



April 2019

Elixir News



CREATING INCOME FOR EVERYDAY PEOPLE BY USING TECHNOLOGY
TO HARVEST VOLATILITY.



ELIXIROFTECHNOLOGY.COM



Hi, everyone,

After a long four months of market stillness driven by high investor confidence, volatility finally picked up at the end of April thanks to President Trump and Chairman Kim. While this is great news for Elixir, the 178,000 futures contracts shorted the VIX index since April 23rd may start feeling the heat from margin calls. After 11 weeks of low volatility, I can't comprehend how \$22.25 billion USD could still bet on volatility won't return. This is only one of the signs that show how irrational the market has become.

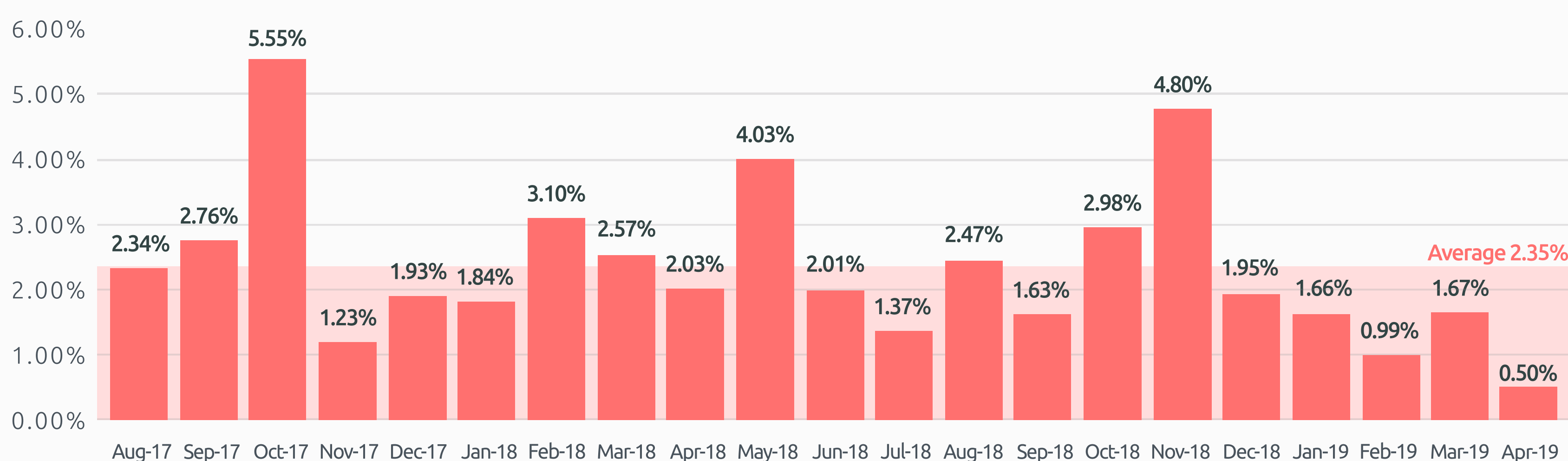
In any event, for the first time in our 21-month history of publishing monthly updates, I'm happy that we release our newsletter two weeks after the reported month end. This schedule ensures that we don't dwell on the past but, rather, remain hopeful based on the current month's developments.

As you can appreciate, it isn't easy for me to inform you that our April trading performance marked our fourth consecutive month below target. We made half a percent on bond-outstanding, which broke our lowest record, established in February. With the addition of SAAS revenue, our April total ended at 0.63%. Our 21-month average trading revenue as a percentage of bonds outstanding remains above target at 2.35% per month.



