



Bacanora Lithium Plc

Annual Report and Financial Statements

30 June 2018

Company Directory

Board of Directors	Mark Hohnen (Chairman) Peter Secker (CEO) Eileen Carr Ray Hodgkinson Jamie Strauss Dr Andres Antonius Mr Junichi Tomono Derek Batorowski
Chief Financial Officer	Janet Boyce
Company Secretary	Cherif Rifaat
Registered Office	4 More London Riverside London SE1 2AU
Website	www.bacanoralithium.com
Broker	Canaccord Genuity 88 Wood Street London EC2V 7QR
Nominated Advisers	Cairn Financial Advisers LLP Cheyne House Crown Court 62-63 Cheapside London EC2V 6AX
Lawyers	Gowling WLG (UK) LLP 4 More London Riverside London SE1 2AU
Auditors	BDO LLP 55 Baker St London W1U 7EU
Registered Number	11189628

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Business Review

Highlights - for the year ending 30 June 2018 and subsequent events

Sonora Lithium Project, Mexico ('Sonora' or 'the Sonora Lithium Project')

- Completed a Feasibility Study ("FS") which demonstrated strong economics of a 35,000 tpa lithium carbonate operation at Sonora:
 - US\$1.25 billion NPV based on lithium carbonate prices of US\$11,000/t
 - 26.1% IRR
 - US\$3,910/t lithium carbonate life of mine ('LOM') gross operating costs which are comparable to those of the low-cost brine producers of South America
- Post period end, US\$150 million senior debt facility secured with RK Mine Finance, a leading provider of finance for resources companies, to finance the development of Sonora
- Post period end, US\$65 million and US\$25 million conditional equity commitments from the State General Reserve Fund of Oman ("SGRF"), and Bacanora's offtake partner, Hanwa Co., LTD ("Hanwa"), as part of the Sonora project financing package
- Unrestricted access to develop and operate Sonora for the initial LOM secured following acquisition of La Ventana and La Joya parcels of land in Sonora for US\$2.9 million - final consideration settled in August 2018

Zinnwald Lithium Project, Germany ('Zinnwald')

- Ongoing work for a Feasibility Study into a high value lithium product operation at Zinnwald on track for completion in Q2 2019
- NI 43-101 compliant upgraded measured and indicated resource of 124,974 tonnes of contained lithium for Zinnwald issued in September 2018
- Exploration licence awarded covering 295 hectares of the previously mined Falkenhain lithium deposit 5km from Zinnwald in Germany - potential to increase the LOM of Zinnwald

Corporate

- Successful completion of the redomicile of the Company's jurisdiction from Canada to the UK on 23 March 2018, resulting in Bacanora Lithium Plc, which is solely quoted on AIM, becoming the Parent Company for the Bacanora Group
- The Company strengthened its Board and Senior Management Team with the addition of two new Directors, Peter Secker (CEO) and Eileen Carr (NED), and a new CFO, Janet Boyce

Chairman's Statement

I am pleased to share the 2018 Annual Report which outlines another significant year in the development of Bacanora.

Many accomplishments have been achieved this financial year that have enabled Bacanora to be poised to move into the development phase of the Sonora Lithium Project. Our objective is to construct a 35,000 tonnes per annum battery grade lithium carbonate operation at our flagship project in Sonora, Mexico, and become a leading supplier to fast-growing industries such as electric vehicles and energy storage. Central to this was the completion of a feasibility study in December 2017, which not only confirmed our long-held view that Sonora has the potential to be a significant lithium mine, but also to be among the lowest cost producers of lithium carbonate. In addition to a US\$1.25 billion pre-tax NPV at 8% discount based on an US\$11,000 per tonne lithium carbonate price and an IRR of

26.1%, the FS estimates LOM costs at US\$3,910 per tonne, placing Sonora in the lowest quartile of the industry cost curve.

Sonora now has a large Measured plus Indicated Mineral Resource estimate of over 5 million tonnes (“Mt”) of lithium carbonate equivalent (“LCE”), an additional Inferred Mineral Resource of 3.7 Mt of LCE and will benefit from being a low stripping ratio open pit mining operation but, in our view, it is the low-cost profile which is the major differentiator between Sonora and its peers. Being among the lowest cost producers is critical, not just in terms of value generation and profitability, but also because it safeguards the project against price volatility. Global commodity markets are, by their nature, volatile and the market for high value lithium products is no exception.

To combat price volatility, occupying a position on the industry cost curve well below those projects that operate close to or at the marginal cost of production is key. Being a soft rock deposit, Sonora benefits from having low operating costs similar to the brine producers in South America. At the other end of the scale, hard rock deposits are among the highest cost producers, partly due to the need for drilling, blasting, crushing and grinding. Unlike the brine deposits however, Sonora’s processing route does not rely on a multi-year evaporation process. Instead a simple and proven processing route is planned at the Sonora plant which will take just five to seven days to process ore into lithium carbonate, a timescale that matches production rates of the higher cost hard rock deposits. We are confident that Sonora can match the hard rock producers’ short timeframes thanks to our pilot plant at Hermosillo, which has been producing >99.5% battery grade LCE for the last three years. Sonora therefore benefits from having low costs similar to the brine deposits, and short production timelines similar to the hard rock producers. It is this unique combination which underpins our confidence that Sonora is set to become a major supplier of lithium carbonate for many years to come.

We are not the only ones who hold this view. Following the issue of the FS, we immediately embarked on an exercise to raise the US\$460 million required to build and commission Stage One production of 17,500 tpa of battery grade lithium carbonate at Sonora. Post period end on 2 July 2018, we announced a US\$150 million senior debt facility with RK Mine Finance, a leading specialist in the provision of senior debt capital to mining companies. Compared to other companies’ debt packages secured for greenfield lithium projects in Canada and Australia this year, the terms of the RK debt facility are highly competitive; a further testament to Sonora’s world class credentials.

In addition, a further vote of confidence was the conditional strategic investments totalling US\$90 million from the State General Reserve Fund of Oman, the sovereign wealth fund of the Sultanate of Oman, and from our existing offtake partner and strategic investor, Hanwa Co., LTD, which we also announced in July 2018. The US\$90 million is comprised of US\$65 million from SGRF and US\$25 million from Hanwa. In addition, SGRF has signed a conditional agreement to become an offtake partner for the Stage 2 lithium carbonate production.

The conditional strategic investments of US\$90 million with the US\$150 million from RK Mine Finance, mean that over half of the required funding has been secured. We had hoped to build on this further via a US\$100 million placing post period end, but volatility in global commodity markets led us to elect not to proceed. This means first production at Sonora will now be delayed until late in 2020 rather than Q1 2020, subject to finalising the equity financing strategy in early 2019. We remain in discussions with several parties with regards to securing the remainder of the finance package, both at the corporate and project level.

Over the past 5 years the Company has developed a strong working relationship across all levels of the Sonora government, culminating in the official ground-breaking ceremony held with Governor Hon. Claudia Pavlovich in April 2018. Sonora has an extensive and vibrant mining industry, highly skilled workforce and excellent infrastructure. A large number of international companies, such as Ford Motor Co, Grupo Mexico, Rolls-Royce and LG are based in Sonora State as a result of strong government support and comparably low incidences of crime relative to its neighbouring states and Mexico as a whole.

Elsewhere in our portfolio, post year end in September 2018, an updated resource statement was issued for our 50% owned Zinnwald project in Germany which complies with NI 43-101. This comprises an increased total Measured and Indicated Resource estimate of 124,974 tonnes of contained lithium (“Li”) at a cut-off grade of 2,500 ppm. The Feasibility Study to prove economic viability of the project continued throughout the year and remains on track for completion in Q2 2019. This is focused on developing a strategy to produce higher value downstream, lithium products from the Zinnwald concentrates for the European battery and automotive sectors. Lying in the heart of

Germany's industrial region on a granite hosted Sn/W/Li belt that has historically produced tin, tungsten and lithium, Zinnwald has an excellent geographical location. Together with the award of an exploration licence covering 295 hectares of the previously mined Falkenhain lithium deposit 5km from Zinnwald, we have an excellent strategic position with which to target Europe's fast-growing markets for lithium.

At the corporate level, the redomicile of the Company's jurisdiction from Canada to the UK was successfully completed. The listing of shares on the Toronto Stock Exchange have been cancelled and only the listing on AIM remains. The share capital structure of Bacanora Lithium is substantially identical to that of Bacanora Minerals, as are the rights attached to the Bacanora Lithium ordinary shares compared to those of Bacanora Minerals common shares. In all other respects, as at the date of redomicile, the Group remained unchanged as a result of the redomicile, which was undertaken for the management of the Company to be closer to the majority of its shareholders, raise the Company's profile among European investors and the international mining sector, as well as to remove duplicate costs associated with maintaining a dual listing.

A number of changes were also made to the Board and management team during the year. Peter Secker, CEO of the Company, joined the Board in April 2018. Meanwhile Ms Janet Boyce was appointed as Chief Financial Officer in February 2018, replacing Derek Batorowski, who stepped down as CFO to pursue other business interests. Ms Boyce is a Certified Public Accountant who has held a number of senior executive roles in the resource sector. Derek, a founding director of Bacanora, remains a Non-Executive Director of the Company. In addition, Ms Eileen Carr, a Chartered Certified Accountant with over 25 years' experience in the resource sector, was appointed as a Non-Executive Director.

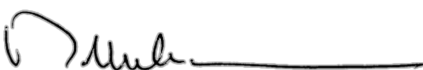
In terms of outlook, most industry observers agree that new sources of battery grade lithium products will need to come on stream if ambitious uptake and production targets for electric vehicles set by governments and corporations have any chance of being met. Not all lithium deposits/operations are created equal however. As the FS showed, thanks to highly attractive economics, with operating costs estimated to be among the lowest in the industry, and a large, high grade and scalable resource, Sonora stands out from other lithium projects currently at the development stage.

We are continuing to work hard to secure the final piece of the finance package, complete the Front End Engineering Design ("FEED") and ensure all designs, cost estimates and process guarantee scopes are in place, so that we can embark on the 18-month construction phase at the earliest opportunity.

I would like to thank Peter Secker, CEO, for his leadership and for the progress that the Company has made under his direction. Through his leadership and help of the management team, the Company has delivered on prefeasibility and feasibility studies on the Sonora project, attracted two major offtake partners and conditionally secured US\$90 million in funding from them and raised US\$150 million in debt financing. He has the full support of the whole board. We believe that Bacanora has the potential to become a major player in the global lithium market and that Peter is the right person to deliver our ambitious growth plans.

I would like to thank each and every employee, the management teams, the State of Sonora and our partners for their skills, hard work and dedication, and to congratulate them on what has been a landmark year for the Company.

I look forward to providing further updates on our progress, as we focus on realising Sonora's potential to become a major supplier to rapidly-growing industries such as electric vehicles and in the process generating significant value for our shareholders.



Mark Hohnen, Chairman

12 October 2018

Strategic Report

Business Model

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

To capitalise on the fast-growing lithium market, our main focus is to monetise the resources and reserves held in the Sonora Project. This will be initially achieved by developing Stage 1 of the mine and processing plant. The Company aims to produce battery grade lithium carbonate for sale through offtake partners, with any additional production sold on the open market, in due course.

The Company also holds an investment in the Zinnwald Project in Germany. The Company expects to complete its Feasibility Study in Q2 2019, after which the strategy to deliver the business model for that entity will be defined.

- The business model is supported by the core competencies of the team.
- Experienced and entrepreneurial leadership team.
- Access to strong technical skills either from our in-house team or network of advisers.
- Emphasis on building strong local organisations and skill sets.
- Commitment to excellence in HSEC.
- Disciplined capital management and careful handling of Company resources.

Strategy

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

This will require a number of steps:

1. Find world class projects that can address the rapidly increasing demand (CAGR of 15%+) for lithium for electric vehicles and energy storage industries. The Sonora Project has already identified 8.8Mt of LCE resources suitable for open pit mining. The Zinnwald Project has recently been given a total resource of 142 thousand tonnes of contained Li which is expected to supply local chemical industry requirements.
2. Complete feasibility studies to evaluate and quantify the economic potential of its projects. In January 2018, Bacanora published its FS 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 US\$3,910 per tonne. The Zinnwald Project will deliver its FS in Q2 2019.
3. Validate the quality of its end product by securing high quality off-take partners. Bacanora has used its pilot plant, which has been in operation for a number of years to provide regular samples of its lithium carbonate to prospective users. This led to firstly Hanwa, one of Japan's largest metals trading houses, signing a 10-year offtake agreement for Stage 1 of production and investing in the Company directly. Secondly, Bacanora has recently secured SGRF as its offtake partner for Stage 2 and also a direct investor in the Company conditional on the full funding being raised for Stage 1 of the Sonora Lithium Project.
4. Complete the funding required to construct its projects. Bacanora has secured US\$150 million of debt funding from RK Mine Finance and has commitments for an additional US\$90 million of equity finance from Hanwa and SGRF. The Company is currently finalising its plans to re-engage with the equity markets to secure the balance of its funding requirements.
5. Construction and commissioning of an initial 17,500 tpa lithium carbonate plant. Bacanora is finalising its FEED work with expected completion in Q4 2018. The Company has chosen ICA Fluor to complete this work stream, who have extensive experience in delivering engineering projects of this size and scale.
6. Hiring of a team with the expertise to deliver the project into production. The Company continues to build both its Board, its Senior Management team and its in-country operational teams. The Company now has over 40 employees and contractors in Mexico alone, many of whom are being trained in the pilot plant.

Key Challenges

In the financial year to 30 June 2018 and subsequently, Bacanora has delivered a bankable feasibility study, has been successful at raising US\$150 million debt and has US\$90 million committed equity and offtake agreements in place with SGRF and Hanwa, subject to conditions and full project financing. However, the project is dependent

upon significant additional funding being available to fund capital expenditure and working capital requirements. There is no assurance that any such funds will be available. Bacanora has plans to re-engage with the equity markets in order to raise the sufficient capital.

The production of battery grade lithium carbonate from the Sonora Project will be from open pit mining operations feeding a processing plant using the conventional sulphate route. The Company has operated a lithium carbonate pilot plant in Sonora for the past 3 years to demonstrate the viability of the project. The project's processing plant will require the supply of both gas and high voltage electricity infrastructure to the site. The current plan is for a third-party service provider to provide energy supply via a cogeneration plant using natural gas as the fuel from a pipeline that they will construct. We are currently in discussion with a number of suppliers for this. Due to the long lead time for construction of a gas pipeline and potential delays in construction and permitting, an early stage alternative approach includes trucking liquified natural gas to site.

Due to the attractive demand side fundamentals of the lithium market, some commentators are forecasting significant volumes of new production to come online over the next five years. This could have a downward pressure on the price for battery grade lithium carbonate. Research published in June 2018 by Roskill suggests a floor for lithium carbonate price of US\$11,000 per tonne (<http://www.mining.com/lithium-demand-battery-makers-almost-double-2027>) which is the long term price used in Bacanora's feasibility study. Any delays in this additional supply coming to market should provide an upside on price for those companies who are able to deliver production. Please refer to the Lithium Market Update section for more detailed analysis of market dynamics.

Principal Risks and Uncertainties

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

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

a Financial controls

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

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

b Internal controls

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

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

c Corporate risk register

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

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

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

Risk 1: Successful development of the Sonora Lithium Project

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

- obtain sufficient financing for the complete project (see Risk 2 below)
- inability to attract sufficient numbers of qualified workers (see Risk 4 below);
- change in environmental compliance requirements (see Risk 5 below);
- a reduction in the market price of lithium (see Risk 6 below)
- delays in obtaining or an inability to obtain, or conditions imposed by, regulatory approvals (see Risk 5 below);
- lack of availability of infrastructure capacity (see Risk 7 below);
- non-performance by third party contractors;
- unfavourable weather conditions;
- contractor or operator errors;
- increases in extraction costs including plant, material, energy and labour costs;
- lack of availability of mining equipment and other exploration services;
- catastrophic events such as fires, storms or explosions;
- the breakdown or failure of equipment or processes;
- construction, procurement and/or performance of the processing plant and ancillary operations falling below expected levels of output or efficiency;
- violation of permit requirements;
- the lack of progress with respect to the development of appropriate extraction technologies;
- the political stability of Mexico;
- taxes and imposed royalties; and
- shortage of required inputs.

There are numerous activities that need to be completed in order to successfully commence production at the Sonora Lithium Project including, without limitation: optimising the mine plan; recruiting and training personnel; negotiating contracts for transportation and for the sale of products; updating, renewing and obtaining, as required, all necessary permits, including, without limitation, environmental permits; and handling any other infrastructure issues. There is no certainty that the Group will be able to recruit and train personnel, have available funds to finance construction and development activities, avoid potential increases in costs, negotiate transportation or product sales agreements on terms that would be acceptable to the Group, or that the Group will

be able to update, renew and obtain all necessary permits to start or to continue to operate the projects. Most of these activities require significant lead times, and the Group will be required to manage and advance these activities concurrently in order to begin production. A failure or delay in the completion of any one of these activities may delay production, possibly indefinitely, and would have a material adverse effect on the Group's business, prospects, financial position, results of operations and cash flows.

Mitigation:

The Company completed its Feasibility Study and published the Technical Report in January 2018. Since that date the Company has acquired additional land, secured water permits, made key internal hires, extended its off-take contract with Hanwa, secured debt financing and is in final negotiations on its FEED contracts. The Company is also working towards completing the full financing package to be able to start construction.

Trend:

No major change in risk profile. Partial financing has been secured, but no significant increases in the above risks.

Risk 2: Financing risk

Additional funding will be required in order to complete the proposed future exploration and development plans on the projects. There is no assurance that any such funds will be available. Failure to obtain additional financing, on a timely basis, could cause the Group to reduce or delay its proposed operations. The majority of sources of funds currently available to the Group for its projects are in a large portion derived from the issuance of equity. While the Group has been successful in the past in obtaining equity financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. The raising of debt has introduced financial covenants to the business that must be maintained to avoid defaulting on the loan.

Mitigation:

Since last year Bacanora has secured US\$150 million of debt funding from RK Mine Finance and has commitments for an additional US\$90 million of equity finance from its off-take partners Hanwa and SGRF, thereby reducing financing risk. The Company is currently finalising its plans to re-engage with the equity markets to secure the balance of its funding requirements.

Trend:

In the financial year, the Company has raised significant additional financing and has substantial committed financing in place, as described above. However, there is still considerable financing risk due to the outstanding capital requirements to fully fund the project.

