

BACANORA MINERALS LTD.
Condensed Consolidated Interim Financial Statements
December 31, 2016

(Unaudited)

Management's Comments on the Unaudited Condensed Consolidated Interim Financial Statements

The accompanying unaudited condensed consolidated interim financial statements of Bacanora Minerals Ltd. as at and for the three and six months ended December 31, 2016 and 2015 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed by the Company's external auditors.

BACANORA MINERALS LTD.
Condensed Consolidated Statements of Financial Position
Unaudited

Expressed in Canadian Dollars

As at	December 31, 2016	June 30, 2016
Assets		
Current		
Cash	\$ 23,797,353	\$ 28,730,168
Other receivables (Note 4a)	454,892	265,342
Deferred costs	147,631	102,607
Total current assets	24,399,876	29,098,117
Non-current assets		
Property and equipment (Note 6)	1,966,207	2,364,371
Exploration and evaluation assets (Note 7)	23,902,448	17,816,713
Total non-current assets	25,868,655	20,181,084
Total assets	50,268,531	49,279,201
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	643,626	1,041,117
Warrant liability (Note 8(b))	-	897,323
Total current liabilities	643,626	1,938,440
Non-current liabilities		
Deferred tax liability	135,000	135,000
Total non-current liabilities	135,000	135,000
Total liabilities	778,626	2,073,440
Shareholders' Equity		
Share capital (Note 8)	61,433,516	57,058,924
Contributed surplus (Note 8(e))	4,910,372	3,528,990
Foreign currency translation reserve	1,526,065	574,478
Deficit	(17,177,857)	(13,150,873)
Attributed to Shareholders of Bacanora Minerals Ltd.	50,692,096	48,011,519
Non-controlling interest	(1,202,191)	(805,758)
Total shareholders' equity	49,489,905	47,205,761
Total Liabilities and Shareholders' Equity	\$ 50,268,531	\$ 49,279,201

Commitments and Contingencies (Note 15)
Subsequent Events (Note 16)

Approved by the Board of Directors:

(signed) "James Leahy"

James Leahy
Director

(signed) "Ray Hodgkinson"

Ray Hodgkinson
Director

See accompanying notes to the condensed consolidated financial statements.

BACANORA MINERALS LTD.
Condensed Consolidated Statements of Comprehensive Loss
Unaudited
Expressed in Canadian Dollars

	Three months ended		Six months ended	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
Revenue				
Interest income	\$ 23,238	\$ 20,519	\$ 62,238	\$ 44,629
Expenses				
General and administrative (Note 9)	1,222,280	909,254	2,505,369	1,432,617
Depreciation (Note 6)	3,136	27,369	42,831	61,379
Stock-based compensation (Note 8(f))	596,639	1,375,332	1,381,382	1,375,332
	1,822,055	2,311,955	3,929,582	2,869,328
Loss before other items	(1,798,817)	(2,291,436)	(3,867,344)	(2,824,699)
Foreign exchange loss	(457,612)	(175,356)	(1,304,192)	(1,131,733)
Warrant liability valuation	-	-	348,964	-
Loss	(2,256,429)	(2,466,792)	(4,822,572)	(3,956,432)
Foreign currency translation adjustment	1,463,914	(369,798)	950,587	580,492
Total comprehensive loss	(792,515)	\$ (2,836,590)	(3,871,985)	\$(3,375,940)
Loss attributable to shareholders of Bacanora Minerals Ltd.	(1,822,078)	(2,391,865)	(4,026,984)	(3,768,138)
Loss attributable to non-controlling interest	(434,071)	(74,927)	(795,588)	(188,294)
	(2,256,149)	\$ (2,466,792)	(4,822,571)	(3,956,432)
Total comprehensive loss attributable to shareholders of Bacanora Minerals Ltd.	(358,164)	(2,761,663)	(3,076,397)	(3,187,646)
Total comprehensive loss attributable to non-controlling interest	(434,071)	(74,927)	(795,588)	(188,294)
	(792,235)	(2,836,590)	(3,871,985)	(3,375,940)
Net loss per share (basic and diluted)	\$ (0.02)	\$ (0.03)	\$ (0.05)	\$ (0.04)

See accompanying notes to the condensed consolidated financial statements.

