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## Permex Petroleum Corporation (OILCF - \$0.13 - Buy)

### Low-Cost Oil and Gas Play | Initiate with Buy | PT \$0.80

#### Key Points

**U.S. Oil Production Outlook.** BNEF estimates that the U.S. will increase oil output by 1 million barrels per day (m b/d) in 2022. U.S. crude output will average 12.2m b/d in 2022 and 13.1 m b/d in 2023. By comparison, U.S. crude oil production averaged 11.2m b/d in 2021.

**It is difficult for U.S. oil to fully displace Russian crude and products.** Even if U.S. oil companies obtain shareholder support to ramp up production, it will be difficult for the U.S. and even OPEC to entirely replace Russian oil exports. Russia exports nearly 5m b/d of crude and 2.5m b/d of oil products – significant in a global market of roughly 99.6m b/d.

**The SPR release will not improve structural issues plaguing the crude market.** Investors continue to prefer capital payback over investing for output growth, which is hindering public oil companies from meaningfully increasing output.

**Pays to invest more to increase U.S. oil supply.** Investing in new oil wells can generate outsized financial gains at today's commodity prices. Permex has low breakeven oil prices due the geographical location of its properties and the status of the formation. Permex wells are short-cycle oil, and can recover well costs within a year in current price environment.

**Permian Production Outlook.** The Permian will be the most important driving force behind overall U.S. oil production growth. Of the 1 m b/d of year-on-year U.S. crude oil output increase that BNEF is forecasting for 2022, 734,000 b/d will come from the Permian.

**Permex Value Proposition.** The company acquired more than 11,700 acres at average price of \$2,000 per acre, with current prices reaching as high as \$65,000 per acre. The geographical and operational location of Permex is in the Permian basin, one of the largest basins in the world.

**Inflection Point of Growth.** Permex owns a lot of wellbores that can be brought back online through stimulation and optimization. The company has horizontal leg conversions and infill drilling of shallow wells. In combination, Permex has a diverse pool of oil assets that it can continuously drill, develop and optimize in a snapshot.

**Assets.** Permex has more than 11,700 net acres held by production. An estimated 98% of Permex's assets are already held by production. The company has 78 oil and gas wells that it owns and operates. Of those, 67 are proven developed non-producing where the capex is completed.

**Saltwater Disposal Facilities.** The company owns 17 saltwater disposal facilities that allow it to continue drilling and developing up to 28 more wellbores without the need to acquire or drill another saltwater disposal.

**Acquired Assets at a Discount During the Down Cycle.** During the recent cycle correction in oil prices, Permex bought royalty interest in 73 producing wells. The company continues to develop and pursue Permian basin alone.

**Permian Basin Economics.** Permex's breakeven prices average \$29 to \$31/bbl. The company has adequate infrastructure in the Midland basin that does not increase operating expenses.

**Management Team.** The company's executive and management team has the right pedigree for success, we believe. Permex is transitioning from acquisitions to development.

#### Summary

Permex Petroleum is a uniquely positioned junior oil and gas company with assets and operations across the Permian basin of West Texas, and the Delaware sub basin of southeast

#### Rating, Price and Target

Symbol	OILCF
Rating	Buy
Price	\$0.13
Price Target	\$0.80

#### Market Data

Market Cap (M)	\$15.10
Shares Outstanding (M)	115.90
Average Daily Volume (000s)	300.00
Float (M)	71.90
Total Debt (M)	\$0
Net Cash/Debt (\$M)	\$6.50
Dividend	NM

FYE Sep	2021E	2022E	2023E
Revenue (M) <sup>1</sup> (C\$)	0.1	1.8	8.2
EPS	(0.04)	(0.01)	0.01

<sup>1</sup>Share price in USD and financial information in CAD

#### Company Description

Permex Petroleum Corporation, a junior oil and gas company, engages in the acquisition, development, and production of oil and gas properties in the United States. The company holds interests in the Pittcock North property that covers an area of 320 acres, as well as the Pittcock South property that covers an area of 498 acres located on the Eastern Shelf of the Midland Basin; Mary Bullard property that covers an area of 241 acres located in Stonewall County; and Windy Jones property, which covers an area of 40 acres. It also holds interests in the West Henshaw property, which covers an area of 1,880 acres located in Eddy County, New Mexico; Oxy Yates property that covers an area of 680 acres located in Eddy County; and Breedlove field includes an area of 7,741.67 acres in Martin Country, Texas. In addition, the company has royalty interests 73 wells and five permitted wells across 3,800 acres within the Permian Basin of West Texas and southeast New Mexico. Permex Petroleum Corporation was incorporated in 2017 and is headquartered in Dallas, Texas.

