

# Advantage Lithium Corp.

(AAL-T: C\$0.98)

May 23, 2018

David A. Talbot / (416) 350-3082  
[dtalbot@viiicapital.com](mailto:dtalbot@viiicapital.com)

Joseph Fars, MBA, P. Geo / (416) 350-5090  
[jfars@viiicapital.com](mailto:jfars@viiicapital.com)

**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		
<b>Company Data</b>				
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		
<b>Lithium Forecast</b>				
	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, SO<sub>4</sub>: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.

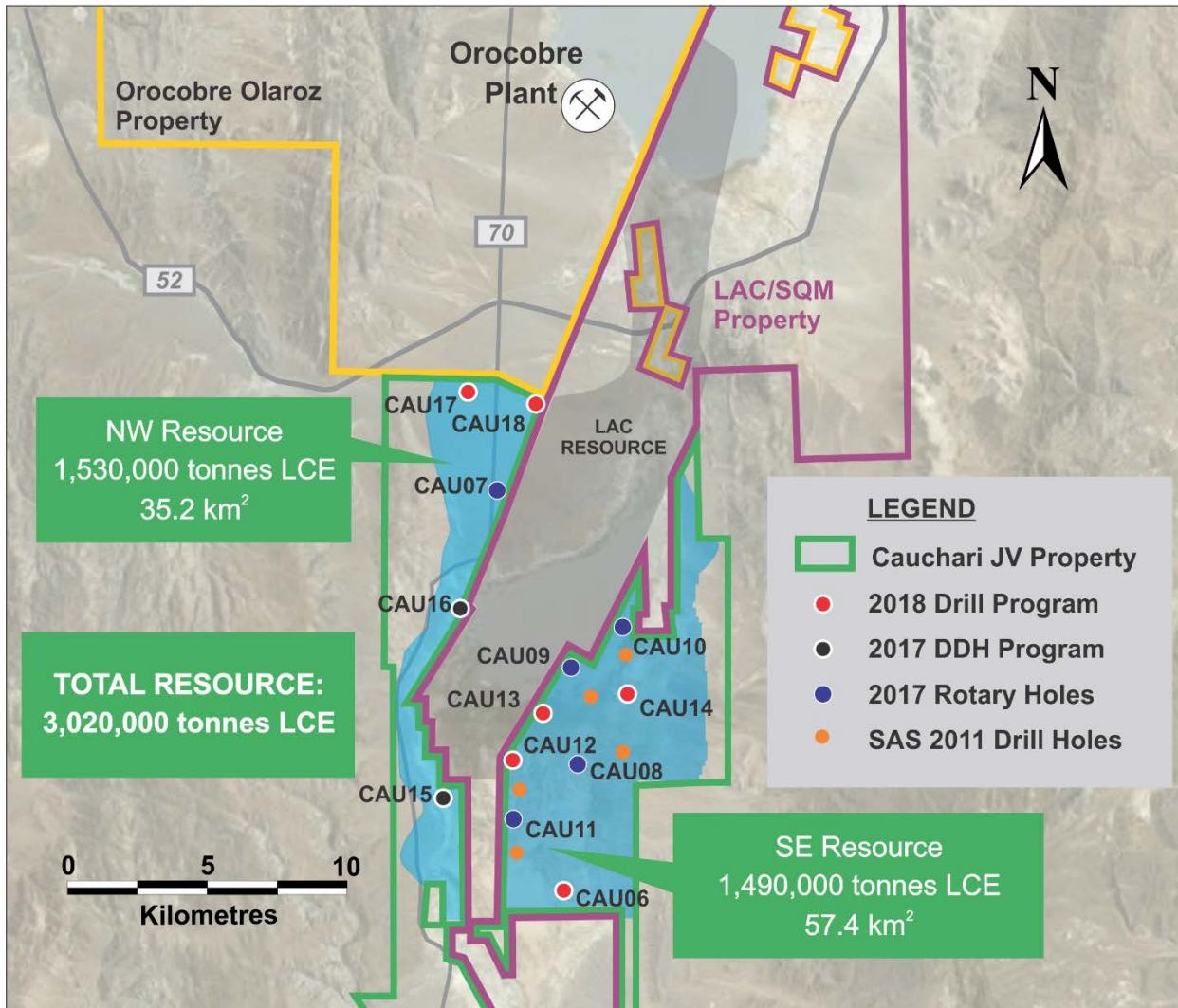
**Emergence of three distinct areas:** We view today's resource estimate update as a positive step in development of the Cauchari JV. It set the stage for a PEA and Phase III exploration by helping to determine which areas to target for maximum economic benefit. The distinct NW Sector, shallow SE sector 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, SO<sub>4</sub>: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 SO<sub>4</sub>: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.**



