

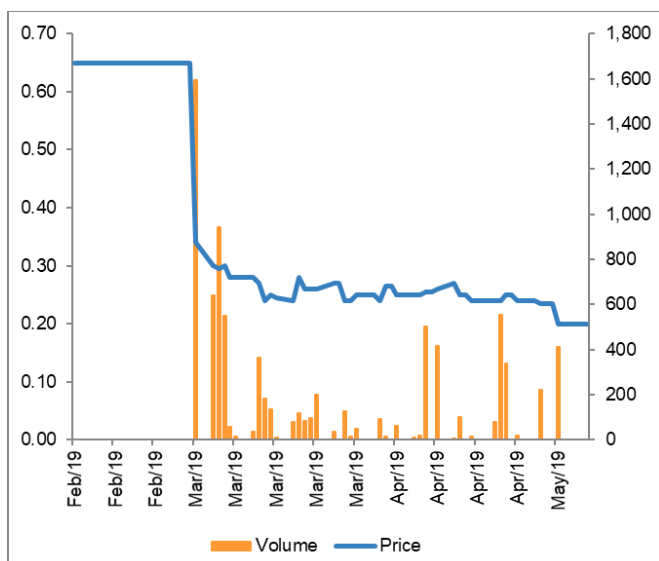
KRC INSIGHTS

Bruce Krugel | 416-509-5593
krugel.aurex.research@gmail.com

AUREX ENERGY CORP.

AURX-TSXV: \$0.25

Price	\$0.25	Market Cap	\$5.5
Target Price	\$1.10	Debt	\$0.0
Projected Return	340%	Cash	<u>\$0.6</u>
3-month Range	0.65/0.20	EV	\$4.9
Basic Shares O/S	21,984		
FD Shares O/S	24,545		
Insiders/Closely held	58%		
Y/E December			2020E
Production	Mmc/d		11.5
	or boe/d		1,895
Cash flow	\$m's		14.4
CFPS			0.59



Profile

Aurex Energy Corp. is a Canadian resource company focused on the acquisition, exploration and development of a diversified portfolio of resource properties that includes natural gas, the energy-related metals copper, zinc, nickel, cobalt and platinum group elements (PGEs), and gold. Aurex recently acquired a privately held company with substantial natural gas reserves in the Barnett Shale, Texas, and is exploring and developing two mineral projects in Nevada, USA.

TARGET PRICE

\$1.10 – 12 months

\$2.15 – 18-24 months

HIGHLIGHTS

- We view Aurex as an excellent opportunity to gain exposure, at a discount, to a growing, low risk Barnett shale gas play with no exploration risk.
- Through the Gas Tap Corp. (GTC) acquisition, Aurex has 10 shut-in gas wells and its NI 51-101 report shows 19.3 BCF behind pipe with a NAV discounted at 10% of US\$27.6m (C\$37.0m). Subsequent to their rework these wells are expected to generate an IRR of 382% which drives a payback of 1.4 years. Management estimates Aurex will cash flow of \$14.4m in 2020E.
- Gas pricing risk is mitigated to some extent given the sweet/high energy content of the gas.
- There is upside potential as the production cash flows from these assets is used to complete the exploitation and development of these wells and then used to acquire additional shut-in wells.
- To bring these wells into production, it will cost ~\$7.5m to rework and refrack these wells. In our valuation calculation we assumed a \$2.5m raise (10m additional shares). Despite this dilution, the economics for investors remain attractive. Using the sum of parts approach (gas assets and mineral assets) we derive a 12-month target of \$1.10 moving to \$2.15 over 18-24 months as the wells are brought into production and execution risk is mitigated.

Disclosures

Please refer important disclosures on p14.

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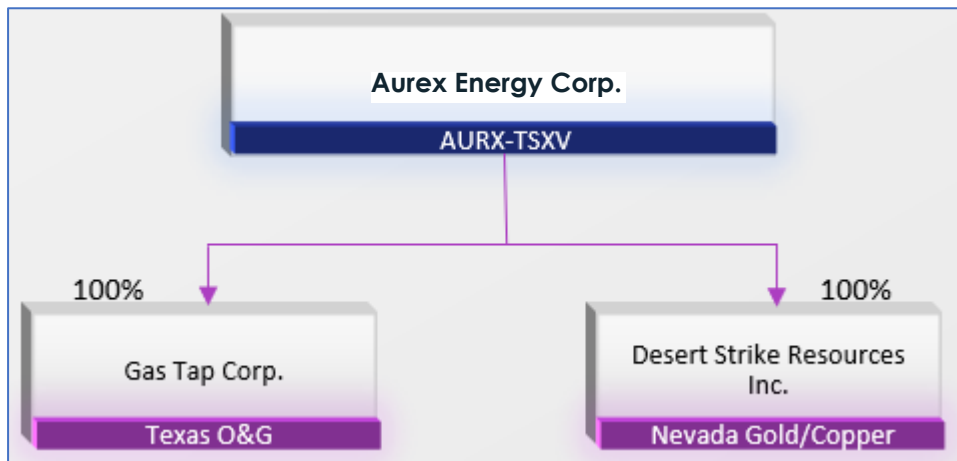
BRIEF HISTORY

