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Initial Report

Investors should consider this report as only a single factor in making their investment decision.

Permex Petroleum Corporation*

Speculative Buy

John Nobile
June 8, 2022

OILCF $0.14 — (OTC)

	2020A	2021A	2022E	2023E
Revenues (million)	$0.9	$0.1	$1.9	$9.2
Earnings (loss) per share	$(0.02)	$(0.04)	$(0.01)	$0.01

52-Week range	$0.38 – $0.05	Fiscal year ends:	September
Common shares out as of 3/31/22	116 million	Revenue per share (TTM)	$0.01
Approximate float	84.6 million	Price/Sales (TTM)	14X
Market capitalization	$16.2 million	Price/Sales (FY2023)E	2.8X
Tangible book value/share	$0.14	Price/Earnings (TTM)	NMF
Price/tangible book value	1X	Price/Earnings (FY2023)E	14X

**Permex financial information expressed in Canadian dollars. Share price expressed in US dollars.*

Permex Petroleum Corporation, headquartered in Vancouver, British Columbia, is a junior oil and gas company that is primarily engaged in the acquisition, development and production of oil and gas properties in North America. Permex currently owns and operates various oil and gas properties located in Texas and New Mexico, and holds various royalty interests in 73 wells and 5 permitted wells across 3,800 acres within the Permian Basin of West Texas and Southeast New Mexico.

Key investment considerations:

We are initiating coverage of Permex Petroleum Corporation with a Speculative Buy rating and twelve-month price target of $0.60 per share.

Permex has a strategy of acquiring proven assets at attractive prices. During the down cycle in oil (from 2017 to 2021), the company acquired over 11,000 acres at prices below their current land values. Permex increased its proven and probable reserves by 153% to 24.3 million barrels of oil equivalent (BOE) from September 2020 to September 2021.

In February 2022 and April 2022, Permex announced the successful production of oil from wells on its New Mexico properties. These wells were recompleted (brought back online) from shut-in (closed off) oil wells on its West Henshaw property in Eddy County, New Mexico. The remaining 67 shut-in wells Permex plans to reenter could have the potential to drive significant revenue growth.

We project a significant ramp in revenue over the next two years as Permex continues its recompletion efforts in existing wells in Texas and New Mexico.

For 2022, we project total revenue of $1.9 million, up from $107,000 in 2021 and the net loss narrowing to $1.3 million or $(0.01) per share from $1.6 million or $(0.04) per share.

For 2023, we project total revenue of $9.2 million, up from $1.9 million projected for 2022 and net income of $1.9 million or $0.01 per share versus a net loss of $1.3 million or $(0.01) per share projected for 2022.

****Please view our disclosures on pages 15 - 17.***

Recommendation and Valuation

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In February 2022 and April 2022, Permex announced the successful production of oil from wells on its New Mexico properties. These wells were recompleted (brought back online) from shut-in (closed off) oil wells on its West Henshaw property in Eddy County, New Mexico. The remaining 67 shut-in wells Permex plans to reenter could have the potential to drive significant revenue growth.

Shares of OILCF are currently trading at an EV/1P (Enterprise Value/Proved Reserves) multiple of 1.2X. A comparable peer group currently trades at an average EV/1P multiple of 11.8X. We believe the large discrepancy lies in the fact that Permex is currently trading at a pre-production valuation versus the peer group, which consists of larger, producing companies. As production volumes increase, OILCF's multiple should trend towards its peers. Applying an EV/P1 multiple of 6.5X (midpoint between OILCF's multiple and its peers) to its proven reserves, discounted to account for execution risks, we derive a 12-month price target of approximately $0.60 per share.

Business Overview

Permex Petroleum Corporation, headquartered in Vancouver, British Columbia, is a junior oil and gas company that is primarily engaged in the acquisition, development and production of oil and gas properties in North America. Permex currently owns and operates various oil and gas properties located in Texas and New Mexico and holds various royalty interests in 73 wells and 5 permitted wells across 3,800 acres within the Permian Basin of West Texas and Southeast New Mexico.

Oil and Gas Properties

A summary of Permex Petroleum's assets is shown in the table at right.