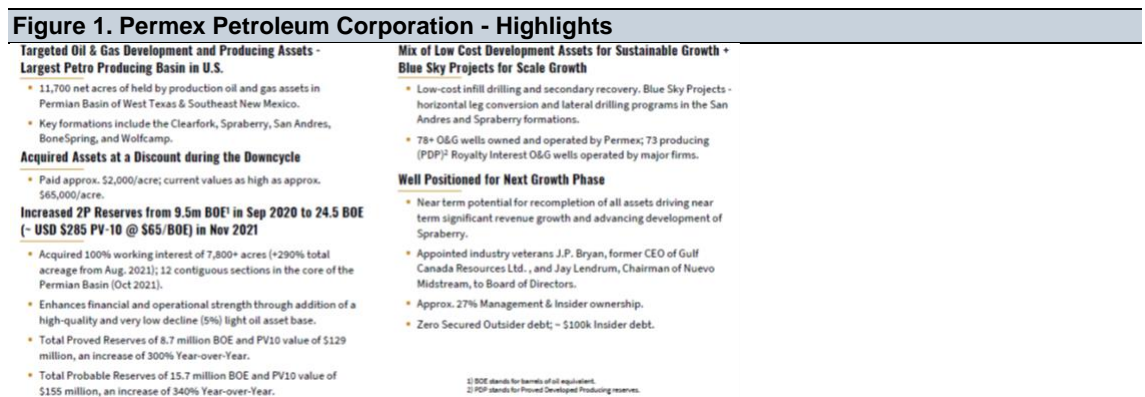
## Low-Cost Oil and Gas Play

### Overview

Permex is engaged in acquiring, developing, and producing oil and gas properties in North America. The company focuses on acquiring producing assets at a discount to market, increasing production and cash-flow through recompletion and re-entries, secondary recovery, and low-risk infill drilling and development. Permex owns and operates various oil and gas properties in Texas and New Mexico, USA. The company also holds various royalty interests in 73 wells and five permitted wells across 3,800 acres within the Permian Basin of West Texas and southeast New Mexico<sup>1</sup>. Permex was incorporated on April 24, 2017, under the laws of British Columbia, Canada.

All of the company's oil and gas sales and direct operating expenses are incurred in the U.S. During the six months ended March 31, 2022, the company generated 75% of its total revenue from one customer. As of March 31, 2022, one customer represented 59% of its trade receivable balance.

During the year ended September 30, 2021, the company acquired a 100% Working Interest and an 82% Net Revenue Interest in the Breedlove "B" Clearfork leases in Martin County, Texas. Revenue from the Company's Breedlove "B" Clearfork leases accounted for 64% of the total oil and gas sales during the three months ended March 31, 2022.

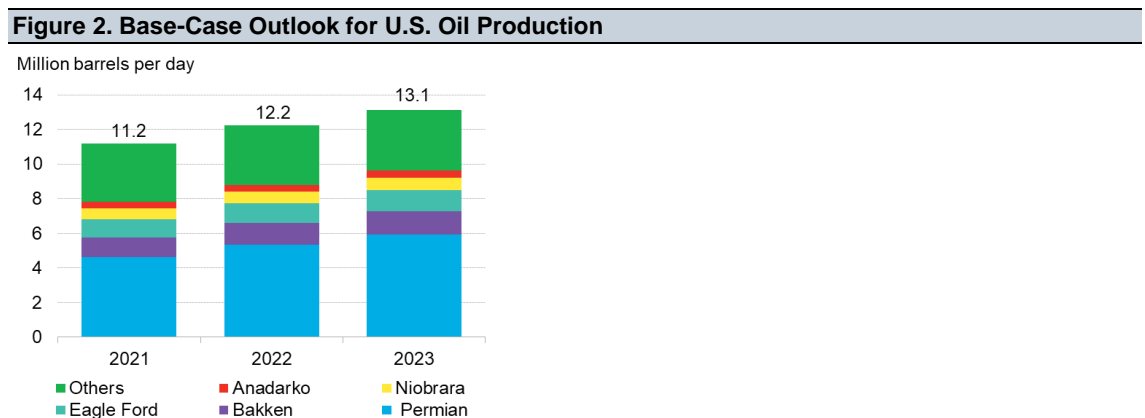


Sources: Company Reports

### Takeaways

#### U.S. Oil Production Outlook

BNEF estimates that the U.S. will increase oil output by 1 million barrels per day (m b/d) in 2022. U.S. crude output will average 12.2m b/d in 2022 and 13.1 m b/d in 2023<sup>2</sup>. By comparison, U.S. crude oil production averaged 11.2m b/d in 2021. In the base-case outlook, BNEF assumes a flat WTI oil price of \$105 per barrel (bb) between now and year-end 2023.



Sources: Enverus, Energy Information Administration, BNEF estimates

<sup>1</sup> Permex Petroleum Corporation. Form 51-102F1 January 28, 2022. <http://www.sedar.com/>

<sup>2</sup> U.S. Oil Production. Bloomberg 2022

Shareholder support remains crucial to the U.S. oil patch's output. U.S. public oil companies will need shareholder buy-in before they can meaningfully increase oil output. In the most recent Dallas Fed Energy Survey, 59% of the participants cited investor pressure to maintain capital discipline as the primary reason driving them to restrain production growth.

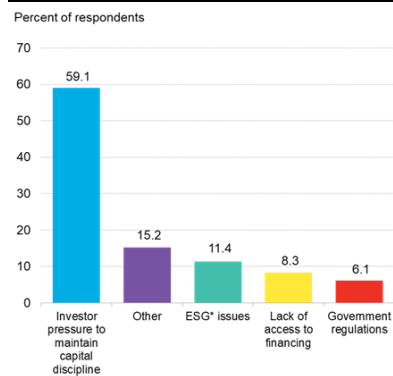
It is difficult for U.S. oil to fully displace Russian crude and products. Russia exports approximately 5m b/d of crude and 2.5m b/d of oil products. Even if U.S. oil companies obtain shareholder support to ramp up production, it will be impossible for the U.S. and even OPEC to entirely replace Russian oil exports.

**Lack of shareholder support is the major obstacle to faster U.S. oil production growth**

There has been much debate about why public U.S. oil companies are not increasing output faster, even though it is very profitable to do so at the current elevated commodity prices.

As part of its quarterly Dallas Fed Energy Survey, the Federal Reserve Bank of Dallas recently asked respondents from the U.S. oil patch about what is holding back production levels of public oil companies. Responses concluded that investor pressure remains the largest obstacle to meaningful production increases for public U.S. producers.