BACANORA MINERALS LTD.
Condensed Consolidated Statements of Changes in Shareholders' Equity
Unaudited
Expressed in Canadian Dollars

	Share Capital		Contributed Surplus	Accumulated other comprehensive income	Deficit	Non-controlling interest	Total
	Number of Shares	Amount					
Balance, June 30, 2015	84,947,409	\$24,827,911	\$657,254	\$1,695,333	\$(2,855,397)	\$(680,281)	\$23,644,820
Brokered placements	11,476,944	17,461,167	-	-	-	-	17,461,167
Shares issued on exercise of options	850,000	302,840	(86,840)	-	-	-	216,000
Stock-based compensation expense	-	-	1,375,332	-	-	-	1,375,332
Foreign currency translation adjustment	-	-	-	576,514	-	-	576,515
Loss for the period	-	-	-	-	(3,712,049)	(244,383)	(3,956,432)
Balance, December 31, 2015	97,274,353	\$42,591,918	\$1,945,746	\$2,271,847	\$(6,567,446)	(924,664)	\$39,317,401
Brokered placements	9,750,000	14,228,359	-	-	-	-	14,228,359
Shares issued on exercise of options	850,000	845,820	(360,819)	-	-	-	485,001
Share issue costs	-	(915,790)	-	-	-	-	(915,790)
Stock-based compensation expense	-	-	1,944,063	-	-	-	1,944,063
Foreign currency translation adjustment	-	-	-	(1,697,369)	-	-	(1,697,369)
Loss for the period	-	-	-	-	(6,583,427)	118,906	(6,702,333)
Balance, June 30, 2016	107,874,353	\$57,058,924	\$3,528,990	\$574,478	\$(13,150,873)	\$(805,758)	\$47,205,761
Shares issued on exercise of warrants	2,925,000	4,486,570	-	-	-	-	4,486,570
Share issue costs	-	(111,978)	-	-	-	-	(111,978)
Stock-based compensation expense	-	-	1,381,382	-	-	-	1,381,382
Foreign currency translation adjustment	-	-	-	950,587	-	-	950,587
Loss for the period	-	-	-	-	(4,026,984)	(396,433)	(4,423,417)
Balance, December 31, 2016	110,799,353	\$61,433,516	\$4,910,372	\$1,526,065	\$(17,177,857)	\$(1,202,191)	\$49,489,905

See accompanying notes to the condensed consolidated financial statements.

BACANORA MINERALS LTD.
Condensed Consolidated Statements of Cash Flows
Unaudited

Expressed in Canadian Dollars

	Three months ended		Six months ended	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
Cash provided by (used in)				
Operating activities				
Net loss	\$ (2,256,148)	\$ (2,466,792)	\$ (4,822,571)	\$ (3,956,432)
Depreciation	3,136	27,369	42,831	61,379
Warrant liability revaluation	-	(369,798)	(348,964)	-
Unrealized foreign exchange adjustment	-	1,375,332	-	580,492
Share based compensation	596,639	(1,433,889)	1,381,382	1,375,332
	(1,656,373)	(805,609)	(3,747,322)	(1,939,229)
Changes in non-cash working capital				
Other receivables	(135,192)		(189,550)	
Prepaid	(29,661)		(45,026)	
Accounts payable and accrued liabilities	(610,707)		(725,123)	
	(2,431,934)		(4,707,021)	(2,475,578)
Financing activities				
Issue of shares, net of expenses	-	17,461,167	-	17,461,167
Related party (payments)/advances	-	(139,366)	-	32,873
Options exercise proceeds	-	156,000	-	216,000
Warrant exercise proceeds, net of expenses	3,693,563	-	3,739,315	-
	3,693,563	17,477,801	3,739,315	17,710,040
Investing activities				
Additions to mineral properties (Note 7)	(1,767,083)	(738,187)	(3,749,398)	(2,112,329)
Additions to property and equipment (Note 6)	(531,044)	95,980	(215,711)	116,843
	(2,298,125)	(642,207)	(3,965,109)	(1,995,486)
Increase in cash position	(1,036,496)	14,596,096	(4,932,815)	13,238,976
Cash, beginning of the period	24,833,849	8,633,917	28,730,168	9,991,037
Cash, end of the period	\$ 23,797,353	\$ 23,230,013	\$ 23,797,353	\$ 23,230,013

See accompanying notes to the condensed consolidated financial statements.