Summary of Assets

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

Source: Permex Petroleum March 2022 Presentation

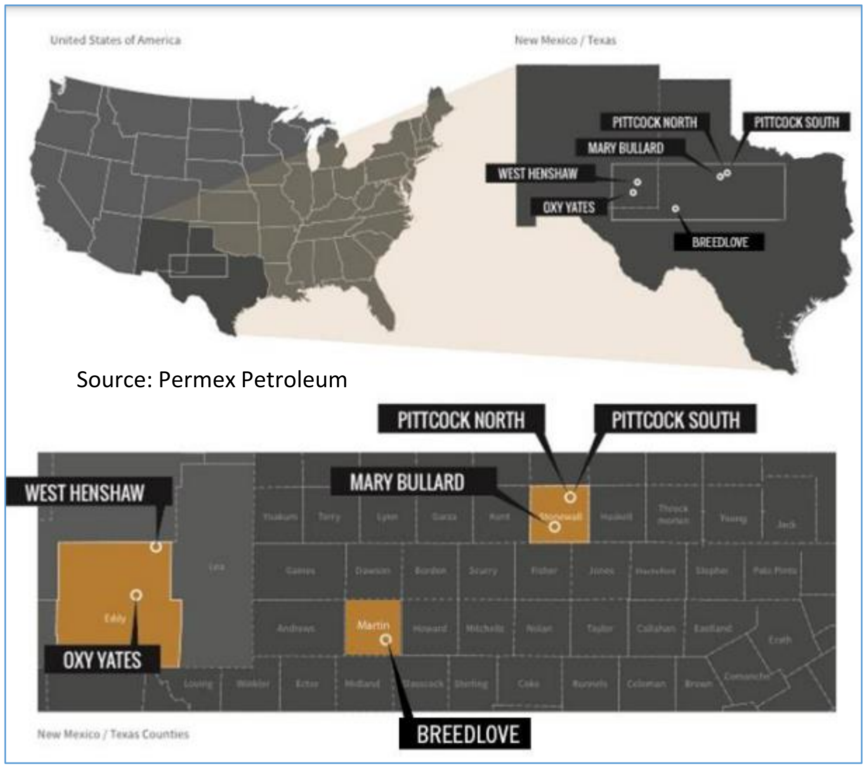
<u>Texas</u>

The Breedlove "B" Clearfork properties situated in Martin County, Texas are over 12 contiguous sections for a total of 7,870 gross and 7,742 net acres, of which 98% is held by production (a provision in an oil or natural gas property lease that allows the lessee to continue drilling activities on the property as long as it is economically producing a minimum amount of oil or gas) in the core of the Permian Basin. There is a total of 25 vertical wells of which 12 are producers, 4 are saltwater disposal wells (oil or gas wells that are no longer in production and are used for the disposal of saltwater produced from the oil extraction process) and 9 that are shut-in opportunities. Permex holds a 100% working interest and an 81.75% net revenue interest in the Breedlove "B" Clearfork Property.

The company began the permitting process of two new wells to be drilled on its Eoff leases in the Breedlove field with an anticipated spud (start of well drilling) date by the end of June 2022.

The Pittcock Leases are situated in Stonewall County, Northwest Texas, in the central part of the North Central Plains and consist 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 currently one producing well, ten 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 81.25% net revenue interest. The Pittcock South property covers 498 acres in four tracts. There are currently 19 shut-in wells and two saltwater disposal wells. Permex holds a 100% working interest in the lease, and a 71.9% net revenue interest.

The Windy Jones Property consists of 40 acres and includes two injection wells and two suspended oil wells. The sole purpose of the Windy Jones property is to provide waterflood (pumping water into the ground around an oil well nearing depletion in order to loosen and force out additional oil) to the offset Pittcock wells located east of the Windy Jones property. Permex holds a 100% working interest in the Windy Jones Property, and a 78.9% net revenue interest.



Source: Permex Petroleum

The Mary Bullard Property is located in Stonewall County, about 5½ miles south west of Aspermont, Texas. The asset 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 78.625% net revenue interest.

The geographic location of the company's assets be seen in the chart at right.

New Mexico

The West Henshaw Property is located in Eddy County, New Mexico, 12 miles northeast of Loco Hills in the Delaware basin. Eddy County is in Southeast New Mexico and is bound by Chaves County to the north, Otero County to the east, Loving County, Texas to the south, and Lea County to the west. 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.

In January 2022, the company began the pilot re-entry on the West Henshaw well #15-3, one out of the 69 shut-in wells it currently owns. The re-entry and re-stimulation involved the West Henshaw property targeting the Grayburg formation at a depth of 2,850 feet. The recompletion was successful and the well came online at an initial rate of 30 barrels of oil per day (bopd) and has stabilized at 15 bopd. Permex believes the production rates from this mature, long-life well to continue with less than 10% decline year-on-year.

The recompletion of well #6-10 was successful and came online at an initial rate of 15 barrels of oil per day and now has stabilized at 10 barrels of oil per day. Permex believes the production rates from this mature, long-life well, will continue with less than 5% decline year on year.

The remaining 67 shut-in wells that the company plans to re-enter may have the potential to yield similar results increasing the company's total daily production solely by reentering shut-in wells.

The Oxy Yates Property is located in Eddy County, approximately eight miles north of Carlsbad, 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 and overlies the Seven River formation and underlies the Tansill formation. Permex holds a 100% working interest in the Oxy Yates Property, and a 77% net revenue interest

The following table shows a summary of the company's reserves as of September 30, 2021 and September 30, 2020. The reserves summary was derived from the independent appraisal reports prepared by MKM Engineering using standard engineering practices generally accepted by the petroleum industry and conform to those classifications defined in the Canadian Oil and Gas Evaluation Handbook.

Reserves Summary

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

Oil and Gas Industry

Investopedia describes the oil and gas industry as one of the largest sectors in the world in terms of dollar value, generating an estimated $3.3 trillion in revenue annually. Oil is crucial to the global economic framework, especially for its largest producers: the United States, Saudi Arabia, Russia, Canada, and China.

The oil and gas industry is broken down into three segments: upstream, midstream, and downstream. Upstream, or exploration and production (E&P) companies (such as Permex), find reservoirs and drill oil and gas wells. Midstream companies are responsible for transportation from the wells to refineries, and downstream companies are responsible for refining and the sale of the finished products.

Upstream firms search the world for reservoirs of the raw materials and then drill to extract that material. The upstream segment is characterized by high risks, high investment capital, extended duration as it takes time to locate and drill, as well as being technologically intensive. Virtually all cash flow and income statement line items of E&P companies are directly related to oil and gas production. E&P companies are often valued by their oil and gas reserves; these untapped resources are the key to their future earnings.