With the acquisition of Gas Tap Corp. (GTC) in February 2019, Aurex changed its name and focus. Aurex' primary focus now is reworking and refracking 10 shut-in gas wells located in the Texas Barnett Share.

Aurex Energy Corp. (AURX-V) was formerly Canadian Platinum Corp. (CPC-V), which was the result of the amalgamation of McGregor Capital Corp. and Canadian Platinum Corp. on November 2, 2011.

Aurex has two subsidiaries, its organisational structure is shown in Figure 1.

Figure 1: Aurex corporate structure



Source: Company reports; KRC Insights

Below we list a series of dates that highlight Aurex' evolution over the past 14 months.

IMPORTANT DATES

- **21/2/18:** Canadian Platinum Corp. (TSXV:CPC) acquires an option for a 50% working interest in Whiskey Flat, a former producing copper-zinc property in Mineral County, Nevada. Earn-in includes a secondary option to earn a 50% interest in an existing 200 tpd mill located in the area, by incurring permitting, refurbishment and start-up costs.
- **12/4/18:** fieldwork commences on the 70% owned Cook Gold Project, Nevada.
- **16/6/18:** Closed non-brokered private placement of 12.6m flow through units at \$0.025 raising \$315.6k. A follow on was closed 1/8/18 raising an additional \$107k by issuing 4.28m flow through shares.
- **15/11/18:** At its AGM, shareholders agreed to consolidate the corporation's shares on a 1:26 basis
- **16/1/19:** Share consolidation effective along with the concurrent name change to Aurex Energy Corp. (AURX-TSXV).
- **20/2/19:** Aurex Energy closes the acquisition of privately held Gas Tap Corp (GTC). Aurex acquired 100% of GTC shares by issuing 12.705m common shares. GTC's primary property comprises of 10 shut-in natural gas wells (8 horizontal wells and 2 vertical wells) on 1,400 acres located in the Fort Worth Basin.
- **14/3/19:** Initial results reported from the Whiskey Flat underground sampling.

GAS TAP CORP. (GTC) (100% OWNED)

The privately held GTC was acquired by Aurex on 20/2/19 by way of the issue of 12.705m Aurex shares at 65c implying a \$8.258m transaction price (Figure 2).

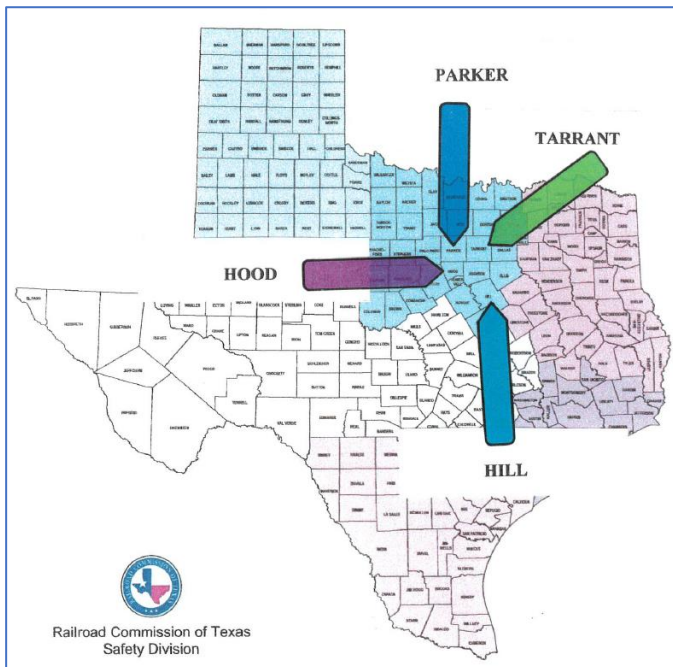
Figure 2: Aurex shares issued for GTC acquisition

