



Elixir Energy Limited (EXR)

9 August 2024

Gas flow rates can define the commercial outcome

Key Points

On the cusp of defining the commercial proof-of-concept. The drilling and preliminary testing results from the Daydream-2 well confirmed the gas potential of the Bowen Basin deeps (tight gas) play and puts EXR on the cusp of delivering definitive commercial gas flow rates. A longer duration evaluation campaign is underway and in a stronger gas price environment, the economic threshold is relatively modest and we suggest achievable. In this regard EXR should be considered as holding a significant first-mover position.

The success case can underpin a material uplift in NAV and highlight EXR as a potential aggregation opportunity. The company has a potentially transformational gas resource with a gas zone (Lorelle Sandstone) not recognised as free-flowing in any wells previously drilled. Operationally, the Lorelle target may hold the potential to deliver threshold gas rates on a stand-alone basis and provide a relatively inexpensive and shorter-time line to first gas. Next phase testing is not without risk and results still have to be delivered.

The share price should (on success) increasingly reflect the intrinsic value of a gas resource that could potentially be considered to be in pre-development. At the current share price on attributable Grandis Project Contingent Resources (2C) of 1,276 Bcf, **the stock is trading on a capitalisation reserves metric of \$0.08/gj and that is cheap**, reflecting the remaining risk overhangs. It is not unreasonable to suggest that a success case rerating could reprice the gas metric towards \$0.29-0.45/gj represented by the pre-development/small-scale production opportunities at the upper end of the sector range. **A little data can go a long way.**

Our View

There are rerating points on the horizon. The next six months will reveal much. Testing results are the key – delivering the economic threshold opens up the commercial case and the path to growth begins with the first PJ. With flow rates come reserves and financing options. Holding the Grandis project at 100% means EXR is in control of the pace of evaluation.

Government studies now recognize the longer-term need for more gas and new gas supply. With the Federal Government acknowledging the need for more gas and a number of projects across the sector making progress towards development outcomes, it may be a case as to how long resource mis-pricing can persist – if the market doesn't move then at some stage corporates likely will.

We initiate coverage with a Speculative BUY rating and a NAV range of \$0.27 – 0.58/share. Early stage plays are by definition speculative in nature but that is where the short-term value opportunity lies, in commercial proof of concept. Future testing could deliver a material derisking and rerating outcome. We set our NAV range against probability weighted development outcomes benchmarked to market resource metrics, noting that as new data comes to hand our valuation assumptions can change materially. The share price currently represents a market risk weighting of ~72% to our mid-point valuation.

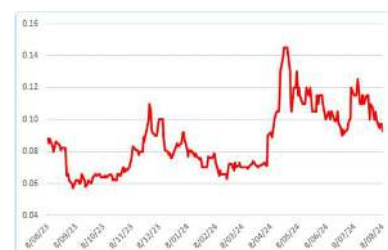
Our conflicts of interests are disclosed on the last page of this report.

Recommendation: Spec BUY

Summary (AUD)

Market Capitalisation	\$116M
Share price	\$0.093
52 week low (intraday 05/09/23)	\$0.056
52 week high (intraday 29/04/24)	\$0.175

Share price graph (AUD)



Source: ASX data

Quarterly Financials

AS\$ '000s	2QFY24 31-Dec	3QFY24 31-Mar	4QFY24 30-Jun
Operating CF	(1,181)	(420)	(377)
Net Interest	77	70	51
Other			
Net Operating CF	(1,104)	(350)	(326)
Exploration	(6,738)	(4,995)	(4,158)
PP&E	(53)		(110)
Other			
Net Investing CF	(6,791)	(4,995)	(4,268)
Net Debt Drawdown			6,245
Equity Issues/(Buyback)	8,345		159
Other	(473)	(20)	0
Net Financing CF	7,872	(20)	6,404
Cash at end period	11,225	5,883	7,665

Proving the Bowen Basin deep gas play

Elixir Energy at the head of the pack

We initiate coverage of Elixir Energy as Speculative BUY recommendation and a mid-point NAV of \$0.40/share.

From acquisition to commercial proof in two years? That is the opportunity awaiting Elixir Energy with a return to testing at its Daydream-2 well seeking to demonstrate economic flow rates. A success case would open up the Permian tight gas play as a new and material source of gas, measuring in the Tcfs, in an extensive infrastructure hub at a time the Federal Government has declared that "...*(n)ew sources of gas supply are needed to meet demand during the economy wide transition.*"

Source: Future Gas Strategy, Australian Government Department of Industry, Science and Resources. (May 2024)

Elixir Energy, having acquired a 100% interest in ATP 2044 in Queensland, (the Grandis Gas Project) in August 2022 (ASX release :29/08/22), the results at Daydream-2 confirmed the gas potential of the play, intersecting **180m of net sandstone pay and 65m of coal, on a gross interval of 607m; a free-flowing gas zone (Lorelle Sandstone) and very high gas content in the deep coals.**

Initial testing confirmed the production character of the Lorelle gas sand, with the (currently unconfirmed) potential for that interval to deliver commercial rates of gas on a stand-alone basis.

The next phase of evaluation (fracking and flow-tests) is underway and Elixir stands on the cusp of commercial definition at its Grandis Gas Project subject to the testing success case.

The initial focus will be on the Lorelle Sandstone section which **provides a material point of differentiation** from what has come before, then moving onto a further five sections, which will be fracked and flowed. This testing will be conducted on a longer duration basis over approximately two weeks, evaluating zones individually and finally in aggregate.

Against a nominal commercial benchmark of 2.5mmcf/d, we see the potential for flow rates to significantly exceed this threshold, potentially (and critically) derisking the commercial case by underpinning upgraded (category and volumes) gas resources.

A success case could provide a material increase in riskd NAV on the look through based on comparative reserves metrics and highlight the company as a potential aggregation target...derisked opportunities are most often attractive to bigger companies chasing the same play.

We assign a risk weighted valuation range of \$391 - 764mn (\$0.27 – 0.58/share – fully diluted)

The Contingent Resources as declared for Grandis are potentially transformational but classified as 'development unclarified'. The value proposition lies in delivering definitive economic flow rates supporting a conceptual development scenario (**Figure 6**).

We use a long run gas price (\$12/gj) in line with that set in the Federal Government's gas code* which is likely conservative but sets a reasonable base case. **The average realised gas price is the key sensitivity and our risk-weighted value moves on approximately a 1:1 basis on gas price (10% change in the gas price, drives a 10% change in NAV).**

**Source: <https://www.dcceew.gov.au/energy/markets/gas-markets/gas-market-code>*

It is useful to use peer group reserve metrics to highlight the indicative rerating opportunity associated with greater commercial certainty. It is not unreasonable to speculate that upgrading of the 2C status could rerate the gas metrics to levels comparable with COI, STX and CTP.

