

BACANORA MINERALS LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE SIX MONTH PERIOD ENDED DECEMBER 31, 2015

DATE – FEBRUARY 29, 2016

The following Management's Discussion and Analysis ("**MD&A**") should be read in conjunction with Bacanora Minerals Ltd. ("**Bacanora**" or the "**Company**") unaudited condensed consolidated interim financial statements for the period ended December 31, 2015, together with the accompanying notes. The following discussion and analysis provides information that management believes is relevant to the assessment and understanding of the Company's results of operations and financial position. In the opinion of management, all adjustments consisting of normal recurring adjustments, considered necessary for a fair presentation of the Company's financial position, results of operations and funds flow, have been included. This MD&A is presented in Canadian dollars ("**CAD\$**"), unless stated otherwise. Additional information relating to Bacanora is available on SEDAR at www.sedar.com.

THE COMPANY

Bacanora Minerals Ltd. is a developer and explorer of industrial minerals in Sonora State, Mexico with a primary focus on its Sonora Lithium Project (see *Mineral Properties – Lithium*). 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 6 for further details on the Company's legal and operational structure.

QUARTERLY HIGHLIGHTS

- During the quarter ended December 31, 2015, the Company completed a private placement financing of approximately \$17.8 million via the placing of 11,476,944 new common shares at a price of \$ 1.56 per share.
- As a result of the financing, the Company has secured its first major institutional shareholder, M&G Investments, as well as receiving continued support from pre-existing shareholders.
- Funds from the recent private placement are being utilized to expand and upgrade the Company's lithium pilot plant, located in Hermosillo, Mexico. The expanded plant will be used to produce battery grade lithium carbonate marketing samples for distribution to potential off-take partners in Europe and Asia in Q2 and Q3, 2016.
- On November 23, 2015, the Company released an updated Mineral Resource Estimate ("**MRE**") report for the Sonora Lithium Project (as hereinafter defined – see *Mineral Properties- Lithium*). The MRE was prepared in accordance with National Instrument NI 43-101 – *Standards of Disclosure for Mineral Projects* ("**NI 43-101**"). This has resulted in:
 - a 337% increase of the Indicated Mineral Resource to 5.0 million tonnes ("**Mt**") of LCE¹ (364 Mt of clay at a lithium ("**Li**") grade of 2,600 ppm), from the previously reported 1.14 Mt (95 Mt of clay, at a Li grade of 2,200 ppm)²

¹ LCE = lithium carbonate (Li₂CO₃) equivalent; determined by multiplying Li value in percent by 5.324 to get an equivalent Li₂CO₃ value in per cent. 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.

² For reference to the Company's previously announced resource estimate on the La Ventana, El Sauz and Fleur concessions, please refer to the Company's news release dated 13 May 2015, together with the Company's

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- an Inferred Mineral Resource of 3.9 Mt of LCE (355 Mt of clay at a Li grade of 2,000 ppm), compared to the previously reported 6.3 Mt of LCE (500 Mt of clay at a Li grade of 2,300 ppm)
- The Company continues to develop the Sonora Lithium Project with the ongoing technical work for the preparation of an NI 43-101 compliant Pre-Feasibility Study (“PFS”). Metallurgical testwork at SGS Canada Inc. (“SGS”) has now been substantially completed. Mine design, mine scheduling, process engineering and design is currently proceeding on schedule for the completion of the PFS in the first calendar quarter of 2016.
- Ongoing discussions with potential off-take partners in Europe and Asia are underway and will continue over the next 12 months.
- Planning for an in-fill drilling program at La Ventana is currently being undertaken as part of the preparation for a Feasibility Study (“FS”) that is currently scheduled to commence in Q2, 2016, assuming and subject to satisfactory completion of the PFS.

MINERAL PROPERTIES - LITHIUM

The Sonora Lithium Project consists of ten contiguous concessions covering 94,186 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 2 concessions are owned by Bacanora’s subsidiary, Mexilit S.A. de C.V. (“Mexilit”) (which is owned 70% by Bacanora and 30% by Rare Earth Minerals PLC (“REM”). The San Gabriel and Buenavista concessions are owned by Bacanora’s subsidiary, Minera Megalit S.A. de C.V. (“Megalit”) (which is owned 70% by Bacanora and 30% by REM). The Company currently holds the Megalit concession in MSB, but intends to transfer it to the Megalit subsidiary in due course. REM had the option to negotiate an increase to its interest of up to 49.9% of Megalit. This option expired on January 12, 2016.