BACANORA MINERALS LTD.

Notes to the Condensed Consolidated Interim Financial Statements

As at and for the three and six months ended December 31, 2016 and 2015

Expressed in Canadian Dollars, unless otherwise stated

1. CORPORATE INFORMATION

Bacanora Minerals Ltd. (the "**Company**" or "**Bacanora**") was incorporated under the *Business Corporations Act* of Alberta on September 29, 2008. The Company is dual listed on the TSX Venture Exchange as a Tier 2 issuer and on the AIM Market of the London Stock Exchange, with its common shares trading under the symbol, "BCN" on both exchanges. The address of the Company is 2204 6 Avenue N.W. Calgary, AB T2N 0W9.

The Company is an exploration stage mining company engaged in the identification, acquisition, exploration and development of mineral properties located in Mexico. The Company has not yet determined whether its mineral properties contain economically recoverable reserves. The recoverability of amounts capitalized is dependent upon the discovery of economically recoverable reserves, securing and maintaining title in the properties and obtaining the necessary financing to complete the exploration and development of these projects and upon attainment of future profitable production. The amounts capitalized as mineral properties represent costs incurred to date, and do not necessarily represent present or future values.

2. BASIS OF PREPARATION

a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended June 30, 2016, which have been prepared in accordance with IFRS as issued by the IASB.

The Company uses the same accounting policies and methods of computation as in the audited annual consolidated financial statements for the year ended June 30, 2016.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on February 27, 2017. The Board of Directors has the power and authority to amend these financial statements after they have been issued.

b) Basis of measurement

These condensed consolidated interim 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 Canadian dollars. The functional currency of the Company is the British pound sterling ("**GBP**") and US dollar for its subsidiaries. The Company's functional currency previously was the Canadian dollar up until June 30, 2016.

c) New standards and interpretations not yet adopted

A number of new IFRS standards, and amendments to standards and interpretations, are not yet effective for the period ended December 31, 2016, and have not been applied in preparing these condensed consolidated interim financial statements. None of these standards are expected to have a significant effect on the condensed consolidated interim financial statements of the Company.

BACANORA MINERALS LTD.

Notes to the Condensed Consolidated Interim Financial Statements

As at and for the three and six months ended December 31, 2016 and 2015

Expressed in Canadian Dollars, unless otherwise stated

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Company's condensed consolidated interim financial statements in accordance with IFRS requires management to make certain judgments, 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 judgments, estimates, and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

a) Exploration and evaluation assets

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

The application of the Company's accounting policy for exploration and evaluation assets requires judgment in determining whether it is likely that costs incurred will be recovered through successful exploration and development or sale of the asset under review when assessing impairment. Furthermore, the assessment as to whether economically recoverable reserves exist is itself an estimation process. Estimates and assumptions made may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting that the recovery of expenditures is unlikely, the amount capitalized is written off in the statement of comprehensive loss in the period when the new information becomes available. The carrying value of these assets is detailed in Note 7.

b) Title to mineral property interests

Although the Company has taken steps to verify the title to the exploration and evaluation assets in which it has an interest, in accordance with industry practices for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

c) Rehabilitation provision

Rehabilitation or similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations.

d) Functional currency

The Company transacts in multiple currencies. The assessment of the functional currency of each entity within the consolidated group involves the use of judgment in determining the primary economic environment each entity operates in. The Company 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 Company 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 Company exercises judgment in determining the date of change.

BACANORA MINERALS LTD.

