Research Report – Update

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

Permex Petroleum Corporation

Speculative Buy

Howard Halpern
September 12, 2023

OILCF $1.81 — (OTC)

	2021A	2022A	*2023E*	*2024E*
Revenues (million)	$0.1	$0.9	*$0.7*	*$3.5*
Earnings (loss) per share	$(1.84)	$(1.76)	*($2.39)*	*($0.65)*

52-Week range	$7.80 – $1.64	Fiscal year ends:	September
Common shares out as of 8/21/23	2.2 million	Revenue per share (TTM)	$0.42
Approximate float	1.3 million	Price/Sales (TTM)	4.3X
Market capitalization	$4.0 million	Price/Sales (FY2024)E	2.5X
Tangible book value/share	$3.55	Price/Earnings (TTM)	NMF
Price/tangible book value	0.5X	Price/Earnings (FY2024)E	NMF

** Per share amounts reflect a 1 for 60 reverse stock split effective November 2, 2022*

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:

Maintaining our Speculative Buy rating and setting a twelve-month price target of $8.00 per share based on an Enterprise Value/Proved Reserves valuation model that includes capital raise to increase production in FY24.

Permex has growth potential as it begins unlocking the oil and gas assets acquired since 2017. The company acquired over 11,700 acres primarily at prices below their current land values. At September 30, 2022, Permex reported it had proved and probable reserves in excess of 27 million barrels of oil equivalent.

Our forecasted increased drilling and production activity in FY24 can be achieved if the company raises additional capital. The additional capital of approximately $10 million is likely to be a mix between issuance of new common stock and debt. This new capital should be used to drill its first horizontal well in Martin County, Texas. Once completed (estimated in 2H24) average production could eventually reach 400 barrels per day.

On August 21, 2023, Permex filed its 3Q23 10-Q. 3Q23 total revenue was $157,000 versus $277,000 in 3Q22. The net loss was $1.5 million or ($0.74) per share from a loss of $769,000 or ($0.54) per share in the year-ago period.

For FY23, we project a net loss of $4.8 million or ($2.39) per share on revenue of $740,000 compared to $878,000 last year. Our net loss forecast includes deemed dividend from a warrant modification of $543,000 in 3Q23. Our revenue forecast reflects lower average sales price in 1H23.

For FY24, we project a net loss of $3.2 million or ($0.65) per share on revenues of $3.5 million. Our forecasts reflect increased production in 2H24 as the company successfully completes its first horizontally drilled well, as well as higher operating expenses.

****Please view our disclosures on pages 14 - 16.***

Recommendation and Valuation

Maintaining our Speculative Buy rating and setting a twelve-month price target of $8.00 per share based on an Enterprise Value/Proved Reserves valuation model that includes capital raise to increase production in FY24.

Our rating reflects the growth potential of the company as it begins to unlock the oil and gas assets acquired since 2017. The company acquired over 11,700 acres primarily at prices below their current land values. At September 30, 2022, Permex reported it had proved and probable reserves in excess of 27 million barrels of oil equivalent. The key to the company's revenue growth will the successful completion of its first horizontally drilled well in Martin County, Texas. That one well should increase average oil and gas production by at least 400 barrels per day. In order to commence the drilling of its first horizontally drilled well will be raising additional capital (we estimate approximately $10 million) that is likely to be a mix between issuance of new common stock and debt.

Our 12-month price target of $8.00 per share implies shares could increase more than four-fold over the next twelve months. Shares of OILCF are currently trading at an EV/1P (Enterprise Value/Proved Reserves) multiple of 0.1X (unchanged). A comparable peer group currently trades at an average EV/1P multiple of 10.9X (11X previously). 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 and revenue increase above production costs, OILCF's multiple should slowly expand. Applying an EV/1P multiple of 3X (prior was 4X) to its proved reserves, significantly discounted for execution risks and estimated share issuances to maintain and increase production activities, we derive a 12-month price target of approximately $8.00 per share.

Permex's valuation improvement is contingent upon successful development, drilling, and oil and gas production on its New Mexico and Texas properties that should drive revenue growth, a reduction in operating losses, and narrowing of cash losses. We forecast the company generating revenue of $3.5 million in FY24, up from an estimated $740,000 in FY23. In FY24, the operating loss should narrow to $2.7 million from an estimate loss of $4.3 million in FY23. We anticipate the company's cash loss narrowing to $1.7 million from an estimated $4.4 million in FY23.

