SONORA lithium

Sonora Lithium Ltd

Annual Report and Financial Statements

31 December 2022

SONORA
lithium

Company Directory

Board of Directors	Peter Secker Janet Blas Wang Xiaoshen Tong Zhang
Company Secretary	Cherif Rifaat
Registered Office	4 More London Riverside London SE1 2AU
Registered Number	11349694

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Strategic Report

1 Business model

Sonora Lithium Ltd (the "Company") is a 50:50 joint venture between Bacanora Lithium Limited (formerly known as Bacanora Lithium Plc) ("Bacanora") and Ganfeng International Trading (Shanghai) Co., Ltd, a 100% subsidiary of Ganfeng Lithium Group Co., Ltd (formerly known as Ganfeng Lithium Co., Ltd) ("Ganfeng"). Bacanora became a 100% owned subsidiary of Ganfeng on 2 August 2022, when a compulsory acquisition of Bacanora was concluded. The Company is the holding company for the Sonora Lithium group entities (the "Sonora Group") and provides financing to further the development of the Sonora Lithium Project (the "Sonora Project"). The Company is exempt from the requirement to prepare group accounts at the end of the financial year as the Company is subject to the small companies regime.

The Sonora Project consists of ten mining concession areas covering approximately 100,000 hectares in the northeast of Sonora State in Mexico. Seven of these ten mining concessions were included in the feasibility study published in January 2018. The feasibility study indicated a US$1.253 billion pre-tax Net Present Value for the Sonora Project at an 8% discount rate and US$11,000 per tonne LCE price, 26.1% IRR and US$4,000 per tonne lithium carbonate ("LCE") life of mine operating costs, placing the Sonora Project among the lowest cost producers. There are no updates on the feasibility study since January 2018.

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

1. A world class lithium resource containing approximately 9 million tonnes of LCE.
2. An experienced board of directors (the "Board") and operational leadership team.
3. Access to strong technical skills either from the Sonora Lithium team, the ultimate parent company, Ganfeng and a global network of advisers.
4. In excess of seven years of pilot plant operations in Mexico.
5. Emphasis on building strong local organisations and skill sets.
6. Commitment to excellence in Environment and Social matters.
7. Securing funding the Sonora Project.
8. Long-term lithium offtake agreements with Ganfeng and Hanwa.
9. Disciplined capital management and careful handling of Company resources.

2 Strategy

The company intends to become a Mexico focussed lithium production company, producing high quality battery-grade products.

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

1. Identify a world class project that can address the rapidly increasing demand for lithium for electric vehicles and energy storage industries. Complete.
2. Complete the feasibility study to evaluate and quantify the economic potential of its Sonora Project. Complete.
3. Validate the quality of its product by securing high quality offtake partners. Complete.
4. Finalise a detailed design of the mine and processing plant for stage 1 of the Sonora Project. Ongoing.
5. Secure all necessary permissions to construct and run the mine and processing plant. Ongoing.
6. Complete the funding required to construct the Sonora Project. Yet to commence.
7. Construction and commissioning of the Sonora Project's plant. Yet to commence.
8. Hiring of a team with the expertise to deliver the Sonora Project into production. Ongoing.

3 Key Challenges

The Company intends to move into the project construction stage in 2023, subject to finalisation of the plant design and all relevant approvals. The Company is an indirect subsidiary of a world-class shareholder, Ganfeng. Ganfeng has a wealth of experience in developing and operating lithium product plants. The Company will face many challenges during to the construction phase, principally, ensuring the safe operation of the construction site. It is a key challenge to ensure that the construction can proceed unabated and deliver the project with expedience and within budget.

On 22 April 2022, the Mexican government published a decree to amend the Mining law[1]. The amendment declared lithium to be a strategic mineral and property of the nation. The declaration detailed how lithium is to be managed. The exploration, mining exploitation, refining, and use of lithium are reserved in favour of the people of Mexico; and such activities will be carried out by a government agency, the newly formed company, Litio para México[2] ("LitioMex"). The decree also explained that no further concessions, licenses, contracts, permits, or authorizations will be granted for lithium related activities and that economic value chains relating to lithium will also be managed and controlled by LitioMex. The Company has challenged the change to the law through the Federal Court and is exploring all possible legal recourse available to it. A key challenge is to negotiate a path and workable solution with the Mexican government and enter into a commercial relationship with LitioMex for the benefit of the Sonora Project and receiving all construction and operational permissions.

The production of battery-grade lithium products from the Sonora Project is dependent upon successfully recovering lithium from clay mined via open pit excavation operations feeding a three-part chemical processing plant comprising beneficiation, pyrometallurgical and hydrometallurgical sections. The processing plant will require the supply of both gas and high voltage electricity infrastructure for the site. The long-term plan is for a third-party service provider to provide an energy supply via a cogeneration plant using natural gas as the fuel from a pipeline that they will construct. The Company is currently in discussion with a number of contract suppliers.

The planet is facing climate change related risks which may become increasingly challenging until such time that influencing factors such as greenhouse gas emissions are significantly reduced and better controlled. The Company is not immune to these risks, particularly extreme weather events which could impact the construction of the Sonora Project or its operations in future. The Company is committed to minimising adverse environmental impacts of its operations. By virtue of the Sonora Project's prospective product, battery-grade lithium compounds, the Company will be at the forefront of renewable energy and mobility transitions by contributing one of the key raw materials required. Lithium batteries will enable grid and domestic scale energy storage and are a key component of zero emission electric vehicles. In this way, the transitions will contribute to the reduction in greenhouse gas emissions.

4 Principal risks and uncertainties

The Board is responsible for putting in place a system to manage current, emerging and future risk types and implementing internal controls thereof. Risks can manifest themselves as threats or can present as opportunities to be exploited, both can affect business performance.

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

All employees are responsible for identifying, evaluating and managing risks. Operational and management supports the understanding and management of risks at all levels of the business. The Board of directors has developed procedures for identifying, evaluating and managing significant risks faced by the Company.

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[1] https://www.dof.gob.mx/nota_detalle.php?codigo=5649533&fecha=20/04/2022#gsc.tab=0

[2] https://sidof.segob.gob.mx/notas/5662345

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a) **Financial controls**

The Company has an established framework of internal financial controls, the effectiveness of which is regularly reviewed by Bacanora's senior management team and the Board and which involves an ongoing assessment of significant risks facing the Company.

- The Board is responsible for reviewing and approving overall Company strategy, approving budgets and plans. Monthly results and variances from plans and forecasts are reported to the Board.
- There are procedures for budgeting and planning, procurement to pay, financial close and reporting and treasury. These are used for monitoring and reporting to the Board against those budgets and plans, and for forecasting expected performance throughout the financial period. These cover income statements, cashflows, capital expenditures and balance sheets.

b) **Internal controls**

The Board is responsible for ensuring that a "fit for purpose" system of internal control exists to safeguard shareholders' interests and the Company's assets. It is responsible for the regular review of the effectiveness of the systems of internal control. Internal controls are designed to manage and where possible eliminate risk altogether. However, even the most effective system cannot provide assurance that each and every risk, present and future, has been addressed.

c) **Principal Risk**

The Company's internal risk identification and management process is undertaken by the Executive management team and Management Risk Committee who own, prepare and regularly reviews the risk register for the Company. The risk register details specific known risks to the Company and its investments and with some mitigating actions to manage these risks. A "traffic-light" management system is used for ongoing review and as a medium for categorising the severity and likelihood for each risk.

