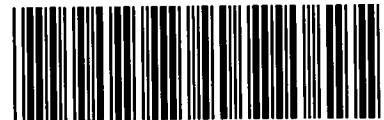




Sonora Lithium Ltd
Annual Report and Financial Statements
31 December 2023

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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 (“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.

To capitalise on the fast-growing lithium market, the main focus is to monetise the resources and reserves held in the Sonora Project, which benefits from a large, scalable and high-grade lithium resource with a global resource (measured, indicated and inferred) of almost 9 million tonnes of lithium carbonate equivalent (“LCE”). This will be achieved, initially, by developing the mine and processing plant in several phases. The Company aims to produce a battery-grade lithium product for sale to downstream cathode and battery manufacturers through existing offtake partners, Ganfeng and Hanwa Co., Ltd (“Hanwa”).

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 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 lithium carbonate (“LCE”) price, 26.1% internal rate of return (“IRR”) and US\$4,000 per tonne LCE life of mine operating costs based on the prevailing price of lithium at the time, placing the Sonora Project among the world’s lowest cost producers.

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. Pilot plant operations in Mexico, which has proven a pioneering lithium extraction process.
5. Emphasis on building strong local organisations and skill sets.
6. Commitment to excellence in Environment and Social matters.
7. Securing funding for the Sonora Project.
8. Long-term lithium offtake agreements with Ganfeng and Hanwa Co., Ltd.
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 is an indirect wholly owned subsidiary of Ganfeng, a world-class shareholder and joint venture partner for the Sonora Project. Ganfeng has a wealth of experience in creating and operating lithium producing plants. The Company will face many challenges during the construction phase of the Sonora Project, 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 Sonora Project with expedience and within budget. 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 to be established at 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.

On 20 April 2022, the Mexican Government approved an amendment to its Mining law¹ (the “2022 Amendment”). The 2022 Amendment declared lithium a strategic mineral and property of the nation. It also noted that the economic value chain of lithium would be administered and controlled by a public organ². The 2022 Amendment also provided that no concessions, licenses, contracts, permits, or authorizations would be granted for lithium related activities. The 2022 Amendment was silent on its effects, if any, on pre-existing concessions, including those held by the three Mexican entities that hold the nine concession titles on which the Sonora Project is based: Minera Sonora Borax S.A. de C.V. (“MSB”), Mexilit S.A. de C.V. (“Mex”) and Minera Megalit S.A. de C.V. (“Meg”) (together, the “Mining Entities”). The Company’s position is that the concessions held by the Mining Entities cannot be impacted by the 2022 Amendment because the concessions were granted prior to its enactment. However, the Mining Entities are challenging the constitutionality of the 2022 Amendment under Mexican law via an *amparo* action before a Mexican federal court.

In October 2022, the Directorate General of Mines (“DGM”) started proceedings against the Mexican Entities based on the identification of alleged tax payments omissions. The DGM has not taken any further action after the Mining Entities submitted the proof of tax payments.

Following the enactment of the 2022 Amendment, the President of Mexico announced that the Government of Mexico needed to “review” existing lithium concessions, including those related to the Sonora Project. Shortly thereafter, in February 2023, the Secretary of Economy, through the DGM, initiated an administrative procedure for the cancellation of nine of the concessions held by the Mining Entities. According to the DGM, the basis for these cancellation proceedings was that the Mining Entities had purportedly not complied with minimum investment obligations for the development of such concessions in 2017-2021. In those proceedings, the Mining Entities submitted extensive evidence of their compliance with such obligations in a timely manner. On 4 August 2023, however, the DGM notified the Mining Entities of resolutions cancelling these nine concessions (the “Cancellation Resolutions”).

On 25 August 2023, the Mining Entities filed administrative review recourses before the Secretary of Economy challenging the legality of the Cancellation Resolutions under Mexican law for each of the nine concessions. Shortly thereafter, on 24 November 2023, the Secretary of Economy issued decisions maintaining the Cancellation Resolutions issued by the DGM.

The Mining Entities are challenging the legality of the Cancellation Resolutions under Mexican law through annulment claims before the Federal Tribunal of Administrative Justice in Mexico.

The Company has considered the impact of the 2022 Amendment and the actions taken by Secretary of Economy and is analysing the legal options it may have under Mexican and international law. It has concluded that despite Mexico’s actions, it has strong arguments and evidence that protect the ownership of the concessions. Specifically, the Company’s position is that Mexico has violated both Mexican and international law as its actions are arbitrary, unsubstantiated in both fact and law, and infringe upon the Company’s and the Mexican Entities’ fundamental due process rights.

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

² Mexico subsequently established a government entity named Litio para México (“LitioMex”) for this purpose <https://sidof.segob.gob.mx/notas/5662345>

A key challenge is to negotiate a path and workable solution with the Mexican Government and reach a mutually beneficial commercial agreement that allows the Sonora Project to move forward. Please refer to note 17 to the Financial Statements for further information.

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 to be established at 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. Our operational and management teams support 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.

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 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 Risks

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 review 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. 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, 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, 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 permitting;
- 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 is not immune to these risks, which are beyond its control, and its 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, most importantly, the successful resolution of ongoing litigations involving the Secretary of Economy's cancellation of the Mexican Entities' concession and changes to Mexico's Mining Law, among other remedies that the Company can pursue under Mexican or international law.