New reserves are an essential source of future revenue, so E&P companies spend a lot of time and money exploring new untapped reservoirs. If an E&P company stops exploring, it will have only a finite amount of reserves and a depleting quantity of oil and gas.

The resource owners and operators of E&Ps work with a variety of contractors, such as engineering procurement and construction contractors, as well as with joint-venture partners and oil field service companies. In the process of locating and extracting oil and gas, E&Ps also build infrastructure and collect massive amounts of analytical data. The process of oil and gas exploration and production typically involves four stages.

Search and Exploration - The search and exploration stage involves the search for hydrocarbons, which are the primary components of petroleum and natural gas. Land surveys are performed to help identify the areas that are the most promising. The goal is to locate specific minerals underground in order to estimate the amount of oil and gas reserves before drilling. Geologists study rock formations and layers of sediment within the soil to identify if oil or natural gas is present.

The process can involve seismology, which uses substantial vibrations as a result of machinery or explosives to create seismic waves. How the seismic waves interact with a reservoir containing oil and gas help to pinpoint the reservoir's location. Once it has been determined that there appear to be reserves beneath the ground, the test drilling process can begin.

Well Construction - After identifying potentially viable fields, a well is drilled to test the findings and determine whether there are enough reserves to be commercially viable for sale. The process involves making a hole by drilling or grinding through the rock beneath the surface. A steel pipe is inserted into the hole so that the drill can be inserted in the pipe, allowing for exploration at a deeper level. Core samples are taken and studied by geologists, engineers, and paleontologists to determine if there is the proper quality of natural gas or petroleum in the underground reserve. If the process shows that there are both the quality and quantity needed to produce and sell commercially, the production of oil wells begins.

Engineers will typically estimate how many wells will be needed and the best method of extraction. The estimated cost of the number of wells is then determined. Next, the construction of the platform begins, which could be on land or offshore. The necessary environmental protections are also implemented at this stage.

There have been significant advances in drilling technologies over the years. Companies can drill horizontally tapping into vertical wells to search for natural gas pockets, which can produce far more natural gas than a typical vertical well.

Extraction - The oil and gas deposits are extracted from the wells. Sometimes, natural gas can be processed at the same site as the well. However, petroleum is usually extracted on-site, stored temporarily, and eventually shipped via a pipeline to a refinery.

Abandonment of Wells - Once a site is no longer productive, meaning all reserves have been extracted and all opportunities have been exhausted, the wells are plugged or sealed. Attempts are made to restore the area in an effort to help the environment.

Once the crude oil and natural gas reserves have been extracted, the midstream oil and gas production process begins. Midstream companies focus on the storage and transportation of the oil and natural gas through pipelines. Midstream companies deliver the reserves to companies involved in the final stage of production called downstream.

The downstream process involves refineries that process the oil into usable products, such as gasoline. The products are sent to distributors and retail outlets, such as energy providers and gas stations.

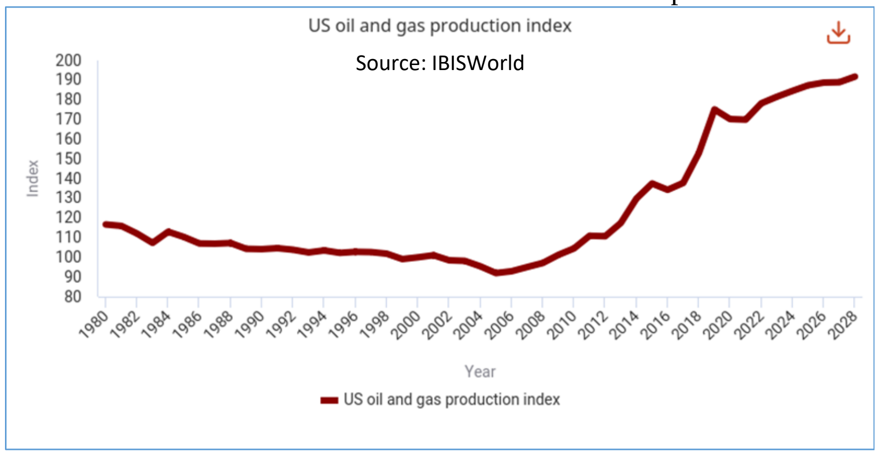
Oil and Gas Production

IBISWorld expects that over the five years to 2022, US oil and gas production will rise, increasing at an annualized rate of 4%. Growth has been robust over the past five years, as oil and gas companies have scrambled to position themselves around shale deposits.

In 2020, production of natural gas and crude oil declined due to unsustainably low prices and oversupply relative to economic activity and demand. In 2020, the COVID-19 pandemic drove a drastic decline in oil prices and a decline in the price of natural gas. Production dropped in 2021 due largely to production disruptions stemming from extreme weather events and weather patterns. Additional declines occurred due to unused inventories from 2020 being drawn down early in the year before new production was undertaken. Nonetheless, future production is expected to be driven by rising prices due to strengthening global demand for energy. In 2022, production is forecast to increase to meet heightening global demand and as production quotas from OPEC+ and other international producers also grows. Overall growth in production is expected to keep prices moderated, despite strengthening demand. However, expectations of production levels are subject to uncertainty based on both the possible resurgence of the coronavirus pandemic, for example as a result of novel variants, and because of further supply disruptions due to extreme global events.

