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Bacanora Finco Limited

Annual Report and Financial Statements

30 June 2019

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Company Directory

Board of Directors	Peter Secker Janet Blas
Company Secretary	Cherif Rifaat
Registered Office	4 More London Riverside London SE1 2AU
Registered Number	11404337

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Contents

BACANORA lithium

Strategic Report

1 Strategy

The Company is a 100% owned subsidiary of Bacanora Lithium Plc. The Company's strategy is to provide financing assistance to Bacanora Lithium Plc and its subsidiaries (the "Group") to become an international lithium production Group with a portfolio of global projects.

2 Key Challenges

The Company's key challenge is the maintenance of debt funding provided to the Bacanora Group.

3 Principle risks and uncertainties

The Company and its Parent Company, Bacanora Lithium Plc, are responsible for putting in place a system to manage risk and implement internal control. From the perspective of the Company, the principle risks and uncertainties are integrated with the principle risks of Bacanora Lithium Plc, its Parent Company and are not managed separately.

Implementation of internal controls is a responsibility of the Company and its Parent Company. The Board has considered mechanisms by which the business and the financial risks facing the Group are managed and reported to the Board. The principal business and financial risks have been identified and control procedures implemented. The Board acknowledges it has responsibility for reviewing the effectiveness of the systems that are in place to manage risk.

The Group has an established framework of internal financial controls, the effectiveness of which is regularly reviewed by the senior management team of the Group, these reviews encompass the control environment of the Company.

Internal controls are designed to manage rather than eliminate risk as even the most effective system cannot provide assurance that each and every risk, present and future, has been addressed.

a Principle Risks

i Financing

Additional funding will be required in order to complete the proposed future exploration and development plans on the Group's projects. There is no assurance that any such funds will be available. Failure to obtain additional financing, on a timely basis, could cause the Group to reduce or delay its proposed operations. While the Group 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. A delay in raising additional financing, may delay the Group's projects, which may impact the Group's ability to repay intercompany loans and in turn the Company's external debt facility. The raising of debt has introduced financial covenants to the business that must be maintained to avoid defaulting on the loan.

Mitigation:

In the financial year, Bacanora Finco Limited has secured US$150 million of debt funding from RK Mine Finance.

ii Market forces of supply / demand and pricing fluctuations

Numerous factors beyond the Company's control do and will continue to affect the Company's key assets and liabilities, in particular the 3-month USD LIBOR rate.

A material increase in the rate could result in a reduction of the Company's ability to meet its cashflow requirements on the Company's external debt facility. This will also impact on profitability and borrowing capacity and may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Mitigation

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For budgeting and longer-term forecasting, conservative rates have been assumed.

4 Key Performance Indicators

No key performance indicators have been identified for the Company.

5 Operational Review

In July 2018, a US$150 million senior debt facility was secured by the Company with RK Mine Finance for the development of the Group's Sonora Lithium Project in Mexico. The debt facility entered into with RK Mine Finance is structured as two separate Eurobonds listed in Jersey:

- Main bond: US$150 million nominal amount secured notes issued at a purchase price of US$138 million with a 6-year term and bearing an interest rate of three months LIBOR + 8% per annum based on a nominal amount of US$150 million but payable only on drawn down principal. Interest will be capitalised every three months for the first 24 months and thereafter interest will be paid every three months in cash. The main bond is repaid with 12 quarterly payments payable 39 months after the last day of the month of first issuance date (3 July 2018). The quarterly payments comprise 11 payments of 3% of the principal amount followed by a last payment for the remaining balance. However, the loan can be voluntarily redeemed at any stage; and
- Second bond: US$56 million nominal amount zero interest-bearing secured notes issued at a purchase price of US$12 million with a 20-year term. The nominal amount is repayable by reference to monthly production of lithium at a rate of US$160 per tonne of lithium produced, with any remaining amount repayable at the end of the 20-year term.