Risk 3: Resource estimates

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

Mitigation:

The Company engaged reputable third-party organisations to perform the competent persons report on the feasibility of the operation and confirm as far as possible the mineral resources and reserves in Sonora Project which was published in January 2018. A resource estimate has been announced for the Zinnwald Project in September 2018. Mineral reserve estimation is currently underway to prove economic feasibility of the project, expected in Q2 2019.

Trend:

Reduced risk compared to prior period due to the completion of the feasibility study for Sonora Project.

Risk 4: Dependence on key personnel

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

Mitigation:

The Company is migrating its key senior management team to full time employment contracts. The recruitment of new staff and the development of all staff will enable more robust succession planning. In addition, the diversity of the Company has improved since 2017; of Bacanora Lithium's eight Directors, one female has been appointed in the financial year. Also, the Company's CFO who is an employee, is female, and was appointed in the financial year. Of the other staff, five out of thirty six are female (13.9%) at year end.

Trend:

With the addition of team members, the talent pool has increased, thereby reducing this risk to a minor extent. There is still reliance on a number of key personnel.

Risk 5: Environmental impact and compliance

All phases of the Group's operations in Mexico and Germany are subject to environmental regulation in that jurisdiction. Environmental 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. There is no assurance that existing or future environmental regulation will not materially adversely affect the Group's business, financial condition and results of operations.

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

- Emissions to air (release of carbon dioxide gases from the burning of fossil fuels),
- Dust emissions from the mine,
- Disposal of mining overburden and solid waste from the plant,
- Disposal of spent reagents, batteries, tyres and oils,
- Process plant tailings,
- Pit dewatering, water abstraction and discharge,
- Relocation of vegetation, and
- Disposal of human waste from camp.

Mitigation

The Company has been granted all environmental and water permits it has applied for to date and has instituted corporate and companywide environmental policies. We have dedicated staff who deal with Health, Safety and the Environment as well as applying for and maintaining all relevant permits. As the Company moves towards construction it will institute a local CSR committee, part of whose remit will be to engage with local environmental matters.

Trend:

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

Risk 6: Commodity prices

The profitability of the Company's operations will be dependent upon the market price of the products able to be sold by the Group. Mineral prices fluctuate widely and are affected by numerous factors beyond the control of the Company. General economic factors as well as the world supply of mineral commodities, the stability of exchange rates and political developments can all cause significant fluctuations in prices. The price of mineral commodities has fluctuated widely in recent years and future price declines could cause commercial production to be impracticable, thereby having a material adverse effect on the Group's business, financial condition and results of operations. Furthermore, reserve estimates and feasibility studies using different commodity prices than the prevailing market price could result in material write-downs of the Company's investment in its assets, increased amortisation, reclamation and closure charges or even a reassessment of the feasibility of the Company's lithium projects. Downside price cannot currently be mitigated as no derivatives are currently available on the market.

Bacanora has entered into an Off-take Agreement for up to 100% lithium carbonate produced at the Sonora Lithium Project for Stage 1, with Hanwa. The final pricing is to be at prevailing market price agreed on a quarterly basis based on combination price published by "Asian metal", "industrial minerals" and "metal pages", or any other mutually agreeable method. The Company is therefore exposed to the risk of market fluctuations between the present and the commencement of production. There is also conditional agreement with SGRF for Stage 2 production.

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

Mitigation

For budgeting and longer-term forecasting, conservative prices of lithium carbonate and input commodities have been assumed. We modelled the budget on 2018 real terms US\$ basis.

Trend:

No change, however current long-term contract prices are above the price used in the feasibility study.

Risk 7: Infrastructure

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

Mitigation

The Technical report on the feasibility study for the Sonora 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.

Trend:

No change.

Key Performance Indicators

Our key performance indicators ('KPIs') help the Board and executive management assess performance against our strategic priorities and business plans. However, as a pre-operational business, our use of KPIs is limited, our

current KPIs relate to cost control and safety. Currently, the Board receives update reports on a monthly basis for operational and corporate parts of the business. The reports include measures of operational expenditure and capex spend against the budget as well as the Group's cash position. The reports also contain information on operational performance which includes safety performance using number of lost time injuries and lost time injury frequency rate.

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

Key Performance indicator	Description	Analysis
Lost time injury frequency rate (LTIFR)	A key safety metric, the number of lost time injuries per 1 million hours worked on a rolling 12-month basis	In 2018 there were 2 LTIs resulting in a LTIFR of 22.2 for the year, in 2017, there was 1 LTI resulting in a LTIFR of 11.0.
Cash Balance	Cash balance available to continue with the activity of the Group, including exploration, development and maintenance on going concern.	At the reporting date the Group's cash balance was US\$13.2 million (2017: US\$29.9 million). The cash balance excludes the first tranche drawn down from the RK debt facility which occurred in July 2018. This allows the Group to meet its financial commitments for at least 12 months. There is sufficient cash to continue working on its development and exploration activities. Refer to the Financial Review section for analysis of the cash movement.
Capex investment	Funds spent on the exploration and evaluation (E&E) and property, plant and equipment (PPE). It is a measure of the investment in the business and the rate at which value is being generated.	At the reporting date the Group has spent US\$2.8 million (2017: US\$6.0 million) on E&E and US\$5.1 million (2017: US\$0.4 million) on PPE on a cash basis (see Cash flow Statement). This expenditure is primarily related to the feasibility study on the Sonora project, purchase of land, as well as the continued operation of the pilot plant. Furthermore, a total of US\$4.2 million was spent on Zinnwald Project during the year.
Reserves and Resources held at year end	As a mining development Group, the report of satisfactory mineral reserve and resource results is a key indicator of the value potential of the Group and its projects.	<p>In the financial year, a Feasibility Study on the Sonora Project was delivered and a maiden reserve and resource estimate was declared. The Project has 5 million tonnes of lithium carbonate equivalent measured and indicated resources, of that, 4.5 million tonnes are reserves. There were no reserves in Sonora for the prior period.</p> <p>In September 2018, Zinnwald updated its resource statement to comply with NI 43-101 and was given an increased total Measured and Indicated Resource estimate of 125,000 tonnes of contained lithium at a cut-off grade of 2,500 ppm.</p>

CEO Statement

Bacanora has stakes in two lithium projects: Sonora in Mexico; and Zinnwald in Germany. Following the completion of the Feasibility Study for a 35,000 tpa battery grade lithium carbonate operation at Sonora, Mexico in December 2017, Sonora is the more advanced of the two projects. The Feasibility Study assigned to Sonora a US\$1.25 billion pre-tax NPV8 based on an US\$11,000 per tonne lithium carbonate price, which is a significant discount to the prevailing battery grade lithium carbonate contract prices of around US\$16,000 per tonne. But more importantly, the Feasibility Study confirmed a low LOM operating cost of US\$3,910 per tonne, placing Sonora in the lowest quartile of the industry cost curve. With 8.8 million tonnes of resources, Sonora is one of the world's larger lithium resources with a current resource life in excess of 200 years.

Operational activities at Sonora has since been centered on ensuring that once the finance package has been finalised, Bacanora is in a position to immediately commence the construction phase of Stage One production of 17,500 tpa lithium carbonate operation. These include Front End Engineering Design for the lithium carbonate processing facility, permitting and land access.

The FEED work stream is currently scheduled to be completed in Q4 2018. Ongoing design work includes the following critical areas: pre-concentrator; roaster/kiln; crystallisers/evaporators; IX and packaging; energy supply contracts; infrastructure and access. In tandem with this, Bacanora has been engaged in detailed discussions with EPC/EPCM groups regarding the construction of the processing plant.

The Company's Environmental Impact Statement ('Manifestacion de Impacto Ambiental' or 'MIA') for the construction of an open pit mine and a large-scale beneficiation processing facility at Sonora gained approval from SEMARNAT, the Environment Ministry of Mexico in October 2017.

Access and surface rights at Sonora have also been secured following the acquisition of the freehold ownership of two parcels of land covering mineral resources contained within the La Ventana, Fleur and El Sauz areas. Bacanora now has unrestricted access to develop and operate Sonora for the initial life of mine.

In addition to the granting of the MIA environmental permits and the completion of the land acquisitions, water license permits covering Sonora have been granted by the Comisión Nacional Del Agua ('CONAGUA').

Following a comprehensive evaluation, it is proposed that LNG gas supplies will initially be delivered by truck during the early stages of commissioning whilst gas consumption is low, after which it is envisaged that gas will be supplied to the project via pipeline. With this in mind, detailed quotes for the supply of LNG have been obtained. In addition, discussions have been taking place with potential energy partners for a gas pipeline development to Sonora along with the finalisation of the proposed natural gas pipeline routes.

We continue to strengthen our Sonora team which is now more than 40 employees and contractors. The pilot plant continues to produce battery grade lithium carbonate samples. These samples are being distributed to potential end customers in Asia as well as being used in the FEED process. A willingness to embrace opportunity through innovation is core to our business as we aim to improve techniques wherever we can. The pilot plant is performing an integral role in the ongoing work to optimise the metallurgical flow sheet and other test work. The plant is also being used as part of a significant effort to train local personnel in all operational aspects of lithium process plant operations. The pilot plant will continue to operate while we progress with the construction phase of the project.

Unfortunately, two of our employees suffered lost time injuries during the year, this is an increase over the one that occurred in 2017. It's critically important to us that all of our employees around the world return home from work safely every day. Protecting the health, safety and environment of the various stakeholders who may be affected by our activities is an essential part our risk management strategy. We have instituted appropriate policies and procedures and formed a HSEC committee on site with the aim of developing a zero-harm culture. Furthermore, our social mandate to operate is dependent upon being a good custodian of the site and sharing the benefits of the resource appropriately; for that reason, we have bolstered our community engagement capability in preparation for activities to ramp up, on the mine site.

There is also significant progress in our 50% owned Zinnwald Lithium Project in Germany. The project is currently at the Feasibility Study stage which remains on track to be completed in Q2 2019. An infill drilling programme was completed during the financial year and we were pleased to announce the resulting update to the resource estimation in October 2018. The Measure and Indicated Resource estimate increased to 124,974 tonnes of

contained lithium, a 30% increase over the last resource statement. The resource estimate was confirmed as NI 43-101 compliant in September 2018. During the year, test work on various aspects of the processing flow sheet continued, including roasting optimisation and hydrometallurgical test work, with initial positive results obtained so far. Work to complete the feasibility study is currently ongoing and includes detailed mine plan and engineering designs.

Looking at the lithium market over the past 12 months, annual lithium demand has increased from around 220,000 tonnes to approximately 250,000 tonnes. Much of this increase is due to the rise in demand for electric vehicles and hybrids, fueled by a growing number of car manufacturers and governmental bodies setting ambitious target EV sales and production, to combat rising concerns for the environment. Some of the larger lithium analysts, such as Bloomberg, are forecasting annual demand to increase to 450,000 tonnes by 2025.

During the period, we have seen the CIF (Cost, Insurance and Freight) contract prices for lithium carbonate products increase from around US\$11,000 per tonne to a high of around US\$16,500 per tonne in mid-2018, before declining slightly in Q3 2018 to range between US\$12,500 and US\$16,500, depending on product quality. We have also seen the spot prices in China peaking at levels as high as US\$24,750 per tonne. This has since declined to around US\$14,000 per tonne in September 2018. This recent decline in the spot prices resulted from the tightening of credit in China forcing reduction in stock levels to realise cash and a number of new spodumene mines in Australia coming on stream, causing some analysts to anticipate an oversupply for the year. These varying price movements between long term contract prices and China spot market prices showcase the disparity in market dynamics between China and the longer-term nature of the contracts for majority of the market outside China and strongly supports Bacanora's decision to extend its long term off-take with Hanwa Corporation from 5 years to 10 years.

Price volatility in the nascent lithium sector will continue as new mines are brought on stream and existing projects expand. However long-term fundamentals appear to be robust with some observers calling a floor on the prices at US\$11,000 per tonne. Sonora's forecast operating costs of approximately US\$3,910 per tonne makes us resilient to volatility allowing us to weather any market cycles as we move to production. When in production, this will deliver higher margins giving better security relative to the higher cost spodumene producers coming on stream now.



Peter Secker, CEO

12 October 2018

Operational Review

a Corporate redomicile

On 23 March 2018, Bacanora Minerals Ltd. completed its re-domicile from Canada to the United Kingdom. The re-domicile was effected by means of a plan of arrangement under the Business Corporations Act (Alberta), whereby all existing common shares in Bacanora Minerals Ltd were exchanged, through a wholly owned subsidiary, 1976844 Alberta Ltd. of Bacanora Lithium Plc, for ordinary shares in Bacanora Lithium Plc, a company that has been established in the UK to become the new holding company for the Group. The share structure of Bacanora Lithium Plc is substantially identical to the previous share structure of Bacanora Minerals Ltd and the rights attaching to the new ordinary shares are substantially the same. In all other respects, the Group will remain unchanged as a result of the Transaction.

Furthermore, the common shares of Bacanora Minerals Ltd. were delisted from TSX Venture Exchange and the AIM Market of the London Stock Exchange. In all other material respects, as at the date of redomicile the Group remained unchanged as a result of the arrangement and the annual report and financial statements reflect a continuation of the results of operations of the Group.

b Feasibility Study Sonora Lithium Project, Mexico ('Sonora')

- positive economics and favourable operating costs of a 35,000 tonnes per annum ("tpa") battery grade lithium carbonate operation at Sonora confirmed in the 2018 Feasibility Study:
- US\$1.253 billion pre-tax project Net Present Value at an 8% discount rate and US\$11,000/t lithium carbonate price 26.1% Internal Rate of Return ("IRR") US\$3,910/t lithium carbonate Life of Mine ("LOM") operating costs, placing Sonora among the low-cost brine producers of South America.

The Sonora Lithium Project is located in northern Sonora State, Mexico, approximately three hours' drive north east of the state capital of Hermosillo, a city of over one million people. Access to the site is by road from either Hermosillo or the US border town of Agua Prieta. The Project has access to significant support infrastructure including paved roads, process water and local labour.

The FS demonstrates the attractive economics of Sonora and key findings are shown in table below:

Feasibility Study Key Indicators:	Value
Pre-tax Net Present Value (US\$ 000)	1,253,027
Pre-tax IRR (%)	26.1%
Simple Payback Stage 1 (years)	4
Initial Construction Capital Cost Stage 1 (US\$ 000)	419,616
Construction Capital Cost Stage 2 (US\$ 000)	380,262
Average LOM operating costs (US\$/t lithium carbonate "Li ₂ CO ₃ ")	3,910
Average operating costs (US\$/t Li ₂ CO ₃ net of K ₂ SO ₄ credits)	3,418
Post-tax NPV (at 8% discount) (US\$ 000)	802,464
Post-tax IRR (%)	21.2%
Average annual EBITDA with co-products (US\$ 000)	229,362
Annual Li ₂ CO ₃ production capacity Stage 1	17,500 t
Annual Li ₂ CO ₃ production capacity Stage 2	35,000 t
Annual K ₂ SO ₄ production capacity Stage 2	30,000 t

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

Measured and Indicated Mineral Resources as at 13 December 2017

Category	Cut-off (Li ppm)	Tonnes ⁽²⁾ (000t)	Li (ppm)	K (%)	LCE (000t)	LCE attributable to Bacanora (000t)
Measured ⁽¹⁾	1,000	103,000	3,480	1.5	1,910	1,776
Indicated	1,000	188,000	3,120	1.3	3,130	2,345
Total	1,000	291,000	3,250	1.4	5,038	4,119

Inferred Mineral Resources

Category	Cut-off (Li ppm)	Tonnes ⁽²⁾ (000t)	Li (ppm)	K (%)	LCE ⁽³⁾ (000t)	LCE attributable to Bacanora (000t)
Inferred	1,000	268,000	2,650	1.2	3,779	3,220

Mineral Reserves as at 13 December 2017: (Cut-off grade of 1,500ppm Li)

Category	Tonnes (000t)	Li (ppm)	K (%)	LCE (000t)	LCE attributable to Bacanora (000t)
Proven	80,146	3,905	1.64	1,666	1,550
Probable	163,662	3,271	1.36	2,849	2,126
Total	243,808	3,480	1.45	4,515	3,676

⁽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 FS, 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).

During the initial 19-year mine life, 37,058,000 tonnes of ore with a Li grade of 4,151 ppm will be mined and processed with a stripping ratio of 3.4:1.

Mining Operations as defined in the feasibility study

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. The Mineral Reserve estimate was prepared by Independent Mining Consultants, Inc in Tucson, Arizona. The Mineral Reserve estimate includes an ore recovery factor of 100% and mining dilution of 100mm at the top and bottom of the mineralised beds, with the grades of the elements in the adjacent lithologies.

Processing as defined in the feasibility study

Metallurgical test work for the FS was carried out at SGS Lakefield Laboratories in Perth and ANSTO laboratories in Sydney, NSW, Australia. The process engineering and design for the process plants and infrastructure was completed by Ausenco Limited ("Ausenco"). The process plant design comprises a pre-concentration stage to produce an initial concentrate prior to roasting. The concentrate is subsequently heated in a kiln, at approximately 950 degrees Celsius, in combination with recycled sodium sulphate, which is a by-product produced from the Sonora lithium plant, to produce an intermediate lithium sulphate product. This sulphate material then undergoes hydrometallurgical treatment, filtration, cleaning, precipitation and packaging, to produce a >99.5% lithium carbonate final battery grade product. The integrated plant has been designed to initially process 1.1 Mt of ore per year, during Stage 1 of the Project, subsequently increasing to some 2.2 Mt per year at Stage 2, producing 17,500 tpa and 35,000 tpa of lithium carbonate, respectively.

The plant design also includes a circuit to produce up to 30,000 tpa of potassium sulphate product through a series of evaporation and precipitation stages.

Feasibility study capital costs

The initial mining fleet, comprising a continuous miner to excavate the ore zones and a front-end loader and a 90-tonne haul truck fleet to remove the non-mineralised waste material. In addition, there is an ancillary mobile fleet including dozers, graders and front-end loaders, which will also be purchased. The initial capital cost for the mining operation is estimated to be US\$17.6 million.

The metallurgical processing facility capital cost estimate is based on an on-site processing plant comprising all new equipment, to produce battery-grade lithium carbonate.

The capital cost estimates for process plant, infrastructure, TMF construction, Engineering, Procurement, and Construction Management (“EPCM”) fees, and general administration costs were compiled by Ausenco.

Construction Capital Costs

Category	Estimate Stage 1 (US\$000)	Estimate Stage 2 (US\$000)
Mining	17,611	17,614
Beneficiation plant	18,483	18,483
Lithium processing plant	158,288	158,285
Plant Services	55,334	55,334
Infrastructure	58,841	23,581
EPCM/Owner cost/Indirect	72,912	72,393
Contingency	38,147	34,572
Total	419,616	380,262

The sustaining mining and processing capital requirement is approximately US\$140.6 million for the life of mine.

c Continued operation of the Sonora Lithium Project, pilot plant.