No. of		
Province/Country	purchasers	\$-amount
Alberta	2	137,637.50
Ontario	23	5,511,030.20
US	7	<u>2,609,582.30</u>
Total purchase price		8,258,250.00

Source: 45-106F1 filed 26/2/19

GTC controls 10 shut in gas wells in Texas' gas rich Barnett Shale, specifically in its Hill, Hood, Parker and Tarrant counties (Figure 3). Eight (8) of these wells are horizontal and 1 is vertical in the Barnett shale; there is 1 vertical well in Atoka formation. The Aurex strategy is to rework and refrack these wells using updated completion techniques.

Figure 3: GTC well locations



Source: MKM Engineering`



Natural Gas Well Equipment

Reserves

MKM Engineering completed a NI 51-101 report on 1 Jan 2019 covering the 10 wells (Figure 4).

Figure 4: Gas Tap Corp. N 51-101 summary

	Net Light &	Net Shale	Future	PV of FNI	PV of FNI
Reserve category	medium oil	gas	Net Income	10%	15%
	(Bbl)	(Mcf)	\$	\$	\$
Proved non-producing	5,670	1,641,530	3,212,390	2,714,570	2,516,080
Probable undeveloped	<u>46,090</u>	<u>17,693,050</u>	<u>50,986,010</u>	<u>24,864,150</u>	<u>19,313,990</u>
Total Proved and Probable	51,760	19,334,580	54,198,400	27,578,720	21,830,070

Source: MKM Engineering

Summary of the report:

- 19.3 BCF of natural gas (proved non-producing and probable)
- net present value (10% discount rate) of US\$27.6m, or about C\$37.0m
- Pricing used: Shale gas US\$3.25-US\$4.05/MMBTU from 2019-2029; Light/medium oil \$US\$70-US\$82.30/bbl from 2019-2029
- Valuation of proved and probable: Shale gas US\$1.37/Mcf and Light/medium oil \$22.18/bbl

Qualified Person – MKM Engineering

Programme

Aurex intends to re-work and re-fracture the shut-in wells with the goal of generating cash flows to expand and develop an asset base of both producing oil and gas and mineral properties (Figure 5). Depending on the success of the initial program, there is potential to significantly expand the number of wells being reworked- management indicates that there is the opportunity to acquire 30-40 additional shut-in gas wells

Figure 5: Aurex development program economics

Capital	\$7.5m
Estimated Ultimate Recovery	4.38mmboe
Peak Production (12 mo period)	1,895 boe/d; 11.5 mcf/d
Gas Weighting	97%
Payout	1.4 years
IRR	382%

Source: Company reports

Capex is estimated at \$7.5m of which about \$4.0 is internally generated. Net free cash flow in 2020E is expected to be \$14.4m, then decline curve for the life of wells of 15-20 years. We assume that \$2.5m of the ~\$3.5m not generated internally will be raised by a capital raise (10m shares at \$0.25).

This first programme is expected to take 20-24 months with average peak production estimated at 1,895 boe/d (97% natural gas) during months 12-24.

Cost and Production

It is estimated that the costs to **re-work** a well is ~US\$100k-200k/well to replace broken/rusty parts and will take 2-4 weeks. Once the well is “turned on” the estimated production is roughly 250-500 mcf/day/well (varies per well) implying a capex recovery of 9-12 months.

Re-frack costs are estimated at ~ US\$500k-800k/well and may take up to six weeks. Estimated production is ~1.5-2.5 million mcf/day, and capex recovery is expected to be less than 3 months. Aurex is planning to use more modern recompletion techniques on the 8 horizontal wells with higher frac intensity (a new stage every 100' vs 400'-600' in prior completion) and better fracture geometry.

Expansion. Aurex has identified an additional 30-40 wells to acquire and re-work since there are over 3500 horizontal non-producing wells in the field.

Pricing

Due to the high heat content of the sweet gas produced, GTC realises a 20% premium at the wellhead:

- 52-week range of Henry Hub prices to 1 April 2019: US\$2.54/MMbtu to \$4.93/MMbtu : US\$3.05/Mcf to US\$5.92/Mcf (20% premium)
- 52-week range of AECO prices to 1 April 2019: US\$0.94/mcf to US\$2.09

Management estimates that cash flow break even for the GTC wells is ~US\$0.54/mcf.

