Bacanora Lithium Plc

Annual Report and Financial Statements

31 December 2020

Company Directory

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BACANORA lithium

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Business Review

Highlights – for the twelve months ended 31 December 2020 and subsequent events:

Corporate – Completion of Company's 50% share of the funding requirements of the Sonora Lithium Project ("Sonora Project" or "Project"), Mexico

- Bacanora Lithium plc ("Bacanora" or the "Company"), on 8 February 2021, completed a successful placing and retail offer which raised gross proceeds of approximately US$65.0 million through the issue of a total of 106,995,885 new ordinary shares at a price of 45 pence per placing share (£48.1 million). Together with the undrawn RK Mine Finance ("RK") facility and cash on the Company's balance sheet, the gross proceeds will meet the Company's 50% share of the financing required for the construction of stage 1 of its flagship Sonora Project, located in Mexico.
- In addition to the placing and retail offer, Ganfeng Lithium Co., Ltd. ("Ganfeng"), Bacanora's cornerstone investor and offtake partner, received board approval on 5 February 2021 to exercise its pre-emptive right at the placing price and to increase its holding in the Company. Ganfeng will subscribe for a total of 53,333,333 new ordinary shares at the placing price of 45 pence per share, representing gross proceeds £24.0 million. Completion of this investment from Ganfeng is conditional upon obtaining certain approvals and consents from authorities in the People's Republic of China. On completion of their investment, Bacanora will have 384,144,901 shares in issue and Ganfeng will have an ownership level of 28.88%.
- Ganfeng completed its option to increase its stake in Sonora Lithium Ltd ("SLL") from 22.5% to 50% (the "Option") on 26 February 2021. SLL is the operational holding company for the Sonora Project. Consequently, Ganfeng have subscribed for 73,955,680 new ordinary shares in SLL at 29.59 pence at a total value of £21.9 million. On completion of the transaction, a revised Joint Venture Agreement ("JVA") came into force, whereby each party is responsible for their portion of Project capex.
- These additional investments demonstrate Ganfeng's ongoing commitment to the Project, which targets production in 2023. Bacanora will remain as the project operator in Sonora, while Ganfeng will be responsible for leading certain engineering, procurement and construction ("EPC") activities including the battery-grade lithium hydrometallurgical plant.
- Bacanora and its subsidiaries (the "Group") has a strong cash balance which was US$39.2 million as at 31 December 2020.

Sonora Project – work focused on finalising engineering processes allowing construction activities to commence on completion of the financing package.

- Whilst COVID-19 has impacted the Company and its partners, work to complete the front-end engineering design ("FEED") has continued throughout the period, with GR Engineering Services ("GRES") completing the front-end concentrator and mechanical engineering and Ganfeng completing its flow sheet design testwork for the production of battery-grade lithium from the samples provided by the pilot plant.
- Ganfeng is continuing to integrate its flow sheet for the production of battery-grade lithium into the overall large scale design and remains on schedule to deliver its final engineering packages to Bacanora in Q2 2021. Ganfeng continues to work with its equipment suppliers to determine equipment delivery times to align with a target of first production in 2023.
- In Q1 2021, the Company commenced initial site activities for the development of the Sonora Project. Initial works involve the rescue and removal of surface vegetation and topsoil in the area required for the construction of the lithium processing plant. The Sonora construction team also commenced preparatory work to upgrade the main access road to the site in preparation for providing access for heavy equipment for commencing bulk site earthworks later in the year.

Zinnwald Lithium Project, Germany ("Zinnwald") – Bacanora secured the future of the joint venture and completed the sale of Deutsche Lithium GmbH ("DL") to Zinnwald Lithium Plc ("ZNWD") which was formerly known as Erris Resources Plc ("Erris").

- The Company completed the sale (the "Zinnwald Transaction") of Bacanora's 50% shareholding of DL, on 29 October 2020, to AIM-listed Erris Resources Plc, now renamed Zinnwald Lithium Plc. ZNWD was re-admitted to AIM as the acquisition constituted a reverse takeover under AIM rules for ZNWD. Bacanora contributed its

50% investment in DL and €1.35 million cash. This cash was used to settle the commitment under the second supplemental joint venture agreement with SolarWorld AG and to pay for a portion of the transaction costs. Erris contributed its remaining cash and its Irish zinc and Swedish gold assets. In exchange, Bacanora received 90,619,170 shares or a 44.3% holding in ZNWD and a 2% net profit royalty.

Chairman Statement

I am very pleased to be writing this annual shareholder letter following the recent US$65 million equity fundraise which occurred post the financial year end. This financing marks a pivotal moment in Bacanora's history and, along with the Company's conditional debt facility and existing cash, completes the Company's share of the funding requirement to finance the construction and operation of our flagship Sonora Lithium Project, located in Mexico. This achievement brings a new and exciting chapter for the Company and provides a clear route to becoming a producer of high value lithium products in 2023.

Our partner in our world-class Sonora Project, Ganfeng, has continued to support the Project, not only as a significant shareholder, but also as a joint venture partner. Ganfeng have re-iterated their commitment to the Project by increasing their stake in SLL to 50% and exercising their pre-emptive right to increase their holding in Bacanora to 28.88%, which is awaiting necessary approvals from the Chinese government. Ganfeng is the largest global lithium metals producer in the world and their support is a testament to the quality of the Project. Importantly, Ganfeng's contribution to the Sonora Project has not been solely monetary. Ganfeng will lead the engineering and procurement activities for the battery grade lithium hydrometallurgical processing plant. Since becoming a cornerstone investor in October 2019, their expertise in lithium battery componentry and construction has been critical for the metallurgical testwork. Throughout this process, Bacanora has continued to supply Ganfeng with ore samples from Sonora for modelling and optimisation of the process design ahead of the eventual commercial volumes in 2023.

These events, alongside those accomplished during the period, were realised against a backdrop of the unprecedented global pandemic of COVID-19. The pandemic presented many challenges not least the restrictions on international travel. I would like to commend our team and our partners in being able to continue the critical workstreams required to advance the engineering design work and execute the final financing for the Project. In particular, I would like to commend our teams and partners in Mexico and China in implementing the rigorous safety protocols and social distancing measures, to ensure the health and safety of our employees and communities.

One of the longer-term impacts of COVID-19 has been to accelerate green strategies across the globe as evidenced in 2020 with annual global sales of over 3.2 million battery electric vehicles and plug-in hybrid vehicles (collectively "EV"), a 43% increase in global sales over 2019[1]. Governments, EV manufacturers and consumers are also responding swiftly to reduce greenhouse gas ("GHG") emissions and reach stated carbon neutrality targets by 2050 or earlier[2]. Accordingly, materials that will facilitate the green transition, such as lithium, have come under the spotlight. This energy transition is clearly here to stay, and our Sonora Project has an exciting and important role to play in meeting this future demand for low carbon mobility and energy storage.

As Bacanora moves into construction and closer to operations, our Environmental, Social and Corporate Governance ("ESG") principles will benchmark our achievements against the industry's highest standards. Our Board makes this commitment so that we can contribute to the low carbon future of the automotive industry and renewable energy power grid whilst operating in a sustainable manner. We will continue to embed our sustainability philosophy across our operations, and I look forward to presenting our first Sustainability report later this year with updates on ESG developments with our stakeholders and enacting our ESG policies and management plans on-site.

I want to express sincere thanks to the Board, our management team and all our employees for their continued dedication and hard work during a challenging year. The Sonora government has been generous in its assistance and I would like to thank them for their continued support. I would also like to acknowledge our brokers Citigroup Global Markets Ltd ("Citi"), Canaccord Genuity Ltd ("Canaccord") alongside WH Ireland Ltd for their efforts in our successful fundraising for the Sonora Project and their unwavering effort throughout the period. Finally, I would like to thank all our shareholders for their support. I look forward to providing updates on our progress as we can commence construction works and move closer towards being a world class lithium producer in 2023.

Mark Hohnen, Chairman
6 March 2021

[1] https://www.spglobal.com/platts/en/market-insights/latest-news/coal/012021-europe-overtakes-china-in-ev-sales-growth-in-2020
[2] https://www.nsenergybusiness.com/news/countries-net-zero-emissions/

Strategic Report

Business Model

Our business model is to create shareholder value by identifying and investing in undeveloped lithium assets. The Company is achieving this through the investment in our key project, the Sonora Project in Mexico.

To capitalise on the fast-growing lithium market, our main focus is to monetise the resources and reserves held in Sonora, which benefits from a large, scalable and high-grade lithium resource with a global Resource (measured, indicated and inferred) of almost 9 million tonnes lithium carbonate equivalent ("LCE"). This will be initially achieved by developing phase 1 of the mine and processing plant. The Company aims to produce battery-grade lithium product for sale to downstream cathode and battery manufacturers through existing shareholders and offtake partners Ganfeng and Hanwa Co., Ltd ("Hanwa"). The Company published the Sonora Feasibility Study ("SFS") in January 2018 that showed a pre-tax NPV of US$1.25 billion, 26% IRR and an operating cost of approximately US$4,000 per tonne assuming a long-term price of US$11,000 per tonne. Given the cost profile, the Project remains attractive, even in the present low price market, please see market review section on page 34 for more details on the dynamics of the market. Bacanora has ten licences covering almost 100,000 hectares in Sonora, of which seven licences form part of the SFS. To date, the Company has invested over US$33 million on the development of the Sonora Project including a pilot plant in Hermosillo, which has produced high quality battery-grade (>99.5%) lithium products during ongoing test work conducted over the last five years.

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

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

The Company also has an interest in the Zinnwald deposit located in Germany through our 44.3% holding in AIM listed Zinnwald Lithium Plc. ZNWD owns a 50% stake in DL, which holds Zinnwald (covering 256.5 ha and with a thirty-year mining licence to 31 December 2047), the Falkenhain licence (covering 295.7 ha and with a five-year exploration licence to 31 December 2022) and the Altenburg licence (covering 4,225.3 ha and with a five-year exploration licence to 15 February 2024). DL published an updated Zinnwald Feasibility Study in September 2020[3], that showed a pre-tax NPV of €428 million and IRR of 27% at a long-term price of €22,000 per tonne for battery-grade lithium fluoride. ZNWD management team are focussed on delivering shareholder value from this project.

Strategy

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

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

1. Identify world class projects that can address the rapidly increasing demand for lithium for electric vehicles and energy storage industries.
   - Sonora has identified its NI 43-101 Measured, Indicated and Inferred Resource of 8.8 million tonnes of LCE resources suitable for open pit mining to ultimately produce battery-grade lithium products.
2. Complete the feasibility study to evaluate and quantify the economic potential of its key project.
   - In January 2018, Bacanora published the SFS on a small part of the concessions in Sonora that showed a pre-tax NPV of US$1.25 billion, 26% IRR and an operating cost of around US$4,000 per tonne.
3. Complete the detailed design of the mine and 17,500 tpa processing plant for stage 1 of the Sonora Project.
   - As a result of the completion of Ganfeng's Option to increase its holding in SLL, the newly signed JVA came into effect. As a result, Ganfeng will be responsible for leading the certain parts of the EPC

[3] http://www.deutschelithium.de/wp-content/uploads/2020/10/Li-Zinnwald_NI_43-101_update_2020-09-20.pdf

programme for the Project, which includes the hydrometallurgical part of the processing plant that produces the final battery-grade product.
- The Company has partnered with GRES, an ASX listed engineering, consulting and contracting company specialising in fixed priced engineering design and construction services to the resources and mineral processing industry. GRES has completed the design for the front-end concentrator and mechanical engineering.
- Ganfeng is completing its flow sheet design testwork for the production of battery-grade lithium from the samples provided by the pilot plant and continuing to integrate its flow sheet for the production of battery-grade lithium into the overall large-scale design. Ganfeng remains on schedule to deliver its final engineering packages to Bacanora in Q2 2021.

4. Validate the quality of its product by securing high quality offtake partners.
    - Bacanora has used its pilot plant, which has been in operation for several years to provide samples of its lithium products to prospective customers, predominantly in Japan and China. This has resulted in Hanwa, one of Japan's largest metals trading houses, signing a ten-year offtake agreement for 50% of stage 1 of production and investing in the Company directly. In October 2019, the Company completed its offtake agreement with Ganfeng, the world's largest lithium metals producer by production capacity and the world's third largest lithium compounds producer, for 50% of stage 1 production and up to 75% in Stage 2, as well as investment in the Company at both a Group level and project level.
5. Complete the funding required to construct its Project.
    - The Company successfully raised £48.1 million from issuance of new ordinary shares with institutional and retail investors in February 2021.
    - In February 2021, Ganfeng received board approval to exercise its pre-emptive rights and increase its shareholding in the Company to 28.88% for £24.0 million. The completion of the investment is conditional upon certain approvals and consents from authorities in the People's Republic of China.
    - Ganfeng has invested an initial £22.0 million for 29.99% of the Company and 22.5% of the Sonora Project at the project level in 2019.
    - Ganfeng completed its Option to increase its stake in SLL to 50% in February 2021 for £21.9 million. Ganfeng is now responsible for financing 50% of the funding requirements of the Sonora Project.
    - Bacanora secured US$150 million of debt funding from RK Mine Finance in 2018, of which US$125 million remains undrawn.
    - Bacanora has sold its 50% stake in DL to ZNWD, an AIM listed development company, in an RTO to facilitate the raising of funding for Zinnwald and allow management to solely focus on delivering the Sonora Project. ZNWD is now leading discussions with interested strategic third parties in relation to funding the construction of Zinnwald.
6. Construction and commissioning of the Sonora Lithium plant
    - As mentioned, above Bacanora and Ganfeng are progressing workstreams to finalise the FEED for its stage 1 17,500 tpa LCE plant. As a result of the completion of Ganfeng's Option, Ganfeng are responsible for leading EPC activities associated with the hydrometallurgical plant.
    - The Company has partnered with GRES for front-end ore concentrator and mechanical processing. GRES has completed its concentrator design work and will now work with Ganfeng to integrate this into the overall project design.
    - Pyrometallurgical engineering, primarily for the kiln designs, is being engineered by an international kiln manufacturer. Kiln optimisation testwork and detailed design work is ongoing and will be completed in Q2, 2021.
    - The hydrometallurgical plant, critical to the production of the final battery-grade lithium product, will be engineered by Ganfeng themselves due to their proven expertise in this field.
    - Ganfeng continues to work with its equipment suppliers to determine equipment delivery times to align with a target of first production in 2023.
7. Hiring of a team with the expertise to deliver the Project into production.
    - As at 31 December 2020, the Group had 29 employees and contractors. Bacanora is led by CEO Peter Secker with almost forty years of experience who has built and operated 5 greenfield mining projects.

Operations

Bacanora is currently at pre-construction phase of its Sonora Project and has begun preparatory works on site. The Company will only move into full construction on the final commitment by the Ganfeng Board for their 50% financing of the Sonora Project, completion of FEED and Board approval. In terms of how the Company expects its main operations to evolve, this will include inter alia:

1. Environment, Social and Corporate Governance factors
   - We recognise the risks involved in our business and our responsibility to uphold high ESG standards across our business. Responsibility is integral to Bacanora's culture. It defines how we work and how we behave, governing how we interact with our customers, our partners and our communities.
   - The Group monitors its safety obligations as a basic KPI (see below). It also has a number of Corporate Social Responsibility Policies, which are published on the Company's website[4]. As the Sonora Project moves into its construction and production phases, the appropriate local level policies will also be put in place.
2. Property, plant and equipment
   - The Company's property, plant and equipment comprise primarily the pilot plant in Hermosillo, land covering the mining concessions, and office furniture and IT equipment in Mexico and the UK.
   - As the Sonora Project moves into construction and production, it will purchase the property, plant and equipment as determined by completion of the FEED.
3. Maintenance
   - At Sonora, Bacanora's existing staff maintain the pilot plant and have had no material issues. The pilot plant has completed its primary objective to produce samples of lithium products including lithium carbonate, lithium hydroxide, lithium sulphate and roasted concentrate as proof of concept and provide samples to potential engineering and offtake partners. In future the pilot plant will be used as a training tool for process plant operations personnel and a design facility for lithium process optimisation and improvement.
   - It is envisaged that the construction of the three main portions of the processing plant will be done under EPC/M contracts, which will include all relevant inspections, costs to complete and process guarantees. Once construction is complete, the Company will maintain and operate its facilities.
4. Delivery and transportation
   - The final lithium products will be sold on a Free On Board basis to its offtake partners and will be transported by road from the processing plant to the port of Guaymas in Sonora, Mexico at which point ownership will pass to Hanwa and Ganfeng, who will then ship the product by sea to their end customers.
5. Sales and marketing
   - The Company has signed off-take agreements to sell 100% of its lithium production to its offtake partners, who will either use the lithium products themselves or on-sell the product on to end-users. This is in line with the wider industry requirements for battery-grade lithium products, where users typically require long-term supply contracts. The Company will work in conjunction with its offtake partners to assist them in this process but does not envisage a dedicated internal sales and marketing function.
6. Suppliers and contractors
   - At Sonora, the main suppliers of its raw materials, such as soda ash and liquified natural gas ("LNG"), will be local Mexican and US suppliers and the Group is in discussions to secure long-term supply agreements. Energy will primarily come from the consumption of gas, which will be initially supplied by trucked LNG, and then via a gas pipeline as outlined in the SFS.
7. R&D
   - The Company currently has no patents registered on its production techniques and intends to use a well-established sulphate roast processing route.
8. Employees
   - As at 31 December 2020, the Group employed 16 people in Mexico, including contractors. There are 13 employees, contractors and Directors, in the corporate segment, based in the United Kingdom and internationally.

[4] https://www.bacanoralithium.com/investor-relations/csr-documents/

Key Challenges

Having secured the financing to cover the Company's 50% share of the funding required to construct stage 1 of the Sonora Project, subject to all relevant approvals, the Company intends to move into the project construction stage in 2021 to develop the Project. The Company has a world-class joint venture partner for the project in Ganfeng. Ganfeng has a wealth of experience in creating operating lithium product plants. The Company intends to begin the construction of the plant in the midst of the worst global pandemic in 100 years, this will bring several challenges to the construction phase, principally, ensuring the safe operation of the construction site. It is a key challenge to ensure that our operation prevents further transmission of the disease amongst workers and local communities and the construction can continue unabated, so that the Project can be delivered on time and within budget.

The production of battery-grade lithium products from the Sonora Project will be from open pit mining operations feeding a three-part chemical processing plant using the conventional sulphate route comprising beneficiation, pyrometallurgical and hydrometallurgical sections. The Company has operated a lithium pilot plant in Sonora for the past 5 years to demonstrate the viability of the Sonora Project. The processing plant will require the supply of both gas and high voltage electricity infrastructure to the site. The long-term plan is for a third-party service provider to provide energy supply via a cogeneration plant using natural gas as the fuel from a pipeline that they will construct. The Company is currently in discussion with a number of contract suppliers. Due to the long lead time for construction of a gas pipeline and potential delays in construction and permitting, an early stage alternative approach includes trucking liquified natural gas to site.

From the peak of prices in 2018[5], the lithium markets encountered downward pressure on lithium product pricing as a result of oversupply in the market. In Q4, 2020, prices bottomed out and market observers were more positive on pricing as a result of attractive demand side fundamentals driven by the EV market. Canaccord is predicting long-term pricing of US$15,000 per tonne for battery-grade Lithium Hydroxide[6]. There remains however a degree of uncertainty surrounding the emerging lithium market. Please refer to the *Operational Review* section for more detailed analysis of market dynamics.

Risk management

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

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

All of our employees are responsible for identifying, evaluating and managing risks. Our operational and group management supports the understanding and management of risks at all levels of the business. Executive management provide a framework for managing and reporting material risks to the Management Risk Committee comprising of senior corporate and operational managers. The Management Risk Committee's role is to consolidate, challenge and report risk management information to Executive management. Executive management also support the Management Risk Committee in escalating key issues to the Audit Committee or the Board, as appropriate. The Board has delegated certain authorities of risk management to the Audit Committee, which has its own formal terms of reference. The Audit Committee meets at least four times a year coinciding with the annual audit and the interim Financial Statements and to assess the effectiveness of the Group's system of internal controls. The Audit Committee is chaired by Eileen Carr, a qualified accountant, and comprises only independent non-executive Directors. Bacanora has

[5] https://seekingalpha.com/article/4400927-lithium-miners-news-for-month-of-january-2021
[6] Canaccord Genuity Analyst note, 10 February 2021: Lithium | 2021 Supercharge

developed procedures for identifying, evaluating and managing significant risks faced by the Group. Please see the Audit Committee report on page 57 for more details.

Roles and responsibilities for risk management within Bacanora:

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

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

a) **Financial controls**

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

- The Board is responsible for reviewing and approving overall strategy of the Company, approving budgets and plans. Monthly results and variances from plans and forecasts are reported to the Board.
- The Audit Committee assists the Board in discharging its duties regarding the financial statements, accounting policies and the maintenance of proper internal business, operational and financial controls.

- Procedures have been implemented for Budgeting and Planning, Procurement to Pay, Financial Close and Reporting and Treasury. These are used for monitoring and reporting business performance to the Board against those budgets and plans, and for forecasting expected performance over the financial period. These cover income statements, cash flows, capital expenditures and balance sheets.

b) Internal controls

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

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

c) Principal Risks and Uncertainties

The Group's internal risk identification and management process is undertaken by the Executive management team and Management Risk Committee who prepare and review the risk register for the Group. The risk register details specific risks to the Group and with some mitigating actions to manage these risks and contains a "traffic-light" management system for ongoing review. The risk register is reported to the Audit Committee, and specific risk items may also be discussed at Board level as appropriate.

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

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

Risk 1: Successful development of the Sonora Project

Development of mineral properties involves a high degree of risk. Only a few properties that are explored are ultimately developed into producing mines. Large capital investments require multi-year execution plans and are by nature highly complex. The commercial viability of a mineral deposit is dependent upon a number of factors which are beyond the Group's control, including but not limited to the following:

- obtaining sufficient financing for the development of the Project (see Risk 2 below);
- market price of lithium (see Risk 3 below);
- geopolitical environment in host country (see Risk 4 below);
- availability of infrastructure capacity (see Risk 5 below);
- ability to attract sufficient numbers of qualified workers (see Risk 9 below);
- environmental and regulatory compliance requirements (see Risk 10 below);
- access to and increased costs of inputs, including plant, material, energy and labour costs;
- lack of availability of mining and processing equipment;
- breakdown or failure of equipment or processes;
- construction, procurement and/or performance of the processing plant and ancillary operations falling below expected levels of output or efficiency;
- non-performance by third party contractors, contractor or operator errors;

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

The Group's ability to deliver the Sonora Project to plan, principally in terms of safety, cost and schedule depend on the factors outlined above. There are numerous activities that need to be completed in order to successfully commence production at the Sonora Project including, without limitation: recruiting and training personnel; negotiating contracts for transportation and for the sale of products; updating, renewing and obtaining, as required, all necessary permits, including, without limitation, environmental permits; and handling any other infrastructure issues.

There is no certainty that the Group will be able to recruit and train personnel, avoid potential increases in costs, negotiate transportation or product sales agreements on terms that would be acceptable to the Group, or that the Group will be able to update, renew and obtain all necessary permits to start or to continue to operate the Project. Furthermore, there is no guarantee that certain funds will be available to finance construction given that funding is subject to approvals and meeting of conditions. Most of these activities require significant lead times, and the Group will be required to manage and advance these activities concurrently in order to begin production. A failure or delay in the completion of any one of these activities may delay production, possibly indefinitely, and would have a material adverse effect on the Group's business, prospects, financial position, production volume and quality and cash flows.

Mitigation:

The Company completed the SFS in January 2018. Since that date, the Company has worked to de-risk the Project's development by securing Ganfeng, the world's largest lithium metals producer, as the JV partner in the Project, cornerstone investor and EPC partner. Furthermore, the Company has obtained additional equity investment from the equity placing and retail offering, acquired additional land, secured water permits, made key internal hires, concluded offtake contracts with Ganfeng and Hanwa, secured debt financing and is in final stages of its FEED work.

Trend:

As we can see from the above, there are a diverse set of sub-risks which could affect the development of the Sonora Project. Consequently, some risks have increased over the past twelve months e.g., the impact of COVID-19, whilst others have decreased.

Overall, we consider that there has been a reduction in the risk profile due to the continued FEED work by Ganfeng and other EPC contractors who bring design and construction expertise to the Project, thereby de-risking the Project. The completion of Ganfeng's exercise of the Option to increase its stake in the Sonora Project to 50%, further de-risks Sonora Project development and reduces the capital requirements on Bacanora's own shareholders to fund stage 1 of the Project. In order to fund the Company's 50% investment in the Project and working capital, the business has completed an equity raise for US$65 million. In addition, the Company has a strong cash balance position at the end of the year and a conditional US$125 million undrawn facility with RK.

As a result of the completion of the sale of DL to Zinnwald Lithium Plc, Bacanora has reduced its project development risk for Zinnwald. Whilst Bacanora retains a 44.3% stake in Zinnwald Lithium plc, the company has its own dedicated management team with an ability to raise funding solely for use on the development of Zinnwald.

Risk 2: Financing risk

The completion of the aforementioned Ganfeng pre-emption rights transaction is conditional upon obtaining certain approvals and consents from authorities in the People's Republic of China. There is no assurance that approvals will be granted, and the funds be made available. Failure to obtain this additional financing, on a timely basis, may have an adverse effect on the liquidity of the business. The Company has a debt facility with RK, the second and third tranches of the RK debt have conditions precedent attached, which must be fulfilled prior to being able to draw on those funds. Given the passage of time from the initial agreement and the revised Project timeline, the Company and RK have signed non-binding indicative terms to amend the existing facility to extend the maturity from 31 July 2024 to 31 July 2027 and extend the cash interest payment date commencing from 31 October 2020 to 31 October 2023. The completion of this extension and drawdown of the remaining tranches of the facility is conditional upon final Board approvals from both RK and the Company and entering into definitive legal agreements, there is no guarantee that this deal will be concluded. The raising of debt has introduced financial covenants to the business that must be maintained to avoid defaulting on the loan. Should the debt require refinancing, 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.

Zinnwald Lithium Plc, which holds 50% stake in Zinnwald, is an AIM listed company with its own dedicated management team and is therefore able to raise funding solely for the development of Zinnwald.

Mitigation:

Bacanora had US$39.2 million cash on hand at the end of 2020. Since the end of the reporting period, the Group has raised circa US$65 million equity in February 2021. Ganfeng completed the exercise of its Option to increase its investment in SLL to 50% investing an additional £21.9 million in the Project. Sonora Project's capital requirements will be funded proportionally between Bacanora and Ganfeng. Ganfeng have also exercised their pre-emption rights and intend to invest a further £24.0 million in Bacanora, subject to approvals. Furthermore, Bacanora retains a US$150.0 million conditional debt facility with RK Mine Finance, of which US$125 million remains undrawn.

Bacanora has completed a sale of its shares in DL, to the publicly listed ZNWD. Zinnwald's ownership by a publicly listed vehicle will allow access to capital markets in order to support the development of this project.

Trend:

Since the last reporting period Bacanora's financing risk has diminished significantly as a result of Bacanora's aforementioned US$65 million equity raise, Ganfeng's exercise of its pre-emption rights combined with Ganfeng's completion of the Option to increase its stake in the Sonora Project to 50%. These transactions significantly de-risks the Sonora Project's development and ameliorate the financing risk compared to the previous reporting period. However, there continues to be a financing risk as the outstanding capital requirements of the Sonora Project will be funded pro-rata by Ganfeng and Bacanora. Ganfeng's 50% share of the capital requirement is conditional upon obtaining certain approvals and consents from authorities in the People's Republic of China. Whilst Bacanora's 50% share of the capital requirement will be funded through its existing cash and debt facility. The drawing of further debt financing is conditional upon completion of certain conditions precedent. Potential amendments to the terms of the existing debt facility are subject to approvals by RK and the Board. In the event of significant cost overruns, further financing may be required, there is no guarantee that it would be available in this eventuality.

As a result of the Zinnwald Transaction, Bacanora continues to have an interest in the Zinnwald through its holding in ZNWD, however, financing risk for this project has been transferred to this UK public listed vehicle. ZNWD can raise debt and equity for the project independently of Bacanora, thereby reducing the financing risk for Bacanora and expediting development for Zinnwald. All financial obligations to DL were settled on completion of the transaction.

Risk 3: Market risks – Supply and demand fundamentals adversely affecting lithium pricing

Numerous factors beyond the Company's control do and will continue to affect the marketability and price of lithium products, please see the market review on page 34 for further details. The Company intends to sell most or all of its production of battery-grade lithium products to its offtake partners on long-term supply contracts for on-sale to battery manufacturers. The market for these long-term supply contracts is relatively opaque and not subject to any globally accepted or hedgeable spot market price.

The price of these contracts will be largely dictated by the expected growth in demand for lithium-ion batteries in conjunction with increased supply from other mines. Pricing fluctuations can be favourable which may present an opportunity to have additional cash flow. Growth in demand for lithium has been strong in recent years primarily due to increased usage of electric vehicles and grid storage; however, there is no guarantee that this growth will continue at the same rate or increase as quickly as anticipated. The Company competes on a supply basis with established competitors, who may be able to increase their production to fill supply shortfalls.

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

Reserve estimates and feasibility studies using different commodity prices than the prevailing market price could result in material write-downs of the Company's investment in its assets, increased amortisation, reclamation and closure charges or even a reassessment of the feasibility of the Company's lithium projects. Downside price cannot currently be mitigated as no derivatives are currently available on the market.

Mitigation:

For budgeting and longer-term forecasting, conservative prices of lithium and input commodities have been assumed. Market observers such as Canaccord are estimating a LT battery-grade lithium prices of US$13,000 & US$15,000 per tonne for lithium carbonate and lithium hydroxide respectively[7]. With a forecast cost of around US$4,000 per tonne, Bacanora would be in the 1st quartile for cost, which insulates the Company from the short term fluctuations in price. Furthermore, Bacanora has entered into an offtake agreement with Ganfeng for 50% of the lithium produced at Sonora during stage 1 and 75% of the production during Stage 2. The Company also has an offtake agreement with Hanwa for the remaining 50% of stage 1 lithium production. The final pricing for both contracts is to be agreed on a quarterly basis based on market price or any other mutually agreeable method. Contract pricing tends to be less volatile than spot market pricing, reducing the impact of short-term pricing fluctuations.

Trend:

Spot prices at the beginning of 2020 were at US$8,750 per tonne battery-grade lithium carbonate, Cost, Insurance and Freight ("CIF") China, Japan and Korea, whilst min 56.5% lithium hydroxide battery-grade spot prices CIF China, Japan & Korea were US$10,250 per tonne[8]. The impact of COVID-19 on the confidence, impacted price which continued to fall in H1 2020, but stabilised in H2 2020, closing out 2020 comparative mid-point spot prices of US$6,750 and US$9,000 per tonne for carbonate and hydroxide respectively[9]. By January 2021, evidence has been mounting that the market had turned, with Fastmarkets reported lithium carbonate battery-grade spot midpoint prices US$7,250 per tonne, while battery-grade lithium hydroxide continued at a mid-point spot price of US$9,000 per tonne[10]. For more details see the market review on page 34.

The risk of sustained oversupply in the market leading to low prices is being addressed in the market, with high cost producers rolling back production in 2019 and 2020. The election of the Democrats in the USA and post-COVID-19 green recovery incentives and advances in battery technology are spurring demand which is likely to cause price recovery in the medium to longer term. Please see the Lithium Market Update in the Operational Review for further details on the supply and demand fundamentals of the lithium market.

Risk 4: Geopolitical uncertainty

Geopolitical risks are challenging for companies as they are hard to predict, interconnected with other business risks and can significantly impact business operations. With the backdrop of the COVID-19 crisis which has added uncertainty, geopolitical instability taking the form of populism or protectionism, with collective backlashes against globalization coupled with resource and vaccine nationalism are becoming increasingly prevalent globally. Beyond contributing to financial uncertainty and volatility, the rise of economic nativism may mean that Bacanora could operate in markets that may be unreceptive to the globalization which underpins supply chains, financing and capital. Bacanora and the wider mining industry, which is heavily dependent on free trade and growth, will need to be resilient in this new phase of geopolitics.