**Figure 3. Primary reasons for publicly traded oil producers to restrain growth**

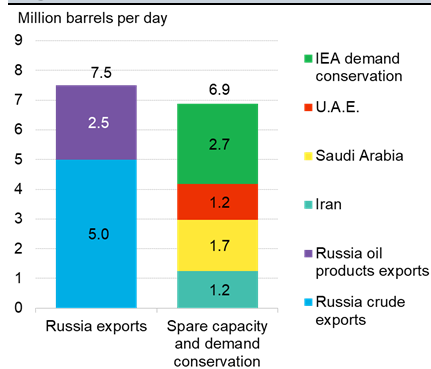


Sources: Federal Reserve Bank of Dallas

**It is difficult for U.S. oil to fully displace Russian crude and products**

Russia exports approximately 5m b/d of crude and 2.5m b/d of oil products. Even if U.S. oil companies obtain shareholder support to ramp up production, it will be difficult for the U.S. and even OPEC to entirely replace Russian oil exports. Russia exports nearly 5m b/d of crude and 2.5m b/d of oil products - a significant amount in a global market of roughly 99.6m b/d<sup>3</sup>.

**Figure 4. Russia oil exports**



Sources: International Energy Agency and BNEF

**The SPR release will not resolve medium- and longer-term issues facing the U.S. oil industry**

On March 31, the Biden Administration announced that the U.S. government will release up to 1 m b/d of crude oil from its Strategic Petroleum Reserve (SPR) to counter high gasoline prices. The release would be capped at 180 million barrels. The SPR release will provide near-term price relief.

<sup>3</sup> U.S. Oil Production. Bloomberg 2022

BNEF expects U.S. oil production to increase from 11.2m b/d in 2021 to 12.2m b/d in 2022. While the increase in U.S. output will help alleviate some tightness in the crude market, BNEF still expects inventories to draw down by end of year 2022 as oil demand increases seasonally and global economies continue to recover from the pandemic.

The SPR release will not improve structural issues plaguing the crude market. Investors prefer capital payback over investing for output growth, hindering public oil companies from meaningfully increasing output.

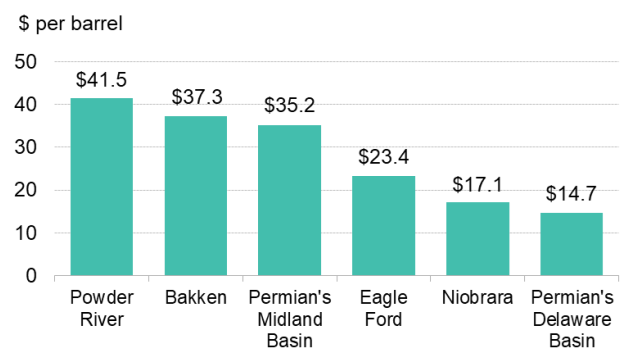
**Pays to invest more to increase U.S. oil supply**

Investing in new oil wells can generate outsized financial gains at today's commodity prices. BNEF estimates a new well in the Permian's Midland Basin to have a break-even WTI oil price of \$35/bbl (assuming a 15% after-tax IRR). When it comes to Permex's breakeven prices, the company averages approximately \$29 to \$31 a barrel.

Investors currently prefer capital returns – dividends and share buybacks – over production growth. But capital invested in the ground today translates into higher dividends tomorrow.

Many investors are concerned about the long-term oil demand outlook owing to the rise of oil alternatives. However, Permex wells are considered short-cycle oil, meaning Permex can quickly recover capital after deployment. With elevated commodity prices, Permex can recover well costs within a year.

**Figure 5. Break-even oil price for U.S. oil plays**



Source: Enverus, companies data, BNEF estimates. Note: Assumes 15% after-tax IRR. Forward prices as of March 30, 2022

**Permian production outlook**

The EIA estimates Permian oil production averaged 5.2m b/d in April 2022, or 300,000 b/d above the pre-pandemic peak of 4.9m b/d. The Permian will be the most important driving force behind overall U.S. oil production growth. Of the 1 m b/d of year-on-year U.S. crude oil output increase that BNEF is forecasting for 2022, 734,000 b/d will come from the Permian.

**Permex Value Proposition**

The unique value proposition that Permex brings to the table stems from three fundamental pillars:

**Timing and the metrics used to acquire assets.** Permex began acquiring assets during a down cycle. The company acquired more than 11,700 acres at an average price of \$2,000 per acre, with recent prices reaching as high as \$65,000 per acre. The company has “land banked” its acquisitions.

**The geographical location of assets and the geological formations in its portfolio.** The geographical operational location of Permex is in the Permian basin, one of the largest basins in the world.

**Capital structure of the company.** The company has 116 million shares outstanding, and 192 million fully diluted. The company has no debt. We estimate the current cash position at \$6 million. Insider management ownership is 26%.

**Figure 6. Permex Petroleum Corporation - Value Proposition**  
*Owns & Operates on Private, State & Federal Land in Texas & New Mexico*

TIMING	GEOGRAPHY & GEOLOGY	STRUCTURE
<ul style="list-style-type: none"> <li>Acquired over 11,000+ acres at discount during downcycle</li> <li>Paid approximately \$2,000/acre <sup>(1)</sup></li> <li>Currently land values in this area as high as \$65,000/acre <sup>(2)</sup></li> </ul>	<ul style="list-style-type: none"> <li>Permian Basin of West Texas &amp; Southeast New Mexico</li> <li>Formations include the Bone Spring, Clearfork, San Andres, Spraberry, and Wolfcamp</li> </ul>	<ul style="list-style-type: none"> <li>~116M shares outstanding</li> <li>Approximately 27% Management &amp; Insider Ownership</li> <li>Zero secured outside debt on balance sheet</li> </ul>

1) Acquisitions occurred during multiple commodity cycle corrections.  
2) Pricing will vary depending on the location of the property and number of benches/formation owned by operators under the lease.

Sources: Company Reports

**Permian Basin**

The Permian basin is composed of the Eastern shelf, the central basin (Midland), and the Western shelf (Delaware). Permex owns assets across all three shelves of the Permian basin. The geological formations include but are not limited to the Bone Spring, Clearfork, San Andres, Spraberry, and Wolfcamp. These are highly prolific producing formations of the Permian basin.