Throughout the financial year, the large-scale lithium carbonate pilot plant in Sonora Mexico was continuously operated. The pilot plant produced battery grade lithium carbonate samples which was distributed to potential customers in Asia. It enabled us to optimise the metallurgical flow sheet and facilitate test work. The pilot plant enables the Company to train operators in preparation for commissioning of the large-scale plant in H2 2020. Significant effort is being placed on training local personnel in all operational aspects of lithium process plant operations.

d Sonora Project Development

On 1 November 2017, the Company announced that access and surface rights had been secured for its flagship Sonora Project in Mexico. The access and surface rights mainly relate to the land area covering mineral resources contained within the La Ventana, Fleur and El Sauz areas. It provides the Company with unrestricted access to develop the Sonora Project and operate it for the initial life of mine. This followed signing of binding agreements to acquire the freehold to two parcels of land La Ventana and La Joya. This purchase has been completed with the final payment made in August 2018.

On 20 October 2017, the Company announced that the Environmental Impact Statement, the Manifestacion de Impacto Ambiental (“MIA”), for its flagship Sonora project has been approved by SEMARNAT, the Environment Ministry of Mexico. The approval represents a major milestone for Bacanora as it grants the Company government approval to construct an open-pit mine and large-scale processing plant at Sonora. A modification to the MIA environmental site permits were granted in May 2018 allowing the location for the lithium carbonate plant to be optimised for future production. Furthermore, in the year, water licence permits covering the Sonora Lithium Project have been granted by the Comisión Nacional Del Agua (“CONAGUA”).

The Front End Engineering Design (“FEED”) for the lithium carbonate processing facility is currently scheduled to be completed in Q4 2018 and the ongoing design scope includes the following critical areas:

- Pre-concentrator,
- Roaster/Kiln,
- Crystallisers/Evaporators,
- IX and packaging,
- Energy supply contracts, and
- Infrastructure and access.

The Company continues to build its Owners Management Team to work with and manage the FEED engineering groups. Once the FEED has been completed and all designs, cost estimates and process guarantee scopes are in place, orders for long lead items can be placed and earthworks can commence, subject to funding being in place. Subject to completion of funding discussions and FEED, the Stage 1 project commissioning target at Sonora is likely to be in H2 2020.

With regards to energy, it is currently envisaged that LNG gas supplies will be initially utilised at Sonora during the early stages of commissioning whilst gas consumption is low. Once energy consumption reaches steady state, pipeline supply to the Project will be initiated. The Company is in detailed discussions with a number of potential Build, Own and Operate (BOO) energy partners for the gas pipeline development to the Project along with the finalisation of the proposed natural gas pipeline routes. Detailed quotes for the supply of LNG are also currently being evaluated.

e Zinnwald Lithium Project, Germany ('Zinnwald')

During the year, Deutsche Lithium GmbH (“Deutsche Lithium”), the 50% owned, jointly controlled entity, was granted 30-year mining licence covering 256.5 hectares of the Zinnwald project by the Saxony State Mining Authority. In December 2017, Deutsche Lithium has been granted an exploration licence covering 295 hectares of the previously mined Falkenhain Lithium deposit (“Falkenhain”) in southern Saxony, Germany. Falkenhain, which is located within 5 km of Zinnwald, has the potential to increase the life of mine at Zinnwald. Deutsche Lithium plans to explore the deposit over the next five years and to combine its exploration and development with Zinnwald.

The table below provides a breakdown of the upgraded mineral resource estimate for the Zinnwald Project as at 30 September 2018, published on 9 October 2018:

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

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

An initial resource was published in 2014, it was based on the Pan-European Reserves and Resources Reporting Committee (PERC) standards. It had measured and indicated resources of 26.6 Mt ore at a grade of 3,620 ppm Li containing 96,200t of Li. This was updated in September 2018 in a competent person’s report carried out by G.E.O.S. Ingenieurgesellschaft mbH (G.E.O.S.). The new measured and indicated resource (at a minimum width of 2 m and 2,500 ppm Li cut-off) has increased significantly to 35.5 Mt at a grade of 3,519 ppm Li containing 124,974t of Li, an increase of 30%. The new resource figures were confirmed as compliant to the national instrument 43-101 *Standards of Disclosure for Mineral Projects* within Canada.

The NI 43-101 resource is based on a total of 76 surface holes plus 12 underground holes comprising 6,465 m of core. With recent exploration consisting of 10 surface drill holes (9 DDH and 1 RC DH) completed during the years

2012 to 2014 with a total length of 2,484 m. Infill and verification drilling was resumed and completed in 2017, consisting of 15 surface diamond drill holes with a total length of 4,458.9 m.

Work is underway on a Feasibility Study to demonstrate the economic viability of producing high value downstream lithium products at the Company's 50% owned Zinnwald Project for the European battery and automotive sectors. This work is expected to be completed in Q2 2019. Results of test work on concentrates demonstrate downstream lithium products can be produced from the Zinnwald ores, utilising chemicals and infrastructure available in the Dresden area. Remaining workflows to be completed include finalising the mine design, hydrometallurgical test work and engineering designs.

f Financing

Please refer to the Financial Review section.

g Lithium Market Update

The recent boom in electric vehicles has boosted prices for components of lithium-ion batteries including lithium and cobalt, as consumers such as car companies scramble to secure supplies. In the period from January 2016 to October 2017 CIF Asia battery grade lithium carbonate contract prices increased from US\$8,000 per tonne to circa US\$21,000 per tonne on the back of constrained supply and increasing demand. Since then CIF prices declined steadily to around US\$16,500 per tonne in August 2018. In Q1 2018 the average price of battery grade lithium carbonate on the spot market in China peaked at US\$24,750 per tonne, spot prices have since declined to US\$14,400 per tonne in September.

The fall in both CIF and spot pricing in China has resulted from an oversupply of lithium products caused by a number of reasons:

- Existing lithium producers in South America have ramped up production and a number of new mines have come into production in Australia. Analysts at CRU expect the lithium market to be in surplus by 22,000 tonnes in 2018, with demand expected to reach 277,000 tonnes.
- Tightening in credit in China has forced lithium market players to reduce stock levels to secure cash reducing demand and increasing supply.
- Subsidies in China's New Energy Vehicles (NEV) market have been reduced for vehicles with ranges less than 300km.

These changes caused consumers to hold back on purchases in the first half of 2018 as they adjusted purchasing strategies and waited for prices to fall further, causing a slowdown in activity.

In the first half of 2018, NEV production in China was up 94% and seasonal production patterns alongside the clarification in policy around NEV subsidies means the second half will almost certainly be another record breaking six months for output. In addition, the ongoing ramp up at Tesla's Nevada Gigafactory 1 and the multiple other lithium ion battery mega-factory expansions in the pipeline, mean that the longer-term outlook for lithium demand continues to strengthen. A report published in July 2018 from Goldman Sachs, said that demand for lithium could rise fourfold by 2025 due to rising sales of electric cars. Goldman Sachs indicated that investor concerns about a wave of lithium supply from new mines are unfounded, that it will be harder to develop new lithium mines than most people think. The timing and type of lithium that will be entering the supply chain in the coming years is hard to predict with accuracy. This, despite expansions in South America finally beginning to bear fruit, the incremental new volumes reaching the market are not going to create the huge oversupply problem some institutions, like Morgan Stanley, have warned of.

It is also important to differentiate between the type of material that is entering the supply chain, with only a small proportion yet meeting battery grade specifications. Much of the new lithium supply to enter the market this year has been technical grade lithium carbonate from China. This will require further processing to upgrade to battery grade which will incur additional costs and development time. New Chinese supply from domestic feedstock sources already has a significantly higher cost base than South American producers, which is likely to put a floor on prices. Research published in Roskill's 15th edition market outlook report suggests a floor for lithium carbonate price of US\$11,000 per tonne.

There is a disparity with how the Chinese market operates and the longer term nature of contracts for the majority of the market outside of China. Just as the longer term pricing mechanisms built into contracts prevented prices for the rest of the world peaking to Chinese levels in the first quarter of 2018, so too will they protect them from falling to Chinese spot levels in periods of over supply on that market. This feature of the market tends to insulate price volatility in the short term for those suppliers with long term supply agreements, such as Bacanora Lithium. In addition, with an estimated production cost profile of around US\$4,000/t, the Sonora Lithium Project sits in the lower quartile of lithium production costs, giving it added protection when compared to the higher cost producers such as the new mines being brought on stream in Australia.

Further reading and sources:

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Financial Review

Bacanora Lithium Plc was incorporated on 6 February 2018. On 23 March 2018, a new Canadian company 1976844 Alberta Ltd. issued 197,471,292 share of nominal value CAD\$1 per share to Bacanora Lithium Plc. At the same time 1976844 Alberta Ltd. amalgamated with Bacanora Minerals Ltd. to create a new amalgamated entity in Canada renamed as Bacanora Minerals Ltd. Concurrently, Bacanora Lithium Plc purchased the combined assets of Bacanora Minerals Ltd and 1976844 Alberta Ltd. through the purchase of 100% of the share capital of the new amalgamated company and thus became the new Parent Company of the Group. In return, a 1 for 1 share exchange occurred whereby all shareholders of the original Bacanora Minerals Ltd were issued shares in Plc.

As a result, the Group has introduced a merger reserve to reflect statutory share capital of the new Parent Company. Accordingly, the financial information for the current period and comparatives have been presented as if Bacanora Minerals Ltd had been owned by Bacanora Lithium Plc throughout the current and prior periods.

The Company is a UK Plc, listed on the AIM market. However, the Company presents its accounts in its functional currency of US Dollars, since the majority of its future income and current expenditures are and will continue to be denominated in this currency. The presentational currency changed from Canadian dollars in financial year 2017 to US Dollars in financial year 2018. The foreign exchange translation difference arising from the change in presentational currency is a US\$0.9 million gain recognised in the other comprehensive income.

During the year, the Group made an operating loss of US\$10.7 million compared with a loss of US\$14.2 million for the year ended 30 June 2017. This includes US\$7.4 million general and administrative costs and share based payment compensation of US\$1.9 million. The general and administrative costs increased by US\$3.6 million compared to the prior year cost of US\$3.8 million. The majority of the increase includes legal and accounting fees which related to the corporate re-domicile, debt issuance and equity fund raise. These fees were paid primarily to third party service providers. Furthermore, share based payments decreased by US\$0.6 million from US\$2.5 million in financial year 2017 due to fewer options being granted in the financial year 2018.

The Group has fully impaired capitalised amounts in relation to a lithium hydroxide test work asset due to the decision to not pursue lithium hydroxide processing in favour of lithium carbonate. Furthermore, the Magdalena Borate property has also been fully written down. As such, the Group recognised a total impairment of US\$0.6 million during the year (please see Note 8 to the Consolidated Financial Statements).

In the year, Deutsche Lithium GmbH had a US\$0.3 million loss, of which Bacanora Lithium's 50% share was US\$0.15 million loss. This has been offset by a US\$0.16 million translation gain (please see Note 6 to the Consolidated Financial Statements). The option to purchase the remaining 50% interest has been recognised as a derivative asset in the Consolidated Statement of Financial Position as it represents the option to acquire equity instruments at a future point in time. This derivative asset has been recorded at its fair value of US\$0.6 million at 30 June 2018, down from US\$2.1 million at 30 June 2017. The US\$1.5 million write down on the option is a result of the unwinding of the time value of the option using the Black-Scholes option pricing model. Other than the unwinding of the time value of the option, no new material information was available affecting the value of the option at that date and in no way reflects a decline in asset value of the underlying asset at the end of June 2018. Post year end, an updated NI 43-101 compliant resource statement has been produced on 30 September 2018. Although, it does not impact the value of the derivative, as the economic feasibility of the resource is yet to be proven. Please see the Operational Review section for details on the updated resource estimate.

The total net assets of the Group decreased to US\$42.6 million at 30 June 2018 from US\$51.1 million at 30 June 2017, due primarily to the loss for the year offset by share based payments, exercise of options and warrants. Property, plant and equipment increased to US\$26.4 million from US\$1.7 million due to reclassification of US\$16.0 million exploration and evaluation asset (E&E) to evaluated mineral property following the issuance of the Sonora Lithium Project Feasibility Study and US\$8.9 million additions after this date. The La Joya and La Ventana properties were purchased for US\$2.8 million, with US\$1.5 million paid in the financial year and the remaining US\$1.3 million was paid in August 2018.

The closing cash balance for the Group of US\$13.2 million was a decrease of US\$16.7 million from US\$29.9 million in the prior year. These movements were caused by cash used in the operations of US\$6.8 million, PPE and E&E cash expenditures of US\$7.9 million and funding Deutsche Lithium of US\$4.2 million. The cash spend were partially

offset by funds received from exercise of warrants and share options of US\$1.6 million, US\$0.4 million foreign exchange gain and interest income of US\$0.2 million.

a Financing

In July 2018, US\$150 million senior debt facility was secured with RK Mine Finance and US\$65 million and US\$25 million conditional equity commitments obtained from the SGRF, and Bacanora's off-take partner, Hanwa for project development.

i SGRF strategic investment

SGRF's investment will comprise of a US\$65 million equity investment, conditional on the Company securing the full funding of US\$460 million for the construction of the mine and plant and additional working capital. In addition, Bacanora has entered into a Strategic Investment Agreement and Off-take Agreement with SGRF on 16 July 2018. The key terms of both agreements include:

- An off-take option to purchase up to 10,000 tpa of lithium carbonate produced at Sonora predominantly during Stage 2 for a period of 10 years; and
- SGRF will have the right to appoint a non-executive Director to the Board.

SGRF is the sovereign wealth fund of the Sultanate of Oman. It was established in 1980 by Royal Decree 1/80 with the objective of achieving long term sustainable returns on revenues generated from oil and gas that are surplus to the Sultanate's budgetary requirements. On behalf of the Sultanate of Oman, SGRF manages the reserves placed in its care to achieve the best possible long term returns with acceptable risks, through investing in a diversified portfolio of asset classes in more than 25 countries worldwide.

ii US\$150 million RK Mine Finance facility

The debt facility entered into with RK Mine Finance is structured as two separate Eurobonds to be listed in Jersey:

- Main bond: US\$150 million nominal amount secured notes issued at a purchase price of US\$138 million with a 6-year term and bearing an interest rate of three months LIBOR + 8% per annum based on a nominal amount of US\$150 million but payable only on drawn down principal. Interest will be capitalised every three months for the first 24 months and thereafter interest will be paid every three months in cash. The main bond is repaid with 12 quarterly payments payable 39 months after the last day of the month of first issuance date (3 July 2018). The quarterly payments comprise 11 payments of 3% of the principal amount followed by a last payment for the remaining balance. However, the loan can be voluntarily redeemed at any stage; and
- Second bond: US\$56 million nominal amount zero interest-bearing secured notes issued at a purchase price of US\$12 million with a 20-year term. The nominal amount is repayable by reference to monthly production of lithium at a rate of US\$160 per tonne of lithium produced, with any remaining amount repayable at the end of the 20-year term.

The facility may be drawn in three tranches of US\$25 million, US\$50 million and US\$75 million, subject to certain Conditions Precedents, including, but not limited to: various matters in respect of the execution, registration and perfection of certain security and the granting of listing consent by The International Stock Exchange; a minimum equity raise of US\$200 million, energy and engineering contracts executed. All drawdowns under the RK Mine Finance debt facility will be pro-rata across the two Eurobond instruments. In July 2018, the Company drew down the first US\$25 million of the RK debt facility.

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

The debt facility as well as equity commitments from SGRF and Hanwa provide independent endorsements of Sonora's strategic importance. To date US\$240 million or 52% of the US\$460 million funding required for Stage 1 production of 17,500 tpa of lithium carbonate at Sonora has been conditionally committed to the project development in the form of the above debt and equity funding. However, in mid-July the Company elected not to proceed with its proposed new equity placing due to current volatility in global commodities markets. The Company

continues to work closely with existing shareholders and potential new investors to secure the remaining equity funds required to construct the Stage 1 operation at Sonora.

On behalf of the Board of Directors

A handwritten signature in black ink, appearing to read "Janet Boyce".

Janet Boyce, CFO

12 October 2018

Governance

Directors and Senior Management

a Board Composition

As at 30 June 2018, the Board comprised one Executive Director, an Executive Chairman and six other Non-executive Directors. Details of the current Directors are set out within the List of Directors below. The Board will continue to review its structure in order to provide what it considers to be an appropriate balance of executive and non-executive experience and skills.

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

In reviewing the independence criteria for non-executive directors, the Board believes it important to note that prior to the re-domicile in March of this year, Bacanora was a Canadian registered company listed on the TSX Exchange under whose rules options granted to nonexecutive directors are not considered to impinge on their independence. Under the QCA Code, non-executive directors should not have a significant interest in a company share option scheme as it is considered that this may compromise their independence. The Board is aware that this issue should be resolved according to UK best practice. Consequently, it has been agreed that over the next twelve months the Board will work with its advisers to review the remuneration schemes for non-executive directors in order to adopt a revised structure which is both fair and equitable for the non-executive directors and which complies with the QCA Code.

b Board Terms of Reference and Powers

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

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

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

c Director Commitments

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

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

d Board Meetings

The Board look to meet in a formal manner on a bi-monthly basis, with additional meetings held as required to review the corporate and operational performance of the Group. Each Board Committee has compiled a schedule of

work, to ensure that all areas for which the Board has responsibility are addressed and reviewed during the course of the year.

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

A summary of Board meetings attended in the 12 months to 30 June 2018 is set out below:

Director	Bacanora Minerals Ltd						Bacanora Lithium plc		
	31 Aug'17	18 Oct'17	13 Dec'17	31 Jan'18	16 Feb'18	21 Mar'18	16 Feb'18	18 Apr'18	14 Jun'18
Mark Hohnen	✓	✓	✓	✓	✓	✓	✓	✓	✓
Jamie Strauss	✓	✓	✓	✓	✓	✓	✓	✓	✓
Derek Batorowski	✓	✓	✓	✓	✓	✓	✓	✓	✓
Andres Antonius	✓	✓	✓	✓	✓	✓	✓	✓	✓
Junichi Tomono	✓	X	✓	✓	✓	X	✓	✓	✓
Ray Hodgkinson	✓	✓	✓	✓	✓	✓	✓	✓	✓
Eileen Carr	n/a	n/a	n/a	n/a	✓	✓	✓	✓	X
Peter Secker	✓*	✓*	✓*	✓*	✓*	✓*	✓*	✓	✓
Martin Vidal	✓	✓	n/a	n/a	n/a	n/a	n/a	n/a	n/a

*Attended by invitation as CEO

e Board Committees

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

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

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

i Audit Committee

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

The Audit Committee is chaired by Eileen Carr and its other members during the year were Jamie Strauss and Ray Hodgkinson, who are considered independent. The Audit Committee met 6 times since 30 June 2017 and all members, who were employed at the time of the meetings, attended all meetings. The Committee has unrestricted access to the Group's Auditor. The CFO attends the Committee meeting by invitation.

