

Advantage Lithium Corp.

(AAL-V: C\$1.18) *intraday*

BUY

Target: C\$1.90

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Flow Rates Push Pump Tests; New Deep Sand Discovery

AAL-TSX	New	Last
Rating	--	BUY
Target	--	\$1.90
Projected Return	--	103%
Target Multiple	--	1.0x
Implied Valuation - Argentina Projects	--	256.4
Acquisition Value - Other Projects	--	7.7
Cash less Cauchari JV Budget	--	13.9
Warrants/Options (potential)	--	24.9
Total Valuation	--	302.9

Company Data	
Last Price	1.18
52-week Range	0.36 - 1.42
Market Cap (\$MM)	\$166.1
Enterprise Value (\$MM)	\$151.7
Shares Outstanding - Basic (MM)	140.8
Shares Outstanding - FD (MM)	162.5
Avg Volume - 100d (000 sh/day)	130.4
Cash (\$MM)	\$14.4
Debt (\$MM)	\$0.0

Lithium Forecast	2017E	2018E	2019E	LT
Spot LCE (US\$/t)	10000	11000	11500	11500
Spot Li-OH (US\$/t)	12000	13000	13500	13500

All Figures in C\$ Unless Otherwise Noted

Target based on fully diluted share count

Source: Company Reports, FactSet, Eight Capital

AAL-V: Price/Volume Chart



Source: Factset

Company Description

Advantage Lithium is a lithium explorer and developer with top tier management and an international portfolio of quality assets. AAL recently acquired ~84,701 Ha in the Salta and Jujuy regions, including its flagship Cauchari JV project which is adjacent to Orocobre's and Lithium America's Cauchari-Olaroz deposits. ORL retains 31.12% interest in AAL and maintains an excellent opportunity for a ROFR or brine off-take agreement with AAL. The Cauchari deposit possesses good brine chemistry, low Mg/Li ratios, high grades and excellent porosity and permeability.

We recommend Advantage Lithium with a BUY and C\$1.90/sh target price. Our target is derived from a fully diluted implied valuation of its projects. Very good drilling and pump tests were reported from the Cauchari lithium brine JV in Argentina. This includes the discovery of a new sandy unit at depth in the southern reaches of the SE Zone resource area.

Current success not indicative of sector or AAL-V pullback. AAL trades at \$1.18/sh (up 12% today) but off 17% from its recent all-time high. It trades at an EV/t LCE of \$377 vs. \$153 for peers. Assuming successful four-fold resource growth by mid-year, AAL would trade at \$94, in line with its peer group average. We don't believe this low valuation is justified. AAL's better flow rates, good grade and chemistry should make extraction and processing easier and cheaper. Resource expansion risk, even without incorporating NW zone, is increasing. We also contend that many peers aren't at this stage of rapid resource growth, from high quality brine, in a perfect location between two expanding competitors. We believe these make Cauchari a premier project and relatively more attractive. Management's low risk development plan, while unwilling to develop a brine operation itself, should be able to offer ample, consistent, high quality brine to either of its neighbours, both of whom have plans to at least double LCE production.

SE Zone drilling success continues. Results demonstrate attributes that are important for lithium brine production. These include:

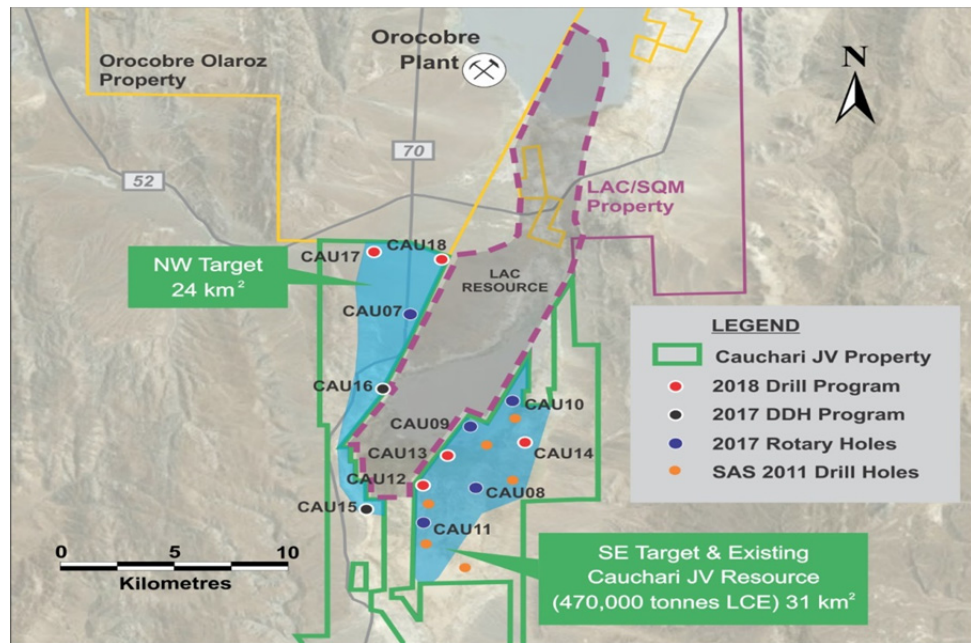
- good mix of halite, clay & sand providing excellent porosity/permeability;
- very good flow rates as CAU11 sustained 19 L/s for 48 hours, pushing the upper limit of testing capacity. This bodes very well for future production;
- good grades as CAU11 and CAU08 averaged grades of 515ppm Li and 517ppm Li, respectively. This is 36% higher than current resource grades;
- good chemistry (Mg/Li at ~2.5:1) should help reduce reagent consumption; and
- extensive assay intervals range from 50-480m (CAU11) and 60-400m (CAU08), including a new sandy sequence discovered deep in hole CAU11.

High SE Zone growth potential suggested given the four ways management is improving the brine resource. This bodes well for expansion of the 0.47 MMt LCE resource. We assume a 4-5x increase to 2-2.5 MM t LCE and management's target is 5.6 MMt LCE. We don't foresee a problem achieving our assumption:

- 1) 40-80% higher Li grades are an obvious improvement over resource grade;
- 2) Intervals of up to 430m are over twice the initial resource depth of 200m;
- 3) High porosity allows increased brine per volume (don't confuse with grade);
- 4) High permeability may extend assay influence, resource & zone boundaries.

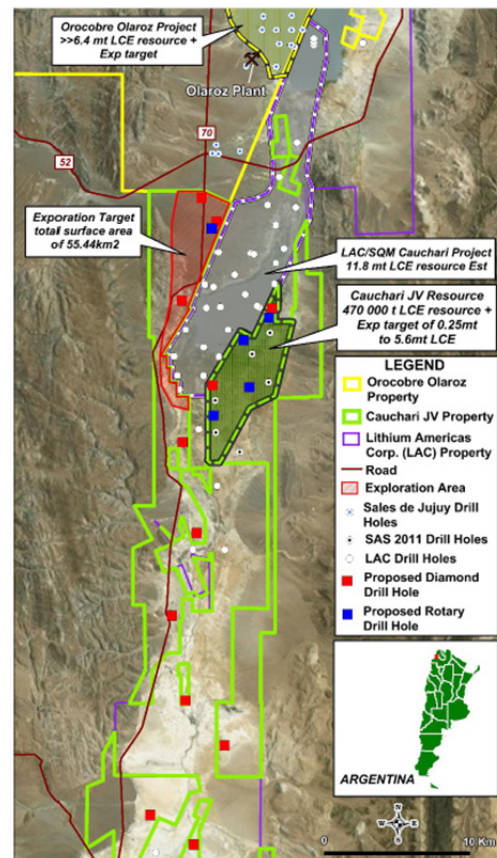
Underexplored NW Zone is extensive at ~55 sq. km. It awaits work necessary for a resource but is adjacent to Lithium Americas' (LAC-T, Neutral, C\$13.60 target) massive Cauchari-Olaroz resource, and Orocobre's (ORL-T, Buy, C\$9.10 target) Olaroz mine. Our resource assumption doesn't include NW Zone but initial results are positive and CAU07 pump tests are to begin. An initial grade of 635 ppm Li is 67% above average, and the 236m intercept demonstrates existence of brine below the alluvial fan. Drilling begins at CAU17 & CAU18 at the north margin of NW Zone to help demonstrate E-W extent.

