DATE – FEBRUARY 27, 2016

The following Management's Discussion and Analysis ("**MD&A**") should be read in conjunction with Bacanora Minerals Ltd's ("**Bacanora**" or the "**Company**") unaudited condensed consolidated interim financial statements for the period ended September 30, 2016, together with the accompanying notes.

The following discussion and analysis provides information that management believes is relevant to the assessment and understanding of the Company's results of operations and financial position. In the opinion of management, all adjustments consisting of normal recurring adjustments, considered necessary for a fair presentation of the Company's financial position, results of operations and funds flow, have been included. This MD&A is presented in Canadian dollars ("**CAD$**"), unless stated otherwise. Additional information relating to Bacanora is available on SEDAR at www.sedar.com.

THE COMPANY

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

QUARTERLY HIGHLIGHTS

Operational

- The Company continues to operate its lithium carbonate pilot plant in Hermosillo, Mexico and is continuing to send battery grade lithium carbonate samples to potential off-takers and customers in Asia.

- Discussions with potential off-take partners are ongoing and a number of site visits have been undertaken and continue to be ongoing.

- The Feasibility Study is ongoing and the company continues to focus on regent costs and consumption, specifically energy and hydrometallurgical plant consumables

- As a result of this continued focus, on December 19, 2016, the Company announced that it will take longer than originally anticipated to complete the Feasibility Study and that it is now expected to be completed in late summer of 2017.

- On February 21, 2017, the Company announced the acquisition of a 50% interest in, and joint operational control of, the Zinnwald Lithium Project ("**Zinnwald**" or "**the Project**") in southern Saxony, Germany from SolarWorld AG ("**SolarWorld**"), the largest solar panel producer in Europe. This is in line with management's vision to become a global lithium operator focused on projects with significant value accretion potential and defined markets at both the product and geographic levels. Zinnwald, which reportedly produced lithium carbonate in the 1950s, is located in a granite hosted Sn/W/Li belt that has been mined historically for tin, tungsten and lithium. Project benefits from excellent access to the rapidly growing market for lithium in Germany which is being driven by the automotive, renewable energy storage and chemicals industries. Geographical location of Project provides potential access to new markets, which diversifies risk and complements potential target markets for the Company's Sonora project in Mexico where a Feasibility Study is on track for completion in 2017. Bacanora will earn 50% of the project in return for a cash consideration of EUR5 million and the completion of a Feasibility

Study on the Project, anticipated to cost approximately EUR5 million and to take approximately 18-24 months to complete. The Company also has an option to acquire the outstanding 50% held by SolarWorld within a 24 month period for EUR30 million

Corporate

- On November 23, 2016, the Company announced that Mark Hohnen, Non-Executive Director of the Company, has assumed the role of Chairman. James Leahy, interim Non-Executive Chairman, resumed his role as Non-Executive Director of the Company.

- Also on November 23, 2016, the Company announced the appointment of Ray Hodgkinson as a Canadian based Non-Executive Director of the Company, replacing Shane Shircliff who has stepped down from this role to pursue other business interests. Ray Hodgkinson has substantial public company and natural resource experience. He is very familiar with Bacanora having been on its board between 2006 and 2013, prior to its AIM listing.

- On November 23, 2016, the Company announced that the financing condition in the conditional lithium hydroxide supply agreement previously announced on August 28th, 2015 has not been met under the terms of the agreement. The Company advised that it had extensive discussions with the customer as to the feasibility of securing project specific financing pursuant to the terms and conditions of the agreement, that those discussions have now concluded, and therefore we are discontinuing further efforts to secure project specific financing pursuant to the agreement. It remains Bacanora's strategy to focus on the production of lithium carbonate to service the rapidly growing Asian and European markets for electric vehicles and energy storage.

Financial

- Subsequent to December 31, 2016, the Company issued 200,000 common shares as a result of 200,000 stock options exercised at a price of $0.30 each, for total proceeds of $60,000.

