

**BACANORA MINERALS LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTH PERIOD ENDED DECEMBER 31, 2017**

DATE – MARCH 1, 2018

The following Management's Discussion and Analysis ("**MD&A**") should be read in conjunction with Bacanora Minerals Ltd. ("**Bacanora**" or the "**Company**") unaudited condensed consolidated interim financial statements for the period ended December 31, 2017, together with the accompanying notes.

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

THE COMPANY

Bacanora is an exploration and development company focused on developing its Sonora Lithium Project ("**Sonora**" or the "**Project**") located in Sonora state in Mexico and its, Zinnwald Lithium Project ("**Zinnwald**"), located in southern Saxony, Germany. Bacanora was incorporated in Alberta, Canada in September 2008 and is listed on the TSX Venture Exchange and the AIM Market of the London Stock Exchange, and its common shares trade under the symbol, "BCN" on both exchanges. Please refer to section *Company Structure* for further details on the Company's legal and operational structure.

HIGHLIGHTS

Corporate

- On February 8th, 2018, the Company announced that it intends to re-commence the process of changing the domicile of jurisdiction from Canada to the UK (the "**Re-domicile**"). It is intended that the Re-domicile will be effected by means of a plan of arrangement under the Business Corporations Act (Alberta), whereby all existing common shares of Bacanora will be exchanged, through a wholly owned subsidiary ("**AcquireCo**") of Bacanora Lithium Plc ("**Bacanora UK**"), for ordinary shares in Bacanora UK, a company that has been established in the UK to become the new holding company for Bacanora and its subsidiaries (the "**Group**") (the foregoing is hereinafter referred to as the "**Transaction**"). The share capital of Bacanora UK will be substantially identical to the existing share capital of Bacanora and the rights attaching to the new ordinary shares in Bacanora UK will be substantially the same as for the current Bacanora common shares. In all other respects, the Group will remain unchanged as a result of the Transaction. The Transaction will be subject to customary shareholder, regulatory and Canadian court approval. The Company has therefore sent to shareholders a management information circular setting out full details of the Transaction and containing notice of a general and special meeting to consider.
- On February 5th, 2018, the Company announced the appointment of Ms. Janet Boyce as Chief Financial Officer with immediate effect. Ms. Boyce is a certified public accountant who has held a number of senior financial roles, including Group Chief Financial Officer and Executive Director of Gemfields plc, a leading supplier of gemstones. Ms. Boyce replaces Mr. Derek Batorowski, who is stepping down as CFO to pursue other business interests. Mr. Batorowski will continue to serve Bacanora as a Non-Executive Director of the Company.

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- On February 5th, 2018, the Company also announced that Ms. Eileen Carr has agreed to join the Board as a Non-Executive Director with immediate effect. Ms. Carr is a Chartered Certified Accountant with over 25 years' experience in the resource sector during which she has worked on both energy and mining projects across the world, including projects in China, Russia, Australia, Latin America and Africa.
- On December 4th, 2017, the Company announced that Martin Vidal, President and a Director of the Company, has resigned the foregoing positions, effective November 30, 2017. Mr. Vidal remains with the Company in an advisory/consultancy capacity.

Operational

- On December 12th, 2017, the Company announced the results of the Feasibility Study ("**FS**") for Sonora prepared in accordance with National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* ("**NI 43-101**"). The results of the FS confirm the positive economics and favourable operating costs of a 35,000 tonnes per annum ("**tpa**") battery grade lithium carbonate ("**Li₂CO₃**") operation.
 - The FS estimates a pre-tax project Net Present Value ("**NPV**") of US\$1.253 billion at an 8% discount rate and
 - an Internal Rate of Return ("**IRR**") of 26.1%, and
 - Life of Mine ("**LOM**") operating costs of US\$3,910/t Li₂CO₃.

Refer to section *Feasibility Study* under *Lithium Mineral Properties* for further details on the FS. The FS was filed on SEDAR on January 24th, 2018 and is also available on the Company's website.

- The Company continues to operate its large scale lithium carbonate pilot plant in Hermosillo, Mexico currently focusing on:
 - production of battery grade lithium carbonate samples for distribution to potential customers in Asia
 - optimising the metallurgical flow sheet and ongoing FS testwork, and
 - operator training in preparation for the construction of the large scale plant.
- On January 10th, 2018, the Company announced that its subsidiary, Deutsche Lithium GmbH, ("**Deutsche Lithium**"), which is 50% owned by Bacanora, has been granted an exploration licence (the "**Licence**") covering 295 hectares of the previously mined Falkenhain Lithium deposit ("**Falkenhain**") in southern Saxony, Germany. Falkenhain, which is located within 5 km of Zinnwald, has the potential to increase the life time of a mine at Zinnwald. Deutsche Lithium plans to explore the deposit over the next five years and to combine its exploration and development with Zinnwald.

Other

- On February 27th, 2018 the Company announced that, in spite of the Company's best efforts to ensure compliance, NextView Capital has failed to complete the placing of 32,976,635 common shares in the Company at a price of 94.53 pence (approximately CAD 1.62 per share for aggregate proceeds of £31,172,813 (approximately CAD 43,498,000) as contemplated under the binding placing letter. In addition, discussions have not resulted in any alternative proposals that would, in the opinion of management, be in the best interests of Bacanora and its shareholders. Accordingly, the Company is currently taking advice and has reserved its rights in respect of this default.

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LITHIUM MINERAL PROPERTIES

SONORA LITHIUM PROJECT – MEXICO

The Sonora Lithium Project consists of ten contiguous concessions covering 97,389 hectares. Two of the concessions (La Ventana, La Ventana 1) are owned 100% by Bacanora through its wholly-owned subsidiary Minera Sonora Borax S.A de C.V. (“**MSB**”). El Sauz, El Sauz 1, El Sauz 2, Fleur and Fleur 1 concessions are owned by Bacanora’s subsidiary, Mexilit S.A. de C.V. (“**Mexilit**”) (which is owned 70% by Bacanora and 30% by Cadence Minerals Plc (“**Cadence**”)). These concessions are located approximately 190 kilometres northeast of the city of Hermosillo, in Sonora State, Mexico. They are roughly 170 kilometres south of the border with Arizona, USA. The San Gabriel and Buenavista concessions are owned by Bacanora’s subsidiary, Minera Megalit S.A. de C.V. (“**Megalit**”) (which is owned 70% by Bacanora and 30% by Cadence).