In September 2020, politicians from the MORENA party tabled plans to reform Mexico's constitution and mining code in order to nationalise lithium resources in the country. The nationalisation of Mexico's lithium industry would require a constitutional reform and Article 27/135 of the Constitution establishes that such a reform would require the Chamber of Deputies and the Senate to approve the reform with "a two-thirds majority of all present members". Subsequently, the reform must be approved by a majority of seventeen of the thirty two legislatures of the states and Mexico City. It is unlikely that there would currently be sufficient support for such reform. Furthermore, there is little evidence that President Andrés Manuel López Obrador wishes to fully nationalise the Lithium industry in Mexico[11].

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[7] Canaccord Genuity Analyst note 10, February 2021: Lithium | 2021 Supercharge
[8] https://seekingalpha.com/article/4318882-lithium-miners-news-for-month-of-january-2020
[9] https://seekingalpha.com/article/4396089-lithium-miners-news-for-month-of-december-2020
[10] https://seekingalpha.com/article/4400927-lithium-miners-news-for-month-of-january-2021
[11] https://pulsenewsmexico.com/2019/12/14/amlo-mexican-lithium-mining-must-take-back-seat-to-oil-recovery/

Mitigation:

Geopolitical events can manifest themselves in many ways. Each event carries its own risk and consequence, and therefore needs to be mitigated on a case by case basis. Large scale geopolitical climate is difficult to impact directly, Bacanora focuses on the mitigations it can control such as having an intimate knowledge of the diverse, complex and developing geopolitical dynamic. As such we ensure we monitor developments in the jurisdictions in which we operate and perform due diligence ahead of entering a business partnership including looking at geopolitical implications. We behave as good corporate citizens and add value to the communities in which we operate to maintain the Company's social licence to minimise geopolitical risk. With respect to nationalisation of the Company's the concessions, they are currently protected by Mexican law and would also be protected by the North American Free Trade Agreement ("NAFTA"), United States-Mexico-Canada Agreement ("USMCA") and the Trans-Pacific Partnership ("TPP").

Trend:

With the COVID-19 crisis spreading across the globe in 2020 and continuing to impact geopolitics in 2021increased geopolitical instability. The increasing rate of change in geopolitics and resource nationalism in Mexico and globally, means that geopolitical risks remain key.

Risk 5: Infrastructure

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

Mitigation:

The technical report on the feasibility study for the Sonora Project has laid the groundwork for the infrastructure requirements and the Company is currently finalising contracts with third parties for the construction of required infrastructure including the energy cogeneration facility and LNG.

Trend:

No change.

Risk 6: Health and Safety

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

Mitigation:

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

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

Trend:

The COVID-19 pandemic has increased risk from a health and safety perspective. That said, there is no intrinsic change in operations that would increase the risk inherent in our operating model since last reporting period. However, looking forward to the start of construction of the Sonora Project, the potential for health and safety incidences to occur may increase.

Risk 7: Social licence to operate

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

Mitigation:

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

Trend:

Risks relating to social licence have not changed since the previous reporting period. Bacanora continues to build trust with the community. See section 172 statement on page 18 for more details.

Risk 8: Cost of production

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

Mitigation:

The SFS has assessed the Sonora Project to be potentially a low cost lithium operation. Completion of detailed FEED including detailed energy and mass balances to check cost estimates are in line with the SFS. Construction of processing plant include EPC style contracts with process guarantees. The Company is in discussions with potential long-term suppliers to ensure access to long-term supply of key materials, including gas, at competitive prices. Currently, it is the Company's policy not to hedge foreign currency exposure as a significant portion of the Company's capital and operational cost is denominated in US Dollar.

Trend:

No material change, current cost estimates are broadly in line with the SFS. COVID-19 may increase cost however this is not expected to materially change the Project costs.

Risk 9: Attraction and retention of staff

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

Mitigation:

The recruitment of new staff and the development of all staff will enable more robust succession planning. Once funding has been secured for the Sonora Project a recruitment programme will start which will reduce reliance on the key members of staff. five out of twenty-one employees and contractors excluding the Board are female (24%) at 31 December 2020. One of the eight Board members is female (13%) at 31 December 2020.

Trend:

No material change since the previous reporting period. There continues to be a reliance on key personnel.

Risk 10: Environmental impact and compliance

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

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

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

Mitigation:

The Company has been granted all environmental and water permits it requires to date and has instituted corporate and companywide environmental policies. The Company has dedicated staff who deal with Health, Safety, Environment and the Community as well as applying for and maintaining all relevant permits. The Company takes its ESG responsibilities seriously, the Company has published its inaugural Corporate Governance and Sustainability Committee report on page 53 and plans to release a Sustainability report later in the year.

Trend:

The environmental risks have not changed since the previous reporting period.

Risk 11: Reserve and resource estimates

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

Mitigation:

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

Trend:

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

Key Performance Indicators

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

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

Key Performance indicator	Description	Analysis
Lost time injury frequency rate (LTIFR)	A key safety metric, the number of lost time injuries per 1 million hours worked on a rolling 12-month basis	In the calendar year 2020, there were no LTIs resulting in a LTIFR of nil. In calendar year 2019, there were no LTIs resulting in a LTIFR of nil for the year.
Cash Balance	Cash balance available to continue with the activity of the Group, including exploration, development and maintenance on going concern.	At 31 December 2020, the Group's cash balance was US$39.2 million (31 December 2019: US$48.9 million). There is sufficient cash to continue working on its development activities. Please refer to the Financial Review section on page 39 for analysis of movement in cash.
Capital investment	Funds spent on property, plant and equipment ("PPE"). It is a measure of the investment in the business and the rate at which value is being generated.	For the year ended 31 December 2020 the Group has spent US$2.0 million (six months ended 31 December 2019, the Group has spent US$0.6 million) on PPE on a cash basis (see Cash flow Statement). This expenditure is primarily related to the FEED work at Sonora, as well as the continued operation of the pilot plant.
Reserves and Resources held at year end	As a mining development group, the report of satisfactory mineral reserve and resource results is a key indicator of the value potential of the Group and its Project.	Sonora has 5 million tonnes of LCE measured and indicated resources, of that, 4.5 million tonnes are reserves. There has been no change on these resources and reserves estimates.

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

Directors' section 172 statement

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

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

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

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

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

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

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

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

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

Stakeholder mapping and engagement activities within the reporting period.

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

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

Who: Key Stakeholder groups	**Why:** why is it important to engage this group of stakeholders	**How:** how Bacanora engaged with the stakeholder group	**What:** what came of the engagement
Equity Investors and Joint Venture Partner The Company requires capital. As such, existing and prospective equity investors as well as Project level joint venture partners are important stakeholders. All substantial shareholders that own more than 3% of the Company's shares are listed on page 50 within the Governance Report. The Company owned 77.5% of SLL holding company for the Sonora Project and the remaining 22.5% was held by Ganfeng at the reporting date. Ganfeng have since completed their option to raise their stake to 50% of SLL. In October 2020, Bacanora divested its 50% stake in the Zinnwald Lithium Project to ZNWD in return for a 44% stake in that company. Zinnwald itself is a 50:50 joint venture with SolarWorld AG, whose stake in Zinnwald is being managed by its administrators.	Access to capital is of vital importance to the long-term success of our business to be able to construct the Sonora Project. Joint venture partner involvement is vital to the success of the development of these Projects. Without their share of the capital funding for the Project and their expertise, the Company cannot create value for our shareholders by producing lithium products and therefore a return on the investment. Through the Company's engagement activities, Bacanora strive to obtain investor buy-in into the Group's strategic objectives detailed on page 4 and how it goes about executing them. The Company is seeking to promote an investor base that is interested in a long-term holding in the Company and will support the Company in achieving its strategic objectives. Shareholder interests include but are not limited to: • Business sustainability • High standard of governance • Ethical behaviour • Comprehensive review of financial performance of the business • Delivering long-term shareholder value	The key mechanisms of engagement included: *Substantial Shareholders* • Both Ganfeng and Hanwa have appointed Directors under the terms of shareholder agreements. • The other existing substantial shareholders have regular meetings with the Chairman, CEO and CFO *Joint venture partners - Sonora* • Ganfeng has representation on the SLL board of directors under the terms of the joint venture agreement. Regular meetings are held with Ganfeng *Joint venture partners – Zinnwald* • Prior to the Zinnwald RTO, the Administrator of SolarWorld AG has a representative on the DL board of directors. The Administrator of SolarWorld AG has a representative to the advisory board • Post the completion of the Zinnwald RTO, Bacanora has one board member on the board of ZNWD under the terms of its shareholder agreement *Prospective and existing investors* • The AGM and Annual and Interim Reports • Investor roadshows and presentations • One-on-one investor meetings and calls with the Chairman, CEO and CFO • RNS announcements • Access to the Company's brokers and advisers • Regular news and Project updates	The Company engaged with investors on topics of strategy, Project funding, governance, Project updates and performance. Please see Dialogue with Shareholders section of the Annual Report on page 48. The CEO and CFO presented at a number of investor roadshows, analysts interviews and one-to-one meetings. After the period end, the Company completed an over-subscribed equity fund raise of US$65 million from investors, which completes Bacanora's share of the funding required for Phase 1 of the Sonora Project. Ganfeng also exercised their pre-emption rights and are awaiting Chinese governmental approvals to invest a further £24.0 million to bring their investment in the Company to 28.88%. Ganfeng have also completed their option to raise their stake to 50% of SLL. The Company worked closely Ganfeng to progress the review of the engineering design of the lithium processing plant. Ganfeng have reconfirmed their commitment to the Project by completing their Option to increase their shareholding in SLL to 50%.

Who: Key Stakeholder groups	**Why:** why is it important to engage this group of stakeholders	**How:** how Bacanora engaged with the stakeholder group	**What:** what came of the engagement
		• Social media accounts e.g., Twitter @BacanoraL • Site visits for potential cornerstone investors *Shareholder approvals at AGMs:* At the Company's last three AGMs, shareholders were asked to approve resolutions to grant Directors the right to allot up to 500 million shares without pre-emption for the specific purpose of funding the capex required for Phase 1 of the Sonora Lithium Project. *Dissentient Shareholders:* Former shareholders of Bacanora Minerals Ltd were reminded of the deadline of 23 March 2021 to exchange their old shares in Bacanora Minerals Ltd for new shares in Bacanora Lithium Plc, by submitting a Letter of Transmittal[12].	In October 2020, Bacanora divested its 50% stake in Zinnwald to ZNWD in return for a 44.3% stake in that company. The project itself is a 50:50 joint venture with SolarWorld AG, whose stake in Zinnwald is being managed by its administrators. The Company increased its focus on ESG and sustainability - please see the Corporate Governance and Sustainability Committee report on page 57. Shareholders approved all of the resolutions at each of the AGMs with more than 90% of proxy votes in favour each time.
Debt providers The Company has a US$150 million debt facility with RK Mine Finance that was entered into in July 2018.	Access to capital is of vital importance to the long-term success of our business to be able to construct the Sonora Project. Ongoing support from debt providers is crucial to enable the construction of the Sonora Project. Various contractual conditions of the debt finance require regular updates on ongoing progress.	• One-on-one meetings with the CEO and CFO • Monthly reporting on Project progress. • Ad hoc discussions with management as required • Tripartite discussions between RK, Ganfeng and management to ensure there were no impediments for the investment from Ganfeng's completion of the SLL Option	The Company continues to enjoy a good relationship with RK Mine Finance. Waivers were received relating to Ganfeng's SLL Option transaction. The Company and RK have signed non-binding indicative term sheet to amend the existing facility to extend the maturity from 31 July 2024 to 31 July 2027 and extend the cash interest payment date commencing from 31 October 2020 to 31 October 2023. This is conditional upon final board approvals from both RK and the Company and entering into definitive legal agreements.

[12] https://polaris.brighterir.com/public/bacanora_lithium/news/rns/story/w6ql09r

Who: Key Stakeholder groups	**Why:** why is it important to engage this group of stakeholders	**How:** how Bacanora engaged with the stakeholder group	**What:** what came of the engagement
Workforce The Company has twelve corporate employees including its Directors. Four of the Directors are UK residents and four are overseas resident Directors. Both the CEO and CFO are UK based. The rest of the Company's workforce is based in Mexico. The Company works to attract, develop and retain the high quality talent, equipped with the right skills for the future of Bacanora	The vast majority of its employees in future will be based in Mexico and the Directors consider workforce issues holistically for the Group as a whole. The Company's long-term success is predicated on the commitment of our workforce to our vision and the demonstration of our values on a daily basis. The Board have identified that reliance on key personnel is a known risk (see the Principal Risks and Uncertainties on page 9). Shareholder Interests include but are not limited to: • Job creation, fair worker pay and conditions. • Development opportunities and interesting work. • Clear communication with employees • Excellence in health and safety.	*General Workforce:* • The Company maintains an open line of communication between its employees, Senior Executive Management and Board of Directors *UK employees* • The CEO and CFO report regularly to the Board, including the provision of board information. Key members of the finance team are invited on some of the Audit Committee meetings. • There is a formalised employee induction into the Company's corporate governance policies and procedures. *Mexico* • Senior Executive Management regularly visit the operations in Mexico and engage with its employees through one-on-one and staff meetings, employee events, Project updates, etc. • Staff safety committee continues to operate. • Employees are expected to be represented by ratified workplace agreements once operations grow sufficiently. • The Company has a whistleblower hotline	*UK Employees* In prior periods, the Board met with management to discuss long-term remuneration strategy. Advisors were appointed independently review Non-executive Director and Executive team remuneration. In the period, new remuneration schemes have been agreed, please see details in the covered in Remuneration Committee Report. *Mexico* The team worked from home and operational staff were trained in COVID-19 safe working protocols when the operation re-opened after the mandatory lockdown. Clerical staff continue to work from home. The team were trained in aspects of corporate policies and procedures to engender positive corporate culture aligned with the Company code of conduct. Meetings were held with staff to provide Project updates and ongoing business objectives. Efforts to focus on plant safety have yielded no lost time injuries in calendar year 2020.

Who: Key Stakeholder groups	**Why:** why is it important to engage this group of stakeholders	**How:** how Bacanora engaged with the stakeholder group	**What:** what came of the engagement
Governmental and regulatory bodies The Company is impacted by local governmental organisations in the UK and Mexico.	The Company will only be able to commence production once it receives relevant licences and permits from government to mine and undertake chemical processing. Shareholder Interests include but are not limited to: • Payment of taxes and statutory benefits. • Compliance with regulations. • Job creation, worker pay and conditions. • Health and safety. • Waste and environment. • Environmental protection.	• The Company provides general corporate presentations regarding the Sonora Project development as part of ongoing stakeholder engagement with the Sonora state government, Bacadéhuachi local government and Mexico federal government. The Company maintained its good relations with the respective government bodies and frequently communicated progress. • The Company engages with the relevant departments of the Mexican government in order to progress the operational licences it will require. • The Mexican operations followed Sonora state COVID-19 requirements for the operation of the pilot plant, when required.	Bacanora management have remained in close contact with governmental, religious and educational leaders in Sonora.
Community The local community at the mine site in Bacadéhuachi, Mexico and the surrounding area.	The community provides social licence to operate. The Company needs to engage with the local community to build trust. Having the community's trust will mean it is more likely that any fears the community has can be assuaged and our plans and strategies are more likely to be accepted. Community engagement will inform better decision making. The local community in Bacadéhuachi and wider Sonora area will provide employees to the mine and our suppliers. The Company will in due course have a social, environmental and economic impact on the local community and surrounding area. The	• The Company has a Community Relations Officer permanently based in Bacadéhuachi • The Company has identified all key stakeholders with the local community within the reporting period • Bacanora has open dialogue with the Bacadéhuachi local government and community leaders regarding the Project's development • The Company has existing sustainability /ESG policies and management structure at corporate and Project level • The Company is finalising its local Environmental and Social engagement plans in conjunction with its appointed	The Company engages with the local community as part of the development of its sustainability initiatives. Stakeholder identification has enabled the Company to ensure that representatives of all stakeholder groups may participate in the community engagement programme. Unfortunately, due to the COVID-19 crisis, the Company was restricted in its ability to engage more closely in 2020. More active community engagement will take place in 2021 subject to COVID-19 restrictions.

Who: Key Stakeholder groups	**Why:** why is it important to engage this group of stakeholders	**How:** how Bacanora engaged with the stakeholder group	**What:** what came of the engagement
	Company is committed to ensuring sustainable growth minimising adverse impacts. The Company will engage these stakeholders as appropriate.	consultants (Golder). See Sustainability section for more detail	
Suppliers During the construction phase, Bacanora will be using key suppliers under commercial engineering contracts to deliver the mine and plant, all of whom are large international vendors. At a local level, we also partner with a variety smaller companies, some of whom are independent or family run businesses.	Our suppliers are fundamental to ensuring that the Company can construct the Project on time and budget. Using quality suppliers ensures that as a business it meets the high standards of performance that we expect of ourselves and vendor partners.	• Management team continue to work closely with proposed EPC suppliers to finalise their FEED work, contracts and end deliverables • One on one meetings between management and suppliers • Vendor site visits and facility audits to ensure supplier able to meet requirements • Supplier due diligence • Contact with procurement department and accounts payable • Assist local suppliers to address liquidity challenges	See Page 31 of the CEO's operational report for latest on progress on testwork and finalising EPC contracts. Smaller local vendors were engaged at a broader level to better align with Company objectives.
Offtake partners The Company has two commercially priced lithium offtake agreements with Ganfeng and Hanwa, both of whom are investors in the Company and have Board seats.	The Company is moving toward the construction stage of its Sonora Project and a key metric to sourcing the capital required, is securing its offtake agreements. The Company will sell its product under long-term offtake agreements.	• Non-executive Directors representing both of our offtake partners are engaged at Board meetings and receive all Board materials • They remain informed of project developments and provide management with advice and guidance • Management prepares monthly project reports for the Board	The Company already has commercial offtake agreement with Ganfeng and Hanwa. 50% of the production will be sold to Ganfeng and 50% will be sold to Hanwa during stage 1 production, and up to 75% during Stage 2 production to Ganfeng.

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

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

a) Response to COVID-19:

The COVID-19 pandemic led to considerable uncertainty around the world. The Board oversaw the Group's response with the aim of ensuring Bacanora's emergence from the crisis well positioned for long-term success and supporting its employees as well as the community ensuring their safety whilst continuing to deliver development of the Sonora Project for other stakeholders. Please see sections on page 31 and 32 for more details on the Group's response to the COVID-19 crisis.

Consideration	Outcome
Employees and Contractors	
The health and safety of the Group's employees and contractors is of utmost importance for all workers but especially for those who are not able to work from home. A range of scenarios were considered, where the project activities would have to be paused for a varying amount of time. Consideration was given to how to manage the workforce appropriately, whilst protecting our employees' interests and engagement and retaining their expertise within the business for the medium to long-term as we intend to move to construction in Sonora.	Bacanora utilises working practices which minimise risks of contracting or passing on COVID-19, including, where appropriate, facilitating working from home. The Board was satisfied that effective measures were in place to protect the health, safety and wellbeing of employees. Actions had been taken reduce contractor hours to reduce cost whilst retaining their experience.
Wider Community in UK, Hermosillo and Bacadéhuachi	
The Board considered the wider potential impact of Bacanora's activities on the wider community with regards to the further spread of COVID-19 and the economic impact of the disease, particularly in Bacadéhuachi. The Board considered Bacanora's duty to minimise the spread of COVID-19 for the wider community.	Bacanora's activities in its operations and respective communities were limited and where unavoidable, followed strict COVID-19 safe working protocols. The Board was satisfied that effective measures were in place to protect the health, safety and wellbeing of employees, which in turn minimises the spread in the wider community.
Shareholders	
The Board considered a range of scenarios with varying impacts of COVID-19 on the business and the impacts on liquidity and financial position of the business that would result.	Actions were taken to reduce costs and minimise the impact on shareholders, with discretionary costs being reduced and Directors and Senior Executive Management agreeing to temporary pay cuts.

b) Sale of stake in Deutsche Lithium:

In October 2020, Bacanora completed the Zinnwald Transaction, which entailed the sale of its 50% shareholding in DL to ZNWD in exchange for a material shareholding in ZNWD (44.3%) and a 2% net profits royalty. The Board concluded that the Zinnwald Transaction will allow Bacanora to focus on bringing its world class Sonora Project into production; maximise shareholder return on the investment to date in Zinnwald; generate a clear see-through value of Zinnwald for its shareholders; and lead in turn to Zinnwald being brought to production by a new, dedicated management team.

Consideration	Outcome
Shareholders	
The Board considered the ability for shareholders to better unlock the value of Zinnwald under a different ownership structure.	The Board concluded that shareholders would unlock the value from Zinnwald under a new publicly listed vehicle with a sole focus on developing Zinnwald and a clear valuation provided by the market. Bacanora shareholders maintain a material shareholding in ZNWD.
The Board considered the strategic fit and valuation of the deal with ZNWD.	The valuation done at a price of 5p per ZNWD share was considered to be fair and reasonable, and confirmation was received on the valuation from the NOMAD. Since the Zinnwald Transaction completed, the ZNWD share price has made significant gains.
Employees	
Bacanora had no employees working solely on Zinnwald, but the CEO was a co-managing director at the project level and other Bacanora employees dedicated part of their time to Zinnwald.	The Board concluded that divesting the project would ensure all Bacanora staff could focus on bringing the Sonora Project to fruition.
Zinnwald & SolarWorld AG	
Zinnwald has a Bankable Feasibility Study and a mining license but will need to raise further funds to develop the project with SolarWorld AG, the Zinnwald JV partner, who owns 50% of the DL. SolarWorld AG is a company in administration.	The Board concluded that a separate dedicated listed company with a dedicated management team could more easily raise the funds needed to develop the project properly.
Debt holders	
The Bacanora holding in Zinnwald was ring-fenced outside of the debt facility security and none of the facility was allocated to Zinnwald.	The Board concluded that divesting the Zinnwald stake would have no impact on its debt facilities for the development of Sonora.

c) Fundraising:

In February 2021, Bacanora completed a placing and retail offer with gross proceeds of US$65 million. In addition, Ganfeng exercised its pre-emptive right at the placing price of 45p and to increase its holding in the Company to 28.88% for total amount of £24.0 million. This is conditional upon certain approvals and consents from the People's Republic of China. The Board concluded that these transactions would complete the Company's share of the funding package required to construct stage 1 of its world class Sonora Project. This would maximise shareholder return on the investment and help to fulfil the Company's business model.

Consideration	Outcome
Shareholders	
The Board considered the ability for shareholders to unlock the value of the Sonora Project, by having the Project fully funded and the de-risking of the Project by having Ganfeng involved in the EPC process and fund 50% of the Project level spend. This was balancing the cost of the transactions in terms of dilution for existing shareholders not taking part in the equity raise and the reduction in ownership of SLL by 27.5%.	The Board concluded that greater value for shareholders could be unlocked by concluding the funding package for the construction of the Sonora Project, compared to continuing unfunded. The completing of the funding package fulfils strategic goal 5. "Complete the funding required to construct its Project".

Employees and the local community	
The Board considered the impact of the investment on employees and the local community.	The Board concluded that securing investment would also secure employment for existing employees and future employees, and the communities they inhabit.
Debt holders	
The Board considered the Company's conditions precedent, in order to draw further tranches of the existing debt.	One of the conditions precedent for being able to draw down further tranches from the RK debt facility is to ensure full funding of the Project is achieved.

Our Assets:

a) The Sonora Lithium Project[13]

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

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

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

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

Measured and Indicated Mineral Resources

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

Inferred Mineral Resources

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

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

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

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

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

(2)Tonnes rounded to the nearest thousand.

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

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

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

b) Zinnwald – held via the investment in Zinnwald Lithium Plc.

The Company holds 44.3% of ZNWD, which in turn owns 50% of DL and other assets in Abbeytown, Ireland and Brannberg, Sweden. DL owns Zinnwald. For information on DL, ZNWD and their financial results, please refer to their respective websites[14, 15].

In brief, the Zinnwald project is located 35 kms from Dresden in an historic granite hosted Sn/W/Li belt. The strategic location is in the heart of the European chemical and automotive industries. The area has good infrastructure, services, facilities, and access roads. Power and water supply are guaranteed from existing regional networks. An updated Feasibility Study for Zinnwald was published in September 2020[16] and confirmed the positive economics for the production of 5,112tpa (~7,285 tpa LCE) of battery-grade lithium fluoride at Zinnwald, with pre-tax NPV of €428 million (8% discount rate), IRR of 27.4% and 46% EBITDA margin over a thirty-year life of mine. The project has an NI43-101 resource report which shows measured plus indicated mineral resource estimate containing 35.51 million tonnes at a grade of 3,519 ppm containing 124,974 tonnes of Li at cut-of grade of 2,500 ppm Li. This represents 660,000 tonnes of LCE, comprising 357,000 tonnes of LCE in measured resources and 307,000 tonnes of indicated resources.

[14] http://www.deutschelithium.de/en/home
[15] https://www.zinnwaldlithium.com/
[16] http://www.deutschelithium.de/wp-content/uploads/2020/10/Li-Zinnwald_NI_43-101_update_2020-09-20.pdf

CEO Statement

Bacanora is one of London's very few listed pure-play lithium development companies and recently fulfilled a long-standing objective of completing the funding required to commence construction of our world-class Sonora Lithium Project in Mexico and bring the Project closer to achieving the goal of monetising its resources and reserves by 2023. As lithium prices continue to strengthen as a result of attractive demand side fundamentals driven by the EV market, current lithium prices of around US$9,500 per tonne[17] and which are predicted to result in long-term prices of approaching US$15,000 per tonne for battery-grade products[18].

In February 2021, the Company's cornerstone investor and offtake partner, Ganfeng, completed its Option to increase its stake in SLL from 22.5% to 50%. Ganfeng entered into a new JVA in connection with the Sonora Lithium Project, with each JV partner responsible for their share of the Project's costs. Bacanora also completed a successful US$65 million fundraise, which provided the last element of the Company's 50% share of the financing required to bring stage 1 of Sonora into production. In addition to this Ganfeng showed yet more commitment to Bacanora and exercised its pre-emptive rights to maintain its position as the Company's largest shareholder with a proposed investment of an additional £24.0 million, subject to necessary consents. This additional funding will further solidify the Company's financial position in the lead up to construction activities. The combined total of the fundraising proceeds, the undrawn RK facility and cash on the Company's balance sheet, will more than meet Bacanora's share of the construction funding and projected working capital requirements of the Company to construct and commission Sonora in 2023.

It is not possible to review the year 2020 without acknowledging the impact of COVID-19. This global pandemic has impacted almost all aspects of the planet and the development of a mineral deposit is no exception. Weathering this storm and maintaining our strong cash position has been a testament to the team and our strategic partners. In the same year, we have seen further government commitment to a green economy and vehicle manufacturers prioritising electric vehicles. EV production is estimated to grow from 3.2 million[19] in 2020 to 12.7 million in 2024, and battery production is expected to grow from 85.4GWh to 410GWh simultaneously creating a rise in demand for lithium[20]. Continued tightening of supply, especially from the higher cost spodumene concentrate mines in Australia, has focused Chinese interests in new supply chains, strengthening the already close connection between Bacanora and our cornerstone investor and offtake partner Ganfeng. China has displayed support for the global fleet's electrification, with the ambition to represent 20% of new car sales by 2025, from 5% in 2019. In 2020 we saw a decision to lower subsidies for EVs gradually to 2022, rather than eliminating them straight away, which is expected to boost the domestic market and assist the global EV market.

Beyond the rise in popularity in China, European markets and traditional vehicle manufacturers have launched new EV lines. Directed in part by EU emission standards coming into effect, Volkswagen Group is one example of a company looking to launch over seventy purely electric vehicles by 2028. To achieve this, they have signed an MoU with Ganfeng for a supply of lithium and further collaboration on battery recycling and solid-state batteries[21].

The full impact of the election of the 46th President of the United States, Joe Biden, on the lithium market are not yet fully understood. However, a US$2 trillion plan will see support for new green energy jobs and closer focus on renewable energy[22], signed on his first afternoon in the White House, whilst simultaneously re-joining the Paris Climate Agreement[23], testifies to the importance of the plan and the support it received on the campaign trail.

We understand the global significance of the 8.8 million tonne LCE resource at Sonora, with a potential resource life of some two-hundred and fifty years and its key role in transforming our Company into a significant player in the lithium battery chemicals industry. The Sonora Project is transitioning into its development phase with increased site activity, so health and safety practices are more important than ever and will remain a key focus. As in 2019, Bacanora recorded zero lost-time injuries for the reporting period. As we continue to operate and benchmark against international reporting standards, we also endeavour to work with our local communities and stakeholders. We have

[17] https://www.mining.com/lithium-price-in-china-surges-40-to-18-month-high/
[18] Canaccord Genuity Analyst note, 10 February 2021: Lithium | 2021 Supercharge
[19] https://www.spglobal.com/platts/en/market-insights/latest-news/coal/012021-europe-overtakes-china-in-ev-sales-growth-in-2020
[20] https://www.globaldata.com/global-lithium-demand-double-2024-electric-vehicle-battery-production-quadruples/
[21] https://www.volkswagen-newsroom.com/en/press-releases/volkswagen-group-secures-lithium-supplies-4804
[22] https://www.whitehouse.gov/briefing-room/statements-releases/2021/01/27/fact-sheet-president-biden-takes-executive-actions-to-tackle-the-climate-crisis-at-home-and-abroad-create-jobs-and-restore-scientific-integrity-across-federal-government/
[23] https://www.whitehouse.gov/briefing-room/statements-releases/2021/01/20/paris-climate-agreement/

maintained an open and constructive dialogue with the local communities and at state level to develop an integrated sustainability programme (“ISP”). In the process of developing the ISP, education was identified as a key enabler of employment for the community. Future community engagement activities will focus on education and how Bacanora can productively assist future programmes. We are grateful for the ongoing support of our local communities, and governments, and by remaining transparent throughout this crucial development phase we hope this continues. As part of this transparency, and as Bacanora transitions from exploration to development, we are pleased to share our first Corporate Governance and Sustainability Committee report with the market, which lays out the Company’s key ESG initiatives and deliverables. This report will be followed by a Sustainability report later in 2021 which will set out baseline assessment of where Bacanora is, what it has achieved to date, baseline KPIs and metrics, the industry best and further detail of the work performed in our community. As we extract a critical mineral for a green energy future, we sincerely wish to protect the planet, not exacerbate existing problems.

In 2020, Mexico’s federal government implemented a range of austerity measures, one of which was restructuring several undersecretary positions, including that for mining. The relevant department remains intact and will continue to function as normal, under the Secretariat of the Economy. President Andrés Manuel López Obrador and the Secretariat of the Economy have consistently supported investment into the mining sector and projects explicitly with downstream applications, such as the Sonora Project. This government’s wide austerity measures do not represent a change in that support.

Despite COVID-19 related shutdowns which led to temporary closure of the pilot plant, Bacanora was able to supply its engineering partners with the required samples to progress the FEED during a period of lighter restrictions in the Hermosillo area. GRES completed its concentrator design work and Ganfeng completed its flow sheet design from samples provided by the pilot plant for the hydrometallurgical plant. These results are being integrated into the final engineering packages which Ganfeng will deliver to Bacanora in Q2, 2021. Detailed engineering and vendor equipment pricing is now underway and current development schedules indicate project construction commencing in H2, 2021.

With the requisite environmental and land use permits in place, the Company focused on the secondary permitting in 2020. Access roads for the borefield were surveyed for construction estimates and modelling of the borefield has been completed. Final applications for permissions to drill test holes wells has been made to the Secretaría del Medio Ambiente y Recursos Naturales and approval was granted in August 2020.