The Sonora Lithium Project is subject to a 3% gross overriding royalty payable to Mr. Colin Orr-Ewing, Chairman of the Company, on sales of mineral products produced from this property.

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

Based on the Company’s updated NI 43-101 MRE announced on November 23, 2015, the Sonora Lithium Project concessions have an estimated indicated Li resource of 5 Mt LCE contained in 364 Mt of clay, at Li grade of 2,600 ppm, and an estimated inferred Li resource of 3.9 Mt LCE contained in 355 Mt of clay at a Li grade of 2,300 ppm. For further details on the Company’s lithium resource refer to the *Mineral Resource Estimate* section below.

Mineral Resource Estimate

The updated MRE significantly increases the Indicated portion of the resource, and the resource in total. The new resource estimate has a major positive impact for mine planning and the project’s life of mine. In particular, it will allow management to optimize the mine design, focusing on higher grade mineral resources and to maximize the project’s net present value.

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Highlights of the MRE are:

- A 337% increase of the Indicated Mineral Resource to 5.0 Mt of LCE (364 Mt of clay at a Li grade of 2,600 ppm), from the previously reported 1.14 Mt (95 Mt of clay, at a Li grade of 2,200 ppm)³.
 - La Ventana Indicated Mineral Resource has increased from the previously reported 0.84 Mt LCE to 1.9 Mt LCE.
 - El Sauz, El Sauz 1 and Fleur Indicated Mineral Resource has increased from the previously reported 0.30 Mt LCE to 3.1 Mt LCE.

- The Inferred Mineral Resource is now 3.9 Mt of LCE (355 Mt of clay at a Li grade of 2,000 ppm), compared to the previously reported 6.3 Mt of LCE (500 Mt of clay at a Li grade of 2,300 ppm) – this change is mainly as a result of the significant upgrade of Inferred Minerals Resource to a Indicated Mineral Resource.

The updated MRE is based on the original assay results from the drilling and trenching made available to SRK and the additional assay results from the most recent drilling.

Table 1: Mineral Resource Statement for the Sonora Lithium Project

Classification	Concession	Owner	Geological Unit	Clay Tonnes (Mt)	Clay Grade (Li ppm)	Contained Metal (Kt Li)	Contained Metal (Kt LCE)	Contained LCE attributable to Bacanora (Kt LCE)
Indicated	La Ventana	Minera Sonora Borax	Lower Clay	75	3,500	261	1,385	1,385
			Upper Clay	66	1,500	99	523	523
	El Sauz	Mexilit (JV-1)	Lower Clay	60	2,900	174	924	647
			Upper Clay	47	1,100	52	274	192
	Fleur	Mexilit (JV-1)	Lower Clay	60	4,300	258	1,365	956
			Upper Clay	50	1,600	81	428	300
	El Sauz1	Mexilit (JV-1)	Lower Clay	4	4,000	15	80	56
			Upper Clay	3	1,200	3	18	13
Indicated Total			Combined	364	2,600	943	4,997	4,070
Inferred	La Ventana	Minera Sonora Borax	Lower Clay	55	3,800	209	1,108	1108
			Upper Clay	80	1,500	120	636	636
	El Sauz	Mexilit (JV-1)	Lower Clay	85	1,600	136	721	505
			Upper Clay	55	800	44	233	163
	Fleur	Mexilit (JV-1)	Lower Clay	20	4,200	84	445	312
			Upper Clay	20	1,500	30	159	111
	El Sauz1	Mexilit (JV-1)	Lower Clay	20	4,000	80	424	297
			Upper Clay	20	1,200	24	127	89
Inferred Total			Combined	355	2,000	727	3,853	3,220

³ For reference to the Company's previously announced resource estimate on the La Ventana, El Sauz and Fleur concessions, please refer to the Company's news release dated 13 May 2015, together with the Company's technical report dated 29 June 2015. Each of the foregoing items is available under the Company's profile at www.sedar.com.