Notes to the Condensed Consolidated Interim Financial Statements

As at and for the three and six months ended December 31, 2016 and 2015

Expressed in Canadian Dollars, unless otherwise stated

e) Share-based payments

The Company utilizes the Black-Scholes Option Pricing Model to estimate the fair value of stock options 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 stock options, including the forecast future volatility of the stock price, the risk-free interest rate, dividend yield and the expected life of the stock options. Any changes in these assumptions could have a material impact on the share-based payment calculation value.

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

f) Income taxes

Income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year. Amounts accrued for income tax expense in one interim period may have to be adjusted in a subsequent interim period of that financial year if the estimate of the annual income tax rate changes.

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

a) Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company's credit risk relates solely to Input Tax Credits ("ITC") receivables in Canada and Value Added Tax ("VAT") receivables in Mexico. Any changes in management's estimate of the recoverability of the amount due will be recognized in the period of determination and any adjustment may be significant. The carrying amount of other receivables represent the maximum credit exposure.

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

The Company's cash is held in major Canadian, UK and Mexican banks, and as such the Company is exposed to the risks of those financial institutions. The Board of Directors monitors the exposure to credit risk on an ongoing basis and does not consider such risk significant at this time. The Company considers all of 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. Liquidity risk arises primarily from accounts payable and accrued liabilities and commitments, all with maturities of one year or less.

BACANORA MINERALS LTD.**Notes to the Condensed Consolidated Interim Financial Statements****As at and for the three and six months ended December 31, 2016 and 2015**

Expressed in Canadian Dollars, unless otherwise stated

c) Market risk

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

The Company conducts exploration projects in Mexico. As a result, a portion of the Company's expenditures, accounts receivables, accounts payables and accrued liabilities are denominated in US dollars and Mexican pesos and are therefore subject to fluctuation in exchange rates. As at June 30, 2016, a 5% change in the exchange rate between GBP and US dollar would have an approximate \$2,353,000 (2015 - \$545,000) change to the Company's total comprehensive loss.

d) Fair values

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

5. CAPITAL MANAGEMENT

The Company'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 Company's shareholders' equity excluding contributed surplus, of \$45,781,724 at December 31, 2016 (June 30, 2016 - \$44,482,529). The Company sets the amount of capital in proportion to risk and corporate growth objectives. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company is not subject to any externally imposed capital requirements.

6. PROPERTY AND EQUIPMENT

Cost	Building and equipment	Office furniture and equipment	Computer equipment	Transportation equipment	Total
Balance, June 30, 2015	\$ 2,932,054	\$ 3,147	\$ 11,464	\$ 146,396	\$ 3,093,061
Additions	108,777	-	17,840	59,776	186,393
Foreign exchange	(267,264)	-	(18,765)	(17,909)	(303,938)
Balance, June 30, 2016	\$ 2,773,567	\$ 3,147	\$ 10,539	\$ 188,263	\$ 2,975,516
Additions	215,711	-	-	-	215,711
Foreign exchange	(571,044)	-	-	-	(571,044)
Balance, Dec. 31, 2016	\$ 2,418,234	\$ 3,147	\$ 10,539	\$ 188,263	\$ 2,620,183

Accumulated depreciation	Building and equipment	Office furniture and equipment	Computer equipment	Transportation equipment	Total
Balance, June 30, 2015	\$ 412,036	\$ 3,147	\$ 7,843	\$ 99,232	\$ 522,258
Additions	80,591	-	2,696	5,600	88,887
Balance, June 30, 2016	\$ 492,627	\$ 3,147	\$ 10,539	\$ 104,832	\$ 611,145
Additions	42,831	-	-	-	\$ 42,831
Balance, Dec. 31, 2016	\$ 535,458	\$ 3,147	\$ 10,539	\$ 104,832	\$ 653,976

BACANORA MINERALS LTD.**Notes to the Condensed Consolidated Interim Financial Statements****As at and for the three and six months ended December 31, 2016 and 2015**

Expressed in Canadian Dollars, unless otherwise stated

Carrying amounts	Building and equipment	Office furniture and equipment	Computer equipment	Transportation equipment	Total
At June 30, 2016	\$ 2,280,940	\$ -	\$ -	\$ 83,431	\$ 2,364,371
At Dec. 31, 2016	\$ 1,882,776	\$ -	\$ -	\$ 83,431	\$1,966,207