Figure 1: Reserves/resources metrics highlight the sector has cheap gas

Company	Ticker	Share price A\$	Issued Shares mn	Capitalisation A\$m	2P PJ	2C PJ	MC/2P A\$/gj	MC/2(P+C) A\$/gj
Comet Ridge	COI	0.175	1,108	181	195	211	0.99	0.45
Strike Energy	STX	0.180	2,861	515	606	640	0.85	0.41
Central Petroleum	CTP	0.050	740	37	75	51	0.49	0.29
Vintage Energy	VEN	0.008	1,670	13	51	65	0.26	0.12
Blue Energy	BLU	0.009	1,851	17	71	1,640	0.23	0.01
Tamboran Resources*	TBN	0.172	2,060	354		2,403		0.15
Empire Energy	EEG	0.260	1,017	264		1,739		0.15
State Gas	GAS	0.045	274	12		535		0.02
Elixir Energy+	EXR	0.094	1,196	107		1,370		0.08
Elixir Energy+ (@ NAV)		0.400						0.34

Source: Company and ASX data; prices as of close trading 8-Aug; *TBN are quoted on a CDI basis; EXR+ references Grandis Project 2C only

Delivering Grandis defines a new multi-Tcf gas play for east coast markets

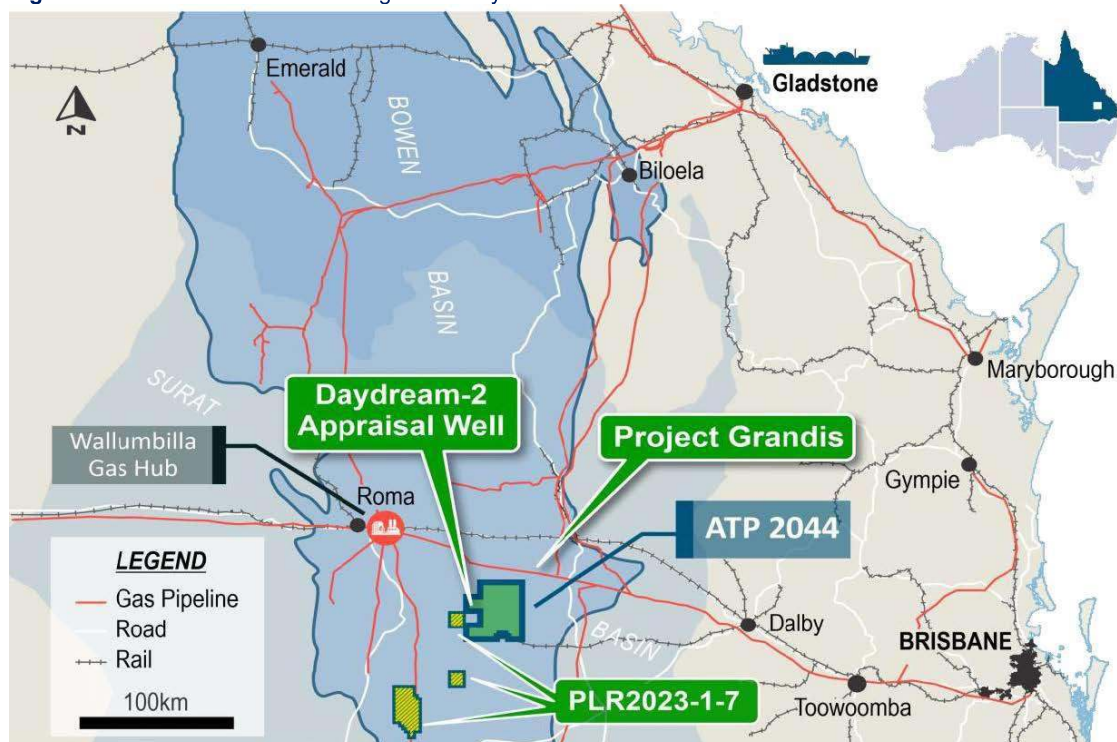
Bowen Basin deeps – the Grandis Project can lead the way

More gas is required from new plays– the Federal Government has said so.

Whilst the tight gas potential of the deep Bowen Basin has its operational and appraisal risks, the play has significant development upside and benefits from being located within an extensive infrastructure network, broadly 35km from the Wallumbilla Gas Hub providing connections to domestic and export markets.

Delivering sustainable, commercial gas flows to surface is the current unknown...the path to market in some respects will be the easy part.

Figure 2: Gas to Wallumbilla means gas to everywhere



Source: Company data

Elixir acquired a 100% interest in ATP 2044 (the Grandis Project) through EnergyCapture Pty Ltd. as a specific exposure to the deep gas potential of the southern Bowen Basin aiming to leverage the evolving and economically favourable domestic supply market dynamics.

The consideration for the purchase was:

- A\$500,000;
- The issue of 20,703,934 (worth ~A\$3 million) Elixir shares escrowed in equal parts for nine and eighteen months, with the remaining third escrowed unencumbered;
- An over-riding royalty of 3% - **on hydrocarbon liquids production only**

ATP 2044 is very well located in the Taroom Trough (refer **Figure 2**) and is prospective for gas and condensate trapped in conventional (sandstones) and unconventional (fractured coals) reservoirs. These targets can be considered as proven in the Taroom Trough, where the immediate reference well, Daydream-1 (Dd-1), located ~3km west of the permit boundary, flowed gas at rates of up to 3.5 mmcf/d. The primary objective reservoirs are the sandstones and fractured coals of the Permian aged Kianga Formation and Back Creek Group within the Bowen Basin.

The Bowen Basin deeps can be considered as a basin-centred gas play, characterised as being regionally pervasive, gas saturated, abnormally pressured and of low-permeability. Gas in place volumes are typically very large.

Where in production, basin-centred gas plays are not commercially productive over their entire area and sweet spots of enhanced reservoir quality must be identified. In the case of EXR, this characteristic could most likely be represented by the Lorelle Sandstone outcome, having delivered free-flowing gas.

Referencing an Australian Energy Producers Conference paper*, deep gas exploration in the Bowen Basin has historically been conducted at the margin of drilling activity, with only 39 wells drilled to depths >3000m of which only ten have been drilled from 2010, largely as a result of the industry shift to coal seam gas and development of the LNG hub at Gladstone.

The renewed interest in the deep plays was led by the Queensland Gas Company Pty Ltd (QGC), now a wholly owned subsidiary of Royal Dutch Shell plc (Shell), which drilled seven wells from 2011 to 2015 specifically targeting the tight gas sand prospectivity of the Taroom Trough.

The paper noted that while all the wells “...confirmed essential tight gas sand play elements (i.e. reservoir presence, charge, pervasive gas shows independent of mappable traps, abnormal pressures), ultimately the test results proved sub-commercial.

*Source: AEP Journal – “What lies beneath – a review of frontier exploration for deep plays in the Bowen Basin” Raymond L. Johnson Jr and Nathan Parker - 11 May 2023

We suggest the critical constraining element was commercial (ie the gas price). Using Santos Ltd (STO.ASX) financial results as a proxy for east coast gas prices, the company realised a range of \$4.97-5.64/gj over the period 2012-2015 indicative of the prevailing commercial settings.

Contracted gas prices (industry wide) have nearly tripled to date with recent ACCC data indicating an average forecast fixed price for 2025 supply of \$15.47/gj (refer **Figure 12** - ‘Interim update on east coast gas market’ [June 2024]).

The economic margin on stronger demand, higher prices and technology improvements should provide a materially favourable operating setting for deep gas...all that needs to be delivered are definitive flow rates.

We highlight that the deeps play is garnering more attention across the venture operators with Shell undertaking a three-well campaign in its nearby acreage. The more wells that get drilled in the play, the better as **all data contributes to the potential commercial evolution of the play**.

Unsurprisingly, as most operators tend to operate in information silos, the dissemination of detailed technical information is low but even ‘tight holes’ (from a data perspective) leak into the industry as ultimately there is a tacit understanding that successes are beneficial to all ventures...and a rising tide lifts all boats.

We understand that Santos Limited (STO.ASX) recently executed a data sharing agreement with EXR that can only help in an operational and perhaps corporate sense.

Daydeam-2 – we are awake and these are potential game changing results

EXR drilled the Daydeam-2 (Dd-2) well as its first campaign in ATP 2044, completing the well through the period ending 31/12/23 to a total depth of ~4,300m. A critical aim of the works was successfully accomplished by derisking and underpinning a material increase in the initial certified booked contingent resources (refer **Figure 3**), increasing the volumes by a factor of 3x to 1,297 Bcf (from 395 Bcf).