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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. The Mineral Resource statement is reported on 100 percent basis for all project areas and the portion of LCE that is attributable to Bacanora is also stated for clarity.
4. 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 an optimistic forecast LCE price SRK has reported the Mineral Resource at a cut-off 450 ppm Li (2,400 ppm LCE).
5. 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.

Lithium Plant and Pre-Feasibility Study

The Company continues to develop the Sonora Lithium Project, with the appointment of a number of international consulting groups to generate the PFS in accordance with the requirements of NI 43-101.

SGS has substantially completed a lithium carbonate metallurgical testwork program, at their Lakefield site, utilizing a number of ore samples from the Sonora Lithium Project concessions. The data from this testwork has been used to produce a detailed lithium carbonate flowsheet.

The Company is currently scheduling to release the PFS, prepared in accordance with the requirements of NI 43-101, in the first calendar quarter of 2016.

Funds from the recent private placement are being utilized to expand and upgrade the Company's lithium pilot plant, located in Hermosillo, Mexico. The expanded plant will be used to optimize the metallurgical flow sheet that has been developed during the PFS process as well as to produce battery grade lithium carbonate marketing samples for distribution to potential off-take partners in Europe and Asia in Q2 and Q3, 2016.

Ongoing discussions with potential off-take partners in Europe and Asia are underway and will continue over the next 12 months, based on the production of battery grade lithium carbonate samples from the Hermosillo pilot plant.

Planning for an in-fill drilling program at La Ventana is currently being undertaken as part of the preparation for a FS that is currently scheduled to commence in Q2, 2016, assuming and subject to satisfactory completion of the PFS.

Lithium outlook

The Company remains focused on the development of its Sonora Lithium Project. In the immediate term, a number of activities are underway to support this future development.

- Preparation of a PFS in accordance with NI 43-101, during the first calendar quarter of 2016 for the lithium carbonate mining and processing development at the Sonora Lithium Project.
- Commencement of a FS, subject to and subsequent to the successful completion of the PFS.
- Progressing of initial metallurgical testwork for the production of battery grade lithium hydroxide material.

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MINERAL PROPERTIES - BORATES

Magdalena Borate

The Magdalena Borate Project consists of seven concessions, with a total area of 16,503 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% B₂O₃ can be produced from an average feed of 10.5% B₂O₃ 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 is ongoing.

Borates outlook

Drilling results from the 2014 Magdalena drilling program have been utilized in a preliminary mine plan for Unit B, in conjunction with the previous mine plan for Unit A. Additional metallurgical testwork programs are being developed for the production of boric acid from howlite mineralization.