The facility may be drawn in three tranches of US$25 million, US$50 million and US$75 million, subject to certain conditions precedents, including, but not limited to: various matters in respect of the execution, registration and perfection of certain security, granting of listing consent by The International Stock Exchange, a minimum equity raise of US$200 million by the Group and energy, engineering contracts executed by the Group and relevant permits obtained. All drawdowns under the RK debt facility will be pro-rata across the two Eurobond instruments. In July 2018, the Company drew down the first US$25 million of the RK debt facility. The debt facility contains a number of covenants discussed further in Note 5 of the Financial Statements. All finance costs and associated expenses are recharged to the parent company, Bacanora Lithium Plc and therefore the financial result for the year was $Nil.

On behalf of the Board of Directors

Peter Secker

18 October 2019

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Directors Report

The Directors present their Annual Report and Financial Statements of the Company for the period ended 30 June 2019.

1 Results and dividends

The results for the period are set out in the Financial Statements. No ordinary dividends were paid. The Directors do not recommend payment of a dividend.

2 Directors

The Directors who served during the period were:

- Peter Secker
- Janet Blas

No Directors have interests in the Company.

3 Substantial shareholdings

The Company is a 100% subsidiary of Bacanora Lithium Plc.

4 Directors' and Officers' insurance

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

5 Supplier payment policy

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

6 Branches

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

7 Political donations

The Company has not made any political donations during the financial year.

8 Financial risks

See the principle risks and uncertainties section of the Strategic Report for the Financial risks present to the Company.

9 Post balance sheet events

There are no subsequent events to disclose.

10 Future developments

The Company will continue to provide a financing role for the Bacanora Group.

11 Auditor

BDO LLP were appointed as auditor to the Company and in accordance with section 485 of the Companies Act 2006, a resolution proposing that they be re-appointed will be put at a General Meeting.

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12 Statement of disclosure to auditor

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

On behalf of the Board of Directors

Peter Secker

18 October 2019

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Directors Statement of Responsibilities

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

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

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

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

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

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Independent Auditor's Report to the members of Bacanora Finco Limited

Opinion

We have audited the Financial Statements of Bacanora Finco Limited for the 13 month period ended 30 June 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Financial Statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2019 and of the Company's result for the period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is not appropriate; or
- the Directors have not disclosed in the Financial Statements any identified material uncertainties that may cast significant doubt about Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Financial Statements are authorised for issue.

Key audit matters

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

Key Audit Matter	**Accounting for the Eurobonds** In July 2018 the Company secured a US$150 million borrowing facility with RK Mine Finance and drew down on the first tranche of US$25 million during the year. The facility is structured as two separate Eurobonds which are listed on the International Stock Exchange. The details of these liabilities are provided in note 6. Due to the complexity of the debt structure this has been identified as a key audit area for our audit.
Audit Response	Our audit work included: • We have assessed management's accounting for the loans and our testing included the following work: o We have checked the accuracy of the amortised cost of the bonds, confirming the inputs to underlying agreements. o We have assessed the reasonableness of the effective interest rate and finance charges and also considered the reasonableness of the allocation of the proceeds and transaction costs between the two bonds. • We evaluated the adequacy of the disclosures provided within the Financial Statements in relation to presentation and classification of the debt.
Key observations	Based on the work performed we consider that management's calculation of the loan carrying value and finance charges are reasonable and adequately disclosed.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the Financial Statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial, as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the Financial Statements as a whole.

Because the Company is a financing entity with US$nil result in the profit or loss statement, we consider assets to be one of the principal considerations for the users of the Financial Statements. Materiality was calculated at US$325,000 based on 1.5% of total assets.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the Financial Statements as a whole. Performance materiality was set at US$227,500, which represents 70% of the above materiality level. The level of performance materiality was set after considering a number of factors including the expected value of known and likely misstatements and management's attitude towards proposed adjustments.

We agreed with the Directors that differences above US$5,000 will be reported to those charged with governance. We also agreed to report differences below the above threshold which warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our audit of the Company was scoped by obtaining an understanding of the Company and its environment, including the Company's system of internal control, applicable legal and regulatory framework and the industry in which it operates, and assessing the risks of material misstatement of the Company. This included consideration of the risk that the Company was acting contrary to applicable laws and regulations, including fraud.

The Company operates solely in the UK. The audit team performed all the work necessary to issue the audit opinion including undertaking all of the audit work on the key audit matters and other risk areas.