**Inflection Point of Growth**

Permex owns a lot of wellbores that can be brought back online through stimulation and optimization.

The company has horizontal leg conversions. These are vertical wells already drilled and developed, and Permex can possibly initiate a lateral leg through direction drilling.

Infill drilling of shallow wells, or pocket drilling, is low-cost and high-return, associated with wellbores.

In combination, Permex has a diverse pool of oil assets that it can continuously drill, develop and optimize in a snapshot.

**Assets**

Permex has more than 11,700 net acres held by production. The shotgun clause in the oil sector implies that you have two years to drill and develop a viable producing asset or you will lose it. An estimated 98% of Permex’s assets are already held by production, and the company has mitigated that risk.

The company has 78 oil and gas wells that it owns and operates. Of those, 67 are considered PDMP or proven developed non-producing, in which capital expenditures have been completed. The capital expenditure required for stimulations ranges from \$50K to \$150K, which is already incorporated.

Based on engineering data, over half of Permex’s wells are capable of production. The company recently brought two wellbores online through stimulation, adding approximately half a million in annual revenue. The company plans to bring them online, one by one.

**Figure 7. Permex Petroleum Corporation - Assets**

<b>11,700+</b>	net acres of held by production oil and gas assets in Texas & New Mexico
<b>78+</b>	oil and gas wells owned and operated by corporation
<b>67</b>	shut-in opportunities to be brought back online (“PDNP”) <sup>(1)</sup>
<b>17</b>	Salt Water Disposal (“SWD”) <sup>(2)</sup> wells eliminating water disposal fees and decreasing OPEX
<b>2</b>	Water Supply Wells (“WSW”) <sup>(3)</sup> allowing for waterflood secondary recovery (“EOR”)
<b>73</b>	producing (“PDP”) <sup>(4)</sup> <b>Royalty Interest</b> oil and gas wells

1) PDNP stands for Proved Developed Non-Producing reserves.  
2) A salt water disposal well is a disposal site for water collected as a by-product of oil and gas production.  
3) A hole in the ground drilled to obtain water for the purpose of injecting water into an underground formation in connection with the production of petroleum or natural gas.  
4) PDP stands for Proved Developed Producing reserves.

Sources: Company Reports

**Saltwater Disposal Facilities**

The Permian basin is synonymous with water production. So when you produce oil, you also produce a lot of water. Without saltwater disposal facilities, operating expenses will run high.

Permex has mitigated this through ownership of Salt Water Disposal facilities (SWD). The company owns 17 saltwater disposal facilities, allowing it to continue drilling and developing up to 28 more wellbores without acquiring or drilling another saltwater disposal.

**Acquired Assets at a Discount During the Down Cycle**

During the recent cycle correction in oil prices, Permex bought royalty interests in 73 producing wells. The geographical location continues to be the Permian basin; the company continues to develop and pursue this region alone.

Figure 8. Permex Petroleum Corporation – Operational Milestones	
<p><b>Multi-Pronged Acquisition Strategy</b></p> <ul style="list-style-type: none"> <li>Acquired royalty interests in 73 producing oil and gas wells through June 2021</li> <li>Complements existing properties with ownership in wells operated by major firms such as:                             <ul style="list-style-type: none"> <li>Apache Corp.</li> <li>Callon Petroleum</li> <li>Chesapeake Energy</li> <li>Chevron Noble</li> <li>ConocoPhillips</li> <li>Dougle Eagle Energy</li> <li>EOG Resources</li> <li>Marathon Oil</li> <li>XTO Energy</li> </ul> </li> </ul>	<p><b>Transformational Purchase of Assets</b></p> <ul style="list-style-type: none"> <li>Acquired 100% working interest of 7,800+ acres over 12 contiguous sections in the core of the Permian Basin in October 2021, bringing total oil and gas acreage holdings to 11,700 acres, an increase of approx. 290% since August 2021</li> <li>Enhances financial and operational strength through addition of a high-quality and very low decline (5%) light oil asset base</li> <li>Additional drilling locations identified increasing Permex's total reserves to ~USD \$285 million in PV-10, at a realized price of \$65 per BOE</li> <li>Increased 2P reserves from 9.5 million barrels of oil equivalent ("BOE") in Sep. 2020 to 24.5 million BOE in Nov. 2021</li> </ul>
<p><b>Geographic Focus</b></p> <ul style="list-style-type: none"> <li>Permian Basin of West Texas &amp; Southeast New Mexico; Largest petroleum-producing basin in the U.S.</li> <li>Key formations include the Clearfork, BoneSpring, San Andres, Spraberry, and Wolfcamp</li> </ul>	<p><b>Positioning for Next Growth Phase</b></p> <ul style="list-style-type: none"> <li>Appointed oil and gas industry veterans J.P. Bryan and Jay Lendrum to Board of Directors</li> <li>Closed two private placement offerings with aggregate gross proceeds of C\$10.1M</li> <li>In 2022: Completed two successful well recompletions targeting the Grayburg formation; started permits for drilling at two wells targeting the Spraberry formation</li> </ul>

Sources: Company Reports

Recently Permex acquired a transformational property in Martin County, Texas. The company owns 100% working interest in more than 7,800 acres, which equates to 12 contiguous sections in the core of the Permian Basin.

This is the company's flagship property, which increased 2P PV10<sup>4</sup> valuation to over \$285 million, appraised independently at \$65/bbl oil prices This is independently verified at \$65 oil.

