

# ADVANTAGE LITHIUM CORP.

## Resource Bigger Than Expected - PEA to Come Shortly

### EVENT

Advantage Lithium released an updated resource estimate for its 75%-owned Cauchari Project in Jujuy Province, Argentina. The updated resource, based on Phase II drilling results increased six-fold to 3.0Mt lithium carbonate equivalent (LCE) with an average grade of 450 mg/l.

### BOTTOM LINE

The release of the resource update is a major milestone demonstrating a large resource on AAL's ground at Cauchari. As such, we expect the stock to re-rate higher as resource risk is reduced. The updated resource estimate is 14% larger than our 2.64 Mt LCE estimate with grades slightly lower than our 480 mg/l estimate. The size and grade is more than adequate to drive our conceptual model and DCF-based valuation. We maintain our BUY rating and \$2.00 target price.

### 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 1.4-3.0M additional tonnes of LCE.
- **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.
- **Near Term Catalysts:**
  - **Preliminary Economic Assessment (Q2/18):** Should support our conceptual model of a US\$360M lithium operation producing 20,000 tpa lithium carbonate with an IRR of over 20%.
  - **Phase III Drilling (Ongoing):** Drill results & upgraded resource demonstrating further upside potential.
  - **Definitive Feasibility Study (H1/19):** Key de-risking milestone paving way for project financing.

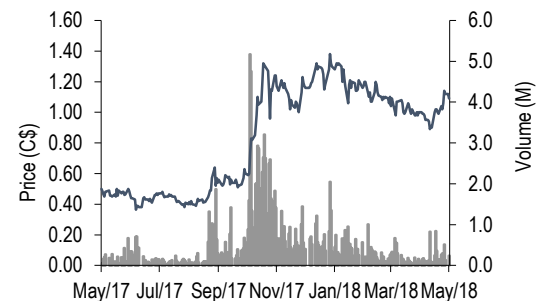
### Recommendation:

**BUY**

Symbol/Exchange:	AAL-TSXV
Sector:	Metals & Mining
<i>All dollar values in C\$ unless otherwise noted.</i>	
Current price:	\$1.09
One-year target:	\$2.00
Target return:	83%
52-week Range:	\$0.36 - \$1.42

### Financial Summary

Market Cap (C\$M)	153.6
Cash & Equivalents (\$M)	13.5
Debt (\$M)	0.0
Basic Shares O/S (M)	140.9
Fully Diluted Shares O/S (M)	166.8
Avg. Weekly Volume (k)	168



**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

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

## 2018 RESOURCE UPDATE

Advantage Lithium released an updated resource estimate for its 75%-owned Cauchari Project in Jujuy Province, Argentina. Based on data from the 2017/2018 drilling program it has successfully expanded the resource at Cauchari to 3.0 Mt Lithium Carbonate Equivalent (LCE) of inferred resource across both the NW and SE Sectors in ~1.2 km<sup>3</sup> of brine at 450 mg/l lithium and 4,028 mg/l potassium with 9.5 Mt of potassium chloride. This is an expansion of 6x the historical resource of 0.47 Mt of LCE at 383 mg/l, which was limited to the northern area of the SE Sector. The average grade of the entire resource has increased to 450 mg/l Li and 4,028 mg/l K.

### Exhibit 1: Cauchari Project Lithium & Potassium Resource, 2018

Inferred Resources (lithium cut-off of 300 mg/l)						
Parameter	NW Sector		SE Sector		Total	
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	
Element	Li	K	Li	K	Li	K
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)	<b>1,530,000</b>		<b>1,490,000</b>		<b>3,020,000</b>	
Potash (tonnes)	<b>4,600,000</b>		<b>4,900,000</b>		<b>9,500,000</b>	