MINERAL PROPERTIES - LITHIUM

The Sonora Lithium Project consists of ten contiguous concessions covering 97,389 hectares. Two of the concessions (La Ventana, La Ventana 1) are owned 100% by Bacanora through its wholly-owned subsidiary Minera Sonora Borax S.A de C.V. (“**MSB**”). The El Sauz, El Sauz 1, El Sauz 2, Fleur and Fleur 1 concessions are owned by Bacanora’s subsidiary, Mexilit S.A. de C.V. (“**Mexilit**”) (which is owned 70% by Bacanora and 30% by REM). These concessions are located approximately 190 kilometres northeast of the city of Hermosillo, in Sonora State, Mexico. They are roughly 200 kilometres south of the border with Arizona, USA. The San Gabriel and Buenavista concessions are owned by Bacanora’s subsidiary, Minera Megalit S.A. de C.V. (“**Megalit**”) (which is owned 70% by Bacanora and 30% by REM).

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

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

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

Mineral Resource Estimate

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

The foregoing report provides an amendment to the MRE given in the Company's announcement dated March 2, 2016 (as the Li cutoff grade subsequently changed) and supersedes the previous technical report for the Project that was released and filed in January 2016. The amended report incorporates the results of the PFS metallurgical testwork conducted by the Company, which also highlighted that a potassium ("**K**") product can be recovered as a by-product from Li_2CO_3 production, along with updated operating cost estimates in early 2016 (subsequent to the release of the January 2016 MRE).

Following this testwork, SRK interpolated grades of potassium into the block model, updated the cut-off grade to 1,000 ppm lithium (previously 450 ppm), which is confined to a resource pit shell based on updated reasonable optimisation parameters, PFS process operating costs and lithium selling prices. Based on these PFS numbers SRK has produced an amended MRE.

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

SRK Mineral Resource Statement as of April 12, 2016

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

Notes:

1. Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. All figures are rounded to reflect the relative accuracy of the estimate and have been used to derive sub-totals, totals and weighted averages. Such calculations inherently involve a degree of rounding and consequently introduce a margin of error. Where these occur, SRK does not consider them to be material.
2. The reporting standard adopted for the reporting of the MRE uses the terminology, definitions and guidelines given in the CIM Standards on Mineral Resources and Mineral Reserves (May 2014) as required by NI 43-101 and JORC.
3. SRK assumes the Sonora Lithium deposit to be amenable to surface mining methods. Using results from initial metallurgical test work, suitable surface mining and processing costs, and forecast LCE price SRK has reported the Mineral Resource at a cut-off 1,000 ppm Li (5,320 ppm Li_2CO_3).
4. SRK completed a site inspection of the deposit by Mr. Martin Pittuck, MSc, C.Eng, MIMMM, an appropriate "independent qualified person" as such term is defined in NI 43-101.

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

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

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

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

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

Two infill drilling programmes were undertaken in the last two years. Initially in July 2015, a 3,000 metre infill drilling program which resulted in an updated MRE. Secondly, in July 2016, 3,896 metres in 31 NQ-Core infill holes were drilled in the La Ventana area. A total of 1,870 samples were collected from the drill core and analysed in ALS-Chemex for a multi-element suite. Duplicated samples, standards and blanks were intercalated with the samples for QA/QC analysis.

Intercepts of the Upper Clay range from 11 to 49 metres in length and those for the Lower Clay range from 7 to 26 metres; the average thickness, including all of the drilling in this zone is for the upper clay unit of 30.7 metres and for the lower clay 20.7 metres. This is consistent along the deposit within the first 20-years pit area.

Also, a total of 1,566 metres in 18 HQ-Geotechnical holes were drilled in the projected 20-years pit area, tailings and plant facilities locations. Rock mechanics, hydrology and pit slope stability studies are being conducted by Ausenco.

Analyses received from these drillholes indicate that lithium content in the Upper Clay Unit varies from 25 ppm to 6,900 ppm Li with a weighted average of 1,791 ppm Li; for the Lower Clay Unit lithium content varies from 172 ppm to 10,000 ppm with a weighted average of 4,345 ppm Li.

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

Lithium Pilot Plant

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

- Ore-to-product metallurgical test work on bulk samples taken from trenches on the clay units from the planned mining areas within the 100% owned La Ventana concession is in progress.
- Upgrading of concentrate and pre-concentrate front-end processes to optimise lithium recovery.
- Hydrometallurgical recoveries have been improved by the addition of gas-fired stationary calcining units for continuous roasting of the lithium concentrate.
- Optimisation of gypsum consumption and evaporation and crystalisation parameters.
- Increased capacity in the Pregnant Liquor Solution circuits to allow continuous leaching operations.