IBISWorld expects oil and natural gas production to rise over the five years to 2027. As the economic recovery gradually increases to raise global GDP to pre-pandemic levels, demand for natural gas and crude oil is expected to follow suit. This will likely coincide with a rise in production and an increase in prices. Both US and foreign producers are expected to increase production levels after cuts in 2020 amid the coronavirus pandemic and as demand normalizes. Nonetheless, growth could be moderated later in the period by several factors. For example, additional regulation placed on the industry due to environmental concerns could challenge oil and gas operators.

The US oil and natural gas production index is anticipated to increase at an annualized rate of 1.2% over the five years to 2027 (see chart at right).



Competition

The oil and natural gas industry is highly competitive. Permex competes with major and independent oil and natural gas companies for exploration and development opportunities and acreage acquisitions. The oil and natural gas industry also competes with other energy-related industries in supplying the energy and fuel requirements of industrial, commercial and individual consumers.

Many of the company's competitors have substantially greater financial and other resources and may be able to absorb the burden of any changes in federal, state and local laws and regulations more easily than Permex can, which could adversely affect its competitive position. These competitors may be willing and able to pay more for productive oil and natural gas properties and may be able to identify, evaluate, bid for and purchase a greater number of properties and prospects than Permex.

Strategy

Permex has a strategy of acquiring proven assets at attractive prices. The company seeks to find attractive acquisition opportunities with the objective of generating a high internal rate of return with low geological risk. Permex aims to stick to areas where management has a prior operating history and expertise. The company targets smaller acquisitions where operators don't need a large acreage position to be successful. Permex looks for projects that are profitable in a low commodity price environment.

As part of its strategic acquisition strategy, Permex has acquired royalty interests in 73 producing oil and gas wells operated by major firms such as Apache Corp., Callon Petroleum, Chesapeake Energy, Chevron Noble, ConocoPhillips, Dougle Eagle Energy, EOG Resources, Marathon Oil, and XTO Energy. The company's geographic focus is on the Permian Basin of West Texas and Southeast New Mexico, the largest petroleum-producing basin in the US.

In an effort to position the company for its next growth phase, Permex appointed oil and gas industry veterans J.P. Bryan and Jay Lendrum to its Board of Directors. Bryan has over 50 years' experience in the oil and gas industry and was the former President and CEO of Gulf Canada Resources Ltd. Lendrum has over 40 years' experience in the oil and gas industry and was the former President, CEO, and Director of Nuevo Midstream Company.

Economic Outlook

In April 2022, the International Monetary Fund (IMF) revised its global economic growth estimates to an increase of 3.6% for 2022 and 2023, down from its January 2022 projection calling for 4.6% growth in 2022 and 3.8% growth in 2023. The downward revisions primarily reflect the economic damage from the war in Ukraine resulting in elevated inflation and rising interest rates.

The IMF revised its economic growth estimate for the US to an increase of 3.7% for 2022 and 2.3% for 2023. In January 2022, the IMF projected US economic growth of 4% and 2.6% for 2022 and 2023, respectively.

The second estimate of US GDP growth (released on May 26, 2022) showed the US economy decreased at an annual rate of 1.5% in 1Q22, down from the 6.9% increase reported in 4Q21. The 1Q22 US GDP estimate primarily reflects decreases in inventory investment, exports, federal government spending, and state and local government spending.

Projections (in Canadian dollars)

2022 Forecast **-** We project total revenue of $1.9 million, up from $107,000 in 2021 and the net loss narrowing to $1.3 million or $(0.01) per share from $1.6 million or $(0.04) per share. The significant improvement in revenue is primarily due to the recompletion (an operation that is conducted to establish production of oil or gas from an existing non-producing well) of wells in 2022.

The increase in revenue should result in gross profit increasing to $1 million from $32,000 with gross margins of 54.8% versus 29.9% in 2021. SG&A expenses are projected to increase to $1 million from $628,000 to support revenue growth. Depletion and depreciation expense is projected to increase to $546,000 from $123,000 reflecting the increase in production. We anticipate share-based payments increasing to $768,000 compared to $4,000 in 2021.

In 2022, we project $563,000 cash provided by operations from cash earnings of $94,000 and a $470,000 decrease in working capital. We project $370,000 cash used in investing primarily from capital expenditures. Cash provided by financing of $8.7 million should primarily come from proceeds from the issuance of share capital offset in part by the pay down of debt. We project an $8.9 million increase in cash to $8.9 million at the end of 2022.

2023 Forecast **-** We project total revenue of $9.2 million, up from $1.9 million projected for 2022 and net income of $1.9 million or $0.01 per share versus an estimated net loss of $1.3 million or $(0.01) per share in 2022. The significant improvement in revenue should reflect the continuing recompletion of additional wells.

The increase in revenue should result in gross profit increasing to $6 million from $1 million with gross margins of 65% versus 54.8% projected for 2022. SG&A expenses are projected to increase to $1.4 million from $1 million to support revenue growth. Depletion and depreciation expense is projected to increase to $2.7 million from $546,000 reflecting the increase in production.

In 2023, we project $5.7 million cash provided by operations from cash earnings of $4.6 million and a $1.1 million decrease in working capital. We project $370,000 cash used in investing primarily from capital expenditures. Cash used in financing of $40,000 should reflect the pay down of debt. We project a $5.3 million increase in cash to $14.2 million at the end of 2023.