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

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

Risk 1: Successful development of the Sonora Project

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

- geopolitical environment in host country (see Risk 2 below);
- increasing capital costs due to supply chain delays, changes to process flow sheet, product suite optimisations, Covid-19 impacts, price inflation and key equipment availability;
- obtaining sufficient financing for the development of the Sonora Project (see Risk 3 below);
- market price of lithium;
- availability of infrastructure capacity (see Risk 4 below);
- ability to attract sufficient numbers of suitably qualified personnel;
- environmental and regulatory compliance requirements;
- delays in completion of front-end engineering design ("FEED");
- increased operating costs due to changes in input costs, including plant, material, energy and labour costs;
- lack of availability of mining and processing equipment;
- breakdown or failure of equipment or processes;

- construction, procurement and/or performance of the processing plant and ancillary operations falling below expected levels of output or efficiency;
- non-performance by third party contractors, contractor or operator errors;
- taxes and imposed royalties;
- disruption caused by external groups e.g., non governmental organisations and illegal demonstrators;
- unfavourable weather conditions; and
- catastrophic events such as fires, earthquakes, storms or explosions and effects of global pandemics e.g., COVID-19.

The Sonora Group's ability to deliver the Sonora Project to plan, principally in terms of safety, cost and schedule depend on successfully managing each of the factors outlined above. There are numerous activities that need to be completed in order to successfully commence production at the Sonora Project including, without limitation: importation of capital equipment and process chemicals, 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 and power facility permits; and handling of many other infrastructure related issues.

There is no certainty that the Company will be able to recruit and train personnel, avoid potential increases in costs, negotiate transportation or product sales agreements on terms that would be acceptable to the Company, or that the Company will be able to update, renew and obtain all necessary permits to start or to continue to operate the Sonora Project. There is no guarantee that funds will be available to finance construction given that the Sonora Project is not fully financed. 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 having a material adverse effect on the Company's business, prospects, financial position, production volume and cash flows.

Mitigation:

The Sonora Feasibility Study was completed in January 2018. Since that date, the Company has worked to de-risk the Sonora Project's development by securing Ganfeng, the world's largest lithium metals producer, as a JV partner in the Sonora Project. Furthermore, the Company obtained material additional capital injections from the shareholders, acquired additional land, secured water permits, made key internal hires, concluded offtake contracts with Ganfeng and Hanwa, and is continuing its FEED work.

Trend:

There is a diverse set of sub-risks which could affect the development of the Sonora Project. Consequently, some risks have increased over the past twelve months e.g. geopolitical risks and the availability of sufficiently skilled staff at a reasonable cost. Other risks have decreased e.g., the impact of COVID-19 due to the increased rates of vaccination and heard immunity. Delays to the FEED may mean that commencement of production is delayed relative to the original target date.

Risk 2: Geopolitical uncertainty

Geopolitical risks are challenging for companies as they are hard to predict, interconnected with other business risks and can significantly impact business operations. Populism and protectionism, with collective backlashes against globalization coupled with the threat of resource or asset expropriation are becoming increasingly prevalent globally.

Beyond contributing to financial uncertainty and volatility, the rise of economic nationalism, particularly in Mexico, may mean that the Company could operate in a market that may be unreceptive to the globalization which underpins supply chains, financing and capital. The Company and the wider mining industry, which is heavily dependent on free trade and growth, will need to be resilient in this new phase of geopolitics.

Geopolitical events, such as the Russian invasion of Ukraine, can be unpredictable and have a severe impact on the wider economy. Impacts of the war, which are relevant to Bacanora include significantly increasing energy and raw material costs and the broader effect on inflation.

Mitigation:

Geopolitical events can manifest themselves in many ways and are not always predictable. Each event carries its own risk and consequence, and therefore needs to be mitigated on a case by case basis. Large scale geopolitical climate is difficult to impact directly, Bacanora focuses on the mitigations it can control such as having an intimate knowledge of the diverse, complex and developing geopolitical dynamic. As such the Company monitors developments in the jurisdictions in which it operates and performs due diligence ahead of entering a business partnership including looking at geopolitical implications. The Company behaves as responsible corporate citizens and adds value to the communities in which it operates to maintain the Company's social licence to minimise geopolitical risk. With respect to nationalisation of the Company's concessions, they are currently protected by Mexican and international law. The Sonora Group has taken steps to challenge the changes to the law as being illegal and unconstitutional.

Trend:

The increasing rate of change in geopolitics, asset and resource expropriation in Mexico and globally, means that geopolitical risks remain key. On 22 April 2022, the Mexican government published a decree to amend the law relating to lithium. The amendment declared lithium to be a strategic mineral and property of the nation. The declaration detailed how lithium is to be managed. The exploration, mining exploitation, refining, and use of lithium are reserved in favour of the people of Mexico; and such activities are to be carried out by a government agency, the newly formed company, LitioMex. The decree also explained that no further concessions, licenses, contracts, permits, or authorizations will be granted for lithium related activities and that economic value chains relating to lithium will also be managed and controlled by LitioMex. On 18 February 2023, President Andres Manuel Lopez Obrador of Mexico signed a decree published in the Official Gazette of the Federation. The decree creates a 234,855 hectares lithium mining reserve zone in Sonora dubbed "Li-MX 1", in which no lithium mining can take place. However, "the rights and obligations of the holders of current mining concessions that are located within the lithium mining reserve zone "Li-MX 1" remain safe". Another decree made on 18 February 2023 gave responsibility for lithium reserves to the Ministry of Energy, after nationalising lithium deposits last April. That decree instructed the Ministry of Energy to take necessary actions to give compliance with the provisions of the mining law regarding lithium. Geopolitical risk remains high.

Risk 3: Financing risk

Financing risk in the context of Sonora Group's principal risks is defined as having insufficient capital available to achieve the Company's strategic development targets. Other types of financing risk exist, such as foreign exchange risk, however these are not considered to be principal risks for reporting purposes.

The Company does not have sufficient finance to complete the Sonora Project in its entirety and as the Sonora Project develops there will be a requirement for significant additional finance at various intervals or stages of development. However, there is no guarantee that sufficient finance would be available when required throughout this journey. Ganfeng has provided the Company with a wider reach to the lending community and its reputation in the lithium industry provides a stronger platform of finance negotiation.

Mitigation:

As at 31 December 2022, The Company had US$21.1 million (at 31 December 2021: US$26.0 million) cash on hand. In addition to the existing cash reserves in Bacanora Group and Sonora Group, Ganfeng, being the sole shareholder of Bacanora, may assist in providing funding for the development of the Sonora Project.