- Installation of additional resin columns in the lithium carbonate recovery circuit for the refining of the product to battery-grade lithium carbonate.
- Approximately 20 professional and operational personnel are now working at the pilot plant.
- Training and quality control processes are in full swing to negate risk associated with execution of commissioning and operational phases after construction of the Stage 1, 17,500 tpa plant and to ensure accelerated commissioning schedules in terms of operations and quality control.
- Additional operations and technical personnel will continue to be employed at the pilot plant as sample production continues to ramp up.

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

Over the next 18 months the Company will continue a recruitment campaign of engineers and operators in order to maintain the plant in continuous operation and to gain expertise in those processes that require supervision and monitoring for optimisation and quality control. To date, the plant has operated continuously on the beneficiation and hydro-metallurgical processes. This investment in people and training is expected to provide significant operational and quality control benefits once commissioning of the full scale lithium carbonate plant commences. Over the fiscal 2017 the Company has budgeted to spend an aggregate of approximately $2 million dollars on the pilot plant.

Feasibility Study

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

The FS is focussed on delivering the most economically robust development strategy for an initial 17,500 tpa of lithium carbonate production at the Project (subsequently increasing to 35,000 tpa in later years). The FS is budgeted to cost approximately $7 million and is now targeted for completion in late summer of 2017. The Company is delivering a strategy of optimizing the projects operating costs and energy requirements given the continued strengthening in reagent input costs. The rising costs are relevant to all of Bacanora's peers, and importantly, are being experienced in tandem with a rise in lithium carbonate pricing. The Company is fully financed through to the completion of FS stage.

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

Lithium property outlook

The Company's strategy is to position itself to satisfy ongoing strong growth for lithium carbonate in the fast growing sectors of electric vehicles and energy storage. The Company is fully financed with approximately $CAD 24 million in the bank at the date of this MD&A and is therefore fully funded through to the initial project development and the start of the construction stages.

MINERAL PROPERTIES - BORATES

Magdalena Borate

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

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

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

The Magdalena property is subject to a 3% gross overriding royalty payable to Minera Santa Margarita S.A. de C.V., a subsidiary of Rio Tinto PLC, and a 3% gross overriding royalty payable to the past Chairman of the Company on sales of borate produced from this property.

Borates property outlook

A metallurgical testing of unit B samples from the Magdalena Borate Project is just started at Bureau-Veritas Lab in Canada and in LTM lab in Hermosillo in parallel.

The objectives of this metallurgical testing program are:

- To conduct bench-scale metallurgical test work to obtain B_2O_3 concentrates targeting 30% B_2O_3 from the composite samples of shallow portion of the borate deposit.
- To evaluate the conversion of produced B_2O_3 concentrates into boric acid.

The scope of this study consists of sample preparation, head sample characterization, de-sliming by attrition to remove clays, grinding followed by flotation using various reagents to produce about 30% B_2O_3 concentrate and boric acid preparation according to the boric acid preparation process.

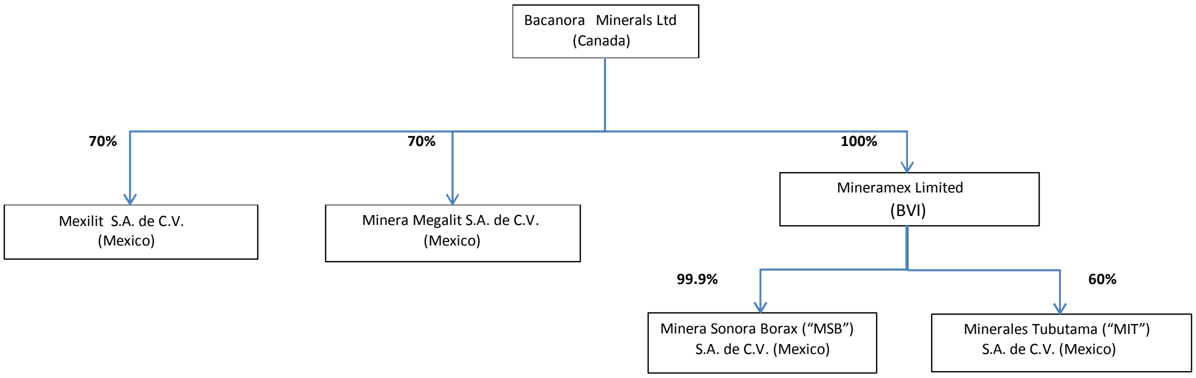
The Company has budgeted approximately $700,000 for the borate related activities for the remainder of calendar 2017.

