



ASX ANNOUNCEMENT

15 SEPTEMBER 2021

HOA SIGNED TO ESTABLISH IN SITU WELL SITE POWER GENERATION OPERATIONS WITH ELITE MINING, INC

HIGHLIGHTS

- AXP has signed a binding Heads of Agreement ('HOA') with US-based Elite Mining Inc ('EMI') to deliver in-situ power generation using stranded natural gas from AXP's Colorado leases for use in EMI's cryptocurrency mining operations.
- EMI supplies 'plug and play' mobile cryptocurrency mining units housed in 28-foot mobile modules, fully equipped with proprietary immersion technology; units are powered using stranded gas that in many parts of the US might otherwise be vented or flared (via sub-optimal combustion) into the atmosphere.
- Under the terms of the HOA, AXP's key deliverable and sole focus will be providing EMI with natural gas so that EMI can operate a cryptocurrency mining operation on site. Solid progress has been made to date at the proposed first site in Colorado using AXP's currently stranded gas:
 - Modest initial capex to AXP of US\$30,000 to establish gas gathering infrastructure for the first unit and the site permitting process is well underway;
 - First two wells, Amerigo Vespucci and Pathfinder c11-12, chosen for gas supply with a target initial rate of 400 Mcf/day for first unit only; wells have been chosen as liberated oil from these wells will enhance first revenue from this initiative;
 - EMI has already secured 2 gas-powered generators for these sites;
- The signed HOA provides that, if the first deployment is successful, over time the parties will work together to supply gas for additional mobile cryptocurrency mining units requiring up to 5,000 Mcf/day gas. AXP has identified approximately 220 wells across its portfolio which cannot be economically exploited with conventional gas gathering systems;
- Once operational, AXP will generate revenue through the sale of natural gas to power the mining units; the price per Mcf/day that AXP earns is variable based on allocation of capital expenditure and maintenance operating expenses;
- By initially selecting the Amerigo Vespucci and Pathfinder c11-12 wells, AXP will also now be able to ramp up oil production in Colorado from these two wells which are currently shut-in due to the reservoir gas cap and flaring restrictions in the State of Colorado;
- AXP and EMI are also assessing opportunities across AXP's leases in Kentucky, Virginia, Tennessee, Indiana and Illinois to tap stranded gas not presently able to be economically exploited and/or that is constraining liquid hydrocarbon production. The heart of AXP's operations lies in Kentucky where significant tax concessions can potentially be accessed by powering cryptocurrency operations with associated natural gas and in-situ power generation;
- The cryptocurrency mining sector in the USA is a large, emerging industry that may constitute a material, new sales channel for US based gas production economics by lowering development thresholds and allowing a direct 'wellhead-to-user' gas delivery mode, free of the intermediate fees and costs that are typical in the gas value chain.

AXP Energy Limited (ASX: **AXP**), ('AXP', 'Company') is pleased to announce that it has signed a Binding Heads of Agreement ('HOA') with Wyoming and Washington state-based Elite Mining Inc. ('EMI') to provide gas to EMI's in-situ power generation for the large and growing cryptocurrency mining sector in the United States.

AXP will be providing the energy source in the form of stranded gas from its Pathfinder Field in Colorado, all associated gas gathering infrastructure, and will also provide site control and maintenance services from its site office in Florence, Colorado.

EMI (www.elitemininginc.com) provides mining hardware to third parties to mine digital currencies using proprietary immersion technology. The hardware, or miners, are submerged in EMI's proprietary liquid-cooled Immersion Mining Pods, which are placed within a 28-foot Elite Mobile Unit (EMU) to optimize performance and significantly improve energy efficiency.

The USA is currently the second-largest mining destination in the world, accounting for nearly 17% of all the world's cryptocurrency miners as of April 2021, a 151% increase from September 2020¹. The supply of flared gas to mine cryptocurrencies is a well-established business with 61% of cryptocurrency mining globally powered by fossil fuels². AXP's focus is to be EMI's gas supply partner and, based on the potential power demand increase, will look to expand this partnership in the medium term.

As per the highlights above, AXP and Elite Mining have made considerable progress to deploy the first mining unit at the Pathfinder field. While the initial gas supply is modest at a minimum of 400 mcf/day, and AXP will earn some revenue by supplying this gas, the larger and more immediate financial benefit comes from the oil that can now be produced from the Pathfinder and Vespucci wells, currently shut-in due to gas flaring restrictions.

While the parties are initially focusing on the Pathfinder field, the parties are also assessing opportunities to tap stranded gas sources across AXP's leases in the Illinois and Appalachian Basins. Gas pricing is nominal and confidential. However, gross revenue from the initial small module, assuming gas usage of 400 Mcf/day and including associated oil production, is expected to be in the range US\$35,000 to US\$60,000 per month based on US\$30,000 capex. Gross revenue from this first deployment is made up largely from oil production that is likely to materialise from these wells. In the first instance, gas revenue will be relatively modest and all payments will be in US\$.