Post period end in February 2021, following completion of the financing, the Company pleasingly announced that initial site activities had commenced at the Sonora Project, transitioning Bacanora into a mine-development company. A local specialist ecological services company has been engaged to rescue and remove surface vegetation and topsoil in the area required for the processing plant. In addition, preparatory work has begun to upgrade the main access road to site, ahead of the arrival of heavy equipment for earthworks later this year. Furthermore, work is also underway to commence the tender process for the site accommodation and ancillary facilities, scheduled to be commissioned by the end of Q2, 2021. The Company remains on target to commence commissioning in 2023.

Throughout the period, the Company's priority remains the health and well-being of its staff, partners and its local communities. Bacanora continues to take all appropriate protection measures in accordance with the relevant governmental and regional requirements. The Company will provide updates on the situation as any changes occur.

In October 2020, Bacanora completed the sale of its 50% shareholding in DL to Erris in exchange for equity and a 2% royalty of the profits earned. The main asset owned by DL is the Zinnwald Lithium Project, located in Germany, which has become the focus of Erris and its management team. Since the sale, Erris has been renamed as Zinnwald Lithium Plc (AIM: ZNWD), and ZNWD simultaneously raised a further £3.8 million. Bacanora’s subsequent final shareholding in ZNWD is 44.3%. This sale ensured Zinnwald will receive the full attention it deserves. The asset is strategically located in Germany with immediate access to the German and wider European automotive and downstream lithium chemicals industries. Bacanora's commitment had always been to realise shareholder value from Zinnwald and spinning it out into a separately listed vehicle has allowed the Company to achieve this.

The progress made by the Business in the last few months was built on the efforts of the team over the last year, this time has been exceptionally busy for the Company. I am however, delighted to report that the Project has made the transition to the next development phase following the successful fundraise. I look forward to updating the market with further progress of works on site as we strive to capitalise on the fast-growing lithium market and building the Sonora Project into a lithium producer in 2023.

Peter Secker, Chief Executive Officer

6 March 2021

Operational Review

a) Corporate review

Financial year 2020 has seen numerous developments on our path to fulfil the Company's strategic objectives. The Company's primary focus has been to complete the design and funding packages required to construct its Sonora Project.

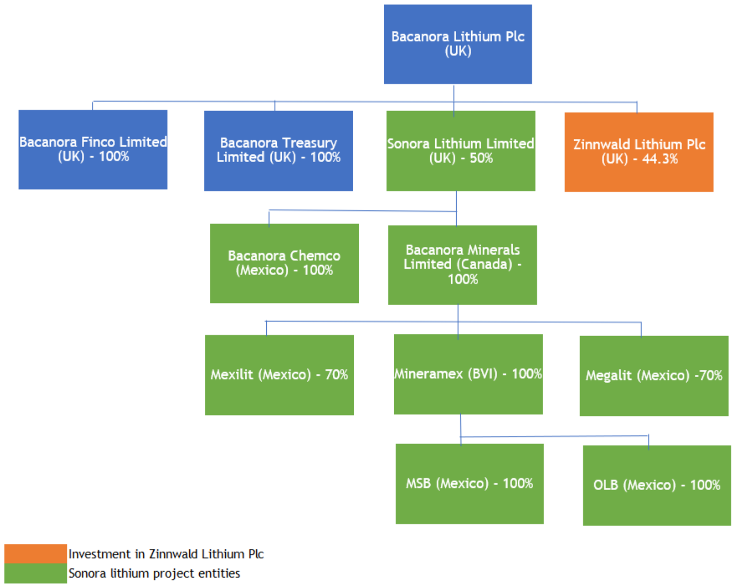
Ganfeng initially invested in the Group in 2019 through its subscription for 29.99% share in Bacanora Lithium Plc and acquisition of a 22.5% stake in SLL, the operational holding company for the Sonora Project. In February 2021, Ganfeng completed its Option to increase its stake in SLL to 50%. Ganfeng purchased 73,955,680 new ordinary shares in SLL at 29.59p at a total value of £21.9 million. On completion a new JVA came into force, which replaces the original joint venture agreement entered into on 29 June 2019. Ganfeng now own 50% of the enlarged issued capital of SLL and will be responsible for funding its 50% pro rata share of the development cost of the Sonora Project. The funds received from the exercise of Ganfeng's Option will be applied towards the development of the Project. The board of SLL comprises two Bacanora appointed directors and two Ganfeng appointed directors, with the chairman being one of the Bacanora directors. Bacanora will remain as the operator of the Project, while Ganfeng will be responsible for leading certain EPC activities associated with the Project.

In order to fund Bacanora's share of the Project's capital expenditure, the Company completed a successful placing and retail offer in February 2021. The placing and retail offer raised gross proceeds of approximately US$65 million (£48.1 million) through the issue of a total of 106,995,885 new ordinary shares at a price of 45 pence per placing share. Furthermore, on 5 February 2021 Ganfeng approved a board resolution to exercise its pre-emptive right and to increase its shareholding in the Company. On completion, Ganfeng will subscribe for a total of 53,333,333 new ordinary shares at the placing price of 45 pence per share, representing gross proceeds of £24.0 million. Completion of this investment from Ganfeng is conditional upon obtaining certain approvals and consents from authorities in the People's Republic of China. On conclusion of their investment, the Company will have 384,144,901 shares in issue and Ganfeng will have an ownership level of 28.88%.

The Company has a US$150 million senior debt facility with RK which was entered into in July 2018. US$125 million of the debt facility remains undrawn. Given the passage of time from the initial agreement and the revised Project timeline, the Company and RK have signed a non-binding indicative term sheet to amend the existing facility to extend the maturity from 31 July 2024 to 31 July 2027 and extend the cash interest payment date commencing from 31 October 2020 to 31 October 2023. The completion of this extension and drawdown of the remaining tranches of the facility is conditional upon final Board approvals from both RK and the Company and entering into definitive legal agreements.

The combined total of the aforementioned fundraising proceeds, the undrawn RK facility, subject to agreeing the amendments described above, and cash on the Company's balance sheet, which stood at US$39.2 million on 31 December 2020, will meet the Company's share of the construction funding and projected working capital requirements of the Company to construct and commission the Project by H2 2023.

Group structure of operational entities at 31 December 2020



Bacanora Lithium Plc's ownership stake in SLL reduced from 77.5% to 50% on completion of the Ganfeng Option in February 2021. A full list of all Group companies is detailed in Note 3 of the Consolidated Financial Statements.

On 29 October 2020, the Company completed the sale of Bacanora's 50% shareholding of DL to AIM-listed company, Erris, which has been renamed Zinnwald Lithium Plc. ZNWD was readmitted to AIM and the acquisition constituted a reverse takeover under AIM rules. Bacanora contributed its 50% investment in DL and €1.35 million cash. This cash was used to settle the commitment under the second supplemental joint venture agreement with SolarWorld AG and to pay for a portion of the transaction costs. Erris contributed its remaining cash and its Irish zinc and Swedish gold assets. In exchange, Bacanora received 90,619,170 shares in ZNWD and a net profit royalty. Following admission, ZNWD raised £3.75 million (before expenses) via a placing and now has 204,455,957 ordinary shares in issue. Bacanora therefore owns 44.3% of the enlarged ZNWD. The additional funds will accelerate the further development of the Zinnwald.

Whilst the COVID-19 crisis has challenged the normal running of the business, it has affirmed that the controls, procedures and systems in place in our operations were robust. Like all companies, Bacanora has had to adapt. The Company was able to continue its usual business processes, relatively unperturbed because of the use of technology to enable remote working in the UK and Mexico. The systems that had been put in place prior to COVID-19 were designed to allow remote working. The Company utilises a company-wide ERP system, cloud based shared drives as well as conferencing and co-working software for instance Zoom, PowWowNow and Microsoft Teams. Given the ongoing presence of the virus, certain staff continue to work from home.

Due to the unprecedented uncertainty in the midst of the COVID-19 crisis, the Board and Senior Executive Management agreed a 20% reduction in salary for the three month period from July 2020 to September 2020. Throughout the period, no corporate staff were furloughed.

b) Operations review

In response to the COVID-19 crisis, the Mexican Ministry of Health declared a national health emergency and suspended all non-essential businesses in March 2020. Mining companies were obliged to halt all production and exploration activities and place their operations on care and maintenance. On 13 May 2020, the government of Mexico added mining to its list of essential businesses and announced plans for a gradual reopening of the country allowing mining companies to resume operations on 18 May 2020[24]. The government then had a broader relaxation of the lockdown rules from 1 June 2020 and started using a four tier traffic light monitoring system, which is updated twice-monthly. It is used to alert residents to the epidemiological risks and provide guidance on restrictions on certain activities. At the turn of the year, the Sonora state was in orange status, but issued a "red alert,". This is a warning that a state's traffic light status could change to red if cases of COVID-19 continue to rise[25]. In the red tier, only businesses essential to economic activity are permitted to operate and people are only permitted to move outside their homes during the day. Mining has been deemed an essential industry, enabling miners to continue operations. Under orange status, companies which with non-essential activities may operate with 30% of their personnel and public spaces are permitted to re-open with reduced capacity[26]. Mexico has approved the AstraZeneca-Oxford, Pfizer-BioNtech, CanSino Sinovac and Sputnik V vaccines[27,28,29] and is on the road to vaccinating the population. During the period, the pilot plant has run on an "as needs" basis to supply engineering partners with samples around the mandatory shutdown period.

Like many companies in China, Ganfeng's operations, have been hampered by the outbreak of COVID-19. Precautions to limit the spread of the virus has led to travel restrictions, precautionary working from home and the extension of the 2020 Lunar New Year holiday break causing shutdowns at their facilities. In late April 2020, Ganfeng was able to reopen its factories and head office which has allowed the resumption of the technical work on the Sonora Project.

During the period, the Sonora Project was primarily focused on progressing the FEED work. Work to finalise the FEED is ongoing with experienced engineering groups. The plant is split into three sections. Engineering for the front-end ore concentrator and mechanical processing is led by GRES. GRES has completed its concentrator design work and will now integrate this into the overall project scope. The pyrometallurgical engineering, primarily for the kiln design, is being engineered by an international manufacturer of industrial kilns. The kiln optimisation, design and FEED engineering work is ongoing and will be completed in Q2, 2021. The hydrometallurgical plant, including the production of the final battery-grade lithium product, will be engineered by Ganfeng themselves due to their proven expertise in this field. On completion of the Ganfeng Option in February 2021, a new 50:50 JVA came into effect with Ganfeng. Consequently, Ganfeng are responsible for leading certain engineering and procurement activities for the lithium plant and will work jointly with GRES for the construction stage of the Project. Once Ganfeng completes their design work for the hydrometallurgical plant, GRES will develop an integrated "wrap" engineering package for the entire process plant. GRES has agreed to integrate a complete engineering, procurement, construction and/or management "EPC/M" solution for the plant to incorporate the process guarantees from the respective engineering firms for the pyrometallurgical and hydrometallurgical circuits.

A short list of LNG suppliers has been completed and supply sources, from Hermosillo or Agua Prieta, is now being evaluated with draft supply contracts being reviewed. Evaluation of co-gen power suppliers continued in 2020, with proposals from a shortlist of three providers currently under evaluation.

The Company made a second instalment payment of US$0.1 million in December 2020 for the Las Perdices plant site. This payment was in addition to US$0.2 million initial instalment made in July 2018 for the purchase of 1,173 Ha for the new plant site location. The second instalment enabled the beginning vegetation and topsoil removal. A remainder of US$0.3 million remains to be paid for the Las Perdices land for clearance of existing liens. Work to protect the flora at the plant site area has commenced, the Company is relocating the flora and is working to ensure that vegetation formerly located at the plant site is preserved.

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

We continue to work with the community to develop an integrated sustainability programme, that will encompass the construction and operational phases of the Project. Unfortunately, COVID-19 continues to have an impact on the timing of community engagement. However, a framework for community engagement has been developed. In the

[24] https://www.mining-journal.com/covid-19/news/1386958/mexico-mining-to-resume
[25] https://www.natlawreview.com/article/mexico-s-covid-19-traffic-light-monitoring-system-news-december-22-2020-to-january-3
[26] https://ogletree.com/app/uploads/blog-assets/COVID-19-Mexico-Traffic-Light-Monitoring-System.jpg
[27] https://www.aa.com.tr/en/americas/mexico-approves-astrazeneca-oxford-coronavirus-vaccine/2098464
[28] https://www.reuters.com/article/us-health-coronavirus-mexico-russia-idUSKBN2A21XN
[29] https://www.reuters.com/article/health-coronavirus-mexico-cansino/update-2-mexico-approves-chinas-cansino-and-sinovac-covid-19-vaccines-idUSL1N2KG0NO

process of developing the framework, education has been identified as a key enabler of employment for the community. Future community engagement activities will focus on education.

Lithium Market Update 2020

Despite the unprecedented global disruption precipitated by the COVID-19 pandemic, 2020 saw a revival in market sentiment for lithium. At the beginning of 2020, global consumption was expected to be 393,000 tonnes of LCE with production forecast to exceed 479,000 tonnes [30]. At the end of the year, estimates of consumption was only 305,000 tonnes of LCE and production was 431,000 tonnes for 2020 which represents 22% and 10% reduction in demand and production versus forecast respectively[31]. However, this level of consumption represented a 2.3% increase from 298,000 tonnes LCE in 2019, despite the COVID-19 related economic shock. Demand is expected to grow to 417,000 tonnes and 502,000 tonnes LCE in 2021 and 2022 respectively, with the production surplus shrinking significantly as volumes are expected to grow to 585,000 tonnes in 2022[32]. Consequently, lithium stock turnover is forecast to reduce from 0.4 years to 0.3 years by 2022.

At the beginning of 2020, Fastmarkets reported 99.5% lithium carbonate battery-grade spot prices CIF China, Japan & Korea of US$8,000-9,500 per tonne[33]. Across the year, prices weakened with comparative mid-point prices in December 2020 for lithium carbonate and lithium hydroxide at US$6,750 and US$9,000 per tonne respectively[34]. The reduction in lithium pricing was attributed to an oversupply of lithium products. This was compounded by dwindling lithium demand caused by rolling regional COVID-19 related lockdowns which restricted manufacturing output and reductions in consumer confidence, thereby dampening lithium demand. By November 2020, companies such as Orocobre reported a bottoming out of prices[35] whilst in December 2020, 99.5% lithium carbonate China spot prices increase by 6.4%, month on month[36].

Production has been constrained by production surpluses due to weak demand leading to low prices. Reductions in production have been predominately seen in the Australian spodumene mines. Prior to the COVID-19 crisis, oversupply was being addressed by reductions in production and expansion in the wider market. In January 2020, Galaxy Resources announced that in response to market conditions, it had reviewed operations at Mount Cattlin, resulting in a reduction in operations by circa 60%[37]. This continued from the trend in 2019, with a number of lithium companies either mothballing operations, reducing output, delaying construction of new capacity or filling for creditor protection[38,39,40,41]. COVID-19 related disruption was relatively limited, the brine producers in Argentina had some interruptions to production in Q2 2020 as a result of government mandated COVID-19 related closures and short stoppage to respond to a COVID-19 outbreak for Orocobre's Olaroz[42]. COVID-19 had the biggest impact on active development or expansion stage of projects, due to logistical constraints imposed by the pandemic[43]. Ramping up these projects depends upon incentive pricing being available in market, however the latent capacity also constrains prices, whilst the market's supply and demand fundamentals are finely balanced in the short to medium term[44]. The impact of COVID-19 on the consumer battery market was significant, however EV demand has increased significantly

[30] https://publications.industry.gov.au/publications/resourcesandenergyquarterlydecember2019/documents/Resources-and-Energy-Quarterly-December-2019.pdf
[31]https://publications.industry.gov.au/publications/resourcesandenergyquarterlydecember2020/documents/Resources-and-Energy-Quarterly-Dec-2020.pdf
[32] https://www.argusmedia.com/en/news/2130939-lithium-output-cuts-raise-prospect-of-supply-deficit
https://publications.industry.gov.au/publications/resourcesandenergyquarterlydecember2020/documents/Resources-and-Energy-Quarterly-Dec-2020.pdf
[33] https://www.metalbulletin.com/Article/3914427/GLOBAL-LITHIUM-WRAP-Lunar-New-Year-production-logistics-halts-slow-Asian-market-activity.html
[34] https://seekingalpha.com/article/4396089-lithium-miners-news-for-month-of-december-2020
[35] https://seekingalpha.com/article/4391441-lithium-miners-news-for-month-of-november-2020
[36] https://seekingalpha.com/article/4396089-lithium-miners-news-for-month-of-december-2020
[37] https://www.reuters.com/article/galaxy-rsrcs-output/australias-galaxy-resources-to-slash-output-at-flagship-lithium-mine-in-2020-idUSL4N29S077
[38] https://uk.reuters.com/article/us-albemarle-results/albemarle-to-delay-construction-plans-for-125000-tons-of-lithium-processing-idUKKCN1UY1QS
[39] https://www.afr.com/companies/mining/tianqi-puts-brakes-on-landmark-wa-lithium-plant-expansion-20190910-p52ppp
[40] https://www.afr.com/companies/mining/minres-reaps-us1-3-billion-for-stake-in-mothballed-lithium-mine-20191101-p536h2
[41] https://www.nemaskalithium.com/en/investors/press-releases/2019/53f0e3be-0d29-475e-b37f-7090e58ede31/
[42] https://www.orocobre.com/wp/?mdocs-file=7527
https://www.orocobre.com/wp/?mdocs-file=7700
[43] https://publications.industry.gov.au/publications/resourcesandenergyquarterlydecember2020/documents/Resources-and-Energy-Quarterly-Dec-2020.pdf
[44] https://investingnews.com/daily/resource-investing/battery-metals-investing/lithium-investing/lithium-outlook/

with sales of 3.24 million in 2020 which is a 43% increase year on year (2.26 million sold in 2019) despite an expected 14% drop in sales for the total automotive market[45]. On 26 June 2020, Citi released an analyst research paper[46], which forecast ~19% five-year compound annual growth rate ("CAGR") to 2025 for lithium and a 25% forecast surge in 2021 as pent up demand rebounds. The paper forecasts that current levels of depressed lithium prices will prove unsustainable and expect prices will trend towards incentive pricing in order to encourage existing producers to ramp up their capacity and new players to enter the market. This will be required to avoid potential deficits and to meet expanding demand from the battery market, which will be driven by the rapidly expanding EV market. With high cost producers experiencing negative margins, Citi expect prices to move toward incentive pricing, with long-term prices estimated at US$9,000 per tonne and US$9,990 per tonne for battery-grade lithium carbonate and lithium hydroxide, respectively. In a research paper published by Wood Mackenzie, nearly 800,000 tonnes of additional LCE would need to come online in the next five years to meet the needs of the battery sector, based on its own Accelerated Energy Transition scenario, which sees global warming limited to 2.5 degrees Celsius[47]. This would entail the electric vehicle market to require over 1,000,000 tonnes LCE in 2025. By 2025, demand is expected to outstrip supply by nearly 228,000 tonnes[48]. At its battery day in September 2020, Tesla suggested that battery capacity could increase to 3 terawatt-hours by 2030, which is equivalent of 2.4-2.8 million tonnes of LCE per annum, which is four and half times the present global production capacity[49]. Mining projects take years to design, build and commission, so investment in additional production capacity in the short to medium term will be key to avoiding major market deficits in the mid to late 2020s.

The election of the Mr. Biden to the US presidency and Democratic control over the House of Representatives and Senate has marked a significant shift in environmental policy in the world's largest economy. The far-reaching shifts in energy policy will have a knock on effect on the demand side fundamentals and therefore battery metal investments. Mr. Biden made significant manifesto promises to decarbonise America[50]. Mr. Biden has re-joined the Paris Climate agreement and plans to spend up to US$2 trillion investment in clean energy over 4 years and ensure 100% clean energy by 2035. This is not entirely out of line with other estimates of the cost of decarbonizing the US power grid. Furthermore, specific plans for the automotive industry include support for car buyers to switch to EVs and a commitment to build 500,000 charging stations. 14.7 million new cars were sold in 2020 in the US, of which just 0.3 million plug-in hybrids and EVs were sold[51,52]. The US electric vehicles market is expected to reach 6.9 million unit sales by 2025, which will be supported by expanded EV infrastructure[53]. Energy consultancy Wood Mackenzie says US$50 billion needs to be invested in lithium over the next 15 years to meet battery demand if the world is to meet the targets of the Paris climate accord[54].

Long-term price estimates of US$9,000 per tonne for battery-grade lithium carbonate from the middle of 2020[55] now seems conservative given the boost in demand these changes in policy will entail. In February 2021, Canaccord Genuity published research suggesting long-term prices could reach US$13,000 and US$15,000 per tonne for lithium carbonate and hydroxide respectively[56]. This positive outlook has been mirrored by moves in the stock market, for instance, lithium miners and lithium and battery material ETFs saw large increases in value in Q4 2020, as an example Global X Lithium & Battery Tech ETF (LIT) increased 54.5% from US$40.05 on 30 the end of September 2020 to US$61.89 on 31 December 2020[57]. Consequently, companies took advantage of the improved market sentiment by raising additional funds, for instance Galaxy Resources raised AU$161 million equity financing in November 2020 with

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[45] http://www.ev-volumes.com/
[46] "What's next for Lithium? – Commodity and Equities View" Citi commodity research paper 26 June 2020.
[47] https://www.woodmac.com/press-releases/key-battery-metals-need-more-investment-to-meet-climate-targets/
[48] https://www.reuters.com/article/us-albemarle-lithium/albemarle-says-lithium-prices-must-rise-for-supply-to-match-ev-demand-idUSKBN29H2DG?rpc=401&
[49] https://www.sharecafe.com.au/2021/01/15/lithium-and-the-clean-energy-revolution/
[50] https://joebiden.com/clean-energy/
[51] https://www.focus2move.com/usa-vehicles-sales/
[52] https://www.theguardian.com/environment/2021/jan/19/global-sales-of-electric-cars-accelerate-fast-in-2020-despite-covid-pandemic
[53] https://www.spglobal.com/platts/en/market-insights/latest-news/electric-power/111920-us-ev-market-sales-to-rise-to-69-million-units-by-2025-frost-amp-sullivan#:~:text=London-,US%20EV%20market%20sales%20to%20rise%20to,units%20by%202025%3A%20Frost%20%26%20Sullivan&text=London%20%E2%80%94%20The%20US%20electric%20vehicles,19.
[54] https://www.ft.com/content/b13f316f-ed85-4c5f-b1cf-61b45814b4ee
[55] "What's next for Lithium? – Commodity and Equities View" Citi commodity research paper 26 June 2020.
[56] Canaccord Genuity Analyst note, 10 February 2021: Lithium | 2021 Supercharge
[57] https://finance.yahoo.com/quote/LIT/

proceeds to be applied to Sal de Vida stage 1 and James Bay[58]. Between November 2020 and January 2021, Lithium Americas announced closing of US$100 million offering to fund working capital[59] and a further US$400 million offering to develop its Thaker Pass lithium project[60]. Also, in January 2021, Neo Lithium Corp, raised C$30.1 million in a private deal placing to fund its 3Q lithium project in Argentina[61]. In February 2021, Bacanora concluded a US$65 million equity raise and Ganfeng increased its stake in SLL from 22.5% to 50% for £21.9 million. Furthermore, subject to necessary approvals and consents from authorities in the People's Republic of China, Ganfeng plans to exercise pre-emptive right in the Company for £24.0 million, taking their holding to 28.88%.

As a result of the attractive long-term fundamentals of the lithium market and value opportunities in the market, new players are entering the lithium market via acquisition. For instance, in November 2020, Chile's state-owned Copper miner, Codelco, announced they had entered the lithium market and will go ahead with plans to explore for lithium at the Maricunga salt flat, the country's second largest in terms of reserves[62]. In December 2020, Australian diversified miner IGO Limited bought a 49% stake in Tianqi Lithium Energy Australia, equating to 24.99% in Greenbushes plus 49% in Tianqi's suspended Kwinana lithium processing plant, for US$1.4 billion, which enabled Tianqi to reduce debt accumulated during the acquisition of SQM[63].

Governments around the world are continuing to respond to the climate crisis and the economic fall-out from the COVID-19 crisis by increasing or extending incentives for EVs as part of eco-friendly stimulus packages. Italy has made additional funds available for its EV purchase incentives in 2021 and 2022, as well as a €1,500 (US$1,690) car scrappage scheme. In France, the government announced enhanced EV subsidies and scrappage schemes where buyers could be eligible to receive €12,000 (US$13,150) towards an EV[64]. In Germany, the government announced subsidies for EVs until the end of 2025 and a longer term benefit abolition of vehicle tax for purely electric cars until the end of 2030[65]. In November 2020, the UK government announced its green agenda which includes a ban on new cars and vans powered wholly by petrol and diesel from 2030 and to produce enough offshore wind to power every home in the UK, quadrupling how much it produces to 40 gigawatts by 2030[66]. In the UK, there are already a raft of incentives for EVs, including a maximum grant of £3,500 and £8,000 for cars and vans respectively, £500 for home charging point installation, no vehicle excise duty, and company car drivers choosing a pure electric vehicle will pay no benefit-in-kind tax in 2020/21. As part of the COVID-19 recovery plan, the UK government announced measures to support the battery market for the UK's first gigafactories, research and development and EV infrastructure[67]. EV battery firm Britishvolt and the Welsh government confirmed plans to open the UK's first gigafactory in 2023[68]. The Chinese government also extended its subsidies for EVs until 2022, which were originally planned to end in 2020, although the government announced subsidies will be reduced by 20% in 2021[69].

In the US, oil and gas producers will no longer enjoy the subsidies worth an estimated US$20 billion annually, that were available under the previous administration[70]. This will make carbon intensive energy more expensive, changing the relative economic cost of EV transportation and renewable power versus their fossil fuel powered alternatives. Grid parity will have been reached when the cost of renewable electricity generation becomes equal to or less than the cost of electricity generated using fossil fuels. At this point widespread development of renewables becomes economically beneficial without subsidies or governmental support which will be the catalyst for faster adoption of renewables and storage for the grid. Full grid parity involves more than just a bare comparison of final electricity prices produced by renewables projects because of the intermittent nature of this energy type and the grid issues that come with the peaks and troughs of supply. Full grid parity occurs when the cost of renewables is less expensive than fossil fuel derived energy, after including the cost of power infrastructure or when the combination of renewable

[58] https://wcsecure.weblink.com.au/pdf/GXY/02313309.pdf?source=content_type%3Areact%7Cfirst_level_url%3Aarticle%7Csection%3Amain_content%7Cbutton%3Abody_link
[59] https://www.lithiumamericas.com/news/lithium-americas-announces-closing-of-us100m-atm-offering?source=content_type%3Areact%7Cfirst_level_url%3Aarticle%7Csection%3Amain_content%7Cbutton%3Abody_link
[60] https://www.lithiumamericas.com/_resources/news/nr_20210122.pdf
[61] https://www.neolithium.ca/news-detail.php?id_news=67
[62] https://www.mining.com/codelco-to-search-for-lithium-at-chiles-second-largest-salt-flat/
[63] https://www.mining.com/tianqi-lithium-sells-49-of-australian-unit-to-igo-in-1-4bn-deal/
[64] https://europe.autonews.com/automakers/frances-new-13000-ev-incentive-most-generous-europe
[65] https://www.reuters.com/article/uk-germany-autos-subsidy/germany-to-extend-electric-car-subsidies-to-2025-sources-idUKKBN27W2FT
[66] https://www.bbc.co.uk/news/science-environment-54981425
[67] https://www.gov.uk/government/news/pm-a-new-deal-for-britain
[68] https://www.autocar.co.uk/car-news/industry/start-britishvolt-open-uk%E2%80%99s-first-gigafactory-south-wales
[69] https://europe.autonews.com/environmentemissions/china-cut-subsidies-electrified-vehicles
[70] https://articles.cruxinvestor.com/biden-battery-metals

plus-storage reaches grid parity[71]. In countries like the US, which lack an integrated national transmission grid, batteries will be called on to smooth local and regional imbalances between power supply and demand. Evidence of this process materialised in August 2020, when LS Power's 250MW/250MWh Gateway Energy Storage project in San Diego County, California, dethroned the Hornsdale Power Reserve in Australia as the world's largest battery. Even larger storage projects are in the pipeline, with Vistra Energy replacing a natural gas power plant with a 6,000MWh battery project in California, Neoen has filed plans to build the Goyder South project, a hybrid wind and solar power plant in South Australia with a 1,800MWh battery[72], and a development on the west coast of Saudi Arabia, which spans, will be powered solely by wind and solar energy with a battery storage facility with a 1,000MWh capacity[73].

Currently, Europe has 15 large-scale battery cell factories under construction, including Northvolt's plants in Sweden and Germany, CATL's German facility, and SK Innovations second plant in Hungary. By 2025 planned European facilities will produce enough cells to be self-sufficient for the European automotive industry and power at least 6 million electric vehicles[74]. In the US, Tesla secured its own lithium mining rights in Nevada and have signed an off-take agreement with Piedmont Lithium for spodumene concentrate from North Carolina in order to secure local lithium supplies[75]. Furthermore, Tesla plans to manufacture its own "tabless" (Tesla is removing the tab that connects the cell to the item it is powering) batteries in-house, which will further strengthen the company's supply chain as well as the vehicles' range and power[76]. This push for localisation provides an opportunity for Sonora Project and ZNWD to supply the key element, lithium, to their respective geographic markets.

For the lithium market to expand at 18%+ CAGR to 2030[77], barriers for mass-market uptake of EV's must be overcome. Presently, these are range anxiety (range, recharging speed, charging infrastructure) and cost (cost to buy, battery life, running costs, residual value). 2020 has seen a host of significant announcements on technological advancements for lithium batteries that ameliorate these issues. Current lithium-ion batteries utilise an anode (the negative electrode) made of graphite often with some silicon added, a cathode (the positive electrode) and a liquid electrolyte to pass lithium ions between the electrodes. The cathode plays an important role in determining the characteristics of the battery as the battery's capacity and voltage are determined by the cathode material. The potential difference is usually small for the anode, but the potential difference is relatively high for the cathode. Therefore, the cathode plays a significant role in the voltage of the battery. The greater amount of lithium, the bigger the capacity; and the bigger potential difference between cathode and anode, and therefore the higher the voltage[78]. In existing commercial batteries, cathodes are frequently made from lithium cobalt oxide, lithium manganese oxide, lithium iron phosphate ("LFP"), as well as lithium nickel manganese cobalt oxide ("NMC") or lithium nickel cobalt aluminium oxide[79]. Developments in the use of cathodes affect the type of lithium raw material used in its production and therefore the market dynamics of that material. LFP and NMC batteries often use lithium carbonate for their production, whilst high purity, nickel-based lithium batteries tend to use lithium hydroxide[80].

NMC cathodes are widely used in automotive industry for EV batteries. There are, however, significant draw backs in using cobalt, it is very scarce leading to high cost, with the primary source being the Democratic Republic of Congo with related uncertainty inherent in its supply chain and questionable mining practices. Cobalt is also very dense. At their "Battery day" Tesla have announced that they plan to use cobalt-free cathodes and use nickel-rich cathodes instead. It is expected to lower Tesla's cost per kilowatt hour. Tesla "tabless" cells, which Tesla is calling the 4680 cells referring to the size of the cells, will make its batteries six times more powerful and increase range by 16 percent. In all, Tesla plans to reduce the cost of its battery cells and packs, in order to build a US$25,000 electric

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71 https://www.pv-magazine.com/2019/07/11/true-grid-parity-about-more-than-electricity-price/
72 https://energymonitor.ai/technology/energy-storage/reducing-battery-cost-is-essential-for-a-clean-energy-future
73 https://www.advancedbatteriesresearch.com/articles/22400/worlds-largest-battery-storage-facility-for-red-sea-project
74 https://www.reuters.com/article/eu-battery/eu-says-it-could-be-self-sufficient-in-electric-vehicle-batteries-by-2025-idUKKBN2841Z3?edition-redirect=uk
75 https://www.proactiveinvestors.co.uk/companies/news/930061/piedmont-lithium-soars-90-on-signing-tesla-spodumene-agreement-930061.html
76 https://fortune.com/2020/09/28/tesla-mine-lithium-batteries-cheaper-cars/#:~:text=Musk%20told%20investors%20last%20week,way%E2%80%9D%20of%20extracting%20the%20metal.&text=BNEF%20projects%20about%205%25%20of,%2C%20mostly%20clay%2C%20by%202030.
77 https://roskill.com/market-report/lithium/
78 https://www.samsungsdi.com/column/technology/detail/55272.html?listType=gallery#:~:text=Electrolyte%20is%20the%20component%20which,move%20back%20and%20forth%20easily.
79 https://batteryuniversity.com/learn/article/types_of_lithium_ion
80 https://publications.industry.gov.au/publications/resourcesandenergyquarterlydecember2020/documents/Resources-and-Energy-Quarterly-Dec-2020.pdf

car, servicing the mass market. This shift away to high purity, nickel batteries may favour lithium hydroxide producers in future.