Feasibility Study

The highlights of the Sonora FS released on January 24, 2018 are as follows:

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

(* All costs are in US dollars)

The Sonora lithium property hosts a large lithium deposit. The polyolithionite mineralisation is hosted within shallow dipping sequences, outcropping on surface. As part of the FS, a Mineral Resource estimate was prepared by SRK Consulting (UK) Limited in accordance with NI 43-101. The following tables present the summary of current lithium resources for Sonora, these Mineral Resources are inclusive of Mineral Reserves.

Measured and Indicated Mineral Resources

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

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Inferred Mineral Resources

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

Notes: (i) Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability.
(ii) Tonnes rounded to the nearest thousand.
(iv) LCE is the industry standard terminology for, and is equivalent to, Li_2CO_3 . 1 ppm Li metal is equivalent to 5.323 ppm LCE / Li_2CO_3 . Use of LCE is to provide data comparable with industry reports and assumes complete conversion of lithium in clays with no recovery or process losses.
(iii) Reported from a block model above 1000 ppm Li and above a simple open pit shell generated using the technical and economic parameters established during the FS, with the exception of the LCE selling price of US\$ 14,3000 (which represents a 30% premium on top of the US\$11,000 used for the Mineral Reserve estimate).

Mining Operations

The mining operation for the Project is planned as an open-pit development using a combination of surface miners to mine the ore zones and a truck/shovel fleet to remove the waste material. Mining operations will be augmented with an ancillary fleet of dozers, graders and water trucks. The Mineral Reserve estimate was prepared by Independent Mining Consultants, Inc in Tucson, Arizona. The Mineral Reserve estimate includes an ore recovery factor of 100% and mining dilution of 100cm at the top and bottom of the mineralized beds, with the grades of the elements in the adjacent lithologies.

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

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

Notes: (i) Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability.
(ii) Tonnes rounded to the nearest thousand.
(iii) LCE is the industry standard terminology for, and is equivalent to, Li_2CO_3 . 1 ppm Li metal is equivalent to 5.323 ppm LCE / Li_2CO_3 . Use of LCE is to provide data comparable with industry reports and assumes complete conversion of lithium in clays with no recovery or process losses.

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

Processing

Metallurgical testwork for the FS was carried out at SGS Lakefield Laboratories in Perth and ANSTO laboratories in Sydney, NSW, Australia. The process engineering and design for the process plants and infrastructure was completed by Ausenco Limited (“**Ausenco**”). The process plant design comprises a pre-concentration stage to produce an initial concentrate prior to roasting. The concentrate is subsequently heated in a kiln, at approximately 950 degrees Celsius, in combination with re-cycled sodium sulphate (“ **Na_2SO_4** ”), which is a by-product produced from the Sonora lithium plant, to produce an intermediate lithium sulphate (“ **Li_2SO_4** ”) product. This sulphate material then undergoes hydrometallurgical treatment, filtration, cleaning, precipitation and packaging, to produce a >99.5% Li_2CO_3 final battery grade product. The integrated plant has been designed to initially process 1.1 Mt of ore per year, during Stage 1 of the Project, subsequently increasing to some 2.2 Mt per year at Stage 2, producing 17,500 tpa and 35,000 tpa of lithium carbonate, respectively.

The plant design also includes a circuit to produce a design minimum output of 28,800 tpa of K_2SO_4 /SOP product through a series of evaporation and precipitation stages.

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Capital Costs

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

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

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

Construction Capital Costs

Category	Estimate Stage 1 (US\$000)	Estimate Stage 2 (US\$000)
Mining	17,611	17,614
Beneficiation plant	18,483	18,483
Lithium processing plant	158,288	158,285
Plant Services	55,334	55,334
Infrastructure	58,841	23,581
EPCM/Owner cost/Indirect	72,912	72,393
Contingency	38,147	34,569
Total	419,616	380,262

The LOM sustaining mining and processing capital requirement is approximately US\$140.6 million.

Energy

Energy has been a significant focus of the FS and the Company has received a number of proposals for the supply of both natural gas (via pipeline) and LNG to Sonora. There is a significant operating cost saving in using natural gas rather than LNG and the Company is currently working with a shortlist of potential pipeline and natural gas suppliers to allow natural gas supplies from Agua Prieta to the project site. In addition to supplying natural gas for the kiln circuit, the energy supply package would include the installation of a gas turbine combined cycle plant on site to produce high voltage electricity for the processing plants.

Operating Cost Estimate

The mining and processing operating costs are for an operation achieving average annual production of approximately 17,500 rising to 35,000 tonnes of battery-grade, 99.5% Li₂CO₃. The estimated average operating cost for the mine, primary and secondary processing facilities are as follows:

Project Operating Costs

Category	Stage 1 (US\$/t Li ₂ CO ₃)	Stage 2 (US\$/t Li ₂ CO ₃)	Average LOM (US\$/t Li ₂ CO ₃)
Mining	295	499	490
Processing	3,093	3,266	3,198
G&A	263	209	222
Total	3,651	3,974	3,910

Cash Flow Analysis

The Project is currently estimated to have a payback period of four years. Cash flows are based on a 100% equity funding basis and the economic analysis indicates a pre-tax Net Present Value, discounted at 8%, of approximately US\$1.25 billion as shown below, and IRR of approximately 26.1%. Post tax the NPV is approximately US\$802 million and IRR 21.2%.

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Sensitivity Analysis (Discount Rate)

Discount Rate	Base Case Pre Tax NPV (US\$ 000)	Base Case Post Tax NPV (US\$ 000)
0%	3,425	2,371
2%	2,644	1,808
4%	2,054	1,382
6%	1,602	1,055
8%	1,253	802

Sensitivity Analysis (Li₂CO₃ Selling Price)

Selling Price	Pre Tax NPV (US\$ million)	Pre Tax IRR
-20%	639	18%
-10%	946	22%
Base Case (US\$11,000/t)	1,253	26%
+10%	2,560	30%
+20%	1,877	33%

Base case LOM total revenue is estimated at US\$6.9 billion, with an EBITDA of approximately US\$4.4 billion.

Market Review and Lithium Pricing

SignumBox (Chile) has provided the Company with their detailed 20 year analysis of the global lithium market, summarised as follows:

- By 2037, SignumBox anticipate global demand for lithium chemicals to reach about 1,700,000 tonnes of LCE in their base scenario, compared to the current 190,000 tonnes in 2017, equating to an average annual growth rate of about 11.5% over the next 20 years.
- SignumBox estimates that the battery segment of the market will continue to grow strongly and by 2037 it would represent 84% of total lithium demand, compared to the current 35% in 2017.
- When considering various pricing scenarios, SignumBox estimates that the lithium carbonate (battery grade) long term price (2030) would range between US\$13,700/t to US\$20,600/t.