We believe Permex Petroleum is most suitable for highly risk tolerant investors that are seeking exposure to a domestic junior oil and gas producing company that has substantial proved and probable reserves.

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. At September 30, 2022, the company owned and operated more than 78 oil and gas wells, on more than 11,700 net acres of production oil and gas assets, 62 shut-in opportunities, and 17 salt water disposal wells.

A summary (from the 3Q23 presentation) of Permex Petroleum's assets is shown in the chart on the 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
17	Salt Water Disposal ("SWD")(1) wells eliminating water disposal fees and decreasing OPEX
2	Water Supply Wells ("WSW")(2) allowing for waterflood secondary recovery ("EOR")
73	Producing ("PDP")(3) **Royalty Interest** oil and gas wells

1) 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.
2) PDP stands for Proved Developed Producing reserves.

Oil and Gas Properties

Texas

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. While drilling commenced in 2022, a vertical drilling test was completed in January 2023.

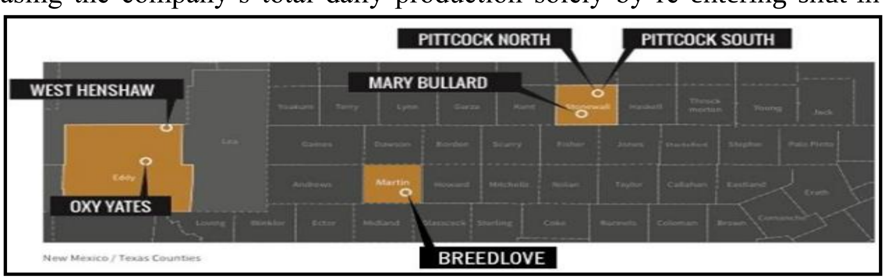
The Pittcock Leases are situated in Stonewall County, Northwest Texas, in the central part of the North Central Plains and consist of the Pittcock North property, the Pittcock South property, and the Windy Jones Property. The Pittcock North property covers 320 acres held by production. There is currently 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.

The Mary Bullard Property is located in Stonewall County, about 5½ miles south west of Aspermont, TX. 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 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 78.6% net revenue interest.

On August 30, 2022, Permex announced results obtained from five recently recompleted oil and gas wells located in Eddy County, New Mexico and Martin County, Texas. The recompletions were successful and came online at a combined initial production rate of 50 barrels of oil equivalent per day (BOEPD) and have stabilized at a rate of 35 BOEPD, increasing the company's total production to 71 BOEPD. Permex has an additional 62 shut-in oil, gas, and salt water disposal wells remaining to be brought online. Permex believes these wells will have the potential to yield similar results, increasing the company's total daily production solely by re-entering shut-in wells.

The county locations of the company's assets in Texas and New Mexico are pictured on the right from its February 2023 presentation.



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 two producing wells, seven 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, 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, 2022 and September 30, 2021. The reserves summary was derived from an independent appraisal prepared by MKM-Engineering.

Reserves Summary

Net After Royalties (BOE)	September 30, 2022	Change %	September 30, 2021
Estimated Proved Reserves	9,238,300	0.2%	9,217,700
Estimated Probable Reserves	17,775,900	0.3%	17,718,600
Total Proved and Probable	27,014,200	0.3%	26,936,300

Source: 2022 10-K Filing

MKM used standard engineering practices generally accepted by the petroleum industry and conform to those classifications defined in the Canadian Oil and Gas Evaluation Handbook.

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.

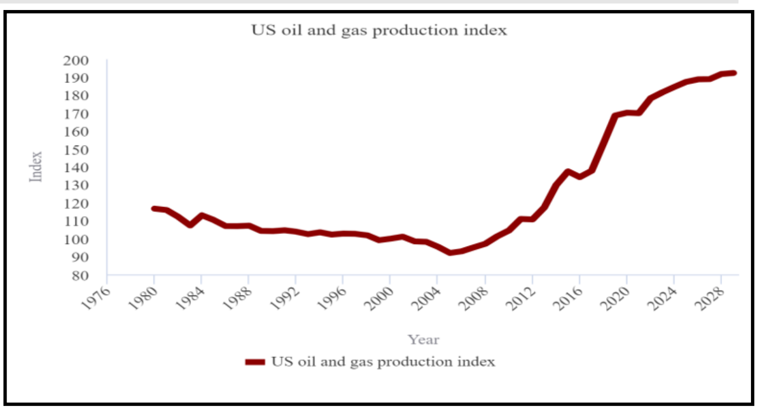
Abandonment of Wells - Once a site is no longer productive, meaning all reserves have been extracted and all opportunities have been exhausted, the wells are plugged or sealed. Attempts are made to restore the area in an effort to help the environment.

