

18 March 2020

LETTER TO SHAREHOLDERS

Dear Shareholder,

This letter provides an update on the measures your company has put in place to deal with the extraordinary global circumstances that have arisen recently.

For the oil and gas sector, we are faced with the double impact of COVID-19's multiple health and economic impacts occurring at the same time as the collapse of OPEC & Russia's agreement in regards to crude oil production. The not surprising result has been massive price falls in commodity prices as well as the share prices of energy resource companies, including our own.

The current low crude price – which in our view is absolutely not sustainable but which may prevail for say the rest of this year – has very little material impact on the value of your company. Gas is increasingly a differently priced commodity to oil and that divergence should continue as the utility of gas as a bridging fuel for many decades grows in comparison. For instance, the rapid rise of electric and LNG/CNG fueled vehicles in China will increase the demand for gas at the same time as the call for oil is squeezed.

In the short term we can already see signs of the Chinese economy bouncing back and if history is a guide that resurgence could be very strong. Unlike "normal" economic shocks this coronavirus shock has not been accompanied by a manufacturing sector inventory build-up. In fact in the manufacturing sector a key concern is supply chain disruption due to inventory run down. When the Chinese and Japanese et al manufacturing resumes full-time this should result in an immediate pick-up in gas demand and hence prices. If this occurs this resurgence should put inordinate pressure on the nexus between oil prices and the long-term LNG prices and an immediate pick-up in the LNG spot price as well as Chinese domestic price.

I was in Mongolia in the second half of January and as I left, the country was starting to impose what at the time seemed very stringent measures to deal with COVID-19. Those have since escalated to include a total international travel ban and many internal measures as well. To date these have proved to be effective, with only four (as at 16 March) reported cases of the virus in the country.

Notwithstanding these restrictions, our local staff have and continue to successfully progress through the various regulatory and other administrative processes required under our Nomgon IX Production Sharing Contract. The Mineral Resources & Petroleum Authority of Mongolia has formally signed off on our plan for 2020; the Environment Ministry is expected to provide its sign off very shortly; and mandatory tender processes for drilling and seismic sub-contractors are well advanced.

Technically we have identified some delineation and exploration well locations and have a work program for further exploration orientated seismic and drilling mapped out. Further evaluation work

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Elixir Energy Ltd is a gas exploration company focused on the 100% owned Nomgon IX coal-bed methane (CBM) production sharing contract (PSC) located in the South of Mongolia, proximate to the Chinese border. The 30,000 km² PSC was executed in September 2018 and has a 10+ year exploration period.

on the results of our recent Nomgon-1 discovery well will take some months, with some restrictions arising due to border closures – however these should be available by around mid-year.

In summary, it is fair to say that operationally our local team is well prepared for when this current situation eases.

We have recently made some minor donations towards the COVID-19 management funds set up in the Soums (local Government administrative units) in which we operate. These adjoin the Chinese border and are especially sensitive to virus transmission.

In Australia we have tightened our fiscal belts in what was already a lean operation. Discretionary expenditure and Board compensation have been cut or deferred. Our current free cash balance covers all of our fixed costs well into 2021.

Commercial discussions over matters such as potential farm-outs have been somewhat delayed in this time of severe international travel restrictions, particularly into China. However, various discussions are still live and we remain of the view that our Company's asset could well be seen as very attractive to a range of third parties. Naturally we will communicate any material developments in these to you as soon as we can.

To sum up, we have virus-proofed the company as much as feasible in the circumstances; are primed and ready to go when normality resumes; and, are as convinced as ever of the attractive risk reward equation encapsulated in our assets.

Yours faithfully,

By authority of the Board:

Neil Young - *Managing Director*
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