Figure 3: Gas to surface delivers quantum increases as risk falls – more confidence = more gas

	1C		2C		3C	
	Gas BCF	Condensate MMbbls	Gas BCF	Condensate MMbbls	Gas BCF	Condensate MMbbls
November 2022	93	0.7	395	3.6	1,493	17.3
May 2024	405	3.0	1,297	10.8	4,290	36.1
% Increase	435%	429%	328%	300%	287%	209%

Source: Company data

In summary the well –

- Intersected on initial interpretation **245m of net pay on a gross interval of 607m across multiple prospective horizons**.

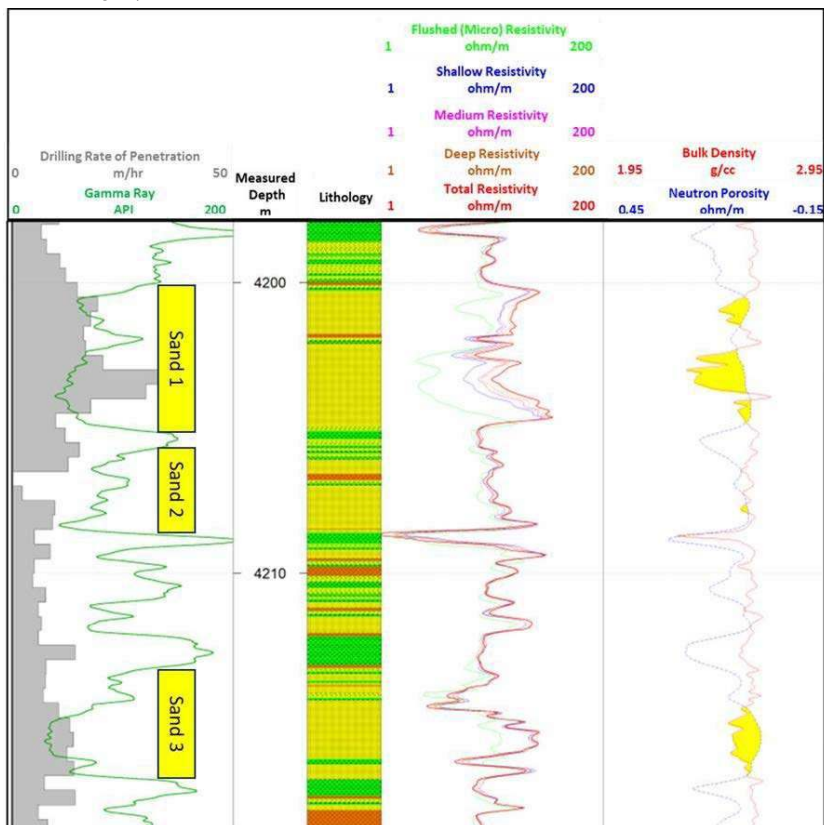
Net pay ultimately depends on flow rates and what zones can be considered commercial on a practical basis, either in aggregate or stand-alone. Much will depend on the vertical and lateral distribution of the Permian sandstones but the geology ‘should’ lend itself to continuous rather than lenticular sands which is advantageous for development planning..

We would note that it’s too early to determine the optimum completion style (horizontal or vertical wells) which is likely to be dependent on high-grading the prospective gas zones.

Figure 4: Logs show the Lorelle zone as clean blocky sands that can deliver gas to surface

Well logs across the Lorelle Sandstone section denoting the blocky nature of the sand intervals and separation of the resistivity curves indicative of hydrocarbons (in this case gas).

Lorelle gas flare...it's always a positive to see gas to surface.



Source: Company data (Presentation 9-Apr) – note some vertical exaggeration (RHS)

- Intersected an **'unexpected', free-flowing gas zone at 4,200m** (Lorelle Sandstone)

Whilst this interval was identified in Dd-1, it exhibited poor reservoir characteristics and was not considered as a material prospective target. On that consideration, the result in Dd-2 was **massively unexpected, but materially positive**.

...and that **positive aspect is that unexpected gas opportunities translate to upside to the play** highlighting the potential for the Lorelle target to deliver the commercial flow rate benchmark stand-alone. At 9,400psi, the formation pressure is off the charts and flowing gas should not be high risk.

The Lorelle gas zone comprises about 12-13m of sandstone, effectively in two zones over a 17m gross section refer **Figure 4**).

On clean up testing the Lorelle section did return gas to surface with a stabilised rate of 1.3mmcf on limited duration flow (8 hours). Company analysis and modelling suggests that an economic breakeven rate of 2.5mmcf could be achievable although second phase testing of a longer duration is required to determine the amount of gas sitting behind casing.

There are risks in that having not been encountered as a viable gas zone in other wells in the play there are questions about regional prospectivity away from this location.

The company's geological model broadly supported by seismic data, suggests the Lorelle thickens and improves in reservoir quality downdip (to the E/SE) of Dd-2. This can only be confirmed from further drilling and we consider **the immediate benefits far outweigh any perceived negatives in our view**.

- **'Unexpected' very high gas content in the deep coals**

In simplistic terms, the play looks like an engineering problem not a resource problem, which likely has legs in a rising gas price environment. On a cautionary note, however, we have been here before on a number of energy sector, early-stage plays, so more definitive data is required as the next step.

We suggest, the comparative and absolute flow rates from the deeps are never going to be massive but can be economic and the unit capex is never going to be low but can be lower (batch drilling etc).

What's next – a return to testing.

A fit for purpose coil tubing unit (CTU) has been secured and will be onsite for commencement of next phase testing around the start of August. The initial focus will be on the Lorelle Sandstone section before moving onto a further five sections, which will be fracked and flowed.

The five additional targets will consist of three sandstone and two coal zones in the Permian section with expectations that these zones will be tested on a longer duration basis over two weeks.

The highest zone (a coal section) will be independently tested first, with an aim to generate contingent resource certification in the coals of the Taroom Trough, which will be the first bookings across this gas option.

The ultimate phase will be to flow test across all six zones as an aggregate section to determine the rates against the nominated economic production threshold of 2.5mmcf/d (refer **Figure 6**).

As commented by the company, "...*(these) flow test(s) will be from only 19% of the total gas-bearing zones of the Permian section and a higher flow rate could be extrapolated to arise from future, more extensive perforations and stimulations.*"

Figure 5: The timetable to results for commercial proof of concept by end 3Q24 is possible

Daydream-2 Remaining Program*	2024							
	July				August			
	Wk1	Wk2	Wk3	Wk4	Wk1	Wk2	Wk3	Wk4
Prepare and Rig Up for Lorelle Sst Test				■				
Flow Test Lorelle Sst (Stage 1)				■	■			
Perforate and Stimulate Stages 2 to 6					■	■		
Flow Test Various Stages							■	■

Source: Company data

At this early stage of evaluation for the play on an holistic basis and specifically for EXR, **we would like to see a margin in excess of the benchmark rate to definitively signify commerciality**...the greater the margin above threshold, then the greater the commercial confidence and margin of error.

As with all small operators, **the initial keystone is to prove the play to the point where you can attract financing, most likely through partnering** and the bigger the gas number, the more probable that becomes and potentially the better the terms.

Financing is always an overhang

The scale and pace of future works is going to be dependent on financing and for companies with no revenue streams that is going to require recourse to grants and refunds, potentially securing a farm-in partner(s) and further equity capital raisings.

We understand the company would like to be in a position to drill a follow-up well in the Grandis Project within the next twelve months or so, more so if the results for Daydream-2 testing significantly outperform benchmarks and expectations. One well will not be sufficient to crystallise a development model although it may be enough to attract interest from other gas operators in the play or short Queensland gas molecules, particularly for LNG.