Figure 9. Permex Petroleum Corporation - Summary of Proved, Probable (2P) Reserves*				
\$ Amounts in USD	OIL (BBL)	GAS (MCF)	FUTURE NET INCOME <sup>(1)</sup>	PRE-TAX PRESENT VALUE (10%)
<b>Proved</b>				
Developing Producing	404,470	319,180	\$15,731,480	\$7,892,300
Developed Non-Producing	192,290	98,390	\$7,962,580	\$4,486,430
Undeveloped	7,460,810	3,188,700	\$313,779,430	\$117,303,690
<b>Total Proved</b>	<b>8,057,570</b>	<b>3,606,270</b>	<b>\$337,473,490</b>	<b>\$129,682,420</b>
Total Probable	13,782,130	11,169,750	\$586,858,580	\$155,388,830
<b>Total Proved + Probable</b>	<b>21,839,700</b>	<b>14,776,020</b>	<b>\$924,332,070<sup>(1)</sup></b>	<b>\$285,071,250</b>
Total increase over September 2020	+168%	+78%	+296%	+222%
	FINDING & DEVELOPMENT COST (per bbl)	OPERATING NET BACK @ \$65 WTI prices (per bbl)	RECYCLE RATIO	
	\$13.80	\$35.86	2.6x	

(1) Future net income is estimated using forecast prices and costs. Future net income has been presented on a before tax basis. Estimated values of future net income disclosed herein do not represent fair market value.

Sources: Company Reports. \* As of September 2021

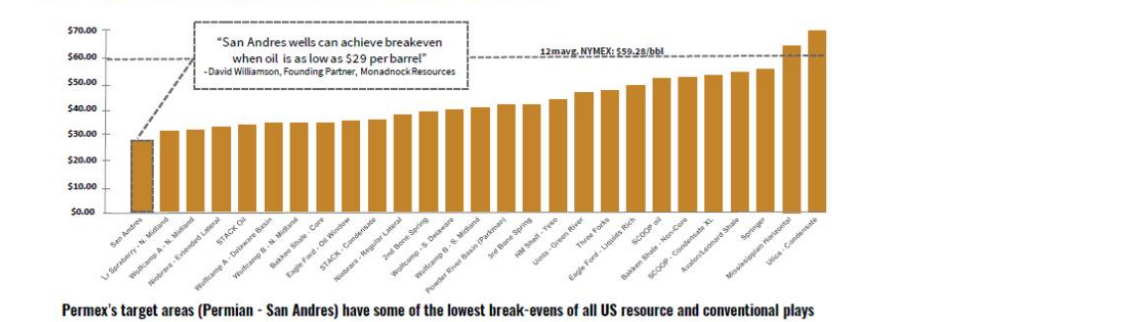
**Permian Basin Economics**

When it comes to Permex's breakeven prices, the company averages \$29 to \$31 a barrel. This is due to the geographical location of its properties (ease of access to pipelines) and the status of the formation (conventional versus unconventional). The company has adequate infrastructure available within the Midland basin that does should not increase operating expenses.

<sup>4</sup> PV10. Enterprise Value / Total 2P (Proved, Probable) Reserves net present value discounted at 10% as of fiscal year-end. 2022 YTD calculation uses EV as of April 12, 2022, and most recently reported PV-10.

**Figure 10. Permex Petroleum Corporation – Permian Basin Economics**

**Break-even Oil Prices (WTI, \$/bbl): U.S. Onshore Resource Plays**



Sources: December 15, 2014 Credit Suisse report *World Energy in 2015*; March 23, 2017 Forbes article *Oil Surprise: Permian Keeps Delivering*  
 Note: Assumes \$3.00/WBbl Gas Price, 12 m avg. NYMEX as of 6/15/2022

Sources: Company Reports

**Management Team**

Every member of Permex’s team has been involved in the oil and gas sector ranging from geology, and engineering to geophysics.

Combining the expertise of its executive and management teams, we believe the company has the right pedigree for success. Within the oil and gas sector, Permex has proved itself from an acquisition standpoint, and now it is moving to prove itself from a development standpoint.

**Financial Forecast**

We forecast revenues of \$8.2 million for fiscal 2023, up from an expected \$1.8 million for fiscal 2022. We are modeling for gross margins of 65% for fiscal 2023, compared to a forecast of 59% for fiscal 2022. By adding newly drilled wells, operating expenses lag revenue growth. Adding shut-in wells/reworked, Opex/Revenue ratio goes up higher than newly drilled wells.

We are modeling expenses of \$4.2 million for fiscal 2023, compared to a forecast of \$2.4 million for fiscal 2022. The expense growth is to support the increase in production.

We forecast a comprehensive income of \$1.2 million for fiscal 2023, an improvement from a projected loss of \$1.3 million for fiscal 2022.

**Summary**

Permex Petroleum is a uniquely positioned junior oil and gas company with assets and operations across the Permian basin of west Texas and the Delaware sub-basin of southeast New Mexico. The company owns and operates on state, federal, and private lands.

**Permex Oil and Gas Properties**

**Breedlove “B” Clearfork Leases – Texas**

The Breedlove “B” Clearfork properties in Martin County, Texas, are over 12 contiguous sections for a total of 7,742 net acres. There is a total of 25 vertical wells, of which 12 are producers, 4 are saltwater disposal wells, and 9 that are shut-in opportunities. Permex holds a 100% working interest and an 82% net revenue interest in the Breedlove “B” Clearfork Property<sup>5</sup>. The company has begun the permitting process of two new wells to be drilled in the Breedlove field with a spud date at the end of June.