7. EXPLORATION AND EVALUATION ASSETS

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

a) Magdalena Borate property

Originally referred to as San Francisco and El Represo projects, Magdalena Borate project consists of eight concessions, with a total area of 7,105 hectares. The concessions are 100% owned by MSB. The Magdalena property is subject to a 3% gross overriding royalty payable to Minera Santa Margarita S.A. de C.V., a subsidiary of Rio Tinto PLC, and a 3% gross overriding royalty payable to the estate of the late Chairman of the Company on sales of borate produced from this property.

b) Sonora Lithium property

The Sonora Lithium Project consists of ten contiguous mineral concessions. The Company through its wholly-owned Mexican subsidiary, MSB, has a 100% interest in two of these concessions: La Ventana and La Ventana 1, covering 1,820 hectares. Of the remaining concessions, five are owned 100% by Mexilit, El Sauz, El Sauz 1, El Sauz 2, Fleur and Fleur 1 covering 6,334 hectares. Mexilit is owned 70% by Bacanora and 30% by Rare Earth Minerals PLC ("**REM**").

The remaining three concessions, Buenavista, Megalit and San Gabriel, cover 89,235 hectares, and are subject to a separate agreement between the Company and REM. Under the agreement, Megalit is owned 70% by Bacanora and 30% by REM. As at December 31, 2016, Buenavista and San Gabriel concessions were transferred from MSB to Megalit, while the Megalit concession was in the process of being transferred to Minera Megalit S.A. de C.V..

The Sonora Lithium property is subject to a 3% gross overriding royalty on production from certain concessions within the Sonora Lithium property payable to the estate of the late Chairman of the Company.

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

	Magdalena Borate	La Ventana Lithium	Mexilit Lithium	Megalit Lithium	Total
Balance, June 30, 2015	\$ 7,246,158	\$ 1,931,837	\$ 2,091,527	\$ 637,905	\$ 11,907,427
Additions	1,015,692	4,505,946	1,078,990	125,575	6,726,203
Foreign exchange	(537,109)	(60,295)	(186,935)	(32,578)	(816,917)
Balance, June 30, 2016	\$ 7,724,741	\$ 6,377,488	\$ 2,983,582	\$ 730,902	\$ 17,816,713
Additions	10,061	3,713,930	14,302	11,105	3,749,398
Foreign exchange	794,530	1,135,426	319,874	86,507	2,336,337
Balance, Dec. 31, 2016	\$ 8,529,332	\$ 11,226,844	\$ 3,317,758	\$ 828,514	\$ 23,902,448

BACANORA MINERALS LTD.
Notes to the Condensed Consolidated Interim Financial Statements
As at and for the three and six months ended December 31, 2016 and 2015
Expressed in Canadian Dollars, unless otherwise stated

8. SHARE CAPITAL

a) Authorized

The authorized share capital of the Company consists of an unlimited number of voting common shares without nominal or par value.

b) Common Shares Issued

	Shares	Amount
Balance, June 30, 2015	84,947,409	\$ 24,827,911
Shares issued on exercise of options	850,000	355,410
Shares issued in private placement for cash ⁽¹⁾	11,476,944	17,871,564
Shares issued on exercise of options	850,000	691,470
Shares issued in private placement for cash ⁽²⁾	9,750,000	14,228,359
Share issue costs	-	(915,790)
Balance, June 30, 2016	107,874,353	\$ 57,058,924
Shares issued on exercise of warrants	2,925,000	4,486,570
Share issue costs	-	(111,978)
Balance, December 31, 2016	110,799,353	\$61,433,516

(1) On November 13, 2015, the Company completed a private financing of 11,476,944 common shares at a price of \$1.56 (£0.77) per share for aggregate gross proceeds of \$17,871,564 (£8,837,247). The Company paid commission of \$354,280 and other share issue expenses of \$56,117. As part of the financing, 1,973,407 common shares were acquired by REM, a company that is a significant shareholder and has a position in the Company's Board of Directors.