There are ready reasons that both Shell and Santos have holdings in the 'deeps'...it is for scale production to support their respective Gladstone LNG projects, which have been operating for over ten years and in the case of Santos specifically, the high productivity areas of its current CSG fields are declining and the focus for replacement gas is moving towards its secondary inventory.

We suggest there is also some frustration from current gas offtakers as to the slow progress of evaluation and feasibility works on new gas projects, again particularly with respect to LNG projects, with at least one of the Gladstone operations running significantly under nameplate capacity on gas supply constraints.

Larger energy companies have historically only looked at partnerships with smaller operators when the business case is compelling (a material development opportunity) or when the play is derisked and in say, a pre-development phase or later, preferring smaller operators to carry the resource and engineering risks, which they can often do more rapidly and cost effectively than bigger companies.

It's difficult to catalyse corporate activity from major companies but there is a window of opportunity, in a rising gas price market to put a foot on transformative gas resources at a favourable entry price, lest the success case drives an auction as occurred in the 'great CSG scramble' between 2005-2010.

In a perfect world scenario, EXR would be looking to secure a farminee to underpin the next drilling campaign but we cannot discount the possibility of additional equity raising to fund this work. Capital requirements should be lower than for Dd-2, with the next well potentially being drilled from the same well pad on a deviated basis, chasing the Lorelle target down-dip and intersecting the Permian section on perhaps a 45deg angle.

We can only speculate as to the broad costs of a future well, but perhaps that would be in the order of \$15-20mn depending on testing.

There is always the potential to seek customer funding as is being used increasingly in the industry, with buyers assuming some of the upstream risk and converting funding to a gas pre-payment on success...this will likely require significantly more definition on the gas resource and commercialisation plan.

A development scenario

The company has published (ASX release 29-Apr) some back-of-the-envelope modelling on the economics of a success case development at Grandis. This provides an early look-through to metrics and break-even outcomes.

We caution that these numbers are preliminary and subject to potentially material change as testing results are delivered and more wells are drilled and should be considered within that context. However, within the context of the conservative nature of some of the assumptions, the numbers are indicatively attractive on a success case basis.

Figure 6: The development scenario delivers high cash margins on steady state production

Assumptions		Calculations		
EOR	3 Bcf	<i>Average gas rate</i>	3.2	<i>PJ pa</i>
Well life	30 years	<i>Implied 2P</i>	300	<i>bcf</i>
# wells	100			
Project life	40 years	<i>Ave prod rate</i>	7.5	<i>bcf pa</i>
<i>PJ:Bcf</i>	1.067		8.0	<i>PJ pa</i>
			22	<i>TJd</i>
CGR	10 b/mmcf	<i>Total gas liquids</i>	3	<i>Mb</i>
Well cost	\$15.5mn	<i>Total capex</i>	\$1,550	<i>mn</i>
Gas price	\$10.00/gj	<i>Gas price</i>	\$10.00	<i>/gj</i>
		<i>Unit capex (DD&A)</i>	\$4.84	<i>/gj</i>
Fixed op cost	\$8.4mn pa	<i>Fixed</i>	\$1.05	<i>/gj</i>
Vari op cost	\$1.02/gj	<i>Vari</i>	\$1.02	<i>/gj</i>
		<i>Total op cost</i>	\$2.07	<i>/gj</i>
		<i>Net well margin</i>	\$3.09	<i>/gj</i>
		Margin needs to support corporate costs, financing and reinvestment capital		
<i>US\$ liquids price</i>	\$69.00/b	(Brent - US\$6) = \$69/b long term		
<i>FX</i>	0.75	<i>A\$ condensate price</i>	\$92.00	<i>/b</i>
Liquids ORR	3%	<i>Net condensate price ex-ORR</i>	\$89.24	<i>/b</i>
		<i>Liquids rate</i>	75	<i>kb pa</i>
		<i>Gas sales</i>	\$80.0	
		<i>Condensate sales</i>	\$6.7	
		<i>Total sales</i>	\$86.7	<i>mn pa</i>
		<i>Gas op cost</i>	\$16.6	
<i>Cond op costs</i>	\$15.00/b	<i>Liquids op cost</i>	\$1.1	
<i>State royalties</i>	8%	<i>State royalties</i>	\$7	
<i>G&A</i>	\$8mn	<i>G&A</i>	\$8.0	
		EBITDAX	\$54.1	<i>mn pa</i>
		<i>DD&A</i>	\$38.7	
		EBIT	\$15.3	<i>mn pa</i>

Assuming that is a recoverable estimate

With gas potentially sold ex-field, \$10/gj could represent a net-back price.

Does this include workover costs?

...have to recover the cost of the well

Proxy for Net Operating cash
Perhaps higher if there is capex for liquids infrastructure - storage, load out facilities.

Source: EXR assumptions (**bold**); TC assumptions, calculations (*italic*) and analysis

We cite from the company release -

Elixir's "...modelling indicates the Lorelle Sandstone alone could produce a commercial flow rate of gas, with the breakeven commercial initial flowrate being estimated at 2.5mmcf/d." With the "...commerciality threshold strongly underpinned by the location of the Grandis Project only a few tens of kilometres from: gas pipeline infrastructure connecting to domestic and international gas markets; existing and proposed local gas-fired power stations; a commercial gas hub (Wallumbilla) into which spot sales can be made at high gas prices" with "...plans for a staged development already underway, including engaging with gas offtakers with interests in the region. (emphasis added)."

We reiterate results published from Daydream-1 (Dd-1), as the analogue well, flowed gas at rates of up to 3.5mmcf from a likely sub-optimal design as an exploration well.

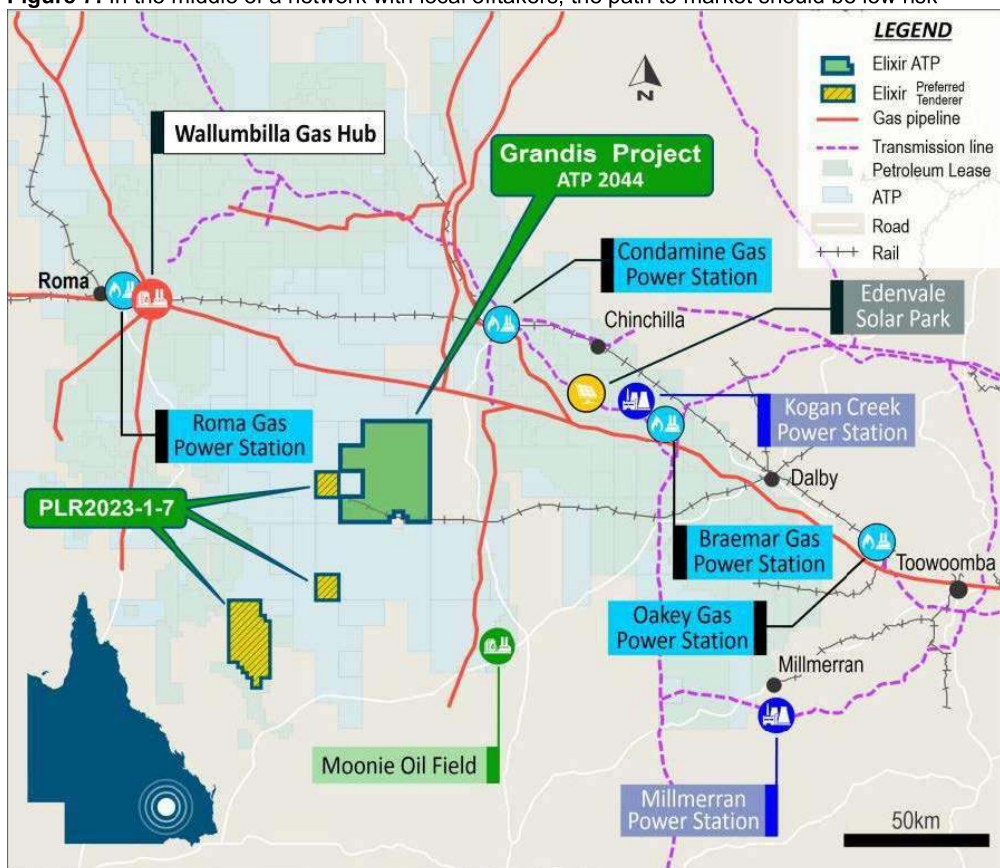
We hold a relatively high degree of confidence that the current programme can deliver flow rates well in excess of the calculated breakeven rate, which perhaps could be delivered from the Lorelle Sandstone target on a stand-alone basis. The Lorelle zone, whilst recorded in Dd-1, was not of reservoir quality.