There is no certainty that the Sonora Group will be able to obtain favourable judgments or awards on any or all of its legal proceedings, and successfully complete the multiple other activities required to start or to continue to operate the Sonora Project. There is no guarantee that certain funds will be available to finance construction given that the Sonora Project is not fully financed by the Company. 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, 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, while the Company worked diligently to continue to de-risk the Sonora Project following the completion of the Sonora Feasibility Study in January 2018, some risks have increased over the past twelve months e.g. geopolitical risks, delays in permitting and the availability of sufficiently skilled staff at a reasonable cost. These heightened risks and delays 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, Mexico's recent change in political priorities and resource nationalism with respect to lithium, as reflected by the Secretary of Economy's recent decision to cancel the Mexican Entities' concessions (the legality of which the Group is disputing) may mean that Bacanora is prevented from being able to develop and operate its Sonora Project, or if allowed could operate in a market that may be unreceptive to the globalization which underpins supply chains, financing and capital. Bacanora 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 and the Gaza-Israel Conflict, 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 a responsible corporate citizen and adds value to the communities in which it operates to maintain the Company's social licence to minimise geopolitical risk. With respect to the 2022 Amendment and the cancellation of the Mining Entities' concessions, the Company, through the Mining Entities, has taken available steps and legal procedures to challenge such actions under Mexican law.

Trend:

The increasing occurrences of asset and resource nationalism globally, including in Mexico, mean that geopolitical risks remain key.

On 20 April 2022, the Mexican Government approved the 2022 Amendment, which declared lithium a strategic mineral and property of the nation. It also noted that the economic value chain of lithium would be administered and controlled by a public organ. The 2022 Amendment also provided that no concessions, licenses, contracts, permits, or authorizations would be granted for lithium related activities. The 2022 Amendment was silent on its effects, if any, on pre-existing concessions, including those held by the three Mining Entities. The Company's position is that the concessions held by the Mining Entities cannot be impacted by the 2022 Amendment because the concessions were granted prior to its enactment. However, the Mining Entities are challenging the constitutionality of the 2022 Amendment under Mexican law via an *amparo* action before a Mexican federal court.

On 23 August 2022, the President of Mexico issued a decree titled "Decree that creates the decentralized public organ of the Federal Public Administration called Litio para México". This decree established a State-owned entity named Litio para México or LitióMX to explore, exploit, benefit, and use lithium in Mexico and to be in charge of the administration and control of the economic value chains of said mineral.

In October 2022, the DGM started proceedings against the Mexican Entities based on the identification of alleged tax payments omissions. The DGM has not taken any further action after the Mining Entities submitted the proof of tax payments.

Subsequently, on 18 February 2023, the President of Mexico issued a Presidential Decree titled "Decree that declares a mining reservation zone of lithium called 'Li-MX 1' for public utility reasons". Through this Presidential Decree, Mexico established a "mining reservation zone" (which is a zone where only the State is authorized to conduct mining operations directly or indirectly) named "Li-MX 1" in an area encompassing 234,855 hectares in the state of Sonora. The Mining Entities are challenging this Decree, as well as the one issued on 23 August 2022 via an *amparo* action before a Mexican federal court.

Another Presidential Decree also dated 18 February 2023 instructed the Secretary of Energy to take any necessary actions to oversee the execution of the aforementioned Presidential Decree and to comply with the 2022 Amendment regarding lithium, as well as the Decree creating Litió-MX.

In February 2023, the Secretary of Economy, through the DGM also initiated administrative procedures for the cancellation of nine of the concessions held by the Mining Entities. According to the DGM, the basis for these cancellation proceedings was that the Mining Entities had purportedly not complied with minimum investment obligations for the development of such concessions in 2017-2021. In those proceedings, the Mining Entities submitted extensive evidence of their compliance with such obligations in a timely manner. On 4 August 2023, however, the DGM notified the Mining Entities of the Cancellation Resolutions.

On 25 August 2023, the Mining Entities filed administrative review recourses before the Secretary of Economy challenging the legality of the Cancellation Resolutions under Mexican law for each of the nine concessions. Shortly thereafter, on 24 November 2023, the Secretary of Economy issued decisions maintaining the Cancellation Resolutions issued by the DGM. The Mining Entities are challenging the legality of the Cancellation Resolutions under Mexican law through annulment claims before the Federal Tribunal of Administrative Justice in Mexico.

The Company has considered the impact of the 2022 Amendment and the actions taken by Secretary of Economy and is analysing the legal options it may have under Mexican and international law. It has concluded that, despite Mexico's actions, it has strong arguments and evidence that protect the ownership of the concessions. Specifically, the Company's position is that Mexico has violated both Mexican and international law as its actions are arbitrary, unsubstantiated in both fact and law, and infringe upon the Company's and the Mexican Entities' fundamental due process rights.

As indicated, the Sonora Project's geopolitical risk remains high.

Risk 3: Financing risk

Financing risk in the context of the Company'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.