Conventional lithium battery life is limited by the growth of dendrites, which form from the chemical deposition of lithium on the anode. Dendrites reduce battery capacity over many charge cycles. Failure of the battery occurs when dendrites grow large enough to reach the cathode; this causes shorting in the battery and potentially a fire[81]. The potential for conventional Li-ion batteries to overheat, means that they require costly and weighty thermal control systems. Significant investments are being made into solid-state batteries as they have benefits including higher energy densities, faster charging rates and a higher degree of safety compared to conventional lithium-ion batteries because solid electrolytes control dendrite formation in lithium batteries. Solid-state lithium batteries utilise a lithium metal anode instead of graphite and replace liquid electrolyte in favour of a solid one. BloombergNEF expect that solid-state battery cells could be manufactured at 40% of the cost of current lithium-ion batteries[82]. Research into commercialisation of solid-state batteries continues apace with many well-backed companies vying for supremacy. Companies such as Ionic Materials are backed by Nissan, Mitsubishi and Renault, Sion Power are backed by BASF, and Solid Power have backing from Samsung, Ford, BMW and Hyundai[83]. QuantumScape is developing solid-state batteries and is backed by US$300 million worth of investment from Volkswagen and Bill Gates' Breakthrough Energy Ventures[84].

Samsung's Advanced Institute of Technology ("SAIT") has revealed a new solid-state battery, with more than treble the energy density of similarly sized batteries (Samsung 900Wh/L vs Tesla lithium-ion 272Wh/L) meaning a +1,000km range would be within grasp. Furthermore, Samsung says that they can be recharged more than 1,000 times (about a million kilometres of total range)[85]. There is fierce competition to produce commercially available power packs, although there are difficulties in identifying where all market players are in their development of solid-state batteries and assessing the veracity of competing claims. Solid Power announced that its solid-state cells can be manufactured at commercial scale using industry standard lithium-ion roll-to-roll production equipment. Its cells are currently under performance validation by its automotive partners and expect to begin the formal automotive qualification process with even larger capacity solid-state battery cells in early 2022[86]. Car manufacturers like Toyota expect to manage mass production of solid-state batteries from the middle of the decade and Volkswagen do not expect to have solid-state batteries ready for car use until at least 2025[87]. In the medium term at least, conventional Li-ion batteries will dominate the market. Battery packs with a cost of US$100/kWh has been described as the price to enable EVs to reach a price parity with internal combustion vehicles without subsidies[88]. According to a survey of nearly 150 buyers and sellers by BloombergNEF, the average price per kilowatt-hour for a lithium-ion battery pack, has fallen to US$137 in 2020, down 13% from US$157 in 2019[89] BloombergNEF analysts said they expect battery makers to hit US$101/kWh in 2023. For the first time, the survey found some prices reported for e-bus batteries in China selling at US$100/kWh. CATL says it is ready to produce a conventional Li-Ion battery that can power an electric vehicle for more than 1.24 million miles, over a period of 16 years[90] marking a major increase over current offerings; Tesla are currently offering warranties of up to 8 years or 0.15 million miles, whichever comes first[91]. According to the Chairman of CATL the battery would cost about 10% more than current EV batteries. The cost of CATL's cobalt-free LFP battery packs has fallen below US$80/kWh, with the cost of the battery cells dropping below US$60/kWh and CATL's low cobalt NMC battery packs are close to US$100/kWh[92]. With the recovery of the precious elements in the batteries from recycling and potentially "second life" usage of batteries in grid/home storage, it is not difficult to see that tipping point for cost is very close to being realised. Given the far lower maintenance costs and energy costs for EVs, combined with

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[81] https://www.designnews.com/electronics-test/three-ways-lithium-dendrites-grow/78500767259733
[82] https://www.forbes.com/sites/mikescott/2020/12/18/ever-cheaper-batteries-bring-cost-of-electric-cars-closer-to-gas-guzzlers/?sh=24a5f33773c1
[83] https://www.greentechmedia.com/articles/read/us-storage-companies-quietly-grow-bets-on-solid-state-batteries#:~:text=Companies%20including%20Ionic%20Materials%2C%20QuantumScape,electric%20vehicles%20and%20battery%20systems.
[84] https://www.forbes.com/sites/petercohan/2021/01/05/three-reasons-to-steer-clear-of-quantumscape-stock/?sh=f779e7810456
[85] https://www.whichcar.com.au/car-news/samsung-solid-state-battery-breakthrough
[86] https://cleantechnica.com/2020/12/11/solid-state-batteries-theyre-everywhere-theyre-everywhere/#:~:text=Solid%20Power%20solid%20state%20cells,partners%2C%20including%20Ford%20and%20BMW.
[87] https://www.carmagazine.co.uk/electric/solid-state-battery-ev/
[88] https://electrek.co/2020/02/26/tesla-secret-roadrunner-project-battery-production-massive-scale/
[89] https://www.bloomberg.com/news/articles/2020-12-16/electric-cars-are-about-to-be-as-cheap-as-gas-powered-models?source=content_type%3Areact%7Cfirst_level_url%3Aarticle%7Csection%3Amain_content%7Cbutton%3Abody_link&sref=SAPiUD9B
[90] https://www.bloomberg.com/news/articles/2020-06-07/a-million-mile-battery-from-china-could-power-your-electric-car
[91] https://www.tesla.com/en_GB/support/vehicle-warranty
[92] https://www.reuters.com/article/us-autos-tesla-batteries-exclusive/exclusive-teslas-secret-batteries-aim-to-rework-the-math-for-electric-cars-and-the-grid-idUSKBN22Q1WC

similar price points means lower cost of ownership than vehicles with internal combustion engines, which will surely prove a watershed for runaway adoption. In the longer term, LCE consumption is forecast to reach 1,000,000 tonnes by between 2025 and 2027[93] [94], based on growing uptake of EV's and grid storage for renewable energy. The supply overhang will narrow as demand grows rapidly, rebalancing of the supply and demand fundamentals by 2024 based on research by Citi[95]. Lithium resources are widely available; however, the process of extraction is key to exploiting an economic resource. With Sonora's estimated cost of production of around US$4,000 per tonne, the Sonora Project sits in the lower quartile of lithium production costs, giving it a significant competitive advantage when compared to the higher cost producers such as the existing spodumene production in Australia. Whilst there is a degree of uncertainty in the nascent lithium market, Bacanora is well placed to weather the near-term oversupply related price fluctuations and COVID-19 given favourable production costs and the high-quality nature of our product.

Financial Review

The Group made a total comprehensive loss of US$15.6 million for the year ended 31 December 2020, which includes a US$4.1 million loss on discontinued assets. Excluding this the Group made an underlying comprehensive loss from continuing operations of US$11.5 million compared with the loss of US$4.9 million for the six month period ended 31 December 2019.

On 29 October 2020, the Group completed the sale of its 50% shareholding in DL to AIM-listed Erris Resources Plc. Bacanora contributed the 50% investment in DL and €1.35 million cash. The cash was used to settle the commitment under the second supplemental joint venture agreement with SolarWorld AG and to pay for transaction costs. Erris contributed its remaining cash and its Irish zinc and Swedish gold assets. In exchange, Bacanora received 90,619,170 shares (44.3%) in the enlarged Erris and a 2% net profit royalty. Erris was subsequently renamed as Zinnwald Lithium Plc. As a result of the transaction, the loss on discontinued operations includes the Group's 50% share of DL's US$0.2 million loss during the ten month investment period, which was US$0.1 million and an impairment charge of US$4.0 million on the derecognition of the investment in DL.

The sale of the investment will allow ZNWD to drive the project forward with the JV partner, SolarWorld AG. The new structure will enable ZNWD to raise the funding required to develop the project. Following the completion of the sale, the Group has no further commitments relating to SolarWorld AG, DL or ZNWD. The opening fair value of the Company's 44.3% was US$7.7 million using the ZNWD's traded price. During the two months to 31 December 2020, the Group's share of ZNWD's loss was US$0.1 million.

During the year ended 31 December 2020, the Group incurred US$4.4 million general and administrative costs (six month period ended 31 December 2019: US$2.8 million) and share-based payment expense of US$0.6 million (six month period ended 31 December 2019: US$0.3 million). The operating loss was US$5.3 million for the year, this represents a reduction on a pro-rata basis (six months to December 2019 US$ 3.2 million). Savings were made due to reduced corporate and operational activities compared to the prior period as well as careful cost management on legal and professional fees, travel and office expenses. The Board and Senior Executive Management also took temporary pay cuts during the period in response to the COVID-19 crisis.

The Group incurred finance costs of US$6.8 million in relation to the Company's debt financing for the year ended 31 December 2020 (six month period ended 31 December 2019: US$2.4 million), of which U$0.7 million was interest paid in cash. The finance cost increased during the year due to an adjustment to the amortised cost of borrowings following a change in estimated timing of contractual cash flows. The finance cost during the year included a loss on revaluation of financial warrants of US$1.0 million. Finance income totalled US$0.4 million during the year being interest income on cash reserves. For the six month period ended 31 December 2019, total finance income was US$0.9 million, which included interest income of US$0.2 million and a gain on revaluation of financial warrants of US$0.7 million.

The net assets of the Group decreased to US$49.9 million at 31 December 2020 from US$65.0 million at 31 December 2019, due primarily to the US$4.1 million loss on discontinued operations and underlying comprehensive loss from continuing operations for the twelve month period of US$11.5 million.

[93] https://oilprice.com/Metals/Commodities/The-World-Is-In-Desperate-Need-Of-More-Lithium.html
[94] https://roskill.com/market-report/lithium/
[95] "What's next for Lithium? – Commodity and Equities View" Citi commodity research paper 26 June 2020.

The Group had a cash balance of US$39.2 million at 31 December 2020, which decreased by US$9.7 million from US$48.9 million at 31 December 2019. The reduction in cash was a result of cash expenditure on operations of US$4.8 million, US$2.0 million on property, plant and equipment and exploration and evaluation assets and US$0.7 million on funding of DL and US$1.6 million on the sale of DL to ZNWD. The Group paid US$0.7 million interest on the RK debt finance and US$0.1 million for the cost of issuance of shares, but this is offset by interest income of US$0.4 million on cash reserves.

Given the unprecedented COVID-19 health and ensuing economic crises, many companies have seen their balance sheets come under duress since the turn of the year. Being at a preconstruction phase of operations, Bacanora has not entered into commitments to develop the Sonora Project and retains a significant cash balance. Consequently, the Directors have, at the time of approving the Financial Statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

Financing update:

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

In order to complete Bacanora's 50% share of the Sonora Project construction funding requirement, Bacanora embarked on an ambitious fundraising process. On 8 February 2021, Bacanora completed a successful placing and retail offer which raised gross proceeds of approximately US$65 million through the issue of a total of 106,995,885 new ordinary shares at a price of 45 pence per placing share. Furthermore, on 5 February 2020 Ganfeng approved a board resolution to exercise its pre-emptive right and to increase its shareholding in the Company to 28.88%. Ganfeng will subscribe for a total of 53,333,333 new ordinary shares at the placing price of 45 pence per share, representing gross proceeds of £24.0 million. Completion of this investment from Ganfeng is conditional upon obtaining certain approvals and consents from authorities in the People's Republic of China.

Bacanora continues to have a conditional US$150 million debt facility with RK Mine Finance, of which US$125 million remains undrawn. Given the passage of time from the initial agreement and the revised Project timeline, the Company and RK have signed a non-binding indicative term sheet to amend the existing facility to extend the maturity from 31 July 2024 to 31 July 2027 and extend the cash interest payment date commencing from 31 October 2020 to 31 October 2023. The completion of this extension and drawdown of the remaining tranches of the facility is conditional upon final board approvals from both RK and the Company and entering into definitive legal agreements.

Careful stewardship of the Company's capital resources have meant that the Company enjoyed a strong cash position of US$39.2 million at the year end. This contributes to the Company having the necessary financial package, together with the proceeds from the placing and retail offer and undrawn RK facility, to cover its 50% share of the capital costs required for Sonora and will enable the Company to commence construction of the Project in 2021.

I look forward to updating the market with further announcements on the financial performance of the Company in future.

On behalf of the Board of Directors,

Janet Blas, Chief Financial Officer

6 March 2021

The strategic report of Bacanora Lithium Plc, on pages 4 - 18, was approved and authorised for issue by the Board of Directors on 6 March 2021 and were signed on its behalf by:

Mark Hohnen, Chairman

6 March 2021

Governance

Directors and Senior Executive Management

a) **Board Composition**

As at 31 December 2020, the Board comprised an Executive Chairman, an Executive Director (together the "Executive Directors"), and six other Non-Executive Directors ("NEDs"). Details of the current Directors are set out within the list of Directors below. The Board will continue to review its structure in order to provide what it considers to be an appropriate balance of executive and non-executive experience and skills.

The Board considers the following Non-Executive Directors to be independent – Jamie Strauss, Eileen Carr, Andres Antonius and Graeme Purdy. None of these Directors have been employees, have a significant business relationship or close family ties with related parties or represent significant shareholders.

As noted in the last Annual Report, in accordance with the remuneration review conducted by Pearl Meyer, the Company has permanently ended the practice of NEDs participating in the Company's option scheme, which it inherited from its previous incarnation as a Canadian domiciled company. No new options have been granted to NEDs since April 2018 and as at the date of this report, only one option grant remains and that will expire in April 2021. No Restricted Share Units ("RSU") have ever been granted to NEDs.

b) **Board Terms of Reference and Powers**

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

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

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

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

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

c) **Director Commitments**

The two Executive Directors, Mark Hohnen and Peter Secker, are employed on full time contracts. Mark Hohnen's contract as Executive Chairman has been extended to 30 June 2021 after which he will move to a Non-Executive Chairman role for a further 12 months.

All Non-Executive Directors acknowledge in their letter of appointment that the nature of the role makes it impossible to be specific on maximum time commitment and that at certain times of increased activity, then preparation and attendance at meetings will increase. All Directors are expected to attend all Board meetings (either in person or by phone), the AGM, one annual Board strategy meeting a year, committee meetings, meetings with the Non-Executive Directors, meetings with shareholders, any meetings forming part of the Board evaluation process and training meetings. In 2020, the COVID-19 pandemic led to most meetings being conducted remotely, but as the restrictions hopefully ease in 2021 this should lead to a reversion to the norm.

d) Board Meetings

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

The Chairman, aided by the Company Secretary is responsible for ensuring that the Directors receive accurate and timely information. The Company Secretary compiles the Board and Committee papers which are circulated to Directors well in advance of all meetings. The Company Secretary provides minutes of each meeting and every Director is aware of the right to have any concerns minuted. Any matter to be determined by the Board shall be decided by a majority of the votes cast at a meeting of the Board called for such purpose. Written resolutions proposed outside of Board meetings may be approved by Directors electronically under s122 of the Company's Articles and require a majority of Directors to approve.

A summary of attendance at Board meetings in the year ended 31 December 2020 is set out below:

	17 April	30 June	23 September	4 December
Mark Hohnen	✓	✓	✓	✓
Peter Secker	✓	✓	✓	✓
Jamie Strauss	✓	✓	✓	✓
Eileen Carr	✓	✓	✓	✓
Andres Antonius	✓	✓	✓	✓
Junichi Tomono	✓	✓	✓	✓
Wang Xiaoshen	✓	✓	✓	✓
Graeme Purdy	✓	✓	✓	✓

e) Board Committees

The Board has delegated specific responsibilities to the Audit, Remuneration and Corporate Governance and Sustainability Committees, details of which are set out below. Each Committee has written terms of reference setting out its duties, authority and reporting responsibilities. It is intended that these will be kept under continuous review to ensure they remain appropriate and reflect any changes in legislation, regulation or best practice. The terms of reference for each committee, as well as the Board Charter, which includes a list of specific matters reserved for the Board, are on the Company's website.

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

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

i) Audit Committee

The Audit Committee's overall goal is to ensure that the Company adopts and follows a policy of proper and timely disclosure of material financial information and reviews all material matters affecting the risks and financial position of the Company.

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

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

The Audit Committee meets at least four times per year and comprises independent Non-Executive Directors only, with the Chief Financial Officer in attendance and not a member. The Committee has unrestricted access to the Group's Auditor, who may attend all meetings. The Audit Committee currently comprises Eileen Carr as Chairman, Andres Antonius and Graeme Purdy (who replaced Jamie Strauss during the year).

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

ii) Remuneration Committee

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

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

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

The Remuneration Committee meets as and when necessary. The Remuneration Committee is comprised exclusively of independent Non-Executive Directors and currently comprises Jamie Strauss as Chairman, Eileen Carr and Andres Antonius.

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

iii) Corporate Governance and Sustainability Committee

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

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

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

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

The Corporate Governance and Sustainability Committee is comprised of three members of whom, one is an Executive Director, Mark Hohnen, and two are Non-Executive Directors, Eileen Carr and Jamie Strauss, the latter being Committee Chairman. The Committee met during the period and all members attended the meeting.

iv) Board as a whole

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

The Board do not believe that any of the Directors have too many directorship roles at other listed companies and hence at risk of "over-boarding" as defined by ISS voting guidelines but will continue to monitor this on an ongoing basis. The Board is satisfied that the Chairman and each of the Non-Executive Directors are able to devote sufficient time to the Group's business.

During the twelve months to 31 December 2020, Graeme Purdy was appointed to the Board on 17 April 2020.

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

f) List of Directors

Mark Hohnen, Executive Chairman and Director

Mr Hohnen has experience in the Japanese, Chinese and Korean markets, all of which play a significant role in the production of lithium-ion batteries and the development of electric vehicle technology. Mr. Hohnen has been involved in the mineral resource sector since the late 1970s. He has had extensive international business experience in a wide range of industries including mining and exploration, property, investment, software and agriculture. He has held a number of directorships in both public and private companies, including Anglo Pacific Resources Plc. Mr. Hohnen was also a director of Kalahari Minerals and Extract Resources, having successfully negotiated the sale of both companies to Taurus (CGN). Mr Hohnen is currently a director of Pensana Rare Earths Plc, the ASX and LSE listed rare earth metals explorer. He also served as non-executive chairman of BOSS Resources Ltd and director of Salt Lake Potash Limited.

Peter Secker, Chief Executive Officer and Director

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

Jamie Strauss, Non-Executive Director

Mr Strauss has thirty years of experience within the stockbroking and mining finance sector. He is founder and director of Digbee Ltd, a data, research and ESG Disclosure platform specifically focused on the mining industry. He is also director of mining finance boutique, Strauss Partners Ltd, based in London, UK. He was managing director at BMO Capital Markets from 2007 to 2009. He has raised in excess of US$1 billion for projects spanning the globe in both energy and mineral world on behalf of leading institutions in UK, Europe, North America and Australia. Mr. Strauss is an independent director of Altius Minerals and Gold Standard Ventures.

Eileen Carr, Non-Executive Director

Ms Carr has been a key member of teams behind the development of a number of successful mining operations across the world, including the Freda Rebecca gold mine in Zimbabwe, the Ayanfuri gold mine in Ghana, the Kalsaka gold mine in Burkina Faso and the Angovia gold mine in Ivory Coast. She has served as Finance Director/ CFO for both private and public companies starting with Cluff Resources in 1993. She has since gone on to hold several executive directorships in the resource sector, including CFO at both AIM traded Monterrico Metals Plc and Alexander Mining Plc, and director at European Goldfields Inc. Ms Carr has also held a number of non-executive directorships and currently sits on the board and the Audit Committee of Sylvania Platinum Ltd. Her first non-executive role was for Banro Corp in 1998 and more recently she was a non-executive director for Talvivaara Mining Co, a Finnish nickel company, and Goldstar Resources NL, an ASX listed gold company. Ms Carr is a Fellow of the Association of Certified Chartered Accountants, holds an MSc in Management from London University and is a SLOAN fellow of London Business School.

Andres Antonius, Non-Executive Director

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

Junichi Tomono, Non-Executive Director

Mr Tomono has over twenty-three years of experience with Hanwa, during which time he has worked in the metals, chemicals, alloys, scrap metals and mining divisions. Mr. Tomono has a special focus on the battery chemicals sector including lithium. As head of Hanwa’s Primary Metal department and as a director of two of the companies Hanwa has invested in, Mr. Tomono has played a key role in Hanwa adopting a more global focus in response to the rapid growth in the lithium battery sector.

Wang Xiaoshen

Mr Wang is the vice president of Ganfeng and the vice-chairman of its board of directors. Mr Wang is primarily responsible for the marketing, investment and overseas business of Ganfeng and has over twenty-five years of experience in sales and marketing of lithium products. He is a director of GLF International Co. Ltd., Reed Industrial Minerals Pty Ltd. and Lithium Americas Corp. Mr. Wang obtained a bachelor’s degree in industrial engineering management from North China University of Technology in the People’s Republic of China in 1990 and an EMBA from the China Europe International Business School in the People’s Republic of China in 2002.

Graeme Purdy, Non-Executive Director (Appointed – 17 April 2020)

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

g) Board advice during the period

During the period, the Remuneration Committee of Board received a third party review of remuneration of its Board and Executive Management from Pearl Meyer. The highlight recommendations from this review are included in the Remuneration report on page 60.

h) Internal Advisory Roles

i. Lead Independent Director

Whilst Bacanora currently has an Executive Chairman, the Company has decided to have a Lead Independent Director, Jamie Strauss. His primary role is to chair the (usually annual) meeting of the independent Directors, as well as act as a sounding board and intermediary for the Chairman or other Board members, as necessary. The Lead Independent Director also acts as an alternative route of access for shareholders and other Directors who have a concern that cannot be raised through the normal channels of the Chairman or the Executive Directors. The Lead Independent Director attends sufficient meetings with major shareholders and analysts to obtain a balanced understanding of the issues and concerns of shareholders.

ii. Company Secretary

The Company Secretary, Cherif Rifaat, acts as a trusted adviser to the Chairman and the Board. He has been heavily involved with Bacanora since its listing on AIM in 2014 and drove the corporate restructuring that led to the re-domicile in 2018. He has a significant role in relation to the Company's legal and regulatory compliance, including being the MAR designee and plays a proactive and central role in ensuring good governance. He is also a director and CFO of Zinnwald Lithium Plc.

The Company Secretary assists the Chairman in preparing for and running effective Board meetings, including the timely dissemination of appropriate information. The Company Secretary also acts as a conduit for all the Directors, particularly the NEDs, into the workings of the Company, providing not only an induction programme but information, advice and guidance. The Company Secretary often acts as one of the links between the Company and shareholders on matters of governance and investor relations. The Company Secretary reports directly to the Chairman on governance matters.

iii. Annual Board appraisal

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

The Chairman has stated that he values this annual evaluation opportunity and consider it key to his role in creating an effective Board, is an effective assimilation of feedback received, and the development and effective application of germane recommendations. He has reported that the Board was in general satisfied with the workings of the Board and its Committees in 2020 but identified areas for improvement in 2021 that will be actioned and led by the Chairman.

i) Ongoing Board development

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

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

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

j) Succession Planning

As part of the annual Board review, it was identified that Bacanora will need to broaden the skills of the management team as the Company moves into the construction and operations phase at Sonora. The Board has a minuted emergency succession plan for the existing Senior Executive Management team and will also look at its long-term succession plans and strategies for recruitment of Senior Executive roles.

On an ongoing basis, Board members maintain a watching brief to identify relevant internal and external candidates who may be suitable additions to the Board.

Dialogue with Shareholders

a) All Investors

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

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

- Updated investor presentations
- The Company's most up to date technical reports on the Sonora Project and Zinnwald;
- All Annual and Interim Financial Statements going back to the Company's original inception as Bacanora Minerals Ltd in 2008;
- All Company press releases issued under the RNS service going back to the Bacanora Minerals IPO on AIM in 2014;
- Details on the proxy voting results of all resolutions put to a vote at the most recent AGM; and,
- Contact details including a dedicated email address info@bacanoralithium.com through which investors can contact the Company.

The Company's AGM is held in London following the publication of its annual results and all shareholders are invited to attend. In 2020, the Company was forced to hold its AGM behind closed doors due to the impact of COVID-19 restrictions with all votes tallied by proxy. The Company has now amended its Articles to allow for Electronic or Hybrid AGMs that can be used to facilitate shareholder involvement in the event that ongoing COVID-19 measures restrict shareholder attendance in 2021.

Bacanora includes in its annual AGM documents a "Deemed consent" letter for new shareholders to be moved to a default setting that all statutory documents be supplied to shareholders in electronic form and via the website rather than in hard copy. The Company believes that not only is this a more cost efficient and environmentally friendly option, but it also better serves private shareholders who may hold their shares in nominee accounts and hence not be entitled to direct receipt of these documents.

b) Institutional Investors

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

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

c) Private Investors

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

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

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

d) Board review

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

Directors Report

The Directors present their Annual Report and Financial Statements of the Company and Group for year ended 31 December 2020.

a) Results and dividends

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

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

b) Directors

The Directors who served during the period were:

- Mark Hohnen
- Peter Secker
- Jamie Strauss
- Andres Antonius
- Junichi Tomono
- Eileen Carr
- Wang Xiaoshen
- Graeme Purdy (appointed 17 April 2020)

c) Directors' interests

The Directors' interests in the share capital of the Company as at 31 December 2020 are as follows:

Director	No of Shares	% of Issued Share Capital
Mark Hohnen	3,012,547	1.3%
Peter Secker	336,250	0.2%
Jamie Strauss	102,857	0.1%
Andres Antonius	-	0.0%
Junichi Tomono	-	0.0%
Eileen Carr	-	0.0%
Wang Xiaoshen	-	0.0%
Total	3,454,654	1.6%

d) Significant shareholdings

The Directors are aware of the following substantial interests or holdings in 3% or more of the Company's ordinary called up share capital as at 31 December 2020.

Major Shareholder	No of Shares	% of Issued Share Capital
Ganfeng Lithium Co., Ltd(1)	57,600,364	25.7%
M&G Plc	44,373,385	19.8%
Hanwa Co Ltd	12,333,261	5.5%
Igneous Capital Ltd (2)	9,883,774	4.4%
D&A Income Ltd (2)	4,738,030	2.1%

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

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

e) **Directors' and Officers' insurance**

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

f) **Supplier payment policy**

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

g) **Branches**

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

h) **Political donations**

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

i) **Financial risks**

Please refer to note 13 in the Consolidated Financial Statements for a detailed discussion on financial risk.

j) **Post balance sheet events**

Please refer to note 22 in the Consolidated Financial Statements for a detailed discussion on events that occurred subsequent to 31 December 2020.

k) **Future developments**

The Company will continue to focus on its efforts to finalise the engineering design work ahead of the start of construction of Phase 1 of the Sonora Lithium Project.

l) **Auditor**

BDO LLP were reappointed as auditor to the Company at the Annual General Meeting held on 11 June 2020. The Company intends to conduct a tender process for the role of external auditor, in line with its own internal controls requirement to tender at least every ten years. See page 57 within the Audit Committee report for more information.

m) **Statement of disclosure to auditor**

So far, as each person who was a Director at the date of approving this report is aware, there is no relevant audit information of which the Company's auditor is unaware. Additionally, the Directors individually have taken all the necessary steps that they ought to have taken as Directors in order to make themselves aware of all relevant audit information and to establish that the Company's auditor is aware of that information.

On behalf of the Board of Directors

Mark Hohnen, Chairman

6 March 2021

Directors Statement of Responsibilities

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

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Group and Company Financial Statements in accordance with International Financial Reporting Standards (IFRSs) in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Website publication

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

Corporate Governance and Sustainability Committee Report

a) Corporate Governance Statement from the Committee Chairman

On behalf of the Board, I am pleased to present the Directors' Corporate Governance and Sustainability report summarising the Company's Corporate Governance and Sustainability policies and activities for the year ended 31 December 2020. During the year, the Committee was re-constituted as the Corporate Governance and Sustainability Committee to incorporate and emphasise the Company's commitment to Sustainability Matters. We use the words Sustainability and ESG (Environmental, Social and Governance) on an interchangeable basis.

A summary of the Committee's role, membership and relevant qualifications can be found in the corporate governance section herein or the QCA statement on the website.

On a specific corporate governance basis, during the year the Committee recommended the following matters to the Board which were approved:

- The Terms of Reference for the Board and all of its Committees were updated and published on the Company's website; and
- Graeme Purdy was appointed a member of the Audit Committee to replace Jamie Strauss.

b) QCA Corporate Governance Statement

All members of the Board believe strongly in the value and importance of good corporate governance and in its accountability to all of the stakeholders in Bacanora including our shareholders, advisers, regulators and other suppliers. Robust corporate governance improves performance and mitigates risk and therefore is an important factor in achieving the medium to long-term success of the Company. in addition, the Company recognises its responsibility across ESG more widely through incorporation of transparent environmental and social policies and metrics within its business plan. In these accounts and in our QCA Statement on our website, we explain our approach to governance, and how the Board and its committees operate.

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

The QCA Code is constructed around ten broad principles and a set of disclosures. The QCA has stated what it considers to be appropriate arrangements for growing companies and asks companies to provide an explanation about how they are meeting the principles through the prescribed disclosures. We have considered how we apply each principle to the extent that the Board judges these to be appropriate in the circumstances, and in our QCA statement on our website[96] we provide an explanation of the approach taken in relation to each. Like all aspects of the QCA Code, addressing the disclosure requirements should not be approached as a compliance exercise; rather it should be approached with the mindset of explaining and demonstrating the Company's good governance to external stakeholders.

The Chairman of the Board has the overall responsibility for implementing an appropriate corporate governance regime at the Company.

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

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

[96] https://www.bacanoralithium.com/cms/wp-content/uploads/2020/10/Bacanora-Lithium-QCA-Statement-2020-Update.pdf

c) Bacanora's Sustainability Philosophy

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

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

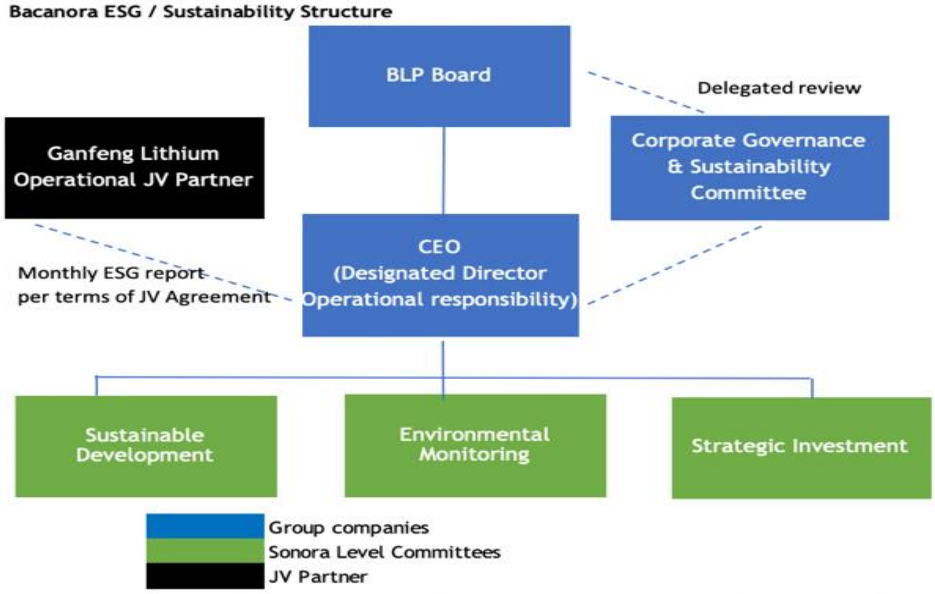
d) Group Sustainability Structure and Reporting

The chart below outlines Bacanora's sustainability structure and lines of reporting. The Board retains ultimate responsibility for all matters but has delegated regular review and oversight to the Committee. The CEO has operational responsibility. The Company also has ongoing reporting responsibilities to its JV Partner, Ganfeng, to feed into their own sustainability structures.

