losses and timing differences	**4,375,962**	1,358,192
Expenses not deductible for tax purposes	**117,291**	1,431,578
Different tax rates applied in overseas jurisdictions	**(6,080)**	389,823
Non-taxable accounting gains	**(8,310,809)**	-
Utilisation of unrecognised losses	**-**	(150,250)
Total income taxes	**4,103**	5,114

b) Deferred tax

The Group has no recognised deferred tax balance on profit/loss for the year ended 31 December 2021 (year ended 31 December 2020: US$nil). As at 31 December 2021, the Group has, for tax purposes, non-capital losses available to carry forward to future years as follows:

For the year ended (In US$)	**31 December 2021**	31 December 2020	Expiry Date
UK	27,725,855	16,586,410	N/A
Canada	-	14,450,159	N/A
Mexico	-	19,367,528	N/A
	27,725,855	50,404,097	

17 General and administrative expenses

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

In US$	**Year ended 31 December 2021**	Year ended 31 December 2020
Legal and accounting fees	**3,812,580**	893,845
Employee and contractor costs	**2,936,141**	2,576,842
Investor relations	**596,346**	357,527
Travel and other expenses	**400,174**	261,914
Office expenses	**139,186**	177,999
Audit fees for the Group and Company	**87,631**	109,239
Audit fees of subsidiaries by Group auditor	**9,101**	13,656
Non audit services	**51,224**	34,942
Total	**8,032,383**	4,425,964

18 Finance income and costs

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

In US$	**Year ended 31 December 2021**	Year ended 31 December 2020
Interest and other income	**845,963**	355,913
Finance income	**845,963**	355,913
Financial warrants liability revaluation	**(254,351)**	(972,509)
Primary Eurobond interest expense	**(2,804,832)**	(2,839,013)
Other finance costs [(1)]	**(11,499,195)**	(2,242,528)
Early repayment fee	**(749,147)**	-
Re-estimation cost	**-**	(775,355)
Finance costs	**(15,307,525)**	(6,829,405)
Net finance costs	**(14,461,562)**	(6,473,492)

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

BACANORA lithium

19 Losses on discontinued operations

a) Loss on discontinued operation - Deutsche Lithium

The loss in the comparative period for the year ended 31 December 2020 resulted from the Group's investment in Deutsche Lithium being sold, with cash, for shares in Zinnwald Lithium Plc. Please refer to the audited Consolidated Financial Statements for the year ended 31 December 2020 for further information.

b) Gain/(loss) on discontinued operation - Zinnwald Lithium

The gain in the year ended 31 December 2021 resulted from the distribution of its investment in Zinnwald Lithium Plc on 22 December 2021. The following gains/losses are included within the gain on discontinued operation – Zinnwald Lithium:

In US$	**Year ended 31 December 2021**	Year ended 31 December 2020
Share of loss in associate	**(120,523)**	(102,791)
Gain on change in net assets	**3,452,893**	-
Gain on distribution	**5,457,308**	-
Recycled translation difference to profit and loss	**(127,875)**	-
Total	**8,661,803**	(102,791)

20 Segmental information

During the year, the Group had three operating segments which include the exploration and development of mineral properties in Mexico, primarily the development of the Sonora Lithium Project, through its investment in Sonora Lithium Ltd, the Group's corporate entities with head office located in London, UK and the Group's investment in Zinnwald Lithium Plc which was distributed on 22 December 2021.

A summary of the identifiable assets, liabilities and net losses by operating segment are as follows:

31 December 2021 (In US$)	**Head Office**	**Sonora Lithium Group**	**Zinnwald Lithium Plc**	**Consolidated**
	Continued operation	**Continued operation**	**Discontinued operation**	
Current assets	**125,653,591**	**-**	**-**	**125,653,591**
Receivables from related parties	**4,626,712**	**-**	**-**	**4,626,712**
Investment in joint venture	**-**	**50,144,596**	**-**	**50,144,596**
Total assets	**130,280,303**	**50,144,596**	**-**	**180,424,899**
Current liabilities	**46,144,845**	**-**	**-**	**46,144,845**
Total liabilities	**46,144,845**	**-**	**-**	**46,144,845**

For the year ended 31 December 2021 (In US$)	**Head Office**	**Sonora Lithium Group**	**Zinnwald Lithium Plc**	**Consolidated**
	Continued operation	**Continued operation**	**Discontinued operation**	
General and administrative expense	**(7,885,821)**	**(146,562)**	**-**	**(8,032,383)**
Depreciation	**-**	**(30,943)**	**-**	**(30,943)**
Share-based payment expense	**(864,228)**	**-**	**-**	**(864,228)**
Foreign exchange gain/(loss)	**(210,800)**	**4,812**	**-**	**(205,988)**
Operating loss	**(8,960,849)**	**(172,693)**	**-**	**(9,133,542)**
Finance income	**845,963**	**-**	**-**	**845,963**
Finance costs	**(15,307,525)**	**-**	**-**	**(15,307,525)**
Share of loss in investment in joint venture	**-**	**(1,011,167)**	**-**	**(1,011,167)**
Gain on change in control of subsidiaries	**31,920,796**	**-**	**-**	**31,920,796**
Distribution income on release of payable	**4,169,666**	**-**	**-**	**4,169,666**
Gain on discontinued operation	**-**	**-**	**8,661,803**	**8,661,803**
Tax charge	**-**	**(4,103)**	**-**	**(4,103)**
Segment profit/(loss) after tax	**12,668,051**	**(1,187,963)**	**8,661,803**	**20,141,891**