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

ii Remuneration Committee

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

The Remuneration Committee is chaired by Jamie Strauss and its other members during the year were Andres Antonius and Ray Hodgkinson who are considered independent. The committee met twice since 30 June 2017 and all members were in attendance.

The Remuneration Report contains more detailed information on the Committee's role and the Directors' remuneration and fees.

iii Corporate Governance Committee

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

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

The Corporate Governance Committee is comprised of three members of whom, one is an executive Director, Mark Hohnen, and two are Non-Executive Directors, Eileen Carr and Jamie Strauss, the latter being Committee Chairman. The Committee has met twice since 30 June 2017 and all members attended each meeting.

iv Disclosure Committee

The Disclosure Committee was originally constituted for the purpose of balancing the Company's TSX requirements whilst it was listed in Canada, with its MAR and AIM requirements in the UK. It has the purpose of overseeing the implementation of the governance and procedures associated with the assessment, control and disclosure of inside information in relation to the Company. The Disclosure Committee has not been required to meet since 30 June 2017, as the Board has met in full to review any potentially relevant information. Now that the Company is solely listed on AIM, the Board has decided to disband this committee and continue to meet as a whole Board to review any relevant matters.

f Board as a whole

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

The Board do not believe that any of the Directors have too many Directorship roles at other listed companies and hence at risk of "over-boarding" as defined by ISS voting guidelines but will continue to monitor this on an ongoing

basis. The Board is satisfied that the Chairman and each of the Non-Executive Directors are able to devote sufficient time to the Group's business.

Two new Directors joined the Board during the year to 30 June 2018. Peter Secker has been the CEO of the Company since May 2015 and joined the Board in April 2018. Eileen Carr joined in February 2018 and has joined the Audit Committee as chair and a member of the Corporate Governance committee. All new Directors receive a formal induction to the Company including a briefing memo on the Company from the Company Secretary.

g List of Directors

Mark Hohnen, Executive Chairman and Director

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

Peter Secker, Chief Executive Officer and Director

Mr. Secker is a mining engineer with over 30 years' 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 ten years Peter has been Chief Executive of a number of publicly listed companies, most recently as CEO of Canada Lithium Corporation whilst successfully developing the Quebec lithium project.

Jamie Strauss, Non-Executive Director

Mr. Strauss has 30 years' experience within the stockbroking and mining finance sector. Currently he is founder and director of Digbee Ltd, an Expert Network and Alternative Research Platform for 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. He is particularly well known for his long-term specialisation of the diamond mining sector as well as supporting development assets through to production. Mr. Strauss is an independent director of Altius Minerals and Gold Standard Ventures.

Eileen Carr, Non-Executive Director

Ms Carr has been a key member of teams behind the development of a number of successful mining operations across the world, including the Freda Rebecca gold mine in Zimbabwe, the Ayanfuri gold mine in Ghana, the Kalsaka gold mine in Burkina Faso and the Angovia gold mine in Ivory Coast. She has served as Finance Director/ CFO for both private and public companies starting with Cluff Resources in 1993. She has since gone on to hold several executive directorships in the resource sector, including CFO at both AIM traded Monterrico Metals plc and Alexander Mining plc, and director at European Goldfields Inc. Ms Carr has also held a number of non-executive directorships and currently sits on the board and the audit committee of Sylvania Platinum Limited. 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 Chartered Association of Certified Accountants, holds an MSc in Management from London University and is a SLOAN fellow of London Business School.

Dr Andres Antonius, Non-Executive Director

Dr. Antonius is a Mexican national who has held positions in the Government of Mexico as well as in the private sector and academia. Dr. Antonius previously served as undersecretary for Energy Policy and prior to that was a staff member at the Agriculture Secretariat. Dr. Antonius also held the role of coordinator for strategy of then President Elect Peña Nieto's transition team in 2012. Dr. Antonius is currently CEO of Plan B, a provider of strategic

advice to a range of clients. Prior to founding Plan B, he was the president of the Consulting Services Group at Kroll, a world leader in risk management, business intelligence, and investigations. Dr. Antonius has also held the position of director of strategic planning at the Instituto Tecnológico Autónomo de México ('ITAM') and has taught economic theory, game theory, and crisis management at both the ITAM and the Universidad Iberoamericana. He received a B.A., Masters and PhD degree in Economics from Harvard University.

Mr. Junichi Tomono, Non-Executive Director

Mr Tomono has over 22 years' 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 Speciality Metals and Alloys department and as a director of three of Hanwa's subsidiaries, 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.

Derek Batorowski, Non-Executive Director

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

Raymond Hodgkinson, Non-Executive Director

Mr. Hodgkinson was appointed as one of the original directors of Bacanora Minerals Ltd on its incorporation in 2008 and remained so until 2013. On 24 November 2016 he was re-appointed. He has previously worked as an engineering consultant to Striker Exploration Corp. and Exoro Energy Inc. He has been an independent director of Westcore Energy Ltd. since March 2007 and a director of Troy Energy Corp. since September 2009. He served as Chief Operating Officer of Aztek Energy Ltd. from June 1, 2006 to January 2010. He served as a director of Tembo Gold Corp (formerly Lakota Resources Inc.) from October 2009 to July 15, 2011. He has 30 years of experience in the natural resources sector and is a member of the Association of Professional Engineers and Geoscientists of Alberta. Mr. Hodgkinson received a Bachelor of Science Degree in Engineering from University of Calgary in June 1977.

Martin Vidal, President and Executive Director

Resigned, effective November 2017.

h Board Advice during the year

During the year, the Board commissioned two external advisers to provide assistance on the development of the Company's CSR policies. Shinglespit completed a GAP analysis for the Board on the status of the local relationships in *Bacadéhuachi* in Sonora, Mexico. Momo Global completed some initial work assisting the Company in developing its corporate CSR policies.

i Internal Advisory roles

i Lead Independent Director

Whilst Bacanora currently has an Executive Chairman, the Company has decided to have a Lead Independent Director (Jamie Strauss). His primary role is to chair the (usually annual) meeting of the NEDs without the Executive Directors being present, as well as act as a sounding board and intermediary for the Chairman or other board members, as necessary. The Lead Independent Director also acts as an alternative route of access for shareholders and other Directors who have a concern that cannot be raised through the normal channels of the Chair or the Executive Directors. The Lead Independent Director attends sufficient meetings with major shareholders and analysts to obtain a balanced understanding of the issues and concerns of shareholders.

ii Company Secretary

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

iii Annual Board appraisal

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

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

j Ongoing Board Development

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

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

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

i Succession Planning

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

Audit Committee Report

As Chairman of the Audit Committee since February of this year, I am pleased to have this opportunity to summarise some of the key developments during the year, as well detailing our ongoing responsibilities and objectives.

During 2018, the Committee's agenda has continued to be built around the usual review of our quarterly, half year and full year financial results. In addition to this, we have had to consider the implication of the re-domicile of the Group to the UK; the change in reporting currency; the move of the Group accounting function to London; the implementation of a reporting system in Mexico and the appointment of BDO London as the Group's auditor. As well as the reporting requirements, the Committee has also paid close attention to the cash flow requirements of the Group during this pre-financing stage of development.

The Audit Committee met six times during the year to consider the following agenda items:

Meeting date:	Items Covered:
17 October 2017	<ul style="list-style-type: none"> • Canadian reporting requirement - Management Discussion and Analysis (MD&A) and Financial Statements for the year ending 30 June 2017 • Impairment • Expenditure, cash flow and going concern • Investment in joint venture (note 6) • Internal controls • Related party transactions (note 16) • Presentational currency • Foreign exchange reporting
23 October 2017	<ul style="list-style-type: none"> • Foreign currency exchange reporting adjustment • Audit fees
21 November 2017	<ul style="list-style-type: none"> • Canadian reporting requirement - MD&A and Financial Statements for period ending 30 September 2017 • Impairment • Cash flow and going concern • Foreign currency adjustment • Restricted Share Unit ("RSU") equity method of accounting (note 12) • Auditor fees
4 January 2018	<ul style="list-style-type: none"> • Review of option pricing
20 February 2018	<ul style="list-style-type: none"> • Canadian reporting requirement - MD&A and Financial Statements for period ending 31 Dec 2017 • Impairment • Cash flow and going concern • Change to reporting currency (note 2) • Valuation of RSU's and option charge and pricing (note 12) • Auditor transition and audit timetable

10 May 2018

- Canadian reporting requirement - MD&A and Financial Statements for period ending 31 March 2018
- Continuing obligation to report in Canada
- Merger accounting on re-domicile (note 12)
- Impairment (note 8)
- Cash flow and going concern (note 2)
- Update on change in reporting currency (note 2)
- Transfer of accounting function to the UK from Canada, staffing and timetable
- Implementation of reporting system in Mexico
- Timetable for year-end audit

A further meeting was held on 19 July 2018 to consider the year end audit strategy in detail and to discuss the planned timetable with the newly appointed UK auditors.

Role of the committee

The Audit Committee is responsible for assuring accountability and effective corporate governance over the Company's financial reporting, including the adequacy of related disclosures, the internal financial control environment and the processes in place to monitor this.

In respect of financial reporting activities, the Committee reviews and recommends to the Board for its approval all quarterly, half-year and full-year financial results announcements. In considering the financial results contained in the 2018 Annual Report and Financial Statements, the Committee reviewed the significant issues and judgements made by management in determining those results. A key element of the work going forward will be the continued development of the control of risk within the business.

Interaction with the external auditors, both within Committee meetings and otherwise, ensures that the highest levels of audit quality are maintained. The Committee will continue its work to encourage and support further enhancements to the Group's internal controls and risk management arrangements. I look forward to monitoring the ongoing financial growth of the Group as we enter this exciting phase of development.



Eileen Carr

Audit Committee Chairman

12 October 2018

Remuneration Committee report

On behalf of the Board, I am pleased to present the annual Directors' Remuneration Report summarising the Company's remuneration policy and providing information on the Company's remuneration approach and arrangements for Executive Directors, Non-Executive Directors and senior executive management for the year ended 30 June 2018.

a Overall remuneration policy

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

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

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

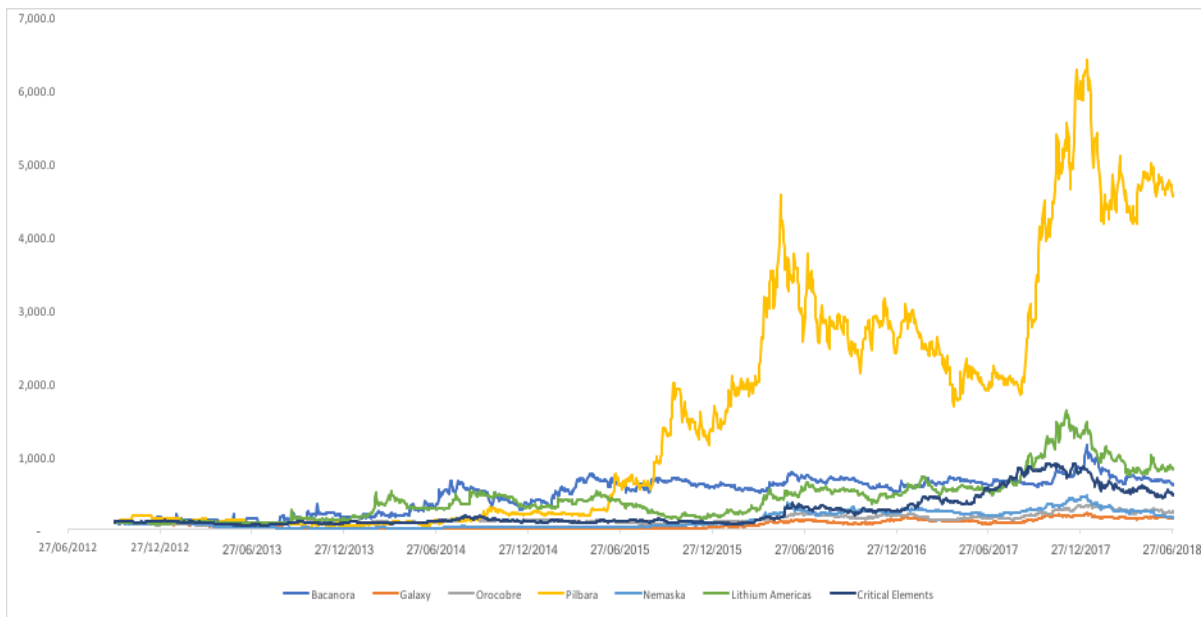
- To provide a competitive remuneration package to attract and retain quality individuals;
- To align remuneration to the overall objectives of the business;
- To act in the interest of the Company by being financially responsible;
- To align the interests of management with the interests of shareholders; and
- To set the pay of the Executive Directors and senior management with due account of Health, Safety, Environment and Sustainability including alignment with its Corporate Social Responsibility Policy.

The Committee undertook a review, subsequently approved by the Board, of its remuneration structure in 2017. Scorecards were introduced to align management with key Corporate goals. These strategic goals are established with the intention of generating outstanding returns for shareholders while also prioritising key responsibilities for its multiple stakeholders. With the exception of Health, Safety, Environmental and Sustainability (HSES) which are scored as a pass or fail, each target is scored on a 1 - 120 basis with 100 being target. The Committee continues to review its key remuneration policies against QCA guidelines, market best practice and a review of the risk environment surrounding the Group's remuneration arrangements.

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

The selected Peer group, approved by the Board of Directors, comprises Pilbara Minerals, Galaxy Resources, Orocobre, Nemaska Lithium, Lithium Americas and Critical Elements. As per QCA Guidelines, the following tables show relative share price performance for the six years to the end of the period in question. The share price performance of Pilbara Minerals is sufficiently distortive, that the company is removed in the second table.

Indexed Peer group share price for the past 6 Year period.



Indexed Peer group, excluding Pilbara, share price for the past 6 Year period.



b Remuneration policy for Executive Directors and Senior management

For details of Directors’ emoluments, please refer to note 16 of the Consolidated Financial Statements.

All Executive Directors and Senior Management are paid a fixed annual salary and, subject to meeting appropriate targets within their scorecard, are included in equity incentive plan that may result in the award of Option and or RSUs. These contracts do not include any variable elements in the form of cash bonuses. Through to the end of FY 2019, this incentive plan relates to a maximum number of Options/RSUs for both the Executive Chairman and CEO. In the case of all other members it relates to a percentage of salary. Awarded Options and RSUs vest generally at the rate of one-third each year, with the first vesting occurring immediately on grant.

Executive Director Service Contracts and Salaries:

Name	Mark Hohnen	Peter Secker
Role	Executive Chairman	CEO
Annual Salary as at 30 June 2018 ⁽¹⁾	£240,000	£300,000
Annual Salary as at 30 June 2017 ⁽¹⁾	£240,000	£250,000
Options and RSUs - Related to FY 2018 ⁽²⁾	Nil	Nil
Options and RSUs - Related to FY 2017 ⁽³⁾	782,753	874,434
Notice period ⁽⁴⁾	12 months	12 months
Bonus on sale of the company	Relative to any sale price above £1.30 per share	Relative to any sale price above £1.30 per share

⁽¹⁾Please refer to note 16 for the dollarised total remuneration for the Directors in the financial year 2018 with comparative figures for 2017. The salaries above represent the contractual base salaries.

⁽²⁾Due to the challenging financial circumstances at the end of the financial year 2018 the Committee reviewed the proposed awards and concluded that the Executive Chairman and CEO would have their LTIP payments suspended until end of calendar 2018. Consequently, the Options and RSUs awarded for the financial year are currently nil. Please see review below for further details.

⁽³⁾Share options and RSUs were awarded for the financial year 2017 but were granted on 20 September 2017 (Financial year 2018).

⁽⁴⁾ Mr. Hohnen has extended his consulting services agreement for an additional 2 years to December 2020 to be further reviewed by the Board in December 2019. The contract has a 12 month notice period in the sole event of termination due to a change in control

c FY 2018 Review of Executive Directors and Senior Management

During the year the Committee met twice:

- It reviewed and set salary levels of Executive Directors,
- Reviewed the outcome of Independent Remuneration review carried out in Q1 2018 and considered any points raised,
- Reviewed, monitored and scored targets for FY 2018 period, and
- Determined new targets for FY 2019.

The Committee acknowledged many significant corporate targets were achieved during the year, such as the delivery of the Feasibility Study, the extension and addition of new offtake partners and the securing of US\$150 million in debt funding. For the year to June 2018, all members of the scheme had their scorecards evaluated. Awards were recommended and agreed on by the Board to senior management, these averaged 86.5% of target. However, the challenging financial circumstances at the end of the period required significant debate as to how best to balance the interests of the Company with its remuneration policy.

The Committee therefore concluded that the Executive Chairman and CEO would have their LTIP payments suspended until end of calendar 2018. These payments, if approved by the Board, would also be linked to successful completion of new 6-month targets (as part of FY 2019 overall scorecard). The Committee will reconvene in early 2019 to review the performance of these targets and consider the appropriateness of paying the FY 2018 LTIP awards. Any approved payments relating to financial year 2018 subsequently paid, would be reported in the financial year 2019.

Senior management within the scheme had their reviews completed normally and LTIP bonuses were awarded accordingly and announced by RNS in September 2018.

d Remuneration of Non-Executive Directors


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

Director	Annual Fees	Initial Term	Notice
Jamie Strauss	Basic Fee of £35,000, £7,000 as Chair of Remuneration Committee, £7,000 as Chair of Corporate Governance Committee, £6,000 for Lead Independent Director	3 Years	1 Month
Eileen Carr	Basic Fee of £33,000, £7,000 as Chair of Audit Committee	3 Years	1 Month
Andres Antonius	Basic Fee of US\$50,000	3 Years	1 Month
Derek Batorowski	Basic Fee of US\$96,000. Additional day rate consultancy fees for accountancy services.	3 Years	1 Month
Ray Hodgkinson	Basic Fee of £33,000	3 Years	1 Month
Junichi Tomono	Nil Fees	3 Years	1 Month

For details of Non-Executive Directors emoluments, please refer to note 16 for the dollarised total remuneration for the Directors in the financial year 2018 with comparative figures for 2017. The salaries above represent the contractual base salaries.