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

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

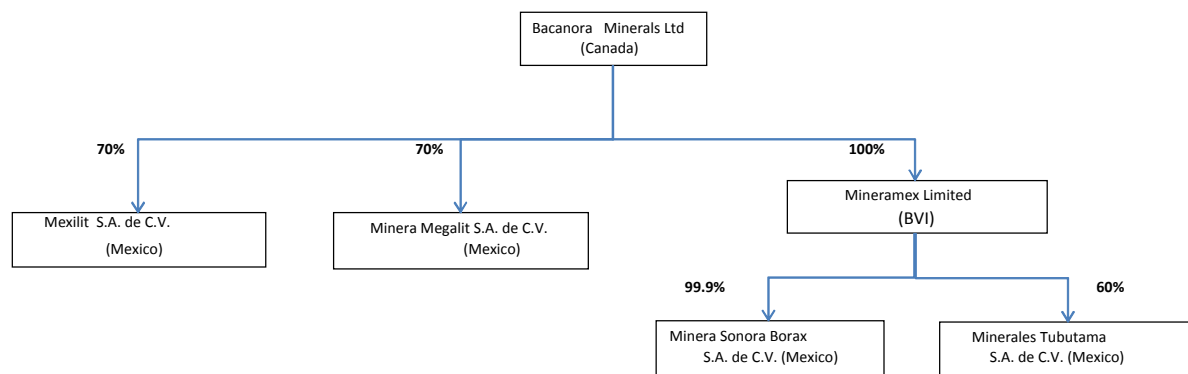
COMPANY STRUCTURE

The Company is a public company engaged in the exploration and development of mineral deposits in Mexico. The Company is in various stages of exploration on all of its properties. On April 9, 2010, the Company completed its qualifying transaction by way of a reverse takeover of Mineramex Limited ("**Mineramex**"), a British Virgin Islands company whose sole assets consist of 99.9% of the issued and outstanding shares of Minera Sonora Borax, S.A. de C.V. ("**MSB**"), and 60% of the issued and outstanding shares of Minerales Industriales Tubutama, S.A. de C.V. ("**MIT**"). The Company is dually listed on the TSX Venture Exchange as a Tier 2 issuer and on the AIM Market of the London Stock Exchange, with its common shares trading 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.

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

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

EVALUATION AND EXPLORATION EXPENDITURES

The Company capitalizes all exploration costs subsequent to obtaining the right to explore related to the projects to Exploration and Evaluation assets. Below is a summary of expenditures capitalized during the period ended September 30, 2015 and the year ended June 30, 2015.

	Magdalena Borate	La Ventana Lithium	Mexilit Lithium	Megalit Lithium	Total
Balance, June 30, 2014	\$ 6,179,591	\$ 610,661	\$ 2,051,522	\$ -	\$ 8,841,774
Additions:					
Concession tax	97,074	43,194	7,033	-	147,301
Exploration	164,538	150,096	-	5,647	320,281
Drilling	53,029	579,306	-	262,671	895,006
Analysis and assays	11,523	61,630	4,371	32,627	110,151
Technical services	60,802	154,842	21,380	71,435	308,459
Travel	9,372	27,369	1,103	836	38,680
Office and miscellaneous	670,229	304,739	6,118	264,689	1,245,775
Total additions	\$ 1,066,567	\$ 1,321,176	\$ 40,005	\$ 637,905	\$ 3,065,653
Balance, June 30, 2015	\$ 7,246,158	\$ 1,931,837	\$2,091,527	\$ 637,905	\$ 11,907,427
Additions:					
Concession tax	40,386	43,320	154,719	105,522	343,947
Exploration	-	18,325	142,483	-	160,808
Drilling	-	-	431,586	-	431,586
Analysis and assays	-	55,824	18,219	-	74,043
Technical services	-	685,340	165,905	16,955	868,200
Travel	37,107	49,217	2,015	-	88,339
Office and miscellaneous	163,361	89,472	6,521	-	259,354
Total additions	\$ 240,854	\$ 941,498	\$ 921,448	\$ 122,477	\$ 2,226,277
Balance, December 31, 2015	\$7,487,012	\$ 2,873,335	\$ 3,012,975	\$ 760,382	\$ 14,133,704

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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, 2015, the Company recorded a total comprehensive loss of \$1,315,929 (2014 - \$2,411,234), used \$1,637,382 (2014 - \$1,128,057) of cash in operations, incurred \$3,065,653 (2014 - \$3,213,451) on exploration expenditures as well as \$2,753,173 (2014 - \$1,068,668) on general and administrative expenses.

(\$, except shares amounts)	For the year ended June 30, 2015	For the year ended June 30, 2014	For the year ended June 30, 2013
Interest income	108,403	10,710	10,917
Total expenses (includes foreign exchange loss/gain)	2,849,567	2,665,669	891,828
Comprehensive loss	1,315,929	2,411,234	634,206
Comprehensive loss per share – basic and diluted	(0.03)	(0.04)	(0.01)
Funds provided (used) in operations	(1,637,382)	(1,128,057)	(527,487)
Total assets	24,728,583	13,458,386	12,382,206
Total liabilities	1,083,763	1,014,229	1,055,406
Exploration and evaluation costs	3,065,653	3,213,451	2,137,726
General and administrative costs	2,753,173	1,068,668	745,542

During the year ended June 30, 2015, the Company's general and administrative expenses increased by \$1,684,505. Higher G&A expenses were due to the increase in corporate administrative costs associated with the admission of the Company's common shares to the AIM, as well the addition of corporate administrative costs associated with the office in London, addition of new corporate consultants, and higher legal fees.