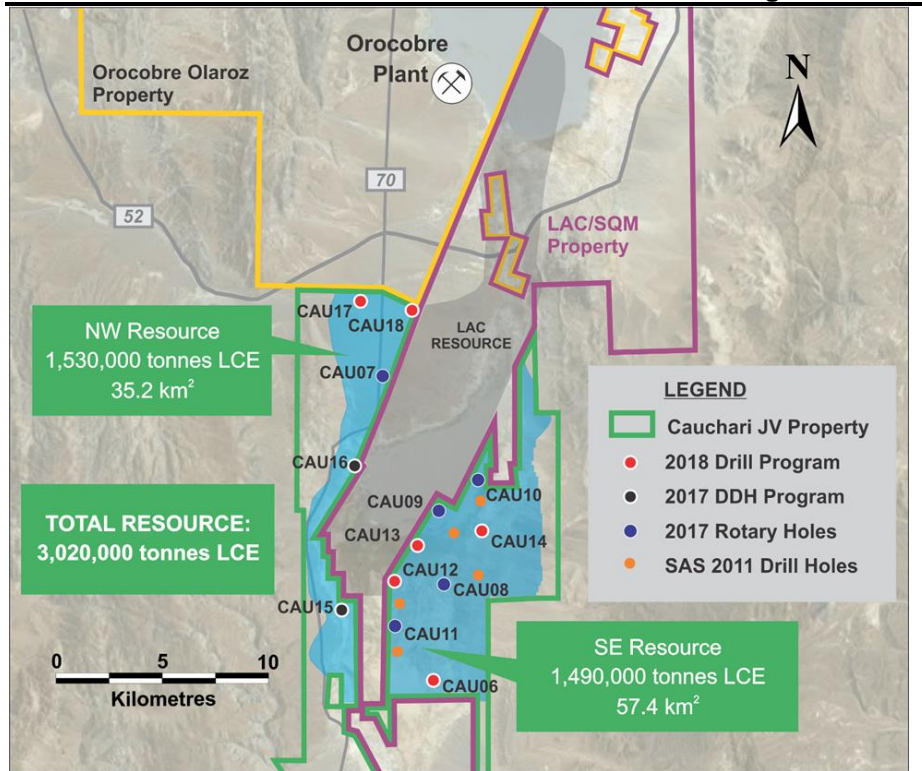
**Notes:**  
 1. CIM definitions were followed for mineral resources.  
 2. The Qualified Person for this Mineral Resource estimate is Frits Reidel, CPG.  
 3. A lithium cut-off concentration of 300 mg/L has been applied to the resource estimate.  
 4. Lithium is converted to lithium carbonate (Li<sub>2</sub>CO<sub>3</sub>) with a conversion factor of 5.32.  
 5. Potassium is converted to potash with a conversion factor of 1.91  
 6. Numbers may not add due to rounding.

Source: Advantage Lithium

The brine chemistry is consistent with the neighboring Olaroz project returning with average Mg/Li ratios of 2.7 for the NW sector and Deep Sand and 2.5 for the Upper SE Sector. The SO<sub>4</sub>/Li ratio was more variable returning 29.4 from the NW Sector and Deep Sands and 69.6 for the Upper SE Sector.

The updated lithium resource estimate for the Cauchari Project is based on the results of seven diamond holes and five rotary holes drilled during the Phase II campaign in 2017/18 and results of four diamond drill holes of the Phase I campaign in 2011. The current inferred brine resource calculated over the NW and SE Sectors of the Cauchari project and covers an area of 92.6 km<sup>2</sup>. The brine resource in the NW Sector extends from the brine level below the Archibarca fan to a depth of up to 300m. The brine resources in the SE Sector extend from the phreatic brine level to a constant depth of 300m and continue locally as a separate resource volume in the Deep Sand unit between approximately 400m and 480m in depth (as defined by Deep Sand drilling intercepts in holes CAU11, CAU12 and CAU13).