DESERT STRIKE RESOURCES INC. (100% OWNED)

Desert Strike resources owns two Nevada-based assets:

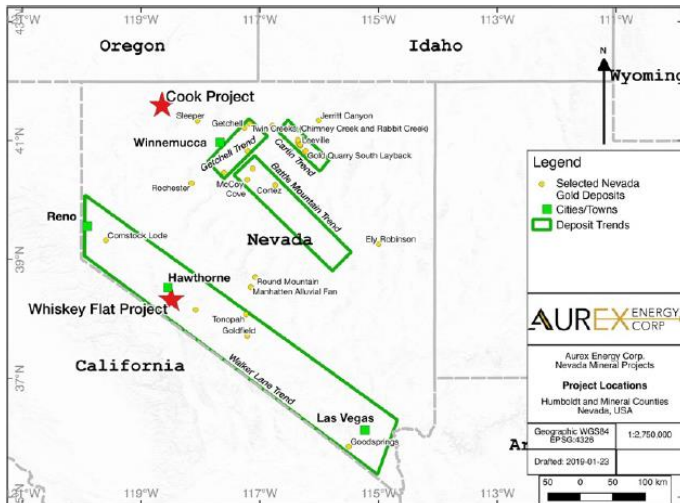
- Cook Gold-Copper project, and
- Whiskey Flat Cu-Zn-Ag-Co project.

Cook Gold-Copper Project

Aurex owns 70% of the Cook gold/copper project (Figure 6) which is has:

- 88 claims over 7.4km²
- 35 historic mine workings on the property
- 2018 work confirms high-grade gold and copper mineralization in 4 major structures over 2km+ strike-length
- may be northern extension of Battle Mountain trend.

Figure 6: Aurex -Cook Au-Cu project location



Source: Company reports

Whiskey Flat Cu-Zn-Ag-Co Project

Aurex has the option to own 50% of Whiskey Flat project including a mill

- accessible underground workings
- 2018 underground work confirms grade copper/gold over 15+m widths
- surface sampling indicates zones of significant cobalt and tungsten mineralization
- mill: Located 50km from Whiskey Flat property in Mina, NV
- minimum 200 tpd gravity-flotation circuit

These projects are on care and maintenance until markets improve.

CAPITAL STRUCTURE AND FINANCIALS

Referring to Appendix I, Aurex has:

- no debt
- payables are mostly professional fees from acquisition of Gas Tap (closed Feb. 20)
- shareholder loans to be exchanged for shares

Capital Structure:

- currently 21,984,148 shares outstanding
- Fully diluted 24,545,277 (including 1,895,744 warrants and 665,385 stock options)

Given the costs to rework and refract the GTC wells, for the valuation we have assumed a \$2.5m capital raise implying a further 10m shares will be issued resulting in ~34.55m shares outstanding.

SHAREHOLDERS (INSIDERS)

In Figure 7 we list the insider shareholders.

Figure 7: Major shareholders

	Shares held*
William Wilson Jackson	1,160,000
Todd D Montgomery	630,000
Gary Billingsley	830,000
Walter Ronald Anderson	480,000
James B Engdahl	400,000
Douglas Billingsley	40,000
	3,540,000
Shares outstanding	21,984,148
Top shareholders	16.1%
*=rounded to nearest 10k	

Source: Reuters Eikon

VALUATION

Aurex comprises two assets, we have used a sum of parts approach (Figure 8).

GTC

We believe that there are several ways to value this nearly in production asset. However, to bring the wells into production and given the following attributes:

- Low risk
- near term production
- low cost

we believe that the average of all three approaches is the most appropriate method: (Figure 8)

- **Gas Tap Acquisition** (liquidation value). At the one extreme investors could argue that what management paid for GTC represents an arm's length transaction and represents what shut-in wells would sell for if management were to try sell them today (liquidation value). Such an approach would value the Aurex shares at \$0.34 (\$8.258m/21.0m shares outstanding). We used 34.55m FD shares outstanding to account for the additional financing used to bring these 10 wells into production generating a \$0.24/share as the starting point for the valuation. **The current share price of 25c implies investors have already priced in a capital raise to commence rework and bring wells into production.**
- **75% net asset value.** As the initial wells are brought into production and evidence of management's strategy becomes apparent with the wells beginning to generate cash flow, investors should reward the company with the valuation trending towards full NAV. **We use 75% NAV deriving an \$0.80 valuation initially, but believe that the shares will trend towards 100% as more wells are commissioned.**
- **Cash flow.** Management expects to generate production of 1,895 boe/d (97% natural gas) during months 12-24, this will represent the ultimate upside to shareholders. With 10 wells in production cash flow is estimated at \$14.40m in 2020E **implying a \$2.08 valuation at that time based on market multiples.** However, management has stated that it would use the free cash flow to acquire additional wells implying further upside to these numbers.