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General and administrative expenses for the years ended June 30, 2015 and 2014 were as follows:

\$	Twelve months ended	
	June 30, 2015	June 30, 2014
Management fees	\$ 705,084	\$ 311,271
Legal and accounting fees	1,041,619	507,381
Investor relations	427,862	105,112
Office expenses	177,495	112,751
Miscellaneous	401,113	32,153
Total	\$ 2,753,173	\$ 1,068,668

Summary of quarterly results

Three months ended December 31, 2015 compared to three months ended December 31, 2014.

During the second quarter of fiscal 2015, the Company realized a comprehensive loss of \$2,761,663 (2014 – \$769,652), operating activities used \$2,239,498 (2014 – \$533,824), incurred \$738,187 (2014 – \$823,251) on exploration expenditures, as well as \$909,254 (2014 - \$637,236) on general and administrative expenses.

\$	Three months ended	
	Dec. 31, 2015	Dec. 31, 2014
Comprehensive loss	(2,761,663)	(769,652)
Comprehensive loss per basic and diluted share	(0.03)	(0.01)
Funds used in operations	(2,239,498)	(533,824)
E&E expenditures	738,187	823,251
G&A expenses	909,254	637,236

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:

\$	Three months ended	
	Dec. 31, 2015	Dec. 31, 2014
Management fees	\$ 357,161	\$ 129,827
Legal and accounting fees	172,460	174,754
Investor relations	149,937	141,384
Office expenses	151,461	20,680
Miscellaneous	78,236	170,591
Total	\$ 909,254	\$ 637,236

Higher G&A expenses incurred during the current quarter were due to the increase in management fees and office expenses which were the result of expanding the Company's executive team.

Six months ended December 31, 2015 compared to six months ended December 31, 2014.

During the six month period ended December 31, 2015, the Company realized a comprehensive loss of \$3,187,646 (2014 - \$1,243,428), used \$2,475,578 (2014 - \$860,220) in operations, incurred \$2,112,329 (2014 - \$1,099,031) on exploration activities as well as \$1,432,617 (2014 - \$1,034,176) on general and administrative expenses.

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\$	Six months ended	
	Dec. 31, 2015	Dec. 31, 2014
Comprehensive income/(loss)	(3,187,646)	(1,243,428)
Comprehensive income/(loss) per basic and diluted share	(0.04)	(0.02)
Funds provided (used) in operations	(2,475,578)	(860,220)
E&E expenditures	2,112,329	1,099,031
G&A expenses	1,432,617	1,034,176

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, 2015	Dec. 31, 2014
Management fees	\$ 587,732	\$ 224,747
Legal and accounting fees	290,144	299,821
Investor relations	226,668	192,515
Office expenses	188,195	112,445
Miscellaneous	139,878	204,647
Total	\$ 1,432,617	\$ 1,034,176

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

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

\$	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)	(129,148)	102,879
Comprehensive loss per basic and diluted share	(0.03)	(0.01)	(0.01)	(0.00)
Funds provided (used) in operations	(2,239,498)	(236,081)	(1,447,077)	698,975
E&E expenditures	738,187	1,374,142	1,624,788	341,835
G&A expenses	909,254	523,363	1,151,472	567,526
\$	Three months ended Dec. 31, 2014	Three months ended Sept. 30, 2014	Three months ended Jun. 30, 2014	Three months ended Mar. 31, 2014
Comprehensive income/(loss)	(767,946)	(521,714)	(2,097,762)	312,402
Comprehensive income/(loss) per basic and diluted share	(0.01)	(0.01)	(0.03)	(0.00)
Funds provided (used) in operations	(533,824)	(325,456)	(1,159,137)	339,245
E&E expenditures	823,251	275,779	249,198	1,342,685
G&A expenses	637,236	396,939	698,634	122,957

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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, 2015, the Company had a working capital surplus of \$23,014,736 (2014 – \$12,012,938). The current working capital is dedicated towards the completion of exploration programs, obligations and operations under the Company's principal supply agreement, pre-feasibility studies on the lithium and borate projects along with continued work at the pilot plant. At December 31, 2015, 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 \$38,296,319 at December 31, 2015 (2015 - \$23,172,867), 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 other than those disclosed in Note 1 of the Company's annual consolidated financial statements. The Company does not expect to enter into any debt financing at this time. The Board of Directors does not establish a quantitative return on capital criteria for management; but rather promotes year over year exploration and development growth.