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 Forecast

IBISWorld expects US oil and natural gas production to rise through 2028 due in part to recovery in global demand and economic growth. As economic recovery occurs and global GDP reaches pre-pandemic levels, demand for natural gas and crude oil is expected to follow. This should cause increases in production and prices. IBISWorld anticipates US and foreign producers to increase production levels after severe cuts in 2020.



The US oil and natural gas production index is anticipated to increase at an annualized rate of 1% from 2023 to 2029 (see IBISWorld March 2023 - chart at the bottom of the prior page).

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 when there is a low commodity price environment.

As part of its strategic acquisition strategy, Permex 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.

The key strategic initiative for the company is the successful completion of its first horizontally drilled well in Martin County, Texas, which will drive revenue growth. That initial horizontally drilled well should increase average oil and gas production by at least 400 barrels per day. In order to commence the drilling of its first horizontally drilled well will be raising additional capital (we estimate approximately $10 million) that is likely to be a mix between issuance of new common stock (approximately 3.5 million additional shares) and debt.

Projections

Our forecasts should initially be supported by continued vertical drilling and production activity, as well as sustained production from recompleted oil and gas well projects. By the 2H24, drilling and production activity should ramp significantly with the addition of a horizontally drilled well. The latter will occur if the company is able to meet our forecast of raising additional debt and equity capital.

<u>*FY23 Forecast*</u> - We project total revenue of $740,000, down from $878,000 in FY22 due primarily to lower average sales prices in 1H23. Our net loss forecast is $4.8 million or ($2.39) per share compared to a net loss of $2.7 million or ($1.76) per share in FY22. Our net loss forecast reflects includes deemed dividend from a warrant modification of $543,000 in 3Q23.

The decrease in revenue and higher production expenses should result in negative gross profit of $279,000 compared to a gross profit of $49,000 in FY22. G&A expenses are projected to reach $3.8 million from $2.8 million to reflect continued expenses associated with being a public company and support production activity. Depletion and depreciation expense is projected to increase to $155,000 from $106,000 reflecting higher production levels.

In FY23, we anticipate other income of $20,000 compared to $186,000 last year.

In FY23, we project $2.3 million cash used in operations from a cash loss of $4.3 million and a $2.1 million decrease in working capital. We project $1.7 million cash used in investing primarily from capital expenditures. Cash from financing of approximately $650,000 reflects proceeds from the exercise of warrants. We project a $2.89 million decrease in cash to $473,000 at the end of September 30, 2023.

<u>*FY24 Forecast*</u> - We project a net loss of $3.2 million or ($0.65) per share on revenues of $3.5 million compare to estimated revenue of $740,000 in FY23. The significant improvement in revenue should be supported by the company successfully completing it first horizontal well that should result in significant production actively in 2H24.

The increase in revenue should result in gross profit reaching $1.5 million from an estimated negative gross loss $273,000 in FY23. We anticipate G&A expenses flat at $3.8 million as the expenses of hiring personnel to support the increase in average daily oil and gas production should be offset by reduced professional fees related to the initial costs of being a newly publicly traded company in FY23. Depletion and depreciation expense is projected to increase to $315,000 from $155,000 reflecting the increase in production.

We anticipate other expense (primarily interest expense) increasing to $440,000 from income of $10,000 in FY23. The increase in interest expense should reflect increased average borrowings to support production activity.

In FY24, we project $1.8 million cash used in operations from a cash loss of $1.7 million and a $64,000 increase in working capital. We project $7.5 million cash used in investing primarily from capital expenditures. We anticipate a $9.6 million increase financing activity from $5 million in borrowings and issuance of 3.5 million common shares for gross proceeds of $5 million. We project a $312,000 increase in cash to $786,000 at September 30, 2024.

3Q23 and 9M23 Results

3Q23 Results

In 3Q23, total revenue decreased to $157,000 from $277,400. Oil and gas sales decreased to $157,000 from $259,000 in 3Q22 and royalty income was $3,000 compared to $18,000 the year-ago period. The revenue decrease was due primarily to lower oil and gas prices of $66.91 per barrel oil equivalent (BOE) compared to $102/BOE in the year-ago-period. Net oil-equivalent production by final product sold in the current period was an average of 35.8 barrels per day, compared with 25.9 barrels per day in 3Q22.

