

ADVANTAGE LITHIUM CORP.

Phase III Drilling Returning Good Lithium Concentrations and Basin Continuity

EVENT

Advantage Lithium reported results from its Phase III infill drilling and resource conversion program at its 75%-owned Cauchari Project in Jujuy Province, Argentina. Systematic brine sampling completed in holes CAU20 and CAU21 in the north of the NW sector respectively averaged 629 mg/l lithium from 113-318m depth and 607 mg/l lithium from 125-265m. Drilling with 4-rigs is ongoing.

BOTTOM LINE

Positive – The holes confirm the continuity of the brine body between previous drill holes in the NW Sector CAU17, CAU18, CAU07 and CAU16. Grades and chemistry are also better than the current resource which bodes well for a resource update which is expected in Q1/19 and a Feasibility study in Q2/19. Our BUY rating and \$1.50 target remains unchanged.

FOCUS POINTS

- **Large Resource with Upside:** Advantage Lithium's flagship Cauchari Project currently has a resource of 3.0Mt LCE in the Cauchari basin in Jujuy, Argentina. Ongoing Phase III drilling has potential to add 1.4-3.0Mt.
- **Established Partner:** Advantage Lithium's JV partner on the project is Orocobre Ltd. (ORE-ASX; not covered), a neighboring producer, providing AAL the benefit of its experience and access to its development team which should allow it to fast track Cauchari to production.
- **Positive PEA:** A recent PEA outlines a US\$401M project producing 20,000 tpa of lithium carbonate equivalent (LCE) with an NPV_{8%} of \$US827M (100% basis) and an IRR of 24.3% on an average LCE price of US\$14,112/t.
- **Near Term Catalysts:**
 - **Phase III Drilling (Ongoing):** Drill results & Q1/19 upgraded resource demonstrating further upside.
 - **Definitive Feasibility Study (Q2/19):** Key de-risking milestone paving way for project financing.

Recommendation:

BUY

Symbol/Exchange:

AAL-TSXV

Sector:

Metals & Mining

All dollar values in C\$ unless otherwise noted.

Current price:

\$0.67

One-year target:

\$1.50

Target return:

124%

52-week Range:

\$0.51 - \$1.42

Financial Summary

Market Cap (C\$M)	105.5
Cash & Equivalents (\$M)	19.3
Debt (\$M)	0.0
Basic Shares O/S (M)	157.5
Fully Diluted Shares O/S (M)	183.3
Avg. Weekly Volume (k)	128



Company Profile: Advantage Lithium Corp is focused on developing its 75% owned Cauchari lithium project, located in Jujuy, Argentina. The Company also owns 100% interest in three additional lithium exploration properties in Argentina: Antofalla, Incahuahsi, and Guayatayoc. The Company is headquartered in Vancouver, British Columbia

Matthew O'Keefe

matthew.o'keefe@cantor.com
(416) 849-5004

Associate: Michael Wichterle

mwichterle@cantor.com
(416) 849-5005

Sales/Trading — Toronto: (416) 363-5757, (866) 442-4485

See disclosure and a description of our recommendation structure at the end of this report.

CAUCHARI PHASE III DRILLING UPDATE

Advantage Lithium reported results from its Phase III infill drilling and resource conversion program at its 75%-owned Cauchari Project in Jujuy Province, Argentina. Systematic brine sampling completed in holes CAU20 and CAU21 respectively averaged 629 mg/l lithium and 4,537 mg/l potassium from 113-318 m depth and 607 mg/l lithium and 4,691 mg/l potassium from 125-265 m in the north of the NW sector (Exhibit 1).

Exhibit 1. Cauchari Project Location and Phase III Drilling Map



Source: Cantor Fitzgerald, Company Reports

CAU20 NW Sector Drilling Results: Results from CAU20 confirms the high quality of the brine resource in this area with 629 mg/l Li and 4,537 mg/l potassium from 113-318 m depth, with very consistent results throughout the hole and a maximum value of 702 mg/l Li. The brine samples have a very low average Mg/Li ratio of 2.1:1 low SO4/Li ratio of 24:1, similar to Advantage test production well CAU07 and similar to those of the adjacent Olaroz project of Orocobre (ORE-ASX, not covered) and Lithium Americas Corp. (LAC-TSX, not covered) and Ganfeng (China) in Cauchari. Similarity of brine characteristics across these properties confirms the Cauchari-Olaroz brine is very extensive and relatively homogeneous and very suitable for conventional processing. The relatively permeable and sandy sediments in the NW Sector have displayed high drainable porosity test results and are expected to yield relatively high pumping rates, which is very positive for future brine extraction.