Our numbers assume 'a steady state' average outcome, noting of course the wells will be front loaded and phased, but that can only be determined when sufficient data is to hand to establish type curves and stabilised rates.

We note the model assumptions of a 40-year project life and 30-year well life – if deliverable, then at some point the project will reflect annuity like returns.

The success case outcomes (operational and financing) would see first gas sales in 2029. The next 12-24months will see how locked in that timing is.

Figure 7: In the middle of a network with local offtakers, the path to market should be low risk



Source: Company data

Adding leverage – new acreage awards.

Elixir has been appointed as the preferred tenderer for new exploration acreage in proximity to ATP 2044 (refer **Figure 2**) designated PLR2023-1-7 in three separate parts.

The larger south-western block is considered to be prospective for both shallow and deep gas targets.

The company must now submit an Environmental Authority (EA) application and any native title requirements prior to being granted the final Authority to Prospect (ATP). This licence **will not be subject to any domestic gas reservation. Elixir will own a 100% working interest in the ATP and will be the Operator.**

The company has commenced technical studies to assess the certification of potential of contingent and prospective resources. Works firming drilling target(s) and seeking potential partners will accelerate when the licence is formally granted.

The Nomgon Project/Gobi Green Hydrogen – a long-term point of differentiation

The gas opportunity in Queensland is the short-term driver and has overtaken the Nomgon Project in terms of the commercial priority, however, Nomgon remains an import point of differentiation and diversification in the long-term.

Figure 8: A CSG play with 'no limit' cross-border (China) gas market opportunities



Source: Company data

The Nomgon IX CBM PSC (Nomgon Project) is located on the Mongolian Chinese border, around 400 km North of China's main gas transmission grid. The PSC (Production Sharing Contract) holds a best estimate Prospective resource of 14.6TCF is ~30,00km² in area.

The PSC was awarded in September 2018 with a minimum ten-year exploration period and a thirty-year (extendable) production period.

The company has described Mongolia as representing option value over gas demand growth in China. The commercial success case is transformative enough to be attractive as an alternative source of supply for China particularly versus LNG imports.

As an adjunct to direct gas supply, the company has also been progressing a clean energy option (Gobi H₂ Green Hydrogen Project).

The development of clean energy options based around hydrogen represents a longer-dated opportunity into Asia beyond China but noting the emergence of a hydrogen pipeline network just to Mongolia's South.

Nomgon CSG in a pilot production phase.

It's worth noting the enormous areal extent of the PSC which is practically half the size of Tasmania, so regional exploration and high-grading of the prospectivity does come with numerous logistical and capital issues. Over the 2021-2024 period, the company has drilled only some 42 CSG wells, but identifying a number of favourable areas.

The company has already moved to an initial pilot production operation (Nomgom) with two wells completed across Sep-Oct-2022 in the first phase.

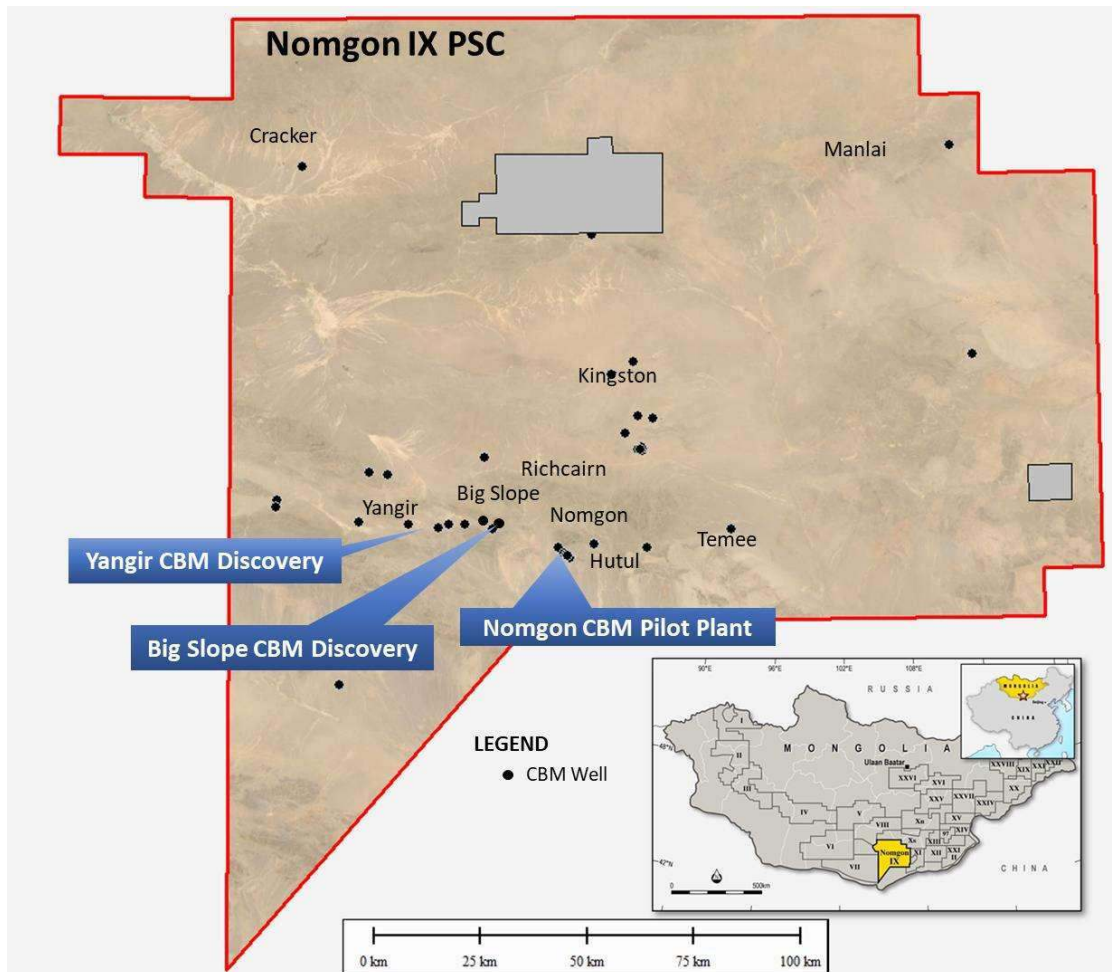
The results of the operations were strongly successful in the initial stages, with gas breakthrough achieved within the first month and rates building up to 200 mcf/d in Mar-2023, with low water production. This supports the company contention that the coals are effectively 100% gas saturated.

The pilot was shut in for well workovers and pressure testing shortly thereafter with a third well added to the pilot, being completed and on-line in late Sep-2023.

