

Bacanora Lithium plc / Index: AIM / Epic: BCN / Sector: Natural Resources

Bacanora Lithium plc ("Bacanora" or the "Company")
Quarterly Sonora Lithium Project Update

Bacanora Lithium plc (AIM: BCN), the London listed lithium exploration and development company, is pleased to provide an update on its activities at the Sonora Lithium Project in Mexico ("Sonora" or the "Project") where work to develop an initial 17,500 tonnes per annum ("tpa") lithium carbonate ("Li₂CO₃") operation is ongoing. Sonora has the potential to become a major supplier to fast growing lithium industries. With low first quartile operating costs estimated, the Project can remain a profitable producer of Li₂CO₃ in a wide range of market conditions.

The Company will be hosting a shareholder conference call at 3 pm UK time on 13 August 2018. The call will be hosted by CEO Peter Secker, who will discuss the recent financing announcements, along with an update on the Sonora Lithium Project.

Project Development

- The Front End Engineering Design ("FEED") for the Li₂CO₃ processing facility is currently scheduled to be completed in H2 2018 and the ongoing design scope includes the following critical areas:
 - Pre-concentrator
 - Roaster/Kiln
 - Crystallisers/Evaporators
 - IX and packaging
 - Energy supply contracts
 - Infrastructure and access
- The Company continues to build its Owners Management Team to work with and manage the FEED engineering groups
 - The Company now has over 50 employees based in Hermosillo working on the FEED and being trained in the pilot plant
- The pilot plant continues to produce samples of battery grade Li₂CO₃ for distribution to potential end customers in Asia in addition to the ongoing metallurgical flow sheet optimisation work and other testwork
 - Significant effort is being placed on training local personnel in all operational aspects of lithium process plant operations
- Modified environmental site permits ("MIA") were granted in May 2018 allowing the location for the Li₂CO₃ plant to be optimised for future production
- Once the FEED has been completed and all designs, cost estimates and process guarantee scopes are in place, orders for long lead items can be placed and earthworks can commence, subject to funding being in place. Subject to completion of funding discussions and FEED, the Stage 1 project commissioning target at Sonora is likely to be in H2 2020.

Financing

The recent US\$150 million senior debt facility secured with RK Mine Finance and the US\$65 million and US\$25 million conditional equity commitments from the State General Reserve Fund of Oman ("SGRF"), and Bacanora's off-take partner, Hanwa Co., LTD ("Hanwa") for project development, provide independent endorsements of Sonora's strategic importance. To date US\$240 million or 52% of the US\$460 million required for Stage 1 production of 17,500 tpa of Li₂CO₃ at Sonora has been conditionally committed to the project development in the form of the above debt and equity funding. However, in mid-July the Company elected not to proceed with its proposed new equity placing due to current volatility in global commodities markets. The Company continues to work closely with existing shareholders and potential new investors to secure the remaining equity funds required to construct the Stage 1 operation at Sonora.

Lithium Market Update

During the quarter, reports from Goldman Sachs indicated that investor concerns about a wave of supply of the electric car battery material from new mines are unfounded, that it will be harder to develop new lithium mines than most people think, and that demand for lithium could rise fourfold by 2025 due to rising sales of electric cars.

Global lithium contract prices remain in the US\$15-16,000/t range. The lithium spot market in China continued to

correct to around US\$20,000/t as stock levels were down by 2.7% during the month of July 2018. At current lithium contract prices, the Sonora lithium project continues to show very strong operating cash margins with contract pricing at US\$15,000/t and feasibility operating costs of US\$4,000/t.