CAU21 NW Sector Drilling Results: Results from CAU21 further confirms the high quality of the brine resource in this area with 607 mg/l lithium and 4,691 mg/l potassium from 125-265 m, also displaying very consistent results throughout the hole, with a maximum of 705 mg/l Li. The brine samples also have a very low average Mg/Li ratio of 2.2:1 low SO₄/Li ratio of 23:1, similar to CAU07.

CAU24 NW Sector Drilling Update: AAL reported that Hole CAU24 has been completed in the south of the NW Sector, intersecting a sequence of gravels and sandy sediments below a surficial clay unit and underlying halite unit. The porosity and permeability characteristics of these sediments are expected to be positive and consistent with previous observations in holes such as CAU15 and CAU16. The results of the brine chemistry analyses will be announced when they become available.

Pumping Tests To Come: AAL reported that activities are underway for the installation of monitoring wells, pipelines and other infrastructure required to carry out 30 day pumping tests on test production well CAU07 in the NW Sector and CAU11 in the SE Sector. The pumping tests will provide additional information on aquifer characteristics as an input to the three dimensional groundwater model that is being developed to estimate lithium reserves and a production schedule for the project. The pumping tests will be carried out during Q4/18.

GROWING RESOURCE IN ESTABLISHED BASIN

Our model for the Cauchari project, based on the 2018 PEA, sees the project producing 20,000 tpa of lithium carbonate equivalent (LCE) for 40-years at a cost of US\$3,667/t generating a project NPV8% of US\$457M on a 100%-basis and an IRR of 19.5% based on a long term lithium carbonate price of US\$10,000/t (Exhibit 2). The Cauchari Project is located in Argentina's new and most active lithium producing district. It is directly south of Orocobre's Olaroz property and lithium processing facility (and AAL's 25% JV partner on Cauchari). AAL's project also flanks the Cauchari-Olaroz Lithium Project which is being developed jointly by Lithium Americas and Gangfeng.

Exhibit 2. Cauchari PEA versus Cantor Model

Company		AAL	AAL
Project (100% basis)		Cauchari	Cauchari
Study		2018 PEA	Cantor 2018e
<u>Resource</u>			
Resource Category		Inferred	Inferred
Resource Estimate	Mt LCE	3.0	3.0
Li content	mg/l	450	450
Mg/Li ratio		2.5	2.5
Drainable Porosity		6.0%	6.0%
<u>Operation</u>			
First Production		2021	2021
Ramp-Up	years	3	3
LOM	years	25	40
Annual Production	LCE tpa	20,000	20,000
Unit Cost	US\$/t LCE	3,667	3,667
<u>Capital</u>			
Capex	US\$M	401	401
Sustaining Capex	US\$M	69	110
Capex/tLCE	US\$/t LCE	20,050	20,050
<u>Economics</u>			
Li ₂ CO ₃ Price	US\$/t LCE	14,112	10,000
NPV8%	US\$M	827	457
NPV10%	US\$M	n/a	302
IRR	%	24.3%	19.5%

Source: Cantor Fitzgerald, Company Reports

VALUATION

Valuation Unchanged: Our price target is derived from a discounted 0.6x NAV_{8%} multiple to capture the development stage and unfinanced nature of the project (Exhibit 3). We see additional upside expanding the resource further and potential to improve the extraction grade in the early years which would have a positive impact on lowering costs. We expect the multiple to expand and the stock to rerate higher towards as the project is de-risked through the delivery of a DFS in Q2/19.