For the FS cashflow analysis, the Company has taken a more conservative approach to pricing and is using a flat price of US\$11,000/t for battery grade lithium carbonate over the 19 year LOM. The cashflow analysis was prepared by the Company's financial consultants.

Lithium Pilot Plant

Over the past twelve months, the Company has continued to expand the production capacity of its pilot plant located in Hermosillo, Sonora, Mexico. Metallurgical optimization is ongoing, comprising flow sheet improvements and chemical reagent optimization, plus ongoing operator training.

Over the next twelve months the Company will continue a recruitment campaign of engineers and operators in order to maintain the plant in continuous operation and to gain expertise in those processes that require supervision and monitoring for optimisation and quality control. To date, the plant has operated continuously on the beneficiation and hydro-metallurgical processes. This investment in people and training is expected to provide significant operational and quality control benefits once commissioning of the full scale lithium carbonate plant commences. Over the next 12 months, the Company has budgeted to spend an aggregate of approximately US\$3.0 million on the pilot plant.

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General

The Company currently holds the Megalit concession in MSB, but intends to transfer it to the Megalit subsidiary once the license is received from the Mexican Federal Mining Ministry. Because of the size of the concession the Mining Ministry is taking longer than usual to grant the license. The Company has held the exploration rights to the concession since the claim application and surveys were submitted to the Mining Ministry on November 7, 2013. The Mining Ministry turned the authorization for title to the General Direction of Mining Regulation on February 3, 2015 but to date the title has not been received. Management has no reason to believe that the license will not be eventually granted, but in the unlikely event that it may not, management does not believe that it will impact the Company's future development activities, as the Megalit concession is not part of the MRE or the FS.

The Company has previously disclosed the existence of an agreement between the late Mr. Colin Orr-Ewing, the past Chairman of the Company, and the Company subjecting the Sonora Lithium Project to a 3% gross overriding royalty (the "**Royalty**") on production from certain concessions within the Sonora Lithium Project. The Company understands that the Royalty is now held by the estate of Mr. Colin Orr-Ewing. On November 17, 2017, the Company filed a statement of claim with the Court of Queen's Bench (Alberta) seeking to void *ab initio*, the Royalty. The basis of the Company's claim is that the Royalty was originally granted based on the misrepresentation of Mr. Colin Orr-Ewing that he held a pre-existing royalty granted prior to the acquisition of the lithium properties by the Company. The Board of Directors of Bacanora has completed a review of the historical background and concluded that no such pre-existing royalty existed and accordingly there was no basis for the grant of the royalty by the Company.

DEUTSCHE LITHIUM PROJECT – GERMANY

The Company holds 50% interest in a jointly controlled entity, Deutsche Lithium GmbH, which operates the Zinnwald Project located in southern Saxony, Germany, adjacent to the border of the Czech Republic and within 5 kilometres of the towns of Altenberg and Freiberg. The Company acquired its interest in February 2017 for a cash consideration of €5 million (approximately \$7,100,000) and an undertaking to contribute up to €5 million toward the costs of completion of a feasibility study, which is anticipated to be completed during the second quarter of 2019. The Company has an option to acquire the remaining 50% of the jointly controlled entity, alone or together with any reasonably acceptable third party within a 24 month period for €30 million. In the event that the Company does not exercise this right within the above stated timeframe, then SolarWorld has the right but not the obligation to purchase the Company's 50% interest for €1.

Deutsche Lithium represents a strategic asset located in close proximity to a thriving market for lithium and energy products, which is being fuelled by Germany's electric automotive industry and the rise of renewable energy storage. Zinnwald is located in a world-class granite hosted Sn/W/Li belt that has been mined historically for tin, tungsten and lithium at different times over the past 300 years.

The project has a historical resource estimate which was reported in accordance with the PERC Code¹, comprised of Measured, Indicated and Inferred Resources². A Qualified Person (under NI 43-101) has not done sufficient work to confirm the historical estimate; hence the Company is not treating the historical estimate as current Mineral Resources or Mineral Reserves.

¹ PERC Code means the Pan European Code for Reporting of Exploration Results, Mineral Resources and Reserves prepared by the Pan-European Reserves and Resources Reporting Committee, as amended.

² The foregoing estimates were set forth in a report dated October 1, 2014, prepared by G.E.O.S. Ingenieurgesellschaft mbH and Technical University Bergakademie Freiberg on behalf of SolarWorld Sollicium GmbH and entitled, "Zinnwald Lithium Project, Report According to PERC Standard".

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Classification	Tonnes* (000)	Li Grade(ppm)	Contained LCE** tonnes
Measured	10,283	3,661	200,277
Indicated	16,287	3,594	311,408
Inferred	9,867	3,704	194,484

Notes: * Li cut-off 2,500ppm and >2 metres vertical thickness.

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

Bacanora believes that both historic work at Zinnwald and the geological context of the deposit demonstrates its potential for economic extraction of lithium products, as well as potential by-products of tin, tantalum and SOP. Bacanora's investment and expertise will facilitate further development in order to achieve higher-value, downstream lithium products which command higher prices in the market.

A resource infill drilling programme to upgrade the existing resource model in accordance with NI 43-101 has now been completed. Collection of a 100 tonne bulk ore sample from the legacy mine at Zinnwald to provide samples for metallurgical testwork has also been completed. On completion of the concentration testwork, hydrometallurgical testwork for downstream processing will be undertaken, focusing on the production of higher value lithium battery chemical products.

Deutsche Lithium has been granted a mining licence covering 256.5 hectares of the Zinnwald project. The 30 year mining licence has been issued by the Saxony State Mining Authority.

Subsequent to the transaction SolarWorld filed for bankruptcy protection in Germany due to ongoing pricing pressures in its core solar markets. The Company is confident that the SolarWorld insolvency process will have no material impact on the Company's interest in Deutsche Lithium and the Zinnwald project.

LITHIUM PROPERTIES OUTLOOK

The Company's strategy is to position itself to satisfy ongoing strong growth for lithium carbonate in the fast growing sectors of electric vehicles and energy storage.

The pricing of lithium carbonate in China remained strong in November 2017, with reported sales by major producers in the region of US\$14,000/t and spot sales price increasing to around US\$20,500/t (source: <https://seekingalpha.com/article/4127961-lithium-miners-news-month-november-2017>).