As the Sonora Project develops, there will be a requirement for significant additional finance at various intervals or stages of development. It is anticipated that the Sonora Project will be financed by the Company's excess cash and supported by funding to be provided by its parent company Ganfeng. Ganfeng has also 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:

The Company has US\$3.5 million cash on hand and a US\$15.1 million related party receivable which is repayable on demand. The Company does not have any third party debt. In addition to the existing cash reserves, Ganfeng, being a JV partner in the Sonora Project, would assist in providing funding for the continued development of the Sonora Project.

Trend:

The ongoing legal disputes with the Mexican government may adversely impact the ability for Bacanora, Ganfeng or a project company to raise further debt or equity financing as required to finance the 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 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 Company 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 Company 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:

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.

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. The Company's only key performance indicators are cash and cash equivalents and safety. 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 Company's cash position. The Company had cash and cash equivalents of US\$3.5 million as at 31 December 2023, compared to US\$21.1 million as at 31 December 2022. 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 2023, there were no Lost time injuries ("LTIs") resulting in a LTIFR of nil. This follows on from Nil LTIs in 2022, 2021 and 2020 in Sonora Group.

5 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 2023, 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 off-take partner - 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 partners 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. A good relationship with community and government organisations is not taken for granted and is highly coveted in the business, the value of which is intangible but critically important.

After the enactment of the 2022 Amendment, Ganfeng, Bacanora, and the Company have been proactively seeking to engage with the Mexican Government, including the Secretary of Economy, to discuss the terms of a potential collaboration with respect to the Sonora Project, which takes into account the Company's rights. The Company continues to be open to discussing a mutually beneficial resolution with the Government. As now, no agreement has been reached between the Company and the Mexican Government concerning a potential collaboration.

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 has 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.

Legal actions taken against the Mexican Government

During the year ended 31 December 2023, the Mexican Entities commenced domestic legal proceedings to challenge the legality of the Cancellation Resolutions under Mexican law. The Mexican Entities also continued with their amparo filings to challenge the amendments to the Mining law, as well as the Decrees establishing LitióMX and creating the Li-MX 1 mining reservation zone in areas comprising the Mining Entities' concessions.

The Mexican Entities have filed annulment claims to challenge the legality of the Secretary of Economy's cancellation of the concessions under Mexican law. The Company, moreover, is analysing the legal options it may have under international law to challenge Mexico's actions.

The Board considered that Mexico's actions and the Mining Entities' legal proceedings may impact the ability of the Company to continue its operations in Mexico but concluded that the proceedings are necessary to protect the interests of the Company in the Sonora Project.

Provision of US\$15m principal loan to Ganfeng

On 2 October 2023, the board resolved to provide GFL International Co. Limited ("GFL"), a 100% subsidiary of Ganfeng, with a short term US\$15 million related party loan, interest bearing at 4.75% per annum, repayable on demand. The principal and interest is due on 1 October 2024 according to the term of the loan.

The Board considered the loan would support the shareholder's corporate activities whilst earning interest for the Company on funds that could be more efficiently utilized by the Ganfeng treasury division. On balance, the loan was aligned with corporate strategy, to utilize resources productively, whilst the FEED and legal processes are progressing.

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

6 Business Review

During the year ended 31 December 2023, the Company continued to be the holding company for the Sonora Project and continued to lead the implementation of the project.

The Company made a profit of US\$549,813 (2022: US\$159,839) for the year which has been transferred to retained earnings. As at 31 December 2023 the Company had net assets of US\$82,249,241 (2022: US\$81,699,428).

No dividends have been paid during the year (2022: Nil). The directors do not recommend payment of a dividend.

On 2 October 2023, the Company provided a short term US\$15 million related party loan facility to GFL, a 100% subsidiary of Ganfeng. The loan is repayable on demand, carries a 4.75 per cent fixed interest rate and expires on 1 October 2024. The loan was fully drawn at 31 December 2023.

On behalf of the Board of Directors


Janet Blas

7 April 2024

Directors Report

The Directors present their Annual Report and Financial Statements of the Company for the year ended 31 December 2023.

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 and as of the date of this report:

- 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 2023	Shareholding on 31 December 2022
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, Cannon Place, 78 Cannon Street, London EC4N 6HN).

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 (please refer to Note 9) present to the Company.

9 Going Concern

See the Going Concern section in note 2c to the Financial Statements.

10 Post balance sheet events

See note 17 to the Financial Statements for a detailed discussion on events that occurred subsequent to 31 December 2023.

11 Future developments

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

12 Auditor

Ernst and Young LLP were appointed as auditor to the Company and in accordance with section 485 of the Companies Act 2006. A resolution proposing that they be re-appointed for 2024 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.

14 Streamlined Energy and Carbon Reporting

Energy and carbon emissions are not disclosed as the Company is classed as a Low Energy User as defined in the regulations.

15 Matters covered in the Strategic Report

Disclosures of the Company's business review and principal risks and uncertainties are provided in the Strategic Report.

On behalf of the Board of Directors



Janet Blas

7 April 2024

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;
- present fairly the financial position and financial performance of the Company;
- present information including accounting policies in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements of IFRS is sufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance.

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 confirms that to the best of its 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 Sonora Lithium Ltd.