Equity instruments

On November 13, 2015, the Company completed a private financing of 11,476,944 common shares at a price of approximately \$1.56 per share for aggregate gross proceeds of \$17,871,564. 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.

The following tables summarize the outstanding securities issued by the Company as at December 31, 2015, and as of the date of this MD&A.

	February 29 , 2016	December 31, 2015
Common shares	97,274,353	97,274,353
Stock options	3,875,000	2,875,000
Warrants	833,333	833,333
Total equity instruments outstanding	101,982,686	100,982,686

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The following table summarizes the outstanding options as at December 31, 2015.

Grant date	Number outstanding at Dec. 31, 2015	Exercise price	Weighted average remaining contractual life (Years)	Expiry date	Number exercisable at Dec. 31, 2015
June 19, 2011	350,000	0.44	1.3	Jun. 19, 2016	350,000
July 19, 2011	500,000	0.50	1.3	July 19, 2016	500,000
September 28, 2012	50,000	0.25	2.5	Sept. 28, 2017	50,000
September 11, 2013	725,000	0.30	3.2	Sept. 11, 2018	725,000
December 2, 2015	1,250,000	1.58	5.0	Dec. 2, 2020	1,250,000
	2,875,000				2,875,000

SEGMENTED INFORMATION

The Company currently operates in one operating segment, the exploration and development of mineral properties in Mexico. Management of the Company makes decisions about allocating resources based on the one operating segment. A geographic summary of identifiable assets by country is as follows:

	Mexico		Canada		Consolidated	
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014
Property and equipment	\$ 2,453,960	\$ 1,445,016	\$ -	\$ -	\$ 2,453,960	\$ 1,445,016
Exploration and evaluation assets	\$ 14,081,136	\$ 9,940,804	\$ -	\$ -	\$ 14,081,136	\$ 9,940,804

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 arises from the potential that a counter party will fail to perform its obligations. Financial instruments that potentially subject the Company to concentrations of credit risk consist of accounts receivables and related party receivables. 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.

The Company's cash is held in major Canadian and Mexican banks, and as such the Company is exposed to the risks of those financial institutions. Substantially all of the accounts receivables represent amounts due from the Canadian and Mexican governments and accordingly the Company believes them to have minimal credit risk.

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

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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, 2015, directors and management fees in the amount of \$334,243 and \$597,655 respectively (2014 - \$149,667 and \$311,145, respectively) were paid to directors and officers of the Company. Of this amount, \$Nil (2014 - \$44,146 and \$100,023, respectively) was capitalized to exploration and evaluation assets, and \$334,243 and \$597,655 respectively (2014 - \$105,521 and \$211,122, respectively) was expensed as general and administrative costs. Of the total amount incurred as directors and management fees, \$112,987 (2014 - \$45,178) remains in due to related parties on December 31, 2015.

During the three and six months ended December 31, 2015, the Company paid \$35,297 and \$53,559 respectively (2014 - \$22,025 and \$39,085, respectively) to a daughter of the Chairman of the Board of Directors of the Company. These services were incurred in the normal course of operations for office administrative services. As of December 31, 2015, \$Nil (2014 - \$Nil) remains in due to this related party.

During the three and six months ended December 31, 2015, the Company paid \$260,533 and \$496,074 respectively (2014 - \$91,176 and \$241,590 respectively) to Grupo Ornelas Vidal S.A. de C.V., a consulting firm of which Martin Vidal, director of the Company and president of MSB, is a partner. These services were incurred in the normal course of operations for geological exploration and pilot plant operation services, as such the entire amount has been capitalized. As of December 31, 2015, \$83,820 (2014 - \$30,835) remains in due to related parties.

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b) Key management personnel and related party compensation

The following table details the related party expenses by category as well as by each individual, for the three and six months ended December 31, 2015, and 2014.