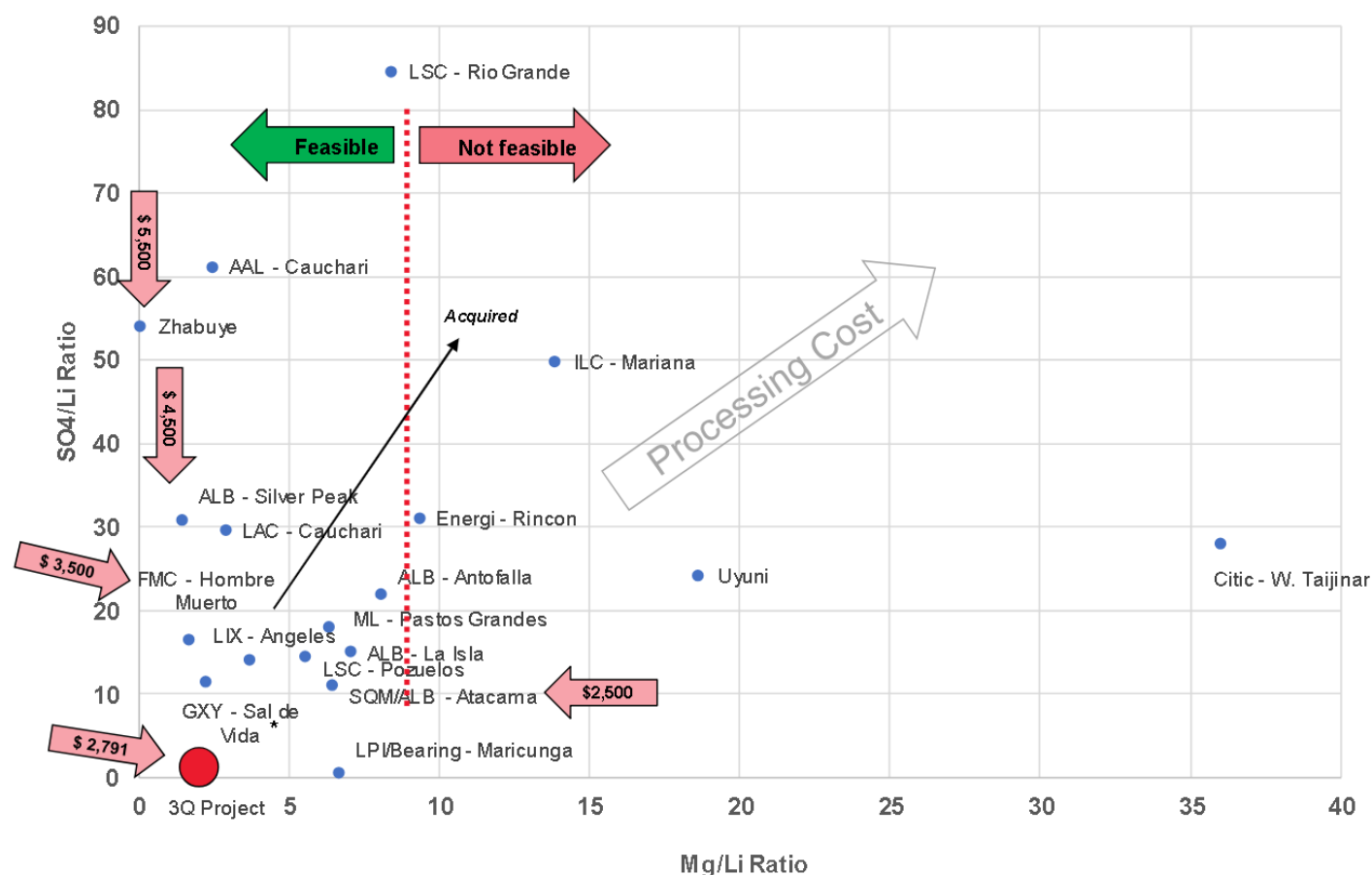
Source: Company Reports

**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.**

<b>Inferred Resources (lithium cut-off of 300 mg/l)</b>						
<b>Parameter</b>	<b>NW Sector</b>		<b>SE Sector</b>		<b>Total</b>	
Resource area (km <sup>2</sup> )	35.2		57.4		92.6	
Aquifer volume (km <sup>3</sup> )	6.5		13.9		20.4	
Mean specific yield (Sy)	9%		4%		6%	
Brine volume (km <sup>3</sup> )	0.6		0.6		1.2	
<b>Element</b>	<b>Li</b>	<b>K</b>	<b>Li</b>	<b>K</b>	<b>Li</b>	<b>K</b>
Mean concentration (mg/l)	465	3,920	443	4,078	450	4,028
Mean grade (g/m <sup>3</sup> )	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	
<b>Samples Ratio</b>	<b>NW Sector &amp; Deep Sand</b>		<b>Upper SE Sector</b>		<b>Total</b>	
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
<b>Target per Share</b>	<b>\$1.80</b>	<b>\$2.50</b>	<b>\$2.90</b>
<b>Upside/Downside to Target</b>	<b>-28%</b>	<b>-</b>	<b>16%</b>

Source: Company Reports, Eight Capital Estimates

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

<b>Additional Argentina Exploration Value - EV/Hectare</b>		
Hectares (Ha)		41,772
Average EV/Acreage (US\$/Ha)		\$1,029
Median EV/ Acreage (US\$/Ha)		\$1,083
<b>Implied EV (C\$MM)</b>		<b>\$55.3</b>
<b>Implied Valuation - Argentina Projects</b>		
Base CaseCauchari 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
<b>Total Implied Valuation (C\$MM)</b>		<b>\$379.4</b>
<b>Acquisition Value - Other Projects</b>		
Mexico - Three Projects		\$1.6
Pure Energy ownership (4.9MM shares)		\$1.3
<b>Valuation Summary</b>		
Argentina	(C\$MM)	\$379.4
Mexico	(C\$MM)	\$1.6
Minority Interests	(C\$MM)	\$1.3
<b>Total Implied Valuation</b>	<b>(C\$MM)</b>	<b>\$381.0</b>
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
<b>Valuation per share</b>	<b>Fully Diluted</b>	<b>\$2.47</b>
Target Multiple		1.0x
Target per Share		<b>\$2.50</b>

Source: Company Reports, Eight Capital Estimates