ELIXIR MONTHLY

PROPRIETARY TRADING REVENUE AS A PERCENTAGE OF THE BONDS OUTSTANDING



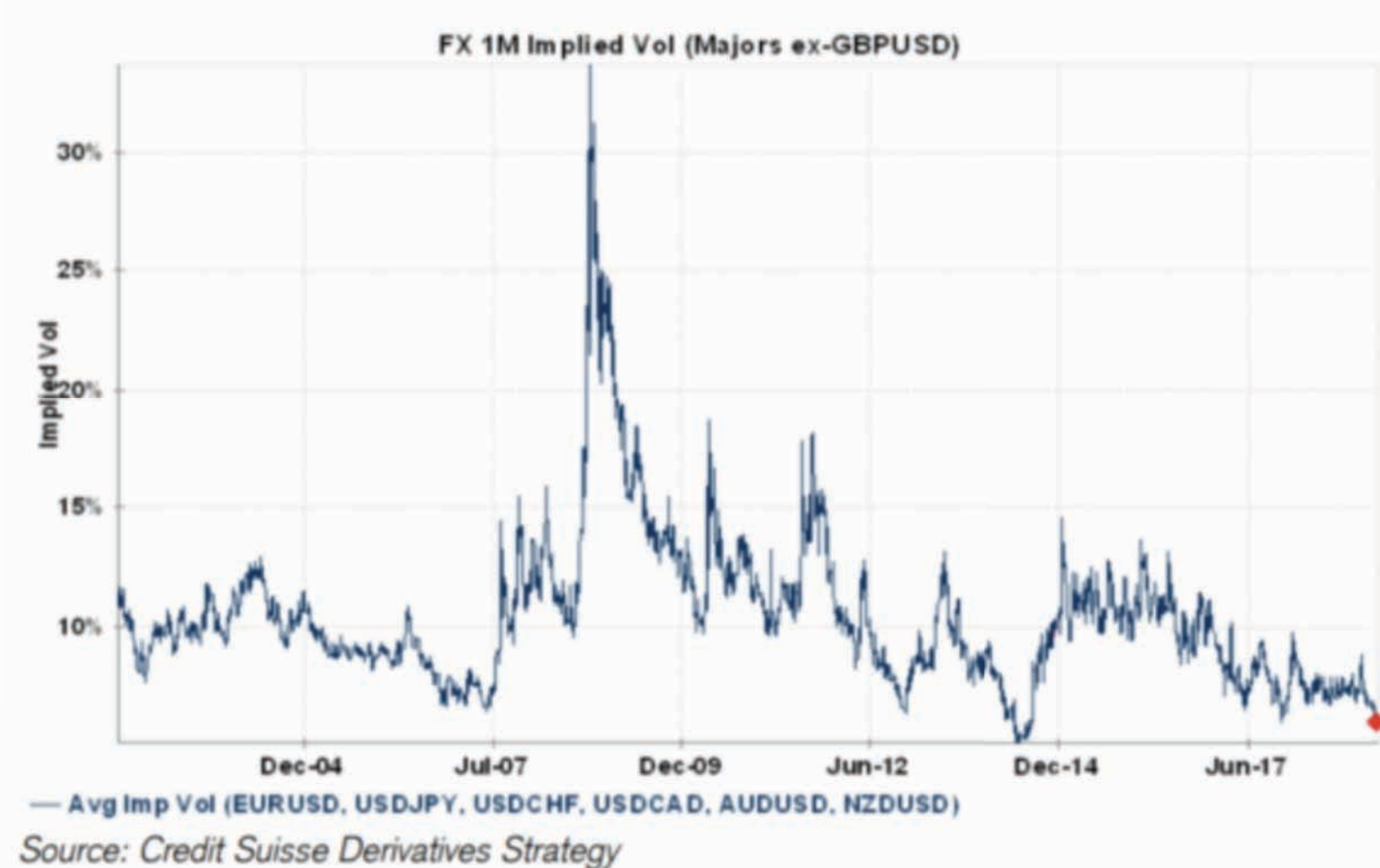
That said, despite our stretched and sluggish performance since the beginning of the year, our trading income has still covered our interest/dividend obligation for the past four months. We did not lose any principal and we are well positioned to buy when assets' prices and investment risks drop to our desired level.

We hope that May will be a normalized month. In the next section, I provide commentary that makes sense of April's performance. I also brief you on market developments since the start of May. In addition, I discuss what we can expect for the remainder of the month.

First, why did we perform so poorly in April? The story really hasn't changed much from the previous three months.

April was another month of record-low market volatility. As the chart demonstrates, the daily movement in FX prices has been this low only three times in the last 15 years. The chart also reveals good news for us – a spike in volatility always follows a long period of low volatility.

Exhibit 2: FX Implied Vols Near All-Time Low



The second reason for April's poor performance was that we were sitting on a record amount of cash – we invested only 50% of our balance sheet in April. The limited opportunities were still too risky to buy and if we had circumvented our risk parameter, I am sure that we would have regretted it in the future. Every day, I had to decide between (1) being content with low performance today and waiting for better (low risk) opportunities or (2) taking on higher risk in exchange for higher performance today but potentially being in a challenging position later. Every day, I chose to be safe rather than sorry.

Our typical interest-earning investments, such as the Mexican Peso, New Zealand Dollar and South African Rand, were too expensive to own. Instead, we were shorting Mexican Peso and owning Japanese Yen. Unfortunately, unlike in the past, we earned interest on positions in holding; we must pay interest to the counterparties every day on owing these assets. These financing costs also weakened our performance.

What drives our optimistic view of future performance in the coming months?