Works from that date have been focussed on dewatering a greater area of coal and as at 2-Jul (refer ASX release of same date) the pilot was continuing to dewater, with reservoir pressure declining by about 5psi per month and expected to reach the critical desorption level (gas breakthrough) before end-2024.

As with many early stage CSG projects, with gas to surface as initially strong rates, the project is now more about reservoir engineering and maximising gas flow....the gas is there and it can be produced.

Figure 9: High grading the PSC will take time but Nomgon can deliver gas...more data is required



Source: Company data

A speculative play with blue-sky valuation upside

A success case valuation well above the share price is typical for the small cap space

We ascribe a mid-point value for EXR of \$526mn (\$0.40/share on a fully diluted basis) noting the closing share price of \$0.093/share (8-Oct) is a substantial discount to our NAV and represents a (further) market risk weighting of around 75%.

We highlight that discounts of this magnitude are not unusual in the small-cap energy space where companies, like EXR, are asset rich with transformational upside on derisking and upscaling the business case. The key to closing the valuation gap is to progress commercial outcomes by working assets and delivering development quality gas (bankable) reserves.

There's low-hanging fruit in the Grandis Project that can be realised though a success case from the impending testing and evaluation of the Daydream-2 well, the magnitude of which will be determined by the margin above the commercial flow rate threshold. On balance we expect to see measurable progress over the next 12 months through testing and follow-up drilling (Daydream-3).

Figure 10: There is asset value that needs to translate to the bottom line

	WI	Risky Range			
		Low	Mid	High	
Queensland (ATP 2044)					
Project Grandis	100%				
Contingent Resources		\$365	\$485	\$696	Risk weighted conversion of C resources to a underpin the scenario development as per Figure 6 assumptions
Prospective Resources		\$5	\$10	\$15	Nominal value only – the value of the gas produced beyond the scenario project life (40 years) is minimal in NPV terms
Mongolia					
Nomgon IX CBM PSC	100%	\$16	\$32	\$48	Book value only with pilot production still in a very early stage and the potential of the Gobi H ₂ project dependent on commercial success from CSG operations.
		\$386	\$526	\$759	
Net cash/(debt)			\$10		Estimated post 23-July capital raising
Corporate			(\$5)		
TOTAL		\$391	\$531	\$764	
Shares issued (mn)	1,196	\$0.30	\$0.44	\$0.64	Estimated post 23-July placement
Fully diluted (mn)	1,315	\$0.27	\$0.40	\$0.58	

Source: TC analysis; Discretionary risk adjustments

We broadly value the resource base by applying an estimated unit gas value overlain by discretionary probability weightings (1-risk %), reflecting the position on the commercial timeline and project definition. Our probability weightings are subject to change as the macro operating conditions vary and further evaluation results are delivered.

Assigning values to Contingent Resources is always subjective and somewhat arbitrary, particularly where the resources as certified are large (refer **Figure 3**) with as yet, no clearly defined pathway to production at scale. Our Grandis Project value is entirely dependent on delivering a success case via the generation of commercially definitive gas flow rates and ultimately, certification of bankable reserves

Translation of 'C' volumes to bankable 'P' volumes should be relatively less risky by being located within easy and low cost tie-back to the infrastructure network but remains arguable and subject to capital and timing assumptions.

To derive our value, we apply successive iterations of discounting/risk weighting as follows:

- Convert contingent volumes to a nominal 2P equivalent using somewhat arbitrary weightings which vary between gas categories. We don't apply the same weightings to all gas and in 2C terms (as noted) the Contingent Resources are currently classed as "Development Unclassified", the highest risk ranking on the 'C' attribution scale.

Commercial outcomes (rate and duration) from the testing campaign should support a material upgrade in ranking and perhaps volumes. We note that a "Development Pending" ranking only really requires an unconditional binding gas sales agreement to be converted to 'P' reserves.

As the number of completed wells in the play is somewhat small, with geological uncertainty as noted in the asset discussion, a success case at Daydream-2 will not necessarily underpin a re-rating on a regional basis. Results from other operators will add to the information base but at this stage there is sufficient uncertainty to suggest other prospects in the portfolio should be treated on a stand-alone basis.

- Assign a base-case 'life of reserves' average realised gas price – in this case, we assume \$10/gj as a conservative low estimate in-line with the company's modelling for gas sold on an ex-pant basis, noting the premiums that can be garnered in the spot market and domestic prices at \$12/gj under the Federal Government industry Code.
- Assign a 'unit NPV' margin ranging from 10% to 20% for greenfield gas;
- ...and a subjective risk weighting which accounts for development uncertainties on timing, capex, scale and financing. Given there is no clear commercial design at scale yet, estimate of unit capex/opex can only be made in very broad terms and hence we have applied probability factors at the lower end of the range.

We assume our modelled 2P equivalent gas volumes will be produced.

We include comparative gas metrics to highlight the potential unit uplift achievable for EXR from the Grandis Project as resources are converted to reserves and the production opportunity crystallises; and as a benchmark against our assigned NAV.

Comparing gas volumes on an absolute basis comes with embedded risks as all of the comparison group companies are at different positions along the development curve, across varied geological settings and not all 2C is the same, but the data can be used indicatively on a directional and 'multiple upside' potential basis.

It is not unreasonable to speculate that upgrading of the 2C status could re-rate the gas metrics to levels comparable with COI, STX, and CTP. (refer **Figure 1**).

Both COI and STX represent de-risked gas (reserves and development pending resources) supported by definitively commercial flow rate data, with pre-FEED gas development plans and in the case of COI, accessing the same infrastructure network available to EXR. CTR is in production, but is a small-scale operation with a relatively short remaining reserves life.

For EXR, successful testing results now and in the future wells could re-rate its current 2C volumes to 'equivalent status' on an equivalent order of magnitude in our view – the natural extension of the success case should be to support a higher look-through metric.

Our modelled value is dependent on continuous progress towards production at scale. We are comfortable with our discretionary risk weightings and note these weightings could unwind as new/positive data comes to hand over 2024-2025, independent of commodity price assumptions.

Elixir Board of Directors and Top 20 Shareholders

As befitting a company with around a \$130mn capitalisation, the board is small and importantly, collectively holds significant experience in small company management with a spread across multiple disciplines. The experience of the Board has resulted in the company identifying and securing a key play in the Bowen Basin deeps, holding a very strong early mover advantage in an emerging opportunity. EXR is on the cusp of potentially commercial proof-of-concept testing results which should be to hand in the short-term.