31 December 2020 (In US$)	Mexican entities	Corporate entities	Zinnwald Lithium Plc	Deutsche Lithium (Germany)	Consolidated
	Continued operation	Continued operation	Continued operation	Discontinued operation	
Current assets	2,074,318	39,209,166	-	-	41,283,484
Investment in associate	-	-	7,865,575	-	7,865,575
Property, plant and equipment	32,217,934	-	-	-	32,217,934
Exploration and evaluation assets	570,732	-	-	-	570,732
Total assets	34,862,984	39,209,166	7,865,575	-	81,937,725
Current liabilities	417,343	911,871	-	-	1,329,214
Borrowings	-	29,197,920	-	-	29,197,920
Warrant liability	-	1,549,576	-	-	1,549,576
Total liabilities	417,343	31,659,367	-	-	32,076,710
Property, plant and equipment additions	1,963,424	-		-	1,963,424
Exploration and evaluation asset additions	36,144	-		-	36,144

For the year ended 31 December 2020 (In US$)	Mexican entities	Corporate entities	Zinnwald Lithium Plc	Deutsche Lithium (Germany)	Consolidated
	Continued operation	Continued operation	Continued operation	Discontinued operation	
General and administrative expense	(748,387)	(3,677,577)	-	-	(4,425,964)
Depreciation	(189,130)	-	-	-	(189,130)
Share-based payment expense	-	(590,665)	-	-	(590,665)
Foreign exchange loss	(27,315)	(38,942)	-	-	(66,257)
Operating loss	(964,832)	(4,307,184)	-	-	(5,272,016)
Finance income	3,573	352,340	-	-	355,913
Finance costs	-	(6,829,405)	-	-	(6,829,405)
Loss on investment in associate	-	-	(102,791)	-	(102,791)
Loss on discontinued operation	-	-	-	(4,068,697)	(4,068,697)
Tax charge	(5,114)	-	-	-	(5,114)
Segment loss after tax	(966,373)	(10,784,249)	(102,791)	(4,068,697)	(15,922,110)

21 Related party disclosures

a) Related party transactions

The Group's related parties include:

- joint venture: Sonora Lithium Ltd and its subsidiaries, together the "Sonora Lithium Group";
- associate: Zinnwald Lithium Plc;
- majority shareholder: Ganfeng International Trading (Shanghai) Ltd and
- the Group's key management personnel.

The following transactions took place between the Group and related parties (other than with key management personnel which have been disclosed separately below):

		Year ended 31 December 2021		Year ended 31 December 2020	
Related party	**Type of transaction**	**Transaction amount**	**Balance receivable/(payable)**	Transaction amount	Balance receivable/(payable)
		US$	**US$**	US$	US$
Ganfeng International Trading (Shanghai) Ltd	Share purchase - Sonora Lithium[1]	**30,428,986**	**-**	-	-
Ganfeng International Trading (Shanghai) Ltd	Share purchase - pre-emption[2]	**33,916,800**	**-**	-	-
Ganfeng International Trading (Shanghai) Ltd	Share option receivable[3]	**2,691,120**	**2,726,934**	-	-
Sonora Lithium Ltd	Release of payable[4]	**8,339,332**	**-**	-	-
Bacanora Chemco S.A. de C.V.	Project funding and interest	**720,310**	**3,874,102**	-	-
Bacanora Minerals Ltd	Working capital	**83,704**	**752,610**	-	-

[1]On 26 February 2021, Ganfeng completed its option to increase its stake in SLL from 22.5% to 50%. Consequently, Ganfeng subscribed for 73,955,680 new ordinary shares in SLL at 29.59 pence at a total value of £21.9 million (US$30.4 million). On completion of the transaction, a revised JVA came into force, whereby each party is responsible for their portion of Project capex. After review of the provisions of the revised JVA, which include the unanimous consent of both parties over certain relevant activities, management have assessed that the Company now has joint control over SLL and its subsidiaries, and therefore performed deconsolidation procedures. For further detail see note 7.

[2]On 21 May 2021, Ganfeng completed its pre-emption right exercise to increase its holding in the Parent Company to 28.88%. Ganfeng subscribed for a total of 53,333,333 new ordinary shares at the placing price of 45 pence per share, representing gross proceeds £24.0 million (US$33.9 million).

[3] On 17 December 2021, 2,991,601 new ordinary shares in relation to the Company's options were exercised. 1,258,009 were issued at an issue price of 24.4p, 1,300,863 were issued at an issue price of 33.25p and 432,729 were issued at an issue price of 39.25p. The option holders agreed to sell the new shares to Ganfeng International Trading (Shanghai) Ltd as part of the Ganfeng Offer at 67.5p. It was agreed by the Company, Ganfeng and the option holders that Ganfeng would pay the Company the sale funds and the Company would retain the exercise price per share and pass on the profit to the option holders.