The Company is financed with approximately US\$19.0 million in cash at the date of this MD&A. Having successfully completed the FS on Sonora, the Company intends to embark on a fund raising exercise in order to secure the US\$420 million capital expenditure requirement to develop phase 1 of Sonora and finance further work on the Zinnwald Lithium Project. It is intended that a substantial proportion of the funding will be raised through equity finance.

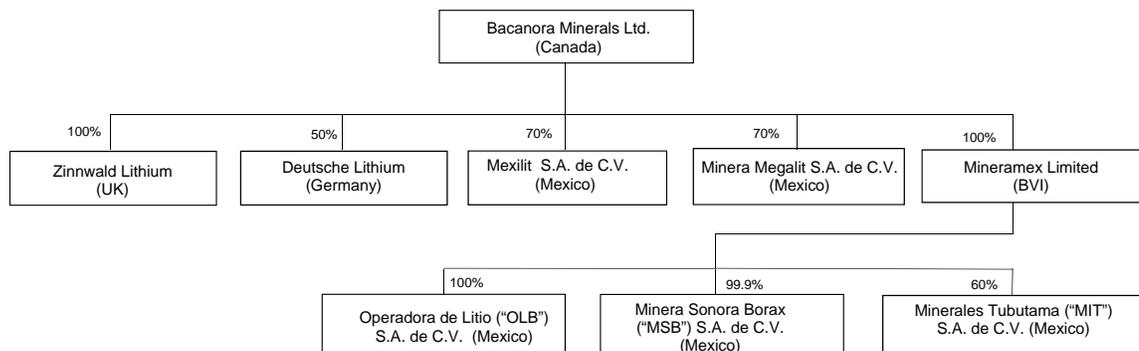
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COMPANY STRUCTURE

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

In 2013, the Company established the subsidiary Mexilit to hold the El Sauz, El Sauz 1, El Sauz 2, Fleur and Fleur 1 concessions, which are related to its agreement with Cadence. In 2014, the Company established the subsidiary Megalit to hold the San Gabriel, Buenavista and Megalit concessions which are also under a second agreement with Cadence. Cadence owns 30% of the shares of each of Mexilit and Megalit. The Company holds 50% interest in a jointly controlled entity, Deutsche Lithium GmbH, which operates the Zinnwald Project.

The following diagram illustrates the Company's corporate structure.



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

- MSB holds the Magdalena borates and La Ventana lithium concessions.
- MIT holds the Carlos, Carlos I, Carlos II and Carlos III borates concessions.
- Mexilit holds the El Sauz, El Sauz 1, El Sauz 2, Fleur, and Fleur 1 lithium concessions. Cadence owns 30% of this company.
- Megalit holds the Buenavista, and San Gabriel lithium concessions, and will also hold the Megalit concession. Cadence owns 30% of this company.
- OLB provides staffing services to the Company's operating subsidiaries.
- Deutsche Lithium holds the Zinnwald Project, of which the Company owns 50%.
- Zinnwald Lithium is a UK registered dormant company.

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EVALUATION AND EXPLORATION EXPENDITURES

The table below summarizes the expenditures capitalized during the year ended June 30, 2017 and the period ended December 31, 2017.

For the year ended June 30, 2017 impairment charge of \$8,037,430 was recognized in respect of the Magdalena Borate property, as a result of the Company's decision not to invest any further capital in the project. The recoverable amount is its estimated fair value less costs to sell and is determined to be \$679,125. The Company plans to maintain the mining concessions in good standing for the next fiscal period.

	Magdalena Borate	La Ventana Lithium	Mexilit Lithium	Megalit Lithium	Total
Balance, June 30, 2016	\$ 8,602,183	\$ 5,147,394	\$ 3,242,501	\$ 824,635	\$ 17,816,713
Concession tax	–	136,798	24,968	48,214	209,980
Exploration	10,061	290,525	–	–	300,586
Drilling	–	674,938	–	–	674,938
Analysis and assays	30,073	818,003	–	–	848,076
Technical services	20,128	5,945,743	–	–	5,965,871
Travel and miscellaneous	14,346	252,383	–	–	266,729
Reimbursement of expenses from Cadence	–	–	(301,000)	–	(301,000)
Impairment write down	(8,037,430)	–	–	–	(8,037,430)
Foreign exchange adjustments	39,764	25,659	16,056	2,703	84,182
Balance, June 30, 2017	\$ 679,125	\$ 13,291,443	\$ 2,982,525	\$ 875,552	\$ 17,828,645
Concession tax	–	70,473	6,565	6,075	83,113
Exploration	–	1,180,030	–	–	1,180,030
Analysis and assays	–	316,748	–	–	316,748
Technical services	–	3,225,105	–	–	3,225,105
Travel and miscellaneous	–	231,565	–	–	231,565
Foreign exchange adjustments	–	(752,451)	–	–	(752,451)
Balance, December 31, 2017	\$ 679,125	\$ 17,562,913	\$ 2,989,090	\$ 881,627	\$ 22,112,755

RESULTS OF OPERATIONS

Selected annual information

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

Significant variances in the Company's reported loss from year to year and quarter to quarter most commonly arise from several factors that are difficult to anticipate in advance or to predict from past

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results. These factors include: (i) decisions to write off deferred exploration costs when management concludes there has been an impairment in the carrying value of a exploration and evaluation asset, or the property is abandoned, (ii) the vesting of incentive stock options, which results in the recording of amounts for stock based compensation expense that can be quite large in relation to other general and administrative expenses incurred in any given period, and (iii) fluctuations in foreign exchange rates.

During the year ended June 30, 2017, the Company recorded a total comprehensive loss of \$19,149,907 (2016 - \$11,541,808), used \$7,605,727 (2016 - \$8,476,706) of cash in operations, incurred \$7,965,180 (2016 - \$5,499,515) on exploration expenditures as well as \$5,059,076 (2016 - \$4,226,962) on general and administrative ("G&A") expenses.

\$	For the year ended June 30, 2017	For the year ended June 30, 2016	For the year ended June 30, 2015
Interest income	94,895	114,079	108,403
Comprehensive loss	(19,149,907)	(11,541,808)	(1,315,929)
Comprehensive loss per share – basic and diluted	(0.15)	(0.13)	(0.03)
Funds used in operations	(7,605,727)	(8,476,706)	(1,666,525)
Total assets	73,688,775	49,279,201	24,728,583
Total liabilities	7,630,264	2,073,440	1,083,763
Exploration and evaluation expenditures	7,965,180	5,499,515	1,941,318
General and administrative expenses	5,059,076	4,226,962	2,753,173

For the year ended June 30, 2017 the Company's comprehensive loss increased by approximately \$7.6 million due mostly to the impairment write down of its non-core Borates asset of approximately \$8.0 million.