SGRF strategic investment

SGRF's investment will comprise of a US\$65 million equity investment, conditional on the Company securing the construction funding. In addition to the equity stake, Bacanora has entered into a Strategic Investment Agreement and Off-take Agreement with SGRF. The key terms of both agreements are:

- An off-take option to purchase up to 10,000 tpa of lithium carbonate produced at Sonora predominantly during Stage 2 for a period of 10 years; and
- SGRF will have the right to appoint a non-executive director to the Board

SGRF is a sovereign wealth fund of the Sultanate of Oman. It was established in 1980 by Royal Decree 1/80 with the objective of achieving long term sustainable returns on revenues generated from oil and gas that are surplus to the Sultanate's budgetary requirements. On behalf of the Sultanate of Oman, SGRF manages the reserves placed in its care to achieve the best possible long term returns with acceptable risks, through investing in a diversified portfolio of asset classes in more than 25 countries worldwide.

US\$150 million RK Facility

In July 2018, the Company drew down the first US\$25 million of the RK debt facility. The Company's cash balance as at 30 June 2018 amounted to US\$13 million, excluding the first tranche drawn down from the RK debt facility. The Facility is structured as two separate Eurobonds to be listed in Jersey:

- Main bond: US\$150 million nominal amount secured notes issued at a purchase price of US\$138 million with a 6-year term and bearing an interest rate of three months LIBOR +8% per annum based on a nominal amount of US\$150 million but payable only on drawn down principal. Interest will be capitalised every three months for the first 24 months and thereafter interest will be paid every three months in cash;
- Second bond: US\$56 million nominal amount zero interest-bearing secured notes issued at a purchase price of US\$12 million with a 20-year term. The nominal amount is repayable by reference to monthly production of lithium at a rate of US\$160 per tonne of lithium produced, with any remaining amount repayable at the end of the 20-year term; and
- Grant of 6 million warrants exercisable over five years at a 20% premium to the 20-day VWAP, subject to normal anti-dilution provisions, cash settlement at the Company's option, and cashless exercise at either party's option.

The Facility may be drawn in three tranches of US\$25 million, US\$50 million and US\$75 million, subject to certain Conditions Precedents, including: various matters in respect of the execution, registration and perfection of certain security and the granting of listing consent by The International Stock Exchange; a minimum equity raise of US\$200 million, with energy and engineering contracts executed; and, the first and second issuance of Notes to have been listed. All drawdowns under the RK Facility will be pro-rata across the two eurobond instruments and the first drawdown has already taken place.

Bacanora CEO Peter Secker said: "Process plant design and preparatory work at the Sonora Project site continues to progress so that once the total funding package required to build an initial 17,500 tonnes lithium carbonate operation is in place, we will be able to immediately embark on an 18 month construction phase. Realising the potential of Sonora is our priority. If the ambitious targets for electric vehicle and renewable energy uptake that have been set by governments and manufacturers across the world are to be met, new large scalable deposits that can deploy conventional processing techniques to produce battery grade lithium carbonate will need to come on stream to satisfy demand. With a US\$1.253 billion NPV based on a flat price of US\$11,000/t for battery grade Li₂CO₃ over Life of Mine ("LOM"), a significant discount to the current Li₂CO₃ price range of US\$16,000 - 20,000/t*, and LOM operating costs of US\$3,910/t Li₂CO₃, the fundamentals of the Sonora Project remain strong and I look forward to providing further updates on our progress."

Conference Call

To participate in the conference call to be held at 3:00 pm UK time on Monday 13 August 2018, please dial 0808 109 0701, (if you are calling from outside of the UK, please dial +44 (0) 20 3003 2701) and enter participant pin 4558345# when prompted to do so. Please note that all lines will be muted with the exception of Company's management, however the Company invites shareholders to submit questions to its public relations adviser, St Brides Partners Ltd, ahead of the call via email. Questions should be sent to shareholderenquiries@stbridespartners.co.uk and should be submitted by 5:00 pm UK time on Friday 10 August 2018.

If you have any problems accessing the call, please contact St Brides Partners Ltd on shareholderenquiries@stbridespartners.co.uk or call +44 (0) 20 7236 1177.

(* <https://seekingalpha.com/article/4189890-lithium-miners-news-month-july-2018>)

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