

Advantage Lithium Corp.

(AAL-T: C\$0.98)

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BUY

Target: C\$2.50 (from C\$1.90)

6-Fold LCE Resource Expansion Beats Expectations

AAL-TSX	New	Last		
Rating	--	BUY		
Target	\$2.50 ▲	\$1.90		
Projected Return	129% ▲	94%		
Target Multiple	--	1.0x		
Implied Valuation - Argentina Projects	\$379.4 ▲	\$256.4		
Acquisition Value - Other Projects	\$2.9 ▼	\$7.7		
Cash	\$13.2 ▲	\$13.9		
Warrants/Options (potential)	--	\$24.9		
Total Valuation	\$420.4 ▲	\$302.9		
Company Data				
Last Price		1.09		
52-week Range	0.36 -	1.42		
Market Cap (\$MM)		\$154.0		
Enterprise Value (\$MM)		\$140.8		
Shares Outstanding - Basic (MM)		141.3		
Shares Outstanding - FD (MM)		169.4		
Avg Volume - 100d (000 sh/day)		629.3		
Cash (\$MM)		\$13.2		
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 increase our target to C\$2.60 from C\$1.90/sh target. Beating our mineral inventory estimate by almost 40%, we propose a new exploration target of 4.4 MM t (+50%) as Phase III drilling now targets 450m to 600m depth. Our target continues to be derived from a fully diluted implied valuation of its projects until such time that a PEA can form the basis of a DCF valuation for the Cauchari JV. Our inventory estimate is offset by a slightly lower market related LCE EV/t metric of US\$96 versus the \$106 we had used previously.

Six-fold resource estimate update was provided overnight at Cauchari JV in Argentina. A 3.0 MM t LCE inferred estimate is split between NW and SE sectors (Fig. 1, Fig. 2) and easily surpassed our 2.2 MM t size forecast. Grades were an expected 18% improvement over the previous estimate. The grade of adjacent Olaroz-Cauchari JV owned by Lithium Americas (LAC-T, BUY, C\$13.00 target) also comes in 25% higher. We suspect future resource estimates may incorporate a greater proportion of higher grade areas such as at depth. While Mg:Li grades are good, SO₄:Li ratios are relatively high depending on brine location. The previous resource was 0.47 MM t grading 380 mg/L Li, but it only included the shallow SE sector area which we now find the least attractive, based on grades and chemistry, relative to deeper brine within NW sector. Management notes additional potential of 1.43 to 3.0 MM t LCE, located dominantly below the SE sector, with expectations for better grades/chemistry.