**Exhibit 2: Location of Cauchari Boreholes and NW & SE Target Areas**



Source: Advantage Lithium

The release of the resource update is a major milestone demonstrating a large resource on AAL’s ground at Cauchari and a de-risking event. The updated resource estimate is 14% larger than our 2.64 Mt LCE estimate with grades slightly lower than our 480 mg/l estimate. The size and grade is more than adequate to drive our conceptual model and DCF-based valuation. Also, locally higher grades were encountered in the NW Sector in areas such as production hole CAU07 (601 mg/l during 48 hr pumping test) and in the Deep Sand unit in CAU11 (515 mg/l during 48 hr pumping test). As such, the Feasibility study will likely focus on higher grade areas.

**ADDITIONAL RESOURCE UPSIDE**

**Phase III Drilling:** The Phase III resource definition drilling program is currently underway and will include additional diamond holes in the NW and SE Sectors to upgrade the resource classification by Q2/19 to support the Project’s Definitive Feasibility Study. The Phase III drilling program is designed to provide a combined borehole density sufficient to upgrade the current inferred resources to the Indicated and Measured categories. The Phase III drilling is also aimed at further defining resources in the Deep Sand unit.

**More Resource Upside:** None of the boreholes completed to date have intercepted bedrock (basement) and the resource remains open at depth. A significant exploration target has been defined below the current inferred resources and the Company believes the resource will continue to improve in terms of both grade and size as they move through the Phase III drill program which is targeting the extent of the Salar at depth. The geological exploration

target is estimated to range between 1.43 and 3.0 Mt additional LCE, primarily in the SE Sector beneath the current inferred resource area in the Deep Sand unit to a depth of 600m.

**Exhibit 3: Geologic Potential – Resource Upside Potential From Here**

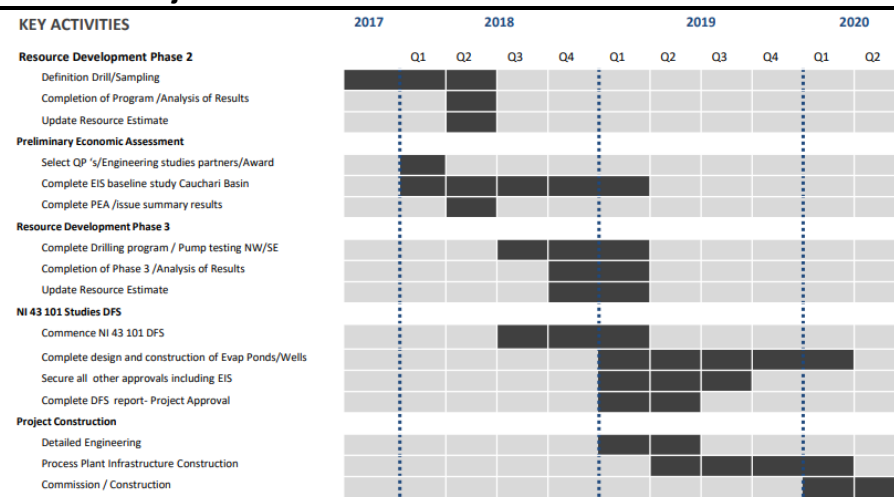
Geological Potential - Lower range (X-2SD)						
Parameter	NW Sector		SE Sector		Total	
Resource area (km <sup>2</sup> )	35.2		57.4		92.6	
Aquifer volume (km <sup>3</sup> )	2.6		12.8		15.4	
Mean specific yield (Sy)	11%		5%		6%	
Brine volume (km <sup>3</sup> )	0.3		0.6		0.9	
Element	Li	K	Li	K	Li	K
Mean concentration (mg/l)	281	2,320	281	2,320	281	2,320
Mean grade (g/m <sup>3</sup> )	31	258	15	122	23	190
Total Resource (tonnes)	80,000	670,000	190,000	1,550,000	270,000	2,220,000
Lithium Carbonate (tonnes)	430,000		1,000,000		1,430,000	
Potash (tonnes)	1,300,000		2,900,000		4,200,000	