[4] On 19 May 2021, SLL performed a US$8.3 million capital reduction. On the same day, the Parent Company and SLL signed a deed of release relating to a payable balance totaling US$8.3 million. The release of the payable resulted in a deemed distribution of US$8.3 million, Bacanora's share has been credited against the Company's investment in joint venture to reflect the decrease in share of net assets of the Sonora Lithium Group. A gain of US$4.2 million, resulting from the receipt of Ganfeng's share of the distribution, has been recognised through the Statement of Comprehensive Income.

There were no transactions with Ganfeng in the comparative period of the year ended 31 December 2020. Sonora Lithium Ltd, Bacanora Chemco S.A. de C.V. and Bacanora Minerals Ltd were subsidiaries of the Group during the comparative period therefore all intergroup transactions and outstanding balances were eliminated.

b) Key management personnel compensation

During the year ended 31 December 2021, key management personnel remuneration totalled US$2,415,533 (year ended 31 December 2020: US$1,727,819). Of the total amount incurred, US$nil remains in accounts payables and accrued liabilities at 31 December 2021 (31 December 2020: US$nil).

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:

In US$	**Year ended 31 December 2021**					Year ended 31 December 2020			
	Fees	**Gross Salary**	**Bonus**	**Share-based payment remuneration**	**Total**	Fees	Gross Salary	Share-based payment remuneration	Total
Mark Hohnen	**-**	**268,868**	**49,825**	**149,497**	**468,190**	-	283,844	134,109	417,953
Jamie Strauss	**89,412**	**-**	**-**	**-**	**89,412**	73,179	-	-	73,179
Eileen Carr	**70,040**	**-**	**-**	**-**	**70,040**	57,305	-	6,148	63,453
Andres Antonius	**54,167**	**-**	**-**	**-**	**54,167**	47,500	-	-	47,500
Graeme Purdy	**59,608**	**-**	**-**	**-**	**59,608**	33,831	-	-	33,831
Peter Secker	**-**	**515,808**	**138,716**	**265,825**	**920,349**	-	424,208	162,621	586,829
Janet Blas	**-**	**342,315**	**54,772**	**356,680**	**753,767**	-	285,445	219,629	505,074
Total Director's and management's remuneration	**273,227**	**1,126,991**	**243,313**	**772,002**	**2,415,533**	211,815	993,497	522,507	1,727,819

On 17 December 2021 the following options and RSUs vested and were exercised by key management personnel. The options were issued in shares in the Company at the exercise price. The RSUs were elected to be paid in cash by the Company.

Name	Type	Date of Grant	Number	Exercise Price
Mark Hohnen	Options	02/10/2020	179,501	0.244
	Options	28/10/2019	151,439	0.3325
	RSUs	15/09/2021	54,183	N/A
	RSUs	02/10/2020	97,811	N/A
	RSUs	28/10/2019	204,970	N/A
Peter Secker	Options	02/10/2020	215,488	0.244
	Options	28/10/2019	205,800	0.3325
	RSUs	15/09/2021	150,850	N/A
	RSUs	02/10/2020	117,420	N/A
	RSUs	28/10/2019	278,546	N/A
Janet Blas	Options	02/10/2020	461,687	0.244
	Options	28/10/2019	437,624	0.3325
	Options	06/09/2018	206,693	0.3925
	RSUs	15/09/2021	59,563	N/A
	RSUs	02/10/2020	251,574	N/A
	RSUs	28/10/2019	592,316	N/A
	RSUs	06/09/2018	205,491	N/A

US$2,592,447 remains in accounts payable and accrued liabilities at 31 December 2021 relating to the vested RSUs and share options (31 December 2020: US$nil).

In the year ended 31 December 2020, Peter Secker and Mark Hohnen were issued 336,250 and 497,596 shares in the Company in relation to the vesting of RSUs granted in September 2017. The shares were issued at a price of 24.4p per share. No Directors exercised any share options in the year ended 31 December 2020.

22 Directors and employees

The below information relates to all Directors and employees:

In US$	**Year ended 31 December 2021**			Year ended 31 December 2020		
	Corporate	**Mexico[1]**	**Total**	Corporate	Mexico	Total
Gross salaries	**1,775,965**	**49,985**	**1,825,950**	1,485,657	393,572	1,879,229
Bonus	**243,313**	**-**	**243,313**	-	-	-
Share-based payments	**772,002**	**-**	**772,002**	522,507	-	522,507
Employer social security costs	**561,236**	**8,182**	**569,418**	236,204	66,870	303,074
Employer pension costs	**31,828**	**2,091**	**33,919**	14,017	19,886	33,903
Total cost	**3,384,344**	**60,258**	**3,444,602**	2,258,385	480,328	2,738,713
Average number of employees and Directors	**13**	**2**	**15**	12	17	29

[1]Information shown to the date of deconsolidation of the Sonora Lithium Group from 26 February 2021. See Note 7 for further information.

Directors' remuneration totalled the following:

In US$	**Year ended 31 December 2021**	Year ended 31 December 2020
Directors' gross salaries	**1,057,903**	919,867
Bonus	**188,541**	-
Share-based payment expense	**415,322**	302,878
Total remuneration	**1,661,766**	1,222,745
Average number of Directors	8	8

The highest paid Director received remuneration in the year ended 31 December 2021 of US$920,349 (year ended 31 December 2020: US$586,829). The highest paid Director also received 215,488 and 205,800 shares in the Company, issued at a price of 24.4p and 33.25p per share, respectively, in relation to exercised vested share options. The highest paid Director also exercised 546,816 vested RSUs, paid in cash, post year end.