(2) On May 20, 2016, the Company completed a private financing that raised approximately \$14,681,700 (£7,702,500) via the placing of 9,750,000 units (the "Placing Units") at a price of approximately \$1.48 (£0.79) per Placing Unit (the "Placing"). The Company paid commission of \$440,500 and other share issue expenses of \$64,893. Each Placing Unit is comprised of one new common share of the Company (a "Placing Share") and 0.3 of one common share purchase warrant, with each whole warrant (a "Placing Warrant") being exercisable into one common share at a price of approximately \$1.48 (£0.79) at any time subsequent to July 25, 2016, but on or before September 30, 2016. Accordingly, an aggregate of 9,750,000 Placing Shares and 2,925,000 Placing Warrants were issued under this Placing.

The Placing Warrants are denominated in a currency different than the functional currency and are recorded as warrant liability of \$453,299, which was measured using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate: 0.39%; expected volatility: 38%; expected life: 4 months; fair value per warrant: \$0.15. The fair value of the warrant liability was re-measured as at June 30, 2016 to be \$897,323 using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate: 0.25%; expected volatility: 44%; expected life: 3 months; fair value per warrant: \$0.31.

c) Stock options

The following tables summarize the activities and status of the Company's stock option plan as at and during the period ended December 31, 2016.

	Number of options	Weighted average exercise price
Balance, June 30, 2015	2,475,000	\$ 0.38
Exercised	(1,700,000)	0.33
Expired	(50,000)	1.58
Issued	4,250,000	1.75
Balance, June 30, and December 31, 2016	4,975,000	\$ 1.52

BACANORA MINERALS LTD.**Notes to the Condensed Consolidated Interim Financial Statements****As at and for the three and six months ended December 31, 2016 and 2015**

Expressed in Canadian Dollars, unless otherwise stated

Grant date	Number outstanding at Dec. 31, 2016	Exercise price	Weighted average remaining contractual life (Years)	Expiry date	Number exercisable at Dec. 31, 2016
September 28, 2012	50,000	0.25	1.1	Sept. 28, 2017	50,000
September 11, 2013	725,000	0.30	1.8	Sept. 11, 2018	725,000
December 2, 2015	1,200,000	1.58	4.0	Dec. 2, 2020	1,200,000
January 22, 2016	1,000,000	1.56 ⁽¹⁾	1.2	Jan. 22, 2018	1,000,000
April 27, 2016	2,000,000	1.94 ⁽²⁾	2.5	May 27, 2019	-
	4,975,000				2,975,000

(1) Exercise price of £0.77 per share

(2) Exercise price of £0.96 per share

d) Warrants

The following tables summarize the activities and status of the Company's warrants as at and during the period ended December 31, 2016.

	Number of warrants	Remaining contractual life (Years)	Expiry date	Weighted Average Exercise price
Balance, June 30, 2015	833,333	2.8	March 26, 2018	\$ 0.45
Issued	2,925,000	0.3	September 30, 2016	\$ 1.51
Balance, June 30, 2016	3,758,333	-	-	\$ 1.27
Exercised	(2,925,000)	-	-	1.35
Balance, December 31, 2016	833,333	1.4		\$ 0.45

Grant date	Number outstanding at Dec. 31, 2016	Exercise price	Weighted average remaining contractual life (Years)	Expiry date	Financing warrants
March 26, 2013	833,333	\$ 0.45	2.8	March 26, 2018	833,333
December 31, 2016	833,333	-	-	-	833,333

e) Contributed surplus

The following table presents changes in the Company's contributed surplus.