Exhibit 3: NAV Summary for Advantage Lithium

Mining Assets	Ownership	Valuation	NAV	
			(\$M)	C\$/sh
Cauchari	75%	DCF8%	417.4	2.36
Other	100%	nominal	15.0	0.08
Total Mining Assets			432.4	2.44
Financial Assets				
Working Capital ²			22.3	0.13
Long-Term Debt			0.0	0.00
Corporate G&A (LOM)			(24.5)	-0.14
Net Financial Assets			(2.2)	(0.01)
Net Asset Value			430.1	2.43
Target Multiple				0.6x
Target Price per share¹				1.50
Basic shares outstanding (MM)				157.5
¹ Diluted shares outstanding(MM)				177.0
Fully Diluted shares outstanding(MM)				183.3

²Includes 12-month ITM options and warrants and 12-mo spend

Source: Cantor Fitzgerald

Our target price is quite sensitive to lithium price assumptions and note that at the US\$14,000/t range applied in the PEA, our target price would be closer to \$2.80/share (Exhibit 4). Our price deck includes a long-term LCE price of US\$10,000/t, notably lower than the US\$14,112 applied in the PEA which we viewed as aggressive.

Exhibit 4: Target Price Sensitivity

Opex (US\$/t LCE)	LT Lithium Carbonate Price (\$US)											
	\$1.50	\$8,000	\$9,000	\$10,000	\$11,000	\$12,000	\$13,000	\$14,000	\$15,000	\$16,000	\$17,000	\$18,000
\$4,600	\$0.50	\$0.80	\$1.20	\$1.50	\$1.80	\$2.20	\$2.50	\$2.90	\$3.20	\$3.50	\$3.90	\$4.00
\$4,400	\$0.50	\$0.90	\$1.20	\$1.60	\$1.90	\$2.20	\$2.60	\$2.90	\$3.30	\$3.60	\$4.00	\$4.00
\$4,200	\$0.60	\$0.90	\$1.30	\$1.60	\$2.00	\$2.30	\$2.70	\$3.00	\$3.30	\$3.70	\$4.00	\$4.00
\$4,000	\$0.70	\$1.00	\$1.40	\$1.70	\$2.00	\$2.40	\$2.70	\$3.10	\$3.40	\$3.70	\$4.10	\$4.10
\$3,800	\$0.70	\$1.10	\$1.40	\$1.80	\$2.10	\$2.40	\$2.80	\$3.10	\$3.50	\$3.80	\$4.10	\$4.10
\$3,600	\$0.80	\$1.10	\$1.50	\$1.80	\$2.20	\$2.50	\$2.80	\$3.20	\$3.50	\$3.90	\$4.20	\$4.20
\$3,400	\$0.90	\$1.20	\$1.50	\$1.90	\$2.20	\$2.60	\$2.90	\$3.30	\$3.60	\$3.90	\$4.30	\$4.30
\$3,200	\$0.90	\$1.30	\$1.60	\$2.00	\$2.30	\$2.60	\$3.00	\$3.30	\$3.70	\$4.00	\$4.30	\$4.30
\$3,000	\$1.00	\$1.30	\$1.70	\$2.00	\$2.40	\$2.70	\$3.00	\$3.40	\$3.70	\$4.10	\$4.40	\$4.40
\$2,800	\$1.10	\$1.40	\$1.70	\$2.10	\$2.40	\$2.80	\$3.10	\$3.40	\$3.80	\$4.10	\$4.50	\$4.50
\$2,600	\$1.10	\$1.50	\$1.80	\$2.20	\$2.50	\$2.80	\$3.20	\$3.50	\$3.90	\$4.20	\$4.50	\$4.50

Source: Cantor Fitzgerald

CATALYSTS

We anticipate several near-term events that should act as positive catalysts for the stock price and move it towards our target of \$1.50/shr. These catalysts include:

- 1) **Phase III Program – Ongoing:** The planned and funded ~2,000m drill program is designed to define the resource limits of the Cauchari salar. It will continue through 2018 culminating in a further resource update planned Q1/19, supporting the Feasibility Study. This program should upgrade the resource and demonstrate further upside potential.
- 2) **Definitive Feasibility Study – Q2/19:** The Company is targeting Q2/19 to deliver a definitive feasibility study for the Cauchari project. This would allow them to fast-track the project to production. This will be a key de-risking milestone paving way for project financing.

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