The highest paid Director received remuneration in the year ended 31 December 2020 of US$586,829. The highest paid Director also received 336,250 shares in the Company, issued at a price of 24.4p per share in relation to vested RSUs. The highest paid Director did not exercise any share options in the year ended 31 December 2020.

23 Commitments

The Group has a commitment on its UK office of US$11,884 for 2 months' rent.

24 Subsequent events

On 7 January 2022, the Group fully repaid all amounts due under the RK debt facility, as well as settled the 6 million warrants issued at the time. The payment totalled US$42,307,777. Refer to Note 11 for further details. All charges are in process of being released following the repayment of the RK debt facility.

The Company delisted from the AIM market on the London Stock Exchange on 26 January 2022.

25 Note to the statement of cash flows

Below is a reconciliation of borrowings from financing transactions:

In US$	**31 December 2021**	**31 December 2020**
Opening balance	29,197,920	24,051,610
Cashflows	(3,745,746)	(710,535)
Non cash flows:		
Primary Eurobond interest expense	2,804,832	2,839,013
Eurobond unwinding	11,499,195	3,017,832
Early repayment fee	749,147	-
Total borrowings	40,505,348	29,197,920

The adjustment for the share-based payment expense within cash flows from operating activities includes US$864,288 share-based payment expense offset by a cash settlement of US$188,679 on the vesting of RSUs.

26 Exemptions for a dormant subsidiary

Bacanora Treasury Ltd and Bacanora Battery Metals Ltd are exempt from preparing individual accounts under the provisions of Section 394A of the Company's Act 06. Bacanora Battery Metals Ltd was dissolved on 4 May 2021.

On the date of the Consolidated Financial Statements, Bacanora Lithium Plc, incorporated in the United Kingdom, company number 11189628, gives a guarantee over all outstanding liabilities, that Bacanora Treasury Ltd, company number 11413519 may be subject to at the end of the financial year ended 31 December 2021 until they are satisfied in full. This guarantee is enforceable against Bacanora Lithium Plc by any person to whom Bacanora Lithium Plc is liable in respect of Bacanora Treasury Ltd's liabilities.

Parent Company Statement of Financial Position

As at 31 December 2021

In US$	Note	31 December 2021	31 December 2020
Assets			
Current assets			
Cash and cash equivalents		**81,556,608**	38,806,808
Receivables from related parties	15	**2,726,934**	-
Other receivables and prepayments	6	**814,311**	138,085
Total current assets		**85,097,853**	38,944,893
Non-current assets			
Investment in joint venture	9	**50,144,596**	-
Receivables from related parties	15	**4,661,587**	3,307,094
Investment in subsidiaries	7	**3**	46,275,239
Investment in associate	8	**-**	7,865,575
Total non-current assets		**54,806,186**	57,447,908
Total assets		**139,904,039**	96,392,801
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	10	**3,873,968**	661,757
Financial warrants liability	11	**1,750,000**	-
Total current liabilities		**5,623,968**	661,757
Non-current liabilities			
Payables to related parties	15	**-**	37,558,874
Financial warrants liability	11	**-**	1,549,576
Total non-current liabilities		**-**	39,108,450
Total liabilities		**5,623,968**	39,770,207
Shareholders' equity			
Share capital	14	**53,014,057**	30,348,183
Share premium	14	**813,170**	16,801,168
Merger reserve	14	**40,708,662**	40,708,662
Share-based payment reserve	14	**-**	738,385
Foreign currency translation reserve		**-**	304,209
Retained earnings		**39,744,182**	(32,278,013)
Total shareholders' equity		**134,280,071**	56,622,594
Total liabilities and shareholders' equity		**139,904,039**	96,392,801

The accompanying notes on pages 105-115 are an integral part of these Parent Company Financial Statements.

For the year ended 31 December 2021, the Company's loss after tax was US$2,449,933 and total comprehensive loss was US$2,754,142 (year ended 31 December 2020: loss after tax of US$13,513,816 and total comprehensive loss of US$13,209,607).

The Parent Company Financial Statements of Bacanora Lithium Plc, registered number 11189628, were approved and authorised for issue by the Board of Directors on 28 February 2022 and were signed on its behalf by:

Peter Secker

Parent Company Statement of Changes in Equity

For the year ended 31 December 2021

In US$	Note	Share capital: Number of shares	Share capital: Value	Share premium	Merger reserve	Share-based payment reserve	Foreign currency translation reserve	Retained earnings	Total equity
31 December 2019		222,981,837	30,240,469	16,646,060	40,708,662	1,454,591	-	(19,695,272)	69,354,510
Comprehensive income for the year:									
Loss for the year		-	-	-	-	-	-	(13,513,816)	(13,513,816)
Other comprehensive income		-	-	-	-	-	304,209	-	304,209
Total comprehensive loss		-	-	-	-	-	304,209	(13,513,816)	(13,209,607)
Contributions by and distributions to owners:									
Issue of share capital - RSUs	14	833,846	107,714	155,108	-	(708,097)	-	332,301	(112,974)
Lapsed option charge	14	-	-	-	-	(598,774)	-	598,774	-
Share-based payment expense	14	-	-	-	-	590,665	-	-	590,665
31 December 2020		223,815,683	30,348,183	16,801,168	40,708,662	738,385	304,209	(32,278,013)	56,622,594
Comprehensive loss for the year:									
Loss for the year		**-**	**-**	**-**	**-**	**-**	**-**	**(2,449,933)**	**(2,449,933)**
Other comprehensive loss		**-**	**-**	**-**	**-**	**-**	**(304,209)**	**-**	**(304,209)**
Total comprehensive loss		**-**	**-**	**-**	**-**	**-**	**(304,209)**	**(2,449,933)**	**(2,754,142)**
Contributions by and distributions to owners:									
Issue of share capital - Capital raise	14	**106,995,885**	**14,730,123**	**48,129,302**	**-**	**-**	**-**	**-**	**62,859,425**
Issue of share capital - Ganfeng pre-emption	14	**53,333,333**	**7,537,067**	**26,023,740**	**-**	**-**	**-**	**-**	**33,560,807**
Issue of share capital - Options	14	**2,991,601**	**398,684**	**813,170**	**-**	**(495,812)**	**-**	**495,812**	**1,211,854**
Lapsed option charge	14	**-**	**-**	**-**	**-**	**(125,353)**	**-**	**125,353**	**-**
Vesting of RSUs	14	**-**	**-**	**-**	**-**	**(981,448)**	**-**	**(880,078)**	**(1,861,526)**
Share-based payment expense	14	**-**	**-**	**-**	**-**	**864,228**	**-**	**-**	**864,228**
Share premium reduction	14	**-**	**-**	**(90,954,210)**	**-**	**-**	**-**	**90,954,210**	**-**
Distribution of investment in Zinnwald	14	**-**	**-**	**-**	**-**	**-**	**-**	**(16,223,169)**	**(16,223,169)**
31 December 2021		**387,136,502**	**53,014,057**	**813,170**	**40,708,662**	**-**	**-**	**39,744,182**	**134,280,071**

The accompanying notes on pages 105-115 are an integral part of these Parent Company Financial Statements.

Parent Company Statement of Cash Flows
For the year ended 31 December 2021

In US$	Note	Year ended 31 December 2021	Year ended 31 December 2020
Cash flows from operating activities			
Loss for the year before tax		**(2,449,933)**	(13,513,816)
Adjustments for:			
Share-based payment expense		**675,549**	590,665
Foreign exchange		**163,374**	4,455
Finance and other income		**(947,941)**	(671,153)
Finance costs		**15,307,525**	6,829,405
Share of loss on investment in joint venture		**1,011,167**	-
Gain on change in control of subsidiaries		**(9,050,193)**	-
Distribution income on release of payable		**(4,169,666)**	-
(Gain)/loss on discontinued operation - Zinnwald Lithium		**(8,661,803)**	102,791
Loss on discontinued operation - Deutsche Lithium		**-**	3,065,232
Changes in working capital items:			
Other receivables		**(676,227)**	(16,530)
Accounts payable and accrued liabilities		**19,732**	7,988
Net cash flows used in operating activities		**(8,778,416)**	(3,600,963)
Cash flows from investing activities:			
Interest received		**202,653**	352,340
Advances to related parties		**(609,025)**	(2,845,372)
Purchase of investment in associate		**-**	(1,627,642)
Payments to Deutsche Lithium		**-**	(679,458)
Net cash flows from investing activities		**(406,372)**	(4,800,132)
Cash flows from financing activities			
Proceeds from share capital, net of share costs		**96,420,232**	(112,974)
Interest payments		**-**	(51)
Repayment of intercompany borrowing		**(44,272,897)**	(657,906)
Net cash flows from financing activities		**52,147,335**	(770,931)
Change in cash during the year		**42,962,547**	(9,172,026)
Exchange rate effects		**(212,747)**	(8,163)
Cash, beginning of year		**38,806,808**	47,986,997
Cash, end of year		**81,556,608**	38,806,808

The accompanying notes on pages 105-115 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 was previously listed on the AIM market of the London Stock Exchange, with its common shares trading under the symbol, "BCN". On 26 January 2022, the Company delisted from the AIM market of the London Stock Exchange. The registered address of the 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 UK adopted International Accounting Standards and applied in accordance with the provisions of the Companies Act 2006.

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted international accounting standards, with future changes being subject to endorsement by the UK Endorsement Board.

The Parent Company Financial Statements were authorised for issue by the Board of Directors on 28 February 2022. 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.

b) Investment in associate

Investment in associate is accounted for using the equity method under the same methodology as in note 3 of the Consolidated Financial Statements.

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 31 December 2021.

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. For the year ended 31 December 2021, the Company's loss after tax was US$2,449,933 and total comprehensive loss was US$2,754,142 (year ended 31 December 2020: loss after tax of US$13,513,816 and total comprehensive loss of US$13,209,607).

6 Other receivables and prepayments

Other receivables and prepayments contain short term receivables from VAT and other indirect taxes, prepaid expenses and deposits paid. All receivables are due within one year. A provision for impairment is made where there is objective evidence that the receivable is irrecoverable. All receivables are due within one year.