Cook AU-Cu/Whiskey Flats

These Nevada-based mineral assets are on care and maintenance. Based on work done to date we derive an aggregate valuation of \$1.5m.

Figure 8: Aurex valuation

	Gas assets							
1)	Gas Tap Corp. acquisition							Comment
	GTC acquisition price		(\$m's)		8.258			Worth \$0.34/share pre financing
	Fully diluted shares outstanding		(m's)		<u>34.55*</u>			
	Value/share					0.24		Post financing
2)	75% net asset value				US\$	C\$		
	Gas reserves 19.33 Bcf, 10% disc. rate		(\$m's)		27.58			
	At 75.0%		(\$m's)		20.68	27.72		
	Fully diluted shares outstanding		(m's)		<u>34.55*</u>			
	Value/share					0.80		Valuation expansion as business model progresses and wells brought on stream
3)	Cash flow							
	2020E		(\$m's)		14.40			
	Multiple		(x)		5.0			
			(\$m's)		72.00			
	Fully diluted shares outstanding		(m's)		<u>34.55*</u>			
	Value/share					2.08		10 wells in production
(A)	Average for gas assets (1+2+3)/3					1.04		
	Mineral assets							
	Cook gold-copper and Whiskey Flat		(\$m's)		1.50			
	Fully diluted shares outstanding		(m's)		<u>34.55*</u>			
(B)	Value/share					0.04		Care and maintenance
	Value/share			A+B		1.09		
	Rounded					1.10		Expanding to \$2.15 upon execution (\$2.08+\$0.04, rounded)

Source: KRC Insights; company reports. *=assumes \$2.5m capital raise (10m shares issued at 25c)

CONCLUSION

We derive a 12-month target price of \$1.10 but see the shares appreciating towards \$2.15 in the 18-24 month timeframe due to the valuation moving to a multiple of cash flow as investors reward management for execution.

APPENDIX I: AUREX BALANCE SHEET

Aurex Energy Corp.
 Pro Forma Condensed Interim Statements of Financial Position
 (amounts in Canadian dollars)

	March 31, 2019	December 31, 2018
Assets		
Current assets		
Cash	\$ 1,405	\$ 1,743
Foreign exchange	230	-
Prepaid expenses	42,139	42,139
GST recoverable	17,033	11,011
Total current assets	63,188	57,274
Gas Tap Investment	8,258,250	-
Loan Receivable	36,080	-
Exploration and evaluation assets	1,338,697	1,304,572
Total assets	\$ 9,693,834	\$ 1,359,465
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 506,281	\$ 320,849
Total liabilities	506,281	320,849
Shareholders' Equity		
Share capital	25,101,000	16,842,750
Warrants	501,049	501,049
Contributed surplus	3,659,636	3,659,636
Deficit	(20,074,202)	(19,964,879)
Total shareholders' equity	9,187,543	1,038,616
Total liabilities and shareholders' equity	\$ 9,693,834	\$ 1,359,465

Source: Company reports

As of March 31, 2019, there were 21,984,109 common shares outstanding, 1,895,744 warrants, and 665,385 stock options outstanding in the capital of the Corporation.

The Corporation has plans to reclassify its accumulated deficit as paid-up capital, and will seek shareholder approval for deficit reclassification at the next Annual General Meeting.

APPENDIX II: AUREX INCOME STATEMENT

Aurex Energy Corp.

Pro Forma Condensed Interim Statements of Loss and Comprehensive Loss

For the Three Months Ended March 31

(amounts in Canadian dollars)

	2019	2018
Expenses		
Marketing and promotion	\$ 5,362	\$ 7,804
General exploration and evaluation expenses	-	-
Impairment of exploration and evaluation assets	-	-
Office and other	10,408	34,930
Professional fees	42,413	14,720
Filing fees	43,637	5,200
Share-based compensation	-	-
Foreign exchange loss	1,328	-
Transfer agent	7,745	3,182
Total Expenses	110,893	58,032
Loss from operations	(110,893)	(58,032)
Finance expense	289	57
Gain on disposal of exploration and evaluation assets	-	-
Gain on debt settlement	-	-
Loss and comprehensive loss for the period	\$ (111,182)	\$ (58,089)
Basic and diluted loss per share (24,545,238 weighted average common shares)	\$ (0.007)	\$ (0.00)

Source: Company reports

*Pre-consolidation of 1 new for 26 old shares

APPENDIX III: DIRECTORS & MANAGEMENT

Currently there are four directors, with two existing directors being replaced by two US directors at the company's AGM in June:

Jim Engdahl, Director and Chairman, Aurex Energy Corp.