Geological Potential – Upper range (X+2SD)						
Parameter	NW Sector		SE Sector		Total	
Resource area (km <sup>2</sup> )	35.2		57.4		92.6	
Aquifer volume (km <sup>3</sup> )	2.6		12.8		15.4	
Mean specific yield (Sy)	11%		5%		6%	
Brine volume (km <sup>3</sup> )	0.3		0.6		0.9	
Element	Li	K	Li	K	Li	K
Mean concentration (mg/l)	594	5,735	594	5,735	594	5,735
Mean grade (g/m <sup>3</sup> )	66	638	31	301	49	473
Total Resource (tonnes)	170,000	1,650,000	400,000	3,840,000	570,000	5,490,000
Lithium Carbonate (tonnes)	900,000		2,100,000		3,000,000	
Potash (tonnes)	3,100,000		7,300,000		10,400,000	

Source: Advantage Lithium

**Project Timeline Maintained:** With the release of the significantly larger resource, Advantage is maintaining its aggressive timeline to production for its Cauchari project which sees construction starting in 2019 and first production in 2021 (Exhibit 4).

**Exhibit 4. Project Timeline**



Source: Advantage Lithium

## MODEL AND TARGET UNCHANGED

**Conceptual Model for Cauchari Lithium Project Unchanged:** The 3.0Mt resource is more than adequate to support a sizeable brine operation on par with neighboring projects. We continue to assume production starting in 2021 ramping up to 20,000 tpa LCE by 2023 for 40-years and with costs ramping down to US\$3,000/t LCE produced. For capex we assume US\$360M based on comps at US\$18,000/t of LCE capacity. Based on our price deck which sees long-term lithium prices at US\$10,000/tonne Li<sub>2</sub>CO<sub>3</sub> (battery grade), we arrive at a project NPV<sub>8%</sub> of US\$566M (100% basis, start of construction) and IRR of 23.7%.

### Exhibit 5. Project Summary

Company Project	AAL		LAC-SQM		ML	ORE	ORE
	Cauchari		Cauchari-Olaroz	Pastos Grandes	Olaroz	Olaroz	Olaroz
Study	2018e		2017 PFS	2018 PEA	2011 DFS		Operation
<b>Resource</b>							
Resource Category		Inferred	Reserve	M&I	M&I		M&I
Resource Estimate	Mt LCE	3.0	1.5	2.13	6.4		6.4
Li content	mg/l	450	698	445	690		690
Mg/Li ratio		2.5	2.4	6.3	2.4		2.4
Drainable Porosity		6.0%	n/a	9.5%	9.6%		9.6%
<b>Operation</b>							
First Production		2021	2019	2021	2014		2014
Ramp-Up	years	3	3	3	3		4
LOM	years	40	40	24	40		40
Annual Production	LCE tpa	20,000	25,000	25,000	16,400		17,500
Unit Cost	\$/t LCE	3,000	2,495	3,218	1,512		4,336*
<b>Capital</b>							
Capex	\$M	360	425	410	207		311
Sustaining Capex	\$M	140	175.4	76.2	48		-
Capex/tLCE		18,000	17,000	16,400	12,622		17,771
<b>Economics</b>							
Li <sub>2</sub> CO <sub>3</sub> Price	\$/t LCE	10,000	10,000	13,499	6,160		-
NPV <sub>8%</sub>	\$M	566	807	824	415		-
NPV <sub>10%</sub>	\$M	358	564	607	273		-
IRR	%	23.7%	24%	23%	26%		-

\*Last reported; revised targets are \$3,500/t and lower with expansion but unusual conditions in 2017 led to lower evaporation rates and production.

Source: Cantor Fitzgerald, Company Reports

**NAV-Based Target Unchanged:** We maintain our BUY Rating and \$2.00 price target on Advantage Lithium. Our price target is derived from a 0.6x NAV<sub>8%</sub> multiple to capture the conceptual nature of the model and development stage. However, we expect the multiple to expand and the stock to rerate higher towards as the project is de-risked through the delivery of a PEA, expected in the near-term.