(b) the management report includes a fair review of the development and performance of the business and the position of Sonora Lithium Ltd, together with a description of the principal risks and uncertainties that the Company faces.

(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

7 April 2024

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 2023 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 17, including material accounting policy information. 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 2023 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter - Recoverability of investments in subsidiaries and non-current receivables from related parties

We draw attention to note 4b of the financial statements, which describes the effects of the Mexican Government decrees to amend the Mining law and the cancellation of the concessions held by the Mining Entities (Minera Sonora Borax S.A. de C.V., Mexilit S.A. de C.V. and Minera Megalit S.A. de C.V.) on the investments in Company's subsidiaries and the non-current receivables from related parties. 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 30 April 2025.

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' responsibilities statement as set out on page 13, 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 and the relevant tax compliance regulations in the jurisdiction in which the Company operates. 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, mining concessions, 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 and those charged with governance. We corroborated our enquiries through our review of Board minutes, the Company's code of conduct, any relevant correspondence with local regulatory bodies and the Company's whistle-blower policy and noted that there was no contradictory evidence. We also enquired directly with the Company's internal and external 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 using data analytics for testing of 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 the 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 to 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.

Ernst & Young LLP

Jessy Maguhn

Senior statutory auditor

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

11 April 2024


Statement of Financial Position

As at 31 December 2023

In US\$	Note	31 December 2023	31 December 2022
Assets			
Current assets			
Cash and cash equivalents		3,527,566	21,060,603
Other receivables		7,693	11,188
Receivable from related parties	6	15,138,938	-
Total current assets		18,674,197	21,071,791
Non-current assets			
Receivable from related parties	6	18,741,448	15,642,447
Investment in subsidiaries	5	45,028,280	45,028,280
Total non-current assets		63,769,728	60,670,727
Total assets		82,443,925	81,742,518
Liabilities and shareholders' equity			
Current liabilities			
Accrued liabilities		43,318	27,533
Provision for taxation	13	148,596	-
Total current liabilities		191,914	27,533
Non-current liabilities			
Payable to related parties	7	2,770	15,557
Total non-current liabilities		2,770	15,557
Total liabilities		194,684	43,090
Shareholders' equity			
Share capital	10	26,498,777	26,498,777
Share premium	10	50,051,705	50,051,705
Merger reserve	10	5,070,967	5,070,967
Retained earnings		627,792	77,979
Total shareholders' equity		82,249,241	81,699,428
Total liabilities and shareholders' equity		82,443,925	81,742,518

The accompanying notes on pages 21 - 33 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 7 April 2024 and were signed on its behalf by:


Janet Blas

7 April 2024

Statement of Comprehensive Income

For the year ended 31 December 2023

In US\$	Note	Year ended 31 December 2023	Year ended 31 December 2022
Expenses			
General and administrative	11	(67,427)	(48,872)
Foreign exchange gain/(loss)		7,666	(27,726)
Operating loss		(59,761)	(76,598)
Finance income	12	758,170	236,491
Profit before tax		698,409	159,893
Tax charge	13	(148,596)	-
Profit after tax		549,813	159,893
Total comprehensive income		549,813	159,893

No other comprehensive income for the year ended 31 December 2023, so no Statement of Other Comprehensive Income was prepared.

The accompanying notes on pages 21- 33 are an integral part of these Financial Statements.



Statement of Changes in Equity
For the year ended 31 December 2023

Share capital							
In US\$	Note	Number of shares	Value	Share premium	Merger reserve	Retained earnings	Total equity
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	10	208,420,552	26,498,777	50,051,705	5,070,967	77,979	81,699,428
Comprehensive income for the year:							
Profit for the year		-	-	-	-	549,813	549,813
Total comprehensive income		-	-	-	-	549,813	549,813
31 December 2023	10	208,420,552	26,498,777	50,051,705	5,070,967	627,792	82,249,241

The accompanying notes on pages 21 - 33 are an integral part of these Financial Statements.

Statement of Cash Flows

For the year ended 31 December 2023

In US\$	Note	Year ended 31 December 2023	Year ended 31 December 2022
Cash flows from operating activities			
Total profit before tax for the year		698,409	159,893
Adjustments for:			
Foreign exchange (gains)/losses		(7,666)	27,726
Finance income	12	(758,170)	(236,491)
Changes in working capital items:			
Other receivables		6,825	(7,318)
Accounts payable and accrued liabilities		15,719	(93,813)
Net cash used in operating activities		(44,883)	(150,003)
Cash flows from investing activities:			
Interest received		619,232	236,491
Payments to related parties		(18,111,786)	(4,980,816)
Net cash used in investing activities		(17,492,554)	(4,744,325)
Cash flows from financing activities			
Advances from related parties		-	12,851
Net cash flows from financing activities		-	12,851
Change in cash and cash equivalents during the year		(17,537,437)	(4,881,477)
Foreign exchange rate effects		4,400	(28,390)
Cash and cash equivalents, beginning of the year		21,060,603	25,970,470
Cash and cash equivalents, end of the year:		3,527,566	21,060,603

The accompanying notes on pages 21 - 33 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 (a private company limited by shares) (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 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. The smallest and largest group where the Company's financial statements had been consolidated are Ganfeng International Trading (Shanghai) Co., Ltd. and consolidation of Ganfeng Lithium Group Co., Ltd respectively.