Independent Non-Executive Directors also receive an annual option award proposed by the Executive Chairman and approved by the Board (excluding the Independent Non-Executive Directors). For 2018, any award of options has been suspended in-line with the strategy adopted for the Executive Chairman and CEO, described above.

The Board and the Committee recognise that the provision of options to Non-Executive Directors may affect the independence criteria for Non-Executive Directors, the Board believes it important to note that prior to the re-domicile in March of this year, Bacanora was a Canadian registered company listed on the TSX Exchange under whose rules, options granted to Non-Executive Directors are not considered to impinge on their independence. Under the QCA Code, Non-Executive Directors should not have a significant interest in a company share option scheme as it is considered that this may compromise their independence. The Board is aware that this issue should be resolved according to UK best practice. Consequently, it has been agreed that over the next twelve months the Board will work with its advisers to review the remuneration schemes for Non-Executive Directors in order to adopt a revised structure which is both fair and equitable for the Non-Executive Directors and which complies with the QCA Code.



Jamie Strauss

Remuneration Committee Chairman

12 October 2018

Dialogue with Shareholders

a All Investors

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

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

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

One of the reasons for the Company's re-domicile to the UK in 2018 was to reflect the fact that the majority of its shareholders, especially private ones, are UK based. As a consequence, the Company's Annual General Meeting (AGM) will now be held in London towards the end of 2018 following the publication of its first annual results as a UK public limited company and all shareholders are invited to attend.

b Institutional Investors

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

In 2018, the Company has had increased contact with both current and prospective institutional shareholders as part of the fund-raise process for the Sonora Project.

c Private Investors

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

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

Following its move to the UK, the Company has now instituted a quarterly shareholder conference call by the CEO, whereby shareholders are encouraged to submit questions in advance to the Company's PR Advisers, St Brides Partners. The Company also regularly participates at investor shows offering smaller and private investors similar insight into the Company and access to management.

d Board review

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

Directors Report

The Directors present their Annual Report and Financial Statements of the Company and Group for the year ended 30 June 2018.

a Results and dividends

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

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

b Directors

The Directors who served during the year were:

- Mark Hohnen
- Peter Secker (appointed on 20 April 2018)
- Jamie Strauss
- Derek Batorowski
- Ray Hodgkinson
- Andres Antonius
- Junichi Tomono
- Eileen Carr (appointed on 5 February 2018)
- Martin Vidal (resigned on 30 November 2017)

c Directors' interests

The Directors' interests in the share capital of the Company as at 30 June 2018 are as follows:

Director	No of Shares	% of Issued Share Capital
Mark Hohnen	2,514,951	1.9%
Peter Secker	-	0.0%
Jamie Strauss	102,857	0.1%
Derek Batorowski	573,400	0.4%
Ray Hodgkinson	766,300	0.6%
Andres Antonius	-	0.0%
Junichi Tomono	-	0.0%
Eileen Carr	-	0.0%
Total	3,957,508	2.9%

d Substantial shareholdings

Following the receipt of an external report into the beneficial holders of its Ordinary Shares pursuant to S116 of the UK Companies Act 2006, 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 11 September 2018.

Major Shareholder	No of Shares	% of Issued Share Capital
M&G Investments Funds	13,456,784	10.0%
Blackrock ⁽¹⁾	13,138,292	9.8%
Hanwa Co Ltd	12,333,261	9.2%
Cadence Minerals Plc	9,960,000	7.4%
Igneous Capital Limited ⁽²⁾	9,883,774	7.4%

The Capital Group	8,573,925	6.4%
D&A Income Limited ⁽²⁾	4,738,030	3.5%

⁽¹⁾Blackrock holds 11,731,380 Ordinary Shares via directly owned funds with the balance in open-ended or third-party managed funds. The total balance has been confirmed as per their last TR-1 filing.

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

e Directors' and Officers' insurance

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

f Supplier payment policy

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

g Branches

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

i Financial risks

Please refer to note 11 in the Consolidated Financial Statements for a detailed discussion on financial risk.

j Post balance sheet events

Please refer to note 19 in the Consolidated Financial Statements for a detailed discussion on events that occurred subsequent to 30 June 2018.

k Future developments

The Company will continue to focus on progressing with the process plant design and preparatory work at the Sonora Project. The Front End Engineering Design is expected to complete in Q4 2018. In addition to the US\$150 million of debt funding from RK Mine Finance and commitments for an additional US\$90 million of equity finance from Hanwa and SGRF, the Company is currently in discussion with several parties and intends to re-engage with the equity markets to finance the remaining balance of the funding requirements.

Following the updated NI 43-101 compliant resource statement, work is underway on a Feasibility Study to demonstrate the economic viability of producing high value downstream lithium products at the Company's 50% owned Zinnwald Project, which is expected to be completed in Q2 2019.

l Auditor

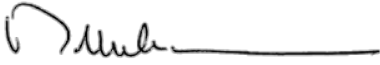
BDO LLP were appointed as auditor to the Company and in accordance with section 485 of the Companies Act 2006, a resolution proposing that they be re-appointed will be put at a General Meeting.

m Statement of disclosure to auditor

So far, as each person who was a Director at the date of approving this report is aware, there is no relevant audit information of which the Company's auditor is unaware. Additionally, the Directors individually have taken all the

necessary steps that they ought to have taken as Directors in order to make themselves aware of all relevant audit information and to establish that the Company's auditor is aware of that information.

On behalf of the Board of Directors

A handwritten signature in black ink, appearing to read "Mark Hohnen", followed by a horizontal line extending to the right.

Mark Hohnen

12 October 2018

Directors Statement of Responsibilities

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

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

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

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

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

Website publication

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

Corporate Governance Report

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

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

The QCA Code is constructed around ten broad principles and a set of disclosures. The QCA has stated what it considers to be appropriate arrangements for growing companies and asks companies to provide an explanation about how they are meeting the principles through the prescribed disclosures. We have considered how we apply each principle to the extent that the Board judges these to be appropriate in the circumstances, and in our QCA statement on our website we provide an explanation of the approach taken in relation to each.

Like all aspects of the QCA Code, addressing the disclosure requirements should not be approached as a compliance exercise; rather it should be approached with the mindset of explaining and demonstrating the Company's good governance to external stakeholders.

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

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

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

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

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

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

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

Opinion

We have audited the financial statements of Bacanora Lithium Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 June 2018 which comprise the consolidated statements of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows, the parent statement of financial position, the parent statement of changes in equity, the parent statement of changes in cash flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group and of the parent company's affairs as at 30 June 2018 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union ;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

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

Key audit matters

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

Key Audit Matter	<p>As at 30 June 2018 the Group's evaluated mineral property totalled \$22.0m and details of these assets are disclosed in notes 7 and 8. This amount includes \$16.8m transferred from exploration and evaluation assets following determination of the technical feasibility and commercial viability of the Sonora lithium project. With the transfer of the mineral property from exploration and evaluation assets to property, plant and equipment management are required to carry out an impairment assessment in accordance with the provisions of IAS 36, <i>Impairment of Assets</i>. There are a large number of judgements and estimates used by management in assessing these assets for impairment and the subjectivity of the judgements and estimates together with the significant carrying value of the assets make this a key area of focus for our audit.</p>
Audit Response	<p>Our audit work included:</p> <ul style="list-style-type: none"> • We reviewed management's judgements regarding the trigger for transfer to PPE against the requirements of the accounting standards. • We have assessed management's impairment review and our procedures included the following : <ul style="list-style-type: none"> ○ We have reviewed the feasibility study prepared by independent consultants report for consistency with management's representations and assessed the competence and independence of the experts used by management. ○ We have reviewed the projected cash flows prepared by management which assume a 20 year life of mine. In our review of the forecasts we checked for consistency against the feasibility study report. ○ We have assessed the key inputs for reasonableness, namely lithium prices, costs and overheads and production output. • We evaluated the adequacy of the disclosures provided within the financial statements in relation to impairment assessment against the requirements of the accounting standards.

Our application of materiality

Group materiality was \$760,000 based on 1.5% of total assets.

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

Because the Group is developing its main project and has no revenue, we consider assets to be one of the principal considerations for the users of the financial statements. Each significant component of the group has had an individual component materiality threshold set at 80% of group materiality (\$610,000). Parent company materiality was set at \$610,000.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at \$570,000 at a group level, and \$460,000 at a component level, which represents 75% of the above materiality level. The level of performance materiality was set after considering a number of factors including the expected value of known and likely misstatements and management's attitude towards proposed adjustments.

We agreed with the audit committee that differences above \$38,000 will be reported to those charged with governance. We also agreed to report differences below the above threshold which warranted reporting on qualitative grounds.

An overview of the scope of our audit

The group comprises of the UK parent company and a number of subsidiaries which are incorporated in Mexico and Canada. We have performed a full scope audit over the Group's significant components comprising Bacanora Lithium Plc, Bacanora Minerals Limited and Minera Sonora Borax, S.A de CV. Each of the audits were conducted by BDO LLP. In respect of the 5 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.

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

Other information

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

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

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Use of our report

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

BDO LLP

Stuart Barnsdall (Senior Statutory Auditor)

For and on behalf of BDO LLP Statutory Auditor

London

12 October 2018

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

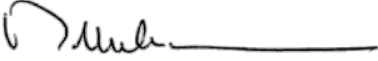
Consolidated Statement of Financial Position

As at 30 June 2018

In US dollars	Note	30 June 2018	30 June 2017 (Restated)	30 June 2016 (Restated)
Assets				
Current assets				
Cash and cash equivalents		13,203,052	29,889,853	22,088,040
Other receivables	5	1,472,120	539,739	282,882
Total current assets		14,675,172	30,429,592	22,370,922
Non-current assets				
Investment in joint venture	6.a	8,426,134	8,418,518	-
Derivative asset	6.c	615,011	2,068,500	-
Property, plant and equipment	7	26,391,422	1,701,862	1,387,809
Exploration and evaluation assets	8	502,947	14,317,876	13,894,004
Total non-current assets		35,935,514	26,506,756	15,281,813
Total assets		50,610,686	56,936,348	37,652,735
Liabilities and shareholders' equity				
Current liabilities				
Accounts payable and accrued liabilities	9	6,383,830	842,823	800,421
Warrant liability	12.d	-	-	689,871
Joint venture obligation	6.b	1,591,652	3,451,205	-
Total current liabilities		7,975,482	4,294,028	1,490,292
Non-current liabilities				
Joint venture obligation	6.b	-	1,486,677	-
Deferred tax liability	13.b	-	104,118	103,789
Total non-current liabilities		-	1,590,795	103,789
Total liabilities		7,975,482	5,884,823	1,594,081
Shareholders' equity				
Share capital	12.a	18,958,033	70,268,394	44,485,499
Share premium	12.a	140,592	-	-
Merger reserve	12.g	53,557,251	-	-
Share based payment reserve	12.e	6,138,085	5,042,706	2,590,891
Foreign currency translation reserve		3,568,358	2,681,679	1,585,570
Retained earnings deficit		(39,029,014)	(26,297,708)	(11,958,198)
Equity attributable to equity shareholders of Bacanora Lithium Plc.		43,333,305	51,695,071	36,703,762
Non-controlling interest	20	(698,101)	(643,546)	(645,108)
Total shareholders' equity		42,635,204	51,051,525	36,058,654
Total liabilities and shareholders' equity		50,610,686	56,936,348	37,652,735

The accompanying notes on pages 49 - 80 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 12 October 2018 and were signed on its behalf by:



Mark Hohnen

12 October 2018

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2018

In US dollars	Note	30 June 2018	30 June 2017 (Restated)
Expenses			
General and administrative	14	(7,378,770)	(3,812,610)
Warrant liability valuation		-	262,985
Depreciation	7	(149,724)	(138,781)
Share-based payment expense	12.f	(1,877,095)	(2,483,756)
Foreign exchange loss		(763,278)	(1,791,420)
Impairment of exploration and evaluation assets	8	(559,468)	(6,191,375)
Operating loss		(10,728,335)	(14,154,957)
Interest and other income		212,678	83,375
Joint venture investment (loss)/profit	6.a	(147,403)	36,524
Accretion of joint venture obligation	6.b	(662,299)	(302,890)
Loss on derivative asset	6.c	(1,521,046)	-
Loss before tax		(12,846,405)	(14,337,948)
Tax credit	13	60,544	-
Loss after tax		(12,785,861)	(14,337,948)
Other comprehensive income/(expense)			
Foreign currency translation adjustment		886,679	1,096,109
Total comprehensive loss		(11,899,182)	(13,241,839)
Loss attributable to shareholders of Bacanora Lithium Plc		(12,731,306)	(14,339,510)
(Loss)/profit attributable to non-controlling interests	20	(54,555)	1,562
Loss after tax		(12,785,861)	(14,337,948)
Total comprehensive loss attributable to shareholders of Bacanora Lithium Plc		(11,844,627)	(13,243,401)
Total comprehensive (loss)/profit attributable to non-controlling interests		(54,555)	1,562
Total comprehensive loss		(11,899,182)	(13,241,839)
Net loss per share (basic and diluted)	12.h	(0.09)	(0.11)

The accompanying notes on pages 49 - 80 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2018

In US dollars	Share capital		Share premium	Merger reserve	Share based payment reserve	Foreign currency translation reserve	Retained earnings deficit	Total equity attributable to Bacanora Lithium Plc	Non-controlling interest	Total equity
	Number of shares	Value								
30 June 2016 (Restated)	107,874,353	44,485,499	-	-	2,590,891	1,585,570	(11,958,198)	36,703,762	(645,108)	36,058,654
Comprehensive income/(loss) for the year:										
Loss after tax	-	-	-	-	-	-	(14,339,510)	(14,339,510)	1,562	(14,337,948)
Foreign currency translation adjustment	-	-	-	-	-	1,096,109	-	1,096,109	-	1,096,109
Total comprehensive loss	-	-	-	-	-	1,096,109	(14,339,510)	(13,243,401)	1,562	(13,241,839)
Contributions by and distributions to owners:										
Brokered placements	20,907,186	22,883,959	-	-	-	-	-	22,883,959	-	22,883,959
Shares issued on exercise of options	200,000	77,811	-	-	(31,941)	-	-	45,870	-	45,870
Shares issued on exercise of warrants	2,925,000	3,373,476	-	-	-	-	-	3,373,476	-	3,373,476
Share issue costs	-	(552,351)	-	-	-	-	-	(552,351)	-	(552,351)
Share-based payment expense	-	-	-	-	2,483,756	-	-	2,483,756	-	2,483,756
30 June 2017 (Restated)	131,906,539	70,268,394	-	-	5,042,706	2,681,679	(26,297,708)	51,695,071	(643,546)	51,051,525
Comprehensive income/(loss) for the year:										
Loss for the year	-	-	-	-	-	-	(12,731,306)	(12,731,306)	(54,555)	(12,785,861)
Foreign currency translation adjustment	-	-	-	-	-	886,679	-	886,679	-	886,679
Total comprehensive loss	-	-	-	-	-	886,679	(12,731,306)	(11,844,627)	(54,555)	(11,899,182)
Contributions by and distributions to owners:										
Shares issued on exercise of options	1,300,000	1,944,576	140,592	-	(781,716)	-	-	1,303,452	-	1,303,452
Shares issued on exercise of warrants	958,333	302,314	-	-	-	-	-	302,314	-	302,314
Corporate reorganisation	-	(53,557,251)	-	53,557,251	-	-	-	-	-	-
Share-based payment expense	-	-	-	-	1,877,095	-	-	1,877,095	-	1,877,095
30 June 2018	134,164,872	18,958,033	140,592	53,557,251	6,138,085	3,568,358	(39,029,014)	43,333,305	(698,101)	42,635,204

The accompanying notes on pages 49 - 80 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2018

In US dollars	Note	30 June 2018	30 June 2017 (Restated)
Cash flows from operating activities			
Loss for the year before tax		(12,846,405)	(14,337,948)
Adjustments for:			
Warrant liability revaluation		-	(262,985)
Depreciation of PPE	7	149,724	138,781
Share-based payment expense	12.g	1,877,095	2,483,756
Foreign exchange		763,278	-
Impairment of exploration & evaluation assets	8	559,468	6,191,375
Loss on disposal of PPE	7	51,119	-
Interest received		(198,810)	(71,515)
Loss/(gain) on investment in joint venture	6.a	147,403	(36,524)
Accretion of joint venture obligation	6.b	662,299	302,890
Loss on derivative asset	6.c	1,521,046	-
Changes in working capital items:			
Other receivables		(932,379)	(309,854)
Deferred costs		-	59,745
Accounts payable and accrued liabilities		1,758,497	38,954
Income tax paid	13	(42,070)	-
Net cash used in operating activities		(6,529,735)	(5,803,325)
Cash flows from investing activities:			
Interest received		198,810	71,515
Purchase of property, plant and equipment	7	(5,079,681)	(422,034)
Purchase of exploration & evaluation assets	8	(2,774,255)	(6,002,702)
Investment in joint venture	6.a	-	(5,421,861)
Payments of joint venture obligation	6.b	(4,177,381)	-
Net cash used in investing activities		(11,832,507)	(11,775,082)
Cash flows from financing activities			
Issues of share capital	12.b	-	22,268,686
Exercise of options	12.c	1,303,452	45,870
Exercise of warrants	12.e	302,314	3,012,904
Net cash flows from financing activities		1,605,766	25,327,460
Change in cash during the year		(16,756,476)	7,749,053
Exchange rate effects		69,675	52,760
Cash, beginning of year		29,889,853	22,088,040
Cash, end of year		13,203,052	29,889,853

The accompanying notes on pages 49 - 80 are an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1 Corporate information

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

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. Bacanora Minerals Ltd was incorporated under the Business Corporations Act of Alberta on 29 September 2008. Bacanora Minerals Ltd was dually listed on the TSX Venture Exchange as a Tier 2 issuer and on the AIM market of the London Stock Exchange, until the aforementioned corporate reorganisation, after which delisting took place. The registered address of Bacanora Minerals Ltd is 2204 6th Avenue N.W. Calgary, Alberta, T2N 0W9.

The Group is a development stage mining group engaged in the identification, acquisition, exploration and development of mineral properties located in Mexico and Germany. On 12 December 2017 the Group announced the results of the Feasibility Study for the Sonora Lithium Project in Mexico (‘Sonora’ or ‘the Project’). The FS confirmed the positive economics and favourable operating costs of a 35,000 tonnes per annum (‘tpa’) battery grade lithium carbonate operation. The FS estimates a pre-tax project net present value of US\$1.253 billion at an 8% discount rate and an internal rate of return of 26.1%, and life of mine operating costs of US\$3,910/t of lithium carbonate.