	Three months ended		Six months ended	
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014
Director's fees:				
Colin Orr-Ewing	\$ 34,245	\$ 15,000	\$ 49,245	\$ 30,000
James Leahy	5,000	5,000	10,000	10,000
Guy Walker	-	5,000	-	10,000
Shane Shircliff	4,375	4,375	8,750	8,750
Derek Batorowski	4,375	4,375	8,750	8,750
Kiran Morzaria	4,294	-	8,044	-
Total director's fees:	\$ 49,290	\$ 33,750	\$ 84,790	\$ 67,500
Management and consulting fees:				
Paul Conroy ⁽¹⁾	\$ -	\$ 20,000	\$ -	\$ 50,000
Peter Secker	127,583	-	255,967	-
Martin Vidal	63,495	47,292	125,677	108,045
Shane Shircliff	-	21,000	-	42,000
Derek Batorowski	56,875	27,625	97,222	43,600
Mark Hohnen	34,000	-	34,000	-
Total management and consulting fees	\$ 281,953	\$ 115,917	\$ 512,866	\$ 243,645
Employee's salaries:				
Cordelia Orr-Ewing	\$ 35,297	\$ 22,025	\$ 53,559	\$ 39,085
Total employee's salaries	\$ 35,297	\$ 22,025	\$ 53,559	\$ 39,085
Total director's, management's, consultant's and employee's salaries and fees	\$ 403,539	\$ 171,692	\$ 685,215	\$ 350,230
Operational consulting fees:				
Grupo Ornelas Vidal S.A. de C.V.	\$ 260,533	\$ 91,176	\$ 496,074	\$ 241,590
Stock-based compensation	\$ 577,658	\$ -	\$ 577,658	\$ -

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

At December 31, 2015 the following options were held by the directors of the Company.

Name	Date of grant	Exercise price(\$)	Number of options
Shane Shircliff	Jul. 19, 2011	0.50	500,000
	Sep. 11, 2013	0.30	200,000
	Dec. 2, 2015	1.58	175,000
Martin Vidal	Jun. 11, 2011	0.44	250,000
	Sep. 11, 2013	0.30	200,000
	Dec. 2, 2015	1.58	175,000
Derek Batorowski	Sep. 11, 2013	0.30	200,000
	Dec. 2, 2015	1.58	175,000

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COMMITMENTS AND CONTINGENCIES

The Company has commitments for lease payments for offices in London, UK and field office in Mexico. The total annual financial commitment resulting from these agreements is approximately \$140,000.

The properties in Mexico are subject to spending requirements in order to maintain title of the concessions. The capital spending requirement for 2016 is \$105,200. The properties are also subject to semi-annual payments to the Mexican government for concession taxes.

SUBSEQUENT EVENTS

On January 22, 2016, the Company announced that it has entered into a consultancy agreement with a private company controlled by Mark Hohnen, who is a proposed nominee for election to the Board of Bacanora. The consultancy agreement is for a period of eighteen months and the monthly compensation payable is £19,000 or £342,000 over the entire term of the agreement. In addition to the compensation payable, an aggregate of 1,000,000 options to acquire common shares in the capital of the Company at a price of £0.77 per share for a period of 24 months have been granted to the foregoing private company.

RISKS AND UNCERTAINTIES

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, 2015, 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;

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- 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 complete the development of the Sonora Lithium Project and/or Magdalena Borate project at all, or in accordance with any timelines or budgets that may be established due to the factors described above.

- **Financing risk**

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

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

- **Dependence on key personnel**

The success of the Company, in common with other businesses of a similar size, will be highly dependent on the expertise and experience of its directors and senior management. The loss of any key personnel could harm the business or cause delay in the plans of the Company whilst management time is directed at finding suitable replacements. The future success of the Company is in part dependent upon its ability to identify, attract, motivate and retain staff with the requisite expertise and experience. Although the Company has entered into consulting arrangements with its key personnel to secure their services, the agreements are not subject to

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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, 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.

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- **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.

- **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.

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- **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.

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- **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.

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

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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,

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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 in 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

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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.