The Company was established as an investment holding company.

Under Companies Act 2006, Section 401, the Company is exempt from the requirement to prepare group accounts. The ultimate parent, Ganfeng Lithium Group Co., Ltd., produces financial statements in which the Company and its subsidiaries are consolidated. Those financial statements are available for public use and comply with IFRS. Ganfeng is listed in Shenzhen Stock Exchange and Hong Kong Stock Exchange.

2 Basis of preparation

a) Statement of compliance

These 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.

The Company Financial Statements were authorised for issue by the Board of Directors on 7 April 2024. 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.

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 Financial Statements 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. As at 31 December 2023, the Company has a significant cash balance of US\$3.5 million (2022: US\$21.1 million) and a receivable due on demand from a related company of US\$15.1 million (2022: Nil) giving total liquidity of US\$18.6 million (2022: US\$21.1 million) and the Company has not entered into any significant commitments. The Company has prepared a cash flow forecast for the going concern period (from the approval of the financial statements to 30 April 2025). 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 and have concluded that there is sufficient headroom in relation to liquidity. As at 31 December 2023, Bacanora has US\$9.9 million (2022: US\$14.0 million) of cash and cash equivalents and a receivable due on demand from the immediate

parent company of US\$60.8 million (2022: US\$60.3 million) giving total liquidity of US\$70.7 million (2022: US\$74.3 million). As at 31 December 2023, Bacanora has no external debt (2022: US\$ Nil) and has not entered into any significant commitments.

The Board of Directors has considered the impact of climate change, the war in Ukraine and the Gaza-Israel conflict and concluded that currently there is no direct impact on the Company.

On 20 April 2022, the Mexican Government approved an amendment to its Mining law ("2022 Amendment"), which declared lithium a strategic mineral and property of the nation. It also noted that the economic value chain of lithium would be administered and controlled by a public organ. The Company has considered the impact of the Mexican Government's 2022 Amendment and has concluded from the body of evidence and the mining rights in general under the Constitution, that this does not impact the going concern assessment because the ownership of the Sonora Project's assets is protected by Mexican and international law.

In February 2023, the Secretary of Economy, through the Directorate General of Mines ("DGM"), initiated administrative procedures for the cancellation of nine of the concessions held by Minera Sonora Borax S.A. de C.V. ("MSB"), Mexilit S.A. de C.V. ("Mex") and Minera Megalit S.A. de C.V. ("Meg") (together, the "Mining Entities"). According to the DGM, the basis for these cancellation proceedings was that the Mining Entities had purportedly not complied with minimum investment obligations for the development of such concessions in 2017-2021. In those proceedings, the Mining Entities submitted extensive evidence of their compliance with such obligations in a timely manner. On 4 August 2023, however, the DGM notified the Mining Entities of resolutions cancelling these nine concessions i.e., the Cancellation Resolutions.

On 25 August 2023, the Mining Entities filed administrative review recourses before the Secretary of Economy challenging the legality of the Cancellation Resolutions under Mexican law for each of the nine concessions. Shortly thereafter, on 24 November 2023, the Secretary of Economy issued decisions maintaining the Cancellation Resolutions issued by the DGM.

The Mining Entities are challenging the legality of the Cancellation Resolutions under Mexican law through annulment claims before the Federal Tribunal of Administrative Justice in Mexico. The Company is also exploring all possible legal recourses available to it.

The Company has considered the impact of the actions taken by DGM and the legal advice from lawyers and has concluded that the Mining Companies have strong arguments and evidence that protect the ownership of the concession titles under Mexican and international law and that this does not impact the going concern assessment.

Having considered the modelling and other factors as described above, the Company has concluded that the going concern basis of accounting is appropriate to assume when preparing the Company Financial Statements for the year ended 31 December 2023.

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 material 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 17	Insurance Contracts	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 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
IAS 12	Amendment - International Tax Reform - Pillar Two Model Rules	23 May 2023

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 16	Amendment - regarding the leases on sale and leaseback	1 January 2024
IAS 1	Amendment - regarding the non-current liabilities with covenants	1 January 2024
IAS 7 and IFRS 7	Amendment - regarding the supplier finance	1 January 2024
IAS 21	Amendment - regarding the lack of exchangeability	1 January 2025

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 at 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

The Company recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The Company has applied below ECLs model for its other receivables, receivables from related parties as permitted by IFRS 9 Financial Instruments.

Other receivables and receivables from related parties that are not carried at fair value through the 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 ECLs 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.

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 Statement of Financial Position.

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. Hence, management has determined that USD is the functional currency of the Company.

b) Recoverability of investment in subsidiaries and non-current receivables from related parties

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. During the impairment review, an indicator of impairment was identified and following the assessment an impairment charge is not required to be recognised as at 31 December 2023. The Directors also consider that the non-current receivables from related parties are fully recoverable at 31 December 2023.