The Company has established local committees in Sonora to manage its sustainability activities on a community and regional level in Mexico in 3 key areas.

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

Bacanora ESG / Sustainability Structure



In terms of reporting, Bacanora is establishing a regular reporting structure to ensure its sustainability philosophy is adhered to, monitored and reported on an appropriate basis.

- Monthly – the local committees report into the CEO on progress of key deliverables and selected KPI metrics, which is in turn summarised for review by the Board on a high-level basis;
- Quarterly – the local committees will meet with key stakeholders; the Committee meets to review in detail the monthly reports and reports back to the Board on key relevant matters; and,
- Annual – the local committees will hold annual meetings and report on the annual KPIs and metrices. The Committee will produce its annual report for the Board for inclusion in the Annual Financial Statements. The Company will produce its annual Sustainability report for publication (see Section 7 below).

e) Current Sustainability Focus and deliverables

Group Sustainability Framework

At a corporate level, the Company has well-established systems and policies to ensure good corporate governance, which are detailed in its annual QCA Statement and on the Company's website. At a local operational level, the Company has a comprehensive Sustainability programme and structure in operation at Sonora. The Company's immediate focus is to put in place a holistic "joined-up" framework to create a long-term Sustainability Framework to govern all Group's policies and activities. We will identify the material ESG Risks and apply 3 key tenets to create the Framework.

- **Commitment** – Establish the formal policies to address each risk.
- **Action** – Identify, monitor and review the plans and targets to meet these policies.
- **Effectiveness** – the metrics and regularly updated targets to meet and address the risk.

Operational Level

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

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

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

Other Items that are already contracted and in progress include:

- GHG monitoring assessment and reporting framework.
- Human Rights framework.
- Biodiversity - Critical habitats screening, impacts and mitigation.

- Ecosystems baseline assessment impacts and mitigation.
- Site security and safety strategy.

f) ESG Stakeholders, Material Risks, KPIs

The Committee's current focus is on producing its ESG risk matrix and heat map of key areas. This requires:
- Identify all our stakeholders in detail as we move from exploration, through construction and into operation. Who are they? What are their interests and expectations? How do we engage? How will they change over time?
- Identify material ESG risks based on latest guidance (GRI, UNSDG, SASB, other lithium companies).
- Engage with individual stakeholders to build up a heat map of material risks (annual ongoing process).
- Baseline assessments for KPIs and metrics, which will enable us to build up a database to track and target improvement over time.
- Establish any "size/stage appropriate" immediate policies and action plans for those items that score high on both axes of the heat risk map.

To date the Committee has identified a high-level assessment of our major stakeholders and our material ESG risks, which will form the core of our baseline assessment and reporting.

Major Stakeholders	Material ESG Risks
Employees	Emissions, effluents and wastes
Shareholders	Climate: Energy and GHG emissions
Joint Venture partners	Biodiversity
Contractors, Unions, Advisers and Suppliers	Water
Local and regional communities	Diversity and inclusion in workforce
Customers	Training and development
Authorities – Regional / National	Labour relations
Organisations – NGOs, Associations	Human rights
Media	Local communities and Indigenous Peoples
Bondholders, debt providers	Health and safety
	Economic & social impact – local and global
	Regulatory and compliance (governance)
	Ethics and integrity

g) Annual Sustainability Report

Bacanora intends to produce its first standalone Sustainability report for publication in 2021. This will give a baseline assessment of where Bacanora is, what it has achieved to date, baseline KPIs and metrics, where it is going and how sustainability fits into the Company's strategy.

h) Corporate Governance matters for the 2021 AGM

Jamie Strauss and Andres Antonius will retire by rotation in accordance with Article 88.1 of the Company's Articles, and being eligible to do so, will offer themselves for re-election.

Jamie Strauss, Chairman of the Corporate Governance and Sustainability Committee
6 March 2021

Audit Committee Report

Dear Shareholders,

I am pleased to present this report covering the activities of the Audit Committee for the twelve months ended 31 December 2020. This report is prepared in accordance with the QCA corporate governance code for small and mid-sized quoted companies, revised in April 2018. A summary of the Audit Committee's role, membership and relevant qualifications can be found in the corporate governance section herein or the AIM Rule 26 disclosure on the website.

The principal roles of the Audit Committee are to support the Board in fulfilling its oversight responsibilities to ensure integrity of financial reporting, the efficacy of the risk management framework and the internal control system as well as consideration of compliance matters. In addition, the Audit Committee is responsible for assessing the quality of the audit performed by and the independence of the auditor. During the period, four meetings of the Committee were held and the CFO was invited to attend together with the external auditor. Significant issues considered during the year are listed below:

Issue	Summary of Issue	Key Action Point
Accounting for Transactions - Exercise of Ganfeng Option	Accounting for the exercise of the Ganfeng Option under IFRS 10 - Consolidated Financial Statements and IAS 27 - separate financial statements have been considered in assessing the impact on the Group, Bacanora Lithium Plc and SLL's financial statements.	Committee action: Review of accounting treatment.
Critical Judgement and estimates - Accounting estimates and treatment relating to the disposal of DL joint venture in exchange for shares in ZNWD.	The asset was impaired under IFRS 5 when the asset was reclassified as an asset held for sale and consequently valued at its fair value less cost to sell. See notes 4 and 6 for further details.	Committee action: Review of accounting treatment for the sale of DL and recognition of the investment in ZNWD.
Critical Judgement and estimates - Impairment assessment of Sonora Project assets	Review of impairment indicators under IAS 36 resulted in no impairment required for the Sonora Project assets.	Committee action: Review of estimates and accounting treatment prepared by management.
Going concern - Accounting basis of preparation	Based on detailed cashflow forecasts, whether it is prudent to account on a going concern basis.	Committee action: Detailed review and interrogation of cashflow forecasts prepared by management; consideration of existing cash balances and review of changes to debt covenants received ensuring no going concern issues. Special consideration was given to the potential impact of COVID-19 on the business.
Controls Processes - Review of key controls	Upgrade of existing systems, controls and procedures to ensure compliance with corporate governance requirements.	Committee action: Review of controls, Senior Executive Management have carried out an update to control documentation and formally rolled out policies and procedures. Monitoring of controls will continue as the Sonora Project progresses into development to ensure adequate controls are in place.

Risk Management Process Review of identification and management process of both strategic and operational risks.	Development of the control framework for the management and mitigation of risk.	Committee action: Review of risk management processes; Management have defined a new risk management process and implemented the risk management policies and procedures. This process will be monitored over the coming period.
Audit Tender Process Review of Auditor tenure	QCA guidelines recommend a tender process at least every 10 years.	Committee action: Reviewed the steps for initiating a tender process and recommended tendering once the financing package for Sonora has been concluded (see below)

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

External auditor

The Company's external auditor, BDO LLP ("BDO") presented their detailed audit plan and final audit findings and recommendations for the twelve months ended 31 December 2020. The Committee agreed with the audit approach at the planning stage and agreed with the materiality thresholds, identification of the key risk areas and significant judgements and estimates. BDO has a significant presence in Mexico (BDO Castillo Miranda) and used their local team to undertake substantive testing on the Company's Mexican subsidiaries.

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

However, in accordance with QCA guidelines and the Audit Committee charter, the role of the external auditor should be reviewed and put to tender every ten years and it has been recommended to the Board that once financing for the development of the Sonora Project has been fully secured and when site visits are permitted under COVID-19 regulations, a tender process should be initiated. This recommendation in no way implies a dis-satisfaction with our current external auditors, who we hope will participate in the process, but is instead compliance with our own internal controls.

Subject to the aforementioned, the Audit Committee recommends to the Board the re-appointment of BDO as auditor at the forthcoming annual general meeting ("AGM") and BDO has expressed its willingness to continue in office as auditor.

Objectivity and Independence

The Audit Committee continues to monitor the auditor's objectivity and independence and is satisfied that BDO and the Group have appropriate policies and procedures in place to ensure that these requirements are not compromised.

Substantive testing and technology

The Company recognises the importance of IT systems and technology. The Company continued to develop its company-wide enterprise resource planning IT solution in 2020, although the timetable was impacted by the COVID-19 regulations in place in Mexico. The continuing development of this system will greatly assist in maintaining a robust control environment and a high degree of precision in the accounts. However, in the short term substantive procedures continue to provide the most effective audit approach.

The Audit Committee is satisfied that the audit engagement for the twelve months ended 31 December 2020 was both effective and efficiently completed.

Fees

There was no significant non-audit work carried out by BDO during the period with the majority of tax advisory work undertaken by PwC. Full details of fees paid during the period may be found in note 16 to the Consolidated Financial Statements.

Internal Auditor

The requirement for the appointment of an internal auditor is continually assessed by the Audit Committee; the level of spend and complexity of the operations being taken into account when considering this decision. The Bacanora Board and by extension Audit Committee members receive monthly management information which includes financial and operational updates, covering various business functions such as human resources, security and health and safety. The Management Risk Committee regularly reports its activities to the Audit Committee. In this way, the Company conducts certain internal audit activities even though there is no internal audit function. To date, the Committee has decided that an internal audit function is not required but will continue to assess the situation on a regular basis.

Going Concern

The Directors considered it appropriate to continue to adopt the going concern basis of accounting in preparing the Consolidated Financial Statements. The going concern statement is detailed in full in note 2c to the Consolidated Financial Statements.

Conclusion

The Committee is satisfied with the quality of the external audit and believes that by virtue of the work carried out throughout the reporting period described above, it is able to take a measured view of the quality of financial and other systems of reporting and control within the Company. In respect of its own performance, the Committee considers that it has guided management in areas relevant to the risks facing the Company. It has constructively challenged and received a high level of cooperation and support from all concerned. As a result of the work during the period, the Audit Committee concluded that it has acted in accordance with its terms of reference. The Committee has ensured the independence and objectivity of the external auditor and put in place plans to initiate an audit tender once financing has been raised.

For and on behalf of the Audit Committee of Bacanora Lithium Plc.

ECarr

Eileen Carr, Chairman of the Audit Committee

6 March 2021

Remuneration Committee Report

a) Background Statement from the Committee Chairman

On behalf of the Board, I am pleased to present the Directors' Remuneration Report summarising the Company's remuneration policy and providing information on the Company's remuneration approach and arrangements for Executive Directors, Non-Executive Directors and Senior Executive Management for the year ended 31 December 2020.

This report is prepared in accordance with the QCA Remuneration Committee Guide for small and mid-sized quoted companies, revised in 2020. A summary of the Remuneration Committee's role, membership and relevant qualifications can be found in the corporate governance section herein or the QCA statement on the website.

As noted in the Company's last annual report, the Committee had appointed the independent remuneration consultants, Pearl Meyer, to undertake a comprehensive review of Bacanora's remuneration policies and structures with the following key deliverables. The results and recommendations arising from this review are covered in more detail in the relevant sections below:

Remuneration Committee meetings are held at least twice a year with the primary focus of setting goals for the coming period and then assessing results at the end of that period. During the year, the Remuneration Committee met six times and;

- Reviewed results of Pearl Meyer's review of remuneration policies and structures and made recommendations to the Board on the results,
- Worked with Pearl Meyer and the Company's lawyers to draft the new recommended short and long-term incentive schemes, which it then recommended to the Board for approval,
- Reviewed, monitored and scored targets for the six-month period to December 2019 period, and,
- Determined new targets for the first financial periods covered by the new incentive schemes.

b) Summary of Pearl Meyer's Review

1. Defining the peer group for both Executive Directors and NEDs for benchmarking purposes.

For the compensation peer group, a total of 1,468 diversified metals mining companies were identified as trading on major stock exchanges. This was narrowed down based on market capitalisation, those listed on main comparator exchanges and removing financing/consulting and equipment companies. A final list of 22 companies were selected by Pearl Meyer's analysts for comparison.

The performance peer group for the benchmarking of performance for the new long-term scheme was selected by the Committee and is detailed in Section 7 below.

2. Outline of a high level pay philosophy (and pay positioning) for Bacanora.

The results and recommendations are covered in Section 3 below.

3. Benchmarking the roles of Executive Chairman, CEO, CFO, COO and NEDs.

Benchmarking data indicates that, for total compensation, Bacanora is slightly above the peer group median (with the exception of the CEO) and above levels observed in the whole of the AIM market, but at or below the FTSE Small Cap median. It was noted, however, that at the time of the review Bacanora had a market cap that is likely to increase significantly post fundraising, making it closer in size to FTSE Small cap or larger AIM companies. The review also identified fees paid to NEDs as being below the median for a sector peer group on an average total fee basis.

4. Reviewing current policy for remuneration arrangements for Senior Executive Management based on underlying business strategy and market norms.

Pearl Meyer identified that whilst the incentive provision at Bacanora was overhauled in 2017, the structure is still relatively complex and retains some aspects of an inconsistent inherited structure. They identified options in general as being a blunt instrument and highly dilutive, and mostly underwater which is disincentivising.

Furthermore, the options are mostly underwater and only have a three-year life, so may expire before they have any value and hence the current arrangements are less incentivizing than they could be. They also highlighted that there is no cash element at all other than base pay, aside from vesting RSUs where any cash element remains at the Board's sole discretion. The performance conditions were identified as having a weighting of 75%, which is high, and as such relatively subjective. The new incentive schemes that have been put in place are designed to align to best practice and rectify these issues.

5. Executive Management minimum shareholding.

It was recommended that base pay levels remain unchanged for the time being. Senior Executive Management are expected to attain a share ownership level equivalent of two times their base salary over a three-year period. Retained ownership of fully vested RSU and the new Performance Share Units ("PSUs", see Part 6 below) will qualify and share purchased on the open market will qualify at the price paid.

6. Reviewing current policy for remuneration arrangements for the NEDs.

As a result of the benchmarking review, the Company has equalised the basic fees paid to all independent NEDs at £40,000 ($50,000 equivalent) effective from 1 January 2020. NEDs are also now encouraged to attain a share ownership level equivalent to one-times their base fees over a five-year period.

As noted in the last Annual Report, the Company has permanently ended the practice of NEDs participating in the Company's long-term incentive schemes, which it inherited from its previous incarnation as a Canadian domiciled company. No new options have been granted to NEDs since April 2018 and at the date of this report, only one grant remains and that will expire in April 2021. No RSUs have ever been granted to NEDs.

7. A preliminary recommendation of suitable structures for short-term and long-term incentive pay for the Executive Directors, and the consideration of performance metrics, including the relevance of ESG measures in executive incentive pay arrangements.

The results and recommendations are covered in Section 6 below.

8. Commentary on Change in Control Provisions.

Pearl Meyer identified the following basic provisions, which have been incorporated into the new rules for the new schemes detailed in Part 6 below:

- there will be no automatic waiving of performance conditions either in the event of a change of control or where subsisting options and awards are 'rolled over' in the event of a capital reconstruction, and/or the early termination of the participant's employment.
- In the event of a change of control, the key determinant of the level of awards vesting should be underlying financial performance. Also, any such early vesting as a consequence of a change of control should be on a time pro-rata basis i.e., taking into account the vesting period that has elapsed at the time of change of control.
- Shareholders would prefer that, in the event of a change of control, outstanding awards due to Directors are rolled over into equivalent awards in the successor entity.

9. Commentary on Executive Pension Provision and prevailing Investor Views.

The Investment Association ("IA") (and under the FRC Code of Corporate Governance) expect that pension contributions for Executive Directors should be aligned with those of the majority of the workforce and that members expect there to be a credible plan to align contributions by the end of 2022.

The Committee has recommended that Bacanora complies with these recommendations and will put in place an appropriate plan.

c) Remuneration Policy and Pay Philosophy

In determining the remuneration of Executive Directors and Senior Executive Management, the Remuneration Committee seeks to enable the Company to attract, retain and motivate high calibre talent in order for the Company to pursue its strategy and achieve its strategic goals, generate shareholder value and meet its wider stakeholder goals. The principal objectives of the Committee are to ensure Senior Executive Management are provided with incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the ongoing success of the Company. The Committee recommends to the Board whether to grant awards of share-based incentives in the Company and if these are to be granted who the recipients should be and how much they should receive.

Furthermore, the Board has adopted the recommended Pay Philosophy developed by the Committee in conjunction with the review done by Pearl Meyer in the period. The Board has committed to adhere to its tenets in all Group-wide reviews of remuneration.

> "Our remuneration philosophy has as its primary objective the realization of our corporate strategic vision over the long-term through the incentivization and retention of management. Additional objectives are the attaining of shorter-term financial and operational targets, engagement with the firm's stakeholders, and wider ESG considerations. The Board strongly believes in a "One Team" culture, striving for high growth and a high-performance environment with pay aligned to sustainable long-term performance. The Board recognises the specialised nature of the lithium industry and thus has positioned remuneration levels and goals to be competitive against its relevant markets. The pay structure is performance related and based on stretching targets, with an appropriate balance between rewards for delivery of short-term and long-term performance targets. A significant holding of the Company shares is encouraged as part of our aim to align incentives while retaining key talent."

d) Summary of existing remuneration structures

Remuneration policy for Executive Directors and Senior Executive Management

For details of Directors' emoluments, please refer to note 19 to the Consolidated Financial Statements.

All Executive Directors and Senior Executive Management are paid a fixed annual salary and, subject to meeting appropriate targets within their scorecard, are included in the historic and new share-based incentive plans noted below. Through to the end of December 2019, the awards under the historic plans relate to a maximum number of options/RSUs for both the Executive Chairman and CEO. The new incentive schemes outlined in Section 6 below came into effect from 1 January 2020.

Executive Director Service Contracts and Salaries:

Name	**Mark Hohnen**	**Peter Secker**
Role	Executive Chairman	CEO
Annual Salary as at 31 December 2020	£240,000	£300,000
Annual Salary as at 31 December 2019	£240,000	£300,000
Annual Salary as at 30 June 2019	£240,000	£300,000
Notice period[1]	3 months	12 months
Awards under historic schemes		
Options and RSUs – Related to FY December 2020[2]	Nil	Nil
Options and RSUs – Related to 6m to 31 December 2019	179,501 Options 97,811 RSUs	215,488 Options 117,420 RSUs
Options and RSUs – Related to FY June 2019	151,439 Options 204,970 RSUs	205,800 Options 278,546 RSUs
Applicable Maximum % of Salary under new schemes		
Short Term Scheme (new RSUs)	60%	60%
Long Term Scheme (PSUs)	100%	100%

[1] In December 2020 Mr. Hohnen extended his Executive Chairman contract until 30 June 2021, after which he will become Non-Executive Chairman for a further 12 months to 30 June 2022. The contract has a 3 month notice period.

[2] The new incentive schemes came into effect from 1 January 2020 and the initial assessment period for RSUs runs for 2 years to 31 December 2021 (one year thereafter) and for PSUs runs for 3 years to 31 December 2022. Awards are only made at the end of the assessment periods. No further awards will be made under the historic schemes with effect from the end of 2019. The share based payment charges in the accounts commence from the date of award.

For details of Executive Directors emoluments, please refer to Note 19 for the dollarised total remuneration for the Directors for the year ended 31 December 2020 compared with the six month period to 31 December 2019. The salaries above represent the contractual base salaries.

Remuneration of Non-Executive Directors

The Non-Executive Directors have all entered into appointment letters with the table below showing the key terms:

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

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

For details of Non-Executive Directors emoluments, please refer to Note 19 for the dollarised total remuneration for the Directors for the year ended 31 December 2020 compared with the six month period to 31 December 2019. The salaries above represent the contractual base salaries.

Existing (historic) Long Term Incentive Schemes

Historically, the variable pay component comprised the long-term Option and RSU schemes. These schemes will continue to run until the latest expiry date of any existing grants and the terms of these schemes are as follows:

- Option scheme:
  - Options vest one third on date of grant, one third after 12 months from date of grant, and one third after 24 months from date of grant;
  - In the event of a takeover or privatisation of the Company, all unvested options vest immediately;
  - Options expire 90 days after recipient ceases to be a Director, office, employee or consultant, unless the Board specifically agrees in writing otherwise; and,
  - Options expire on the third anniversary of the date of grant, if unexercised.
- RSU Scheme
  - RSUs vest on the third anniversary of the date of grant;
  - In the event of a takeover or privatisation of the Company, all unvested RSUs vest immediately;
  - The participant receives on vesting, either ordinary shares in the Company, a cash equivalent or a combination thereof as determined by the Company. The value is subject to applicable UK withholding taxes regardless of the domicile of the participant; and,
  - RSUs expire 90 days after recipient ceases to be a Director, officer, employee or consultant, unless the Board specifically agrees in writing otherwise.

The table below shows all existing options and RSUs granted to Directors:

Name	Date of Grant	Vested Options	Unvested Options	Expiry Date	Price
Executive Directors					
Mark Hohnen	28 October 2019	100,960	50,479	27 October 2022	£0.3325
Mark Hohnen	2 October 2020	59,834	119,667	1 October 2023	£0.2440
Peter Secker	28 October 2019	68,600	137,200	27 October 2022	£0.3325
Peter Secker	2 October 2020	718,30	143,658	1 October 2023	£0.2440
Non-Executive Directors					
Eileen Carr[1]	18 April 2018	312,500	-	17 April 2021	£0.8950

[1]*The awards granted to Ms Carr are the last legacy awards made to Non-Executive Directors, no new awards have been made since April 2018 and Non-Executive Directors are no longer eligible for share based incentives.*

The table below shows all existing RSUs for Directors:

Name	Date of Grant	RSUs Granted	Vesting Date
Executive Directors			
Mark Hohnen	28 October 2019	204,970	27 October 2022
Mark Hohnen	2 October 2020	97,811	1 October 2023
Peter Secker	28 October 2019	278,546	27 October 2022
Peter Secker	2 October 2020	117,420	1 October 2023

The first tranche of RSUs originally issued in September 2017 reached their vesting date during the year, and in accordance with the rules of the scheme vested at a price of 24.4p being the higher of the closing price on 1 October 2020 or the 5-day closing VWAP to 1 October 2020. At its discretion, the Board elected to pay the net amount due, after the payment of withholding taxes, under these awards in shares rather than cash. Accordingly, 497,596 shares were issued to Mark Hohnen and 336,250 shares were issued to Peter Secker.

e) Awards for Six Months to 31 December 2019

For the six month period to 31 December 2019, the Remuneration Committee acknowledged the completion of two key corporate targets being the cornerstone investment and offtake agreement with Ganfeng Lithium and the increased investment from the Company's longest standing investor, M&G. In February 2020, the Committee met to undertake its initial review of performance against the scorecards. In September 2020, the Committee finalised its awards for Senior Executive Management (excluding the Executive Chairman and CEO) based on achieving an average 73% of target. Awards for the Executive Chairman and CEO were based on average 64.6% of target. The actual number of options and RSUs to be awarded were determined after the Company exited its closed period in October 2020.

f) New Share Incentive Schemes (the "New Schemes")

The Directors believe that the success of the Group will depend to a significant degree on the performance of the Group's Senior Executive Management team. The Directors also recognise the importance of ensuring that the Senior Executive Management team are well motivated and identify closely with the success of the Group. The purpose of the schemes is to assist the Company in attracting and retaining individuals with experience and exceptional skill, to allow selected executives, key employees and Directors of the Company to participate in the long-term success of the Company and to promote a greater alignment of interests between the participants designated under the New Schemes and the shareholders.

As such, with effect from 1 January 2020 the Company has adopted a Short-term Restricted Unit Scheme ("RSU Scheme") and Long-term Performance Share Unit Scheme ("PSU Scheme") together the New Schemes. These New Schemes will be the primary incentive schemes for the Company going forward. The New Schemes will remain effective for a period of 10 years from the date of adoption. Existing options and RSUs already granted will run their existing course as per their original agreement terms.

Key features of both Schemes include:

Grants of awards may be made to eligible persons, who are defined as Directors, senior executives and employees of the Company or its subsidiaries or as otherwise determined by the Remuneration Committee.

The potential maximum number of ordinary shares that could eventually be granted under the New Schemes, based on performance, shall not exceed 10%. of the number of ordinary shares in issue at the date of grant of each award, when calculated in combination with any previously unvested or unexercised awards.

Malus (of any unvested awards) and clawback (of any vested but unexercised awards) may be applied during employment or for two years post-termination of employment in the event of the option holder's gross misconduct, material financial misstatement, error in calculation of outcomes or in any other circumstance that the Remuneration Committee considers appropriate.

All unexercised awards shall lapse three months after termination of employment except in the cases of:

- death in service when options may be exercisable for a limited period following the employee's death;
- redundancy or ill-health when options may be exercised for a limited period following termination;
- retirement in circumstances where the Remuneration Committee exercises its discretion to permit options to be exercised for a limited period following termination; and
- in any other circumstance as the Remuneration Committee may determine in its absolute discretion.

In the event of a change of control of the Company, the Board or Remuneration Committee in their sole discretion, may allow unvested awards to vest early or unexercised RSUs or PSUs to be exercised early. In the event of any reorganisation of the Company's share capital, the Board or Remuneration Committee in their sole discretion, may allow an adjustment to be made to the number and/or nominal value of shares under option.

Prior to the delivery of any RSUs, PSUs or ordinary shares under the New Schemes, the Company shall deduct or withhold all applicable withholding taxes due under the New Schemes, namely income tax and employee's national insurance contributions.

Key features of the RSU Scheme:

Awards granted under the RSU Scheme will be subject to annual performance criteria set by the Remuneration Committee each financial year, relating to each eligible employee's performance against personal, financial, strategic and ESG metrics.

Each eligible person will be set a minimum performance threshold which must be satisfied in order to trigger any issuance of RSUs to them ("Threshold"). In addition, a base target ("Target") and maximum amount ("Maximum") will also be set.

The first performance period will run with an effective date from 1 January 2020 until 31 December 2021 ("RSU Initial Performance Period"), with subsequent performance periods running annually from 1 January 2022 onwards. This initial 2-year period was put in place to reflect cash preservation measures in 2020, as well reflecting the overall strategy of the Company as it transitions towards its construction phase.

The Company will calculate any awards under the RSU Scheme based on a percentage of base salary as recommended by the Remuneration Committee at the start of each performance period. Pay-outs will be split 50% Cash and 50% in RSUs at the end of the assessment period and the number of RSUs issued will be based on the share price of the Company at the date of award. For the RSU Initial Performance Period, the Committee has recommended the following:

- performance below Threshold – no RSUs issued.
- performance equal to Threshold – RSUs issued to 20% of salary.
- performance equal to Target – RSUs issued to 40% of salary.
- performance equal to Maximum – RSUs issued to 60% of salary.

Any RSUs issued under the RSU Scheme will have a further two-year vesting period. On the vesting date, the RSUs will convert into cash or ordinary shares at the discretion of the Company.

Overall, the RSU Scheme has a combined three year performance and vesting period.

Key features of the PSU Scheme:

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

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

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

The first performance period will be with an effective date from 1 January 2020 to 31 December 2022 (the "PSU Initial Performance Period") with subsequent three-year performance periods starting from 1 January 2022.

The Company will calculate any awards under the PSU Scheme based on a percentage of base salary as recommended by the Remuneration Committee at the start of each performance period and the share price at the start of the period. For the PSU Initial Performance Period, the Committee has recommended the following:

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

PSUs issued under the Scheme at the end of each three-year performance period will have a further two-year vesting period. On the vesting date, the PSUs will be exercisable into Ordinary Shares with the timing at the sole discretion of the recipient.

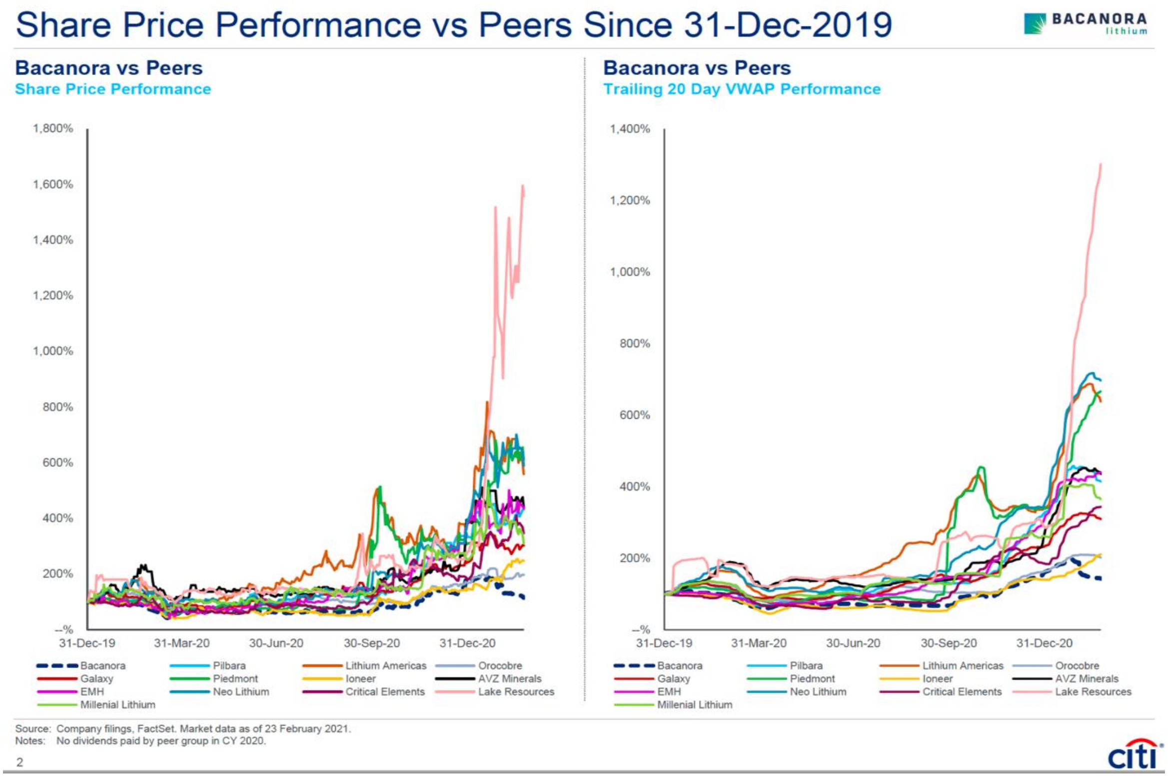
Overall, the PSU Scheme has a combined five-year performance and vesting period.

g) New Peer Group for PSU Schemes

The Committee has identified the following 12 companies to form the peer group against which Bacanora will be measured for the RTSR metric, based on market capitalisation and stage of development.

Company	Type / Location	Stage	Market Capitalisation on 23 February 2021 in US$ million
Pilbara Minerals (ASX:PLS)	Hard Rock in Australia	Production	2,589
Lithium Americas (TSX:LAC)	Brine in Argentina, Clay in USA	Construction	2,205
Orocobre (ASX:ORE)	Brine in Argentina	Production	1,423
Galaxy Resources (ASX:GXY)	Hard Rock in Canada/Aus, Brine in Arg	Production	961
Piedmont Lithium (Nasdaq:PLL)	Hard Rock in USA	PFS	796
Ioneer (ASX:INR)	Clay in USA	BFS	627
AVZ Minerals (ASX:AVZ)	Hard Rock in DRC	BFS	434
EMH (ASX:EMH)	Hard Rock in Czech	PFS	178
Neo Lithium (TSX:NLC	Brine in Argentina	PFS	300
Bacanora Lithium plc (AIM:BCN)	Clay in Mexico	BFS	189
Critical Elements (TSX:CRE)	Hard Rock in Canada	BFS	177
Lake Resources (ASX:LKE)	Brine in Argentina	PFS	325
Millennial Lithium (TSX:ML)	Brine in Argentina	BFS	224

The graph below shows Bacanora against this indexed peer group for the first 14 months of the Initial three year PSU performance period from 1 January 2020 to date.



h) AGM Approval of New Schemes and Remuneration Report

Whilst it is not a regulatory requirement for AIM Companies to put their Remuneration Reports to shareholders for annual approval, the Committee believes that it is good corporate governance for Bacanora to do this going forward given its size and stage of development. Accordingly, the terms of these New Schemes will be put to shareholders for their approval at the 2021 Annual General Meeting along with the Company's remuneration report. As noted, the New Schemes were developed in conjunction with Pearl Meyer and are based on current best practices and the Company believes they align with up to date recommendations from the proxy companies ISS and Glass Lewis.