	Richard Cottee	
Title	Independent Non-Executive Chairman	
Qualifications	BA/LLB (Hons)	
Board Committees	Chair of the Remuneration Committee and a member of the Audit Committee.	
Expertise and experience	Richard brings to the board a deep and extensive experience from over 30 years in the upstream energy business across numerous key executive roles including the Queensland Gas Company (QGC), CS Energy, NRG Europe, Central Petroleum and Nexus Energy. Critically as the Managing Director of QGC, he oversaw its growth from as a junior explorer of \$20mn capitalisation to its acquisition by BG Group for \$5.7Bn.	
Other Directorships	State Gas Ltd	
Shareholdings	20,252,240 ordinary fully paid shares	
	3,000,000 Incentive options exercisable at \$0.15	(exp. 17/10/2026)
	Neil Young	
Title	Managing Director	
Qualifications	MA (Hons)	
Expertise and experience	Neil was appointed as the CEO/MD of Elixir on 14/12/18. He has over twenty years of experience in senior management across the upstream and downstream of the energy sector, with key focus on business development, new ventures and gas marketing. His experience was garnered across a diverse set of companies including EY, Tarong Energy and Santos.	
Shareholdings	42,989,367 ordinary fully paid shares	
	714,279 Listed options exercisable at \$0.12	(exp. 17/10/2026)
	2,000,000 Class P Performance Rights	(exp. 01/07/2025)
	1,000,000 LTI Revenue Performance Rights	(exp. 30/06/2026)
	1,000,000 LTI TSR Performance Rights	(exp. 30/06/2026)
	2,000,000 LTI TSR Performance Rights	(exp. 30/06/2027)
	Stephen Kelemen	
Title	Independent Non-Executive Director	
Qualifications	B.Eng	
Board Committees	Chair of the Risk Committee, member of the Remuneration Committee and Audit Committee.	
Expertise and experience	Stephen is a well experienced and highly regarded gas industry executive, being appointed to the board on 06/05/19. He led Santos' coal seam gas team from 2004 and worked at the company for some 38 years in multiple technical and leadership roles.	
Other Directorships	Galilee Energy Limited; Advent Energy Ltd, Queensland Exploration Council (unlisted)	
Shareholding	2,565,795 ordinary fully paid shares	
	214,286 Listed options exercisable at \$0.12	(exp. 17/10/2026)
	3,000,000 Incentive options exercisable at \$0.15	(exp. 17/10/2026)
	Anna Sloboda	
Title	Independent Non-Executive Director	
Qualifications	MA Economics, MBA	
Board Committees	Chair of the Audit Committee, member of the Risk Committee	
Expertise and experience	Anna was appointed to the board on 0/10/20 and brings over 20 years of experience in corporate finance and in developing junior resource companies operating around the world.	
Other Directorships	Lykos Metals Limited, Red Citadel Resources Pty Ltd	
Shareholding	250,286 ordinary fully paid shares	
	107,143 Listed options exercisable at \$0.12	(exp. 17/10/2026)
	1,000,000 Incentive options exercisable at \$0.50	(exp. 17/10/2025)
	3,000,000 Incentive options exercisable at \$0.15	(exp. 17/10/2026)

Issued capital

Not unusually, for a small company actively working its assets, with no operational cashflow, EXR has been somewhat dependent on equity markets for the majority of its exploration and appraisal financing and in the absence of partnering this mechanism should be considered as a critical future funding option.

For the five years to end FY24, the company has raised some \$61.4mn. The raisings have supported the drilling, testing and pilot production (at Nomgon); and adjusting for the cash at hand as at 30-Jun (\$7.7mn), implies ~88% (\$47.3mn) has been directed 'in-ground', with trailing costs for Daydream-2 to come through in 1H25, including next stage testing.

The raisings have been targeted to promote and accelerate commercial outcomes.

Figure 11: Significant equity capital raisings have been directed into in-ground outcomes

		FY20	FY21	FY22	FY23	FY24	FY25	Aggregate
Opening	Issued Shares (000s)	487,204	687,974	891,013	891,733	912,437	1,133,979	
New Issue		200,770	203,039	720	20,704	221,542	62,500	709,275
Closing		687,974	891,013	891,733	912,437	1,133,979	1,196,479	
Raising	A\$ 000s	\$5,591	\$35,441	\$187	\$3,445	\$16,781	\$6,250	\$67,695
'In ground' capex	A\$ 000s							\$47,343

Source: Company data

The company has a significant free float and pretty open top 20 register, although currently retail in nature. Success outcomes on Daydream-2 could make the play materially more attractive to institutional holders.

Figure 12: Top 20 shareholders as at 29-July

		Shares held	%
1	MR NEIL ALEXANDER INGLIS YOUNG	38,545,894	3.40%
2	CITICORP NOMINEES PTY LIMITED	30,808,431	2.72%
3	BNP PARIBAS NOMINEES PTY LTD	<IB AU NOMS RETAIL CLIENT>	2.34%
4	MAMDAL SUPERANNUATION PTY LTD	<MAMDAL SUPER FUND A/C>	1.12%
5	MR ANDREW TROTT HOPKINS & MRS ADRIENNE JANET HOPKINS	12,442,000	1.10%
6	HOLDREY PTY LTD	<DON MATHIESON FAMILY A/C>	0.88%
7	LLAMA CAPITAL PTY LTD	<LLAMA FAMILY A/C>	0.73%
8	MAMDAL PTY LTD	<COTTEE FAMILY DISC A/C>	0.66%
9	HILDA HOLDINGS PTY LTD	<O'BRIEN FAMILY SUPERFUND A/C>	0.63%
10	MR ANTHONY KILMARTIN	6,770,000	0.60%
11	MR MICHAEL KRESINGER	6,700,000	0.59%
12	CALIBER INVESTMENTS (2011) LIMITED	6,300,000	0.56%
13	DISCOVERY INVESTMENTS PTY LTD	6,000,000	0.53%
14	REIJA PTY LTD	<MARTINOVICH SUPER FUND A/C>	0.53%
15	FERNBROOK (AUST) INVESTMENTS PTY LTD	<CLEINE SUPER FUND A/C>	0.48%
16	MR PAUL MOYES	5,200,000	0.46%
17	TEGGAU LAKE PTY LTD	<EDDA GRACE IRVIN A/C>	0.43%
18	SHARESIES AUSTRALIA NOMINEE PTY LIMITED	4,546,513	0.40%
19	TEN TALENTS (2020) LIMITED	<FIVE TALENTS A/C>	0.40%
=20	RONGIA PTY LIMITED	<MORONY SUPER FUND A/C>	0.40%
=20	MR TREVOR LEON KUIPER	4,500,000	0.40%
		219,506,353	19.36%
	TOTAL ISSUED CAPITAL	1,133,978,866	

Source: Company data (via Automic)

Key Risks

This commentary should not be viewed as a comprehensive list of risk factors nor a comprehensive and detailed dissection of the underlying factors, but rather key considerations to be evaluated when walking through the risk weighted returns potential.

We highlight immediate areas of risk which could influence the investment decision through the short and medium terms.

Delivering gas - it's engineering not geological

Although there have been a relatively limited number of wells drilled in the play, the presence of gas in the southern Bowen Basin deeps is proven particularly given results that have demonstrated gas to surface (eg Daydream-1, -2 wells).

Having stated that, as discussed previously, the presence of the Lorelle Sandstone as an independent, free-flowing gas zone at depth does highlight that the deep basin geology can contain surprises – so nothing is absolute and geological uncertainties are never zero.

In that regard, we suggest there is little 'resource' risk, but delivering definitively commercial gas rates has previously been elusive. By definition, if there is not a resource issue then what remains must be an engineering issue...and all engineering problems can be solved with the application of time and capital.

Solving the engineering is the primary risk and it comes down to the next phase testing (fracking and flow rates) of the Daydream-2 discovery and drilling of an appraisal well, over the next 18 months to underpin a well development model.

That there is ongoing works from major international energy companies in adjacent and contiguous permits to Elixir, notably BG Group (a 100% owned subsidiary of Royal Dutch Shell plc) should lend confidence in the potential scale of the gas opportunity on success – Shell requires Tcf's of gas to build its economic case.

Whilst most companies operate as a closed-shop with respect to their results, information does disseminate and the more wells that get drilled, the faster the development model evolves.

However, **the risk for investors is that the results from pending testing and appraisal works do not deliver a definitive outcome either way and pushes out the commercial timing** with implications for future capital availability.

In a \$3-4/gj, oversupplied gas market that was prevalent even 10-15 years ago, the Bowen deeps option would likely have been considered too difficult, but that's not where the current market is.

East coast domestic gas markets. AEMO - still forecasting a gas shortfall

On 9-May the Federal Government released its Future Gas Strategy paper essentially declaring that *"...(n)ew sources of gas supply are needed to meet demand during the economy wide transition"* towards meeting emissions reduction and renewable energy targets.