Trend:

Overall, since the last reporting period Bacanora's financing risk has diminished significantly as a result of Bacanora settling all obligations to RK by repaying the debt and settling warrants in full on 7 January 2022. Current and forecast favourable lithium prices, may support the ability for Bacanora, Ganfeng, the Company or its subsidiaries to raise further debt or equity financing as required to finance the Sonora Project, however there is no guarantee that these funds would be available to the Company or the Sonora Project.

Risk 4: Infrastructure

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

Mitigation:

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

Trend:

No material change in the risk in comparison to previous periods.

Risk 5: Health and Safety

Protecting the safety and health of employees, contractors and local community and other stakeholders is a fundamental issue facing the Sonora Group and the wider mining industry. Mining is inherently hazardous, with the potential to cause harm.

Mitigation:

The Company complies with the applicable laws and regulations of the countries in which it operates. Where these prove insufficient, standards are adopted based on best international industry practice. Safety is a paramount consideration, and the Sonora Group is proud to provide a place of work that is safe for everyone. Policies and procedures have been constituted with the aim of identifying the hazards associated with mining activities and that they are effectively managed. All occupational health and safety incidents are recorded, categorized and investigated and where required corrective and preventive actions are implemented.

Trend:

The COVID-19 pandemic continues as a risk from a health and safety perspective, although the Company has introduced control measures and government vaccination programmes have significantly reduced the risk from COVID-19 during 2022. Mexico and the UK have opened up in 2022 and treating COVID-19 on a "business as usual" basis.

There is no intrinsic change in operations that would increase the risk inherent in the operating model since last reporting period. However, looking forward to the start of construction of the Sonora Project, the potential for health and safety incidents to occur may increase.

5 Key Performance Indicators

The Company's key performance indicators ("KPIs") help the Board and executive management assess performance against strategic priorities and business plans. However, as a pre-operational business, the use of KPIs is limited, current KPIs relate to the Company's financial position and safety. The Company's only key performance indicator is cash and cash equivalents. Currently, the Board receives update reports on a monthly basis for operational and corporate parts of the business. The reports include measures of operational expenditure and capex spend against the budget as well as the Sonora Group's cash position. The Company had US$21.1 million as at 31 December 2022, compared to US$26.0 million as at 31 December 2021. To monitor safety in the Sonora Group, Lost time injury frequency rate (LTIFR) is considered a key KPI. LTIFR is the number of lost time injuries per 1 million hours worked on a rolling 12-month basis. In 2022, there were no Lost time injuries ("LTIs") resulting in a LTIFR of nil. This follows on from Nil LTIs in 2021, 2020 and 2019 in Sonora Group.

6 Directors' section 172 statement

The following disclosure describes how the Directors have had regard to the matters set out in section 172(1)(a) to (f) and forms the Directors' statement required under section 414CZA of The Companies Act 2006.

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

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

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

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

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

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

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

The analysis is split into two distinct sections, the first to address stakeholder engagement, which provides information on stakeholders, issues and methods of engagement, disclosed by stakeholder group. The second section addresses principal decisions made by the Board. It focuses on how decision making was influenced with regard for stakeholder interests.

Section 1. Stakeholder mapping and engagement activities within the reporting period.

The Company has no direct employees and relies upon management of Bacanora and Sonora Group subsidiaries to communicate on behalf of the Board of Sonora Lithium Ltd. The Company continuously interacts with its stakeholders and its equity investor. The Company strives to strike the right balance between engagement and communication.

The Company continuously interacts with a variety of stakeholders important to its success, particularly the Company's direct and indirect equity investor and joint venture partner, Ganfeng. Other important stakeholders include but are not limited to; potential debt providers, the workforce, government bodies, local community, vendor partners and offtake partners. Furthermore, the Company works within the limitations of what can be disclosed to the various stakeholders with regards to maintaining confidentiality of market and/or commercially sensitive information.

Equity investors

The Company's strategy is to provide financing to the Sonora Project. Subsequently, access to capital is of vital importance to the long-term success of the Company and the Sonora Group.

During the year ended 31 December 2022, the Company engaged with its investor, ultimately, Ganfeng. The Company provided updates on the Sonora Project's progress and corporate financing of the Sonora Project entities.

Ultimate Equity investor and customer - Ganfeng

The Board promote the success of the Company for the benefit of its shareholders. The Company's strategy is to provide financing to the Sonora Project. Consequently, access to capital is of vital importance to the long-term success of the Company and the Sonora Group. As such, engagement with the ultimate shareholder and off-take partner is of paramount importance. The management of the Company is in close communication with members of Ganfeng's senior leadership, who are charged with Ganfeng's international businesses. Mr. Wang Xiaoshen sits on both the Company's Board as well as the Bacanora board, whilst Mr. Zhang Tong sits on the Company's Board as well.

Monthly financial and operational updates are sent to the Board and other members of the management community. One-on-one investor meetings and calls with the CEO and CFO are commonplace.

Employees

On the reporting date the Company had zero corporate employees excluding its Directors who are unpaid for their role in the Company. The Sonora Project's workforce is based in Mexico. The Company and the Sonora Project works to attract, develop and retain high quality talent, equipped with the right skills for the future of the Sonora Project.

External Stakeholders - Government, community and suppliers

The Company and the Sonora Project have an effect on the community and governmental organisations in the UK and Mexico respectively. These stakeholders provide the Company with the social and operating licences to execute its strategy. As such the Sonora Project needs to engage with the local communities and governmental organisations to build trust. Having the community's trust will mean it is more likely that any fears the community and government have can be assuaged and the Company's plans and strategies are more likely to be accepted. Community and governmental engagement will inform better decision making. The local community in Bacadéhuachi and wider Sonora area will provide employees and suppliers to the mine.

During the construction phase, the Sonora Project will use key suppliers under commercial engineering contracts to deliver the mine and plant, all of whom will be large international vendors, fostering relationships with these vendors will be crucial for delivering the Company's strategies. At a local level, the Company partners with a variety of smaller companies, some of whom are independent or family run businesses. There will be a need to balance the benefits of maintaining strong partnerships with key suppliers alongside the need to obtain value for money for investors and excellent quality and service. The Company engages with suppliers via its procurement process and have a number of preferred suppliers including engineering and banking partners with whom the Company continues to have regular communications and Sonora Project updates.

As the Sonora Project moves into a construction and production phase, it will in due course, have a larger social, environmental and economic impact on the local community and surrounding area. The Sonora Project companies are committed to ensuring sustainable growth minimising adverse impacts of the Sonora Project.

High standards of business conduct

The Board recognises the importance of maintaining high standards of business conduct to protect the Company's reputation, which in turn benefits the company in its relationships with its stakeholders. As such, the Board have implemented policies and processes to support the Company's operating strategy and beneficial culture.

Section 2, Principal decisions by the Board during the reporting period.

Principal decisions are both those that have a long-term strategic impact and are material to the Company, but also those that are significant to key stakeholder groups.

On 11 November 2022, the board of Bacanora resolved to re-organise a myriad of related party loans and debt structure across Bacanora, the Company and the Sonora Group. Bacanora decided that on balance a simplified group debt structure and increased capital in Mexico would be a more appropriate financing structure for Bacanora, the Company and the Sonora Group entities, and therefore, would be beneficial for all relevant stakeholders. To achieve this, from the Company's perspective, a return of investment in one of the subsidiaries was made and several intercompany loans were eliminated or allocated and a cash settlement was made by the Company.