COMPANY STRUCTURE

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

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

The following diagram illustrates the Company's corporate structure.



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

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

EVALUATION AND EXPLORATION EXPENDITURES

The Company capitalizes all exploration costs subsequent to obtaining the right to explore related to the projects to Exploration and Evaluation assets. Below is a summary of expenditures capitalized during the period ended December 31, 2016 and the year ended June 30, 3016.

	Magdalena Borate	La Ventana Lithium	Mexilit Lithium	Megalit Lithium	Total
Balance, June 30, 2015	**$ 7,246,158**	**$ 1,931,837**	**$ 2,091,527**	**$ 637,905**	**$ 11,907,427**
Additions:					
Concession tax	$ 21,988	$ 62,662	$ 70,791	$ 14,772	$ 170,213
Exploration	-	489,444	113,086	-	602,530
Drilling	-	1,053,428	496,699	-	1,550,127
Analysis and assays	-	262,032	15,589	-	277,621
Technical services	976,336	2,351,573	373,525	37,689	3,739,123
Travel	17,368	286,807	9,300	73,114	386,589
Foreign exchange adjustments	(537,109)	(60,295)	(186,935)	(32,578)	(816,917)
Total net additions	$ 478,583	$ 4,445,651	$ 892,055	$ 92,997	$ 5,909,286
Balance, June 30, 2016	**$ 7,724,741**	**$ 6,377,488**	**$ 2,983,582**	**$ 730,902**	**$ 17,816,713**
Additions:					
Concession tax	$ -	$ 95,832	$ 5,980	$ 6,276	$ 108,088
Exploration	10,061	86,747	-	-	96,808
Drilling	-	674,938	-	-	674,938
Analysis and assays	-	713,970	-	-	713,970
Technical services	-	2,068,403	8,322	4,829	2,081,554
Travel and miscellaneous	-	74,040	-	-	74,040
Foreign exchange adjustments	794,530	1,135,426	319,874	86,507	2,336,337
Total net additions	$ 804,591	$ 4,849,356	$ 334,176	$ 97,612	$ 6,085,735
Balance, December 31, 2016	**$ 8,529,332**	**$11,226,844**	**$ 3,317,758**	**$ 828,514**	**$ 23,902,448**

RESULTS OF OPERATIONS

Selected annual information

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

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

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

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

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

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

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

Summary of quarterly results

Three months ended December 31, 2016 compared to three months ended December 31, 2015.

During the second quarter of fiscal 2017, the Company realized a comprehensive loss of $792,515 (2015 – $2,836,590), operating activities used $2,431,934 (2015 – $2,239,498), incurred $2,665,760 (2015 – $738,187) on exploration expenditures, as well as $1,222,280 (2015 - $909,254) on general and administrative expenses.

	Three months ended	
	Dec. 31, 2016	Dec. 31, 2015
Comprehensive loss	**792,515**	2,836,590
Comprehensive loss per basic and diluted share	**0.02**	0.03
Funds used in operations	**2,431,934**	2,239,498
E&E expenditures	**2,665,760**	738,187
G&A expenses	**1,222,280**	909,254

The higher comprehensive loss during the second quarter is due to the higher G&A expenses of $313,026, and higher foreign currency translation adjustment of $513,327, incurred during the period as compared to same period last year. The following table itemizes the individual G&A expense categories:

	Three months ended	
	Dec. 31, 2016	Dec. 31, 2015
Management fees	**$ 209,047**	$ 357,161
Legal and accounting fees	**591,244**	172,460
Investor relations	**208,689**	149,937
Office expenses	**56,881**	151,461
Travel and insurance	**156,419**	78,235
Total	**$ 1,222,280**	$ 909,254

Higher G&A expenses incurred during the second quarter were due to the increase in legal fees associated with the re-domicile process.

Six months ended December 31, 2016 compared to six months ended December 31, 2015.

During the six month period ended December 31, 2016, the Company realized a comprehensive loss of $3,871,985 (2015 - $3,375,940), used $4,707,021 (2015 - $2,475,578) in operations, incurred $3,749,398 (2015 - $2,112,329) on exploration activities as well as $2,505,369 (2015 - $1,432,617) on general and administrative expenses.