BACANORA lithium

Other information

The Directors are responsible for the other information and Financial Statements. The other information comprises the information included in the Annual Report and Financial Statements other than the Financial Statements and our auditor's report thereon. Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial period for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company Financial Statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

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

Use of our report

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

BDO LLP

Stuart Barnsdall (Senior Statutory Auditor)
For and on behalf of BDO LLP Statutory Auditor
London, UK

18 October 2019

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

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Statement of Financial Position

As at 30 June 2019

In US$	Note	30 June 2019
Assets		
Current assets		
Cash and cash equivalents		12,941
Other receivables and prepayments		2,774
Total current assets		**15,715**
Non-current assets		
Intercompany receivables	10	21,654,216
Total non-current assets		**21,654,216**
Total assets		**21,669,931**
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities		47,763
Total current liabilities		**47,763**
Non-current liabilities		
Borrowings	5	21,622,167
Total non-current liabilities		**21,622,167**
Total liabilities		**21,669,930**
Shareholders' equity		
Share capital	8	1
Retained earnings		-
Total shareholders' equity		**1**
Total liabilities and shareholders' equity		**21,669,931**

The Company's total comprehensive income for the period ended 30 June 2019 was US$nil.

The accompanying notes on pages 14 - 21 are an integral part of these Financial Statements.

The Financial Statements of Bacanora Finco Limited, registered number 11404337, were approved and authorised for issue by the Board of Directors on 18 October 2019 and were signed on its behalf by:

Peter Secker

18 October 2019

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Statement of Comprehensive Income

For the period ended 30 June 2019

In US$	Note	30 June 2019
Finance and other income	9	**4,423,027**
Finance costs	9	**(4,423,027)**
Total comprehensive income		**-**

The accompanying notes on pages 14 - 21 are an integral part of these Financial Statements.

BACANORA lithium

Statement of Changes in Equity
For the period ended 30 June 2019

In US$	Share capital		Retained earnings	Total equity
	Number of shares	Value		
07 June 2018	-	-	-	-
Comprehensive income for the period:				
Income for the period	-	-	-	-
Contributions by and distributions to owners:				
Shares issued	1	1	-	1
30 June 2019	**1**	**1**	**-**	**1**

The accompanying notes on pages 14 - 21 are an integral part of these Financial Statements.

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Statement of Cashflows

For the period ended 30 June 2019

In US$	Notes	30 June 2019
Cash flows from operating activities		
Income for the year before tax		-
Finance and other income		(4,423,027)
Finance costs		4,423,027
Changes in working capital items:		
Other receivables		(2,774)
Accounts payable and accrued liabilities		47,763
Net cash flows from operating activities		**44,989**
Cash flows used in investing activities:		
Intercompany financing	13	(20,907,048)
Net cash flows used in investing activities		**(20,907,048)**
Cash flows from financing activities		
Proceeds from borrowing, net of transaction costs	13	20,875,000
Net cash flows used in operating activities		**20,875,000**
Change in cash during the year		12,941
Cash, beginning of year		-
Cash, end of year		12,941

The accompanying notes on pages 14 - 21 are an integral part of these Financial Statements.

BACANORA lithium

Notes to the Financial Statements

1 Corporate information

These Financial Statements represent the individual financial statements of Bacanora Finco Limited (the "Company"), a subsidiary of Bacanora Lithium Plc.

The Company was incorporated under the Companies Act 2006 of England and Wales on 7 June 2018. The registered address of the Company is 4 More London Riverside, London, SE1 2AU.

The Company's purpose is to provide financing facilities to Bacanora Lithium Plc and its subsidiaries (the "Group"). The Company's bonds are listed on the International Stock Exchange in Jersey.

2 Basis of preparation

a Statement of compliance

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

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

They have been prepared for the long period of 13 months from incorporation on 7 June 2018 to the 30 June 2019. The Company has extended this financial period beyond 52 weeks to align its reporting period with the Bacanora Group.

The Company Financial Statements were authorised for issue by the Board of Directors on 18 October 2019. The Board of Directors has the power and authority to amend these Financial Statements after they have been issued.