2Q22 and 1H22 Financial Results (in Canadian dollars)

2Q22 – Total revenue was $305,000 versus nil in 2Q21. Oil and gas sales were to $288,000 and royalty income was $17,000. Gross profit was $160,000 versus negative $13,000 in 2Q21. 2Q22 gross margins were 52.5%. The net loss narrowed to $189,000 or $(0.00) per share from a loss of $254,000 or $(0.01) per share in 2Q21.

Oil and gas sales revenue was mainly generated from Permex' newly acquired Breedlove "B" Clearfork leases. The company also brought the Pittcock North, Mary Bullard, and West Henshaw wells back online.

SG&A expenses increased to $258,000 from $159,000 due primarily to increases in accounting and audit fees, investor relations expense, legal fees, and management fees.

Depletion and depreciation expenses increased to $86,000 from $14,000 and share-based compensation expenses were flat at $1,000.

1H22 – Total revenue increased to $439,000 from $4,000. Oil and gas sales increased to $402,000 from $4,000 and royalty income was $37,000 versus nil in 1H21. Gross profit increased to $191,000 from negative $9,000. 1H22 gross margins were 43.5%. The net loss was $1.2 million or $(0.02) per share compared to a loss of $401,000 or $(0.01) per share in 1H21.

Oil and gas sales revenue was mainly generated from Permex' newly acquired Breedlove "B" Clearfork leases. The company also brought the Pittcock North, Mary Bullard, and West Henshaw wells back online.

SG&A expenses increased to $502,000 from $268,000 due primarily to increases in accounting and audit fees, investor relations expense, legal fees, management fees, marketing and promotion expenses, and office and general expenses.

Depletion and depreciation expenses increased to $142,000 from $29,000 and share-based compensation expenses increased to $765,000 from $2,000.

Income Statements
(in thousands Canadian $)

	1H22A	1H21A
Oil and gas sales	402	4
Royalty income	37	-
Total revenue	439	4
Producing and operating expenses	248	13
Gross profit	191	(9)
Depletion and depreciation	142	29
Share-based payments	765	2
Selling, general and administrative	502	268
Operating income (loss)	(1,218)	(308)
Other (gain)	9	93
Net income / (loss)	(1,227)	(401)
EPS	(0.02)	(0.01)
Shares Outstanding	69,078	40,504
Margin Analysis		
Gross margin	43.5%	(225.0)%
Operating margin	(32.3)%	(725.0)%
Year / Year Growth		
Total Revenues	NMF	

Source: Company filings

Liquidity – As of March 31, 2022, Permex had $8.4 million cash, a current ratio of 9.8X, $140,000 of total debt ($100,000 short-term), and shareholder's equity of $15.9 million.

In 1H22, the company used $281,000 cash from operations from a cash loss of $273,000 and an $8,000 increase in working capital. Permex used $132,000 cash in investing activities consisting of $97,000 of capital expenditures and $35,000 of lease payments. The company received $8.8 million cash from financing activities consisting primarily from proceeds from the issuance of share capital. Cash increased by $8.4 million to $8.4 million as of March 31, 2022.

The company issued a total of $200,000 in convertible debentures to the CEO and a director of Permex on October 17, 2019 and February 21, 2020 for cash. The debentures have a maturity date of September 30, 2021 and February 20, 2022, and bear interest at a rate of 12% per annum, payable on maturity. The debentures are convertible into units of the company at $0.15 per unit. Each unit will be comprised of one common share of Permex and one share purchase warrant where each warrant entitles the holder to acquire one additional common share for a period of three years at an exercise price of $0.20. During the year ended September 30, 2021, the company repaid $100,000 of the convertible debenture. During 1H22, Permex extended the remaining $100,000 convertible debenture maturity date to August 20, 2022.

In May 2020, Permex opened a Canada Emergency Business Account and received a loan of $40,000 from the Canadian Government. The loan is unsecured and non-interest bearing until December 31, 2023.

Management

Mehran Ehsan, Chief Executive Officer, President and Director - Over the last 14 years, Mr. Ehsan has been involved as owner of O&G DPP programs, manager in mergers, acquisitions and divestitures, financing arrangements and investment with a specialty in oil and gas opportunities. He has been directly involved and facilitated over $87 million in capital syndication and injection. His academic background ranges from marketing management, business management, wealth management and petroleum based curriculums and programs such as engineering and geology. He is an MBA candidate with specialty in Finance.

Greg Montgomery, Chief Financial Officer, Corporate Secretary and Director – Mr. Montgomery has nearly 30 years of experience in the oil and gas industry. He has previously held the office of CFO for Oiltanking North America, Semarus Energy Advisors, Lion Copolymer, Coast Energy, and Laser Midstream, and was a Director of Strategic Planning for Enbridge Energy Partners and Compliance Officer for Pennzoil Company. Mr. Montgomery is a CPA and member of the Texas Society of CPA's and American Institute of Certified Public Accountants. He holds a Bachelor's degree in Business Administration from the University of Houston.

Barry Whelan, Chief Operating Officer and Director - Mr. Whelan has more than 40 years' experience as a geologist, initially with Gulf Oil in International Operations. He has since worked as a geologist with companies such as KOS Energy Ltd., Next Millennium Commercial Corp., Opal Energy Ltd., Copper Creek Ventures Ltd., Avro Energy, Polar Resources Ltd., ProAm Exploration Corporation, Voyageur Oil and Gas Corp., and Bighorn Petroleum. Mr. Whelan received his Bachelor of Arts, Geology, from University of Western Ontario and a Bachelor of Science, Honors Geology, from McMaster University. He is or has also been a member of the Geological Association of Canada, Association of Professional Engineers and Geoscientists BC, Association of Professional Engineers, Geologists and Geophysicists of Alberta, Canadian Society of Petroleum Geologists, Institute of Petroleum, London.