During the year ended June 30, 2017, the Company's general and administrative expenses increased by \$832,114. Higher G&A expenses were due to higher legal fees associated with the re-domicile effort as well as increased focus on corporate governance matters. Addition of new consultants, and increased corporate travel and accommodation costs also contributed to the higher G&A expenses for the year.

General and administrative expenses for the years ended June 30, 2017 and 2016 were as follows:

	Twelve months ended	
	Jun 30, 2017	Jun 30, 2016
Management fees	\$ 2,192,560	\$ 1,861,713
Legal and accounting fees	1,420,460	1,248,410
Investor relations	622,320	434,753
Office expenses	158,390	317,977
Travel and insurance	665,346	364,109
Total	\$ 5,059,076	\$ 4,226,962

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Summary of quarterly results

Three months ended December 31, 2017 compared to three months ended December 31, 2016.

During the second quarter of fiscal 2018, the Company realized a comprehensive loss of \$1,127,852 (2016 - \$792,515), operating activities used \$1,560,084 (2016 - \$2,431,933), incurred \$4,061,169 (2016 - \$1,767,083) on exploration expenditures, as well as \$1,606,268 (2016 - \$1,222,280) on general and administrative expenses.

	Three months ended	
	Dec. 31, 2017	Dec. 31, 2016
Comprehensive loss	\$ 1,127,852	\$ 792,515
Comprehensive loss per basic and diluted share	0.01	0.02
Funds used in operations	1,560,084	2,431,933
E&E expenditures	4,061,169	1,767,083
G&A expenses	1,606,268	1,222,280

The higher comprehensive loss during the second quarter is due largely to higher G&A expenses and Company's share of the DL Joint Venture losses incurred during the period as compared to same period last year. The following table itemizes the individual G&A expense categories:

	Three months ended	
	Dec. 31, 2017	Dec. 31, 2016
Management fees	\$ 425,011	\$ 209,047
Legal and accounting fees	533,078	591,244
Investor relations	222,389	208,689
Office expenses	175,686	56,881
Travel and other	250,104	156,419
Total	\$ 1,606,268	\$ 1,222,280

Total current quarter G&A expenses were higher by \$383,988 comparable to last year. Management fees, office and travel expenses contributing to the higher costs.

Six months ended December 31, 2017 compared to six months ended December 31, 2016.

During the six month period ended December 31, 2017, the Company realized a comprehensive loss of \$3,797,712 (2016 - \$3,871,985), used \$2,759,914 (2016 - \$4,707,021) in operations, incurred \$5,036,561 (2016 - \$3,749,398) on exploration activities as well as \$2,867,152 (2016 - \$2,505,369) on general and administrative expenses.

\$	Six months ended	
	Dec. 31, 2017	Dec. 31, 2016
Comprehensive loss	3,797,712	3,871,985
Comprehensive loss per basic and diluted share	0.03	0.05
Funds used in operations	2,759,914	4,707,021
E&E expenditures	5,036,561	3,749,398
G&A expenses	2,867,152	2,505,369

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The following table itemizes the individual G&A expense categories:

\$	Six months ended	
	Dec. 31, 2017	Dec. 31, 2016
Management fees	\$ 750,414	\$ 773,363
Legal and accounting fees	924,403	1,001,401
Investor relations	474,303	283,630
Office expenses	205,766	181,701
Travel and other	512,666	265,274
Total	\$ 2,867,152	\$ 2,505,369

Higher G&A expenses incurred during the six month period were due to the Company's expanded investor relationship activities and higher travel costs.

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

\$	Three months ended Dec. 31, 2017	Three months ended Sep. 30, 2017	Three months ended Jun. 30, 2017	Three months ended Mar. 31, 2017
	Comprehensive loss	(1,127,852)	(2,669,860)	(14,506,776)
Comprehensive loss per basic and diluted share	(0.01)	(0.02)	(0.09)	(0.01)
Funds used in operations	1,560,084	1,199,830	3,041,115	348,633
E&E expenditures	4,061,169	975,392	1,254,700	2,430,040
G&A expenses	1,606,268	1,260,883	1,639,023	914,684
\$	Three months ended Dec. 31, 2016	Three months ended Sep. 30, 2016	Three months ended Jun. 30, 2016	Three months ended Mar. 31, 2016
	Comprehensive income/(loss)	(792,515)	(3,079,749)	(5,832,062)
Comprehensive loss per basic and diluted share	(0.02)	(0.03)	(0.05)	(0.02)
Funds used in operations	(2,431,934)	1,784,045	4,494,096	1,507,031
E&E expenditures	2,298,125	1,982,315	1,879,986	1,507,200
G&A expenses	1,222,280	1,283,089	1,726,262	1,068,083

LIQUIDITY AND CAPITAL MANAGEMENT

Working Capital

The Company is not in commercial production on any of its resource properties and accordingly, it does not generate cash from operations. The Company finances its activities by raising capital through equity issuances. As at December 31, 2017, the Company had a working capital surplus of \$23,501,553 (June 30, 2017 - \$33,887,374). The current working capital is dedicated towards the completion of feasibility studies on the lithium projects along with continued work at the pilot plant as well as the ongoing fundraising efforts. In order to meet the Company's planned growth and development activities, the Company budgets to spend an aggregate of approximately \$16.4 million during the next twelve months, with approximately \$3.0 million on pilot plant, approximately \$2.0 million on general capital expenditures, approximately \$4.5 million on the Zinnwald project and approximately \$6.9 million on general and administrative corporate expenditures.

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At December 31, 2017, the Company did not have any bank debt. The Company intends on meeting its financial commitments through further equity financings, as and when required.

Capital structure

The Company's objectives in managing capital are to safeguard its ability to operate as a going concern while pursuing exploration and development 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 \$56,808,763 at December 31, 2017 (2016 - \$60,077,541). 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.

Equity instruments

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

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

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

On January 22, 2016, the Company granted 1,000,000 common share options to a company controlled by Mark Hohnen, each such option being exercisable into one common share at a price of \$1.58 per share on or before January 22, 2018.