<sup>5</sup> Permex Petroleum Corporation. Form 51-102F1 January 28, 2022. <http://www.sedar.com/>

**Figure 11. Permex Petroleum Corporation – Inflection Point of Growth**

**Assets**

Owns and operates a portfolio of low-cost producing oil assets in Texas and New Mexico on private, state and federal land

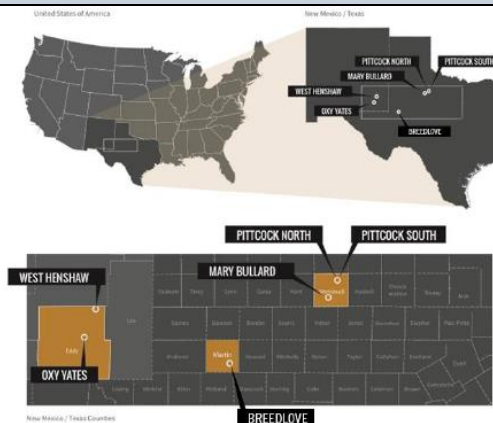
**Scale Upside**

Horizontal leg conversion and lateral drilling programs in the San Andres and Spraberry formations

**Sustainable Upside**

Low-cost infill drilling and secondary recovery

Sources: Company Reports



**Pittcock Leases – Texas**

The Pittcock Leases are situated in Stonewall County. Stonewall County is in Northwest Texas, in the central part of the North Central Plains, and consists of the Pittcock North property, the Pittcock South property, and the Windy Jones Property.

The Pittcock North property covers 320 acres held by production. There is one producing well, 10 shut-in wells, two saltwater disposal wells, and a water supply well. Permex holds a 100% working interest in the Pittcock North Property and an 81% net revenue interest.

The Pittcock South property covers 498 acres in four tracts. There are 19 shut-in wells and two saltwater disposal wells. Permex holds a 100% working interest in the lease and a 72% net revenue interest.

The Windy Jones Property consists of forty acres and includes two injection wells and two suspended oil wells. Permex holds a 100% working interest in the Windy Jones Property and a 78.9% net revenue interest.

**Mary Bullard Property – Texas**

The Mary Bullard Property is situated on the Eastern Shelf of the Midland Basin in the central part of the North Central Plains. The Mary Bullard Property covers 241 acres held by production and is productive in the Clearfork formation at a depth of approximately 3,200 feet. There is currently one producing well, four shut-in wells, and two water injection wells. Permex holds a 100% working interest in the Mary Bullard Property and a 79% net revenue interest.

**West Henshaw Property and Oxy Yates Property – New Mexico**

The West Henshaw Property is located in Eddy County, Southeast New Mexico. The West Henshaw Property covers 1,880 acres held by production. There are nine shut-in wells and four saltwater disposal wells. Permex holds a 100% working interest in the West Henshaw Property and a 72% net revenue interest.

The Oxy Yates Property is located in Eddy County, New Mexico, in the Delaware Basin. The Oxy Yates Property covers 680 acres held by production. There is one producing well and nine shut-in wells. The Yates formation is located at an average depth of 1,200 feet. Permex holds a 100% working interest in the Oxy Yates Property and a 77% net revenue interest.

**Valuation**

2P represents proved and probable. Proved reserves are essentially a 90% chance of recovery of the petroleum products. And probable is 50%. The proved and probable combined were independently valued at \$285M with a commodity price of \$65 for oil.

By removing the probable reserves and only focusing on the proved reserves, we eliminate speculative reserves. The proved reserves were independently valued at \$129M with a commodity price of \$65 for oil.

Permex has total proved reserves of 8.7 million BOE and a PV10 value of \$129 million. Our price target of \$0.80 is 0.7x Enterprise Value / Proved Assets. This valuation multiple is a conservative view of the risk/reward of the oil assets and a discount to peer group valuation (Figure 17).

**Figure 12. Permex Petroleum Corporation – Oil and Gas Properties**

	September 30, 2021	Change	September 30, 2020
Net After Royalties (BOE*)			
Estimated Proved Reserves	8,658,615	82%	4,750,120
Estimated Probable Reserves	15,645,755	223%	4,841,298
<b>Total Proved and Probable</b>	<b>24,304,370</b>	<b>153%</b>	<b>9,591,418</b>

\* barrel of oil equivalent

Sources: Company Reports

The summary of the company’s reserves has been derived from the independent appraisal reports prepared by MKM Engineering conform to classifications defined in the Canadian Oil and Gas Evaluation Handbook.

**Risks to Valuation**

Revenues, operating results, profitability, and rate of growth depend on the prices of oil. Prices also affect cash flow available for capital expenditures and the ability to raise additional capital. The Company may also need to record asset carrying value write-downs if prices fall.

The company has a significant development project inventory, which requires substantial future investment. Future access to capital could be limited if the debt or equity markets are constrained. This could delay the development of property interests.

**Results of Operations**

Three-month period ended March 31, 2022

During the three months ended March 31, 2022, the company reported a net loss of \$189K, compared to a net loss of \$254K for the three months ended March 31, 2021. Revenue for the second quarter consisted of oil and gas sales of \$288K and royalty income of \$17K.

Revenue from the company’s Breedlove “B” Clearfork leases accounted for 64% of the total oil and gas sales. The Company also brought Pittcock North, Mary Bullard, and West Henshaw wells back online during the second quarter. The direct producing and operating expenses were 51% of the gross sales.

The general administrative expenses, excluding depletion and depreciation and share-based payments, for the three months ended March 31, 2022, were \$258K (2021 - \$154,570). The delta was attributable to accounting and audit fees, investor relations, legal and management fees. The increase is primarily from the increased field and general corporate activities due to the increased oil and gas production.

**Figure 13. Permex Petroleum Corporation – Operational Overview**

	For The Three Months Ended		For The Six Months Ended March 31,	
	March 31, 2022	March 31, 2021	2020	2019
<i>(CAD in thousands)</i>				
<b>Revenue</b>				
Oil and gas sales	\$ 288	\$ -	\$ 402	\$ 4
Royalty income	17	-	38	-
<b>Direct operating expenses</b>				
Producing and operating	145	13	248	13
<b>Expenses</b>				
Operating loss	(185)	(183)	(1,219)	(308)
Net loss for the period	(189)	(254)	(1,227)	(402)
Comprehensive loss for the period	(185)	(254)	(1,227)	(402)

Sources: Company Reports and ThinkEquity Estimates

Six-month period ended March 31, 2022

During the six months ended March 31, 2022, the company reported a net loss of \$1.2 million compared to a net loss of \$402K for the six months ended March 31, 2021. Revenue for the first six months consisted of oil and gas sales of \$402K and royalty income of \$38K.