On 20 April 2022, the Mexican Government approved the 2022 Amendment, which declared lithium a strategic mineral and property of the nation. It also noted that the economic value chain of lithium would be administered and controlled by a public organ. The 2022 Amendment also provided that no concessions, licenses, contracts, permits, or authorizations would be granted for lithium related activities. The 2022 Amendment was silent on its effects, if any, on pre-existing concessions, including those held by the three Mining Entities. The Company's position is that

the concessions held by the Mining Entities cannot be impacted by the 2022 Amendment because the concessions were granted prior to its enactment. However, the Mining Entities are challenging the constitutionality of the 2022 Amendment under Mexican law via an *amparo* action before a Mexican federal court.

On 23 August 2022, the President of Mexico issued a decree titled “Decree that creates the decentralized public organ of the Federal Public Administration called Litio para México”. This decree established a State-owned entity named Litio para México or LitioMX to explore, exploit, benefit, and use lithium in Mexico and to be in charge of the administration and control of the economic value chain of said mineral.

In October 2022, the DGM started proceedings against the Mexican Entities based on the identification of alleged tax payments omissions. The DGM has not taken any further action after the Mining Entities submitted proof of tax payments.

Subsequently, on 18 February 2023, the President of Mexico issued a Presidential Decree titled “Decree that declares a mining reservation zone of lithium called ‘Li-MX 1’ for public utility reasons”. Through this Presidential Decree, Mexico established a “mining reservation zone” (which is a zone where only the State is authorized to conduct mining operations directly or indirectly) named “Li-MX 1” in an area encompassing 234,855 hectares in the state of Sonora.

Another Presidential Decree also dated 18 February 2023 instructed the Secretary of Energy to take any necessary actions to oversee the execution of the aforementioned Presidential Decree and conduct all necessary actions to comply with the 2022 Amendment regarding lithium, as well as the Decree creating Litio-MX.

In February 2023, the Secretary of Economy, through the DGM also initiated an administrative procedure for the cancellation of nine of the concessions held by the Mining Entities. According to the DGM, the basis for these cancellation proceedings was that the Mining Entities had purportedly not complied with minimum investment obligations for the development of such concessions in 2017-2021. In those proceedings, the Mining Entities submitted extensive evidence of their compliance with such obligations in a timely manner. On 4 August 2023, however, the DGM notified the Mining Entities of the resolutions cancelling these nine concessions (“Cancellation Resolutions”).

On 25 August 2023, the Mining Entities filed administrative review recourses before the Secretary of Economy challenging the legality of the Cancellation Resolutions under Mexican law for each of the nine concessions. Shortly thereafter, on 24 November 2023, the Secretary of Economy issued decisions maintaining the Cancellation Resolutions issued by the DGM. Please refer to note 17 to the Financial Statements for further information.

The Mining Entities are challenging the legality of the Cancellation Resolutions under Mexican law through annulment claims before the Federal Tribunal of Administrative Justice in Mexico. The Company is also analysing other legal actions available to it under international law.

As at 31 December 2023 and as at the date of the approval of these Financial Statements, the Company’s position is that the Cancellation Resolutions violate both Mexican law and international law as they are arbitrary, unsubstantiated in both fact and law, and infringe upon the Company’s and the Mining Entities’ fundamental due process rights. The Company has taken legal advice and has considered the impact of the Mexican Government’s 2022 Amendment and the Cancellation Resolutions, at the balance sheet date, and concluded that no impairment charge is required to be recorded against the investment in subsidiaries in the year. The Directors consider it appropriate to continue to record the investment in the Sonora Project at historic cost.

The Company and its legal counsel continue to closely monitor developments associated with the changes of Mining Law and the Cancellation Resolutions and the lawsuits that affect lithium concessions, 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 31.12.2022	45,025,574	2,706	45,028,280
Balance as at 31.12.2023	45,025,574	2,706	45,028,280

The Company has the following subsidiaries as at 31 December 2023:

Name of subsidiary	Country of incorporation	Shareholding on 31 December 2023	Shareholding on 31 December 2022	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
Mineramax 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

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 Mineramax Ltd.

⁴ The remaining 30% is owned by Cadence Minerals Plc.

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 has ongoing legal cases, which are relevant to the Company.

Mexico lithium cases

The Mexican Entities have submitted constitutional challenges (“amparos”) regarding Mexico’s 2022 Amendment, establishment of LitoMX, declaration of a lithium reservation zone in areas encompassing the Sonora Project, as well as additional changes to the Mining Law approved in 2023. These amparo actions are ongoing.

In February 2023, the Secretary of Economy, through the DGM, also initiated administrative procedures for the cancellation of nine of the concessions held by the Mining Entities. According to the DGM, the basis for these cancellation proceedings was that the Mining Entities had purportedly not complied with minimum investment obligations for the development of such concessions in 2017-2021. In those proceedings, the Mining Entities submitted extensive evidence of their compliance with such obligations in a timely manner. On 4 August 2023, however, the DGM notified the Mining Entities of the Cancellation Resolutions.

On 25 August 2023, the Mining Entities filed administrative review recourses before the Secretary of Economy challenging the legality of the Cancellation Resolutions under Mexican law for each of the nine concessions. Shortly thereafter, on 24 November 2023, the Secretary of Economy issued decisions maintaining the Cancellation Resolutions issued by the DGM.