On April 27, 2016, the Company granted 2,000,000 common share options to Mark Hohnen, each such option being exercisable into one common share at a price of \$1.94 per share on or before May 27, 2019.

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

On May 20, 2016, the Company completed a private financing of 9,750,000 placing shares and 2,925,000 placing warrants at a price of approximately \$1.48 (£0.79) per placing share for aggregate gross proceeds of approximately \$14.7 million (£7,702,500). The Company paid commission of \$440,450 (£231,075) and other share issue expenses of \$64,893.

On September 30, and October 10, 2016, 2,925,000 warrants at a price of approximately \$1.35 (£0.79) were exercised into 2,925,000 new common shares, for total proceeds of approximately \$3.9 million (£2,310,750).

On February 1, 2017, 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 March 1, 2017, the Company issued an aggregate of 2,012,400 common share options at a price of \$1.39.

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On May 2, 2017, the Company issued 12,333,261 new common shares at a price of £0.83 (approximately \$1.46) per share for gross proceeds of £10,175,000 (approximately \$18.1 million).

On May 24, 2017, the Company issued 8,573,925 common shares at price of £0.86 (approximately \$1.49) per share for gross proceeds of approximately £7.4 million (approximately \$12.8 million).

On September 20, 2017, the Company issued 1,192,277 restricted share units and 2,227,410 options to acquire common shares in the capital of the Company at a price of £0.80 (approximately \$1.32).

On September 28, 2017, 833,333 of the Company's warrants and 50,000 of the common shares options were exercised at \$0.45 and \$0.25 each respectively for aggregate gross proceeds of \$387,500.

On December 19, 2017, 200,000 and 50,000 of the Company's common shares options were exercised at \$0.30 and \$1.39 each respectively for aggregate gross proceeds of \$129,500.

The following tables summarize the outstanding securities issued by the Company as at December 31, 2017, and as of the date of this MD&A.

	March 1, 2018	December 31, 2017
Common shares	134,039,872	133,039,872
Stock options	8,364,810	9,364,810
Restricted share units	1,192,277	1,192,277
Total equity instruments outstanding	143,596,959	143,596,959

The following table summarizes the outstanding options as at December 31, 2017.

Grant date	Number outstanding at December 31, 2017	Exercise price	Weighted average remaining contractual life (Years)	Expiry date	Number exercisable at December 31, 2017
September 11, 2013	300,000	0.30	1.2	Sept. 11, 2018	300,000
December 2, 2015	975,000	1.58	3.4	Dec. 2, 2020	975,000
January 22, 2016	1,000,000	1.56 ⁽¹⁾	0.6	Jan. 22, 2018	1,000,000
April 27, 2016	2,000,000	1.94 ⁽²⁾	2.0	May 27, 2019	2,000,000
March 1, 2017	350,000	1.39 ⁽³⁾	4.7	March 1, 2022	350,000
March 1, 2017	2,012,400	1.39 ⁽³⁾	2.7	March 1, 2020	664,092
May 15, 2017	500,000	1.53 ⁽⁴⁾	2.9	May 15, 2020	165,000
September 20, 2017	2,227,410	1.32 ⁽⁵⁾	3.0	Sept. 20, 2017	742,470
	9,364,810				6,196,562

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

(3) Exercise price of £0.85 per share
(4) Exercise price of £0.87 per share

(5) Exercise price of £0.80 per share

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Restricted Share Units

On September 20, 2017, the Company implemented a Restricted Share Unit ("RSU") Plan. The RSU Plan is administered by the Compensation Committee under the supervision of the Board of Directors as compensation to officers, directors, consultants, and employees. The Compensation 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 Stock Option Plan, exceed 10% of the issued and outstanding common shares as at the date of a grant under the RSU Plan or the Stock Option Plan, as the case may be.

The following tables summarize the activities and status of the Company's restricted share units plan as at and during the period ended December 31, 2017.

	Number of units	Vesting Date	Weighted average value
Balance, June 30, 2017	–	–	\$ –
Issued	1,192,277	September 20, 2020	1.32
Balance, December 31, 2017	1,192,277	–	\$ 1.32

SEGMENTED INFORMATION

The Company currently operates in two operating segments, the exploration and development of mineral properties in Mexico and the exploration and development of mineral properties in Germany. Before this year, the Company operated only in one segment in Mexico. Management of the Company makes decisions about allocating resources based on two operating segments. Summary of the identifiable assets, liabilities and net loss by operating segment are as follows:

June 30, 2017	Mexico	Germany	Head Office	Consolidated
Current assets	\$ 2,853,283	\$ -	\$ 36,601,729	\$ 39,455,012
Long-term derivative asset	-	-	2,689,639	2,689,639
Property and equipment	2,673,516	-	95,492	2,769,008
Investment in jointly controlled entity	-	10,946,471	-	10,946,471
Exploration and evaluation assets	17,828,645	-	-	17,828,645
Total assets	\$ 23,355,444	\$ 10,946,471	\$ 39,386,860	\$ 73,688,775

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Current liabilities	\$ 672,578	\$ -	\$ 4,895,060	\$ 5,567,638
Joint Venture obligation	-	-	1,927,626	1,927,626
Deferred tax liability	-	-	135,000	135,000
Total liabilities	\$ 672,578	-	\$ 6,957,686	\$ 7,630,264

For the period ended December 31, 2016	Mexico	Germany	Head Office	Consolidated
Interest income	\$ 5,832	\$ -	\$ 56,406	\$ 62,238
General and administration	(391,951)	-	(2,113,418)	(2,505,369)
Depreciation	(42,831)	-	-	(42,831)
Stock-based compensation	-	-	(1,381,382)	(1,381,382)
Loss before other items	\$ (428,950)	\$ -	\$ (3,438,394)	\$ (3,867,344)

December 31, 2017	Mexico	Germany	Head Office	Consolidated
Current assets	\$ 2,143,971	\$ -	\$ 26,534,198	\$ 28,678,169
Long-term derivative asset	-	-	3,160,644	3,160,644
Property and equipment	4,327,136	-	82,183	4,409,319
Investment in jointly controlled entity	-	10,686,822	-	10,686,822
Exploration and evaluation assets	22,112,755	-	-	22,112,755
Total assets	\$ 28,583,862	\$ 10,686,822	\$ 29,777,025	\$ 69,047,709
Current liabilities	\$ 856,569	\$ -	\$ 476,668	\$ 1,333,237
Joint Venture obligation	-	-	3,843,379	3,843,379
Deferred tax liability	-	-	135,000	135,000
Total liabilities	\$ 856,569	-	\$ 4,455,047	\$ 5,311,616

For the period ended December 31, 2017	Mexico	Germany	Head Office	Consolidated
Interest income	\$ 15,584	\$ -	\$ 80,918	\$ 96,502
General and administrative	(266,837)	-	(2,600,315)	(2,867,152)
Accretion of Joint Venture obligation	-	(404,694)	-	(404,694)
Depreciation	(107,365)	-	-	(107,365)
Stock-based compensation	-	-	(958,294)	(958,294)
Loss before other items	\$ (358,618)	\$ (404,694)	\$ (3,477,691)	\$ (4,241,003)

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.