AXP wishes to emphasize that its sole focus under this HOA is to supply natural gas to EMI, potentially transitioning to further assisting EMI with power generation and that it is not engaging in any cryptocurrency-related activities under guidelines provided by ASX:

https://www.asx.com.au/resources/newsletters/listed_at_asx/listed-at-asx-20190801_0619.html

Furthermore, revenue solely from gas supply (that is excluding revenue from associated oil production) is anticipated to be relatively modest with the first deployment and while future deployments are likely to deliver increased revenue from gas sales under this HOA, based on recently reported quarterly net revenue of around \$AUD4.4m, AXP is of the view that

¹ <https://www.cnbc.com/2021/07/17/bitcoin-miners-moving-to-us-carbon-footprint.html>

² University of Cambridge 3rd Global Cryptoasset Benchmarking Study (2020)

revenue from this HOA is not likely to result in a significant change in the scale of AXP's activities as defined by ASX listing rule 11.1.

Whilst the HOA, executed 12 August 2021 and with a term of 3 years, is binding, it remains subject to the satisfaction of certain conditions, including signing a definitive agreement to replace the HOA by 31 December 2021. The definitive agreement is expected to be signed within 60 days. The HOA provides the necessary flexibility for the parties to establish each new and unique mining installation, expansion of existing sites and, in the future, to leverage its expertise operating remote, well-site power generators, (of which the company currently has 5 in Kentucky) whilst at the same time expanding the Company's gas production footprint.

The Company has received written confirmation from the ASX that neither the HOA nor the associated business constitutes a significant transaction as set forth in Chapter 11 of the ASX Listing Rules, subject to certain conditions outlined by the ASX (refer Annex A).

COMMENTARY FROM AXP AND EMI

Chairman Simon Johnson commented: "As we have recently communicated, AXP's focus is on growing and enhancing its revenue streams across its portfolio and this HOA with EMI is another example of this. It also demonstrates how our US operations team is smartly and tactically capitalising on growth sectors such energy supply for the cryptocurrency mining sector. This is a unique opportunity yet consistent with our operations as a growing and innovative energy business. We stress that this first deployment is deliberately small-scale and just the first step. We expect revenue to track up as more mining units are installed."

"AXP has been assessing opportunities to establish a sales channel for our Pathfinder gas field, and while other avenues are still live, a low-capex, low risk, capital light in situ gas supply powered by mobile power generators delivers the best immediate revenue outcome for AXP. We can incrementally build gas supply and slowly scale up operations here to establish a meaningful in situ mobile power generation operation. As we currently operate generators on some of our leases in Kentucky, we have expertise here. Through this agreement, we have converted a production challenge into a revenue opportunity. Credit is due to our management team for developing this opportunity in conjunction with Elite Mining."

This announcement has been authorised by the Board of AXP Energy Limited.

END

FURTHER INFORMATION

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ANNEX A

1. AXP must immediately provide to ASX a copy of the definitive agreement with EMI once it is executed.
2. AXP must disclose in each quarterly activities report the following in relation to the Proposed Transaction for the relevant quarter:
 - 2.1. the amount of revenue generated;
 - 2.2. the amount of government grants and tax incentives accrued;
 - 2.3. the amount of expenditure incurred (including development, operations, staff and administrative and corporate expenditure);
 - 2.4. the amount of capital and investment expenditure incurred; and
 - 2.5. any other income generated or expenditure incurred.
3. AXP must disclose the following as separate line items in each quarterly cashflow report (Appendix 5B) in relation to the Proposed Transaction:
 - 3.1. receipts from EMI;
 - 3.2. payments made under item 1.2;
 - 3.3. government grants and tax incentives;
 - 3.4. payments made under item 2.1; and
 - 3.5. any other cash receipts or payments.
4. Prior to entering into any further arrangements or agreements with EMI (including, but not limited to, arrangements with EMI in relation to additional AXP leases and/or the provision of power generation via the operation of EMI's mobile generators and/or the provision of remote power via AXP owned generators), AXP must consult with ASX in relation to the application of Chapter 11 to such proposed arrangements or agreements with EMI.
5. Prior to entering into any further arrangements or agreements with other third parties in relation to the provision of gas and/or other services for cryptocurrency mining, and/or the provision of power generation either via the operation of the third party's mobile generators or the provision of remote power via AXP owned generators, AXP must consult with ASX in relation to the application of Chapter 11 to such proposed arrangements or agreements.

ABOUT AXP ENERGY LIMITED

AXP ENERGY Limited (ASX: AXP, OTC US: AUNXF) (formerly Fremont Petroleum Corporation Limited) is an oil & gas production and development company with operations in Colorado, Illinois, Kentucky, Tennessee and Virginia. AXP's focus is to aggressively grow daily production by improving current asset performance and opportunistically acquiring onshore USA oil & gas assets with the following characteristics: producing conventional oil & gas wells; production that can be enhanced through low-cost field operations and workovers; leases which are held by production and which do not require ongoing drilling commitments; and economies of scale which can be achieved by acquiring and carrying out similar enhancement strategies on contiguous or nearby fields with similar characteristics.

DISCLAIMER

This announcement contains or may contain "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21B of the Securities Exchange Act of 1934. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, goals, assumptions or future events or performance are not statements of historical fact and may be "forward looking statements." Forward looking statements are based on expectations, estimates and projections at the time the statements are made that involve a number of risks and uncertainties which could cause actual results or events to differ materially from those presently anticipated. Forward looking statements in this action may be identified through the use of words such as "expects", "will," "anticipates," "estimates," "believes," or statements indicating certain actions "may," "could," or "might" occur. Hydrocarbon production rates fluctuate over time due to reservoir pressures, depletion, down time for maintenance and other factors. The Company does not represent that quoted hydrocarbon production rates will continue indefinitely.