No other long-term strategic decisions have taken place that are material for the Company or its stakeholders.

7 Operational Review

During the year ended 31 December 2022, the Company continued to be the holding company for the Sonora Project and continued to lead the implementation of the project.

On 11 November 2022, the Company was party to an intercompany and related party debt tidy up procedure. This entailed Bacanora Minerals Limited ("BML"), a wholly owned subsidiary, returning capital to the Company for cash consideration of US$6,297,630, which was left as an outstanding receivable in the books of the Company. BML settled the receivable by assigned various intercompany loan notes to the Company with a value totalling US$6,297,630. Furthermore, Minera Sonora Borax SA de CV (US$4,626,218), Minera Megalit SA de CV (US$516,993) and Mexilit SA de CV (US$516,993) drew upon fully documented loan facilities provided by the Company to settle various historical similar value intercompany debt balances that existed in the wider group.

On behalf of the Board of Directors

Janet Blas

15 March 2023

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Directors Report

The Directors present their Annual Report and Financial Statements of the Company for the year ended 31 December 2022.

1 Results and dividends

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

2 Directors

The Directors who served during the year were:

- Peter Secker
- Janet Blas
- Wang Xiaoshen
- Zhang Tong

No Directors have interests in the Company.

3 Substantial shareholdings

The Company has the following substantial shareholders:

Shareholder	Shareholding on 31 December 2022	Shareholding on 31 December 2021
Bacanora Lithium Limited	50%	50%
Ganfeng International Trading (Shanghai) Co., Ltd [1]	50%	50%

[1]Ganfeng International Trading (Shanghai) Co., Ltd is a 100% subsidiary of Ganfeng Lithium Group Co., Ltd.

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

The Company does not have any branches 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 Principal risks and uncertainties section of the Strategic Report for the Financial risks present to the Company.

9 Going Concern

See the Going Concern section in note 2c to the financial statements.

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10 Post balance sheet events

See note 18 to the Financial Statements for a detailed discussion on events that occurred subsequent to 31 December 2022.

11 Future developments

The Company will continue to be a holding company and provide a financing role for the Sonora Project subsidiaries.

12 Auditor

BDO LLP were replaced by Ernst and Young LLP who 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.

13 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

JBlas

Janet Blas

15 March 2023

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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 Financial Statements in accordance with UK adopted international accounting standards. 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.

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 UK adopted international accounting standards, 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.

The board confirm that to the best of their knowledge:

(a) the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and income statement of Bacanora Lithium Limited.

(b) the management report includes a fair review of the development and performance of the business and the position of Sonora Lithium Ltd and the undertakings included in the annual report and financial statements taken as a whole, together with a description of the principal risks and uncertainties that they face.

(c) the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board

Janet Blas

15 March 2023

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Independent Auditor's Report to the members of Sonora Lithium Ltd

Opinion

We have audited the financial statements of Sonora Lithium Ltd for the year ended 31 December 2022 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of changes in Equity, the Statement of Cash Flows and the related notes 1 to 18, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted International Accounting Standards.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted International Accounting Standards; 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter - Value of investments in subsidiaries

We draw attention to notes 4b and 18 of the financial statements, which describe the effects of the Mexican government decree to amend the Mining law on the investments in company's subsidiaries. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period to 31 March 2024.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the 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 year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and 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 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 set out on page 12, 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (UK adopted International Accounting Standards and the Companies Act 2006) and the local tax legislation. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being laws and regulations relating to health and safety, employee matters, environmental protection, data protection, anti-bribery and corruption.
- We understood how Sonora Lithium Ltd is complying with those frameworks by making enquiries of management, the company secretary and those charged with governance. We corroborated our enquiries through our review of Board minutes, the Company's code of conduct and the Company's whistle-blower policy and noted that there was no contradictory evidence. We also enquired directly with the Company's lawyers.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where it considered there was susceptibility to fraud. We considered the programmes and controls that the Company has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing journal entries that met our defined risk criteria based on our understanding of the business and challenging the assumptions and judgements made by management in areas where judgement is required including those referred to in Emphasis of Matter section above.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved understanding management's internal controls over compliance with laws and regulations; enquiry of the company secretary and senior management; and reviewing whistleblowing logs.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://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.

Stephney Dallmann

Digitally signed by Stephney Dallmann
DN: cn=Stephney Dallmann, email=sdallmann@uk.ey.com
Date: 2023.03.15 20:25:28

Stephney Dallmann
Senior Statutory Auditor
for and on behalf of Ernst & Young LLP
London

15 March 2023

SONORA lithium

Statement of Financial Position

As at 31 December 2022

In US$	Note	31 December 2022	31 December 2021
Assets			
Current assets			
Cash and cash equivalents		**21,060,603**	25,970,470
Other receivables		**11,188**	3,022
Total current assets		**21,071,791**	25,973,492
Non-current assets			
Receivable from related parties	6	**15,642,447**	4,364,000
Investments in subsidiaries	5	**45,028,280**	51,325,911
Total non-current assets		**60,670,727**	55,689,911
Total assets		**81,742,518**	81,663,403
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	7	**27,533**	121,162
Total current liabilities		**27,533**	121,162
Non-current liabilities			
Payable to related parties	8	**15,557**	2,706
Total non-current liabilities		**15,557**	2,706
Total liabilities		**43,090**	123,868
Shareholders' equity			
Share capital	11(a)	**26,498,777**	26,498,777
Share premium	11(a)	**50,051,705**	50,051,705
Merger reserve	11(b)	**5,070,967**	5,070,967
Retained earnings		**77,979**	(81,914)
Total shareholders' equity		**81,699,428**	81,539,535
Total liabilities and shareholders' equity		**81,742,518**	81,663,403

The accompanying notes on pages 20 - 31 are an integral part of these Financial Statements.

The Financial Statements of Sonora Lithium Ltd, registered number 11349694, were approved and authorised for issue by the Board of Directors on 15 March 2023 and were signed on its behalf by:

JBlas

Janet Blas

15 March 2023

SONORA lithium

Statement of Comprehensive Income

For the year ended 31 December 2022

In US$	Note	Year ended 31 December 2022	Year ended 31 December 2021
Expenses			
General and administrative	12	(48,872)	(120,478)
Foreign exchange loss		(27,726)	(10,980)
Operating loss		(76,598)	(131,458)
Finance income	13	236,491	49,544
Profit / (loss) before tax		159,893	(81,914)
Tax charge	14	-	-
Profit / (loss) after tax		159,893	(81,914)
Total comprehensive income /(loss)		159,893	(81,914)

No other comprehensive income for the year ended 31 December 2022, so no Statement of Other Comprehensive Income was prepared.

The accompanying notes on pages 20 - 31 are an integral part of these Financial Statements.