In US$	**31 December 2021**	31 December 2020
Other receivables	**678,018**	60,358
Prepayments and deposits	**136,293**	77,727
Total	**814,311**	138,085

7 Investments in subsidiaries

The Parent Company has the following subsidiaries, held at cost, at 31 December 2021:

Name of subsidiary	Country of incorporation	Shareholding on 31 December 2021	Shareholding on 31 December 2020	Nature of business
Bacanora Finco Ltd	UK	100%	100%	Financing company
Bacanora Treasury Ltd	UK	100%	100%	Financing company
Battery Finance (Jersey) Ltd[1]	Jersey	N/A	100%	Dissolved
Bacanora Battery Metals Ltd[2]	UK	N/A	100%	Dissolved
Sonora Lithium Group Companies[3]				
Sonora Lithium Ltd	UK	N/A	77.5%	Holding company
Bacanora Chemco S.A. de C.V.	Mexico	N/A	77.5%	Lithium processing
Bacanora Minerals Ltd	Canada	N/A	77.5%	Holding company
Mexilit S.A. de C.V.	Mexico	N/A	54.25%	Lithium Mining/exploration
Minera Megalit S.A. de C.V.	Mexico	N/A	54.25%	Mineral exploration
Mineramex Ltd	BVI	N/A	77.5%	Holding company
Minera Sonora Borax, S.A. de C.V.	Mexico	N/A	77.5%	Lithium mining/exploration
Operadora de Litio Bacanora S.A. de C.V.	Mexico	N/A	77.5%	Mexican service organisation
Minerales Industriales Tubutama, S.A. de C.V.	Mexico	N/A	46.5%	Dormant

[1]Battery Finance (Jersey) Ltd was dissolved on 4 May 2021.
[2]Bacanora Battery Metals Ltd was dissolved on 4 May 2021.
[3]The Company has joint control over SLL and its subsidiaries (the "Sonora Lithium Group") from 26 February 2021, and therefore performed deconsolidation procedures during the year.

On 26 February 2021, Ganfeng International Trading (Shanghai) Ltd. completed its option to increase its stake in Sonora Lithium Ltd from 22.5% to 50%. SLL is the operational holding company for the Sonora Lithium Project. Consequently, Ganfeng subscribed for 73,955,680 new ordinary shares in SLL at 29.59 pence at a total value of £21.9 million (US$30.4 million). On completion of the transaction, a revised 50:50 Joint Venture Agreement came into force, whereby each party is responsible for their portion of Project capex. After performing a detailed control assessment including a review of the provisions of the revised JVA, management have assessed that the Company now has joint control over the Sonora Lithium Group, and therefore the results of the Sonora Lithium Group have been consolidated to 26 February 2021. Subsequently, the Group's investment in the Sonora Lithium Group has been accounted for using the equity method.

For UK registered subsidiaries, the registered address for each subsidiary is 4 More London Riverside, London, SE1 2AU.

8 Investment in associate

The Parent Company's investment in Zinnwald Lithium Plc has been disclosed in note 6 of the Consolidated Financial Statements.

9 Investment in joint venture

The Parent Company's investment in Sonora Lithium Ltd has been disclosed in note 7 of the Consolidated Financial Statements.

10 Accounts payable and accrued liabilities

The Parent Company's other payables mainly relate to payables resulting from options and RSUs to key management personnel.

In US$	31 December 2021	31 December 2020
Trade payables	**4,587**	62,132
Accrued liabilities	**583,926**	599,625
Other payables	**3,285,455**	-
Total	**3,873,968**	661,757

11 Financial warrants liability

The Parent Company's financial warrants liability has been disclosed in note 12 of the Consolidated Financial Statements. All such warrants disclosed were held by the Parent Company.

12 Financial instruments

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

As at 31 December 2021 (In US$)	At amortised cost	At fair value through profit or loss	Total
Financial assets			
Cash and cash equivalents	**81,556,608**	**-**	**81,556,608**
Receivables from related parties	**7,388,521**	**-**	**7,388,521**
Other receivables	**678,018**	**-**	**678,018**
Total financial assets:	**89,623,147**	**-**	**89,623,147**
Financial liabilities			
Accounts payable and accrued liabilities	**3,873,968**	**-**	**3,873,968**
Warrant liability	**-**	**1,750,000**	**1,750,000**
Total financial liabilities:	**3,873,968**	**1,750,000**	**5,623,968**
Net financial assets/(liabilities):	**85,749,179**	**(1,750,000)**	**83,999,179**

As at 31 December 2020 (In US$)	At amortised cost	At fair value through profit or loss	Total
Financial assets			
Cash and cash equivalents	38,806,808	-	38,806,808
Receivables from related parties	3,307,094	-	3,307,094
Other receivables	60,358	-	60,358
Total financial assets:	42,174,260	-	42,174,260
Financial liabilities			
Accounts payable and accrued liabilities	661,757	-	661,757
Payables to related parties	37,558,874	-	37,558,874
Warrant liability	-	1,549,576	1,549,576
Total financial liabilities:	38,220,631	1,549,576	39,770,207
Net financial assets/(liabilities):	3,953,629	(1,549,576)	2,404,053

13 Financial risk management

The Parent Company is exposed to risks that arise from its use of financial instruments. The principal financial instruments used by the Company, from which financial risk arises, are set out in note 12. 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 receivables from related parties.