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

2 Basis of preparation

a Statement of compliance

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

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

The Annual Consolidated Financial Statements were authorised for issue by the Board of Directors on 12 October 2018. The Board of Directors has the power and authority to amend these Financial Statements after they have been issued.

b Basis of measurement and restatement of presentational currency

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 Consolidated Financial Statements were previously presented in Canadian dollars up until the interim financial statements on 31 March 2018. The change in presentational currency has been performed under the guidance of IAS 21, with all comparatives within the primary statements and accompanying notes having been restated to US\$. The change was made in order to provide the reader with more reliable and relevant information in the currency which is most relevant to the Group’s operating environment. The impact of the change is a US\$0.9 million gain recognised in the other comprehensive income. The impact on the 2017 basic and dilutive earnings per share is US\$Nil. The

functional currency of the Company and its subsidiaries is the United States dollar except of Bacanora Minerals Ltd who's functional currency is the British pound ("£").

c Going Concern

The Directors have, at the time of approving the Financial Statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Group has not entered into commitments to develop the Sonora Lithium Project. Thus, the going concern basis of accounting in preparing the Financial Statements continues to be adopted.

3 Significant accounting policies

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

a Basis of consolidation

The Consolidated Financial Statements comprise the financial statements of:

Name of subsidiary	Country of incorporation	Shareholding on 30 June 2018	Nature of business
Bacanora Minerals Ltd	Canada	100%	Holding company
Bacanora Finco Ltd	UK	100%	Financing company
Bacanora Treasury Ltd	UK	100%	Financing company
Sonora Lithium Ltd	UK	100%	Holding company
Zinnwald Lithium Ltd*	UK	100%	Dormant
Mexilit S.A. de C.V.*	Mexico	70%	Lithium mining/exploration
Minera Megalit S.A de C.V.*	Mexico	70%	Mineral exploration
Mineramex Limited*	BVI	99.9%	Holding company
Minera Sonora Borax, S.A. de C.V.**	Mexico	100%	Lithium mining/exploration
Operador Lithium Bacanora S.A de CV**	Mexico	100%	Mexican service organisation
Minerales Industriales Tubutama, S.A. de C.V.**	Mexico	60%	Mineral exploration

*Held indirectly through Bacanora Minerals Ltd

** Held indirectly though Mineramex Limited and Bacanora Minerals Ltd

Subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intercompany balances and transactions are eliminated in full. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

b Corporate reorganisation

On 23 March 2018, Bacanora Minerals Ltd. completed its re-domicile from Canada to the United Kingdom. The re-domicile was effected by means of a plan of arrangement under the Business Corporations Act (Alberta), whereby all existing common shares in Bacanora Minerals Ltd were exchanged, through a wholly owned subsidiary, 1976844 Alberta Ltd. of Bacanora Lithium Plc, for ordinary shares in Bacanora Lithium Plc, a company that has been established in the UK to become the new holding company for the Group. The share structure of Bacanora Lithium

Plc is substantially identical to the previous share structure of Bacanora Minerals Ltd and the rights attaching to the new ordinary shares are substantially the same.

On 23 March 2018, 1976844 Alberta Ltd. issued 197,471,292 share of nominal value CAD\$1 per share to Bacanora Lithium Plc. At the same time 1976844 Alberta Ltd. amalgamated with Bacanora Minerals Ltd. to create a new amalgamated entity in Canada renamed as Bacanora Minerals Ltd. Concurrently, Bacanora Lithium Plc purchased the combined assets of Bacanora Minerals Ltd and 1976844 Alberta Ltd. through the purchase of 100% of the share capital of the new amalgamated company and thus became the new Parent Company of the Group. In return, a 1 for 1 share exchange occurred whereby all shareholders of the original Bacanora Minerals Ltd were issued shares in Plc.

As a result, the Group has introduced a merger reserve to reflect the statutory share capital of the new Parent Company, Bacanora Lithium Plc. In addition, the Consolidated Financial Statements have been presented in a manner which represents the ongoing nature of the Group before and after the reorganisation.

c New accounting standards adopted

No new accounting standards or interpretations were adopted during the year.

d Standards, amendments and interpretations effective in future periods

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

Standard	Detail	Effective date
IFRS 2	Amendment - classification and measurement of share-based payment transactions	1 January 2018
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 16	Leases	1 January 2019

Management anticipates that all the pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's Financial Statements are provided below.

IFRS 9, Financial instruments

IFRS 9 provides a comprehensive new standard for accounting for all aspects of financial instruments. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value and replaces the multiple category and measurement models in IAS 39. The approach in IFRS 9 focuses on how an entity manages its financial instruments in the context of its business model, as well as the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods currently provided in IAS 39.

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

New hedge accounting requirements were incorporated into IFRS 9 that increase the scope of items that can qualify as a hedged item and change the requirements of hedge effectiveness testing that must be met to use hedge accounting.

Amendments to IFRS 9 introduce a single, forward-looking 'expected loss' impairment model for financial assets which will require more timely recognition of expected credit losses, and a fair value through other comprehensive income category for financial assets that are debt instruments.

The amendments to IFRS 9 are effective for annual periods beginning on or after 1 January 2018 and are available for earlier adoption. The Group's evaluation of the effect of the adoption of IFRS 9 is ongoing but it is not currently expected that it will have a material effect on the Group's financial statements.

IFRS 15, Revenue from contracts with customers

IFRS 15 provides a single model to determine how and when an entity should recognise revenue, as well as requiring entities to provide more informative, relevant disclosures in respect to its revenue recognition criteria. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. The Group is not currently generating revenue therefore an accounting policy under IFRS 15 will be implemented when revenue is generated.

IFRS 16, Leases

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

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

e Foreign currency

i Transactions and balances

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

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

ii Translation to presentation currency

The financial statements of each individual entity whose functional currency is different to the presentational currency are translated to the presentation currency as follows:

Assets and liabilities are translated at the prevailing rate at the date of the consolidated statements of financial position.

Share capital is translated using the exchange rate at the date of the transaction; revenue and expenses for each statement of comprehensive income are translated at average exchange rates; and all resulting exchange differences are recognised in other comprehensive income in the consolidated statement of comprehensive income.

f Cash and cash equivalents

Cash and cash equivalents is comprised of cash held on deposit and other short-term, highly liquid investments with original maturities of three months or less with Canadian, British and Mexican banks. These deposits and

investments are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

g Other receivables

All receivables are held at cost less any provision for impairment. A provision for impairment is made where there is objective evidence that the receivable is irrecoverable.

h Joint Arrangements

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

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

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

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

i Exploration and evaluation assets

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

Exploration and evaluation assets are intangible assets. Exploration and evaluation assets represent the costs incurred on the exploration and evaluation of potential mineral resources, and include costs such as exploratory drilling, sample testing, activities in relation to the evaluation of technical feasibility and commercial viability of extracting a mineral resource, and general & administrative costs directly relating to the support of exploration and evaluation activities.

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

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

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

j Property, plant and equipment

i Evaluated mineral property

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

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

ii Short lived property, plant and equipment

Short lived property, plant and equipment consists of building and equipment; machinery and equipment; office equipment and transportation 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.

iii Depreciation and amortisation

Evaluated mineral property are not depreciated prior to commercial production but are reviewed for impairment annually (see "Impairment of assets" section below). Upon commencement of commercial production an 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.

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:

Building and equipment	5 - 10 years
Machinery and equipment	1 - 10 years
Office equipment	1 - 10 years
Transportation	4 years

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

k Rehabilitation provision

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

l Provisions

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

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

m Interest income

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

n Financial instruments

Financial assets and financial 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.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets and liabilities carried at fair value through profit or loss, which are measured initially at fair value. Financial assets and financial liabilities are subsequently measured as described below.

i Financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition: loans and receivables; financial assets at fair value through profit or loss; held-to-maturity investments; and available-for-sale financial assets.

The category determines how the asset is subsequently measured and whether any resulting income or expense is recognised in profit or loss or in other comprehensive income.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are considered impaired when there is objective evidence that the net realisable value of a financial asset or a Group of financial assets is lower than its carrying value.

The Group's derivative asset is a financial asset classified at fair value through profit or loss.

ii Loans and receivables

Loans and 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.

Loans and receivables comprise cash and cash equivalents and other receivables.

iii Fair value through profit or loss

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

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

iv Financial liabilities

Financial liabilities are initially measured at fair value and subsequently recognised 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 joint venture obligation. The Group accounts for the warrant liability at fair value through profit or 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 whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The amount of the impairment loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss, unless the impairment relates to an equity investment.

ii Non-financial assets

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

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

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

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

p Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the profit and loss statement to the extent that it relates to a business combination, or items recognised directly in equity or in comprehensive loss.

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 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.

q Earnings/loss per share

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

r Share premium

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

s Share-based payments

i Share-based payment transactions

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

ii Equity-settled transactions

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

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

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

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

Upon exercise of share options, the proceeds received are allocated to share capital along with any value previously recorded in share-based payment reserve relating to those options. The dilutive effect of outstanding options is reflected as additional dilution in the computation of diluted earnings per share.

t Segment reporting

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

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

u Non-controlling interests

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

4 Critical accounting estimates and judgements

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

a Exploration and evaluation assets

The application of the Group's accounting policy for exploration and evaluated assets requires judgement in determining whether it is likely that costs incurred will be recovered through successful development or sale of the asset under review when assessing impairment. Estimates and assumptions made may change if new information becomes available. If, after expenditures are capitalised, information becomes available suggesting that the recovery of expenditures is unlikely, the amount capitalised is written off in the net profit or loss in the period when the new information becomes available. In situations where indicators of impairment are present for the Group's exploration and evaluation, estimates of recoverable amount must be determined as the higher of the estimated value in use or the estimated fair value less costs to sell.

b Property, plant and equipment

The estimates and judgements pertaining to property, plant and equipment falls into two categories; 1) Non-critical judgements and estimates relating to; land, buildings, machinery, office equipment and transportation. These are classified in this way due to their standard treatment and materiality; and 2) Critical, which comprises evaluated mining property. The recoverability of carrying values for evaluated mineral property is dependent upon the ability of the Group to obtain the financing necessary to complete development and the success of future operations.

The application of the Group's accounting policy for evaluated mineral properties assets requires judgement in determining whether it is likely that costs incurred will be recovered through successful development or sale of the asset under review when assessing impairment. Furthermore, the assessment as to whether economically recoverable reserves exist is itself an estimation process. Estimates and assumptions made may change if new information becomes available. If, after expenditures are capitalised, information becomes available suggesting that the recovery of expenditures is unlikely, the amount capitalised is written off in the net profit or loss in the period when the new information becomes available. In situations where indicators of impairment are present for the Group's evaluated mineral properties, estimates of recoverable amount must be determined as the higher of the estimated value in use or the estimated fair value less costs to sell.

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. See note b for sensitivity analysis of foreign exchange risk.

d Share-based payments

The Group utilises the Black-Scholes Option Pricing Model to estimate the fair value of share options and restricted share units granted to Directors, Officers and employees. The use of the Black-Scholes Option Pricing Model requires management to make various estimates and assumptions that impact the value assigned to the share options and restricted share units including the forecast future volatility of the share price, the risk-free interest rate, dividend yield, and the expected life of the share options and restricted share units. Any changes in these assumptions could have a material impact on the share-based payment calculation value. See note 12g for further details regarding these inputs.

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

e Joint venture investment and obligation

The Group applies IFRS 11 to all joint arrangements and classifies them as either joint operations or joint ventures, depending on the contractual rights and obligations of each investor. The Group holds 50% of the voting rights of its joint arrangement with SolarWorld AG. The Group has determined to have joint control over this arrangement as under the contractual agreements, unanimous consent is required from all parties to the agreements for certain key strategic, operating, investing and financing policies. The Group's joint arrangement is structured through a limited liability entity - Deutsche Lithium GmbH and provides the Group and SolarWorld AG (parties to the agreement) with rights to the net assets of Deutsche Lithium under the arrangements. Therefore, this arrangement has been classified as a joint venture. The joint venture obligation includes assumptions regarding the expected timing of the expenditures and on the discount rate used. Any changes in the timing of the expectations could impact the recorded amount. Refer to note 6 regarding inputs used.

f Derivative asset

The Group's joint venture arrangement with SolarWorld AG stated above gives it the right, either alone or together with another party, to purchase the remaining 50% of the voting rights of Deutsche Lithium for 30 million Euros (herein referred to as the "Option"). This Option is available to the Group within 6 months of the earlier of the completion of the Feasibility Study or the second anniversary of the agreement. The Group used judgement to determine the fair value of this Option using the Black-Scholes option pricing model. The Group re-assesses its inputs and other factors to determine change in the valuation of the Option at each reporting period. Any changes in the assumptions could have a material impact on the Option value. The Deutsche Lithium feasibility study is in progress and expected in Q2 2019, therefore judgement has been applied in determining the reserves and resources present. Refer to note 6 regarding inputs used and sensitivity analysis of judgements applied.

5 Other receivables

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

In US dollars	30 June 2018	30 June 2017	30 June 2016
Other receivables	640,701	521,748	203,997
Prepayments and deposits	831,419	17,991	78,885
Total	1,472,120	539,739	282,882

6 Investments in jointly controlled entities

a Investment in Deutsche Lithium

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

The Group acquired its interest in Deutsche Lithium for a cash consideration of €5 million from SolarWorld AG ("SolarWorld") and an obligation to contribute €5 million toward the costs of completion of a feasibility study, which is anticipated in Q2 2019 (see note 6b). Additionally, legal fees of US\$0.2 million were paid in connection to this transaction.

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

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

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

Consideration for the joint venture acquisition consisted of the following:

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

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

For the year ended (In US dollars)	30 June 2018	30 June 2017 (Restated)
Opening balance	8,418,518	8,221,158
Joint venture investment (loss)/profit	(147,403)	36,524
Translation gain	155,019	160,836
Closing balance	8,426,134	8,418,518

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

In US dollars	30 June 2018	30 June 2017 (Restated)
Cash and cash equivalents	1,423,330	376,720
Current assets including cash and cash equivalents	1,508,791	400,467
Non-current assets	24,182,266	21,352,549
Current liabilities	(4,582,873)	(4,674,297)
Interest Income	-	173
Depreciation	9,303	212
(Loss)/profit from continuing operations	(294,806)	73,048
Other comprehensive income	(37,811)	5,079
Total comprehensive income	(332,618)	78,127

b Deutsche Lithium obligation

The Group's undertaking to contribute up to €5 million toward the costs of completion of a feasibility study within 18-24 months from acquisition was recorded initially as a liability in the consolidated statement of financial position, presented in accordance with its due date, between current and non-current portions. The Group used a discounted cashflow method with 20% discount rate to determine the present value of the obligation on initial recognition. The discount is now fully accreted. As at 30 June 2018, the current portion of the obligation is US\$1,591,652 (2017 - US\$3,451,205) and the non-current portion is US\$0 (2017 - \$1,486,677). The movement in the obligation is detailed below:

For the year ended (In US dollars)	30 June 2018	30 June 2017 (Restated)
Opening balance	(4,937,882)	(4,440,751)
Payments of joint venture obligation	4,177,381	-

Accretion of joint venture obligation	(662,299)	(302,890)
Foreign exchange	(168,852)	(194,241)
Closing balance	(1,591,652)	(4,937,882)

c Derivative asset - Deutsche Lithium option

The Group, alone or together with any reasonably acceptable third party, has the option to acquire the remaining 50% of the jointly controlled entity for €30 million, this option terminates in Q3 2019. In the event that the Group does not exercise this right prior to the termination date, SolarWorld has the right but not the obligation to purchase the Group's 50% interest for €1.

The option to purchase the remaining 50% interest has been recognised as a derivative asset in the consolidated statement of financial position as it represents the option to acquire equity instruments at a future point in time. This derivative asset has been recorded at its fair value of US\$615,011 (2017 - US\$2,068,500). The derivative asset has been classified as long-term due to its realisation being in Q3 2019. The fair value was determined using the Black-Scholes option pricing model with the following inputs.

	30 June 2018	30 June 2017
Term	1.08	2.08
Share Price	5,100,000	5,100,000
Exercise Price	30,000,000	30,000,000
Volatility	124%	124%
Risk Free rate	2%	2%

The movement in the fair value of the derivative is due to the passage of time and in the Directors' judgement, the value of the underlying asset has not materially changed. The updated NI-43-101 compliant resource model does not indicate economic feasibility of the asset and was only available at 30 September 2018. See note 19 for non-adjusting subsequent events relating to Deutsche Lithium.

A 10% increase in volatility equates to an increase in the value of the derivative of US\$241,449 to US\$856,460. A 10% decrease in volatility equates to a decrease in the value of US\$209,405 to US\$405,606.

7 Property, plant and equipment

Cost	Evaluated mineral property	Land	Building and equipment	Machinery and equipment	Office equipment	Transportation	Total
30 June 2016 (Restated)	-	95,614	820,226	539,555	152,157	146,142	1,753,694
Additions	-	100,000	73,655	171,639	107,540	-	452,834
30 June 2017 (Restated)	-	195,614	893,881	711,194	259,697	146,142	2,206,528
Additions	5,906,000	2,800,000	116,136	26,072	12,479	-	8,860,687
Disposals	-	-	(35,768)	-	-	(25,408)	(61,176)
Transfers from exploration and evaluation assets ⁽¹⁾	16,029,716	-	-	-	-	-	16,029,716
30 June 2018	21,935,716	2,995,614	974,249	737,266	272,176	120,734	27,035,755
Depreciation							
30 June 2016 (Restated)	-	-	105,292	131,628	41,692	87,273	365,885
Charge for the year	-	-	38,811	66,006	22,418	11,546	138,781
30 June 2017 (Restated)	-	-	144,103	197,634	64,110	98,819	504,666
Charge for the year	-	-	41,393	63,926	26,950	17,455	149,724
Disposals	-	-	-	-	-	(10,057)	(10,057)
30 June 2018	-	-	185,496	261,560	91,060	106,217	644,333
Net Book Value							
30 June 2016 (Restated)	-	95,614	714,934	407,927	110,465	58,869	1,387,809
30 June 2017 (Restated)	-	195,614	749,778	513,560	195,587	47,323	1,701,862
30 June 2018	21,935,716	2,995,614	788,753	475,706	181,116	14,517	26,391,422

⁽¹⁾ Following determination of the technical feasibility and commercial viability of the Sonora Lithium Project, the relevant expenditure has been transferred from exploration and evaluation assets to evaluated mineral property, see note b for further detail.

8 Exploration and evaluation assets

The Group's mining claims consist of mining concessions located in the State of Sonora, Mexico. The specific descriptions of such properties are as follows:

a Magdalena Borate property

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

During the year ended 30 June 2017, the Group determined there to be indicators of impairment on the exploration and evaluation assets located in the Magdalena Borate property based on the Group's decision to not explore for borates further. As such, the Group recognised impairment of US\$6,191,375 on these assets to the fair value less cost to sell based on the estimated land value.