BACANORA lithium

Statement of Changes in Equity
For the year ended 31 December 2022

In US$	Share capital: Number of shares	Share capital: Value	Share premium	Merger reserve	Retained earnings	Total equity
31 December 2020	134,464,872	16,215,240	38,376,329	5,070,967	-	59,662,536
Comprehensive loss for the year:						
Loss for the year	-	-	-	-	(81,914)	(81,914)
Total comprehensive loss	-	-	-	-	(81,914)	(81,914)
Contributions by and distributions to owners:						
Share issue - Ganfeng Lithium	73,955,680	10,283,537	20,014,707	-	-	30,298,244
Capital reduction	-	-	(8,339,331)	-	-	(8,339,331)
31 December 2021	**208,420,552**	**26,498,777**	**50,051,705**	**5,070,967**	**(81,914)**	**81,539,535**
Comprehensive income for the year:						
Profit for the year	-	-	-	-	159,893	159,893
Total comprehensive income	-	-	-	-	159,893	159,893
31 December 2022	**208,420,552**	**26,498,777**	**50,051,705**	**5,070,967**	**77,979**	**81,699,428**

The accompanying notes on pages 20 - 31 are an integral part of these Financial Statements.

BACANORA lithium

Statement of Cash Flows

For the year ended 31 December 2022

In US$	Note	Year ended 31 December 2022	Year ended 31 December 2021
Cash flows from operating activities			
Profit / (loss) before tax for the year		**159,893**	(81,914)
Adjustments for:			
Foreign exchange		**27,726**	12,660
Finance income	**13**	**(236,491)**	(49,544)
Changes in working capital items:			
Other receivables		**(7,318)**	(3,022)
Accounts payable and accrued liabilities	**7**	**(93,813)**	121,162
Net cash used in operating activities		**(150,003)**	(658)
Cash flows from investing activities:			
Interest received		**236,491**	49,544
Loans to related parties		**(4,980,816)**	(4,364,000)
Net cash used in investing activities		**(4,744,325)**	**(4,314,456)**
Cash flows from financing activities			
Advances from related parties		**12,851**	-
Issue of share capital, net of share costs		-	30,298,244
Net cash flows from financing activities		**12,851**	30,298,244
Change in cash and cash equivalents during the year		**(4,881,477)**	25,983,130
Exchange rate effects		**(28,390)**	(12,660)
Cash and cash equivalents, beginning of the year		**25,970,470**	-
Cash and cash equivalents, end of the year		**21,060,603**	25,970,470

The accompanying notes on pages 20 - 31 are an integral part of these Financial Statements.

Notes to the Financial Statements

1 Corporate information

These Financial Statements represent the individual financial statements of Sonora Lithium Ltd (the "Company"), a 50:50 joint venture between Bacanora Lithium Limited (formerly known as Bacanora Lithium Plc) ("Bacanora") and Ganfeng International Trading (Shanghai) Co., Ltd.

The Company was incorporated under the Companies Act 2006 of England and Wales on 8 May 2018. The registered address of the Company is 4 More London Riverside, London, SE1 2AU. The ultimate parent of the Company is Ganfeng Lithium Group Co., Ltd (formerly known as Ganfeng Lithium Co., Ltd) which is officially listed on Shenzhen Stock Exchange and the Main Board of The Stock Exchange of Hong Kong Limited. Its registered office is located at Longteng Road, Xinyu Economic Development Zone, Jiangxi Province. Its principal place of business is People's Republic of China. Ganfeng's financial statements are available on their website.

2 Basis of preparation

a) Statement of compliance

These Company Financial Statements have been prepared in accordance with UK adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006.

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted international accounting standards, with future changes being subject to endorsement by the UK Endorsement Board.

The Company Financial Statements were authorised for issue by the Board of Directors on 15 March 2023. The Board of Directors has the power and authority to amend these Financial Statements after they have been issued.

b) Basis of measurement

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

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

c) Going concern

The Company accounts have been prepared on a going concern basis.

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. The Company has a significant cash balance of US$21.1 million as at 31 December 2022 (at 31 December 2021: US$26.0 million) and the Company has not entered into commitments to develop the Sonora Project. The Company has prepared a cash flow forecast for the going concern period (from the approval of the financial statements to 31 March 2024). This forecast is a detailed analysis of the capital and operational expenditure for the Company encompassing the going concern period. As part of the directors' assessment of the Company's ability to continue as a going concern, a support letter has been received from Bacanora confirming that it can and will support the Company in meetings its liabilities for a period of twelve months from the signing of the Company's financial statements.

The directors have therefore considered the going concern assessment undertaken at the Bacanora level, the conclusion of which is that even under severe but plausible downside scenarios there is headroom in relation to liquidity. As at 31 December 2022, Bacanora has US$14.0 million (2021: US$81.6 million) of cash and cash equivalents and a receivable due on demand from the parent company of US$60.3 million (2021: US$2.7 million) giving total liquidity of US$74.3 million (2021: US$84.3 million). As at 31 December 2022 Bacanora has no external debt (2021: US$1.8 million) and has not entered into any significant commitments

The Board of Directors has considered the impact of climate change, the ongoing impact of the Covid-19 pandemic and war in Ukraine and concluded that currently there is no direct impact on the Company. The Company has considered the impact of the Mexican government's decree to amend the Mining law and have concluded that this does not impact the going concern assessment because the ownership of Sonora assets is protected by Mexican and international law. After an audit by department of economy, On 17 February 2023, Minera Sonora Borax SA de CV, Mexilit SA de CV and Minera Megalit SA de CV received notifications from the ministry of economy informing the companies of the commencement of cancellation procedures over nine concession titles, due to what is perceived to be an administrative oversight, the notification triggers a 60-day period for the concession holders to respond to the notification providing evidence of compliance with all obligations, as per due process. The Company fully disputes the reasons cited for mal administration and is confident all of its concessions remain valid and will remain valid. The audit is part of the process of reviewing all lithium concessions announced by the President in April 2022 when the government amended the mining act. Sonora Group are planning to continue operating.

After making reasonable enquiries and having considered the matters described above, the directors believe that the Company will be able to meet its liabilities as they fall due and will have adequate resources to continue in operational existence for twelve months from the date of approval of this report. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

3 Accounting policies

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 Company'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 adopted

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

Standard	Detail	Effective date
IFRS 1	Amendments resulting from Annual Improvements to IFRS Standards 2018-2020 (subsidiary as a first-time adopter)	1 January 2022
IFRS 3	Amendments updating a reference to the Conceptual Framework	1 January 2022
IFRS 9	Amendments resulting from Annual Improvements to IFRS Standards 2018-2020 (fees in the '10 per cent' test for derecognition of financial liabilities)	1 January 2022

Standard	Detail	Effective date
IAS 16	Amendments prohibiting a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use	1 January 2022
IAS 37	Amendments regarding the costs to include when assessing whether a contract is onerous	1 January 2022

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

b) 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 17	Insurance Contracts	1 January 2023
IAS 1	Amendment - regarding the classification of liabilities	1 January 2023
IAS 1	Amendment - regarding the disclosure of accounting policies	1 January 2023
IAS 8	Amendment - regarding the definition of accounting estimate	1 January 2023
IAS 12	Amendment - regarding deferred tax on leases and decommissioning obligations	1 January 2023

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. No material impact to the Company's financial statements is expected.

c) 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 the Statement of Comprehensive Income in the period in which they arise.

d) Cash and cash equivalents

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

e) Other receivables

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

The method of measuring the expected credit losses can be referred to note 3j(i) below.

f) Investments in subsidiaries

Unlisted investments are carried at cost, being the purchase price, less provisions for impairment. The Company assess at the end of reporting period whether there is any indication that unlisted investments may be impaired. If any such indication exists, the Company shall estimate the recoverable amount of the unlisted investments.

g) 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.

h) Interest income

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

i) 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.