For and on behalf of the Remuneration Committee

Jamie Strauss, Chairman of the Remuneration Committee
6 March 2021

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

Opinion on the Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2020 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company Financial Statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements of Bacanora Lithium Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2020 which comprise the Consolidated Statement of Financial Position, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Parent Company statement of financial position, the Parent Company statement of changes in equity, the Parent Company statement of Cash Flows and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

Reviewing cash flow forecasts for the period to June 2022 and challenging management on the completeness and accuracy of the forecasts. This included a comparison of forecast overhead expenditure with historic expenditure and agreeing the interest repayments on the loan to the agreement

- Agreeing the proceeds received from post year end equity raises
- Reviewing Group commitments to ensure these are accurately reflected in the cash flow forecasts

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

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

Overview:

<table>
<tr><td>Coverage</td><td colspan="3">99% (2019: 93%) of Group profit before tax
99% (2019: 98%) of Group total assets</td></tr>
<tr><td rowspan="5">Key Audit Matters</td><td></td><td>2020</td><td>2019</td></tr>
<tr><td>Carrying value of Evaluated mineral property</td><td>X</td><td>X</td></tr>
<tr><td>Carrying value of the investment in a joint venture</td><td></td><td>X</td></tr>
<tr><td>Accounting for the exercise of the Ganfeng option</td><td>X</td><td></td></tr>
<tr><td colspan="3">The carrying value of the investment in a joint venture is no longer considered to be a key audit matter as the investment was disposed during the year.</td></tr>
<tr><td>Materiality</td><td colspan="3">Group Financial Statements as a whole

US$820,000 (2019: US$860,000) based on 1% (2019: 0.9%) of total assets.</td></tr>
</table>

An overview of the scope of our audit

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

The Group comprises of the UK Parent Company and a number of subsidiaries which are incorporated in Mexico and Canada. We have performed a full scope audit over the Group's significant components comprising Bacanora Lithium Plc and Minera Sonora Borax S.A. de C.V. Specific audit procedures were carried out on Sonora Lithium Limited, Bacanora Chemco S.A. de C.V. and Bacanora Finco Limited. Each of the audits were conducted by BDO LLP. In respect of the other components which were deemed to be non-significant, these components were principally subject to analytical review procedures together with certain substantive tests over areas relating to Group risks by BDO LLP.

Key audit matters

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

<table>
<tr><th colspan="2">Key audit matter</th><th>How the scope of our audit addressed the key audit matter</th></tr>
<tr><td>Carrying value of evaluated mineral property</td><td>As at 31 December 2020 the Group's evaluated mineral property totalled US$28.1 million. The details of these assets are disclosed in note 7.
There are a number of judgements and estimates used by management in assessing these assets for indicators of impairment under the accounting standards. There are also judgements and estimates included in the feasibility study which management have relied upon when assessing the carrying value. These are set out in note 4b, and the subjectivity of the judgements and estimates together with the significant carrying value of the assets make this a key area of focus for our audit.</td><td>We have assessed management's impairment review and our procedures included the following:
○ We have reviewed and challenged, where appropriate, management's impairment indicators assessment against the criteria in the Group's accounting policy and applicable accounting standards in order to determine whether management's assessment was complete and in accordance with the requirements of the accounting standard.
○ We have obtained and checked the feasibility study prepared by management's external experts and assessed their competence and independence.
○ We corroborated management's assumptions on future lithium prices against market data to confirm whether management's projection of future lithium prices was reasonable.
○ We have reviewed the mineral licenses held by the Group and made enquiries with management to determine whether there were any reasons the licenses would not remain valid.
○ We reviewed board minutes and RNS announcements to check whether there were any indicators of impairment.

Key observations
Based on our work we have no matters to communicate in respect of management's assessment of the carrying value of the Group's evaluated mineral property.</td></tr>
</table>

Accounting for the exercise of the Ganfeng option and assessing the impact of this option on the Group's control of Sonora Lithium Limited	Ganfeng held a 22.5% non-controlling stake in subsidiary Sonora Lithium Limited. On 13 November 2020 Ganfeng gave notice to exercise its option to acquire an additional 27.5% interest in Sonora Lithium Limited for approximately £21 million consideration. As described in note 4a, at 31 December 2020 the transaction had not yet completed due to outstanding approvals and consents from various stakeholders and authorities in the People's Republic of China. In light of the notice given by Ganfeng to exercise the option, management has considered whether the Group still controls Sonora Lithium Limited. The assessment of control in accordance of IFRS 10 involves significant judgement. The judgements applied by management are set out in note 4a to the Financial Statements, with management concluding that at 31 December 2020 the Group remains in control of the Sonora Lithium project. Given the subjectivity of these judgements and estimates, this was assessed to be a key area of focus for our audit work.	We have reviewed management's assessment of whether the Group controls Sonora Lithium Limited as at 31 December 2020. Our audit procedures included the following: • We have reviewed the Joint Venture agreement dated June 2019 and confirmed the conditions which must be met prior to the completion of the option exercise. • We have reviewed management's control assessment in accordance with the accounting standards. We have involved our financial reporting technical experts in assessing whether the option held by Ganfeng constituted a substantive right taking into consideration the conditions precedent to the exercise of the option, being approval from the shareholders and Chinese Government. • We considered the 'barriers to exercise' and 'agreement of other parties' conditions as part of management's assessment whether substantive rights were held in accordance with IFRS 10. • We assessed that per the Group's accounting policy and IFRS 10 whether control had not changed as the above conditions prevented the option being exercised at 31 December 2020. We also considered that at 31 December 2020 the consideration had not been received nor had the shares been issued to Ganfeng. • Notwithstanding that there were substantive conditions outstanding at 31 December 2020, we considered whether the option agreement dated June 2019 gave Ganfeng the option of joint control over Sonora Lithium Limited. We reviewed the terms of the existing agreement and made enquiries of Management as to whether the new joint venture agreement had been entered into prior to 31 December 2020. **Key observations** Based on our audit procedures, we did not identify anything which may suggest that concluded that there is no loss of control of Sonora Lithium Limited by the Group. We found the judgements applied by management in the assessment of control over Sonora Lithium Limited to be inappropriate.

Our application of materiality

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

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the Financial Statements as a whole.

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

	Group Financial Statements		Parent Company Financial Statements	
	2020 US$	2019 US$	2020 US$	2019 US$
Materiality	820,000	860,000	660,000	750,000
Basis for determining materiality	1% of total assets	0.9% of total assets	80% of Group materiality	90% of Group materiality
Rationale for the benchmark applied	The materiality has been based on total assets as the Group is in the exploration and development phase of its operations and is not revenue generating or profit making. The audit team considers assets to be one of the principal considerations for users of the Financial Statements.		The Parent Company materiality has been set on a % of Group materiality.	
Performance materiality	615,000	645,000	495,000	750,000
Basis for determining performance materiality	75% of Group materiality	75% of Group materiality	75% of Parent Company materiality	75% of Parent Company materiality

The level of performance materiality was set after considering a number of factors including the expected value of known and likely misstatements and managements attitude towards proposed misstatements.

Component materiality

We set materiality for each component of the Group based on a percentage of between 33% and 80% of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from US$270,000 to US$660,000. In the audit of each component, we further applied performance materiality levels of 75% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of US$16,000 (2019:US$17,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report other than the Financial Statements and our auditor's report thereon. Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the Financial Statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

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

Strategic report and Directors' report	In our opinion, based on the work undertaken in the course of the audit: • the information given in the Strategic report and the Directors' report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and • the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: • adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or • the Parent Company Financial Statements are not in agreement with the accounting records and returns; or • certain disclosures of Directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

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

In preparing the Financial Statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

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

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

- Holding discussions with management and the audit committee to understand the laws and regulations relevant to the Group and company. These included elements of financial reporting framework, tax legislation and environmental regulations
- Holding discussions with management and the audit committee to consider any known or suspected instances of non-compliance with laws and regulations or fraud
- Testing appropriateness of journal entries made through the year by applying specific risk criteria to detect possible irregularities or fraud
- Assessing the judgements made by management when making key accounting estimates and judgements, and challenging management on the appropriateness of these judgements
- Reviewing minutes from board meetings of those charges with governance to identify any instances of non-compliance with laws and regulations

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

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

Use of our report

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

J. I. Draycott

Jack Draycott (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

London, UK

6 March 2021

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

Consolidated Statement of Financial Position

As at 31 December 2020

In US$	Note	31 December 2020	31 December 2019
Assets			
Current assets			
Cash and cash equivalents		**39,238,496**	48,903,551
Other receivables and prepayments	5	**2,044,988**	1,777,421
Total current assets		**41,283,484**	50,680,972
Non-current assets			
Investments in associates and joint ventures	6	**7,865,575**	9,545,993
Property, plant and equipment	7	**32,217,934**	30,443,640
Exploration and evaluation assets	8	**570,732**	534,588
Total non-current assets		**40,654,241**	40,524,221
Total assets		**81,937,725**	91,205,193
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	9	**1,329,214**	1,451,346
Joint venture obligation	6	**-**	113,697
Total current liabilities		**1,329,214**	1,565,043
Non-current liabilities			
Borrowings	10	**29,197,920**	24,051,610
Financial warrant liability	11	**1,549,576**	587,315
Total non-current liabilities		**30,747,496**	24,638,925
Total liabilities		**32,076,710**	26,203,968
Shareholders' equity			
Share capital	14	**30,348,183**	30,240,469
Share premium	14	**16,801,168**	16,646,060
Merger reserve	14	**53,557,251**	53,557,251
Share-based payment reserve	14	**977,738**	3,807,562
Foreign currency translation reserve		**3,872,567**	3,568,358
Retained earnings		**(68,021,565)**	(55,464,190)
Equity attributable to equity shareholders of Bacanora Lithium Plc		**37,535,342**	52,355,510
Non-controlling interest	23	**12,325,673**	12,645,715
Total shareholders' equity		**49,861,015**	65,001,225
Total liabilities and shareholders' equity		**81,937,725**	91,205,193

The accompanying notes on pages 79 - 113 are an integral part of these Consolidated Financial Statements.

The Consolidated Financial Statements of Bacanora Lithium Plc, registered number 11189628, were approved and authorised for issue by the Board of Directors on 6 March 2021 and were signed on its behalf by:

Mark Hohnen, Chairman

6 March 2021

Consolidated Statement of Comprehensive Income

For the twelve month period ended 31 December 2020

In US$	Note	Year ended 31 December 2020	Six months ended 31 December 2019
Expenses			
General and administrative	16	**(4,425,964)**	(2,763,202)
Depreciation	7	**(189,130)**	(101,549)
Share-based payment expense	14	**(590,665)**	(290,391)
Foreign exchange loss		**(66,257)**	(18,307)
Operating loss		**(5,272,016)**	(3,173,449)
Finance and other income	17	**355,913**	928,796
Finance costs	17	**(6,829,405)**	(2,429,443)
Share of loss on investment in associate	6	**(102,791)**	-
Revaluation of derivative asset	6	**-**	(191,066)
Loss before tax from continuing operations		**(11,848,299)**	(4,865,162)
Tax charge	15	**(5,114)**	-
Loss after tax from continuing operations		**(11,853,413)**	(4,865,162)
Loss on discontinued operation	6	**(4,068,697)**	(80,887)
Loss after tax		**(15,922,110)**	(4,946,049)
Other comprehensive loss:			
Foreign currency translation adjustment		**304,209**	-
Total comprehensive loss		**(15,617,901)**	(4,946,049)
Loss after tax attributable to shareholders of Bacanora Lithium Plc		**(15,602,068)**	(4,864,910)
Loss after tax attributable to non-controlling interests		**(320,042)**	(81,139)
Loss after tax		**(15,922,110)**	(4,946,049)
Total comprehensive loss attributable to shareholders of Bacanora Lithium Plc		**(15,297,859)**	(4,864,910)
Total comprehensive loss attributable to non-controlling interests		**(320,042)**	(81,139)
Total comprehensive loss		**(15,617,901)**	(4,946,049)
Net loss per share (Continuing operations) (basic and diluted)	14	**(0.05)**	(0.03)
Net loss per share (Discontinued operations) (basic and diluted)	14	**(0.02)**	(0.00)

The accompanying notes on pages 79 - 113 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

For the twelve month period ended 31 December 2020

In US$	Note	Share capital: Number of shares	Share capital: Value	Share premium	Merger reserve	Share-based payment reserve	Foreign currency translation reserve	Retained earnings	Total equity attributable to Bacanora Lithium Plc	Non-controlling interest	Total equity
30 June 2019		134,464,872	18,996,790	153,366	53,557,251	5,417,193	3,568,358	(48,539,746)	33,153,212	(707,892)	32,445,320
Comprehensive income for the period:											
Loss for the period		-	-	-	-	-	-	(4,864,910)	(4,864,910)	(81,139)	(4,946,049)
Total comprehensive loss		-	-	-	-	-	-	(4,864,910)	(4,864,910)	(81,139)	(4,946,049)
Contributions by and distributions to owners:											
Issue of share capital - Ganfeng investment	14	57,600,364	7,251,886	10,877,829	-	-	-	-	18,129,715	-	18,129,715
Issue of share capital - M&G investment	14	30,916,601	3,991,793	5,987,690	-	-	-	-	9,979,483	-	9,979,483
Share issue costs	14	-	-	(372,825)	-	-	-	-	(372,825)	-	(372,825)
Adjustment arising from change in non-controlling interest	14	-	-	-	-	-	-	(3,959,556)	(3,959,556)	13,434,746	9,475,190
Lapsed option charge	14	-	-	-	-	(1,900,022)	-	1,900,022	-	-	-
Share-based payment expense	14	-	-	-	-	290,391	-	-	290,391	-	290,391
31 December 2019		222,981,837	30,240,469	16,646,060	53,557,251	3,807,562	3,568,358	(55,464,190)	52,355,510	12,645,715	65,001,225
Comprehensive income for the period:											
Loss for the period		**-**	**-**	**-**	**-**	**-**	**-**	**(15,602,068)**	**(15,602,068)**	**(320,042)**	**(15,922,110)**
Other comprehensive income (Note 6c)		**-**	**-**	**-**	**-**	**-**	**304,209**	**-**	**304,209**	**-**	**304,209**
Total comprehensive loss		**-**	**-**	**-**	**-**	**-**	**304,209**	**(15,602,068)**	**(15,297,859)**	**(320,042)**	**(15,617,901)**
Contributions by and distributions to owners:											
Issue of share capital - RSUs	14	**833,846**	**107,714**	**155,108**	**-**	**(708,097)**	**-**	**332,301**	**(112,974)**	**-**	**(112,974)**
Lapsed option charge	14	**-**	**-**	**-**	**-**	**(2,712,392)**	**-**	**2,712,392**	**-**	**-**	**-**
Share-based payment expense	14	**-**	**-**	**-**	**-**	**590,665**	**-**	**-**	**590,665**	**-**	**590,665**
31 December 2020		**223,815,683**	**30,348,183**	**16,801,168**	**53,557,251**	**977,738**	**3,872,567**	**(68,021,565)**	**37,535,342**	**12,325,673**	**49,861,015**

The accompanying notes on pages 79 - 113 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

For the twelve month period ended 31 December 2020

In US$	Note	Year ended 31 December 2020	Six months ended 31 December 2019
Cash flows from operating activities			
Total loss before tax for the period		**(15,916,996)**	(4,946,049)
Adjustments for:			
Depreciation of property, plant and equipment	7	**189,130**	101,549
Share-based payment expense	14	**590,665**	290,391
Foreign exchange		**8,109**	58,755
Finance and other income	17	**(355,913)**	(928,796)
Finance costs	17	**6,829,405**	2,429,443
Share of loss on investment in associate	6	**102,791**	-
Loss on discontinued operation	6	**4,068,697**	80,887
Revaluation of derivative asset	6	**-**	191,066
Changes in working capital items:			
Other receivables		**(241,538)**	525,594
Accounts payable and accrued liabilities		**(122,130)**	(82,356)
Net cash used in operating activities		**(4,847,780)**	(2,279,516)
Cash flows from investing activities:			
Interest received		**355,913**	214,408
Purchase of property, plant and equipment		**(1,994,569)**	(560,950)
Purchase of exploration and evaluation assets		**(36,144)**	(10,641)
Purchase of investment in associate	6	**(1,627,642)**	-
Payments to the joint venture	6	**(679,458)**	(401,972)
Proceeds on sale of subsidiaries	14	**-**	9,475,190
Net cash (used in)/from investing activities		**(3,981,900)**	8,716,035
Cash flows from financing activities			
(Share issue costs)/Issues of share capital, net of share costs	14	**(112,974)**	27,736,373
Interest payments		**(710,585)**	-
Net cash flows from financing activities		**(823,559)**	27,736,373
Change in cash and cash equivalents during the period		**(9,653,239)**	34,172,892
Exchange rate effects		**(11,816)**	(33,047)
Cash and cash equivalents, beginning of the period		**48,903,551**	14,763,706
Cash and cash equivalents, end of the period		**39,238,496**	48,903,551

The accompanying notes on pages 79 - 113 are an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1 Corporate information

Bacanora Lithium Plc (the “Company” or “Bacanora”) was incorporated under the Companies Act 2006 of England and Wales on 6 February 2018. The Company is listed on the AIM market of the London Stock Exchange, with its shares trading under the symbol, "BCN". The registered address of the Company is 4 More London Riverside, London, SE1 2AU. The Company was incorporated prior to the Bacanora Group re-domicile from Canada to the UK in March 2018 where the Company became the new holding company for Bacanora Minerals Ltd, the original parent company for the Group.

The Group is a development stage mining group engaged in the identification, acquisition, exploration and development of mineral properties located in Mexico and Germany.

The Group issued the results of the feasibility study for the Sonora Lithium Project in Mexico on 25 January 2018. The feasibility study confirmed the positive economics and favourable operating costs of a 35,000 tpa battery-grade lithium operation. The feasibility study estimates a pre-tax project net present value of US$1.253 billion at an 8% discount rate and an internal rate of return of 26.1%. Key estimates and judgements assessed by management on the Group’s Sonora Lithium Project assets have been disclosed in Note 4.

2 Basis of preparation

a) Statement of compliance

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively "IFRS") applied in accordance with the provisions of the Companies Act 2006.

IFRS is subject to amendment and interpretation by the International Accounting Standards Board (“IASB”) and the IFRS Interpretations Committee

The Consolidated Financial Statements were authorised for issue by the Board of Directors on 6 March 2021.

b) Basis of measurement

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

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

c) Going Concern

The Directors have, at the time of approving the Consolidated Financial Statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Group has a significant cash balance of US$39.2 million as at 31 December 2020 and has not entered into commitments to develop the Sonora Lithium Project. In addition, on 8 February 2021, the Company completed a fund raise with gross proceeds of £48.1 million (approximately US$65 million). Furthermore, in February 2021, Sonora Lithium Ltd (“SLL”) received £21.9 million (approximately US$30.4 million) on completion of the Ganfeng Option Exercise, see note 3a). Thus, the going concern basis of accounting in preparing the Financial Statements continues to be adopted.

The Company has taken into account the impact of Covid-19 on going concern for the Company. The main impact of Covid-19 for Bacanora has been its effect on the timing of test and design work for FEED. Going concern models reflect the delays as a consequence of Covid-19.

3 Significant accounting polices

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

a) Basis of consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Company and following subsidiaries at 31 December 2020:

Name of subsidiary	Country of incorporation	Shareholding on 31 December 2020	Shareholding on 31 December 2019	Nature of business
Bacanora Finco Ltd	UK	100%	100%	Financing company
Bacanora Treasury Ltd	UK	100%	100%	Financing company
Bacanora Battery Metals Ltd****	UK	100%	100%	Dormant
Battery Finance (Jersey) Ltd	Jersey	100%	100%	Dormant
Sonora Lithium Ltd	UK	77.5%	77.5%	Holding company
Bacanora Chemco S.A. de C.V.*	Mexico	77.5%	77.5%	Lithium processing
Bacanora Minerals Ltd*	Canada	77.5%	77.5%	Holding company
Mexilit S.A. de C.V**	Mexico	54.25%	54.25%	Lithium Mining/exploration
Minera Megalit S.A. de C.V**	Mexico	54.25%	54.25%	Mineral exploration
Mineramex Ltd**	BVI	77.5%	77.5%	Holding company
Minera Sonora Borax, S.A. de C.V.***	Mexico	77.5%	77.5%	Lithium mining/exploration
Operador Lithium Bacanora S.A. de C.V.***	Mexico	77.5%	77.5%	Mexican service organisation
Minerales Industriales Tubutama, S.A. de C.V***	Mexico	46.5%	46.5%	Dormant

*Held indirectly through Sonora Lithium Ltd
** Held indirectly though Sonora Lithium Ltd and Bacanora Minerals Ltd
***Held indirectly though Sonora Lithium Ltd, Bacanora Minerals Ltd and Mineramex Ltd
**** Bacanora has commenced the process of liquidating Bacanora Battery Metals Ltd

Subsidiaries are controlled by the Company where the Company is exposed to, or has rights to, variable returns from its involvement with the subsidiary and has the ability to affect those returns through its application of this power. Subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intercompany balances and transactions are eliminated in full. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

The shareholdings in table above for the Mexican subsidiaries show the real underlying position of group ownership. For the duration of the RK loan facility, the legal title to the shareholdings in each of Minera Sonora Borax ("MSB"), Bacanora Chemco, Operador Lithium Bacanora ("OLB"), Mexilit, Minera Megalit ("Megalit") have transferred to CiBanco SA. Economic and voting rights for these shares all remain with the original relevant Group companies and legal title will revert on extinguishing of the RK Debt facility.

In August 2019, Bacanora Lithium Plc's 100% ownership of Bacanora Minerals Ltd and all its subsidiaries were transferred to SLL (a 100% subsidiary of Bacanora Lithium Plc at that time). In October 2019, Ganfeng Lithium Co., Ltd. purchased 22.5% of the shareholding of SLL and its subsidiaries. In addition, Ganfeng were issued an option to purchase a further 27.5% to reach a shareholding of 50% within 2 years of the initial investment (the "Ganfeng Option"). On 11 November 2020, Ganfeng gave notice to the Company of its intention to exercise its right under the Ganfeng Option to subscribe for 73,955,680 new ordinary shares in SLL ("Ganfeng Option Exercise") at 29.59p at a total value of £21,883,485.

On 31 December 2020, the Group considers that it has the rights to the variable returns from SLL and its subsidiaries and has the ability to affect those returns through the application of its power from its controlling members of the Board and its shareholder voting rights. In assessing control, the Group has considered future voting rights but note that the Ganfeng Option Exercise had not completed at the reporting date. A number of conditions were still to be met including obtaining certain approvals and consents from authorities in the People's Republic of China, executing a revised joint venture agreement, and a number of key stakeholders including the Board and Shareholders of Bacanora Lithium Plc may need to provide consent to the transaction, for these reasons the Board does not consider these potential voting rights to be substantive and the Group believes that it has control of the Project and does not have available reliable information to conclude that it does not have control.

In February 2021, the Ganfeng Option Exercise completed with Ganfeng owning 50% of the enlarged issued share capital of SLL and a new 50:50 joint venture agreement came into effect. The Company is assessing the impact of the completion of the Ganfeng Option Exercise on the Company's ability to control SLL. Any material change to the control assessment may have a significant impact on the Group's basis of consolidation post year end.

b) Standards, amendments and interpretations adopted

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

Standard	Detail	Effective date
IFRS 7, IFRS 9, IAS 39	Amendments regarding pre-replacement issues in the context of the IBOR reform	1 January 2020
IAS 1, IAS 8	Amendment – regarding the definition of material	1 January 2020

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

c) Standards, amendments and interpretations effective in future periods

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

Standard	Detail	Effective date
IFRS 7, IFRS 9, IFRS 16, IAS 39	Amendments regarding pre-replacement issues in the context of the IBOR reform	1 January 2021
IAS 16	Amendments prohibiting a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use	1 January 2022
IAS 37	Amendments regarding the costs to include when assessing whether a contract is onerous	1 January 2022
IAS 1	Amendment – regarding the classification of liabilities	1 January 2023

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

d) Foreign currency transactions and translations

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

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

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

e) Cash and cash equivalents

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

f) Other receivables

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

g) Investments in associates

Where the Group has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the Consolidated Statement of Financial Position at cost. Subsequently associates are accounted for using the equity method, where the Group's share of post-acquisition profits and losses and other comprehensive income is recognised in the Consolidated Statement of Profit and Loss and Other Comprehensive Income (except for losses in excess of the Group's investment in the associate unless there is an obligation to make good those losses).

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

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

h) Joint arrangements and joint ventures

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

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

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

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

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

i) Exploration and evaluation assets

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

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

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

Purchased exploration and evaluation assets are recognised as assets at their cost of acquisition or at fair value if purchased as part of a business combination. They are subsequently stated at cost less accumulated impairment. Exploration and evaluation assets are not amortised.

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

j) Property, plant and equipment

i) Evaluated mineral property

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

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

ii) Land

Land is held at cost less accumulated impairment losses.

iii) Short lived property, plant and equipment

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

iv) **Depreciation and amortisation**

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

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

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

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

k) **Borrowings costs**

The Group only capitalises borrowing costs which are directly attributable to the acquisition, construction or production of an asset, that necessarily takes a substantial period to get ready for its intended use, as part of the cost of that asset. Borrowing costs that are eligible to be capitalised are those which would have been avoided if the expenditure on the qualifying asset had not been made. The Group has not capitalised any borrowing costs in the twelve month period ended 31 December 2020.

l) **Rehabilitation provision**

The Group recognises provisions for contractual, constructive or legal obligations, including those associated with the reclamation of mineral interests and property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a provision for the rehabilitation is recognised at its present value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding provision is added to the carrying amount of the related asset and the cost is amortised as an expense over the economic life of the asset. Following the initial recognition of the rehabilitation provision, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, and amount or timing of the underlying cash flows needed to settle the obligation.

Currently the Group has not carried out any significant mining or earth moving at the Sonora Lithium Project and thus management have assessed that no rehabilitation provision is necessary.

m) **Provisions**

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

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

n) **Interest income**

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

o) Financial instruments

Financial assets and liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expired.

Except for trade and other receivables which do not contain a significant financing component, financial assets and financial liabilities are measured initially at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition or issue of the financial instrument. Trade receivables which do not contain a significant financing component are recognised at their transaction price. Financial assets and financial liabilities are subsequently measured as described below.

i) Financial assets

Financial assets are subsequently recognised at amortised cost under IFRS 9 if it meets both the hold to collect and contractual cash flow characteristics tests. A financial asset is measured at fair value through other comprehensive income if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If neither of the above classification are met the asset is classified as fair value through the profit and loss or unless management elect to do so provided the classification eliminates or significantly reduces a measurement or recognition inconsistency.

(a) Cash and cash equivalents and trade and other receivables

Cash and cash equivalents and trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment, if any.

(b) Fair value through profit or loss

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

ii) Financial liabilities

Financial liabilities are subsequently measured at amortised cost using the effective interest method, except for financial liabilities designated at fair value through profit or loss, that are carried subsequently at fair value with gains and losses recognised in the profit and loss statement.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

The Group’s financial liabilities initially measured at fair value and subsequently recognised at amortised cost include accounts payables and accrued liabilities, and the Group’s primary and secondary Eurobonds. The Group accounts for the financial warrants at fair value through profit or loss.

(a) Warrant liabilities

The warrants granted to RK Mine Finance can be settled in cash at the Company’s option or equity at either party’s option. As a result, the warrants have been classified as financial liability. The financial warrants issued with the primary and secondary Eurobonds are detachable instruments meeting the criteria to be separated from the host contract and thus recognised as a separate financial instrument. Management have classified the financial warrants at fair value through profit and loss. The initial and subsequent fair values are measured using the Black-Scholes valuation method.

(b) **Borrowings**

The Group's primary and secondary Eurobonds have been initially recognised at fair value less directly attributable transaction costs, using the present value of future cash flows. Given the warrant liabilities and Eurobonds were issued as a package of financial instruments the warrants have been accounted for at their known fair value and the remaining fair value has been allocated to the Eurobonds based on the ratio of the purchase price of the Eurobonds. Subsequently the Eurobonds are measured at amortised cost using the effective interest rate method.

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

p) Impairment of assets

i) Financial assets

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

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

ii) Non-financial assets

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

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

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

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

q) Income taxes

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

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

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

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

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

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

The Group has no deferred tax assets or liabilities.

r) Earnings/loss per share

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

s) Share premium

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

t) Share-based payments

i) Share-based payment transactions

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

ii) Equity-settled transactions

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

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

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

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

Upon exercise of share options, the proceeds received are allocated to share capital and premium if applicable, with any value previously recorded in share-based payment reserve relating to those options being transferred to retained earnings. When options expire any value previously recorded in share-based payment reserve relating to those options is transferred to retained earnings. The dilutive effect of outstanding options is reflected as additional dilution in the computation of diluted earnings per share.

u) Segmental reporting

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

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

v) Non-controlling interests

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

4 Critical accounting estimates and judgements

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

a) Basis of consolidation

In October 2019, Ganfeng Lithium Co., Ltd. were issued an option to purchase a further 27.5% to reach a shareholding of 50% within 2 years of the initial investment. On 11 November 2020, Ganfeng gave notice to the Company to exercise its right under the Ganfeng Option to subscribe for 73,955,680 new ordinary shares in SLL at 29.59p at a total value of £21,883,485.

On 31 December 2020, the Group considers that it has the rights to the variable returns from SLL and its subsidiaries and has the ability to affect those returns through the application of its power from its controlling members of the Board and its shareholder voting rights. In assessing control, the Group has considered future voting rights and note that the Ganfeng Option Exercise had not completed at the reporting date. A number of conditions were still to be met including obtaining certain approvals and consents from authorities in the People's Republic of China, executing a revised joint venture agreement, and a number of key stakeholders including the Board and Shareholders of Bacanora Lithium Plc may need to provide consent to the transaction, for these reasons the Board does not consider these potential voting rights to be substantive and the Group believes that it has control of the Project and does not have available reliable information to conclude that it does not have control.

In February 2021, the Ganfeng Option Exercise completed with Ganfeng owning 50% of the enlarged issued share capital of SLL and a new 50:50 joint venture agreement came into effect. The Company is assessing the impact of the completion of the Ganfeng Option Exercise on the Company’s ability to control SLL. Any material change to the control assessment may have a significant impact on the Group’s basis of consolidation post year end.

b) Evaluated mineral property

The recoverability of carrying values for evaluated mineral property is dependent upon the ability of the Group to obtain the financing necessary to complete development and the success of future operations.

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

Costs are capitalised to evaluated mineral properties which are directly attributable to the development of the mineral asset. Estimates and judgements are made when determining whether costs are directly attributable. Employee costs are capitalised based on their job role and time spent developing the project.

c) Functional currency

The Group transacts in multiple currencies. The assessment of the functional currency of each entity within the consolidated Group involves the use of judgement in determining the primary economic environment each entity operates in. The Group first considers the currency that mainly influences sales prices for goods and services, and the currency that mainly influences labour, material and other costs of providing goods or services. In determining functional currency, the Group also considers the currency from which funds from financing activities are generated, and the currency in which receipts from operating activities are usually retained. When there is a change in functional currency, the Group exercises judgement in determining the date of change.