The Mining Entities are challenging the legality of the Cancellation Resolutions under Mexican law through annulment claims before the Federal Tribunal of Administrative Justice in Mexico. Please refer to note 17 to the Financial Statements for further information. The Company is also analysing other legal options it may have under international law.

Orr-Ewing royalty dispute

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 Lithium 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 judgment from the Court of King's Bench was that this specific action by Bacanora Minerals Ltd was time-barred. Bacanora Minerals Ltd appealed this judgment and on 26 April 2023, the Alberta Court of Appeal found in favour of Bacanora Minerals Ltd and overturned the original judgment and awarded costs against the Estate. As at the date of this report, the Estate has not paid these costs and the Company is considering its next steps in enforcing this costs judgment.

The Alberta Courts have not ruled in any way on the validity of the royalty. Bacanora Minerals Ltd maintains that the royalty is invalid and unenforceable. The validity of the royalty remains to be determined by the Alberta Courts.

The Company and Sonora Group have 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 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 (in US\$)	31 December 2023	31 December 2022
GFL International Co. Limited (note i)	15,138,938	-
Bacanora Minerals Ltd (note ii)	684,377	424,376
Bacanora Chemco S.A.de C.V. (note iii)	4,607,000	4,607,000
Minera Sonora Borax S.A. de C.V. (note iv)	7,435,217	6,107,217
Mexilit S.A. de C.V. (note v)	4,828,860	3,589,860
Minera Megalit S.A. de C.V. (note v)	1,185,994	913,994
Total	33,880,386	15,642,447
Non-current portion	18,741,448	15,642,447
Current portion	15,138,938	-
Total	33,880,386	15,642,447

- i) A short term loan was provided to GFL International Co. Limited for a period of one year, the loan is interest bearing at 4.75 per cent per annum and is repayable on demand. The loan, with accrued interest, must be repaid not later than 1 October 2024. The loan was fully drawn at 31 December 2023.
- ii) The amount due is unsecured, interest bearing at 9.97% p.a. (2022: 9.97% p.a.) with an interest-free period until 13 April 2025, and no fixed terms of repayment.
- iii) The amount due is unsecured, interest bearing at 9.97% p.a. (2022: 9.97% p.a.) with an interest-free period until 13 April 2025, and no fixed terms of repayment.
- iv) The amount due is unsecured, interest bearing at 9.97% p.a. (2022: 9.97% p.a.) with an interest-free period until 13 April 2025, and no fixed terms of repayment.
- v) The amounts due are unsecured, interest bearing at 13.97% p.a. (2022: 13.97% p.a.) with an interest-free period until 11 November 2026, and no fixed terms of repayment.
- vi) The recoverability of the Company's non-current receivables from related parties are affected by the critical accounting estimates and judgements described in note 4(b).

7 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 2023 are as follows:

In US\$	31 December 2023	31 December 2022
Bacanora Lithium Limited	64	12,851
Bacanora Chemco S.A. de C.V.	2,706	2,706
Total	2,770	15,557

8 Financial instruments

The Company's principal financial assets and liabilities are classified as at 31 December 2023 as follows:

At amortised cost (In US\$)	31 December 2023	31 December 2022
Financial assets		
Cash and cash equivalents	3,527,566	21,060,603
Other receivables	7,693	11,188
Receivable from related parties	33,880,386	15,642,447
Total financial assets	37,415,645	36,714,238
Financial liabilities		
Accrued liabilities	43,316	27,533
Payable to related parties	2,772	15,557
Total financial liabilities	46,088	123,868
Net financial assets	37,369,557	36,671,148

9 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 8. 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, other receivables and receivables from related parties. The Company considers a financial asset in default when contractual payments are over the credit term. The Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

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 (2022: A-1 rating).

The Company's current receivables from related parties mainly relate to receivables from its subsidiaries and a company in the Ganfeng Group, 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 related parties receivables was performed by management at 31 December 2023. 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 2023 taking into consideration the availability of cash to repay the loans from the counterparty and expected future profit from the counterparty's ongoing projects.

The total carrying amount of cash and cash equivalents, other receivables and 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 to be 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 include estimated future interest payments.

As at 31 December 2023 (In US\$)	Within 30 days	30 days to 6 months	6 to 12 months	Over 12 months
Accrued liabilities	43,316	-	-	-
Payable to related parties	-	-	-	2,772
As at 31 December 2022 (In US\$)	Within 30 days	30 days to 6 months	6 to 12 months	Over 12 months
Accrued liabilities	27,533	-	-	-
Payable to related parties	-	-	-	15,557

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 2023, 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, receivables from related parties 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 2023, the Company held US\$82,249,241 (at 31 December 2022: US\$81,699,428) 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.

10 Equity

a) Authorised and issued share capital

The authorised and issued share capital of the Company consists of 208,420,552 voting common shares of par value £1 (2022: £1).

	Shares	Share Capital (US\$)	Share Premium (US\$)
31 December 2022	208,420,552	26,498,777	50,051,705
31 December 2023	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.

11 General and administrative expenses

General and administrative expenses relate to legal and accounting fees. For the year ended 31 December 2023, audit fees (paid to Ernst & Young LLP) related to statutory audit of the Company totaled US\$36,131 (2022: US\$37,380).

