

Bacanora Lithium (“Bacanora” or the “Company”)

Shareholder Q&A 2020 AGM

As shareholders are not able to attend this year's Annual General Meeting (“AGM”), due to the ongoing corona virus pandemic, the Company proposed to allow shareholders the opportunity to raise any issues or concerns arising from the business proposed, to be conducted at the AGM. The following selection of questions were received, and answers have been provided below.

The first question refers to the battery and lithium market.

Q.1 After the Covid-19 pandemic, what is the outlook for lithium demand in the near future?

A.1 Demand for internal combustion vehicles has been significantly impacted by the spread of Covid-19 and a general economic slowdown. In spite of this, Electric Vehicle (“EV”) demand in Europe increased over 50% during the first quarter of 2020. Furthermore, the automotive companies and a number of governments including France, Germany and China, have recently outlined plans to spend more than US\$140** billion on EV production. This is an industry shift that will require producers of specialist materials and metals for lithium batteries to dramatically lift output and as a result, lithium demand is anticipated to grow 800% by 2030.*

(* www.euractiv.com/section/electric-cars/news/electric-car-sales-in-europe-jumped-57-in-q1-2020/)

** www.bloomberq.com/amp/news/articles/2020-05-11/to-avoid-battery-metal-pinch-carmakers-urged-to-invest-in-mines)

The next group of questions relate to the Company’s flagship asset, the Sonora Lithium Project (“Sonora” or the “Project”) located in Mexico.

Project development timetable

Q2: When will the Company produce lithium from Sonora?

A2: Bacanora aims to commence lithium deliveries to its offtake partners, Ganfeng Lithium (“Ganfeng”) and Hanwa Corporation (“Hanwa”), in 2023. Importantly this timeline coincides with the expected significant growth in EV demand. This strategy and goal remain unchanged and Ganfeng remains fully committed to the advancement of Sonora's development and continues to progress its investment schedule at the Sonora project level. Furthermore, Bacanora has a strong cash position of US\$45 million and has significant support from its cornerstone shareholders Ganfeng, M&G and Hanwa.

Sonora pilot plant

Q3: When will Sonora’s Hermosillo pilot plant (“pilot plant”) restart?

A3: Bacanora’s pilot plant was placed on care and maintenance as a result of Covid-19 in late March 2020 after shipping samples to its engineering partners in the USA and China in order to maintain the Front End Engineering Design (“FEED”) schedule. The pilot plant restarted operations in the second week of June 2020. As a result, the pilot plant is now producing engineering lithium samples for Ganfeng and the other engineering groups engaged in the final FEED phase.

Q4: What is the current schedule for the FEED work?

A4: *To avoid the capex overruns that have plagued many other lithium projects, the Company continues to pursue a strategy of securing fixed-price style contracts to build the plant at Sonora. Following Ganfeng's investment at the project level in 2019, Ganfeng is providing the engineering and commissioning services for the hydrometallurgical part of the processing plant that produces the final battery-grade product. As a result of this change, and subsequent delays due to Chinese New Year and the on-going Covid-19 pandemic, the timeframe has been extended to allow for Ganfeng's expertise to be fully utilised. As previously announced, the schedule remains under regular review but completion of Ganfeng's review and testwork is now scheduled for end of Q4 2020.*

Lithium Hydroxide production

Q5: Bacanora has mentioned that lithium hydroxide samples have been produced at Sonora. Given that a lot of EV manufacturers are now looking for lithium hydroxide, do you think that it is likely lithium hydroxide will be produced at Sonora to scale?

A5: *At present, lithium carbonate cathodes are still the dominant technology in EV batteries. Sonora will be a fully integrated downstream lithium facility that would have the capacity to produce a number of battery-grade lithium products, including carbonate and hydroxide. As lithium battery technologies continue to develop, and demand for both NMC and LFP cathodes grows in Europe and Asia, Bacanora will ensure that Sonora will have the ability to produce a number of downstream lithium products that will ensure flexibility to match future EV demand.*

Financing

Q6: In the event that Bacanora does decide to issue new shares, will all investors be given an opportunity to buy them?

A6: *Yes, as previously announced, when the Company finalises its financing strategy for the Sonora project, as part of its equity fund raising, the Company intends to ensure that retail shareholders are able to participate on the same terms as all other investors via an Open Offer placement up to a total of €8 million.*

Q7: Considering Sonora is pretty much shovel ready, the last hurdle seems to be the remainder of the financing. I cannot foresee this being an issue, but do you plan to raise the whole remainder through equity?

A7: *As you would expect, Bacanora is working closely with its advisors Citibank and Canaccord, as well as its joint venture and off-take partners Ganfeng and Hanwa, on the final financing strategy for Sonora. The Company will update the market as and when it is appropriate to do so. Bacanora has a strong cash position of US\$45 million and has significant support from its cornerstone shareholders Ganfeng, M&G and Hanwa alongside a US\$150 million debt financing facility with RK Mine Finance.*

Q8: When the Sonora project is in production, do you see enough profitability to return some cash to shareholders?

A8: *Yes, once Sonora is in production with positive EBITDA and cashflow generation, then the Board will ensure a strategy of returning excess profits to all shareholders.*

Q9: Why is there a Resolution for the issue of 500 million new shares?

A9: This is a resolution that has received significant shareholder support at the last two AGMs. It allows the Company to finalise a financing strategy for Sonora. It certainly does not mean that the Company will issue 500 million shares, but it provides the Board with the option to issue shares in the most cost and time effective manner in order to facilitate a broader financing package.

Q10: How much debt can the Sonora project support?

A10: Bacanora has an existing US\$150 million debt facility from RK Mine Finance. This debt package is based on debt/equity ratios and debt repayment ratios. Most of the lithium market tends to trade on long-term contracts and the lack of a material spot market means that there is limited hedging capacity. As a result, there are few commercial banks which will lend to the battery commodities sector. Bacanora is fortunate to have secured a significant debt financing package from RK Mine Finance.

The last question relates to the Company's Zinnwald Lithium Project ("Zinnwald"), located in Germany.

Q.11 Can you provide an update on Zinnwald?

A.11 Zinnwald is a strategic asset for Bacanora, which is located in close proximity to a thriving market for lithium and energy products in Germany. Since Bacanora completed the Zinnwald Feasibility Study in June 2019, and following the restructuring of its 50% ownership of Deutsche Lithium, the Company has carried out further detailed engineering work. In addition, Bacanora is working with potential investors to accelerate the development of Zinnwald.

ENDS