All Group subsidiaries have a functional currency of US$, this is driven by the primary economic environment of each entity ultimately relating to the lithium market. The lithium market, being sales of lithium products, labour, materials and professional services, is primarily transacted in US$.

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

d) Share-based payments

The Group utilises the Black-Scholes Option Pricing Model to estimate the fair value of share options and restricted share units granted to Directors, Officers and employees. The use of the Black-Scholes Option Pricing Model requires management to make various estimates and assumptions that impact the value assigned to the share options and restricted share units including the forecast future volatility of the share price, the risk-free interest rate, dividend yield, the expected life of the share options and restricted share units and the expected number of share which will vest. See note 14 for further details regarding these inputs.

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

e) Investments in associates and joint ventures

The Group applies IFRS 11 to all joint arrangements and classifies them as either joint operations or joint ventures, depending on the contractual rights and obligations of each investor. During the year ended 31 December 2020, the Group held 50% of the voting rights of its joint arrangement with SolarWorld AG. The Group held joint control over this arrangement as under the contractual agreements, unanimous consent is required from all parties to the agreements for certain key strategic, operating, investing and financing policies. The Group's joint arrangement was structured through a limited liability entity, Deutsche Lithium GmbH ("DL"), and provides the Group and SolarWorld AG (parties to the joint venture agreement) with rights to the net assets of Deutsche Lithium under the arrangements. Therefore, this arrangement was classified as a joint venture.

On 29 October 2020, the Group completed the sale of its 50% shareholding in DL to AIM-listed Erris Resources Plc ("Erris"). The joint venture was disposed of under IAS 28.

In exchange, Bacanora received 90,619,170 shares (44.3%) in the enlarged Erris, a net profit royalty and a seat on the Board of Directors. Erris was subsequently renamed as Zinnwald Lithium Plc ("ZNWD"). The Group has significant influence over ZNWD as assessed using IAS 28, therefore the investment in associate has been accounted for using the equity method.

The investment is assessed at each reporting period date for impairment in accordance with IAS 28. An impairment is recognised if there is objective evidence that events after the recognition of the investment have had an impact on the estimated future cash flows which can be reliably estimated. In addition, the assessment as to whether economically recoverable reserves exist is itself an estimation process.

f) Financial warrant liability

The Group utilises the Black-Scholes Option Pricing Model to estimate the fair value of the financial warrant liability. The use of the Black-Scholes Option Pricing Model requires management to make various estimates and assumptions that impact the value of the financial warrant liability including the forecast future volatility of the share price and the risk-free interest rate. See note 11 for further details regarding these inputs.

g) Borrowings

The Group revises its estimates of cashflows on the primary and secondary Eurobonds when new information is available. This includes the estimated production profile based on the Sonora Feasibility Study and timing of the Sonora Lithium Project which will impact the future cashflows of the production linked secondary Eurobond. When the estimates are revised, the Group recalculates the amortised cost of the Eurobond as the present value of the estimated future contractual cash flows that are discounted at the financial instrument's original effective interest rate or, when applicable, the revised effective interest rate for market rate changes.

5 Other receivables and prepayments

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

In US$	31 December 2020	31 December 2019
Other receivables	**1,138,579**	973,217
Prepayments and deposits	**906,409**	804,204
Total	**2,044,988**	1,777,421

6 Investments in associates and jointly controlled entities

The following investments have been included in the Consolidated Financial Statements using the equity method:

Name	Country of incorporation	Shareholding 31 December 2020	Shareholding 31 December 2019	Carrying value 31 December 2020	Carrying value 31 December 2019	Classification
Deutsche Lithium GmbH	Germany	0%	50%	-	9,545,993	Joint venture
Zinnwald Lithium Plc	UK	44%	0%	7,865,575	-	Investment in associate
				7,865,575	9,545,993	

a) Investment in Deutsche Lithium

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

The Group acquired its interest in DL for a cash consideration of €5.1 million from SolarWorld and an obligation to contribute €5 million toward the costs of completion of a feasibility study. Additionally, legal fees of US$0.2 million were paid in connection to this transaction.

On 29 October 2020, the Group completed the sale of its 50% shareholding in DL to AIM-listed Erris Resources Plc. Bacanora contributed the 50% investment in DL and €1.35m cash. The cash was used to settle the commitment under the second supplemental joint venture agreement with SolarWorld and to pay for transaction costs. Erris contributed its remaining cash and its Irish zinc and Swedish gold assets. In exchange, Bacanora received 90,619,170 shares (44.3%) in the enlarged Erris and a net profit royalty. Erris was subsequently renamed Zinnwald Lithium Plc.

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

In US$	Joint venture investment
30 June 2019	9,347,086
Joint venture investment loss	(80,887)
Additional investment	279,794
31 December 2019	9,545,993
Additional investment	**559,219**
Loss on discontinued operation	**(4,068,697)**
Fair value of disposal proceeds (Note 6c)	**(6,036,515)**
31 December 2020	**-**

b) Joint venture obligation

As part of the investment agreement, Bacanora agreed to fund the DL joint venture until 17 February 2020. The movement in the obligation is detailed below:

In US$	Joint venture liability
30 June 2019	(237,105)
Payments of joint venture obligation	401,972
Agreement obligation	(279,794)

Foreign exchange gain	1,230
31 December 2019	(113,697)
Payments of joint venture obligation	**208,861**
Agreement obligation	**(88,622)**
Foreign exchange loss	**(6,542)**
31 December 2020	**-**

c) Investment in Zinnwald Lithium Plc

On 29 October 2020, Bacanora acquired 90,619,170 shares (44.3%) of Zinnwald Lithium Plc. Zinnwald Lithium Plc is a UK incorporated company listed on AIM, with a 50% shareholding in the Zinnwald Lithium Project (through its holding in Deutsche Lithium GmbH) and 100% ownership of the Abbeytown zinc, lead and silver project in Ireland and Brannberg gold project in Sweden.

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

The Group acquired its interest in Zinnwald Lithium Plc in exchange for its 50% investment in Deutsche Lithium and a cash consideration, a total consideration valued at US$7.7 million.

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

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

In US$	**Purchase price**
Net current assets	2,725,594
Non-current assets	4,938,562
Total	7,664,157

The premium paid above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired has been capitalised and included in the carrying amount of the associate.

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

In US$	Joint venture investment
31 December 2019	-
Initial recognition	**7,664,157**
Share of loss on investment in associate	**(102,791)**
Foreign exchange translation gain	**304,209**
31 December 2020	**7,865,575**

The summarised financial information of Zinnwald Lithium Plc and reconciliation to the investment carrying amount is set out below. The summarised information represent amounts shown in ZNWD's financial statements, as adjusted for differences in accounting policies and fair value adjustments required related to the Company's investment in the associate. Amounts have been translated in accordance with the Company's accounting policy on foreign currency translation.

In US$	31 December 2020
Net current assets	**6,100,668**
Non-current assets	**11,645,728**
Net assets (100%)	**17,746,396**
Group share of net assets (44.3%)	**7,865,575**

Zinnwald Lithium Plc is listed on the AIM market of the London Stock Exchange, with its common shares trading under the symbol, "ZNWD". The closing share price on 31 December 2020 was 11.5 pence per share resulting in a market fair value of £10,421,205 (US$14,191,367 equivalent).

Zinnwald Lithium Plc made a loss after tax and total comprehensive loss of €2,700,472 for the year, of which, the Company has recognised its share of losses for the period of ownership.

7 Property, plant and equipment

a) Sonora Lithium Project

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

Group company owner	Concession name	Group ownership as at 31 December 2020
MSB	La Ventana	77.5%
MSB	La Ventana 1	77.5%
Mexilit	El Sauz	54.25%
Mexilit	El Sauz 1	54.25%
Mexilit	El Sauz 2	54.25%
Mexilit	Fleur	54.25%
Mexilit	Fleur 1	54.25%

On 25 January 2018, the Group published a technical Feasibility Study for the Sonora Lithium Project in accordance with NI 43-101. Under IFRS 6 — Exploration for and Evaluation of Mineral Resources, an impairment test is required when the technical feasibility and commercial viability of extracting a mineral resource become demonstrable, at which point the asset falls outside the scope of IFRS 6 and was reclassified in the Financial Statements. The Feasibility Study financial assessment performed by independent mining specialists, IMC, SRK and Ausenco, gave a pre-tax project net present value of US$1.253 billion at 8% discount factor based on a long-term price of US$11,000 per tonne Li2CO3. Thus, there was no impairment for these mining assets as the combined value of the exploration and

evaluation assets totalled US$16,918,190, at the point of transfer, giving significant headroom. As a result, these costs were transferred to evaluated mining property on 25 January 2018.

As previously reported to shareholders, Bacanora is challenging the validity of the previously reported 3% royalty over the MSB concessions within the Sonora Lithium Project, payable to the Orr-Ewing Estate, and is seeking a judgment of the Court in Alberta declaring such royalty invalid. The basis of Bacanora Minerals Ltd claim is that the royalty was originally granted based on a negligent or fraudulent misrepresentation by Mr. Orr-Ewing that he held a pre-existing royalty granted prior to the acquisition of the MSB concessions by Bacanora Minerals Ltd. The Company engaged in voluntary, independent mediation in early 2019, but was unable to reach an agreement with the Estate's advisers. The Estate applied for a Summary Trial of the action in December 2019. In February 2020, the Alberta Court decided to hear only the preliminary issue of whether the action is limitation barred. The Court's original schedule was that this hearing was to be in May 2020, but this date was cancelled as the impact of Covid-19 effectively closed down the Alberta Court system. The Court has now set a new date of 9 March 2021 for the hearing. The Company has at all times taken a conservative approach to the treatment of the purported royalty and included it fully in the financial model for the Feasibility Study published in 2018, as well as all financial projections to investors and debt funding partners.

The carrying value of Property, plant and equipment as at 31 December 2020 is set out below:

Cost (US$)	Evaluated mineral property	Land	Buildings	Plant and machinery	Office furniture and equipment	Transportation	Total
30 June 2019	25,401,154	3,035,000	840,472	737,266	435,697	120,734	30,570,323
Additions	739,076	-	-	-	-	-	739,076
31 December 2019	26,140,230	3,035,000	840,472	737,266	435,697	120,734	31,309,399
Additions	**1,957,320**	**-**	**-**	**-**	**6,104**	**-**	**1,963,424**
31 December 2020	**28,097,550**	**3,035,000**	**840,472**	**737,266**	**441,801**	**120,734**	**33,272,823**

Depreciation							
30 June 2019	-	-	189,536	331,987	126,831	115,856	764,210
Charge for the period	-	-	18,665	46,417	34,049	2,418	101,549
31 December 2019	-	-	208,201	378,404	160,880	118,274	865,759
Charge for the period	**-**	**-**	**42,913**	**74,665**	**69,092**	**2,460**	**189,130**
31 December 2020	**-**	**-**	**251,114**	**453,069**	**229,972**	**120,734**	**1,054,889**

Net Book Value							
30 June 2019	25,401,154	3,035,000	650,936	405,279	308,866	4,878	29,806,113
31 December 2019	26,140,230	3,035,000	632,271	358,862	274,817	2,460	30,443,640
31 December 2020	**28,097,550**	**3,035,000**	**589,358**	**284,197**	**211,829**	**-**	**32,217,934**

8 Exploration and evaluation assets

The balance of investment in exploration and evaluation assets as at 31 December 2020 relate to concession taxes on exploration licenses and costs of exploration on the Group's Megalit lithium concessions. Movement in the year is as follows:

In US$	Megalit
30 June 2019	523,947
Additions	10,641
31 December 2019	534,588
Additions	**36,144**
31 December 2020	**570,732**

Specific descriptions of the Group's exploration properties are as follows:

a) Magdalena Borate property

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

Based on the Group's decision to not further explore borates or be able to find a buyer for the asset, the Group, in prior periods fully impaired the carrying value to nil. During the year ended 31 December 2020, management have no evidence to write back any of the impairments to date.

b) Megalit Lithium property

Three concessions in Sonora, Mexico, namely, Buenavista, Megalit and San Gabriel, fall outside of the scope of the Sonora Lithium Project Feasibility Study. They cover 89,235 hectares and are subject to a separate agreement between the Group and Cadence Minerals Plc. As at 31 December 2020, Buenavista, Megalit and San Gabriel concessions were owned by Megalit. Megalit is owned 70% by SLL and 30% by Cadence Minerals Plc.

9 Accounts payable and accrued liabilities

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

In US$	31 December 2020	31 December 2019
Trade payables	**223,620**	563,457
Accrued liabilities	**759,200**	578,754
Other payables	**346,394**	309,135
Total	**1,329,214**	1,451,346

10 Borrowings

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

The Facility is structured as two separate Eurobonds, listed on The International Stock Exchange:

Primary bond: US$150 million nominal amount secured notes issued at a purchase price of US$138 million with a 6-year term and bearing an interest rate of three months USD LIBOR + 8% per annum based on a nominal amount of

US$150 million but payable only on drawn down principal. Interest was capitalised every three months for the first 24 months and thereafter interest is paid every three months in cash.

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

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

RK holds a fixed charge security over the shares of various subsidiaries of the Group except for Bacanora Lithium Plc and Bacanora Battery Metals Limited. RK also holds a fixed charge security over certain bank accounts held by the relevant UK and Canadian holding companies and Mexican subsidiaries. RK holds a floating charge over Bacanora Lithium Plc's assets not covered by the fixed charge. RK holds fixed and floating charge over the assets of the relevant Mexican subsidiaries related to the Sonora Lithium Project.

The Facility has a debt covenant for the Group to maintain a minimum working capital balance of US$15 million measured monthly. Working capital for the purpose of the debt covenant is defined as current assets minus current liabilities, excluding assets and liabilities relating to Zinnwald Lithium Plc, Bacanora Battery Metals Limited and overdue VAT receivables. In addition, there are certain conditions precedent to the second drawdown to the debt facility, including but not limited to a minimum equity funding raise of US$200 million, the completion of certain operational permits and entering into direct agreement in relation to the offtake agreements. RK has a right, at its discretion, to waive the conditions precedent in relation to the second tranche and provide the second tranche to the Group.

The effective interest rate of the primary and secondary Eurobonds is 19.37% and 15.37% respectively.

The carrying value of the Group's borrowings at 31 December 2020 is as follows:

In US$	**Interest rate**	**Maturity**	**31 December 2020**	31 December 2019
Primary Eurobond	LIBOR with a 1% minimum + 8%	2024	**25,394,439**	21,607,156
Secondary Eurobond	Zero interest bearing	2038	**3,803,481**	2,444,454
Total non-current borrowings			**29,197,920**	24,051,610

The movement in the Group's borrowings in the year ended 31 December 2020 is as follows:

In US$	**Primary Eurobond**	**Secondary Eurobond**	**Total**
30 June 2019	19,418,800	2,203,367	21,622,167
Primary Eurobond finance cost	1,466,824	-	1,466,824
Eurobond unwinding	721,532	241,087	962,619
31 December 2019	21,607,156	2,444,454	24,051,610
Primary Eurobond finance cost	**2,839,013**	**-**	**2,839,013**
Eurobond unwinding	**1,658,804**	**1,359,027**	**3,017,831**
Interest payments	**(710,534)**	-	**(710,534)**
31 December 2020	**25,394,439**	**3,803,481**	**29,197,920**

On 13 January 2021, the Group and RK signed a non-binding indicative term sheet which included a proposal to extend the principal payment dates, interest payments scheduled after the execution of any agreement, the maturity date and early redemption periods by three years. The first principal payment would be scheduled on 31 October 2024 and the maturity date would be 31 July 2027. An execution fee would be payable through the issuance of an additional tranche of US$4.5 million with the original second tranche, being reduced to US$45.5 million. The condition precedent to the drawdown of the original second tranche requiring the Company to raise a minimum of US$200 million of equity will be replaced with a requirement that phase 1 of the Sonora Lithium Project is fully funded in the reasonable opinion of RK. The completion of this extension of the facility is conditional upon final board approvals from both RK and the Company and entering into definitive legal agreements.

11 Financial warrants liability

The Company granted RK with 6 million warrants alongside the above Eurobonds. The warrants are exercisable over five years at an exercise price of a 20% premium to the 20-day VWAP determined on 3 July 2018, subject to normal anti-dilution provisions, cash settlement at the Company's option, and share exercise at either party's option. The warrants have been initially recorded, as a non-current liability, at their level 3 hierarchy fair value on 3 July 2018 of US$2.9 million and subsequently revalued at each reporting period, determined using the Black-Scholes pricing model with the following inputs.

The expected volatility has been determined by calculating the historical volatility of the Company's share price since listing. The term used in the model has been adjusted to reflect the period in which the warrants can be exercised.

	31 December 2020	31 December 2019
Term	**2.50**	3.50
Share Price (£)	**0.64**	0.35
Exercise Price (£)	**0.99**	0.99
Volatility	**68.97%**	65.06%
Risk Free rate	**0.92%**	1.92%
Valuation (US$)	**1,549,576**	587,315

A 10% increase in volatility equates to an increase in value of US$321,323 to US$1,870,899. A 10% decrease in volatility equates to a decrease in value of US$328,265 to US$1,221,311.

A 10% increase in share price equates to an increase in value of US$304,277 to US$1,853,853. A 10% decrease in share price equates to a decrease in value of US$285,378 to US$1,264,198.

12 Financial instruments

The Group's financial instruments are classified as follows:

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

As at 31 December 2019 (In US$)	At amortised cost	At fair value through profit or loss	Total
Financial assets			
Cash and cash equivalents	48,903,551	-	48,903,551
Other receivables	973,217	-	973,217
Total financial assets	49,876,768	-	49,876,768
Financial liabilities			
Accounts payable and accrued liabilities	1,451,346	-	1,451,346
Joint venture obligation	113,697	-	113,697
Borrowings	24,051,610	-	24,051,610
Warrant liability	-	587,315	587,315
Total financial liabilities	25,616,653	587,315	26,203,968
Net financial assets/(liabilities)	24,260,115	(587,315)	23,672,800

13 Financial risk management

a) Credit risk

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

The Group's cash is held in major UK, Canadian and Mexican banks, and as such the Group is exposed to the risks of those financial institutions. Under Standard & Poor's short term credit ratings, the Group's cash balance as at 31 December 2020, is held in institutions with the following ratings:

Credit rating	Cash held at 31 December 2020
A-1	39,067,038
A-2	171,458
Total	39,238,496

The Group's other receivables relate to input tax receivables in the UK and value added tax receivables in Mexico. Substantially all of the receivables represent amounts due from the UK and Mexican governments and accordingly the Group believes them to have minimal credit risk. Any changes in management's estimate of the recoverability of the amount due will be recognised in the period of determination and any adjustment may be significant.

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

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

b) Liquidity risk

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

As at 31 December 2020, US$927,861 (31 December 2019: US$964,005) of the Group's cash is ring fenced to be spent on drilling and exploration activities in Megalit's concessions.

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

As at 31 December 2020 (In US$)	**Within 30 days**	**30 days to 6 months**	**6 to 12 months**	**Over 12 months**
Accounts payable and accrued liabilities	1,329,214	-	-	-
Borrowings	710,534	687,364	2,347,848	45,656,639
Warrant liability*	-	-	-	-

As at 31 December 2019 (In US$)	Within 30 days	30 days to 6 months	6 to 12 months	Over 12 months
Accounts payable and accrued liabilities	1,451,346	-	-	-
Joint venture obligation	113,697	-	-	-
Borrowings	-	-	-	50,936,306
Warrant liability*	-	-	-	-

*No gross cash financial liability is present as the Company has the option to settle the warrants in equity or cash.

c) Market risk

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

The Group is developing a lithium project in Mexico. As a result, a portion of the Group's expenditures, cash, other receivables, accounts payables and accrued liabilities are denominated in the United States dollar, Great British pound, Euros and Mexican pesos and are therefore subject to fluctuation in exchange rates.

As at 31 December 2020, a 10% change in the exchange rate between the United States dollar and Mexican peso, euro and Great British pound, which is a reasonable estimation of volatility in exchange rates, would result in an approximate US$0.4 million change to the Group's total comprehensive loss.

d) Fair values

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

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

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

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

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

The level 3 fair value for the financial warrant liability is disclosed in note 11.

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

e) Capital management

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

At 31 December 2020, the Group held US$36,557,604 (31 December 2019 - US$48,547,948) of capital. The Group sets the amount of capital in proportion to risk and corporate growth objectives. The Group manages its capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets.

14 Equity

a) Authorised and issued share capital

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

	Shares	Share Capital (In US$)	Share Premium (In US$)
30 June 2019	134,464,872	18,996,790	153,366
Issue of share capital - Ganfeng investment[1]	57,600,364	7,251,886	10,877,829
Issue of share capital - M&G investment[2]	30,916,601	3,991,793	5,987,690
Share issue costs	-	-	(372,825)
31 December 2019	222,981,837	30,240,469	16,646,060
Issue of share capital - RSUs[3]	833,846	107,714	155,108
31 December 2020	**223,815,683**	**30,348,183**	**16,801,168**

[1] Ganfeng Lithium Co., Ltd. agreed a cornerstone strategic investment of 29.99% in Bacanora Lithium Plc for £14,400,091 (US$18,129,715). Ganfeng has been granted pre-emption rights proportionate to its shareholding in Bacanora and shall appoint one Director to the Board of Bacanora. In addition, Ganfeng made a project level investment of 22.5% in SLL, the holding company for the Sonora Lithium Project, for £7,563,649 (US$9,522,634).

[2] M&G Plc, a long-standing cornerstone shareholder, purchased £7,729,150 (US$9,979,483) via an ordinary placing of 30,916,601 new ordinary shares at a price of 25p.

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

b) Share Options

All share options are issued under the Group's share option plan. Options generally vest as one third on the date of grant and an additional one third on each of the first and second anniversaries of the date of grant. All options expire after three months of an employee leaving the Company. The options have no other vesting conditions. The following tables summarise the activities and status of the Company's share option plan as at and during the year ended 31 December 2020:

	Number of options	Weighted average exercise price (£)
30 June 2019	7,210,039	0.82
Granted	1,300,862	0.33
Expired	(1,900,000)	(0.89)
31 December 2019	6,610,901	0.70
Granted	**1,258,009**	0.24
Expired	**(4,389,810)**	**(0.82)**
31 December 2020	**3,479,100**	**0.38**

Grant date	Number outstanding at 31 December 2020	Exercise price (£)	Weighted average remaining contractual life (Years)	Expiry date	Number exercisable at 31 December 2020
01 March 2017	175,000	0.85	1.16	01 March 2022	175,000
18 April 2018	312,500	0.90	0.29	17 April 2021	312,500
06 September 2018	432,729	0.39	0.68	05 September 2021	432,729
28 October 2019	1,300,862	0.33	1.82	27 October 2022	867,241
02 October 2020	1,258,009	0.24	2.75	02 October 2023	419,336
	3,479,100				1,787,470

The options granted in the year, on 02 October 2020, were valued using the Black-Scholes method with a volatility of 66.80%, calculated using Bacanora's historic share price, an option term of 3 years, a risk-free interest rate of 0.70% and no expected dividends.

c) Restricted share units

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

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

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

The following tables summarise the activities and status of the Company's restricted share unit plan as at and during the year ended 31 December 2020:

	Number of units
31 December 2019	1,397,768
Granted	1,075,832
31 December 2019	2,473,600
Granted	**466,805**
Vested	**(1,192,277)**
31 December 2020	**1,748,128**

Grant date	Number outstanding at 31 December 2020	Weighted average remaining vesting period (Years)	Vesting date	Number exercisable at 31 December 2020
06 September 2018	205,491	0.68	05 September 2021	-
28 October 2019	1,075,832	1.82	27 October 2022	-
02 October 2020	466,805	2.82	27 October 2023	-

d) Share-based payment reserve

The following table presents changes in the Group's share-based payment reserve during the year ended 31 December 2020:

In US$	Share-based payment reserve
30 June 2019	5,417,193
Expired options	(1,900,022)
Share-based payment expense	290,391
31 December 2019	3,807,562
Issue of share capital - RSUs	**(708,097)**
Expired options	**(2,712,392)**
Share-based payment expense	**590,665**
30 June 2020	**977,738**

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e) Share-based payment expense

During the year ended 31 December 2020 the Group recognised US$590,665 (31 December 2019: US$290,391) of share-based compensation expense. The fair value of the share-based expense was estimated on the dates of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

For the period ended	**31 December 2020**	31 December 2019
Risk-free interest rate	**0.7% - 3.0%**	0.77% - 3.0%
Expected volatility[1]	**54.73% - 91.07%**	54.73% - 91.07%
Expected life (years)	**3**	3 - 5
Fair value per option	**13.9c - 62.2c**	17.0c - 85.7c

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

f) Merger reserve

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

g) Loss per share

Options and warrants were excluded from the dilution calculation as they were anti-dilutive at year end however in the future, they may have an impact on earnings per share.

	Year ended 31 December 2020 Continuing operations	**Year ended 31 December 2020 Discontinued operations**
Loss after tax attributable to shareholders of Bacanora Lithium Plc (US$)	**(11,533,371)**	**(4,068,697)**
Weighted average number of common shares for the purposes of basic and diluted loss per share	**223,186,881**	**223,186,881**
Basic and diluted loss per share (US$)	**(0.05)**	**(0.02)**

	Six months ended 31 December 2019 Continuing operations	Six months ended 31 December 2019 Discontinued operations
Loss after tax attributable to shareholders of Bacanora Lithium Plc (US$)	(4,784,023)	(80,887)
Weighted average number of common shares for the purposes of basic and diluted loss per share	163,679,136	163,679,136
Basic and diluted loss per share (US$)	(0.03)	(0.00)

15 Taxation

a) Current taxation

There was no tax charge for the year ended 31 December 2020 (six months ended 31 December 2019: US$nil).

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

In US$	Year ended 31 December 2020	Six months ended 31 December 2019
Loss before tax	**(15,916,996)**	(4,946,049)
Expected income tax recovery at 19% (2019 - 19%)	**(3,024,229)**	(939,749)
Expenses not deductible for tax purposes	**1,431,578**	312,340
Different tax rates applied in overseas jurisdictions	**389,823**	354,546
Unrecognised taxable losses and timing differences	**1,358,192**	272,863
Utilisation of unrecognised losses	**(150,250)**	-
Total income taxes	**5,114**	-

b) Deferred tax

The Group has no recognised deferred tax balance or gain/loss for the year ended 31 December 2020. As at 31 December 2020, the Group has, for tax purposes, non-capital losses available to carry forward to future years as follows:

For the period ended (In US$)	31 December 2020	31 December 2019	Expiry Date
UK	**14,095,051**	9,583,030	N/A
Canada	**14,450,159**	14,776,668	2028-2040
Mexico	**19,367,528**	16,569,669	2020-2030
	47,912,738	41,724,314	

16 General and administrative expenses

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

In US$	Year ended 31 December 2020	Six months ended 31 December 2019
Employee and contractor costs	**2,576,842**	1,184,934
Legal and accounting fees	**893,845**	972,060
Investor relations	**357,527**	147,696
Travel and other expenses	**261,914**	208,669
Office expenses	**177,999**	138,844
Audit fees for the Group and Company	**109,239**	90,996
Audit fees of subsidiaries by Group auditor/ associates of Group auditor	**13,656**	13,854
Non audit services	**34,942**	6,149
Total	**4,425,964**	2,763,202

17 Finance income and costs

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

In US$	Year ended 31 December 2020	Six months ended 31 December 2019
Interest and other income	**355,913**	214,408
Warrant liability revaluation	**-**	714,388
Finance income	**355,913**	928,796
Warrant liability revaluation	**(972,509)**	-
Primary Eurobond interest expense	**(2,839,013)**	(1,466,824)
Other finance costs(1)	**(3,017,883)**	(962,619)
Finance costs	**(6,829,405)**	(2,429,443)
Net finance (costs)/income	**(6,473,492)**	(1,500,647)

(1) Other finance costs include Eurobond unwinding of transaction costs, discounts and costs associated with the re-estimation of future cash flows.

18 Segmental information

The Group currently operates in three operating segments which includes the exploration and development of mineral properties in Mexico through the development of the Sonora mining concessions, the Group's corporate entities with head office located in London, UK and the Group's investment in Zinnwald Lithium Plc. At 31 December 2020, the Deutsche Lithium operating segment based in Germany has been classified as a discontinued operation. Operating segments as per IFRS 8 are identified by management of the Group as those who, engage in business activities from which revenues may be earnt, whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the operating segments and to assess its performance, and, for which discrete financial information is available. A summary of the identifiable assets, liabilities and net losses by operating segment are as follows:

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

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

31 December 2019 (In US$)	Mexican entities	Corporate entities	Deutsche Lithium (Germany)	Consolidated
Current assets	1,840,652	48,840,320	-	50,680,972
Property, plant and equipment	30,443,640	-	-	30,443,640
Exploration and evaluation assets	534,588	-	-	534,588
Investment in jointly controlled entity	-	-	9,545,993	9,545,993
Total assets	32,818,880	48,840,320	9,545,993	91,205,193
Current liabilities	417,864	1,033,482	113,697	1,565,043
Borrowings	-	24,051,610	-	24,051,610
Warrant liability	-	587,315	-	587,315
Total liabilities	417,864	25,672,407	113,697	26,203,968
Property, plant and equipment additions	739,076	-	-	739,076
Exploration and evaluation asset additions	10,641	-	-	10,641

For the six month ended 31 December 2019 (In US$)	Mexican entities	Corporate entities	Deutsche Lithium (Germany)	Consolidated
General and administrative expense	(432,753)	(2,330,449)	-	(2,763,202)
Depreciation	(101,549)	-	-	(101,549)
Share-based payment expense	-	(290,391)	-	(290,391)
Foreign exchange gain/(loss)	345	(18,652)	-	(18,307)
Operating loss	(533,957)	(2,639,492)	-	(3,173,449)
Finance income	18,962	909,834	-	928,796
Finance costs	-	(2,429,443)	-	(2,429,443)
Joint venture investment loss	-	-	(80,887)	(80,887)
Revaluation of derivative asset	-	-	(191,066)	(191,066)
Segment loss for the period	(514,995)	(4,159,101)	(271,953)	(4,946,049)

19 Related party disclosures

a) Related party transactions

The Group's related parties include key management personnel, companies which have directors in common, its subsidiaries and entities who share an interest in Group subsidiaries, Ganfeng Lithium Co., Ltd. and Cadence Minerals Plc.

Transactions with key management personnel have been disclosed below. There were no transactions with companies which have directors in common in the year ended 31 December 2020 (31 December 2019: None). There were no transactions with Cadence Minerals Plc in the year ended 31 December 2020 (31 December 2019: None).

No transactions were concluded with Ganfeng Lithium Co., Ltd. in the year ended 31 December 2020. During the six months ended 31 December 2019, Ganfeng Lithium Co., Ltd. agreed a cornerstone strategic investment of 29.99% in Bacanora Lithium Plc for £14,400,091 (US$18,129,715). In addition, Ganfeng made a project level investment of 22.5% in SLL, the holding company for the Sonora Lithium Project, for £7,563,649 (US$9,522,634), becoming a related party.

In November 2020, Ganfeng gave notice to the Company of its intention to exercise its right under the Ganfeng Option to subscribe for 73,955,680 new ordinary shares in SLL at 29.59p at a total value of £21,883,485 (approximately US$30.4 million). In February 2021, the Ganfeng Option Exercise completed with Ganfeng owning 50% of the enlarged issued share capital of SLL and a new 50:50 joint venture agreement came into effect.

In February 2021, Ganfeng received board approval to exercise its pre-emptive rights and subscribe for a total of 53,333,333 new ordinary shares at the placing price of £0.45 per share, representing gross proceeds of £24,000,000. Completion of this investment from Ganfeng is conditional upon obtaining certain approvals and consents from authorities in the People's Republic of China. On completion of their investment, the Company will have 384,144,901 shares in issue and Ganfeng will have an ownership level of 28.88%.

b) Key management personnel compensation

During the year ended 31 December 2020, key management personnel remuneration totalled US$1,580,170 (six month period ended 31 December 2019: US$854,059). Of the total amount incurred, US$nil (31 December 2019: US$nil) remains in accounts payables and accrued liabilities on 31 December 2020.