Figure 1: Drill hole plan map showing the location of rotary and diamond drill holes from the current exploration and resource delineation program.



Source: Company Reports

Figure 2: Regional property boundary and drill hole map showing the location of the 55.44km² NW exploration target area. Current resources of 470,000 t LCE are entirely located within the SE side of the property.



Source: Company Reports

Table 1: Summary of drill hole locations and characteristics

Exploration Hole Number	Sector	Total Depth (m)	Depth Installed Well (m)	Assay Interval (m)	Lithium (mg/l avg)	Potassium (mg/l avg)	Drilling Method	Coordinates Gauss Kruger Argentine*		Elevation Mean Above Sea Level (m)	Azimuth	Dip
								Easting	Northing			
CAU07	NW	348	348	236 m only	635	4,772	Rotary/Diamond	3,421,199	7,383,989	3,940	0	-90
CAU08	SE	402	400	60-400	515	4,577	Rotary	3,423,941	7,374,495	3,900	0	-90
CAU09	SE	400	400	60-400	662	6,137	Rotary	3,423,775	7,377,806	3,900	0	-90
CAU10	SE	429	340	50-340	678	6,516	Rotary	3,425,530	7,379,295	3,900	0	-90
CAU11	SE	480	480	50-480	517	5,319	Rotary	3,421,757	7,372,564	3,900	0	-90
CAU12	SE	Drilling at 377 m					Diamond	3,421,693	7,374,673	3,900	0	-90
CAU13	SE	Drilling at 439 m					Diamond	3,422,773	7,376,283	3,900	0	-90
CAU15	NW	243.5	210	102-234.5	475 within 407 interval	3,662 within 3,196 interval	Diamond	3,419,288	7,373,385	3,900	0	-90
CAU16	NW	321.5	202	14-298	529 within 436 interval	4,306 within 3,608 interval	Diamond	3,419,935	7,379,900	3,900	0	-90

Source: Company Reports

Figure 3: Pumping from sand units in CAU11 at Cauchari



Source: Company Reports

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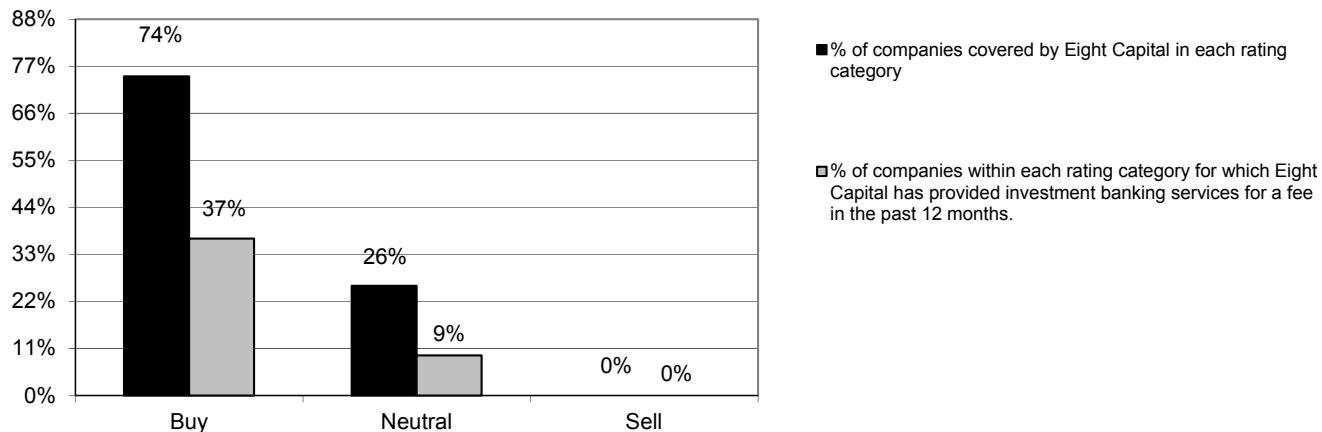
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