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a) Credit risk

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

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

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

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

b) Liquidity risk

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

c) Market risk

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

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

d) Fair values

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

RELATED PARTY TRANSACTIONS

a) Related party expenses

The Company's related parties include directors and officers and companies which have directors in common.

During the three and six months ended December 31, 2017, directors and management fees in the amount of \$354,499 and \$784,796 respectively (2016 - \$372,180 and \$719,802) were paid to directors

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and officers of the Company which was expensed as general and administrative costs. Of the total amount incurred as directors' and management fees, \$67,826 (2016 – \$72,636) remains in accounts payables and accrued liabilities on December 31, 2017.

During the three and six months ended December 31, 2017, the Company paid \$15,641 and \$94,163 (2016 - \$270,823 and \$528,477) 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, 2017, \$31,277 (2016 - \$nil) 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 December 31		Six months ended December 31	
	2017	2016	2017	2016
Director's remuneration:				
Estate of Colin Orr-Ewing	\$ –	\$ –	\$ –	10,056
James Leahy	–	12,400	–	25,263
Shane Shircliff	–	2,916	–	6,462
Derek Batorowski	–	–	–	–
Kiran Morzaria	–	4,375	–	8,749
Raymond Hodgkinson	13,695	1,250	27,132	1,250
Jamie Strauss	24,666	2,916	49,332	2,916
Andres Antonius	15,641	–	31,282	–
Junichi Tomono	–	–	–	–
Total directors' remuneration	\$ 54,002	\$ 23,857	\$ 107,746	\$ 54,696
Management's remuneration:				
Mark Hohnen	\$ 102,138	\$ 84,606	\$ 200,672	\$ 172,458
Peter Secker	102,380	104,536	225,548	211,653
Martin Vidal	15,960	75,164	94,163	133,853
Derek Batorowski	80,018	84,017	156,667	147,142
Total management's remuneration	\$ 300,497	\$ 348,323	\$ 677,050	\$ 665,106
Total directors' and management's remuneration	\$ 354,499	\$ 372,180	\$ 784,796	\$ 719,802
Operational consulting fees:				
Grupo Ornelas Vidal	\$ 15,641	\$ 270,823	\$ 94,163	\$ 528,477
Stock-based compensation expense to directors and management	\$ 232,758	\$ 638,837	\$ 804,800	\$ 1,244,113

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As at December 31, 2017, the following options were held by directors of the Company:

	Date of grant	Exercise price	Number of options
Martin Vidal	December 2, 2015	\$1.58	175,000
	March 1, 2017	\$1.39	125,000
Derek Batorowski	September 11, 2013	\$0.30	200,000
	December 2, 2015	\$1.58	175,000
	March 1, 2017	\$1.39	125,000
	December 2, 2015	\$1.58	1,000,000
Mark Hohnen	January 22, 2016	\$1.94	2,000,000
	March 31, 2017	\$1.39	249,900
	September 19, 2017	\$1.32	224,910
Jamie Strauss	March 1, 2017	\$1.39	750,000
	September 19, 2017	\$1.32	750,000
Raymond Hodgkinson	March 1, 2017	\$1.39	200,000
	September 19, 2017	\$1.33	100,000
Andres Antonius	May 15, 2017	\$1.53	500,000
	September 19, 2017	\$1.32	750,000

As at December 31, 2017, the following RSU's were held by directors and officers of the Company:

	Date of grant	Weighted average value	Vesting Date	Number of RSU's
Mark Hohnen	September 20, 2017	\$1.32	September 20, 2020	557,843
Peter Secker	September 20, 2017	\$1.32	September 20, 2020	634,434

c) Change of Control

During the quarter ended December 31, 2017, the Company amended the employment and consultancy arrangements respectively between the Company and each of Peter Secker, Chief Executive Officer, and Fernan Pty Ltd, which provides the services of Mark Hohnen, Executive Chairman. Peter Secker's service contract has been amended as follows: (i) the removal of performance bonus provisions of up to £250,000; (ii) the removal of a £250,000 change of control payment; (iii) an increase of £50,000 in annual salary; (iv) the inclusion of new pensions arrangements; and (v) the inclusion of a cash payment representing an acceleration of unvested options in the event of a change of control of the Company at an acquisition price of at least 130 pence per Bacanora share. Such cash payment will be calculated on the basis of the difference between the acquisition price per Bacanora share and 102 pence (being the middle market price of a Bacanora share at close of business in London on 17 November 2017), multiplied by 2,550,000 in the event that such change of control is completed prior to the award of performance based options in relation to the financial year ended 30 June 2018 and a further 2,550,000 in the event that such change of control is completed prior to the award of performance based options in relation to the financial year ended 30 June 2019. In the event the Board has resolved upon Mr Secker's award in the relevant financial year (which may be zero) then the right to the relevant payment terminates for that period.

The consultancy agreement with Fernan Pty Ltd. has been amended to provide Mark Hohnen also with a cash payment representing an acceleration of unvested options in the event of a change of control of

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the Company on the same terms as Peter Secker, save that the multiplier for each relevant financial year is 2,124,150.

COMMITMENTS AND CONTINGENCIES

The Company has commitments for lease payments for field office and camp with no specific expiry dates. The total annual financial commitment resulting from these agreements is \$9,156. In addition, 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 \$744,060. The properties are also subject to semi-annual payments to the Mexican government for concession taxes, which will be approximately \$167,586 in fiscal 2018.

The Company, as part of land purchase agreements, has committed to making payments of \$1,500,000 USD in December of 2020.