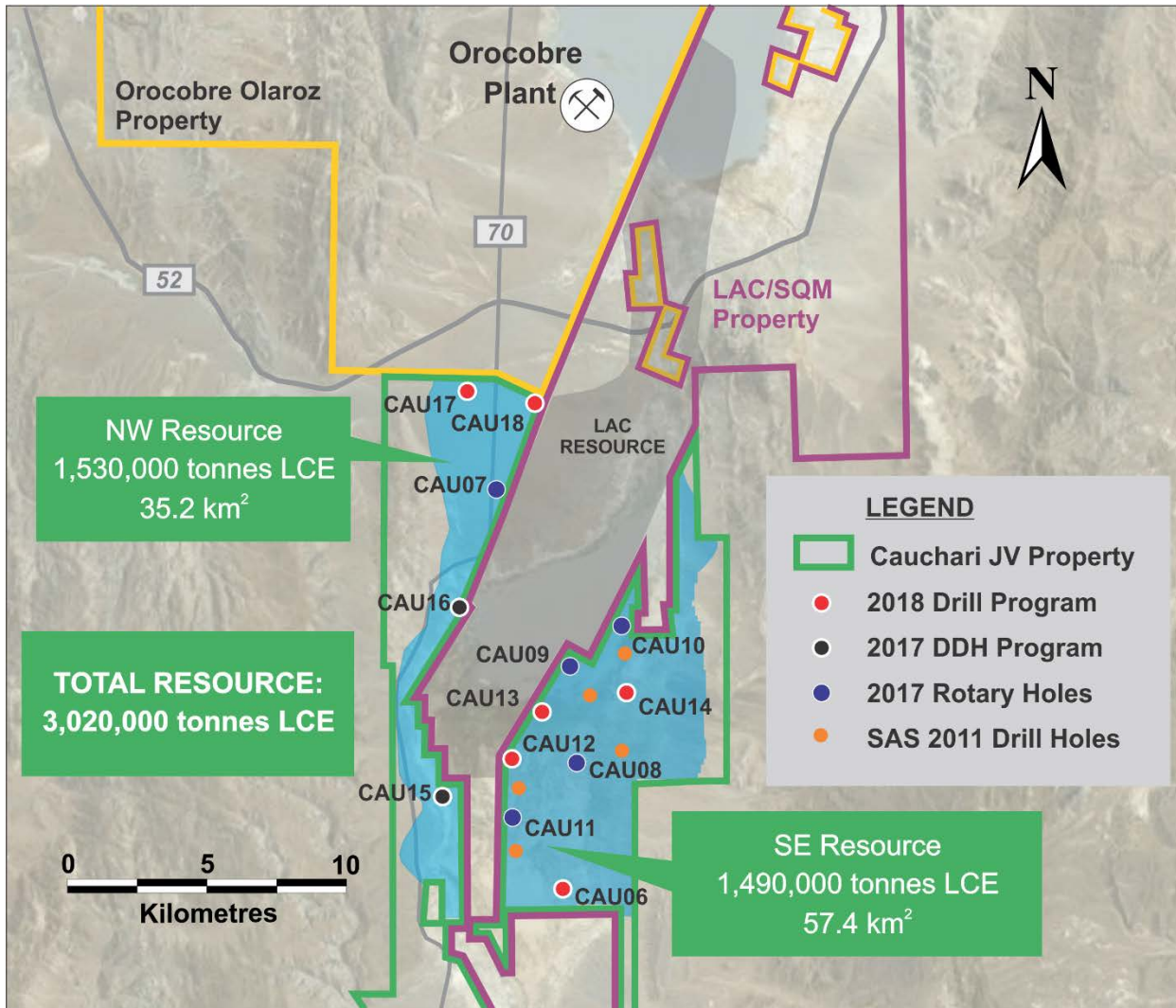
Emergence of three distinct areas: We view today's resource estimate update as a positive step in development of the Cauchari JV. It set the stage for a PEA and Phase III exploration by helping to determine which areas to target for maximum economic benefit. The distinct NW Sector, shallow SE sector and deep sand unit areas demonstrate different brine and hydraulic characteristics. Pumping tests from the NW Sector and deep sand unit have excellent grades and flow rates, while SE sector chemistry also appears less favourable.

Grade improvements. Drill results foreshadowed the 450 ppm Li grade for Cauchari. This is 18% higher than previous resource grades but ~25% lower than the 585 ppm Li average found next door. However, this resource covers a lot of ground, and we believe there is plenty of room to optimize it prior to potential production. With that, we see clear synergies with Orocobre (ORL-T, BUY, C\$8.70 TP) who owns ~34% of AAL and 25% of Cauchari, and whose Olaroz mine is located immediately to the north of the NE Sector.

Evolving chemistry data. Nice lithium grades and potential by-product potash notwithstanding, chemistry otherwise shows mixed results. Positively, the 2.6 Mg/Li ratio is lower than most brine projects, similar to neighboring Cauchari-Olaroz JV and operating Olaroz (adjacent) and Silver Peak mines (Nevada). However, SO₄:Li ratios are elevated (although not as bad overall as historical drilling suggested). NW Sector and deep areas average on the high side of normal at 29.4, as SE comes in amongst the world's highest at 69.6. This may introduce some reagent consumption during processing, thereby increasing Opex for that area. Rule of thumb comparison (Fig. 3) based on SO₄:Li ratio suggest brines similar to NW sector brine might cost between US\$3,500 and \$4,500/t LCE, while brines like SE might cost upwards of US\$5,500/t.

PEA due shortly, Phase III drilling. A study will envision two scenarios: 1) sale of brine or brine concentrate, and 2) a stand-alone 20,000t LCE operation. There are synergies and a ROFR is in place with Orocobre. Phase III drilling aims to grow the resource at 450m to 600m depth in both NW and SE sectors. Grades, chemistry and flow rates look better at depth. While this drilling won't be incorporated into the PEA, it would be included within the DFS due 2019.

Figure 1: Plan map showing the location of the new Cauchari JV resource estimate. NW resource totals 1.53 MM t LCE while the SE resource totals 1.49 MM t LCE.