These Company Financial Statements are intended to be read alongside the Consolidated Financial Statements for the Group. All references to Consolidated Financial Statements relate to the Group Consolidated Financial Statements for the Bacanora Group for the year ended 30 June 2019, which can be found at www.bacanoralithium.com.

b Basis of measurement

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

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

c Going concern

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

3 Accounting polices

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

a Standards, amendments and interpretations effective in future periods

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

Standard	Detail	Effective date
IFRS 16	Leases	1 January 2019
IFRS 11	Amendment - annual improvements 2015-2017 cycle-	1 January 2019
IAS 19	Amendment - regarding plan amendments, curtailments or settlements	1 January 2019
IAS 23	Amendment - annual improvements 2015-2017 cycle-	1 January 2019
IAS 28	Amendment - regarding long-term interests in associates and joint ventures	1 January 2019
IAS 1	Amendment - regarding the definition of material	1 January 2020

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

b Foreign currency transactions and balances

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

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

c Cash and cash equivalents

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

d Other receivables

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

e Provisions

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

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

f Interest income

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

g Financial instruments

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

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

i Financial assets

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

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

The Company's financial assets include cash and cash equivalents, other receivables and intercompany receivables.

(a) Cash and cash equivalents, other receivables and intercompany receivables

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

ii Financial liabilities

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

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

The Company's financial liabilities initially measured at fair value and subsequently recognised at amortised cost include accounts payables and accrued liabilities, and the Company's primary and secondary Eurobonds.

(a) Borrowings

The Company's primary and secondary Eurobonds have been initially recognised at fair value less directly attributable transaction costs, using the present value of future cashflows. The fair value has been allocated to the Eurobonds based on the ratio of the purchase price of the Eurobonds after taking into consideration the fair value of the warrants issued by the Parent Company as part of the debt package. Subsequently the Eurobonds are measured at amortised cost using the effective interest rate method.

h Impairment of assets

i) Financial assets

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

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

4 Critical accounting estimates and judgements

The preparation of the Company's Financial Statements in accordance with IFRS requires management to make certain judgements, estimates, and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results are likely to differ from these estimates. There were no critical estimates and judgements to disclose in the current period.

5 Borrowings

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

The Facility is structured as two separate Eurobonds, listed in Jersey:

Primary bond: US$150 million nominal amount secured notes issued at a purchase price of US$138 million with a 6-year term and bearing an interest rate of three months USD LIBOR + 8% per annum based on a nominal amount of US$150 million but payable only on drawn down principal. Interest will be capitalised every three months for the first 24 months and thereafter interest will be paid every three months in cash;

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

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

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

The Facility has a debt covenant for the Group to maintain a minimum working capital balance of US$10 million measured monthly until 31 March 2020, after which it increases to US$15 million. Working capital for the purpose of the debt covenant is defined as current assets minus current liabilities, excluding assets and liabilities relating to the German assets and overdue VAT receivables. In addition, there are certain non-financial covenants, including but not limited to the completion of certain operational permits and entering into a direct agreement in relation to the offtake agreement, which were due on 30 June 2019. The due dates for these covenants were predicated on construction commencing in July 2018, when it was anticipated that the full financing for the Sonora Project development to have been completed. The Company received extension of these due dates to 30 September 2019, and subsequently converted these covenants to conditions precedent to the second drawdown of the debt facility.

The effective interest rate of the primary and secondary Eurobonds is 22.4% and 23.4% respectively.

The carrying value of the Company's borrowings at 30 June 2019 is as follows:

In US$	Interest rate	Maturity	30 June 2019
Primary Eurobond	LIBOR + 8%	2024	**19,418,800**
Secondary Eurobond	Zero interest bearing	2038	**2,203,367**
Total non-current borrowings			**21,622,167**

The movement in the Company's borrowings in the period ended 30 June 2019 is as follows:

In US$	Primary Eurobond	Secondary Eurobond	Total
Opening balance	-	-	-
Initial recognition	20,304,746	1,765,630	22,070,376
Transaction fees	(4,871,235)	-	(4,871,235)
Primary Eurobond finance cost	2,768,480	-	2,768,480
Eurobond unwinding	1,216,809	437,737	1,654,546
Total non-current borrowings	19,418,800	2,203,367	21,622,167