	December 31, 2016	June 30, 2016
Balance, beginning of the period	\$ 3,528,990	\$ 657,254
Exercise of stock options	-	(405,879)
Stock-based compensation expense	1,381,382	3,277,615
Balance, end of the period	\$ 4,910,372	\$ 3,528,990

BACANORA MINERALS LTD.**Notes to the Condensed Consolidated Interim Financial Statements****As at and for the three and six months ended December 31, 2016 and 2015**

Expressed in Canadian Dollars, unless otherwise stated

f) Stock-based compensation expense

During the period ended December 31, 2016, the Company recognized \$1,381,382 (2015 - \$Nil) of stock-based compensation expense for options granted under the Company's stock option plan. The fair value of stock options granted during the period ended December 31, 2016 was estimated on the dates of grant using the Black-Scholes option pricing model with the following weighted average assumptions, risk-free interest rate of 0.73%, expected volatility of 138%, and expected life of 3 years. The fair value of each stock option was \$1.21. Expected volatility is based on historical volatility of the Company's stock prices and comparable peers.

g) Per share amounts

Basic loss per share is calculated using the weighted average number of shares of 110,799,353 for the three month period ended December 31, 2016 and 109,336,853 for the six month period ended December 31, 2016 (2015 – 91,347,336 and 88,247,373 respectively). Options and warrants were excluded from the dilution calculation as they were anti-dilutive.

9. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended		Six months ended	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
Management fees (Note 14)	\$ 209,047	\$ 357,161	\$ 773,363	\$ 587,732
Legal and accounting fees	591,244	172,460	1,001,401	290,144
Investor relations	208,689	149,937	283,630	226,668
Office expenses	56,881	151,461	181,701	188,195
Travel and other expenses	156,419	78,235	265,274	139,878
Total	\$ 1,222,280	\$ 909,254	\$ 2,505,369	\$ 1,432,617

10. SEGMENTED INFORMATION

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

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

BACANORA MINERALS LTD.**Notes to the Condensed Consolidated Interim Financial Statements****As at and for the three and six months ended December 31, 2016 and 2015**

Expressed in Canadian Dollars, unless otherwise stated

11. RELATED PARTY TRANSACTIONS**a. Related party expenses**

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

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

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

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

b. Key management personnel compensation

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

	Three months ended		Six months ended	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
Directors' fees:				
Colin Orr-Ewing	\$ -	\$ 34,245	\$ 10,056	\$ 49,245
James Leahy	12,400	5,000	25,263	10,000
Shane Shircliff	2,916	4,375	6,462	8,750
Derek Batorowski	-	4,375	-	8,750
Kiran Morzaria	4,375	4,294	8,749	8,044
Jamie Straus	2,916	-	2,916	-
Ray Hodgkinson	1,250	-	1,250	-
Total directors' fees:	\$ 23,857	\$ 59,289	\$ 54,696	\$ 84,789
Management and consulting fees:				
Peter Secker	\$ 104,536	\$ 127,583	\$ 211,653	255,967
Martin Vidal	75,164	63,495	133,853	125,677
Derek Batorowski	84,017	56,875	147,142	97,222
Mark Hohnen	84,606	34,000	172,458	34,000
Total management and consulting fees	\$ 348,323	\$ 281,953	\$ 665,106	\$ 512,866

BACANORA MINERALS LTD.**Notes to the Condensed Consolidated Interim Financial Statements****As at and for the three and six months ended December 31, 2016 and 2015**

Expressed in Canadian Dollars, unless otherwise stated

Employee's salary:						
Cordelia Orr-Ewing	\$	-	\$ 35,297	\$	-	\$ 53,559
Total employee's salary	\$	-	\$ 35,297	\$	-	\$ 53,559
Total director's, management's, consultant's and employee's salaries and fees	\$	372,180	\$ 404,539	\$	719,802	\$ 704,773
Operational consulting fees:						
Grupo Ornelas Vidal S.A. de C.V.	\$	270,823	\$ 260,533	\$	528,477	\$ 496,074
Stock-based compensation	\$	638,837	\$ 577,658	\$	1,244,113	\$ 577,658

15. COMMITMENTS AND CONTINGENCIES

The Company has commitments for lease payments for field offices with no specific expiry dates. The total annual financial commitments resulting from these agreements is \$10,735. Additionally, the Company has commitments for lease payments for its UK office in the amount of \$49,000 per year until July, 2018.

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

16. SUBSEQUENT EVENTS

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

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