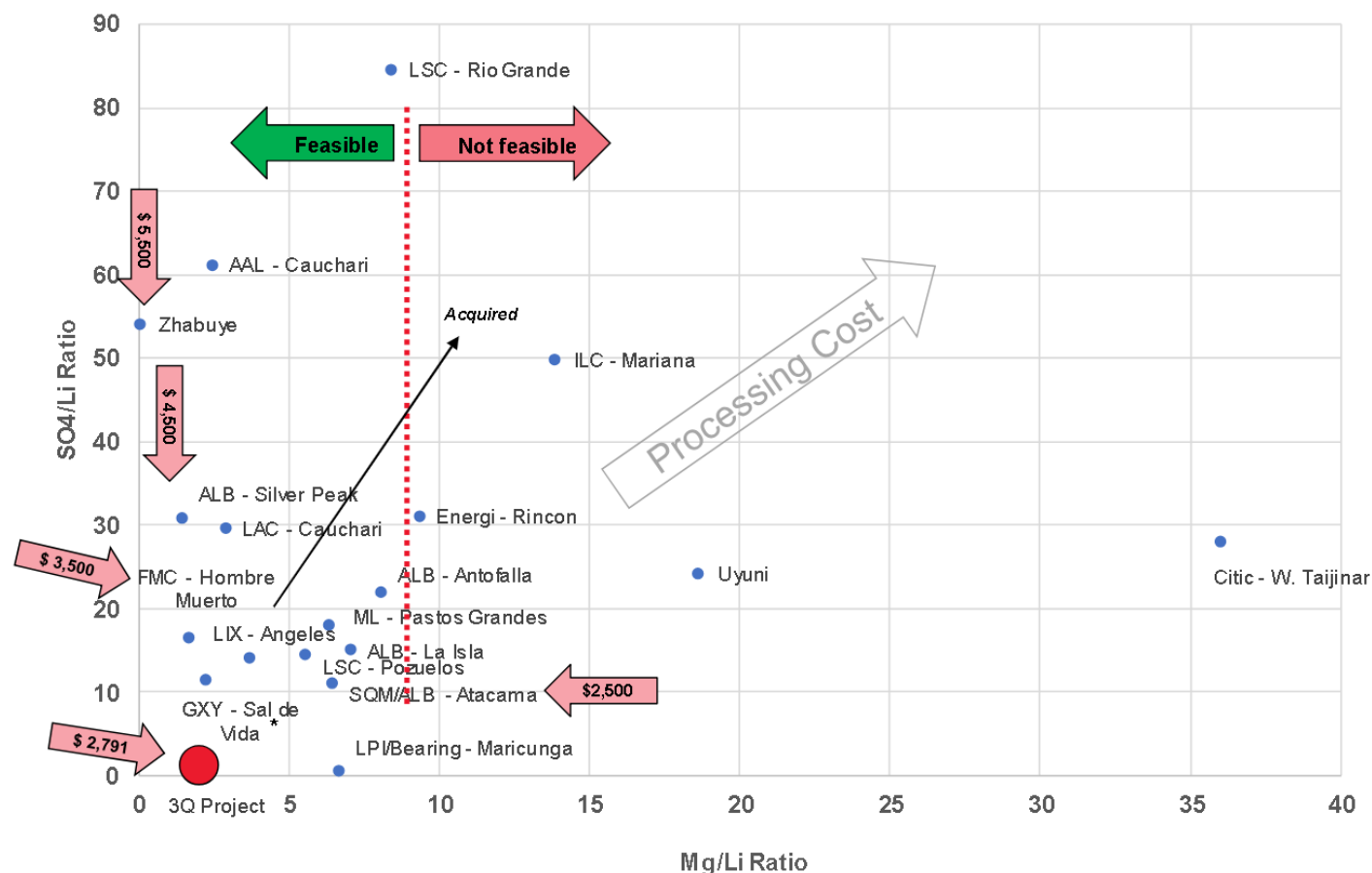
Source: Company Reports

Table 1: Summary of Cauchari JV's May 2018 resource estimate update. Resources total 1.53 MM t LCE in the NW Sector and 1.49 MM t LCE in the SE sector.

Inferred Resources (lithium cut-off of 300 mg/l)						
Parameter	NW Sector		SE Sector		Total	
Resource area (km ²)	35.2		57.4		92.6	
Aquifer volume (km ³)	6.5		13.9		20.4	
Mean specific yield (Sy)	9%		4%		6%	
Brine volume (km ³)	0.6		0.6		1.2	
Element	Li	K	Li	K	Li	K
Mean concentration (mg/l)	465	3,920	443	4,078	450	4,028
Mean grade (g/m ³)	44	373	20	184	28	244
Total Resource (tonnes)	288,000	2,420,000	280,000	2,560,000	568,000	4,980,000
Lithium Carbonate (tonnes)	1,530,000		1,490,000		3,020,000	
Potash (tonnes)	4,600,000		4,900,000		9,500,000	
Samples Ratio	NW Sector & Deep Sand		Upper SE Sector		Total	
Mg/Li	2.7		2.5		2.6	
SO4/Li	29.4		69.6		56.8	

Source: Company Reports

Figure 2: Chart showing the relative desirability of SO4:Li and Mg:Li ratios within various brines. The Cauchari JV magnesium to lithium ratios are quite good at 2.7 for the NW Sector and Deep Sand Unit. Sulphate ratios are different for NW and deep sand unit (29.4) and the SE area (69.6), whereas the NW and deep sand unit ratios represent the high size of normal. SE area sulphate ratios are definitely elevated and this could have future cost implications.