## Disclosures and Disclaimers

This research report (as defined in IROC Rule 3400) is issued and approved for distribution in Canada by Eight Capital, a member of the Investment Industry Regulatory Organization of Canada, and the Canadian Investor Protection Fund. Eight Capital accepts responsibility for the dissemination of this report. Non-client recipients of the research report should not rely solely on the investment recommendations contained herein and should consult their own professional advisors. Eight Capital will not treat any non-client receiving this report as its own. Institutional clients who require additional information on securities discussed in this report should contact a qualified sales person at Eight Capital.

Eight Capital accepts no liability whatsoever for any loss arising from any use or reliance on this research report or the information contained herein.

This research report is being provided only to institutional clients of Eight Capital and is intended for informational purposes only. This research report is not an offer to sell or the solicitation of an offer to buy any of the securities discussed herein. The information contained in this research report is prepared from publicly available information, internally developed data and other sources believed to be reliable, but has not been independently verified by Eight Capital. Eight Capital makes no representations or warranties with respect to the accuracy, correctness or completeness of such information and they should not be relied upon as such.

All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this research report and are subject to change without notice. Eight Capital does not accept any obligation to update, modify or amend this research report or to otherwise notify a recipient of this research report in the event that any estimates, opinions and recommendations contained herein change or subsequently become inaccurate or if this research report is subsequently withdrawn.

Past performance is not a guarantee of future results, and no representation or warranty, expressed or implied, is made regarding future performance of any security mentioned in this research report. The price of the securities mentioned in this research report and the income they generate may fluctuate and/or be adversely affected by market factors or exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. Nothing in this research report constitutes legal, accounting or tax advice. Investors should consult with his or her independent legal or tax adviser in this regard.