During the year ended 30 June 2018, the Group determined there to be indicators of impairment on the exploration and evaluation assets located in the Magdalena Borate property based on the Group's decision to not further explore borates or be able to find a buyer for the asset. As such, the Group recognised a further impairment of US\$530,745. This asset is now written down to zero value as at 30 June 2018.

b Sonora Lithium property

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

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

The remaining three concessions, Buenavista, Megalit and San Gabriel, were outside of the scope of the Sonora Project Feasibility Study. They cover 89,235 hectares and are subject to a separate agreement between the Company and Cadence. As at 30 June 2018, Buenavista, Megalit and San Gabriel concessions were owned by Megalit. Megalit is owned 70% by the Group and 30% by Cadence.

The MSB concessions are purportedly subject to a 3% gross overriding royalty payable to the Orr-Ewing Estate pursuant to the Royalty Agreements, on sales of mineral products produced from certain concessions within the Sonora Lithium Project. However, Bacanora Minerals Ltd is currently challenging the validity and enforceability of such royalty and is seeking an order of the Court declaring such royalty void ab initio. The basis of Bacanora Minerals Ltd claim is that the Royalty was originally granted based on a negligent or fraudulent misrepresentation by Mr. Orr-Ewing that he held a pre-existing royalty granted prior to the acquisition of the MSB concessions by Bacanora Minerals Ltd.

As at 30 June 2017, assets of value US\$28,723 were held within MSB relating to lithium hydroxide testing. Given the management's change of focus to lithium carbonate production, indicators of impairment are present as per IFRS 6. Management deem the recoverable amount to be nil therefore have recognised an impairment charge of US\$28,723.

The balance of investment in mining claims as of 30 June 2018, 30 June 2017 and 30 June 2016 corresponds to concession payments to the federal government, costs of exploration and paid salaries, and consists of the following:

In US dollars	Magdalena Borate	La Ventana Lithium	Mexilit Lithium	Megalit Lithium	Total
30 June 2016 (Restated)	6,638,304	3,800,764	3,003,717	451,219	13,894,004
Additions	53,071	6,650,387	107,598	36,337	6,847,393
Reimbursement of expenses from Cadence	-	-	(232,146)	-	(232,146)
Impairment loss	(6,191,375)	-	-	-	(6,191,375)
30 June 2017 (Restated)	500,000	10,451,151	2,879,169	487,556	14,317,876
Additions	30,745	2,711,774	16,345	15,391	2,774,255
Impairment loss	(530,745)	(28,723)	-	-	(559,468)
Transfer to PPE	-	(13,134,202)	(2,895,514)	-	(16,029,716)
30 June 2018	-	-	-	502,947	502,947

9 Accounts payable and accrued liabilities

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

In US dollars	30 June 2018	30 June 2017	30 June 2016
Trade payables	4,028,738	574,745	349,599
Other payables	294,158	-	-
Accrued liabilities	2,060,934	268,078	450,822
Total	6,383,830	842,823	800,421

10 Financial instruments

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

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

As at 30 June 2017 (In US dollars)	Loans and receivables	At amortised cost	At fair value through profit and loss	Total
Financial assets				
Derivative asset	-	-	2,068,500	2,068,500
Cash and cash equivalents	29,889,853	-	-	29,889,853
Trade and other receivables	539,739	-	-	539,739
Total financial assets	30,429,592	-	2,068,500	32,498,092
Financial liabilities				
Accounts payable and accrued liabilities	-	842,823	-	842,823
Joint venture obligation	-	4,937,882	-	4,937,882
Total financial liabilities	-	5,780,705	-	5,780,705
Net financial assets/(liabilities)	30,429,592	(5,780,705)	2,068,500	26,717,387

As at 30 June 2016 (In US dollars)	Loans and receivables	At amortised cost	At fair value through profit and loss	Total
Financial assets				
Derivative asset	-	-	-	-
Cash and cash equivalents	22,088,040	-	-	22,088,040
Trade and other receivables	282,882	-	-	282,882
Total financial assets	22,370,922	-	-	22,370,922
Financial liabilities				
Accounts payable and accrued liabilities	-	800,421	-	800,421
Warrant liability	-	-	689,871	689,871
Total financial liabilities	-	800,421	689,871	1,490,292
Net financial assets/(liabilities)	22,370,922	(800,421)	(689,871)	20,880,630

11 Financial risk management

The Group is exposed to risks that arise from its use of financial instruments. The principle financial instruments used by the Group, from which financial risk arises, are set out in note 10. The types of risk exposure the Group is subjected to in the financial year are as follows:

a Credit risk

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

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

The Group's other receivables relate to input tax receivables in Canada and value added tax receivables in Mexico. Substantially all of the receivables represent amounts due from the UK, Canadian and Mexican governments and accordingly the Group believes them to have minimal credit risk. Any changes in management's estimate of the

recoverability of the amount due will be recognised in the period of determination and any adjustment may be significant.

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

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

b Liquidity risk

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

As at 30 June 2018, US\$997,935 (2017 - US\$1,012,444) of the Group's cash is restricted to be spent on drilling and exploration activities in Megalit's concessions.

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

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

As at 30 June 2017 (In US dollars)	Within 30 days	30 days to 6 months	6 to 12 months	Over 12 months
Accounts payable and accrued liabilities	842,823	-	-	-
Joint venture obligation	169,040	2,187,163	1,736,495	1,611,952

c Market risk

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

The Group conducts development and exploration projects in Mexico and Germany. As a result, a portion of the Group's expenditures, other receivables, accounts payables and accrued liabilities are denominated in US dollars and Mexican pesos and are therefore subject to fluctuation in exchange rates. As at 30 June 2018, a 5% change in the exchange rate between the United States Dollar and Mexican Peso, which is a reasonable estimation of volatility in the exchange rate, would have an approximate US\$0.1 million change to the Group's total comprehensive loss.

d Fair values

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

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

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

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

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

The level 3 fair value for the long-term derivative asset is disclosed in note 6c. All accounts payable and accrued liabilities are determined to be of Level 3 fair value.

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

e Capital management

The Group's objectives in managing capital are to safeguard its ability to operate as a going concern while pursuing exploration and development and opportunities for growth through identifying and evaluating potential acquisitions or businesses. The Company defines capital as the equity attributable to equity shareholders of the Company excluding the share-based payment reserve, of US\$37,195,220 at 30 June 2018 (2017 - US\$46,652,365). 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.

12 Share capital

a Authorised

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

b Common shares issued

	Shares	Share Capital (In US\$)	Share Premium (In US\$)
30 June 2016 (Restated)	107,874,353	44,485,499	-
Shares issued on exercise of options	200,000	77,811	-
Shares issued on exercise of warrants ⁽¹⁾	2,925,000	3,373,476	-
Shares issued in private placement for cash ⁽²⁾	12,333,261	13,295,279	-
Shares issued in private placement for cash ⁽³⁾	8,573,925	9,588,678	-
Share issue costs	-	(552,349)	-
30 June 2017 (Restated)	131,906,539	70,268,394	-
Shares issued on exercise of options	1,425,000	1,944,576	140,592
Shares issued on exercise of warrants ⁽⁴⁾	833,333	302,314	-
Corporate reorganisation ⁽⁵⁾	-	(53,557,251)	-
30 June 2018	134,164,872	18,958,033	140,592

(1) On 20 May 2016, the Company completed a private financing placing of 9,750,000 units (the "Placing Units"). Each Placing Unit is comprised of one new common share of the Company (a "Placing Share") and 0.3 of one common share purchase warrant, with each whole warrant (a "Placing Warrant") being exercisable into one common share at a price of £0.79 at any time subsequent to 25 July 2016, but on or before 30 September 2016. Accordingly, an aggregate of 9,750,000 Placing Shares and 2,925,000 Placing Warrants were issued under this Placing. The Placing Warrants are denominated in a currency different than the functional currency and were recorded originally as a warrant liability equivalent to US\$346,583 using the Black-Scholes option pricing model. This warrant liability was re-measured as at 30 June 2016 to be US\$689,871 using the Black-Scholes option pricing model. On the exercise date of 30 September 2016, the warrant liability was re-measured to be US\$418,782 using the Black-Scholes option pricing model. On 30 September 2016, the Company issued 2,925,000 common shares upon the exercise of its warrants at a price £0.79 per share for aggregate gross proceeds of £2,310,750 (approximately US\$3.2 million). The Company paid commission of US\$90,977 and recognised a further increase in its share capital of US\$0.4 million in relation to the previously recorded warrant liability.

The following assumptions were used in the Black-Scholes option pricing model to determine the valuation of the warrant liability:

Input	20 May 2016	30 June 2016	September 30, 2016
Risk-free interest rate	0.39%	0.25%	0.12%

Expected volatility	38%	44%	32.63%
Expected life (years)	0.33	0.25	0.01
Fair-value per warrant (In US dollars - Restated)	0.11	0.24	0.15

(2) On 2 May 2017, the Company issued 12,333,261 common shares to Hanwa Co Ltd. The common shares represent 10.0% of the issued and outstanding share capital of the Company and were issued at a price of £0.83 per share for gross proceeds of £10,175,000 (approximately US\$13.2 million) for Bacanora pursuant to the Company's offtake agreement for battery grade lithium carbonate at its Sonora lithium project in Mexico. The Company paid other share issue expenses of US\$54,782.

(3) On 24 May 2017, the Company completed a private financing of 8,573,925 common shares at price of £0.86 per share to a US based investment company for aggregate gross proceeds of £7,373,575 (approximately US\$9.6 million). The Company paid commission of US\$381,671 and other share issue expenses of US\$27,484.

(4) On 28 September 2017, the Company issued 833,333 new common shares in pursuant to the exercise of the remaining Warrants that were issued as part of the fund-raising in March 2013 at CAD\$0.45 (28p) each. Following this exercise, the Company has no further warrants outstanding.

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

c Share options

All share options are issued under the Group's share option plan. Options vest as to one third on the date of grant and an additional one third on each of the first and second anniversaries of the date of grant. All options expire after three months of an employee leaving the Company, the options have no other vesting conditions. The following tables summarise the activities and status of the Company's share option plan as at and during the year ended 30 June 2018:

	Number of options	Weighted average exercise price (£)
30 June 2016	4,975,000	0.76
Exercised	(200,000)	0.18
Expired/Cancelled	(275,000)	1.02
Issued	3,437,400	0.85
30 June 2017	7,937,400	0.81
Exercised	(1,425,000)	0.67
Expired/Cancelled	(500,000)	0.85
Issued	2,539,910	0.81
30 June 2018	8,552,310	0.83

Grant date	Number outstanding at 30 June 2018	Exercise price (£)	Weighted average remaining contractual life (Years)	Expiry date	Number exercisable at 30 June 2018
11 September 2013	300,000	0.18	0.2	11 September 2018	300,000
02 December 2015	975,000	0.78	2.4	02 December 2020	975,000
27 April 2016	2,000,000	0.96	1.1	27 May 2019	2,000,000
01 March 2017	350,000	0.85	3.7	01 March 2022	350,000
01 March 2017	1,887,400	0.85	1.7	01 March 2020	1,258,267

15 May 2017	500,000	0.87	1.9	15 May 2020	333,333
20 September 2017	2,227,410	0.80	2.2	19 September 2020	742,470
18 April 2018	312,500	0.90	2.8	17 April 2021	104,167
	8,552,310				6,063,237

d Restricted share units

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

Upon vesting, each RSU entitles the participant to receive one common share, provided that the participant is continuously employed with or providing services to the Company. RSUs track the value of the underlying common shares, but do not entitle the recipient to the underlying common shares until such RSUs vest, nor do they entitle a holder to exercise voting rights or any other rights attached to ownership or control of the common shares, until the RSU vests and the RSU participant receives common shares.

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

The following tables summarise the activities and status of the Company’s restricted share unit plan as at and during the year ended 30 June 2018:

	Number of units	Weighted average exercise price (£)
30 June 2017	-	-
Issued	1,192,277	0.80
30 June 2018	1,192,277	0.80

Grant date	Number outstanding at 30 June 2018	Exercise price (£)	Weighted average remaining vesting period (Years)	Expiry date	Number exercisable at 30 June 2018
20 September 2017	1,192,277	0.80	2.2	N/A	-

e Warrants

The following tables summarise the activities and status of the Company’s warrants as at and during the year ended 30 June 2018.

	Number of warrants	Remaining contractual life (Years)	Expiry date	Weighted Average Exercise price (In US dollars)
30 June 2016	3,758,333			
Exercised	(2,925,000)	-	-	1.15
30 June 2017	833,333			
Exercised	(833,333)	-	-	0.41
30 June 2018	-	-	-	-

f Share based payment reserve

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

In US dollars	30 June 2018	30 June 2017 (Restated)	30 June 2016 (Restated)
Opening balance	5,042,706	2,590,891	531,884
Exercise of share options	(781,716)	(31,941)	(316,278)
Share-based payment expense	1,877,095	2,483,756	2,375,285
Closing balance	6,138,085	5,042,706	2,590,891

g Share-based payment expense

During the year ended 30 June 2018, the Group recognised US\$1,877,095 (2017 - US\$2,483,756) of share-based compensation expense. The fair value of the share-based compensation was estimated on the dates of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	30 June 2018	30 June 2017
Risk-free interest rate	0.77% - 2.01%	0.77% - 1.15%
Expected volatility ⁽¹⁾	55.26% - 91.07%	101.34% - 127.03%
Expected life (years)	3 -5	3 -5
Fair value per option	45.6c - 85.7c	71.1c - 85.7c

⁽¹⁾Expected volatility is based on historical volatility of the Group's share prices.

h Merger reserve

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

i Per share amounts

Basic and diluted loss per share is calculated using the weighted average number of shares of 134,097,164 for the year ended 30 June 2018 (2017 - 134,039,872). Options and warrants were excluded from the dilution calculation as they were anti-dilutive however at a time in the future they may have an impact on earnings per share.

For the year ended	30 June 2018	30 June 2017 (Restated)
Loss for the year attributable to owners of equity (US\$)	(12,731,306)	(14,339,510)
Weighted average number of common shares for the purposes of basic and diluted loss per share	134,097,164	134,039,872
Basic and diluted loss per share (US\$)	(0.09)	(0.11)

13 Taxation

a Current taxation

The tax charge for the year comprises:

For the year ended (In US dollars)	30 June 2018	30 June 2017 (Restated)
Current tax expense		
Overseas tax - Mexico	42,070	-
Deferred tax expense		
Adjustments to deferred tax liability	(102,614)	-
Total tax (credit)/expense	(60,544)	-

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation in the United Kingdom (2017 - Canada) applied to loss for the year is as follows:

For the year ended (In US dollars)	30 June 2018	30 June 2017 (Restated)
Loss before tax	(12,846,405)	(14,337,948)
Expected income tax recovery at 19% (2017 - 27%)	(2,440,817)	(3,871,246)
Expenses not deductible for tax purposes	1,056,587	804,194
Different tax rates applied in overseas jurisdictions	(1,094,707)	(404,834)
Unrecognised taxable losses and timing differences	2,505,879	3,471,886
Adjustment for under/(over) provision in previous periods	(87,486)	-
Total income taxes	(60,544)	-

b Deferred tax

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

For the year ended (In US dollars)	30 June 2018	30 June 2017 (Restated)
Opening balance	104,118	103,789
Foreign exchange	(1,504)	329
Recognised in the statement of comprehensive income	(102,614)	-
Closing balance	-	104,118

As at 30 June 2018, the Group has, for tax purposes, non-capital losses available to carry forward to future years as follows:

In US dollars	2018	2017 (Restated)	Expiry Date
UK	1,758,411	-	N/A
Canada	13,716,453	11,479,318	2027-2037
Mexico	10,099,601	4,325,418	2020-2029
As at 30 June	25,574,465	15,804,736	

14 General and administrative expenses

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

For the year ended (In US dollars)	Note	30 June 2018	30 June 2017 (Restated)
Management fees and payroll	16	1,510,622	1,652,352
Legal and accounting fees		3,810,158	886,888
Audit fee		138,091	136,495
Non-audit services		30,419	47,101
Investor relations		828,499	468,991
Office expenses		121,072	119,366
Travel and other		939,909	501,417
Total		7,378,770	3,812,610

15 Segmented information

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

30 June 2018 (In US\$)	Mexico	Germany	Head Office	Consolidated
Current assets	1,948,810	-	12,726,362	14,675,172
Investment in jointly controlled entity	-	8,426,134	-	8,426,134
Derivative asset	-	615,011	-	615,011
Property, plant and equipment	26,391,422	-	-	26,391,422
Exploration and evaluation assets	502,947	-	-	502,947
Total assets	28,843,179	9,041,145	12,726,362	50,610,686
Current liabilities	4,084,320	-	2,299,510	6,383,830
Joint venture obligation (current)	-	1,591,652	-	1,591,652
Deferred tax liability	-	-	-	-
Total liabilities	4,084,320	1,591,652	2,299,510	7,975,482
Property, plant and equipment additions	8,860,687	-	-	8,860,687
Exploration and evaluation asset additions	2,774,255	-	-	2,774,255

For the year ended 30 June 2018 (In US\$)	Mexico	Germany	Head Office	Consolidated
General and administrative	(623,501)	-	(6,755,269)	(7,378,770)
Depreciation	(149,724)	-	-	(149,724)
Share-based payment expense	(83,256)	-	(1,793,839)	(1,877,095)
Foreign exchange loss	(139,311)	-	(623,967)	(763,278)
Impairment of exploration and evaluation assets	(559,468)	-	-	(559,468)
Operating loss	(1,555,260)	-	(9,173,075)	(10,728,335)
Interest and other income	17,569	-	195,109	212,678
Accretion of joint venture obligation	-	(662,299)	-	(662,299)
Joint venture investment profit	-	(147,403)	-	(147,403)
Loss on derivative asset	-	(1,521,046)	-	(1,521,046)
Income tax	60,544	-	-	60,544
Segment loss for the year	(1,477,147)	(2,330,748)	(8,977,966)	(12,785,861)

30 June 2017 (In US\$) (Restated)	Mexico	Germany	Head Office	Consolidated
Current assets	2,200,586	-	28,229,006	30,429,592
Investment in jointly controlled entity	-	8,418,518	-	8,418,518
Derivative asset	-	2,068,500	-	2,068,500
Property, plant and equipment	1,628,214	-	73,648	1,701,862
Exploration and evaluation assets	14,317,876	-	-	14,317,876
Total assets	18,146,676	10,487,018	28,302,654	56,936,348
Current liabilities	518,723	-	3,775,305	4,294,028
Joint venture obligation (long term)	-	1,486,677	-	1,486,677
Deferred tax liability	-	-	104,118	104,118
Total liabilities	518,723	1,486,677	3,879,423	5,884,823
Property, plant and equipment additions	452,834	-	-	452,834
Exploration and evaluation asset additions	6,847,393	-	-	6,847,393

For the year ended 30 June 2017 (In US\$) (Restated)	Mexico	Germany	Head Office	Consolidated
General and administrative	(485,552)	-	(3,327,058)	(3,812,610)
Warrant liability valuation	-	-	262,985	262,985
Depreciation	(138,781)	-	-	(138,781)
Share-based payment expense	-	-	(2,483,756)	(2,483,756)
Foreign exchange loss	(184,748)	-	(1,606,672)	(1,791,420)
Impairment of exploration and evaluation assets	(6,191,375)	-	-	(6,191,375)
Operating loss	(7,000,456)	-	(7,154,501)	(14,154,957)
Interest and other income	11,860	-	71,515	83,375
Accretion of joint venture obligation	-	(302,890)	-	(302,890)
Joint venture investment profit	-	36,524	-	36,524
Segment loss for the year	(6,988,596)	(266,366)	(7,082,986)	(14,337,948)

16 Related party transactions

a Related party expenses

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

During the year ended 30 June 2018, Directors and Officer remuneration totalled US\$3,124,989 (2017 - US\$3,244,880). Of the total amount incurred as Directors and Officer fees, US\$40,092 (2017 - US\$55,767) remains in accounts payables and accrued liabilities on 30 June 2018.