12 Finance income

Finance income relates to bank interest income on the Company's cash reserves and interest income from loan to related parties.

13 Taxation

a) Current taxation

Provision for tax has been recognised for the year ended 31 December 2023 (2022: 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 profit for the year is as follows:

In US\$	Year ended 31 December 2023	Year ended 31 December 2022
Profit before tax	698,409	159,893
Tax on profits at the statutory tax rate of 23.52% (2022: 19%)	164,266	30,380
Expenses not deductible	-	-
Group relief	-	(14,815)
Unrecognised tax losses and timing difference	(15,670)	(15,565)
Tax charge	148,596	-

Based on a profit before tax for the year if US\$698,409 (2022: US\$159,893), the effective tax rate is 21.27% (2022: Nil).

Legislation was introduced in UK Finance Act 2021 to increase the main rate of UK corporation tax 19 per cent to 25 per cent from 1 April 2023.

b) Deferred tax

No deferred tax had been recognized as there is no temporary difference between the carrying amount of assets and liabilities in the statement of financial position and its tax base.

14 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 2023 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\$)
GFL International Co. Limited ¹	Ultimate parent	Interest bearing at 4.75%	15,138,938	138,938	15,138,938
Bacanora Lithium Limited	Joint venturer	Non interest bearing	492,787	-	(64)
Bacanora Minerals Ltd ²	Subsidiary	Interest bearing at 9.97%	260,001	-	684,377
Bacanora Chemco S.A. de C.V. ⁴	Subsidiary	Interest bearing at 9.97%	-	-	4,607,000
Bacanora Chemco S.A. de C.V. ⁴	Subsidiary	Non interest bearing	-	-	(2,706)
Minera Sonora Borax S.A. de C.V. ^{3, 5}	Subsidiary	Interest bearing at 9.97%	1,328,000	-	7,435,217
Mexilit S.A. de C.V. ^{3, 6}	Subsidiary	Interest bearing at 13.97%	1,239,000	-	4,828,860
Minera Megalit S.A. de C.V. ^{3, 6}	Subsidiary	Interest bearing at 13.97%	272,000	-	1,185,994

¹ A short term loan was provided to GFL International Co. Limited for a period of one year, the loan is interest bearing at 4.75 per cent per annum and is repayable on demand. The loan, with accrued interest, must be repaid not later than 1 October 2024. The loan was fully drawn at 31 December 2023.

² Balance relates to funding for general operations and repayable on demand. The amount due is unsecured, interest bearing at 9.97% p.a. (2022: 9.97% p.a.) with an interest-free period until 13 April 2025, and no fixed terms of repayment.

³ Transactions relate to Sonora Project funding.

⁴ Balance relates to the initial investment in Bacanora Chemco S.A. de C.V. Certain amounts due are unsecured, interest bearing at 9.97% p.a. (2022: 9.97% p.a.) with an interest-free period until 13 April 2025, and no fixed terms of repayment.

⁵ The amount due is unsecured, interest bearing at 13.97% p.a. (2022: 13.97% p.a.) with an interest-free period until 13 April 2025, and no fixed terms of repayment.

⁶ The amount due is unsecured, interest bearing at 13.97% p.a. (2022: 13.97% p.a.) with an interest-free period until 11 November 2025, and no fixed terms of repayment.

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. Certain amounts due are unsecured, interest bearing at 9.97% p.a. (2022: 9.97% p.a.) with an interest-free period until 13 April 2025, and no fixed terms of repayment.

⁴ The amount due is unsecured, interest bearing at 13.97% p.a. (2022: 13.97% p.a.) with an interest-free period until 13 April 2025, and no fixed terms of repayment.

⁵ The amount due is unsecured, interest bearing at 13.97% p.a. (2022: 13.97% p.a.) with an interest-free period until 13 October 2025, and no fixed terms of repayment.

15 Directors and employees of the Company

Directors are not remunerated for their role (2022: US\$Nil) and the Company has no employees (2022: Nil).

16 Commitments and contingencies

The Company has no commitments and contingencies (2022: Nil)

17 Subsequent events

On 19 January 2024 and 22 January 2024, the Mining Entities submitted annulment claims to challenge the legality of the Cancellation Resolutions under Mexican law. If necessary, the Mining Entities and/or the Company will resort to additional remedies under Mexican or international law. The final outcome of the Group's exercise of these remedies is subject to uncertainties. The Board will pay active attention to the progress of the matter in a timely manner.

As noted above, both the 2022 Amendment concerning lithium, as well as further general amendments to the Mining Law that were approved in May 2023 ("2023 Amendment"), have been challenged in amparo actions by both the Mexican Entities and other companies that are impacted by those amendments. At this stage, no decision has been issued in connection with the 2022 Amendment. Regarding the 2023 Amendment, some federal courts have issued decisions that continue to be subject to appeal. These decisions, however, do not concern either the 2022 Amendment or the Cancellation Resolutions that are specific to lithium and the Sonora Project, respectively. Thus, the decisions concerning the 2023 Amendment do not change the risk outlook described above concerning Mexico's actions and the ongoing legal proceedings.

For background information of legal cases, please refer to Section 3 - Key Challenges of Strategic Report and note 4 to the Financial Statements.