Revenue from the company’s newly acquired Breedlove “B” Clearfork leases accounted for 68% of the total oil and gas sales. The company also brought Pittcock North, Mary Bullard, and West Henshaw wells

back online during the second quarter. For the three and six months, the company has produced 35 bopd and 43 bopd, respectively. The direct producing and operating expenses were 62% of the gross sales.

General and administrative expenses, excluding depletion and depreciation and share-based payment expenses, for the six months ended March 31, 2022 were \$502K compared to \$267K for the same period in 2021.

### Liquidity and Capital Resources

As of March 31, 2022, the company had a cash balance of \$8.4 million, compared to a cash balance of \$33K on September 30, 2021. During the six months ended March 31, 2022, cash used in the operating activities was \$281K. The company spent \$97K on capital expenditures on its oil and gas assets.

The company received net proceeds of \$8.8 million from private placement financings and paid outstanding interest of \$24K on the debenture loan.

**Figure 14. Permex Petroleum Corporation – Balance Sheet Summary**

	March 31, 2022	September 31, 2021
<i>(CAD in thousands)</i>		
Cash	\$ 8,410	\$ 33
Working capital	7,805	(590)
Total assets	18,897	10,374
Total current liabilities	890	698
Total liabilities	3,009	2,841
Total stockholders' equity	15,887	7,532

Sources: Company Reports and ThinkEquity Estimates

The company had working capital of \$7.8 million as of March 31, 2022 compared to a working capital deficiency of \$590K as of September 30, 2021.

**Figure 15. Permex Petroleum Corporation – Cash Flow Summary**

	For the six months ended	
	March 31, 2022	March 31, 2021
<i>(CAD in thousands)</i>		
Net cash used in operating activities	\$ (281)	\$ (756)
Net cash provided by (used in) investing activities	(132)	1,238
Net cash provided by (used in) financing activities	8,790	120
Cash, end of period	8,410	369

Sources: Company Reports and ThinkEquity Estimates

### Outlook

Management estimates that the gross revenue from oil and gas sales for the next 12 months will be approximately \$1.4 million, and general and administrative expenses, excluding accretion, depletion and depreciation, and share-based expenses, will be about \$800K<sup>6</sup>. The company expects to invest additional capital in its oil and gas project development. The company has adequate working capital to cover operating and capital requirements.

### Concentration

All of the company's oil and gas sales and direct operating expenses are incurred in the U.S. During the six months ended March 31, 2022, the company generated 75% of its total revenue from one customer. As of March 31, 2022, one customer represented 59% of the trade receivable balance.

### Risks

Commodity price risk

<sup>6</sup> Permex Petroleum Corporation. Form 51-102F1 May 30, 2022. <http://www.sedar.com/>

Revenues, operating results, profitability, and growth rate depend on oil prices. Prices also affect cash flow available for capital expenditures and the ability to raise additional capital. The company may also need to record asset carrying value write-downs if prices fall.

#### Liquidity risk

Liquidity risk is the risk that the company may not meet its financial liabilities as they fall due. On March 31, 2022, the company had current assets of \$8.7 million and current liabilities of \$890K. At present, the company's operations do not generate positive cash flows. The company's primary source of funding has been the issuance of equity securities through private placements and revenue from oil and gas production.

#### Reserve recovery risk

The company's reserves estimates are calculated using volumetric analysis, which is less reliable than the estimates based on lengthy production history. The volumetric analysis involves estimating the volume of a reservoir based on the net feet of pay of the structure and an estimation of the area covered by the structure. The realization of proved undeveloped reserves will depend on the development schedule and plans.

#### Property acquisition risk

It is not feasible to review in-depth every individual property involved in each acquisition. The company focuses its review efforts on the higher-value properties and samples the remainder. Inspections may not always be performed on every well, and environmental problems are not necessarily observable even when an inspection is undertaken.

There are numerous uncertainties inherent in estimating quantities of proved oil and gas reserves and future production rates and costs with respect to acquired properties, and actual results may vary substantially from those assumed in the estimates.

#### Environmental factors

As an owner or lessee and operator of oil and gas properties, the company is subject to federal, state, local, and foreign country laws and regulations relating to the discharge of materials into and protection of the environment.

The increasingly strict requirements imposed by environmental laws and enforcement policies could require the company to make significant capital expenditures. Such capital expenditures could adversely impact cash flows and financial condition.

#### Governmental risk

The company's operations may be affected by political developments and by federal, state, and local laws and regulations. Any changes could adversely affect business, financial condition, and results of operations.

#### Market conditions

The company has a significant development project inventory, which requires substantial future investment. Future access to capital could be limited if the debt or equity markets are constrained. This could delay the development of property interests.

#### Financing risk

The company is in the early stages of business and has not generated revenue in excess of its expenses. The company will require additional financing in order to fund future operations and expansion plans. If adequate funds are not available, the Company may be required to scale back its current business plan or cease operating.

#### Operating history

The company has limited operating history, business operations, and assets. There is no assurance that its investment strategy will be successful.

Additional risk considerations can be found at [www.sedar.com](http://www.sedar.com).