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. 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 profit and loss or unless management elect to do so provided to do so eliminates or significantly reduces a measurement or recognition inconsistency.

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 Statement of Comprehensive Income.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating and recognising interest expense in the profit and loss account, 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 to the amortised cost of the financial liability.

j) 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.

k) Income taxes

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

Deferred income taxes are calculated based on temporary differences between the carrying amounts of assets and liabilities and their tax bases.

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

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

The Company has not recognized a deferred tax assets associated with its carried forward losses on the basis that its investments are not likely to distribute dividends in the foreseeable future. Until such time as this can be predicted with a level of certainty to the extent its losses will be offset against earned profits, it is prudent that the Company does not recognise a deferred tax asset on its Balance Sheet.

l) Share premium

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

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. The following information about the significant judgements, estimates, and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses that are relevant to the Company Financial Statements are discussed below.

a) Functional currency

The Company transacts in multiple currencies. The assessment of the functional currency of the Company involves the use of judgement in determining the primary economic environment each entity operates in. The Company first considers the currency that mainly influences sales prices for goods and services which is USD, and the currency that mainly influences labour, material and other costs of providing goods or services, which are either in or heavily influenced by USD denominations. In determining functional currency, the Company also considers the currency from which funds from financing activities are generated, and the currency in which receipts from operating activities are usually retained, these either are in USD or will be in USD.

b) Value of investments in subsidiaries

Investments in subsidiaries are reviewed for impairment if events or changes indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future cash flows of the relevant cash generating unit, which may span multiple trading entities, or disposal value, if higher.

On 22 April 2022, the Mexican government published a decree to amend the Mining law. The amendment declared lithium to be a strategic mineral and property of the nation and detailed how lithium is to be managed. The exploration, mining exploitation, refining, and use of lithium are reserved in favour of the people of Mexico; and such activities will be regulated by a government agency, the newly formed company, Litio para México ("LitioMex"). The decree also said that no further concessions, licenses, contracts, permits, or authorizations will be granted for lithium related activities and that economic value chains relating to lithium will also be under the control of LitioMex. The Company (and many other affected entities) has taken steps to challenge the change to the law and is awaiting a ruling from the Mexican judiciary.

For the year ended 31 December 2022, the Sonora Project companies retain their concessions and land holdings despite the events outlined above. This ownership is protected by Mexican and international law. The Company has taken legal advice and has considered the impact of the Mexican government's decree to amend the Mining law, at the balance sheet date, and concluded that no impairment charge is required to be recorded against the investment in joint venture in the year. The Directors consider it appropriate to continue to record the investment in the Sonora Project and related party loan balances at historic cost.

There were further developments subsequent to the Balance Sheet date. On 17 February 2023, Minera Sonora Borax SA de CV, Mexilit SA de CV and Minera Megalit SA de CV, which are the Sonora Project companies held by the Company, received notifications from the Ministry of Economy informing the companies of the commencement of cancellation procedures over nine concession titles, this triggers a 60-day period for the concession holders to respond to the notification as per due process.

On 18 February 2023, President Andres Manuel Lopez Obrador of Mexico signed a decree published in the Official Gazette of the Federation. The decree creates a 234,855 hectares lithium mining reserve zone in Sonora dubbed "Li-MX 1", in which no Lithium mining can take place. However, "the rights and obligations of the holders of current mining concessions that are located within the lithium mining reserve zone "Li-MX 1" remain safe". Another decree made on 18 February 2023 gave responsibility for lithium reserves to the Energy Ministry, after nationalising lithium deposits last April. That decree instructed the Ministry of Energy to take necessary actions to give compliance with the provisions of the mining law regarding Lithium.

Following the developments subsequent to year end, the Company has taken updated legal advice and prepared legal defenses accordingly. As a result, the Company has concluded no adjustments are required to the financial statements for the year ended 31 December 2022.

The Company and its legal counsel continue to closely monitor developments associated with the change to the mining law that affect lithium, and stands ready to evaluate the impact on its investments should that become necessary in the future.

5 Investments in subsidiaries

In US$	Investment in Bacanora Minerals Ltd	Investment in Bacanora Chemco S.A. de C.V.	Total
Balance as at 1.1.2021	51,323,205	2,706	51,325,911
Reduction of capital	(6,297,631)	-	(6,297,631)
Total	45,025,574	2,706	45,028,280

On 11 November 2022, as part of the procedures of Bacanora's re-organisation of related party loans and debt structure, Bacanora Minerals Ltd returned US$6.3 million capital contribution to the Company. The returned amount had been used for elimination of related party loans.

The Company has the following subsidiaries as at 31 December 2022:

Name of subsidiary	Country of incorporation	Shareholding on 31 December 2022	Shareholding on 31 December 2021	Nature of business
Bacanora Chemco S.A. de C.V.[1]	Mexico	99.998%	99.998%	Lithium processing
Bacanora Minerals Limited	Canada	100%	100%	Holding company
Mexilit S.A. de C.V.[2,4]	Mexico	70%	70%	Lithium mining/exploration
Minera Megalit S.A. de C.V.[2,4]	Mexico	70%	70%	Mineral exploration
Mineramex Limited[2]	BVI	100%	100%	Holding company
Minera Sonora Borax S.A. de C.V.[3]	Mexico	100%	100%	Lithium mining/exploration
Operadora de Litio Bacanora S.A. de C.V.[3]	Mexico	100%	100%	Dormant
Minerales Industriales Tubutama S.A. de C.V.[3,5]	Mexico	-	60%	Dissolved

[1] The remaining 0.002% is owned by Bacanora Treasury Limited, a Bacanora Group company.
[2] Held indirectly through Bacanora Minerals Ltd.
[3] Held indirectly through Bacanora Minerals Ltd and Mineramex Ltd.
[4] The remaining 30% is owned by Cadence Minerals Plc.
[5] The remaining 40% was owned by the original vendors and their descendants, held in Trust by the Group on their behalf. The company was liquidated on 20 January 2022.

For the Canadian registered subsidiary, the registered address is 1600, 421 7th Avenue SW, Calgary, Alberta, T2P 4K9, Canada. For Mexican registered subsidiaries, the registered address for each subsidiary is Calle Uno No. 312, Colonia Bugambillas, Hermosillo, Sonora, Mexico.

The Sonora Group have two legal cases pending to be heard which are relevant to the Company.