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

In US$	Year ended 31 December 2020				Six months ended 31 December 2019			
	Fees	**Gross Salary**	**Share-based payment remuneration**	**Total**	Fees	Gross Salary	Share-based payment remuneration	Total
Mark Hohnen	**-**	**283,844**	**134,109**	**417,953**	-	151,637	71,616	223,253
Jamie Strauss	**73,179**	**-**	**-**	**73,179**	30,257	-	14,179	44,436
Eileen Carr	**57,305**	**-**	**6,148**	**63,453**	25,273	-	10,292	35,565
Andres Antonius	**47,500**	**-**	**-**	**47,500**	25,000	-	14,179	39,179
Graeme Purdy [(1)]	**33,831**	**-**	**-**	**33,831**	-	-	-	-
Peter Secker	**-**	**424,208**	**162,621**	**586,829**	-	217,160	84,053	301,213
Janet Blas	**-**	**285,445**	**219,629**	**505,074**	-	145,319	49,094	194,413
Derek Batorowski [(2)]	**-**	**-**	**-**	**-**	16,000	-	-	16,000
Total Director's and management's remuneration	**211,815**	**993,497**	**522,507**	**1,727,819**	96,530	514,116	243,413	854,059

[1] Appointed – 17 April 2020

[2] Resigned – 12 September 2019

In the year, Peter Secker and Mark Hohnen were issued 336,250 and 497,596 shares in the Company in relation to the vesting of RSUs granted in September 2017. The shares were issued at a price of 24.4p per share. No Directors exercised any share options in the year ended 31 December 2020 (six month period ended 31 December 2019: None).

As at 31 December 2020, the following options were held by Directors of the Company:

	Date of grant	Exercise price (£)	Number of options
Mark Hohnen	28 October 2019	0.33	151,438
	02 October 2020	0.24	179,501
Eileen Carr	18 April 2018	0.90	312,500
Peter Secker	28 October 2019	0.33	205,800
	02 October 2020	0.24	215,488

As at 31 December 2020, the following restricted share units were held by Directors of the Company:

	Date of grant	Number of RSUs
Mark Hohnen	28 October 2019	204,970
	02 October 2020	97,811
Peter Secker	28 October 2019	278,546
	02 October 2020	117,420

20 Directors and employees

The below information relates to all Directors and employees:

In US$	**Year ended 31 December 2020**			Six months ended 31 December 2019		
	Corporate	**Mexico**	**Total**	Corporate	Mexico	Total
Gross salaries	**1,485,657**	**393,572**	**1,879,229**	733,823	163,677	897,500
Share-based payments	**522,507**	**-**	**522,507**	243,413	-	243,413
Employer social security costs	**236,204**	**66,870**	**303,074**	102,505	20,961	123,466
Employer pension costs	**14,017**	**19,886**	**33,903**	6,717	11,165	17,882
Total cost	**2,258,385**	**480,328**	**2,738,713**	1,086,458	195,803	1,282,261
Average number of employees and Directors	12	17	29	11	22	33

Directors' remuneration totalled the following:

In US$	**Year ended 31 December 2020**	Six months ended 31 December 2019
Directors' gross salaries	**919,867**	465,327
Share-based payment expense	**302,878**	154,593
Total remuneration	**1,222,745**	619,920
Average number of Directors	8	7

The highest paid Director received remuneration in the year ended 31 December 2020 of US$586,829 (six month period ended 31 December 2019: US$301,213). The highest paid Director also received 336,250 shares in the Company, issued at a price of 24.4p per share in relation to vested RSUs. The highest paid Director did not exercise any share options in the year ended 31 December 2020 (six month period ended 31 December 2019: None).

21 Commitments

The Group has the following commitments:

- land purchases totalling US$0.3 million due on the clearance of liens expected in the next twelve months,
- concession taxes on the license properties, which are expected to total US$182,082 in the following twelve months.
- rental payments totalling US$49,482 in Hermosillo, Sonora over the next 12 months.

22 Subsequent events

In January 2021, the Group and RK signed a non-binding indicative term sheet which included a proposal to extend the principal payment dates, interest payments scheduled after the execution of any agreement, the maturity date and early redemption periods by three years. The first principal payment would be scheduled on 31 October 2024 and the maturity date would be 31 July 2027. An execution fee would be payable through the issuance of an additional tranche of US$4.5 million with the original second tranche, being reduced to US$45.5 million. The condition precedent to the drawdown of the original second tranche requiring the Company to raise a minimum of US$200 million of equity will be replaced with a requirement that phase 1 of the Sonora Lithium Project is fully funded in the reasonable opinion of RK. The completion of this extension of the facility is conditional upon final board approvals from both RK and the Company and entering into definitive legal agreements.

In February 2021, Ganfeng entered into a new joint venture agreement with the Company in connection with the Ganfeng Option Exercise. Ganfeng subscribed for 73,955,680 new ordinary shares in SLL at 29.59p per share for a total value of £21,883,485 (approximately US$30.4 million) resulting in Ganfeng owning 50% of the enlarged issued share capital of SLL.

In February 2021, Ganfeng received board approval to exercise its pre-emptive rights and subscribe for a total of 53,333,333 new ordinary shares at the placing price of £0.45 per share, representing gross proceeds of £24,000,000. Completion of this investment from Ganfeng is conditional upon obtaining certain approvals and consents from authorities in the People's Republic of China. On completion of their investment, the Company will have 384,144,901 shares in issue and Ganfeng will have an ownership level of 28.88%.

In February 2021, the Company completed the issuance of 106,995,885 new ordinary shares of £0.10 each at a price of £0.45 per share. A total of 101,395,885 new ordinary shares in the Company have been placed with institutional and professional investors by Citigroup Global Markets Limited, Canaccord Genuity Limited, WH Ireland Limited representing gross proceeds of £45,628,148 (approximately US$62 million). Retail and other investors have subscribed for 5,600,000 new ordinary shares raising additional gross proceeds of £2,520,000 (approximately US$3 million). Following admission, the total number of shares in issue in the Company has increased to 330,811,568. Eileen Carr, a Director of the Company, participated in the fundraise for a total of 80,000 new ordinary shares at £0.45 per share.

23 Non-controlling interests

The following are summaries of the Group's entities with non-controlling interests for the year ended 31 December 2020:

a) Minerales Industriales Tubutama, S.A. de C.V.

In US$	**31 December 2020**	31 December 2019
Non-current assets	30,619	30,619
Non-current liabilities	53,998	53,998
Accumulated non-controlling interest loss	(633,022)	(633,022)

b) **Mexilit S.A. de C.V**

In US$	31 December 2020	31 December 2019
Current assets	**54,742**	100,678
Non-current assets	**2,994,127**	2,953,739
Non-current liabilities	**1,908,860**	1,909,860
Accumulated non-controlling interest loss	**(44,473)**	(43,109)
Loss for the period	**(4,548)**	(3,940)
Loss attributed to the NCI	**(1,364)**	(1,182)
Net cash flow from operating activities	**(218)**	(104)
Net cash flow from investing activities	**(42,696)**	(12,013)
Net cash flow from financing activities	**(1,000)**	-
Net change in cash	**(43,914)**	(12,117)
Exchange rate effects	**(273)**	401
Cash beginning of the period	**77,377**	89,093
Cash end of the period	**33,190**	77,377

c) **Minera** Megalit **S.A de C.V**

In US$	31 December 2020	31 December 2019
Current assets	**28,121**	67,952
Non-current assets	**652,385**	625,015
Non-current liabilities	**368,994**	368,994
Accumulated non-controlling interest loss	**(37,961)**	(34,222)
Loss for the period	**(12,462)**	(4,263)
Loss attributed to the NCI	**(3,739)**	(1,279)
Net cash flow from operating activities	**(627)**	(715)
Net cash flow from investing activities	**(36,144)**	(10,641)
Net change in cash	**(36,772)**	(11,356)
Exchange rate effects	**(1,056)**	67
Cash beginning of the period	**39,142**	50,431
Cash end of the period	**1,314**	39,142

d) **Sonora Lithium Ltd**

In US$	31 December 2020	31 December 2019
Non-current assets	**59,712,689**	59,712,689
Non-current liabilities	**50,152**	50,152
Accumulated non-controlling interest loss	**13,041,129**	13,356,068
Loss attributed to the NCI	**(313,273)**	(78,678)

24 Note to the statement of cash flows

Below is a reconciliation of borrowings from financing transactions:

In US$	31 December 2020	31 December 2019
Opening balance	24,051,610	21,622,167
Cashflows	(710,534)	-
Non cash flows:		
Primary Eurobond finance cost	2,839,013	1,466,824
Eurobond unwinding	3,017,831	962,619
Total non-current borrowings	29,197,920	24,051,610

25 Exemptions for a dormant subsidiary

Bacanora Treasury Limited and Bacanora Battery Metals Ltd are exempt from preparing individual accounts under the provisions of Section 394A of the Company's Act 06.

On the date of the Consolidated Financial Statements, Bacanora Lithium Plc, incorporated in the United Kingdom, company number 11189628, gives a guarantee over all outstanding liabilities, that Bacanora Treasury Ltd, company number 11413519 and Bacanora Battery Metals Ltd, company number 10246575, may be subject to at the end of the financial period ended 31 December 2020 until they are satisfied in full. This guarantee is enforceable against Bacanora Lithium Plc by any person to whom Bacanora Lithium Plc company is liable in respect of those liabilities.

Parent Company Statement of Financial Position

As at 31 December 2020

In US$	Note	31 December 2020	31 December 2019
Assets			
Current assets			
Cash and cash equivalents		38,806,808	47,986,997
Other receivables and prepayments	6	138,085	121,554
Total current assets		38,944,893	48,108,551
Non-current assets			
Intercompany receivables	14	3,307,094	47,459
Investment in subsidiaries	7	46,275,239	46,275,266
Investments in associates and joint ventures	8	7,865,575	8,542,529
Total non-current assets		57,447,908	54,865,254
Total assets		96,392,801	102,973,805
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	9	661,757	653,770
Joint venture obligation	8	-	113,697
Total current liabilities		661,757	767,467
Non-current liabilities			
Intercompany payables	14	37,558,874	32,264,513
Warrant liability	10	1,549,576	587,315
Total non-current liabilities		39,108,450	32,851,828
Total liabilities		39,770,207	33,619,295
Shareholders' equity			
Share capital	13	30,348,183	30,240,469
Share premium	13	16,801,168	16,646,060
Merger reserve	13	40,708,662	40,708,662
Share-based payment reserve	13	738,385	1,454,591
Foreign currency translation reserve		304,209	-
Retained earnings		(32,278,013)	(19,695,272)
Total shareholders' equity		56,622,594	69,354,510
Total liabilities and shareholders' equity		96,392,801	102,973,805

The accompanying notes on pages 117 - 126 are an integral part of these Parent Company Financial Statements.

For the year ended 31 December 2020, the Company's loss after tax was US$13,513,816 and total comprehensive loss was US$13,209,607 (six-month period ended 31 December 2019, loss after tax and total comprehensive loss: US$8,073,618).

The Parent Company Financial Statements of Bacanora Lithium Plc, registered number 11189628, were approved and authorised for issue by the Board of Directors on 6 March 2021 and were signed on its behalf by:

Mark Hohnen

6 March 2021

Parent Company Statement of Changes in Equity

For the year ended 31 December 2020

In US$	Note	Share capital: Number of shares	Share capital: Value	Share premium	Merger reserve	Share-based payment reserve	Foreign currency translation reserve	Retained earnings	Total equity
30 June 2019		134,464,872	18,996,790	153,366	40,708,662	1,177,722	-	(11,635,176)	49,401,364
Comprehensive income for the period:									
Loss for the period		-	-	-	-	-	-	**(8,073,618)**	**(8,073,618)**
Contributions by and distributions to owners:									
Issue of share capital - Ganfeng investment	13	**57,600,364**	**7,251,886**	**10,877,829**	-	-	-	-	**18,129,715**
Issue of share capital - M&G investment	13	**30,916,601**	**3,991,793**	**5,987,690**	-	-	-	-	**9,979,483**
Share issue costs	13	-	-	**(372,825)**	-	-	-	-	**(372,825)**
Lapsed option charge	13	-	-	-	-	**(13,522)**	-	**13,522**	-
Share-based payment expense	13	-	-	-	-	**290,391**	-	-	**290,391**
31 December 2019		**222,981,837**	**30,240,469**	**16,646,060**	**40,708,662**	**1,454,591**	-	**(19,695,272)**	**69,354,510**
Comprehensive income for the period:									
Loss for the period		-	-	-	-	-	-	**(13,513,816)**	**(13,513,816)**
Other comprehensive income		-	-	-	-	-	**304,209**	-	**304,209**
Total comprehensive loss		-	-	-	-	-	**304,209**	**(13,513,816)**	**(13,209,607)**
Contributions by and distributions to owners:									
Issue of share capital - RSUs	13	**833,846**	**107,714**	**155,108**	-	**(708,097)**	-	**332,301**	**(112,974)**
Lapsed option charge	13	-	-	-	-	**(598,774)**	-	**598,774**	-
Share-based payment expense	13	-	-	-	-	**590,665**	-	-	**590,665**
31 December 2020		**223,815,683**	**30,348,183**	**16,801,168**	**40,708,662**	**738,385**	**304,209**	**(32,278,013)**	**56,622,594**

The accompanying notes on pages 117 - 126 are an integral part of these Parent Company Financial Statements.

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Parent Company Statement of Cash Flows
For the year ended 31 December 2020

In US$	Note	Year ended 31 December 2020	Six months ended 31 December 2019
Cash flows from operating activities			
Loss for the year before tax		(13,513,816)	(8,073,618)
Adjustments for:			
Share-based payment expense		590,665	290,391
Foreign exchange		4,455	77,764
Finance and other income		(671,153)	(909,834)
Finance costs		6,829,405	2,633,848
Share of loss on investment in associate		102,791	-
Loss on discontinued operation		3,065,232	80,887
Revaluation of derivative asset		-	191,066
Loss on sale of investment		-	3,912,112
Changes in working capital items:			
Other receivables		(16,530)	126,373
Accounts payable and accrued liabilities		7,988	(45,313)
Net cash flows used in operating activities		(3,600,963)	(1,716,324)
Cash flows from investing activities:			
Interest received		352,340	195,447
Purchase of investment in associate		(1,627,642)	
Payments to joint venture		(679,458)	(401,972)
Advances on intercompany borrowing		(2,845,372)	-
Proceeds from sale of subsidiaries, net of share costs		-	9,475,190
Net cash flows from investing activities		(4,800,132)	9,268,665
Cash flows from financing activities			
(Share issue costs)/Issues of share capital, net of share costs		(112,974)	27,736,373
Interest payments		(51)	-
Repayment of intercompany borrowing		(657,906)	(262,756)
Net cash flows from financing activities		(770,931)	27,473,617
Change in cash during the period		(9,172,026)	35,025,958
Exchange rate effects		(8,163)	(33,149)
Cash, beginning of period		47,986,997	12,994,188
Cash, end of period		38,806,808	47,986,997

The accompanying notes on pages 117 - 126 are an integral part of these Parent Company Financial Statements.

Notes to the Parent Company Financial Statements

1 Corporate information

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

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

2 Basis of preparation

a) Statement of compliance

These Parent Company Financial Statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively "IFRS") applied in accordance with the provisions of the Companies Act 2006.

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

The Parent Company Financial Statements were authorised for issue by the Board of Directors on 6 March 2021. The Board of Directors has the power and authority to amend these Financial Statements after they have been issued.

b) Basis of measurement

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

The presentation currency of these Financial Statements is United States dollars ("US$"). The functional currency of the Company is deemed to be the US$ under IAS 21.

c) Going concern

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

3 Accounting polices

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

a) Investments in subsidiaries

Unlisted investments are carried at cost, being the purchase price, less provisions for impairment except for the investment in Bacanora Minerals Ltd as a result of the 2018 corporate reorganisation.

b) Investment in associate

Investments in associates are accounted for using the equity method under the same methodology as in note 3 of the Consolidated Financial Statements.

4 Critical accounting estimates and judgements

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

a) Value of investments in subsidiaries

Investments in subsidiaries are reviewed for impairment if events or changes indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future cash flows of the relevant generating unit, which may span multiple trading entities, or disposal value, if higher. No impairment indicators were identified in the year ended 31 December 2020.

5 Loss for the period

The Parent Company has taken advantage of the exemption under section 408 (3) of the Companies Act 2006 and thus has not presented its statement of comprehensive income in these Parent Company Financial Statements. For the year ended 31 December 2020, the Company's loss after tax was US$13,513,816 and total comprehensive loss was US$13,209,607 (six-month period ended 31 December 2019, loss after tax and total comprehensive loss: US$8,073,618).

6 Other receivables and prepayments

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

In US$	**31 December 2020**	31 December 2019
Other receivables	**60,358**	66,282
Prepayments and deposits	**77,727**	55,272
Total	**138,085**	121,554

7 Investments in subsidiaries

The Parent Company has the following subsidiaries, held at cost, at 31 December 2020:

Name of subsidiary	**Country of incorporation**	**Shareholding on 31 December 2020**	**Shareholding on 31 December 2019**	**Nature of business**
Bacanora Finco Ltd	UK	100%	100%	Financing company
Bacanora Treasury Ltd	UK	100%	100%	Financing company
Bacanora Battery Metals Ltd	UK	100%	100%	Dormant
Battery Finance (Jersey) Ltd	Jersey	100%	100%	Dormant
Sonora Lithium Ltd	UK	77.5%	77.5%	Holding company
Bacanora Chemco S.A. de C.V.*	Mexico	77.5%	77.5%	Lithium processing
Bacanora Minerals Ltd*	Canada	77.5%	77.5%	Holding company
Mexilit S.A. de C.V**	Mexico	54.25%	54.25%	Lithium mining/exploration
Minera Megalit S.A. de C.V**	Mexico	54.25%	54.25%	Mineral exploration
Mineramex Ltd**	BVI	77.5%	77.5%	Holding company
Minera Sonora Borax, S.A. de C.V***.	Mexico	77.5%	77.5%	Lithium mining/exploration
Operador Lithium Bacanora S.A. de C.V.***	Mexico	77.5%	77.5%	Mexican service organisation
Minerales Industriales Tubutama, S.A. de C.V***	Mexico	46.5%	46.5%	Dormant

*Held indirectly through Sonora Lithium Ltd
** Held indirectly though Sonora Lithium Ltd and Bacanora Minerals Ltd
***Held indirectly though Sonora Lithium Ltd, Bacanora Minerals Ltd and Mineramex Ltd

In August 2019, Bacanora Lithium Plc's 100% ownership of Bacanora Minerals Ltd and all its subsidiaries were transferred to SLL (a 100% subsidiary of Bacanora Lithium Plc at that time). In October 2019, Ganfeng Lithium Co., Ltd. purchased 22.5% of the shareholding of SLL and its subsidiaries. In addition, Ganfeng were issued an option to purchase a further 27.5% to reach a shareholding of 50% within 2 years of the initial investment. In November 2020, Ganfeng gave notice to the Company of its intention to exercise its right under the Ganfeng Option to subscribe for 73,955,680 new ordinary shares in SLL at 29.59p at a total value of £21,883,485.

In February 2021, the Ganfeng Option Exercise completed with Ganfeng owning 50% of the enlarged issued share capital of SLL and a new 50:50 joint venture agreement came into effect.

For UK registered subsidiaries, the registered address for each subsidiary is 4 More London Riverside, London, SE1 2AU. For Jersey registered subsidiaries, the registered address for each subsidiary is 47 Esplanade St Helier Jersey JE1 0BD. For Canadian registered subsidiaries, the registered address for each subsidiary is 1250, 639 – 5th Av SW, Calgary, AB, T2P 0M9. For Mexican registered subsidiaries, the registered address for each subsidiary is Calle Uno No. 312, Colonia Bugambillas, Hermosillo, Sonora, Mexico.

8 Investments in associates and joint ventures

The following entities have been included in the Consolidated Financial Statements using the equity method:

Name	Country of incorporation	Shareholding 31 December 2020	Shareholding 31 December 2019	Carrying value 31 December 2020	Carrying value 31 December 2019	Classification
Deutsche Lithium GmbH	Germany	0%	50%	-	8,542,529	Joint venture
Zinnwald Lithium Plc	UK	44%	0%	7,865,575	-	Investment in associate
				7,865,575	8,542,529	

a) Investment in Deutsche Lithium

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

The Group acquired its interest in DL for a cash consideration of €5.1 million from SolarWorld and an obligation to contribute €5 million toward the costs of completion of a feasibility study. Additionally, legal fees of US$0.2 million were paid in connection to this transaction.

On 29 October 2019, the Group completed the sale of its 50% shareholding in DL to AIM-listed Erris Resources Plc. Bacanora contributed the 50% investment in DL and €1.35m cash. The cash is to be used to settle the commitment under the second supplemental joint venture agreement with SolarWorld and to pay for transaction costs. Erris contributed its remaining cash and its Irish zinc and Swedish gold assets. In exchange, Bacanora received 90,619,170 shares (44.3%) in the enlarged Erris and a net profit royalty. Erris was subsequently renamed as Zinnwald Lithium Plc.

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

In US$	Joint venture investment
30 June 2019	8,343,622

Joint venture investment loss	(80,887)
Additional investment	279,794
31 December 2019	8,542,529
Additional investment	**559,219**
Loss on discontinued operation	**(3,065,233)**
Fair value of disposal proceeds	**(6,036,515)**
31 December 2020	**-**

b) Joint venture obligation

The Company's obligation has been disclosed in note 6 of the Consolidated Financial Statements.

c) Investment in Zinnwald Lithium Plc

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

9 Accounts payable and accrued liabilities

At 31 December 2020, the Parent Company held accounts payable and accrued liabilities of US$661,757 (31 December 2019: US$653,770) mainly in respect of legal, accounting and professional services.

10 Financial warrants liability

The Parent Company's warrant liability has been disclosed in note 11 of the Consolidated Financial Statements. All such warrants are disclosed are held by the Parent Company.

11 Financial Instruments

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

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

As at 31 December 2019 (In US$)	**At amortised cost**	**At fair value through profit or loss**	**Total**
Financial assets			

Cash and cash equivalents	**47,986,997**	**-**	**47,986,997**
Other receivables	**973,220**	**-**	**973,220**
Intercompany receivables	**47,459**	**-**	**47,459**
Total financial assets:	**49,007,676**	**-**	**49,007,676**
Financial liabilities			
Accounts payable and accrued liabilities	**653,770**	**-**	**653,770**
Joint venture obligation	**113,697**	**-**	**113,697**
Intercompany payables	**32,264,513**	**-**	**32,264,513**
Warrant liability	**-**	**587,315**	**587,315**
Total financial liabilities:	**33,031,980**	**587,315**	**33,619,295**
Net financial assets/(liabilities):	**15,975,696**	**(587,315)**	**15,388,381**

12 Financial Risk Management

The Company is exposed to risks that arise from its use of financial instruments. The principle financial instruments used by the Company, from which financial risk arises, are set out in note 11. The types of risk exposure the Company is subjected to in the financial period are as follows:

a) Credit risk

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

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

The Company's other receivables relate to input tax receivables due from the UK government and accordingly the Company believes them to have minimal credit risk. Any changes in management's estimate of the recoverability of the amount due will be recognised in the period of determination.

The Company's intercompany receivables relate to receivables from other Group companies, all of which will be recipients of distributions from future lithium sale profits at the Sonora Lithium Project and accordingly the Company believes them to have minimal credit risk. Any changes in management's estimate of the recoverability of the amount due will be recognised in the period of determination.

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

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

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 liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses.

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

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

As at 31 December 2019 (In US$)	Within 30 days	30 days to 6 months	6 to 12 months	Over 12 months
Accounts payable and accrued liabilities	653,770	-	-	-
Joint venture obligation	113,697	-	-	-
Intercompany payables	-	-	-	32,264,513
Warrant liability*	-	-	-	-

*No gross cash financial liability is present as the Company has the option to settle the warrants in equity or cash.

c) Market risk

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

A portion of the Company's expenditures, other receivables, accounts payables and accrued liabilities are predominately denominated in US dollars, Canadian dollars, Great British pounds and euros and are therefore subject to fluctuation in exchange rates.

As at 31 December 2020, a 10% change in the exchange rate between the United States dollar and Mexican peso, euro and Great British pound, which is a reasonable estimation of volatility in exchange rates, would result in an approximate US$0.4 million change to the Company's total comprehensive loss.

d) Fair values

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

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

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

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

Level 3 – Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data. The level 3 fair value for the financial warrant liability is disclosed in note 11 of the Consolidated Financial Statements.

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

13 Equity

a) Authorised and issued share capital

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

The Parent Company has the following shares in issue:

	Shares	Share Capital (US$)	Share Premium (US$)
30 June 2019	134,464,872	18,996,790	153,366
Issue of share capital - Ganfeng investment[1]	57,600,364	7,251,886	10,877,829
Issue of share capital - M&G investment[2]	30,916,601	3,991,793	5,987,690
Share issue costs	-	-	(372,825)
31 December 2019	222,981,837	30,240,469	16,646,060
Issue of share capital - RSUs[3]	**833,846**	**107,714**	**155,108**
31 December 2020	**223,815,683**	**30,348,183**	**16,801,168**

[1]Ganfeng Lithium Co., Ltd. agreed a cornerstone strategic investment of 29.99% in Bacanora Lithium Plc for £14,400,091 (US$18,129,715). Ganfeng has been granted pre-emption rights proportionate to its shareholding in Bacanora and shall appoint one Director to the Board of Bacanora. In addition, Ganfeng made a project level investment of 22.5% in SLL, the holding company for the Sonora Lithium Project, for £7,563,649 (US$9,522,634).

[2] M&G Plc, a long-standing cornerstone shareholder, purchased £7,729,150 via an ordinary placing of 30,916,601 new ordinary shares at a price of 25 pence per Placing Share.

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

b) Share options

The Parent Company's share option plan has been disclosed in note 14 of the Consolidated Financial Statements. All such options, and only those, disclosed are held by the Parent Company.

c) Restricted share units

The Parent Company's restricted share unit plan has been disclosed in note 14 of the Consolidated Financial Statements. All such units, and only those, disclosed are held by the Parent Company.

d) Share-based payment reserve

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

In US$	Share-based payment reserve
30 June 2019	1,177,722
Lapsed options charge	(13,522)
Share-based payment expense	290,391
31 December 2019	1,454,591
Issue of share capital - RSUs	**(708,097)**
Lapsed option charge	**(598,774)**
Share-based payment expense	**590,665**
31 December 2020	**738,385**

e) Share-based payment expense

During the year ended 31 December 2020, the Parent Company recognised US$590,665 (six month period ended 31 December 2019: US$290,391) of share-based payment expense. The fair value of share-based compensation was estimated on the dates of grant using the Black-Scholes option pricing model with the assumptions contained within note 14 of the Consolidated Financial Statements.

f) Merger reserve

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

g) Loss per share

Options and warrants were excluded from the dilution calculation as they were anti-dilutive however at a time in the future they may have an impact on earnings per share.

For the period ended	31 December 2020	31 December 2019
Loss for the period attributable to owners of equity	**(13,513,816)**	(8,073,618)
Weighted average number of common shares for the purposes of basic and diluted loss per share	**223,186,881**	163,679,136
Basic and diluted loss per share ($)	**(0.06)**	(0.05)

14 Related party disclosures

The Company's related parties include key management personnel, companies which have directors in common, its subsidiaries and entities who share an interest the Company's subsidiaries, Ganfeng Lithium Co., Ltd. and Cadence Minerals Plc.

Transactions with its Directors and key management personnel have been disclosed in note 20 of the Consolidated Financial Statements.

There were no transactions with companies which have directors in common in the year ended 31 December 2020 (31 December 2019: None). There were no transactions with Cadence Minerals Plc in the year ended 31 December 2020 (31 December 2019: None).

No transactions were concluded with Ganfeng Lithium Co., Ltd. in the year ended 31 December 2020. During the six months ended 31 December 2019, Ganfeng Lithium Co., Ltd. agreed a cornerstone strategic investment of 29.99% in Bacanora Lithium Plc for £14,400,091 (US$18,129,715). In addition, Ganfeng made a project level investment of 22.5% in SLL, the holding company for the Sonora Lithium Project, for £7,563,649 (US$9,522,634), becoming a related party.

In November 2020, Ganfeng gave notice to the Company of its intention to exercise its right under the Ganfeng Option to subscribe for 73,955,680 new ordinary shares in SLL at 29.59p at a total value of £21,883,485 (approximately US$30.4 million). In February 2021, the Ganfeng Option Exercise completed with Ganfeng owning 50% of the enlarged issued share capital of SLL and a new 50:50 joint venture agreement came into effect.

On 5 February 2021, Ganfeng received board approval to exercise its pre-emptive rights and subscribe for a total of 53,333,333 new ordinary shares at the placing price of £0.45 per share, representing gross proceeds of £24,000,000. Completion of this investment from Ganfeng is conditional upon obtaining certain approvals and consents from authorities in the People's Republic of China. On completion of their investment, the Company will have 384,144,901 shares in issue and Ganfeng will have an ownership level of 28.88%.

The Company traded with undertakings within the same Group during the year ended 31 December 2020. A summary of the sum of absolute transactions and outstanding balances at the year ended 31 December 2020 are set out below:

Name of related party	Nature of relationship	Commercial terms	Absolute transaction value	Balance owed by / (owed to) related parties

Bacanora Finco Ltd	Subsidiary	Interest rate - 28%, Maturity date - June 2024	6,670,720	(29,219,542)
Sonora Lithium Ltd	Subsidiary	Non-interest bearing	8,386,776	(8,339,332)
Bacanora Chemco S.A. de C.V.	Subsidiary	Interest rate - 20% + Libor, Maturity date - December 2039	2,803,813	2,803,813
Bacanora Minerals Ltd	Subsidiary	Non-interest bearing	8,755,980	503,266
Bacanora Treasury Ltd	Subsidiary	Non-interest bearing	-	15

A summary of the sum of absolute transactions and outstanding balances for the period ended 31 December 2019 are set out below:

Name of related party	Nature of relationship	Commercial terms	Absolute transaction value	Balance owed by / (owed to) related parties
Bacanora Finco Ltd	Subsidiary	Interest bearing - Interest rate 21%	3,169,795	(24,020,603)
Bacanora Minerals Ltd	Subsidiary	Non-interest bearing	152,189	(8,243,910)
Sonora Lithium Ltd	Subsidiary	Non-interest bearing	47,444	47,444
Bacanora Treasury Ltd	Subsidiary	Non-interest bearing	-	15

15 Directors and employees of the Parent Company

The below information relates to all Directors and employees:

In US$	**Year ended 31 December 2020**	Six months ended 31 December 2019
Gross salaries	**1,485,657**	733,823
Share-based payments	**522,507**	192,823
Social security costs	**236,204**	102,505
Pension costs	**14,017**	6,717
Total cost	**2,258,385**	1,035,868
Average number of employees and Directors	**12**	11

Directors’ remuneration totalled the following:

In US$	Year ended 31 December 2020	Six months ended 31 December 2019
Directors' salaries	**919,867**	465,327
Share-based payment expense	**302,878**	154,593
Total remuneration	**1,222,745**	619,920
Number of Directors	**8**	7

16 Commitments

The Company has no commitments.

17 Subsequent events

Subsequent events relating to the Parent Company have been disclosed in note 23 of the Consolidated Financial Statements.

18 Note to the statement of cash flows

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

In US$	Intercompany payables 31 December 2020	Intercompany payables 31 December 2019
Opening balance	**32,264,513**	29,893,379
Cash flows	**(657,906)**	(262,756)
Non cash flows		
Intercompany recharges/reclassifications	**95,422**	204,447
Intercompany recharge of interest costs	**5,856,845**	2,429,443
Total	**37,558,874**	32,264,513