J. P. Bryan, Director - Mr. Bryan has been involved in the energy and investment industries for more than five decades, serving as CEO and President of Gulf Canada Resources Limited, Chairman and CEO of Nuevo Energy Company, CEO of Bellwether Exploration, First Vice President of E.F. Hutton & Company and Director of Investment Banking-Southwest Region, Chairman and CEO of Torch Energy Advisors, Inc., President and CEO of The Mortgage Banque, Executive Vice President and Director of Dominick & Dominick, Inc., and Vice President of Morgan Guaranty Trust Company. He received his BA from The University of Texas at Austin; his L.L.B. from The University of Texas Law School at Austin; and his BFT from the American Institute of Foreign Trade at Phoenix, Arizona.

Risks

In our view, these are the principal risks underlying the stock.

Commodity price risk - The prices Permex receives for its oil and natural gas production heavily influence its operating results. Oil and natural gas are commodities, and, therefore, their prices are subject to wide fluctuations in response to relatively minor changes in supply and demand. Historically, the commodities markets have been volatile, and these markets will likely continue to be volatile in the future. If the prices of oil and natural gas experience a substantial decline, the company's operations, financial condition and level of expenditures for the development of its oil and natural gas reserves may be materially and adversely affected.

Reserve recovery risk - There are numerous uncertainties inherent in estimating crude oil and natural gas reserves and their value. Reservoir engineering is a subjective process of estimating underground accumulations of crude oil and natural gas that cannot be measured in an exact manner. Because of the high degree of judgment involved, the accuracy of any reserve estimate is inherently imprecise, and a function of the quality of available data and the engineering and geological interpretation. Permex' reserves estimates are based on 12-month average prices, therefore, reserves quantities will change when actual prices increase or decrease. Results of drilling, testing, and production may also substantially change the reserve estimates for a given reservoir over time. Accordingly, reserves estimates may be subject to upward or downward adjustment, and actual production, revenue and expenditures with respect to the company's reserves likely will vary, possibly materially, from estimates.

Property acquisition risk - Although Permex performs a review of properties that it acquires that is consistent with industry practices, such reviews are inherently incomplete. It generally is not feasible to review in-depth every individual property involved in each acquisition. Ordinarily, the company will focus its review efforts on higher-value properties and will sample the remainder. However, even a detailed review of records and properties may not necessarily reveal existing or potential problems, nor will it permit Permex to become sufficiently familiar with the properties to assess fully and accurately their deficiencies and potential.

Regulatory risk – The company's US operations have been, and in the future may be, affected by political developments and by federal, state, and local laws and regulations such as restrictions on production, changes in taxes, royalties and other amounts payable to governments or governmental agencies, price or gathering rate controls, and environmental protection laws and regulations. Any such changes could adversely affect the company's business, financial condition, and results of operations.

Going Concern - The company has incurred losses since inception in the amount of approximately $8.1 million and has not yet achieved profitable operations. These factors indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern.

Foreign exchange rate risk - The company's functional currency is the Canadian dollar and administrative expenditures are transacted in Canadian dollars. Permex funds its oil and gas operations in the US by using US dollars converted from its Canadian bank accounts. Changes in currency exchange rates (strengthening of the US dollar) could adversely affect the company's operating results.

Pandemic risk – Since the outbreak of COVID-19, the pandemic has continued to spread and has adversely affected workforces, economies, and financial markets globally. It is not possible to predict the duration or magnitude of the adverse effects from the outbreak and its effects on the company's business or its ability to raise funds.

Liquidity risk - Shares of OILCF have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. There are 84.6 million shares in the float and the average daily volume is approximately 139,000 shares.

Miscellaneous risk - The company's financial results and equity values are subject to other risks and uncertainties including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Consolidated Balance Sheets
(in thousands Canadian $)

	2020A	2021A	3/22A	**2022E**	**2023E**
Cash	7	33	8,410	**8,916**	**14,184**
Trade and other receivables	60	16	183	**363**	**763**
Prepaid expenses and deposits	21	59	101	**200**	**400**
Assets held for sale	3,899	-	-	**-**	**-**
Total current assets	3,987	108	8,694	**9,480**	**15,348**
Reclamation deposits	259	184	182	**182**	**182**
Property and equipment	5,086	10,082	10,021	**9,775**	**7,375**
Total assets	9,332	10,374	18,897	**19,437**	**22,905**
Trade and other payables	952	514	727	**1,408**	**3,117**
Amounts due to related party	202	21	3	**3**	**3**
Convertible debentures	94	97	100	**-**	**-**
Lease obligation	26	66	59	**94**	**40**
Liabilites held for sale	2,402	-	-	**-**	**-**
Total current liabilities	3,676	698	889	**1,505**	**3,160**
Decommissioning obligations	1,056	2,069	2,069	**2,069**	**2,069**
Convertible debentures	90	-	-	**-**	**-**
Lease obligations	44	35	11	**11**	**11**
Loan payable	40	40	40	**40**	**-**
Total liabilities	4,906	2,842	3,009	**3,625**	**5,240**
Total stockholders' equity	4,426	7,532	15,888	**15,812**	**17,665**
Total liabilities & stockholders' equity	9,332	10,374	18,897	**19,437**	**22,905**