**Exhibit 6: NAV Summary for Advantage Lithium**

(C\$ million, unless otherwise indicated)

Mining Assets	Ownership	Valuation	NAV	
			(\$M)	C\$/sh
Cauchari	75%	DCF8%	497.5	3.12
Other	100%	nominal	25.0	0.16
Total Mining Assets			522.5	3.28
<b>Financial Assets</b>				
Working Capital <sup>2</sup>			20.7	0.13
Long-Term Debt			0	0.00
G&A			(24.5)	(0.15)
Net Financial Assets			(3.8)	(0.02)
Net Asset Value			518.7	3.26
Target Multiple				0.6x
<b>Target Price per share<sup>1</sup></b>			<b>2.00</b>	
Basic shares outstanding (MM)			140.9	
<sup>1</sup> Diluted shares outstanding(MM)			159.3	
Fully Diluted shares outstanding(MM)			166.8	

<sup>2</sup>Includes 12-month ITM options and warrants

Source: Cantor Fitzgerald

**Cheap Compared to Peers:** Compared to other brine developers and producers, AAL continues to trade at \$38/t LCE versus the peer average of \$100/t. Applying the group average of \$100/t drives an implied EV/Resource target of \$1.51/share. While we maintain our target price based on our conceptual model discussed above, the stock price should step-up on this resource update to be more in-line with its peers.

**Exhibit 7: Peer Comparison**

Company	Ticker	Price	MCAP (\$MM)	EV (\$MM)	Main Project	Type	Location	Status	Ownership (%)	Resource (Mt LCE)	Grade (g/t)	EV/Resource (\$/t LCE MI&J)	
Orocobre Limited	ORE-ASX	6.13	1,549	1,482	Olaroz	Brine	Argentina	Production	66.5%	6.40	690	\$348	
Lithium Americas Corp.	LAC-TSE	7.73	684	628	Cauchari-Olaroz	Brine	Argentina	Construction	46.0%	11.75	586	\$116	
Millennial Lithium Corp.	ML-TSX	2.80	229	186	Pastos Grandes	Brine	Argentina	PEA	100%	2.13	452	\$62	
Neo Lithium Corp.	NLC-TSX	1.65	165	104	3Q	Brine	Argentina	PEA	100%	0.71	714	\$51	
Advantage Lithium Corp. - Current	AAL-TSX	1.09	154	141	Cauchari	Brine	Argentina	Resource	75%	3.02	450	\$38	
LSC Lithium Corp.	LSC-TSX	0.85	68	54	Pozuelos	Brine	Argentina	Resource	100%	1.30	374	\$30	
Bearing Lithium Corp	BRZ-TSX	0.375	21	19	Maricunga	Brine	Chile	PEA	17.7%	1.72	1,172	\$49	
Average													
<b>Advantage Lithium Corp. - Implied</b>		<b>AAL-TSX</b>	<b>1.51</b>	<b>240</b>	<b>227</b>	<b>Cauchari</b>	<b>Brine</b>	<b>Argentina</b>	<b>Resource</b>	<b>75%</b>	<b>3.02</b>	<b>450</b>	<b>\$100</b>

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 \$2.00/shr. These catalysts include:

- 1) Preliminary Economic Assessment – Q2/18:** A PEA is expected in Q2/18. We are expecting the PEA to outline a US\$360M project producing 20,000 tpa LCE with costs in the US\$3,000/t LCE range and IRR of about 23.7% (at US\$10,000/t LCE long-term).
- 2) Phase III Program– Ongoing:** The planned and funded ~2,000m drill program has been designed to define the resource limits of the Cauchari salar with drilling equipment capable of reaching depths of greater than 600m. The Phase III drilling program will continue through 2018, to fully include the deep sand unit in a further resource update planned for late

2018, supporting the Definitive Feasibility Study. This program should upgrade the resource and demonstrate further upside potential.

- 3) **Definitive Feasibility Study – H1/19:** The Company is targeting H1/19 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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**BUY (Speculative):** The stock is attractively priced relative to the company's fundamentals, however investment in the security carries a higher degree of risk.

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