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

The Parent Company's other receivables relate to input tax receivables in the UK. The Parent Company's current receivable from related party relates to a receivable from Ganfeng Lithium relating to the vesting of the Parent Company's share options. Any changes in management's estimate of the recoverability of the amount due will be recognised in the period of determination.

The Parent Company's non-current receivables from related parties mainly relate to receivables from joint venture companies, all of which will generate cash flows from future lithium sale profits at the Sonora Lithium Project and accordingly the Parent 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, other receivables and receivables from related parties represents the Parent 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 Parent Company considers all its accounts receivables fully collectible.

b) Liquidity risk

Liquidity risk is the risk that the Parent Company will not be able to meet its financial obligations as they become due. The Parent 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 Parent Company's gross financial liabilities based on exchange rates on the reporting date:

As at 31 December 2021 (In US$)	**Within 30 days**	**30 days to 6 months**	**6 to 12 months**	**Over 12 months**
Accounts payable and accrued liabilities	**3,873,968**	**-**	**-**	**-**
Financial warrant liability	**1,750,000**	**-**	**-**	**-**

As at 31 December 2020 (In US$)	Within 30 days	30 days to 6 months	6 to 12 months	Over 12 months
Accounts payable and accrued liabilities	661,757	-	-	-
Payables to related parties	-	-	-	37,558,874
Financial warrant liability*	-	-	-	-

*No gross cash financial liability is present as the Parent Company had 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 Parent 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 Parent Company's expenditures, other receivables, accounts payables and accrued liabilities are predominately denominated in US dollars, Great British pound and euro and are therefore subject to fluctuation in exchange rates.

As at 31 December 2021, a 10% change in the exchange rate between the United States dollar and euro and Great British pound, which is a reasonable estimation of volatility in exchange rates, would result in less than US$0.1 million change to the Parent Company's total comprehensive loss.

d) Fair values

The fair value of cash, other receivables, receivables from related parties, accounts payable and accrued liabilities 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 financial warrants liability is disclosed in note 12 of the Consolidated Financial Statements.

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

14 Equity

a) Authorised and issued share capital

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

The Parent Company has the following shares in issue:

	Shares	Share Capital (US$)	Share Premium (US$)
31 December 2019	222,981,837	30,240,469	16,646,060
Issue of share capital - RSUs[1]	833,846	107,714	155,108
31 December 2020	223,815,683	30,348,183	16,801,168
Issue of share capital - Capital raise[2]	**106,995,885**	**14,730,123**	**48,129,302**
Issue of share capital - Ganfeng pre-emption[3]	**53,333,333**	**7,537,067**	**26,023,740**
Share premium reduction	**-**	**-**	**(90,954,210)**
Issue of share capital - Options[4]	**2,991,601**	**398,684**	**813,170**
31 December 2021	**387,136,502**	**53,014,057**	**813,170**

[1] The issuance of 833,846 new ordinary shares in relation to the vesting of RSUs granted in September 2017 at an issue price of 24.4p.

[2] The issuance of 101,395,885 new ordinary shares in the Company to institutional and professional investors at a price of 45p. In addition, retail and other investors subscribed for 5,600,000 new ordinary shares at a price of 45p. Amounts are shown net of transaction costs.

[3] Ganfeng exercised its pre-emption rights in relation to the above capital raise and subscribed to a total of 53,333,333 new ordinary shares at a price of 45p. Amounts are shown net of transaction costs.

[4] The issuance of 2,991,601 new ordinary shares in relation to the Company's options being exercised. 1,258,009 were issued at an issue price of 24.4p, 1,300,863 were issued at an issue price of 33.25p and 432,729 were issued at an issue price of 39.25p.

b) Share options

The Parent Company's share option plan has been disclosed in note 15 of the Consolidated Financial Statements. All such options, and only those, disclosed were held by the Parent Company.

c) Restricted share units

The Parent Company's restricted share unit plan has been disclosed in note 15 of the Consolidated Financial Statements. All such units, and only those, disclosed are held by the Parent Company.

d) Share-based payment reserve

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

In US$	
31 December 2019	1,454,591
Issue of share capital - RSUs	(708,097)
Lapsed option charge	(598,774)
Share-based payment expense	590,665
31 December 2020	738,385
Issue of share capital - Options	**(495,812)**
Lapsed option charge	**(125,353)**
Vesting of RSUs	**(981,448)**
Share-based payment expense	**864,228**
31 December 2021	**-**

e) Share-based payment expense

During the year ended 31 December 2021, the Parent Company recognised US$864,229 (year ended 31 December 2020: US$590,665) 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 15 of the Consolidated Financial Statements. As a consequence of all "in the money" unvested options, vesting in full, on the Ganfeng Offer becoming unconditional on 17 December 2021, the remaining share-based payment expense of these options has been accelerated through the Statement of Comprehensive Income in the year.

f) 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.

g) Loss per share

Basic and diluted loss per share for the year ended 31 December 2021 were as follows:

For the year ended	**31 December 2021**	31 December 2020
Loss for the year attributable to owners of equity	**(2,449,933)**	(13,513,816)
Weighted average number of common shares for the purposes of basic and diluted loss per share	**351,379,131**	223,186,881
Basic and diluted loss per share ($)	**(0.01)**	(0.06)

Warrants were excluded from the dilution calculation as they were anti-dilutive.