Source: Company filings and Taglich Brothers' estimates

Income Statements for the Fiscal Years Ended
(in thousands Canadian $)

	FY20A	FY21A	**FY22E**	**FY23E**
Oil and gas sales	918	59	**1,751**	**9,000**
Royalty income	-	48	**118**	**160**
Total revenue	918	107	**1,869**	**9,160**
Producing and operating expenses	750	75	**845**	**3,206**
Gross profit	168	32	**1,025**	**5,954**
Depletion and depreciation	73	123	**546**	**2,700**
Share-based payments	6	4	**768**	**4**
Selling, general and administrative	601	628	**1,003**	**1,400**
Operating income (loss)	(512)	(723)	**(1,293)**	**1,850**
Other (gain)	(4)	88	**8**	**-**
Impairment loss	1,181	777	**-**	**-**
Net income / (loss)	(1,689)	(1,588)	**(1,301)**	**1,850**
EPS	(0.02)	(0.04)	**(0.01)**	**0.01**
Shares Outstanding	40,024	40,737	**110,053**	**187,357**
Margin Analysis				
Gross margin	18.3%	29.9%	**54.8%**	**65.0%**
Operating margin	8.0%	115.0%	**29.2%**	**29.5%**
Year / Year Growth				
Total Revenues		(88.3)%	**1646.7%**	**390.1%**

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements 2021A - 2023E
(in thousands Canadian $)

	12/20A	3/21A	6/21A	9/21A	FY21A	12/21A	3/22A	6/22E	9/22E	**FY22E**	12/22E	3/23E	6/23E	9/23E	**FY23E**
Oil and gas sales	4	-	21	34	59	113	288	450	900	**1,751**	1,500	2,000	2,500	3,000	**9,000**
Royalty income	-	-	23	25	48	21	17	40	40	**118**	40	40	40	40	**160**
Total revenue	4	-	44	59	107	134	305	490	940	**1,869**	1,540	2,040	2,540	3,040	**9,160**
Producing and operating expenses	-	13	14	48	75	103	145	221	376	**845**	539	714	889	1,064	**3,206**
Gross profit	4	(13)	30	11	32	31	160	270	564	**1,025**	1,001	1,326	1,651	1,976	**5,954**
Depletion and depreciation	15	14	31	63	123	55	86	135	270	**546**	450	600	750	900	**2,700**
Share-based payments	1	1	1	1	4	765	1	1	1	**768**	1	1	1	1	**4**
Selling, general and administrative	117	159	177	175	628	245	258	250	250	**1,003**	350	350	350	350	**1,400**
Operating income (loss)	(129)	(187)	(179)	(228)	(723)	(1,034)	(185)	(117)	43	**(1,293)**	200	375	550	725	**1,850**
Other (gain)	19	67	13	(11)	88	4	4	-	-	**8**	-	-	-	-	**-**
Impairment loss	-	-	-	777	777	-	-	-	-	**-**	-	-	-	-	**-**
Net income / (loss)	(148)	(254)	(192)	(994)	(1,588)	(1,038)	(189)	(117)	43	**(1,301)**	200	375	550	725	**1,850**
EPS	(0.00)	(0.01)	(0.01)	(0.02)	(0.04)	(0.02)	(0.00)	(0.00)	0.00	**(0.01)**	0.00	0.00	0.00	0.00	**0.01**
Shares Outstanding	40,331	40,504	40,588	40,737	40,737	67,820	69,078	115,956	187,357	**110,053**	187,357	187,357	187,357	187,357	**187,357**
Margin Analysis															
Gross margin	100.0%	NMF	68.2%	18.6%	29.9%	23.1%	52.5%	55.0%	60.0%	**54.8%**	65.0%	65.0%	65.0%	65.0%	**65.0%**
Operating margin	375.0%	NMF	70.5%	106.8%	115.0%	41.0%	28.2%	27.6%	28.7%	**29.2%**	29.2%	29.4%	29.5%	29.6%	**29.5%**
Year / Year Growth															
Total Revenues					(88.3)%	NMF	NMF	1013.6%	1493.2%	**1646.7%**	1049.3%	568.9%	418.4%	223.4%	**390.1%**