There's no other way to really comment on this other than as a light bulb moment years in the making, particularly when the ACCC and AEMO have been regularly pointing to this in their market updates, Gas Statement of Opportunity (GSOO) releases and also we suggest, what common sense has been indicating.

The strategy document still contains a number of motherhood statements and vague aspirational objectives, but at least puts a definitive marker in place via the recognition that to reach emissions and renewable targets 'new' gas is a must whilst also securing the country's trade obligations via gas exports.

All gas play(er)s should be beneficiaries from this public, Federal Government statement of support, however, investing markets remain somewhat uncertain particularly as it pertains to the upstream gas industry, which has been the primary architect of its own lack of progress.

The last (at least) two years of changing gas policies, fracking and exploration bans, re-writing of the regulatory approvals processes and the not inconsequential effort at environmental and legal agitation, has made the thematic a very tough investment story. Progress for many operators can be considered as somewhat glacial at best and company presentations that keep focussing on how positive the supply-demand and gas price thematic continues to be, just highlights the lack of tangible progress that has been made to first/new gas developments across the sector.

Share price data indicates that those companies that have continued to work and progress their gas assets have provided the best returns and will likely continue to do so.

The Australian Competition and Consumer Commission (ACCC) released its 'Interim update on east coast gas market' [June 2024] and stated *"...natural gas is expected to play a critical role in ensuring the reliability of energy supply as Australia increases its reliance on renewable sources. Gas will also remain an important direct source of energy and feedstock for residential, commercial and industrial users until alternatives are viable or developed."*

The report suggests that east coast gas demand will be fully met for the period 2024 (remaining) to 2026, with southern states continuing to be reliant on gas from Queensland and topped up by diversions from LNG projects.

Modelling projects a supply-demand surplus of 69 - 110 PJ in 2025 and 54 - 98 PJ in 2026 dependent on the how much uncontracted gas LNG producers direct to export via spot sales or cargo above contract.

Ostensibly, the mid points of those ranges represent ~16% and 13% supply capacity above demand compared to the spot (23-July) data as per the AEMO website, which should be considered comfortable.

We would caution though that volume of gas diverted into the domestic market will likely be price dependent and whilst uncontracted gas would be made available on a 'social licence to operate' basis, it's potentially going to be a minimum requirement.

Modelled surpluses are very dependent on field performance and production forecasts from major supply hubs such as the Gippsland and Cooper basins which will come with a large (and increasing) degree of risk.

The ACCC warns though, that "...the fundamental trajectory of supply has not altered and is projected to decline and lead to growing annual shortfalls from 2027."

Gas shortfalls possible from 2027 to mid-2030s without new supply

The ACCC model projects gas shortfalls from 2027 unless "...new sources of supply are made available."

As noted and as we have suggested previously, the timing of the shortfall has consistently crept forward as updates have been released.

This is unsurprising and likely from a combination of falling output (compared to the models) and the lack of progress on new projects, with a contributory factor being the uncertainties associated with the changing regulatory processes.

The ACCC study has outlined how LNG import terminals may help to address supply gaps, although noting that "...their viability is subject to international prices for LNG and the terminals securing foundation customers."

We would add the recent historical opposition to terminals from environmental and residential groups in Victoria in particular; and the postponing of a proposed terminal in Port Kembla. All of this suggests the pathway to development is constrained at best.

It's also important to note that gas imports would put an oil price benchmark for new gas supply and at say, 60 PJpa (c.3 Mtpa) that would increase gas price volatility at potentially higher prices in our view, representing a clear challenge to recent pricing trends as per **Figure 12** showing the shift in volumes away from Brent-linked GSAs towards fixed price contracts.

Figure 12: Indicative gas prices for 2025 delivery are significantly above the government base case

Table 3.1: GSAs by pricing mechanism for supply in 2025

Year/variable	Fixed Price	Commodity linked (Brent)	Total
Volume-weighted average price	\$15.47/GJ	\$18.08/GJ	\$16.71/GJ
2025 % Count	73%	27%	100%
2025 % Quantity	53%	47%	100%

Source: ACCC data

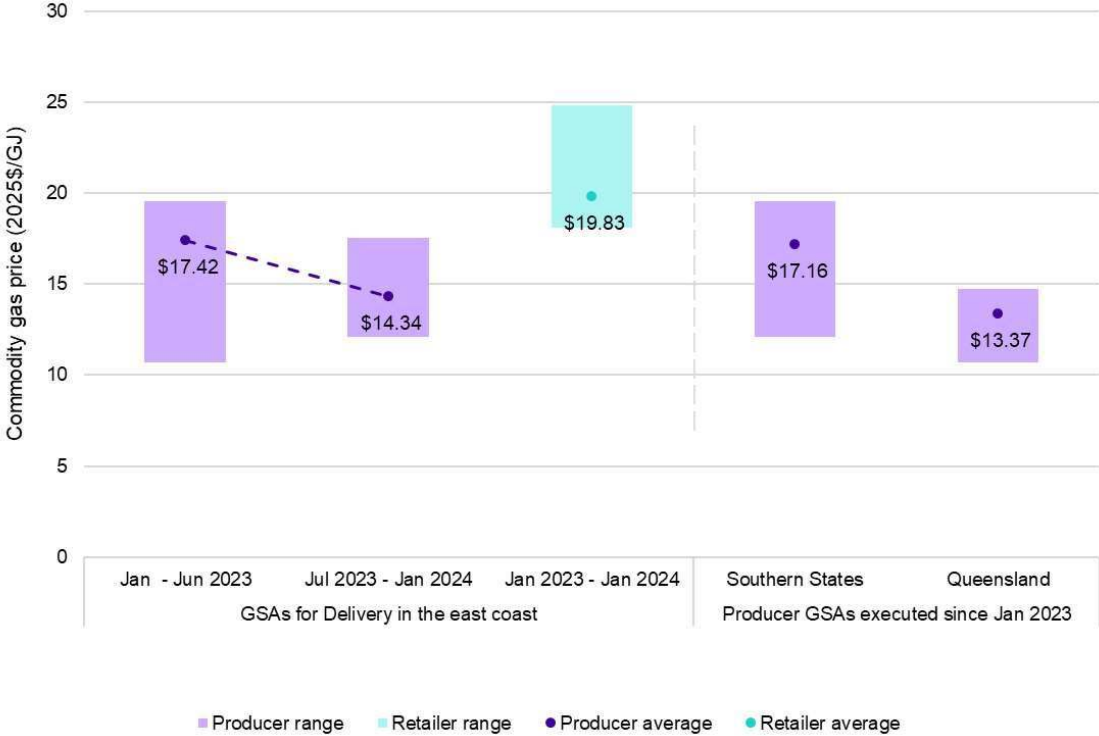
The report states clearly that "...continued domestic gas production will be important to limit risks to Australia's energy security and market stability associated with reliance on international LNG markets."

Market and industry uncertainty is being reflected in operational behaviour with the ACCC noting that there have been only relatively low volumes being contracted through long term gas supply agreements and fewer supply offers overall being presented to the market than in the recent past "...(t)here has been a shift to short term gas transactions in the domestic market, which is of concern to users (that) value longer-term supply certainty."

The volume-weighted average price of producer offers over the six months to Jan-2024 **for 2025 supply** was \$15.02/GJ. Although this was some 6% lower than the previous review period, we note it is still materially higher than the \$12/gj gas cap base under the new Code.

Average bid prices to producers (from retailers) actually rose in the corresponding review period by 5% to \$14.45/gj.

Figure 13: Changes in gas price offers for 2025 over time...offers have risen over the last six months



Source: ACCC data

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