	Six months ended	
$	**Dec. 31, 2016**	Dec. 31, 2015
Comprehensive loss	**3,871,985**	3,375,940
Comprehensive loss per basic and diluted share	**0.05**	0.04
Funds used in operations	**4,707,021**	2,475,578
E&E expenditures	**3,749,398**	2,112,329
G&A expenses	**2,505,369**	1,432,617

The higher comprehensive loss is due largely to the continued decrease in the exchange rate between the Mexican Peso and the US Dollar as well as higher G&A expenses incurred during the period. The following table itemizes the individual G&A expense categories:

	Six months ended	
$	**Dec. 31, 2016**	Dec. 31, 2015
Management fees	**$ 773,363**	$ 587,732
Legal and accounting fees	**1,001,401**	290,144
Investor relations	**283,630**	226,668
Office expenses	**181,701**	188,195
Miscellaneous	**265,274**	139,878
Total	**$ 2,505,369**	$ 1,432,617

Higher G&A expenses incurred during the six month period were due to the Company's expanded executive team, addition of new consultants, increased corporate administrative costs associated with the new office in London, as well as the re-domicile associated legal costs.

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

$	Three months ended Dec. 31, 2016	Three months ended Sep.30, 2016	Three months ended Jun. 30, 2016	Three months ended Mar.31, 2016
Comprehensive loss	(792,515)	(3,079,749)	(5,832,062)	(2,522,100)
Comprehensive loss per basic and diluted share	(0.02)	(0.03)	(0.05)	(0.02)
Funds (used) provided in operations	(2,431,934)	(1,784,045)	(2,494,096)	(1,507,031)
E&E expenditures	2,298,125	1,982,315	3,106,674	1,507,200
G&A expenses	1,222,280	1,283,089	1,726,262	1,068,083
$	Three months ended Dec. 31, 2015	Three months ended Sept.30, 2015	Three months ended Jun. 30, 2015	Three months ended Mar.31, 2015
Comprehensive income/(loss)	(2,761,663)	(425,983)	(128,448)	102,179
Comprehensive income/(loss) per basic and diluted share	(0.03)	(0.01)	(0.01)	(0.00)
Funds provided (used) in operations	(2,239,498)	(236,081)	(1,507,160)	699,915
E&E expenditures	738,187	1,374,142	500,453	341,835
G&A expenses	909,254	523,363	1,151,472	567,526

LIQUIDITY AND CAPITAL MANAGEMENT

Working Capital

The Company is not in commercial production on any of its resource properties and accordingly, it does not generate cash from operations. The Company finances its activities by raising capital through equity issuances. As at December 31, 2016, the Company had a working capital surplus of $23,756,252 (June 30, 2016 - $27,159,677). The current working capital is dedicated towards the completion of exploration programs, obligations and operations under the Company's principal supply agreement, feasibility studies on the lithium and borate projects along with continued work at the pilot plant. In order to meet the Company's planned growth and development activities, the Company budgets to spend an aggregate of approximately $17 million during fiscal 2017, with approximately $7 million on the Feasibility Study and related expenditures, approximately $2 million on pilot plant related capital expenditures and approximately $8 million on general and administrative corporate expenditures.

At December 31, 2016, the Company did not have any bank debt and does not plan on securing any long-term debt. The Company intends on meeting its financial commitments through further equity financings, as and when required.

Capital structure

The Company's objectives in managing capital are to safeguard its ability to operate as a going concern while pursuing exploration and development of its assets. The Company defines capital as the Company's shareholders equity excluding contributed surplus, of $45,781,724 at December 31, 2016 (June 30, 2015 - $44,482,529), The Company sets the amount of capital in proportion to risk and corporate growth objectives. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company is not subject to any externally imposed capital requirements.

Equity instruments

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

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

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

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

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

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

On September 30, and October 10, 2016, 2,925,000 warrants at a price of approximately \$1.35 (£0.79) were exercised into 2,925,000 new common shares, for total proceeds of approximately \$3,892,400 (£2,310,750).

Subsequent to December 31, 2016, the Company issued 200,000 common shares as a result of 200,000 stock options exercised at a price of \$0.30 each, for total proceeds of \$60,000.

The following tables summarize the outstanding securities issued by the Company as at December 31, 2016, and as of the date of this MD&A.

	February 27, 2016	December 31, 2016
Common shares	110,999,353	110,799,353
Stock options	4,775,000	4,975,000
Warrants	833,333	833,333
Total equity instruments outstanding	116,607,686	116,607,686

The following table summarizes the outstanding options as at December 31, 2016.