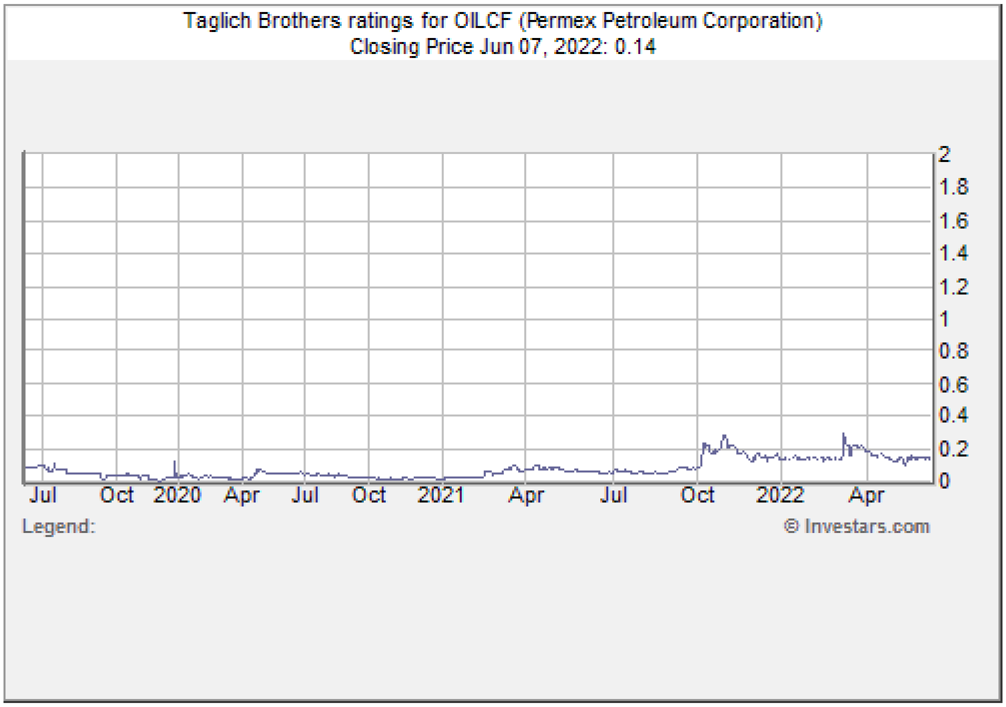
Source: Company filings and Taglich Brothers' estimates

Statement of Cash Flows for the Periods Ended
(in thousands Canadian $)

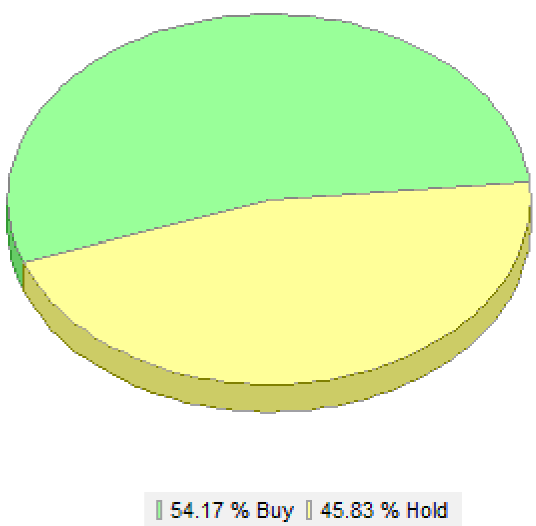
	FY20A	FY21A	6M22A	**FY22E**	**FY23E**
Net income (loss)	(1,689)	(1,588)	(1,227)	**(1,301)**	**1,850**
Accretion on decommissioning obligations	61	15	21	**40**	**40**
Depletion and depreciation	73	123	141	**546**	**2,700**
Foreing exchange (gain) loss	(3)	35	14	**14**	**-**
Forfeiture of reclamation bond	-	63	-	**-**	**-**
Interest	41	38	13	**26**	**26**
Loss on settlement of debenture	-	4	-	**-**	**-**
Settlement of trade payables	(31)	(12)	-	**-**	**-**
Share-based payments	6	4	765	**768**	**4**
Shares issued for services	-	69	-	**-**	
Impairment loss on property and equipment	1,168	776	-	**-**	**-**
Cash earnings (loss)	(374)	(473)	(273)	**94**	**4,620**
Changes in assets and liabilities					
Trade and other receivables	78	43	(167)	**(347)**	**(400)**
Prepaid expenses and deposits	54	(38)	(43)	**(141)**	**(200)**
Trade and other payables	111	(292)	202	**958**	**1,658**
Amounts due to related parties	137	(192)	-	**-**	**-**
(Increase) decrease in working capital	380	(479)	(8)	**470**	**1,058**
Net cash provided by (used in) operations	6	(952)	(281)	**563**	**5,678**
Capital expenditures	(173)	(335)	(97)	**(300)**	**(300)**
Lease payments	(28)	(55)	(35)	**(70)**	**(70)**
Proceeds from redemption of deposit	25	-	-	**-**	**-**
Proceeds from sale of oil and gas interests	-	1,497	-	**-**	**-**
Net cash provided by (used in) investing	(176)	1,107	(132)	**(370)**	**(370)**
Proceeds from issuance of share capital	-	-	10,140	**10,140**	**-**
Share issuance costs	-	-	(1,327)	**(1,327)**	**-**
Convertible debentures	200	(100)	-	**(100)**	**-**
Interest paid	-	(16)	(24)	**(24)**	**-**
Loan proceeds (payments)	40	-	-	**-**	**(40)**
Loan from related party	(66)	(13)	1	**1**	**-**
Net cash provided by (used in) financing	174	(129)	8,790	**8,690**	**(40)**
Net change in cash	4	26	8,377	**8,883**	**5,268**
Cash - beginning of period	3	7	33	**33**	**8,916**
Cash - end of period	7	33	8,410	**8,916**	**14,184**

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	**5**	**25**
Hold		
Sell		
Not Rated		

Important Disclosures

As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company within the last three years.

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I, John Nobile, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be, directly, or indirectly, related to the specific recommendations or views contained in this report.

Public companies mentioned in this report:

Callon Petroleum (NYSE: CPE)
Chesapeake Energy (NASDAQ: CHK)
Chevron (NYSE: CVX)
Conoco Phillips (NYSE: COP)
EOG Resources (NYSE: EOG)
Marathon Oil (NYSE: MRO)

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Discontinued – Research coverage discontinued due to the acquisition of the company, termination of research services (includes non-payment for such services), diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.