RISKS AND UNCERTAINTIES

The mineral exploration industry is subject to numerous risks and uncertainties that can affect the Company's ability to explore and develop its mineral deposits and to ultimately generate cash flows from operations. These risks and uncertainties include, but are not limited to the following:

- **Resource estimates**

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

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

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

- a reduction in the market price of lithium and or borates;
- delays in obtaining or an inability to obtain, or conditions imposed by, regulatory approvals;
- non-performance by third party contractors;
- inability to attract sufficient numbers of qualified workers;
- change in environmental compliance requirements;

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- unfavourable weather conditions;
- contractor or operator errors;
- lack of availability of infrastructure capacity;
- increases in extraction costs including plant, material, energy and labour costs;
- lack of availability of mining equipment and other exploration services;
- catastrophic events such as fires, storms or explosions;
- the breakdown or failure of equipment or processes;
- construction, procurement and/or performance of the processing plant and ancillary operations falling below expected levels of output or efficiency;
- violation of permit requirements;
- the lack of progress with respect to the development of appropriate extraction technologies;
- the political stability of Mexico; and
- taxes and imposed royalties.

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

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

- **Financing risk**

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

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

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- **Dependence on key personnel**

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

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

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

- **Government Legislation and regulatory risk**

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

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

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

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

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

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

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

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

- **Applications**

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

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

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

- **Share Capital of Mexican Subsidiaries**

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

- **Exploration uncertainty**

The Company is in the process of exploring its Sonora Lithium and Zinnwald projects 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.

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

- **Negative conclusions from further economic assessments**

The Company's cash resources will be used, inter alia, for general working capital purposes and in particular, to fund the continuation of the work programme to develop its Sonora Lithium Project, and to establish the economic potential of its Zinnwald project. Until such time as any further economic assessments are concluded, uncertainty will exist as to the economic viability of the Company's lithium projects. In the event that any further economic assessments have negative conclusions, shareholders may lose some or all of their investment.

- **Internal controls**

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

- **Environmental compliance**

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

- **Environmental approvals**

Environmental approvals and permits are currently, and may also in future be, required in connection with the Company's operations. Failure to comply with applicable environmental laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities against the Company, causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations,

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including the Company, may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil, administrative or criminal fines or penalties imposed for violations of applicable environmental laws or regulations.

- **Further licences and permits required**

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

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

- **Unknown environmental hazard**

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

- **Exploration, development and operating risks**

It is impossible to ensure that the development programmes planned by the Company will result in a profitable commercial operation. Whether the Company's lithium projects will be commercially viable depends on a number of factors, some of which are: (i) the particular attributes of the material excavated from the Company's concessions; (ii) the performance of the full-scale commercial production operations; (iii) the end prices that can be achieved by the Company for products offered to customers, which may be volatile; and (iv) government regulations, including regulations relating to prices, taxes, royalties, land use, importing and exporting of minerals and environmental protection. While the directors of the Company believe that the results of the small scale mineral extraction processes that have been achieved at the Pilot Plant are encouraging, the performance, yields, operating costs and capital costs of the full scale mineral production plant may differ materially from expectations, and the economic returns from processing the extracted ore into commercially saleable lithium may be lower than anticipated. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

- **Reliance on third parties**

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

- **Operations**

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

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

- **Commodity prices**

The profitability of the Company's operations will be dependent upon the market price of the products able to be sold by the Company. Mineral prices fluctuate widely and are affected by numerous factors beyond the control of the Company. General economic factors as well as the world supply of mineral commodities, the stability of exchange rates and political developments can all cause significant fluctuations in prices. The price of mineral commodities has fluctuated widely in recent years and future price declines could cause commercial production to be impracticable, thereby having a material adverse effect on the Company's business, financial condition and results of operations. The Company has entered into an Off-take Agreement for up to 100% of Li_2CO_3 produced at the Sonora Lithium Project, with final pricing to be at market price, to be finalized prior to commencement of production. The Company is therefore exposed to the risk of market fluctuations between the present and the commencement of production.

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

- **Single Purchaser Risk**

The Company has entered into an Off-take Agreement with Hanwa, pursuant to which Hanwa has agreed to purchase 70-100% of lithium carbonate produced by the Company during Stage 1 production at the Sonora Lithium Project. Accordingly, the Company is subject to certain risks associated with having all of its production from the Sonora Lithium Project being purchased by a single purchaser. Such risks include, but are not limited to: potential decreased negotiation power; risks associated with the liquidity and solvency of Hanwa; any delays from Hanwa in terms of deliverables under the agreement could have potentially material adverse effects on the Company.

- **Credit risk**

Credit risk arises from the potential that a counter party will fail to perform its obligations. Financial instruments that potentially subject the Company to concentrations of credit risk consist of other receivables which relate solely to input tax receivables in Canada and value added tax 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 accounts and related party receivables represents the maximum credit exposure.

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

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- **Liquidity risk**

Liquidity risk is the risk that the Group 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 its current portion of any joint venture obligation and commitments, all with maturities of one year or less.

- **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.

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

- **Infrastructure**

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

- **Canadian corporate income taxes**

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

- **Tax considerations**

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

- **Uninsured hazards**

The Company may be subject to substantial liability claims due to the inherently hazardous nature of its business or for acts and omissions of contractors, sub-contractors or operators. Any

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indemnities the Company may receive from such parties may be limited or may be difficult to enforce if such contractors, sub-contractors or operators lack adequate resources.

The Company can give no assurance that the proceeds of insurance applicable to covered risks will be adequate to cover expenses relating to losses or liabilities. Accordingly, the Company may suffer material losses from uninsurable or uninsured risks or insufficient insurance coverage. The

Company is also subject to the risk of unavailability, increased premiums or deductibles, reduced cover and additional or expanded exclusions in connection with its insurance policies and those of operators of assets it does not itself operate.

- **Exposure to economic cycle**

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

- **Health and safety**

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

- **Geopolitical climate**

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

- **Foreign currency exchange rates**

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

- **Supply Agreement**

On November 23, 2016, the Company announced that the financing condition in the conditional lithium hydroxide supply agreement previously announced on August 28th, 2015 has not been met under the terms of the agreement. The Company advised that it had extensive discussions with the customer as to the feasibility of securing project specific financing pursuant to the terms and conditions of the agreement, that those discussions have now concluded, and therefore we are discontinuing further efforts to secure project specific financing pursuant to the agreement.

- **SolarWorld Insolvency**

SolarWorld recently announced its intention to file for bankruptcy protection in Germany due to ongoing pricing pressures in its core solar markets. The Company believes that the SolarWorld

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insolvency process will have no material impact on the Company's interest in Deutsche Lithium and the Zinnwald project, nor its agreement with SolarWorld.

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

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

ADVISORY REGARDING FORWARD LOOKING STATEMENTS

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