While I can't guarantee that my optimistic outlook will come to fruition, largely because of external market unpredictability, things do look promising internally for the following reasons.

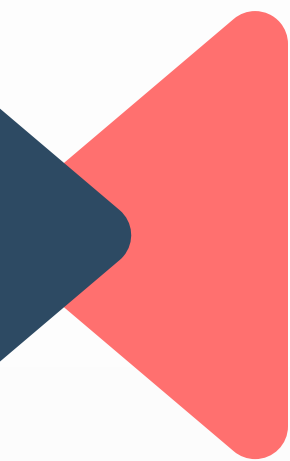
1 The prices of many assets have fallen to a level at which our algorithm signals a "buy" action. These include the Swiss Franc, Australian Dollar, Euro, Swedish Krona, Norwegian Krone, Wheat, Corn and Soybeans. As a result, we have currently invested 100% of our balance sheet. When we own low-priced assets, we are much more likely to sell them for a profit. Consequently, our next performance report will be better.

Trading income for the first three days of May has surpassed our entire trading income for April. While this is encouraging, and while we will certainly have a better May than April, we are still not certain that May's month-end performance will meet our monthly target.

2 We are constantly exploring new strategies to boost future returns. For example, at the end of 2018 we started looking into the economy and currencies of the Nordic countries. A couple of months later, I travelled to Norway and Sweden to confirm the data I read on paper as well as to gain on-the-ground insights. Today, our investment portfolio includes both Swedish Krona and Norwegian Krone. These two currencies are a steal for Elixir, as both Sweden and Norway are rated low-risk, while their currencies are at their historical lows.

Currently, the Czech Republic, Hungary, Chile and Romania are in our radar for learning and assessment. We are also exploring ways to apply our algorithms to trade volatility, equity ETFs and options. I believe what we are working on now will lead to more income opportunities in the near future.

3 One thing that is easily overlooked is how we significantly reduced our drawdown to the lowest level since Elixir was founded. Low drawdown means more buying power when asset pricing drops.



In summary, I am confident that Elixir is well-positioned internally for a better performance in the months to come. Now I would like to share my observations and thoughts on the capital market today.



Before we look at the present, let's go back in history. My memory of Pets.com is still vivid, even after 19 long years. When Pets.com went public, because it had ".com" in its name, the company rallied up to a \$300M market cap. This valuation was about 100 times its sales. People soon realized that shipping heavy bags of pet food didn't make much sense. As a result, the company went into liquidation only one year after achieving its peak in the capital market.

Pets.com was losing about 30 cents on every \$1 of revenue. The company's investors were fooled into thinking it was a tech and Internet company; they ignored the poor viability of the underlying business.

Pets.com became the poster child for the 75%-plus market correction in 2000. NASDAQ took 16 years to recover from the correction and return to its original level.

I never thought I'd see this level of "goofiness" again. However, 19 years later, I've come across something strikingly similar.



This company is called "Beyond Meat". As many of you know, I am a proud vegetarian. However, I must admit that I crave a juicy burger from time to time. From my first bite, I was beyond impressed with Beyond Meat's pea-based patty. Not only can this delicious, smoky patty easily trick a meat eater, but it also has more protein than a beef patty! I love this product, no doubt.

As an analyst, however, I tell a different story. In 2018, the company had about \$80 million in sales revenue and recorded a \$30 million loss. In other words, it lost approximately 40 cents on every \$1 of sales. The company has supply issues, as it gets most of its secret ingredient from one manufacturer in Taiwan. Beyond Meat is also facing immense competition from traditional groups like Maple Leaf (\$26 million is planned for plant-based food research and development). Though Beyond Meat disclosed these risks in its prospectus, the market still offered a \$4 billion valuation (50 times sales) when it went public!

In my opinion, only the ridiculous Pets.com valuation matches this level of madness. Beyond Meat's \$4 billion valuation should serve as a warning sign. Tremendous investor complacency is telling us that disasters are in sight. Like I always say, the next crash will be wicked – worse than 2008 and worse than 2000.

New Member of Elixir Team, Roger Jewett, CA

We'd like to welcome Roger Jewett to the Elixir team as contract Chief Financial Officer. Roger will be working alongside me, with a primary focus on getting Elixir audit-ready for public listing down the road.

An unconventional Chartered Accountant, Roger has gained a unique combination of entrepreneurial, leadership, financial, marketing and PR skills over the past 30 years while spearheading several successful, profitable and rapidly growing companies. Roger currently provides contract CFO services to several growth-oriented companies including Elixir Technology.