6 Financial instruments

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

As at 30 June 2019 (In US$)	At amortised cost
Financial assets	
Cash and cash equivalents	**12,941**
Other receivables	**2,774**
Intercompany receivables	**21,654,216**
Total financial assets:	**21,669,931**
Financial liabilities	
Accounts payable and accrued liabilities	**47,763**
Borrowings	**21,622,167**
Total financial liabilities:	**21,669,930**
Net financial assets/(liabilities):	**1**

7 Financial risk management

The Company is exposed to risks that arise from its use of financial instruments. The principle financial instruments used by the Company, from which financial risk arises, are set out in note 6. The types of risk exposure the Company is subjected to in the financial period are as follows:

a Credit risk

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

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

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

An IFRS 9 expected credit losses impairment assessment on the intercompany receivable was performed by management at 30 June 2019. This involved analysing the expected credit loss on the intercompany receivable to the Company as well as an assessment of the forward projections of cashflows and cash availability by the counterparty of the loan, Bacanora Lithium Plc. This resulted in no credit loss expected at 30 June 2019 taking into consideration the availability of cash to repay the loan from the counterparty and expected future profit from the counterparty's ongoing projects.

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

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

b Liquidity risk

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

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

As at 30 June 2019 (In US$)	Within 30 days	30 days to 6 months	6 to 12 months	Over 12 months
Accounts payable and accrued liabilities	47,763	-	-	-
Borrowings	-	-	-	51,918,845

c Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates that 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 Company incurs legal and professional fees in USD and GBP. As a result, a portion of the Company's expenditures, other receivables, accounts payables and accrued liabilities are denominated in USD and GBP and are therefore subject to fluctuation in exchange rates.

As at 30 June 2019, a 5% change in the exchange rate between the United States Dollar and Great British Pound, which is a reasonable estimation of volatility in the exchange rate, would have no impact to the Company's total comprehensive income.

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d Fair values

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

e Capital management

The Company's capital management forms part of the wider Group's capital management disclosure which is contained within the Consolidated Financial Statements for the Group.

8 Equity

a Authorised and issued share capital

The authorised and issued share capital of the Company consists of an unlimited number of voting common shares of par value £1.

b Common shares issued

	Shares	Share Capital (US$)
Shares issued, 07 June 2018	1	1
30 June 2019	**1**	**1**

9 Finance income and costs

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

For the year ended (In US$)	**30 June 2019**
Interest income	4,423,027
Finance income	**4,423,027**
Primary Eurobond interest expense	(2,768,480)
Other finance costs[1]	(1,654,547)
Finance costs	**(4,423,027)**
Net finance (costs)/income	-

[1] Other finance costs include unwinding of transaction costs and discounts.

The Company's audit fees are borne by the Parent Company, Bacanora Lithium Plc.

10 Related party disclosures

The Company's related parties include Directors and companies which have directors in common. No transactions have taken place in the current period with Directors and companies which have directors in common.

The Company traded with undertakings within the Group during the period ended 30 June 2019. A summary of the sum of absolute transactions and outstanding balances at the period end with each is set out below:

Name of related party	Nature of relationship	Commercial terms	Transaction value	Balance owed by / (owed to) related parties
Bacanora Lithium Plc	Parent Company	Interest bearing - Interest rate 21%	25,646,978	21,654,216

11 Directors and employees of the Company

Directors are not remunerated for their role and the Company has no employees.

12 Commitments and contingencies

The Company has no commitments and contingencies.

13 Note to the statement of cashflows

Below is a reconciliation of intercompany financing from financing transactions:

In US$	Borrowings	Intercompany financing
Opening balance	-	-
Cash flows	20,875,000	(20,907,048)
Non cash flows		
Fair value attributed to Financial warrants[1]	(2,929,624)	2,929,624
Transaction costs	(746,234)	746,234
Primary Eurobond finance cost	2,768,480	(2,768,480)
Eurobond unwinding	1,654,545	(1,654,546)
Total liability/(receivable)	21,622,167	(21,654,216)

[1] Financial warrants were issued by Bacanora Lithium Plc as part of the debt package. The details of the warrants have been disclosed fully in the Group Consolidated Financial Statements.