Grant date	Number outstanding at Dec. 31, 2016	Exercise price	Weighted average remaining contractual life (Years)	Expiry date	Number exercisable at Dec. 31, 2016
September 28, 2012	50,000	0.25	1.1	Sept. 28, 2017	50,000
September 11, 2013	725,000	0.30	1.9	Sept. 11, 2018	725,000
December 2, 2015	1,200,000	1.58	4.1	Dec. 2, 2020	1,200,000
January 22, 2016	1,000,000	1.56(1)	1.2	Jan. 22, 2018	1,000,000
April 27, 2016	2,000,000	1.94(2)	2.5	May 27, 2019	-
	4,975,000				2,975,000

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

SEGMENTED INFORMATION

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

	Exploration and Evaluation Activities		**Consolidated**	
	Dec. 31, 2016	June 30, 2016	**Dec. 31, 2016**	June 30, 2016
Property and equipment	**\$ 1,966,207**	\$ 2,364,371	**\$ 1,966,207**	\$ 2,364,371
Exploration and evaluation assets	**\$ 23,902,448**	\$ 17,816,713	**\$ 23,902,448**	\$ 17,816,713

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

a) Credit risk

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

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

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

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

b) Liquidity risk

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

c) Market risk

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

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

d) Fair values

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

RELATED PARTY TRANSACTIONS

a. Related party expenses

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

During the three and six months ended December 31, 2016, directors and management fees in the amount of $368,014 and $715,636 respectively (2015 - $331,242 and 597,655 respectively) were paid to directors and officers of the Company. All of these costs were recorded as general and administrative. Of the total amount incurred as directors and management fees, $126,877 (June 30, 2016 – $38,075) remains in accounts payables and accrued liabilities on December 31, 2016.

During the three and six months ended December 31, 2016, the Company paid $Nil (2015 - $35,297 and $53,559 respectively) to a daughter of the past Chairman of the Company. These services were incurred in the normal course of operations for office administrative services. As of December 31, 2016, $Nil (June 30, 2016 - $Nil) remains in accounts payables and accrued liabilities.

During the three and six months ended December 31, 2016, the Company paid $270,823 and $528,477 respectively (2015 - $260,533 and $496,074 respectively) to Grupo Ornelas Vidal S.A. de C.V., a consulting firm of which Martin Vidal, director of the Company and president of MSB, is a partner. These services were incurred in the normal course of operations for geological exploration and pilot plant operation. As of December 31, 2016, $104,957 (June 30, 2016 - $77,416) remains in accounts payable and accrued liabilities.

a. Key management personnel compensation

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

	Three months ended		Six months ended	
	Dec. 31, 2016	Dec. 31, 2015	**Dec. 31, 2016**	Dec. 31, 2015
Directors' fees:				
Colin Orr-Ewing	**$ -**	$ 34,245	**$ 10,056**	$ 49,245
James Leahy	**12,400**	5,000	**25,263**	10,000
Shane Shircliff	**2,916**	4,375	**6,462**	8,750
Derek Batorowski	**-**	4,375	**-**	8,750
Kiran Morzaria	**4,375**	4,294	**8,749**	8,044
Ray Hodgkinson	**1,250**	-	**1,250**	-
Jamie Strauss	**2,916**	-	**2,916**	-
Total directors' fees:	**$ 23,857**	$ 49,290	**$ 54,696**	$ 84,790
Management and consulting fees:				
Peter Secker	**$ 104,536**	$ 127,583	**$ 211,653**	255,967
Martin Vidal	**75,164**	63,495	**133,853**	125,677
Derek Batorowski	**84,017**	56,875	**147,142**	97,222
Mark Hohnen	**84,606**	34,000	**172,458**	34,000
Total management and consulting fees	**$ 348,323**	$ 281,953	**$ 665,106**	$ 512,866
Employee's salary:				
Cordelia Orr-Ewing	**$ -**	$ 35,297	**$ -**	$ 53,559
Total employee's salary	**$ -**	$ 35,297	**$ -**	$ 53,559
Total director's, management's, consultant's and employee's salaries and fees	**$ 372,180**	$ 403,539	**$ 719,802**	$ 685,215
Operational consulting fees:				
Groupo Ornelas Vidal S.A.deC.V.	**$ 270,823**	$ 260,533	**$ 528,477**	$ 496,074
Stock-based compensation	**$ 638,837**	$ 577,658	**$ 1,244,113**	$ 577,658

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

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

COMMITMENTS AND CONTINGENCIES

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

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

SUBSEQUENT EVENTS

Subsequent to December 31, 2016, the Company issued 200,000 common shares as a result of 200,000 stock options exercised at a price of $0.30 each, for total proceeds of $60,000.

