

Think BIG - Bacanora Investors' Group

24 November , 2021

To the Board of Directors Bacanora Lithium plc (the “Board”).

In this Open Letter we explain our reasons why we think the offer from Ganfeng is not in the best interests of shareholders, suggest the Board seek to negotiate a better offer and explain our recommendation to shareholders not to accept the current offer.

Think BIG - Bacanora Investors' Group, works with over 500 shareholders opposed to the Bacanora Lithium Board's recommendation in favour of the takeover offer from Ganfeng.

We do not believe the offer to be in the interest of any shareholders, based on the following:

- Even before the takeover offer was raised as a possibility, Lithium prices were increasing significantly. The company's estimate of pre-tax NPV8 of the Mine was \$1.25 Billion USD, based on a historical Li₂CO₃ price of \$11,000. The current price of Li₂CO₃ is approximately \$30,000 (<https://tradingeconomics.com/commodity/lithium>). What would the NPV8 be if recalculated on \$30,000? The valuation is outdated.
- Bacanora Lithium raised approximately \$65 Million in February 2021, the proceeds were to be used to meet the company's need to raise their 50% share of the financing required for the construction of stage 1 of the Sonora Project. As a result there is no pressing financial reason for the Company to sell itself at this time.
- The CEO Peter Secker stated in Dec 2019 that 'history shows us Ganfeng will not try to take us over'. <https://youtu.be/HVUnknIPxPM?t=1341>.
- In the full knowledge that there was a possible offer for the company, the Bacanora Board has taken steps which we believe weakened their negotiating position, such as cancelling an existing debt finance agreement with RK Mining. There have been no updates on the progress of replacement financing agreements. We believe this supports the view that the Board's aim is to ensure the takeover takes place, rather than seek the best outcome for all shareholders.
- The Chairman's letter in the offer document made numerous points to justify the Board's support for the offer. Think BIG disagrees with this rationale which we believe presented an unduly negative perspective of risks. We believe the better decision for the Board is to present to shareholders the pros and cons of a takeover offer; not to push one side of the argument.
- We believe The Offer fails to recognise the true value of the company and should have been rejected by the Board. The ratio of Market Capitalisation to NPV is at the lower end when compared to a basket of peers.¹

¹ <https://savebacanora.wordpress.com/2021/07/04/why-this-takeover-must-be-stopped/> (Slide 14) - This information was collated in July 2021. It is comprised of a basket of 7 companies, with Market Capitalisation figures derived from Yahoo! Finance. NPV figures were directly taken from respective company websites and presentations, and quoted as close to NPV8 as possible.

- Bacanora Lithium have stated this to be a “World Class” asset, one of the largest in the world, with a life of over 250 years. The board have not explained why it is being sold at a time when the company had sufficient cash, prior to the cancellation of debt finance, to fund anticipated expenditure through to production.
- Ganfeng, to date, has refused to engage with Think BIG in relation to our concerns about the takeover.

Based on the above points, Think BIG wrote to the Board in October seeking clarification on a number of issues and is directing shareholders to read the letter at <https://www.sharesoc.org/sharesoc-news/bacanora-update-30-oct-think-big-send-letter-to-shareholders/>

Think BIG also urges investors to contact the Board requesting it engages with Think BIG to better communicate why the Board is keen on pushing through a takeover offer that appears opportunistic, at a lowball value, and based on a Lithium price less than 40% of today’s market price.

Think BIG would like to make the following points that we would ask Bacanora to address:

1. The Chair made various statements in his letter to shareholders in the offer document: <https://www.bacanoralithium.com/pdfs/Offer-Document-150921.pdf>

Our responses to the points made in The Chair’s letter are in **bold**:

- “Bacanora is materially exposed to the price of lithium, which has been volatile in recent years;’
Volatility is par for the course for Commodities. Many market forecasts now indicate that current and contracted future demand for Lithium exceeds existing and predicted future supply.

- “there are risks associated with Bacanora’s development of the Sonora Lithium Project, which remains several years away from commercial production;”
These are not new risks. Why raise funds through a dilutive placing in February 2021, when you could have actively marketed the company for sale first?

- “Ganfeng already owns 50 percent of Sonora Lithium Ltd, the operational holding company for the Sonora Lithium Project, and approximately 28.9 per cent. of Bacanora, which provides Ganfeng with significant influence over the strategic direction and progress of the wider Bacanora Group”
Did Ganfeng not purchase their stakes via placings and dealings directly with Bacanora Lithium? If this is an issue, why was it not raised previously?