**US Residents:** This report is provided to US residents under a chaperoning arrangement pursuant to Rule 15a-6 of the U.S. Securities Exchange Act of 1934 (the "Rule"). Eight Capital is a non-U.S. broker-dealer for the purposes of the Rule and is not registered with the Financial Industry Regulatory Authority, the Securities and Exchange Commission or any state securities regulatory authority. This research report is intended only for persons who are a "major U.S. institutional investor" which is defined as a U.S. institutional investor or any other entity which owns or manages at least \$100 million in financial assets. This research report is not a solicitation to sell the securities discussed herein; however, should you choose to make an unsolicited transaction in such securities we may refer you to our chaperone. Please be advised that Eight Capital may earn a commission in connection with transactions through our chaperone and, in certain cases, our chaperone may give up trading to Eight Capital for execution.

Eight Capital Corp. is a U.S. registered broker-dealer, a member of FINRA and an affiliate of Eight Capital. Eight Capital Corp. accepts responsibility for the contents of this research report, subject to the terms and limitations as set out above. U.S. residents seeking to effect a transaction in any security discussed herein should contact Eight Capital Corp. directly. Research reports published by Eight Capital are intended for distribution in the United States only to Major Institutional Investors (as such term is defined in SEC 15a-6 and Section 15 of the Securities Exchange Act of 1934, as amended) and are not intended for the use of any person or entity.

## Dissemination of Research

Eight Capital's Research is distributed electronically through email, website (password protected) or hard copy. Dissemination of initial research reports and any subsequent research reports is made simultaneously to a pre-determined list of clients of Eight Capital's Institutional Sales and Trading representatives.

## Conflicts of Interest

Eight Capital has written procedures designed to identify and manage potential conflicts of interest that arise in connection with its research and other businesses. The compensation of each Research Analyst/Associate involved in the preparation of this research report is based competitively upon several criteria, including performance assessment criteria, the quality of research and the value of the services they provide to clients of Eight Capital. The Research Analyst compensation pool includes revenues from several sources, including sales, trading and investment banking. Research analysts and associates do not receive compensation based upon revenues from specific investment banking transactions.

Eight Capital generally restricts any research analyst/associate and any member of his or her household from executing trades in the securities of a company that such research analyst covers, with limited exception.

Should this research report provide web addresses of, or contain hyperlinks to, third party web sites, Eight Capital has not reviewed the contents of such links and takes no responsibility whatsoever for the contents of such web sites. Web

addresses and/or hyperlinks are provided solely for the recipient's convenience and information, and the content of third party web sites is not in any way incorporated into this research report. Recipients who choose to access such web addresses or use such hyperlinks do so at their own risk.

Unless publications are specifically marked as research publications of Eight Capital, the views expressed therein (including recommendations) are those of the author and, if applicable, any named issuer or Investment Dealer alone, and have not been approved by, nor are they necessarily those of, Eight Capital. Eight Capital expressly disclaims any and all liability for the content of any publication that is not expressly marked as a research publication of Eight Capital.

Forward-looking statements are based on current expectations, estimates, forecasts and projections based on beliefs and assumptions made by the author. These statements involve risks and uncertainties and are not guarantees of future performance or results and no assurance can be given that these estimates and expectations will prove to have been correct, and actual outcomes and results may differ materially from what is expressed, implied or projected in such forward-looking statements.

### Research Analyst Certification

Each Research Analyst and/or Associate who is involved in the preparation of this research report hereby certifies that:

- the views and recommendations expressed herein accurately reflect his/her personal views about any and all of the securities or issuers that are the subject matter of this research report;
- his/her compensation is not and will not be directly related to the specific recommendations or views expressed by the Research Analyst in this research report;
- they have not affected a trade in a security of any class of the issuer whether directly or indirectly through derivatives within the 30-day period prior to the publication of this research report;
- they have not distributed or discussed this Research Report to/with the issuer, investment banking at Eight Capital or any other third party except for the sole purpose of verifying factual information; and
- they are unaware of any other potential conflicts of interest.

The Research Analyst involved in the preparation of this research report does not have any authority whatsoever (actual, implied or apparent) to act on behalf of any issuer mentioned in this research report.

### Informal Comment

Informal Comments are analysts' informal comments that are posted on the Eight Capital website. They generally pertain to news flow and do not contain any change in analysts' opinion, estimates, rating or target price. Any rating(s) and target price(s) in an Informal Comment are from prior formal published research reports. A link is provided in any Informal Comment to all company specific disclosures and analyst specific disclosures for companies under coverage, as well as general disclosures and disclaimers.

### Presentations

Presentations do not include disclosures that are specific to analysts and specific to companies under coverage. Please refer to formal published research reports for company specific disclosures, analyst specific disclosures and valuation methodologies used in determining target prices for companies under coverage.