As past CEO of Jump On Flyaways, Roger launched a crowdsourced air service and air seat bidding platform that provided a unique way for Canadians to access low-cost air travel. In his capacity as CFO of Enerjet, a Boeing 737 charter operator specializing in workforce transportation, Roger led a restructuring effort that took the company from significant annual losses to three years of consecutive profitability. As President of Rare Method, a publicly traded interactive marketing firm, Roger co-founded the company and grew revenue ten-fold over a five-year span – an average annual growth rate of 50 percent. Prior to Rare Method, Roger was the CFO of Resorts of the Canadian Rockies ("RCR") and led the regional company from financial difficulty in 1993 to a national resort operator with more than 2,500 employees. From 1987 to 2003, Roger was a Manager in the Coopers & Lybrand receivership/restructuring group. Roger graduated from the University of New Brunswick in 1986 with a Bachelor of Business Administration (with distinction) and received his Chartered Accountant designation in 1990.



With his impressive list of career achievements, we are thrilled to have Roger on board and look forward to working closely with him.



Elixir Directors' Dashboard & the Excellence in Governance Award

Many of you may not know that, shortly after Elixir was created, Eve took on the responsibility of setting up the company's governance structure. She enrolled in the 'GPC's Governance in Practice Program' from Governance Professionals of Canada and was awarded the GPC.D designation in February of this year.



As a board, we recognize that a delay in receiving information about the company's key metrics is a material barrier preventing the Elixir board from effectively engaging in oversight and strategic planning. Therefore, as a solution, we created Elixir's Directors Dashboard, a practical governance tool that tracks real-time information about the company's income, cash flow positions, capital raising activities, investment metrics and marketing efforts.

The dashboard allows executive and non-executive board members to determine where we are in terms of achieving short-term targets while keeping an eye on risks and cash flow. The dashboard also enables our directors to protect stakeholders' interests with confidence and to consider best-value strategies for stakeholders based on the most current, relevant and accurate information.

In addition to the internal governing benefits, we believe that there is a real market demand for our directors' dashboard as more and more stakeholders are insisting on better governance practises among public and private companies of all sizes and stages. This market demand could turn our directors' dashboard into a new income stream for Elixir. The opportunity excites us!

To gain exposure, we have nominated Elixir for the nationally recognized 'Excellence in Governance Awards' under the category of 'Best Practices in Strategic Planning, Oversight and Value Creation by the Board'. The 2018 and 2017 winners in this category were Vancouver Airport Authority and ATB Financial, respectively. Other past winners include BMO, RBC, Manulife and the Ontario Securities Commission. Needless to say, our competitors are giants. However, we remain confident that, as a start-up private company, Elixir will gain extra points for trying.

The 2019 finalist will be announced at GPC's annual conference in August. Eve and I are planning to attend the conference and promote our dashboard to the 350-plus governance professionals from organizations of all silos and sectors across Canada.

On May 7th, 2019, the newly elected Elixir board held its first official board meeting. During the two-hour discussion, the board was briefed on a number of developments. The board also made decisions about several business proposals that the executive management brought forward.

Highlights of the executive report include the following:

We have been approved at Interactive Brokers and Gain Capital (Forex.com), which gives us even greater exposure to trading opportunities. We have been engaged to build a “dashboard-like” platform for insurance brokers. Obtaining this first software development client is a milestone for Elixir. In May, we will begin working to automate our back-office operations. A dealer’s agreement has been executed between Rethink and Diversify Securities and Elixir.

In addition to our newsletter, I am going to start my own podcast, on which I will share my economic and market observations. **You can listen to the pilot episode at this link.** This monthly podcast will be released on iTunes on the last day of every month. The first episode will be released on May 31st, 2019. We will circulate a short email when the release date approaches.

In terms of approvals given at this meeting, directors reviewed and approved management’s proposal for portfolio management solutions and the Crypto SAAS project. Coming newsletters will contain more information about these two projects. The board also reviewed two auditors’ proposals and recommended that MNP LLP be Elixir’s 2019 auditor for shareholders’ approval. During this meeting, the directors also reviewed all our current security offerings and approved the following changes, effective May 7th, 2019.

RATE CHANGE ANNOUNCEMENT

TERM BOND

The 1% promotional rate on all Elixir term bonds is extended to July 5th, 2019.

PREFERRED SHARES

The Elixir preferred shares offering will be terminated on July 5th, 2019.

CLASS A COMMON SHARES

Elixir class A common share price will be raised to \$60.00 per share on July 5th, 2019.

I hope you have found this issue of the newsletter to be insightful. Please feel free to reach out if you are interested in learning more about the decisions made at the board meeting.

Sincerely,



William McNarland, CFA
Elixir Technology Inc.
Chairman of the Board & CEO