Firstly, Sonora Group has taken legal actions to challenge the change to the Mining law by the Mexican government and is awaiting a ruling from the Mexican judiciary. For details, please refer to Note 4(b) to the financial statements. No impairment has been made as a result of assessment by management with reference to legal opinions that Sonora Group assets are protected by Mexican and international law.

Secondly, in 2017, Bacanora Minerals Ltd commenced litigation with the Estate of Colin Orr-Ewing (the "Estate") in regard to its purported royalty over the Sonora Project, which in turn resulted in the Estate making a counterclaim. Bacanora Minerals Ltd maintains that the royalty is invalid and unenforceable on the grounds of misrepresentation and a lack of consideration. The initial litigation was undertaken to have the royalty pre-emptively declared invalid by the Alberta Courts. In 2021, the Alberta Court heard a summary trial application solely around the matter of "time limitations" to initiate a pre-emptive declaration of invalidity. The summary trial which was heard was not around the merits of the royalty. The judgement from the Court was that this specific action by Bacanora Minerals Ltd was time-barred. Bacanora Minerals Ltd has appealed this judgement and the appeal hearing was heard on 13 January 2023. The decision on this appeal is still to be delivered.

Regardless of the outcome of the Appeal, the Courts have not ruled in any way on the validity of the royalty. The Company maintains that the royalty is invalid and unenforceable. The validity of the royalty will only be determined by the Courts in the event that (1) Bacanora Minerals Ltd is successful in its appeal and the action continues; (2) Bacanora Minerals Ltd is unsuccessful in its appeal and the Estate pursues its counterclaim, or (3) Bacanora Minerals Ltd is unsuccessful in its appeal and the Estate pursues subsequent litigation, once the Sonora Project is in production, demanding payment under the purported royalty agreement. There is currently no further time limitation issue on the first eventuality; there is currently no time limitation issue on the second eventuality and any time limitation on the third eventuality will not begin to run until the demand for payment is ignored.

The Company and Sonora Group has at all times taken a conservative approach to the treatment of the purported royalty and included it fully in the financial model for the Sonora Feasibility Study published in 2018, as well as all financial projections to investors and potential debt funding partners. No provisions have been made relating to the validity of the royalty case and no contingent liability is disclosed by the Company, as Management has assessed an adverse result of the case as being remote.

6 Receivable from related parties

Name of related party	31 December 2022	31 December 2021
Bacanora Minerals Ltd (note i)	**424,376**	260,000
Bacanora Chemco S.A. de C.V. (note ii)	**4,607,000**	3,647,000
Minera Sonora Borax S.A. de C.V. (note iii)	**6,107,217**	81,000
Mexilit S.A. de C.V. (note iv)	**3,589,860**	319,000
Minera Megalit S.A. de C.V. (note iv)	**913,994**	57,000
Total	**15,642,447**	4,364,000

i) The amount due is unsecured, non-interest bearing and no fixed terms of repayment.
ii) The amount due is unsecured, non-interest bearing and no fixed terms of repayment.
iii) The amount due is unsecured, interest bearing at 9.97% p.a. with interest-free period until 4 October 2026, and no fixed terms of repayment.
iv) The amounts due are unsecured, interest bearing at 13.97% p.a. with interest-free period until 4 October 2027, and no fixed terms of repayment.

7 *Accounts payable and accrued liabilities*

The Company's accounts payable and accrued liabilities as at 31 December 2022 are as follows:

In US$	31 December 2022	31 December 2021
Trade payables	-	1,288
Accrued liabilities	27,533	119,874
Total	**27,533**	121,162

8 Payable to related parties

The amounts due to related parties are unsecured, non-interest bearing and have no fixed terms of repayment.

The Company's related party payables as at 31 December 2022 are as follows:

In US$	31 December 2022	31 December 2021
Bacanora Lithium Limited	12,850	-
Bacanora Chemco S.A. de C.V.	2,706	2,706
Total	**15,556**	2,706

9 Financial instruments

The Company's principal financial assets and liabilities are classified as at 31 December 2022 as follows:

At amortised cost (In US$)	31 December 2022	31 December 2021
Financial assets		
Cash and cash equivalents	21,060,603	25,970,470
Other receivables	11,188	3,022
Receivable from related parties	15,642,447	4,364,000
Total financial assets:	**36,714,238**	30,337,492
Financial liabilities		
Accounts payable and accrued liabilities	27,533	121,162
Payable to related parties	15,557	2,706
Total financial liabilities:	**43,090**	123,868
Net financial assets:	**36,671,148**	30,213,624

10 Financial risk management

The Company is exposed to risks that arise from its use of financial instruments. The principal financial instruments used by the Company, from which financial risk arises, are set out in note 9. The types of risk exposure the Company is subjected to in the financial year 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 and receivables from related parties.

The Company's cash is held in major UK banks, and as such that the Company is exposed to the risks of those financial institutions. Under Standard & Poor's short term credit ratings, the Company's total cash balance is held in institutions with a A-1 rating (2021: A-1 rating).

The Company's current receivables from related parties mainly relate to receivables from its subsidiaries, the Company believes this to be a minimal credit risk. Where management estimate a lower receivable amount is recoverable, that difference in recoverability will be recognised in the profit and loss account in the period of determination. An IFRS 9 expected credit losses impairment assessment on the intercompany receivable was performed by management at 31 December 2022. This involved analysing the expected credit loss on the receivables from related parties to the Company as well as an assessment of the forward projections of cashflows and cash availability by the counterparty of the loans to Sonora Group companies. This resulted in no credit loss expected at 31 December 2022 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 and receivables from related parties represent the Company's maximum credit exposure.

The Board of Directors monitors the exposure to credit risk on an ongoing basis and does not consider such risk significant at this time. The Company considers all of its accounts receivables as at the reporting date to be 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 where applicable includes estimated future interest payments.

As at 31 December 2022 (In US$)	**Within 30 days**	**30 days to 6 months**	**6 to 12 months**	**Over 12 months**
Accounts payable and accrued liabilities	**27,533**	**-**	**-**	**-**
Payable to related parties	**-**	**-**	**-**	**15,557**

As at 31 December 2021 (In US$)	Within 30 days	30 days to 6 months	6 to 12 months	Over 12 months
Accounts payable and accrued liabilities	121,162	-	-	-
Payable to related parties	-	-	-	2,706

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 is to manage and control market risk exposures within acceptable limits, while maximizing long-term returns.

A portion of the Company's expenditures, other receivables, accounts payables and accrued liabilities are predominately denominated in US dollars and Great British pound and are therefore subject to fluctuation in exchange rates.

As at 31 December 2022, a 5% change in the exchange rate between the United States dollar and Great British pound, which is a reasonable estimation of volatility in exchange rates, would result in less than US$0.1 million change to the Company's total comprehensive loss.

The carrying amounts of short-term financial assets and receivables (e.g. other receivables and cash and cash equivalents) and short-term payables (e.g. accounts payable and accrued liabilities) approximated their fair values, and accordingly no disclosure of the fair values of these items is presented.

d) Capital management

The Company's objectives in managing capital are to safeguard its ability to operate as a going concern and to support the development of Sonora Project and maximise shareholder's value. The Company defines capital as the equity attributable to equity shareholders of the Company.