**Figure 16. Permex Petroleum Corporation - Income Statement, 2020-2023E**

(Years ending September 30) (CAD in thousands, except per share amounts)	FY 2020	FY2021	FY2022E	FY2023E
<b>Revenue</b>				
Oil and gas sales	\$ 918	\$ 59	\$ 1,800	\$ 8,200
Royalty income	-	48	100	150
<b>Direct operating expenses</b>				
Producing and operating	750	75	780	2,950
Gross Profit	168	32	1,120	5,400
Gross profit margin	18%	29%	59%	65%
<b>Expenses</b>				
Depletion and depreciation	73	123	550	2,700
Management fees	194	190	250	300
Share-based payments	6	4	760	5
Sales, general, and administrative	407	438	800	1,200
Total operating expenses	680	755	2,360	4,205
Expense ratio	74%	706%	124%	50%
Income (loss) from operations	(512)	(723)	(1,240)	1,195
Impairment loss on property and equipment	(1,182)	(777)	-	-
Other gain (loss)	4	(88)	(10)	-
Income (loss) from operations before income taxes	(1,689)	(1,588)	(1,250)	1,195
Total comprehensive income (loss)	(1,688)	(1,585)	(1,250)	1,195
Earnings per share: Diluted	\$ (0.02)	\$ (0.04)	\$ (0.01)	\$ 0.01
Weighted average common shares outstanding: Diluted	40,024	40,737	110,000	190,000

Sources: Company Reports and ThinkEquity Estimates

**Figure 17. Permex Petroleum Corporation — Valuation Comparable, Prices as of 7/10/2022**

(Amounts listed in CAD. Numbers in millions, except per share data)

Company	Stock Price <sup>(1)</sup>	Market Value of Equity	Enterprise Value <sup>(2)</sup>	Enterprise Value as a Multiple of:						Price as a Multiple of:		Projected EPS Growth	PEG Ratio
				Sales		EBITDA		EBIT	CY+1	CY+2			
				LTM	CY+1	LTM	CY+1						
Condor Energies Inc.	0.40	18.1	14.7	21.72x	NM	NM	NM	NM	NM	NM	NM	0.0%	NM
Daybreak Oil and Gas, Inc.	0.06 <sup>(3)</sup>	24.9	27.8	31.60	NM	NM	NM	NM	NM	NM	NM	0.0%	NM
Petro-Victory Energy Corp.	2.30 <sup>(3)</sup>	41.2	40.7	28.68	NM	NM	NM	NM	NM	NM	NM	0.0%	NM
Avila Energy Corporation	0.39	13.9	14.3	18.82	NM	NM	NM	NM	NM	NM	NM	0.0%	NM
Norris Industries, Inc.	0.14 <sup>(3)</sup>	12.9	17.4	29.76	NM	NM	NM	NM	NM	NM	NM	0.0%	NM
Camber Energy, Inc.	0.52 <sup>(3)</sup>	230.7	266.0	435.62	NM	NM	NM	NM	NM	NM	NM	0.0%	NM
Marksmen Energy Inc.	0.08	12.4	13.1	14.91	NM	NM	NM	NM	NM	NM	NM	0.0%	NM
Pilot Energy Limited	0.02 <sup>(4)</sup>	9.2	7.0	15.32	NM	NM	NM	NM	NM	NM	NM	0.0%	NM
Hillcrest Energy Technologies Ltd.	0.12	37.2	34.7	108.56	NM	NM	NM	NM	NM	NM	NM	0.0%	NM
Tenth Avenue Petroleum Corp.	0.20	7.5	4.6	4.94	NM	NM	231.3	NM	NM	NM	NM	0.0%	NM
EF EnergyFunders Ventures, Inc.	0.02 <sup>(3)</sup>	8.1	11.8	9.20	NM	NM	NM	NM	NM	NM	NM	0.0%	NM

<b>High</b>	435.62x	0.00x	0.00x	231.3x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0%	0.0x
<b>Average</b>	65.38	NM	NM	231.3	NM	NM	NM	NM	NM	NM	NM	0.0%	NM
<b>Median</b>	21.72	NM	NM	231.3	NM	NM	NM	NM	NM	NM	NM	0.0%	NM
<b>Low</b>	4.94	0.00	0.00	231.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	0.0	

<b>Permex Petroleum Corporation</b>	<b>0.15</b>	<b>17.4</b>	<b>9.2</b>	<b>16.96x</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>0.0%</b>	<b>NM</b>
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- (1) Financial data provided by Cap IQ, Google Finance, Company reports, and ThinkEquity estimates as of 07/10/2022
- (2) Calculated as Market Value of Equity plus total debt, non-controlling interest and preferred stock, less cash & equivalents.
- (3) Converted to CAD from USD at an exchange rate of 1.294.
- (4) Converted to CAD from AUD at an exchange rate of 0.888.

Sources: S&P Cap IQ, Google Finance, Company Reports, and ThinkEquity Estimates

**Figure 17. Permex Petroleum Corporation. – 3-Year Price Target and Rating History**



Date	Key Development
7/11/2022	Permex Petroleum Corporation. Initiate with Buy. PT \$0.80

Sources: S&P Cap IQ, Google Finance, and ThinkEquity Estimates

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ThinkEquity rating definitions are expressed as the total return relative to the expected performance of S&P 500 over a 12-month period.

BUY (B) - Total return expected to exceed S&P 500 by at least 10%

HOLD (H) - Total return expected to be in-line with S&P 500

SELL (S) - Total return expected to underperform S&P 500 by at least 10%

**Current Ratings Distribution**

This Equity Ratings Distribution reflects the percentage distribution for rated equity securities for the twelve month period June 30, 2019 through June 30, 2020. Within the twelve month period ended June 30, 2020, ThinkEquity, LLC has provided investment banking services to 54% of companies with equity rated a Buy, 0% of companies with equity rated a Hold and 0% of companies with equity rated a Sell. As of June 30, 2020, ThinkEquity, LLC had twenty-three stocks under coverage: Buy 23 (100%), Hold 0 (0%), Sell 0 (0%).

<b>ThinkEquity rating distribution by percentage (as of July 11, 2022):</b>			
All companies under coverage:		All companies under coverage to which it has provided investment banking services in the previous 12 months:	
Buy (1)	100.00%	Buy (1)	61.02%
Hold (2)	0.00%	Hold (2)	0%
Sell (3)	0.00%	Sell (3)	0%