- “It is common for both major and junior miners to face significant challenges during this development stage of mining operations,…”
These risks were present during the early stages of this project. Why are they only now significant enough for the Board to recommend an offer for the Company?

- "Whilst the Company believes the risk of the nationalisation of existing projects, such as the Sonora Lithium Project, is remote, there remains an economic risk to Bacanora Shareholders;" **We believe this RNS provides a fair rebuttal to the above statement and we believe that the risk has now been minimised:**

https://polaris.brighterir.com/public/bacanora_lithium/news/rns/story/rmn85vw

2. What is the NPV8 based on an Li₂CO₃ price of \$30,000 USD per tonne? We believe it would be higher than the \$1.25 Billion valuation stated by Bacanora Lithium. How does this offer still provide value for shareholders?

3. How does recommending the Offer correlate with the following public statements?

<https://www.youtube.com/watch?v=e3yTED79Dhg&t=1479s> CEO Peter Secker stated at a Shares Magazine event that a dividend could be paid after debt is paid off.

<https://www.youtube.com/watch?v=RyEQYztoFaE&t=848s> Peter Secker stated in a Crux Investor interview that Ganfeng wants Bacanora to be their long term producer in The Americas, and that Bacanora plans to be a world class producer and pay dividends to shareholders in the future.

4. Based on the below statements released by RNS, were shareholders mistakenly given to believe they would be benefitting from the use of proceeds from the fundraisings, as opposed to Ganfeng alone?

https://polaris.brighterir.com/public/bacanora_lithium/news/rns/story/x5d762w - "The net proceeds from the Fundraising (the "Fundraising Proceeds") will provide the last element of the Company's 50% share of the financing required for the construction of Stage 1 of its flagship Sonora Lithium Project"

"The Company is focused on building, in collaboration with its major shareholder and offtake partner, Ganfeng, a fully integrated, downstream lithium operation to produce 35,000 tonne per annum battery-grade LCE (lithium carbonate equivalent) products at its flagship asset, Sonora."

5. The cancellation of the RK Mining agreement has in effect re-risked a de-risked project. Can the Board please inform shareholders why there has been no update on a replacement debt-finance agreement?

"The Company will continue to engage with RK as well as seek alternative terms with other debt providers in light of the current favourable debt market conditions." -

https://polaris.brighterir.com/public/bacanora_lithium/news/rns/story/w3zoq3r

It is now been several months, and we are yet to hear of any progress regarding a new debt-finance facility. This project was fully financed with boots on the ground, as stated by Peter Secker here: <https://www.youtube.com/watch?v=9QbwF23vluQ&t=1544s>

Considering Bacanora decided to look elsewhere for debt-finance, it makes the following statement confusing for shareholders:

<https://www.youtube.com/watch?v=9QbwF23vluQ&t=606s>

Additional questions for the Board from shareholders and Think BIG:

- 1) Why have there been no Sonora Project updates for many months?
- 2) With Ganfeng's failed purchase of Millennial Lithium, alongside their recent cash raising - Why are the Board not asking for a substantially increased offer price?
- 3) Why did the Board use their policy of 'Better to be funded, than not funded' as an excuse for a discounted fund raise at 45p per share, only to then 'de-fund' the project by \$125 Million when deciding not to continue with the debt finance agreement?
- 4) Is the Board concerned with this possible offer stifling the share price? Many Lithium early stage explorers and developers have seen 15-25% growth in share prices with lithium price rises.
- 5) Does the Board recognise this Offer does not support the many long-term shareholders who have average prices well above 67.5p?
- 6) Why have the Board spoken about production for over half a decade, only to reverse course by entertaining a buy-out? Make the rationale clear so shareholders can support your decision.
- 7) Will The Chairman now actively engage with Think BIG?

This letter has been put in an RNS release by ShareSoc on behalf of Think BIG- Bacanora Investors' Group.

ShareSoc is supporting Think BIG in their campaign.

This letter and RNS is the opinion of Think BIG, and is not financial advice.

ShareSoc is facilitating this letter and RNS and it should not be construed as advice.

Website: <https://savebacanora.wordpress.com/>

ShareSoc Website: <https://www.sharesoc.org/>

Telegram Chat group: <https://t.me/bacanoralithium>

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ABOUT SHARESOC

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If you are an individual investor, you should be (or become) a member of ShareSoc.

Yours sincerely

Dee Patel

Think BIG