At 31 December 2022, the Company held US$81,699,428 (at 31 December 2021: US$81,539,535) of capital. The Company sets the amount of capital in proportion to risk and corporate growth objectives. The Company manages its capital structure and adjusts it in light of changes in economic conditions.

11 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 (2021: £1).

	Shares	Share Capital (US$)	Share Premium (US$)
31 December 2021	208,420,552	26,498,777	50,051,705
31 December 2022	**208,420,552**	**26,498,777**	**50,051,705**

b) Merger reserve

On 14 August 2019, as part of the Group corporate restructure, Bacanora sold 100% of Bacanora Minerals Ltd and its subsidiaries to Sonora Lithium Ltd. Sonora Lithium Ltd accounted for its investment in Bacanora Minerals Ltd at the original cost of investment in Bacanora. Under guidance of the predecessor value method, the difference between the consideration and the carrying value of the net assets transferred has been accounted for in a merger reserve, being US$5.1 million.

12 General and administrative expenses

General and administrative expenses relate to legal and accounting fees. For the year ended 31 December 2022, audit fees related to statutory audit of the Company totaled US$37,380. (2021: US$90,073).

13 Finance income

Finance income relates to bank interest income on the Company's cash reserves.

14 Taxation

Current taxation

No provision for tax had been provided for the year ended 31 December 2022 (2021: Nil)

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

In US$	Year ended 31 December 2022	Year ended 31 December 2021
Loss before tax	**159,893**	(81,914)
Tax on profits at the statutory tax rate of 19% (2021: 19%)	**30,380**	(15,565)
Expenses not deductible	**-**	-
Group relief	**(14,815)**	-
Unrecognised tax losses and timing difference	**(15,565)**	15,565
Tax charge	**-**	-

a) Deferred tax

The Company has no recognized deferred tax balance on loss for the year ended 31 December 2022 (2021: Nil). An entity recognizes deferred tax assets only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. Management has assessed that taxable profits are not probable at this stage of the Company's development. As at 31 December 2022, the Company has no non-capital loss available to carry forward to future years (2021: US$81,914).

15 Related party disclosures

The Company's related parties include its Directors, key management personnel of Bacanora, entities who are members of the same Group and entities who have significant influence over the Company, Bacanora and Ganfeng.

A summary of the transactions and outstanding balances at the year ended 31 December 2022 with each related party is set out below:

Name of related party	Nature of relationship	Commercial terms	Transaction value (US$)	Profit/(loss) impact (US$)	Balance owed by / (owed to) related parties (US$)
Bacanora Lithium Limited	Joint venturer	Non interest bearing	12,282,188	(12,851)	(12,851)
Bacanora Minerals Ltd[1]	Subsidiary	Non interest bearing	31,652,532	-	424,376
Bacanora Chemco S.A. de C.V.[2]	Subsidiary	Non interest bearing	1,068,000	-	4,607,000
Bacanora Chemco S.A. de C.V.[3]	Subsidiary	Non interest bearing	-	-	(2,706)
Minera Sonora Borax S.A. de C.V.[1,2,4]	Subsidiary	Interest bearing at 9.97%	14,953,646	-	6,107,217
Mexilit S.A. de C.V.[1,2,5]	Subsidiary	Interest bearing at 13.97%	7,858,579	-	3,589,860
Minera Megalit S.A. de C.V.[1,2,5]	Subsidiary	Interest bearing at 13.97%	2,200,981	-	913,994

[1]On 11 November 2022, Bacanora Minerals Ltd refunded US$6.3 million share capital to the Company as part of the intercompany loans reorganization, the returned capital was used to setoff related parties payables for subsidiaries in Mexico.

[2]Transactions relate to Sonora Project funding.

[3]Balance relates to the initial investment in Bacanora Chemco S.A. de C.V.

[4]The loan advanced shall not accrue any interest before 4 October 2026.

[5]These loans advanced shall not accrue any interest before 4 October 2027.

A summary of the transactions and outstanding balances at the year ended 31 December 2021 with each related party is set out below:

Name of related party	Nature of relationship	Commercial terms	Transaction value (US$)	Profit/(loss) impact (US$)	Balance owed by / (owed to) related parties (US$)
Bacanora Lithium Limited[1]	Joint venturer	Non interest bearing	(8,339,331)	-	-
Ganfeng Lithium Co., Ltd[2]	Joint venturer	Share issue	30,428,986	-	-
Bacanora Minerals Ltd[3]	Subsidiary	Non interest bearing	260,000	-	260,000
Bacanora Chemco S.A. de C.V.[3]	Subsidiary	Non interest bearing	3,647,000	-	3,647,000
Bacanora Chemco S.A. de C.V.[4]	Subsidiary	Non interest bearing	-	-	(2,706)
Minera Sonora Borax S.A. de C.V.[3]	Subsidiary	Non interest bearing	81,000	-	81,000
Mexilit S.A. de C.V.[3]	Subsidiary	Non interest bearing	319,000	-	319,000
Minera Megalit S.A. de C.V.[3]	Subsidiary	Non interest bearing	57,000	-	57,000

[1]On 19 May 2021, the Company performed a US$8.3 million capital reduction. On the same day, the Company and Bacanora Lithium Limited signed a deed of release relating to the related party receivable balance totaling US$8.3 million. The release of the receivable resulted in a deemed distribution of US$8.3 million.

[2]On 26 February 2021, Ganfeng subscribed for 73,955,680 new ordinary shares in the Company at 29.59p per share for a total value of £21.9 million (US$30.4 million) resulting in Ganfeng owning 50% of the enlarged issued share capital of the Company.

[3]Transations relate to Sonora Project funding.

[4]Balance relates to the initial investment in Bacanora Chemco S.A. de C.V.

16 Directors and employees of the Company

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

17 Commitments and contingencies

The Company has no commitments and contingencies.

18 Subsequent events

On 3 January 2023, one of the Company's Joint Venture parent companies, Bacanora Lithium Plc, re-registered as Bacanora Lithium Limited, with Companies House. It retained the company registration number 11189628.

On 17 February 2023, the Company's subsidiaries, Minera Sonora Borax SA de CV, Mexilit SA de CV and Minera Megalit SA de CV received notifications from the Ministry of Economy of Mexico informing the companies of the commencement of cancellation procedures over nine concession titles, this triggers a 60-day period for the concession holders to respond to the notification as per due process.

On 18 February 2023, President Andres Manuel Lopez Obrador of Mexico signed a decree published in the Official Gazette of the Federation. The decree creates a 234,855 hectares lithium mining reserve zone in Sonora dubbed "Li-MX 1", in which no lithium mining can take place. However, "the rights and obligations of the holders of current mining concessions that are located within the lithium mining reserve zone "Li-MX 1" remain safe". Another decree made on 18 February 2023 gave responsibility for lithium reserves to the Ministry of Energy, after nationalising lithium deposits last April. That decree instructed the Ministry of Energy to take necessary actions to give compliance with the provisions of the mining law regarding lithium.