### Idea of Interest

Eight Capital has not initiated formal continuing coverage of Idea of Interest companies. Eight Capital from time to time publishes reports on Idea of Interest securities for which it does not and may not choose to provide formal continuous research coverage. All opinions and estimates contained in an Idea of Interest report are subject to change without notice and are provided in good faith but without the legal responsibility that would accompany formal continuous research coverage. The companies may have recommendations as per our regular rating system and may have target prices; see Explanation of Recommendations for details. Any recommendations, target prices and/or comments expire 30 days from the published date, and once expired should no longer be relied upon as no assurance can be given as to the accuracy or relevance going forward. Eight Capital does not accept any obligation to update, modify or amend any Idea of Interest report or to otherwise notify a recipient of an Idea of Interest report in the event that any estimates, opinions and recommendations contained in such report change or subsequently become inaccurate. Eight Capital's clients should consult their investment advisor as to the appropriateness of an investment in the securities mentioned.

**IIROC Rule 3400 Disclosures:** A link ([here](#)) is provided in all research reports delivered by electronic means to disclosures required under IIROC Rule 3400, including disclosures for sector research reports covering six or more issuers.

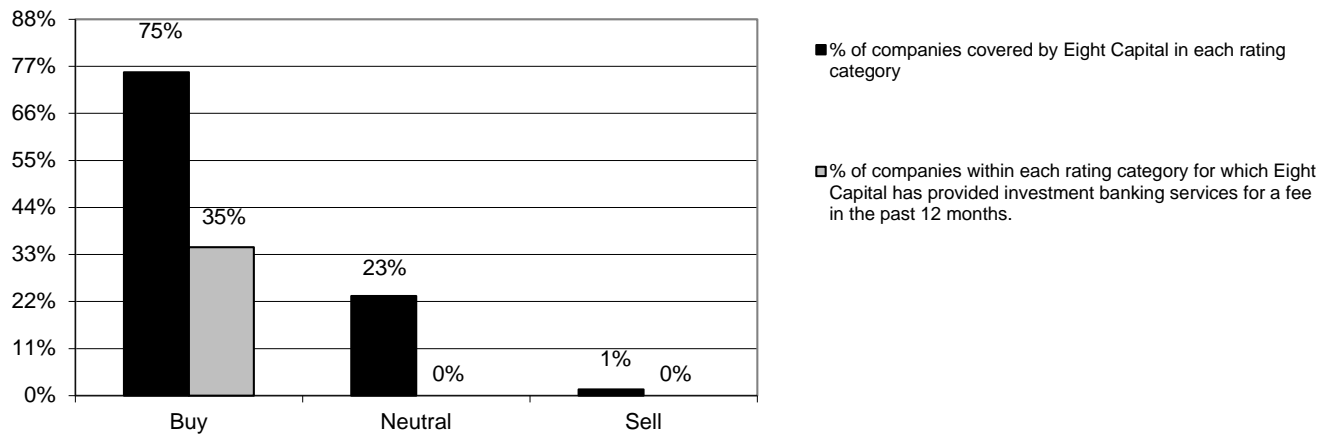
### Explanation of Recommendations

**Eight Capital target:** Represents the price target as required under IIROC Rule 3400. Valuation methodologies used in determining the price target(s) for the issuer(s) mentioned in this research report are contained in current and/or prior research. Eight Capital target N/A: a price target and/or NAV are not available if the analyst deems there are limited financial metrics upon which to base a reasonable valuation.

**Recommendations:** **BUY:** Total returns expected to be materially better than the overall market with higher return expectations needed for more risky securities. **NEUTRAL:** Total returns expected to be in line with the overall market. **SELL:** Total returns expected to be materially lower than the overall market. **TENDER:** The analyst recommends tendering shares to a formal tender offer. **UNDER REVIEW:** The analyst will place the rating and/or target price Under Review when there is a significant material event with further information pending; and/or when the analyst determines it is necessary to await adequate information that could potentially lead to a re-evaluation of the rating, target price or forecast; and/or when coverage of a particular security is transferred from one analyst to another to give the new analyst time to reconfirm the rating, target price or forecast.

**SECURITY ABBREVIATIONS:** NVS (non-voting shares); RVS (restricted voting shares); RS (restricted shares); SVS (subordinate voting shares).

**Eight Capital Equity Research Ratings:**



*As at March 31, 2018*  
*Source: Eight Capital*