15 Related party disclosures

a) Related party transactions

The Group's related parties include:

- Its subsidiaries
- joint venture: Sonora Lithium Ltd and its subsidiaries, together the "Sonora Lithium Group";
- associate: Zinnwald Lithium Plc;
- majority shareholder: Ganfeng International Trading (Shanghai) Ltd and
- the Parent Company's key management personnel.

Transactions with its Directors and key management personnel have been disclosed in note 21 of the Consolidated Financial Statements.

A summary of the transactions and outstanding balances for the year ended 31 December 2021 are set out below:

Name of related party	Type of transaction	Transaction value	Balance owed by / (owed to) related parties
Ganfeng International Trading (Shanghai) Ltd	Share purchase - pre-emption[1]	**33,916,800**	**-**
Ganfeng International Trading (Shanghai) Ltd	Share option receivable[2]	**2,691,120**	**2,726,934**
Sonora Lithium Ltd	Release of payable[3]	**8,339,332**	**-**
Bacanora Chemco S.A. de C.V.	Project funding and interest	**1,070,289**	**3,874,102**
Bacanora Minerals Ltd	Working capital	**249,344**	**752,610**
Bacanora Finco Ltd	Interest rate - 28%, Maturity date - June 2024	**29,254,402**	**34,860**
Bacanora Treasury Ltd	Non-interest bearing	**-**	**15**

[1]On 21 May 2021, Ganfeng completed its pre-emption right exercise to increase its holding in the Parent Company to 28.88%. Ganfeng subscribed for a total of 53,333,333 new ordinary shares at the placing price of 45 pence per share, representing gross proceeds £24.0 million (US$33.9 million).

[2] On 17 December 2021, 2,991,601 new ordinary shares in relation to the Parent Company's options were exercised. 1,258,009 were issued at an issue price of 24.4p, 1,300,863 were issued at an issue price of 33.25p and 432,729 were issued at an issue price of 39.25p. The option holders agreed to sell the new shares to Ganfeng as part of the Ganfeng Offer at 67.5p. It was agreed by the Parent Company, Ganfeng and the option holders that Ganfeng would pay the Parent Company the sale funds and the Parent Company would retain the exercise price per share and pass on the profit to the option holders.

[3] On 19 May 2021, SLL performed a US$8.3 million capital reduction. On the same day, the Company and SLL signed a deed of release relating to a payable balance totaling US$8.3 million. The release of the payable resulted in a deemed distribution of US$8.3 million, Bacanora's share has been credited against the Parent Company's investment in joint venture to reflect the decrease in share of net assets of the Sonora Lithium Group. A gain of US$4.2 million, resulting from the receipt of Ganfeng's share of the distribution, has been recognised through the Statement of Comprehensive Income.

A summary of the transactions and outstanding balances for the year ended 31 December 2020 are set out below:

Name of related party	Commercial terms	Transaction value	Balance owed by / (owed to) related parties
Bacanora Finco Ltd	Interest rate - 28%, Maturity date - June 2024	6,670,720	(29,219,542)
Sonora Lithium Ltd	Non-interest bearing	8,386,776	(8,339,332)
Bacanora Chemco S.A. de C.V.	Interest rate - 20% + Libor, Maturity date - December 2039	2,803,813	2,803,813
Bacanora Minerals Ltd	Non-interest bearing	8,755,980	503,266
Bacanora Treasury Ltd	Non-interest bearing	-	15

16 Directors and employees of the Parent Company

The below information relates to all Directors and employees:

In US$	Year ended 31 December 2021	Year ended 31 December 2020
Gross salaries	**1,775,965**	1,485,657
Bonus	**243,313**	-
Share-based payments	**772,002**	522,507
Employer social security costs	**561,236**	236,204
Employer pension costs	**31,828**	14,017
Total cost	**3,384,344**	2,258,385
Average number of employees and Directors	**13**	12

Directors' remuneration totalled the following:

In US$	Year ended 31 December 2021	Year ended 31 December 2020
Directors' salaries	**1,057,903**	919,867
Bonus	**188,541**	-
Share-based payment expense	**415,322**	302,878
Total remuneration	**1,661,766**	1,222,745
Number of Directors	**8**	8

Details of gains made by Directors on the exercise of share options and RSUs have been disclosed in Note 21 of Consolidated Financial Statements.

Details of the highest paid Director have been disclosed in Note 22 of Consolidated Financial Statements.

17 Commitments

The Company has a commitment on its UK office of US$11,884 for 2 months' rent.

18 Subsequent events

Subsequent events relating to the Parent Company have been disclosed in note 24 of the Consolidated Financial Statements.

BACANORA lithium

19 Note to the statement of cash flows

Non-cash transactions from financing activities are shown in the reconciliation of liabilities from financing transactions below:

In US$	Payables to related parties 31 December 2021	Payables to related parties 31 December 2020
Opening balance	**37,558,874**	32,264,513
Cash flows	**(44,272,897)**	(657,906)
Non cash flows		
Finance costs	**15,053,355**	5,856,845
Release of payable to related party	**(8,339,332)**	-
Related party reclassifications	**-**	95,422
Total	**-**	37,558,874

The adjustment for the share-based payment expense within cash flows from operating activities includes US$864,288 share-based payment expense offset by a cash settlement of US$188,679 on the vesting of RSUs.