Mr. Engdahl has been an officer and director of several public mining companies over the last 30 years. With a background in corporate finance, specializing in mergers and acquisitions, he has successfully financed many projects in Canada and brings that expertise to the Aurex team.

Gary Billingsley, Director, President and CEO, Aurex Energy Corp.

A Professional Engineer, Professional Geoscientist and Chartered Professional Accountant with more than 40 years' experience in the mineral industry, Mr. Billingsley has been an officer and director of several public mining and mineral exploration companies during the past 35 years. In addition to experience with oil and gas, uranium and base-metal exploration, Gary has been directly involved with putting the largest gold mine into production in the province of Saskatchewan, and has played a major role in the discovery of diamond-bearing kimberlite in Saskatchewan on several occasions. He was also involved in drilling some of the first horizontal oil wells drilled in southern Saskatchewan. For much of the last 20 years, Mr. Billingsley has been involved in developing strategic metal deposits. He identified, very early on, the importance of achieving self-reliance across the entire supply chain for critical and strategic minerals, in particular rare earth elements. His focus on identifying and developing North American sources of metals critical to evolving energy technologies is important in choosing projects to add to Aurex's diversified mineral project portfolio.

Douglas Billingsley, Director, Aurex Energy Corp. (not standing for re-election)

Throughout his career Mr. Billingsley has held numerous executive positions (CEO, COO, CFO, SVP Corporate Planning, VP Marketing & VP Product Development) in large financial services and manufacturing organizations. Coming from a mining family, he is very familiar with the mining industry, and has served on the boards of several publicly traded junior mining companies. His experience ranges from strategic planning and systems development, to asset securitization, financial derivatives and raising capital. He is currently a Partner with Hong Kong based, Battalion Partners LLC. Battalion is a business advisory and consulting firm that specializes in working with companies to prepare and structure them to successfully attract investment capital.

David Ludwar, Director, Aurex Energy Corp. (not standing for re-election)

Over the past 30 years, Mr. Ludwar has held a number of senior management positions with major financial institutions, both in operational and strategic planning roles. Dave has extensive experience in communications, planning, project management, financial management and organization. He currently runs his own consulting business with a global clientele.

Ronald Anderson, President, Gas Tap Corp. (replacement director)

President of GTC. Ronald Anderson is an entrepreneur and senior business executive with deep operating and advisory experience in the upstream energy and oilfield services sectors. Mr. Anderson holds a degree in Mathematics from North Texas State University.

William Jackson, Chief Operating Officer, Gas Tap Corp. (replacement director)

William Jackson is an engineer and business executive with 40 years' experience in the oil and gas exploration and production business, with particular emphasis on operations, drilling and completions and reservoir engineering. In addition to the United States, he has worked extensively on international projects, and has provided engineering consulting to banks and independent oil and gas companies (Midland National Bank, First City Bank, Esperanza Energy, Coda Energy, Wellquip, Oy and others) and held management positions with independent oil and gas companies since 1982. Mr. Jackson has a degree in Petroleum Engineering from Texas A&M University and is a certified professional engineer in the state of Texas.

Karen Frisky, Chief Financial Officer, Aurex Energy Corp.

Ms. Frisky brings extensive accounting experience to Aurex Energy Corp.. Karen received her Bachelor of Commerce with a major in Accounting from the University of Saskatchewan in 1994 and holds a Certified General Accountant (CGA) designation. Ms. Frisky has served in senior management roles, including Director of Finance and Chief Financial Officer, for several public companies on both the TSXV and the CSE. Prior to entering the mining industry Ms. Frisky worked in public practice before moving to private industry where she worked in senior accounting positions in the nonprofit, health, manufacturing and construction sectors.

DISCLOSURE

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- KRC Insights undertakes paid research and was paid by Aurex for this report.
- 2622632 Ontario Inc. and its directors/family members may have ownership positions in Aurex (AURX-V). They may buy, sell or offer to purchase or sell such securities from time to time.
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