Source: NeoLithium Reports

Figure 3: Implied Cauchari Value - EV/T Metric

Implied Cauchari Value - EV/t LCE	Current	Base Target	Higher Target
Grade (Li Mg/L)	450	500	500
Mineral Inventory Goal (MMt LCE)	3.00	4.50	6.00
EV/T LCE (Average)(C\$)	\$96.0	\$96.0	\$96.0
Implied EV (C\$MM)	\$288.0	\$432.1	\$576.1
Implied EV (C\$MM) (AAL 75% share)	\$216.0	\$324.0	\$432.1
Total Implied Valuation	\$312.3	\$419.1	\$490.3
Target per Share	\$1.80	\$2.50	\$2.90
Upside/Downside to Target	-28%	-	16%

Source: Company Reports, Eight Capital Estimates

Figure 4: Valuation Summary based on base case target of 4.5MMt LCE

Additional Argentina Exploration Value - EV/Hectare		
Hectares (Ha)		41,772
Average EV/Acreage (US\$/Ha)		\$1,029
Median EV/ Acreage (US\$/Ha)		\$1,083
Implied EV (C\$MM)		\$55.3
Implied Valuation - Argentina Projects		
Base Case Cauchari JV - In situ inventory (EV/t basis; 75% share)	28,200 Ha	\$324.0
Exploration Projects (EV/Ha basis, 100% share)	41, 772 Ha	\$55.3
Total Implied Valuation (C\$MM)		\$379.4
Acquisition Value - Other Projects		
Mexico - Three Projects		\$1.6
Pure Energy ownership (4.9MM shares)		\$1.3
Valuation Summary		
Argentina	(C\$MM)	\$379.4
Mexico	(C\$MM)	\$1.6
Minority Interests	(C\$MM)	\$1.3
Total Implied Valuation	(C\$MM)	\$381.0
Cash		\$20.7
Cash less Cauchari JV Budget	(C\$MM)	\$13.2
Warrants/Options (potential)	(C\$MM)	\$24.9
Shares Outstanding	MM	141.3
Shares Fully Diluted	MM	169.4
Valuation per share	Shares Outstanding	\$2.79
Valuation per share	Fully Diluted	\$2.47
Target Multiple		1.0x
Target per Share		\$2.50

Source: Company Reports, Eight Capital Estimates

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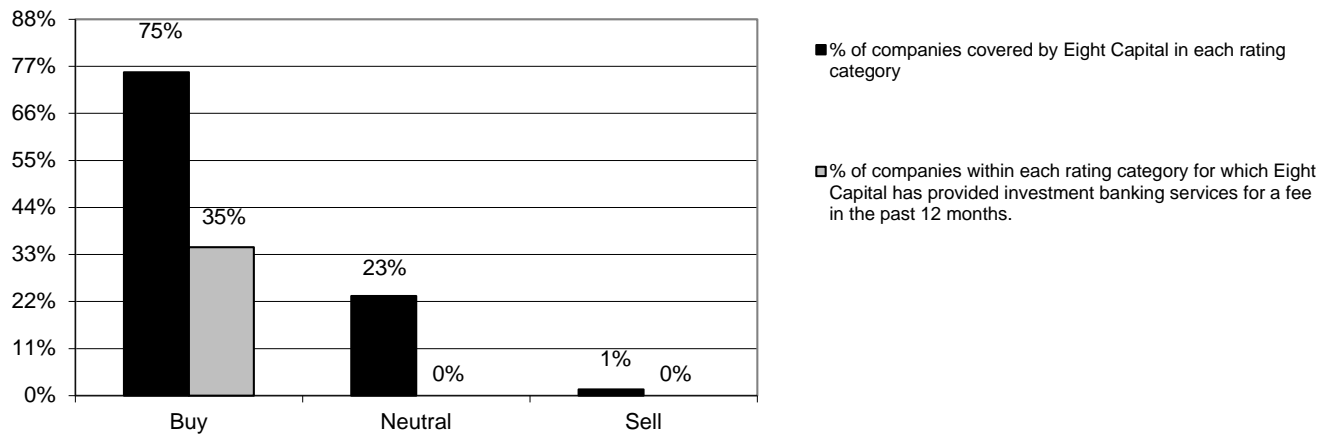
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