During the year ended 30 June 2018, the Group paid US\$95,508 (2017 - US\$536,768) to Grupo Ornelas Vidal S.A. de C.V., a consulting firm of which Martin Vidal, former Director of the Group and president of MSB, is a partner. Martin Vidal resigned as Director on 30 November 2017. These services were incurred in the normal course of operations for geological exploration and pilot plant operation. As of 30 June 2018, US\$0 (2017 - US\$0) remains in accounts payable and accrued liabilities.

b Key management personnel compensation

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

For the year ended (In US dollars)	30 June 2018					30 June 2017 (Restated)				
	Fees	Salary	Consultancy	Share-based payment remuneration	Total	Fees	Salary	Consultancy	Share-based payment remuneration	Total
Director's and key Management's remuneration:										
Mark Hohnen	-	324,429	-	252,268	576,697	-	275,914	-	1,438,605	1,714,519
Eileen Carr ⁽¹⁾	22,792	-	-	56,842	79,634	-	-	-	-	-
Raymond Hodgkinson	44,560	-	-	98,026	142,586	22,202	-	-	90,420	112,622
Jamie Strauss	78,778	-	-	518,407	597,185	24,393	-	-	226,049	250,442
Dr Andres Antonius	50,000	-	-	454,915	504,915	4,761	-	-	114,615	119,376
Derek Batorowski	32,000	-	248,929	36,131	317,060	2,672	-	235,680	37,675	276,027
Peter Secker	-	385,510	-	285,118	670,628	-	350,353	-	90,420	440,773
Janet Boyce ⁽²⁾	-	104,571	-	-	104,571	-	-	-	-	-
Martin Vidal ⁽³⁾	95,582	-	-	36,131	131,713	239,372	-	-	37,675	277,047
Estate of Colin Orr-Ewing ⁽⁴⁾	-	-	-	-	-	7,578	-	-	-	7,578
James Leahy ⁽⁵⁾	-	-	-	-	-	34,111	-	-	-	34,111
Shane Shircliff ⁽⁶⁾	-	-	-	-	-	4,870	-	-	-	4,870
Kiran Morzaria ⁽⁷⁾	-	-	-	-	-	7,516	-	-	-	7,516
Total Directors' and management's remuneration	323,712	814,510	248,929	1,737,838	3,124,989	347,475	626,267	235,680	2,035,459	3,244,881
Operational consulting fees:										
Grupo Ornelas Vidal SA CV					95,508					536,768

⁽¹⁾Appointed on 5 February 2018

⁽⁵⁾Resigned on 15 May 2017

⁽²⁾Appointed on 5 February 2018

⁽⁶⁾Resigned on 24 November 2016

⁽³⁾Resigned on 30 November 2017

⁽⁷⁾Resigned on 26 January 2017

⁽⁴⁾Resigned on 25 July 2016

As at 30 June 2018, the following options were held by Directors of the Company:

	Date of grant	Exercise price	Number of options
Mark Hohnen	27 April 2016	0.963	2,000,000
	01 March 2017	0.80	249,900
	20 September 2017	0.80	224,910
Eileen Carr	18 April 2018	0.90	312,500
	01 March 2017	0.85	200,000
Raymond Hodgkinson	20 September 2017	0.80	100,000
	15 May 2017	0.865	500,000
Andres Antonius	20 September 2017	0.80	750,000
	01 March 2017	0.85	750,000
Jamie Strauss	20 September 2017	0.80	750,000
	11 September 2013	0.18	200,000
Derek Batorowski	02 December 2015	0.78	175,000
	01 March 2017	0.80	125,000
	01 March 2017	0.80	300,000
Peter Secker	01 March 2017	0.80	300,000
	20 September 2017	0.80	240,000

As at 30 June 2018, the following restricted share units were held by Directors of the Company:

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

17 Employees and Directors

Employees of the Company are all employees including key management personnel. Details of key management personnel are disclosed in note 16. The below information relates to all employees:

For the year ended (US\$)	30 June 2018			30 June 2017		
	Corporate	Mexico	Total	Corporate	Mexico	Total
Gross salaries	1,435,924	437,379	1,873,303	1,254,422	332,170	1,586,592
Share based payments	1,737,838	4,326	1,742,164	2,035,459	-	2,035,459
Social security costs	11,413	89,399	100,812	4,874	72,143	77,017
Pension costs	96,936	-	96,936	-	-	-
Total cost	3,282,111	531,104	3,813,215	3,294,755	404,313	3,699,068
Average number of employees	9	31	20	7	34	21

Directors' remuneration totalled the following:

For the year ended (US\$)	30 June 2018	30 June 2017
Directors' salaries	1,282,580	1,209,422
Share based payment expense	1,737,838	2,035,459
Total remuneration	3,020,418	3,244,881
Number of Directors	8	6

The highest paid Director in the year received remuneration, excluding notional gains on share options, of US\$576,697 (2017: US\$1,714,519).

In addition to the above remuneration, if exercised share options had been sold on the day of exercise, the notional gain would have been US\$812,508. The highest paid director would have made notional gain of US\$812,508.

18 Commitments and contingencies

The Group has commitments for payments for two field offices, one for approximately US\$3,180 until the end of 2018, and one which is ongoing with monthly payments of US\$500.

The license properties in Mexico are subject to spending requirements in order to maintain title of the concessions. The capital spending requirement for the financial year 2019 is expected to total US\$828,811.

The license properties are also subject to semi-annual payments to the Mexican government for concession taxes, which are expected to total US\$117,215 in fiscal year 2019.

The Group has entered into commitments with engineering and design contractors totalling US\$3.4 million.

The Group is committed to land purchases totalling US\$0.6 million, of which US\$0.2 million has been paid post year end, with the remaining balance due in January 2019.

Additionally, the Group has committed payments for its UK office of US\$33,142 until the end of December 2018.

19 Subsequent events

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

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

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

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

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

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

On 16 July 2018, the Company agreed conditional strategic investments from the SGRF, the sovereign wealth fund of the Sultanate of Oman and from the Group's offtake partner, Hanwa, for a combined total of US\$90 million. The investments comprise US\$65 million from SGRF and US\$25 million from Hanwa and are part of the proposed funding package for the development of the Sonora Lithium Project. The investments are conditional on the full US\$460 million construction and working capital funding required for the Project being in place.

On 31 August 2018, 200,000 of the Company's outstanding share options were exercised by Derek Batorowski, a Director of Bacanora Lithium Plc. The options were exercised at a price of CAD\$0.30 per Ordinary Share for a total consideration of CAD\$60,000.

On 7 September 2018, under the Group's share option plan, 432,729 share options were issued to employees of the Company. The options were issued at an exercise price of 39.25p, being the closing share price on 6 September 2018. Such options vest, 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 and are exercisable for a period of three years.

On 7 September 2018, under the Group's restricted share unit plan, 205,491 restricted share units were issued to employees of the Company, at an exercise price of 39.25p. Vesting will occur on the date that is three years from the date of grant, being 7 September 2021.

On 11 September 2018, 100,000 of the Company's outstanding share options were exercised by employees of the Company. The options were exercised at a price of CAD\$0.30 per Ordinary Share for a total consideration of CAD\$30,000.

On 30 September 2018 an updated resource estimate was issued in accordance with National Instrument 43-101 - Standards of Disclosure for Mineral Projects. This updated the existing PERC compliant resource dating from 2014. See Operational Review section of the Annual Report for details.

20 Non-controlling interests

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

a MIT

For the year ended (In US dollars)	30 June 2018	30 June 2017 (Restated)
Current assets	30,619	30,619
Non-current assets	-	-
Accumulated non-controlling interest loss	(627,753)	(621,987)
Loss for the year	(14,415)	(160,789)

b Mexilit

For the year ended (In US dollars)	30 June 2018	30 June 2017 (Restated)
Current assets	142,761	174,354
Non-current assets	2,924,641	2,910,536
Current liabilities	1,916,115	669
Non-current liabilities	-	1,915,404
Accumulated non-controlling interest loss	(41,090)	(13,609)
Loss for the year	(91,604)	(25,111)
Net cash flow from operating activities	(6,122)	(22,917)
Net cash flow from investing activities	(23,186)	19,703
Net cash flow from financing activities	302	(20,246)
Net change in cash	(29,006)	(23,460)
Cash beginning of year	146,662	170,122
Cash end of year	117,656	146,662

c Megalit

For the year ended (In US dollars)	30 June 2018	30 June 2017 (Restated)
Current assets	78,101	132,466
Non-current assets	608,273	603,515
Current liabilities	345,856	801
Non-current liabilities	-	-
Accumulated non-controlling interest loss	(29,258)	(7,950)
Loss for the year	(71,027)	(36,648)
Net cash flow from operating activities	1,142	(37,811)
Net cash flow from investing activities	(15,391)	137,015
Net cash flow from financing activities	(37,318)	(141,450)
Net change in cash	(51,567)	(42,246)
Cash beginning of year	101,545	143,791
Cash end of year	49,978	101,545

Parent Company Statement of Financial Position

As at 30 June 2018

In US dollars	Note	30 June 2018
Assets		
Current assets		
Cash and cash equivalents		13,203
Other receivables and prepayments	6	895,961
Total current assets		909,164
Non-current assets		
Investment in subsidiaries	7	59,649,036
Total non-current assets		59,649,036
Total assets		60,558,200
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	8	2,060,934
Total current liabilities		2,060,934
Non-current liabilities		
Intercompany payables	7	1,131,175
Total non-current liabilities		1,131,175
Total liabilities		3,192,109
Shareholders' equity		
Share capital	9.b	18,958,033
Share premium	9.b	140,592
Merger reserve	9.g	40,708,662
Share-based payment reserve	9.e	391,962
Retained earnings		(2,833,158)
Total shareholders' equity		57,366,091
Total liabilities and shareholders' equity		60,558,200

The Company's loss after tax for the period ended 30 June 2018 was US\$2,833,158.

The accompanying notes on pages 84 - 88 are an integral part of these Parent Company Financial Statements.

The Parent Company Financial Statements of Bacanora Lithium Plc, registered number 11189628, were approved and authorised for issue by the Board of Directors on 12 October 2018 and were signed on its behalf by:



Mark Hohnen

12 October 2018

Parent Company Statement of Changes in Equity

For the period ended 30 June 2018

In US dollars	Share capital		Share premium	Merger reserve	Share based payment reserve	Retained earnings	Total equity
	Number of shares	Value					
06 February 2017	-	-	-	-	-	-	-
Comprehensive income for the period:							
Loss for the period	-	-	-	-	-	(2,833,158)	(2,833,158)
Contributions by and distributions to owners:							
Shares issued	134,039,872	18,940,370	-	40,708,662	-	-	59,649,032
Shares issued on exercise of options	125,000	17,663	140,592	-	(16,500)	-	141,755
Share-based payment expense	-	-	-	-	408,462	-	408,462
30 June 2018	134,164,872	18,958,033	140,592	40,708,662	391,962	(2,833,158)	57,366,091

The accompanying notes on pages 84 - 88 are an integral part of these Parent Company Financial Statements.

Parent Company Statement of Cashflows

For the period ended 30 June 2018

In US dollars	30 June 2018
Cash flows from operating activities	
Loss for the year before tax	(2,833,158)
Adjustments for:	
Share-based payment expense	408,462
Changes in working capital items:	
Other receivables	(895,961)
Accounts payable and accrued liabilities	2,060,934
Net cash used in operating activities	(1,259,723)
Cash flows from investing activities:	
Net cash flows from investing activities	-
Cash flows from financing activities	
Exercise of options	141,755
Proceeds from intercompany borrowing	1,131,171
Net cash flows from operating activities	1,272,926
Change in cash during the year	13,203
Cash, beginning of year	-
Cash, end of year	13,203

The accompanying notes on pages 84 - 88 are an integral part of these Parent Company Financial Statements.

Notes to the Parent Company Financial Statements

1 Corporate information

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

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

2 Basis of preparation

a Statement of compliance

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

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

They have been prepared for the short period of 5 months from incorporation to the 30 June 2018.

The Parent Company Financial Statements were authorised for issue by the Board of Directors on 12 October 2018. 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 presentational currency of these Financial Statements is United States dollars (“US\$”). The functional currency of the Company is deemed to be the US\$ under IAS 21.

c Going Concern

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

3 Accounting policies

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

a Investments in subsidiaries

Unlisted investments are carried at cost, being the purchase price, less provisions for impairment except for the investment in Bacanora Minerals Ltd as a result of the corporate reorganisation discussed in note 2b of the Consolidated Financial Statements.

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

4 Critical accounting estimates and judgements

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

a Value of investments in subsidiaries

Investments in subsidiaries are reviewed for impairment if events or changes indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future cash flows of the relevant generating unit, which may span multiple trading entities, or disposal value, if higher.

5 Loss for the period

The Parent Company has taken advantage of the exemption under section 408 (3) of the Companies Act 2006 and thus has not presented its statement of comprehensive income in these Financial Statements. The Company's loss after tax for the period end 30 June 2018 is US\$2,833,158.

6 Other receivables and prepayments

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

In US dollars	30 June 2018
Other receivables	66,485
Prepayments and deposits	829,476
Total	895,961

7 Investments in subsidiaries

The Parent Company has the following subsidiaries:

Name of related party	Country of incorporation	Shareholding on 30 June 2018	Nature of business
Bacanora Minerals Ltd	Canada	100%	Holding company
Bacanora Finco Ltd	UK	100%	Financing company
Bacanora Treasury Ltd	UK	100%	Financing company
Sonora Lithium Ltd	UK	100%	Holding company
Zinnwald Lithium*	UK	100%	Dormant
Mexilit S.A. de C.V.*	Mexico	70%	Lithium mining/exploration
Minera Megalit S.A de C.V.*	Mexico	70%	Mineral exploration
Mineramex Limited*	BVI	99.9%	Holding company
Minera Sonora Borax, S.A. de C.V.**	Mexico	100%	Lithium mining/exploration
Operador Lithium Bacanora S.A de CV**	Mexico	100%	Mexican service organisation
Minerales Industriales Tubutama, S.A. de C.V.**	Mexico	60%	Mineral exploration

*Held indirectly through Bacanora Minerals Ltd

** Held in directly though Mineramex Limited and Bacanora Minerals Ltd

8 Accounts payable and accrued liabilities.

At 30 June 2018, the Parent Company held accrued liabilities of US\$2,060,934 mainly in respect of the corporate reorganisation and debt/equity fund raising.

9 Share capital

a Authorised

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

b Common shares issued

	Shares	Share Capital (US\$)	Share Premium (US\$)
07 February 2018	-	-	-
Shares issued ⁽¹⁾	134,039,872	18,940,370	-
Shares issued on exercise of options	125,000	17,663	140,592
30 June 2018	134,164,872	18,958,033	140,592

⁽¹⁾ Shares issued on corporate reorganisation of the Bacanora Group.

c Share options

On the date of execution of the plan of arrangement the Group's share option plan held by Bacanora Minerals Ltd was novated to Bacanora Lithium Plc. As such all options disclosed in note 12c of the Consolidated Financial Statements are held by the Company.

d Restricted share units

On the date of execution of the plan of arrangement the Group's restricted share unit plan held by Bacanora Minerals Ltd was novated to Bacanora Lithium Plc. As such all units disclosed in note 12d of the Consolidated Financial Statements are held by the Company.

e Share-based payment reserve

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

In US dollars	30 June 2018
Opening balance	-
Exercise of share options	(16,500)
Share-based payment expense	408,462
Closing balance	391,962

f Share-based compensation expense

During the period ended 30 June 2018, the Parent Company recognised US\$408,462 of share-based compensation 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 12g of the Consolidated Financial Statements.

g Merger reserve

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

10 Related party transactions

The Parent Company's related parties include Directors and Officers and companies which have directors in common. Transactions with its Directors and key management personnel have been disclosed in note 16 of the Consolidated Financial Statements.

The Company traded with an undertaking within the same Group during the period ended 30 June 2018. A summary of the sum of absolute transactions and outstanding balances at period end with each is set out below:

Name of related party	Nature of relationship	Commercial terms	Transaction value	Balance owed by / (owed to) related parties
Bacanora Minerals Ltd	Subsidiary	Non-interest bearing	US\$2,678,893	US\$(1,131,171)

11 Employees of the Parent Company

Employees of the Company are all employees including key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel are considered to be the Directors of the Company and the CFO. Details of key management personnel are disclosed in note 16 of the Consolidated Financial Statements. The below information relates to employees only:

For the year ended (US\$)	30 June 2018
Gross salaries	730,554
Share based payments	408,462
Social security costs	7,036
Pension costs	96,936
Total cost	1,242,988
Average number of employees	9

Directors' remuneration totalled the following:

For the year ended (US\$)	30 June 2018
Directors' salaries	534,408
Share based payment expense	408,462
Total remuneration	942,870
Number of Directors	8

12 Commitments and contingencies

The Parent Company has committed payments for its UK office of US\$33,142 until the end of December 2018.

13 Subsequent events

Subsequent events relating to the Parent Company have been disclosed in note 19 of the Consolidated Financial Statements.