On February 21, 2017, the Company announced the acquisition of a 50% interest in, and joint operational control of, the Zinnwald Lithium Project ("**Zinnwald"** or "**the Project"**) in southern Saxony, Germany from SolarWorld AG ("**SolarWorld"**). The Company will earn 50% of the project in return for a cash consideration of EUR5 million and the completion of a Feasibility Study on the Project, anticipated to cost approximately EUR5 million and to take approximately 18-24 months to complete. The Company also has an option to acquire outstanding 50% held by SolarWorld within a 24 month period for EUR30 million.

RISKS AND UNCERTAINITES

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

- **Resource estimates**

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

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

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

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

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

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

- **Financing risk**

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

Failure to obtain additional financing, on a timely basis, could cause the Company to reduce or delay its proposed operations. The majority of sources of funds currently available to the Company

for its projects are in large portion derived from the issuance of equity. While the Company has been successful in the past in obtaining equity financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

- **Dependence on key personnel**

  The success of the Company, in common with other businesses of a similar size, will be highly dependent on the expertise and experience of its directors and senior management. The loss of any key personnel could harm the business or cause delay in the plans of the Company 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 Company has entered into consulting arrangements with its key personnel to secure their services, the agreements are not subject to any minimum notice periods and the Company cannot guarantee the retention of such key personnel. Should key personnel leave, the Company’s business, prospects, financial condition or results of operations may be materially adversely affected.

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

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

- **Government Legislation and regulatory risk**

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

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

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

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

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

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

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

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

- **Applications**

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

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

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

- **Share Capital of Mexican Subsidiaries**

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

- **Exploration uncertainty**

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

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

- **Negative conclusions from further economic assessments**

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

- **Internal controls**

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

- **Environmental compliance**

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

- **Environmental approvals**

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

- **Further licences and permits required**

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

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

- **Unknown environmental hazard**

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

- **Exploration, development and operating risks**

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

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

- **Reliance on third parties**

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

- **Operations**

  The Company's lithium and borate projects involves a number of risks and hazards, including industrial accidents, labour disputes, unusual or unexpected geological conditions, equipment failure, changes in the regulatory environment, environmental hazards and weather and other natural phenomena such as earthquakes and floods. The Company may experience a plant

  shutdown or periods of reduced production as a result of any of the above factors. Such occurrences could result in material damage to, or the destruction of, production facilities, human exposure to pollution, personal injury or death, environmental and natural resource damage, monetary losses and possible legal liability, any of which could materially adversely affect the Company's results of operations.

- **Commodity prices**

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

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

- **Infrastructure**

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

- **Canadian corporate income taxes**

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

- **Tax considerations**

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

- **Uninsured hazards**

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

  The Company can give no assurance that the proceeds of insurance applicable to covered risks will be adequate to cover expenses relating to losses or liabilities. Accordingly, the Company may suffer material losses from uninsurable or uninsured risks or insufficient insurance coverage. The Company is also subject to the risk of unavailability, increased premiums or deductibles, reduced cover and additional or expanded exclusions in connection with its insurance policies and those of operators of assets it does not itself operate.

- **Exposure to economic cycle**

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

- **Health and safety**

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

- **Geopolitical climate**

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

- **Foreign currency exchange rates**

  The Company’s revenues will be derived n Mexico and the Company’s operations and profitability may be adversely affected by movements in foreign currency exchange rates, particularly by movements in the US Dollar relative to Sterling, the Canadian Dollar and the Mexican Peso, through both transaction and conversion risks.

- **Supply Agreement**

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

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

- Employing management and technical staff and consultants with extensive industry and/or area experience;
- Maintaining an appropriate working capital position to cover the Company's capital and overhead requirements;
- Maintaining a low cost structure and a tight cost control system; and
- Maintaining insurance in accordance with industry standards to address the risk of liability for property damage, personal injury, and other hazards.

ADVISORY REGARDING FORWARD LOOKING STATEMENTS

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