Gross profit was a negative $78,000 compared to a positive $141,000 in 3Q22. The swing to a gross margin loss was due primarily to an increase in production expenses to $236,000 compared with $135,000 in the year-ago period stemming increased maintenance expenses on the company's Breedlove and West Henshaw wells.

G&A expenses decreased to $789,000 from nearly $1.1 million last year due primarily to reduced marketing and promotion expenses. Depletion and depreciation expenses decreased to $37,000 from $73,000 in3Q22.

The net loss widened to $1.5 million or ($0.74) per share from a loss of $769,000 or ($0.54) per share in 3Q22. The increase reflects deemed dividend from a warrant modification of $543,000 that was recorded in 3Q23. Per share amounts reflect average shares of nearly 2 million in 3Q23 compared to 1.4 million in the year-ago period.

9M23 Results

Total revenue decreased to $560,000 from $625,000 in the year-ago period. The revenue decrease was due primarily to lower oil and gas prices of $72.591 per barrel oil equivalent (BOE) compared to $88.39/BOE in the year-ago-period. Net oil-equivalent production by final product sold in the current period was an average of 37.6 barrels per day, compared with 32.5 barrels per day in 9M22.

Gross profit was a negative $203,000 compared to a positive $293,000 in the year-ago period. The swing to a gross margin loss was due primarily to an increase in production expenses to $763,000 compared with $332,000 in the year-ago period.

SG&A expenses increased to $3 million from $2.1 million last year due primarily to increases in accounting and audit fees, consulting fees, and legal/insurance/salaries.

Income Statements
(in thousands $)

	9M23A	9M22A
Oil and gas sales	541	577
Royalty income	18	48
Total revenue	560	625
Producing and operating expenses	763	332
Gross profit	(203)	293
Depletion and depreciation	120	162
Selling, general and administrative	3,046	2,078
Operating income (loss)	(3,370)	(1,947)
Other (gain)	(39)	(150)
Deemed dividend from warrant modification	(543)	-
Net income / (loss) - to common holders	(3,873)	(1,798)
EPS	(1.99)	(1.27)
Shares Outstanding	1,943	1,412
Margin Analysis		
Gross margin	(36.3)%	46.8%
Operating margin	(21.5)%	(25.9)%
Year / Year Growth		
Total Revenues	(10.5)%	

Source: Company filings

The net loss widened to $3.9 million or ($1.99) per share from a loss of $1.8 million or ($1.27) per share in 9M22. The increase reflects lower revenue, higher expenses, and inclusion of deemed dividend from a warrant modification of $543,000 that was recorded in 3Q23.

In 9M23, the company used cash from operations of $1.9 million resulting from a cash loss of $2.2 million and a $1.3 million decrease in working capital. The company used nearly $1.3 million in investing activities consisting solely of capital expenditures. Financing activity consisting of $38,000 repayment of debt and $698,000 in net proceeds from the exercise of warrants. Cash decreased by $2.5 million to $765,000 as of June 30, 2023.

Liquidity – As of June 30, 2023, Permex had $765,000 cash, no outstanding debt, and shareholder's equity of $7.8 million.

On May 18, 2023, Permex Petroleum announced the implementation of an early warrant exercise program which is intended to encourage the exercise of more than 1 million unlisted common share purchase warrants. The exercise price will be $2.86 per eligible warrant, commencing on May 18, 2023 and expiring on June 16, 2023. In addition to the repricing, the company will also offer, to each holder of eligible warrants who exercises during the period ending June 16, 2023, the issuance of one additional common share purchase warrant. Each incentive warrant will have an exercise price of $4.50 per share and expire in five years.

On June 30, 2023, the company issued 273,410 common shares at a price of $2.86 per share from the exercise of the eligible warrants for net proceeds of $688,000. In connection with the program, 273,410 incentive warrants were issued. Permex recognized a deemed dividend of $543,000 for the fair value of the incentive warrants and the portion of inducement related to the equity-classified warrants.

This repricing was an initial step in increasing the company's cash reserves to pursue increased drilling activity in order to increase total revenue. Over our forecast period, we anticipate the company will issue common stock and take on debt in order to implement its horizontal drilling program.

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.

Risks

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

Going Concern
Since inception, the company has incurred losses of $12.2 million through June 30, 2023. We forecast losses are likely to continue through FY24. At June 30, 2023, Permex's working capital deficit was $2.5 million compared to working capital of nearly $2.1 million as at September 30, 2022. The company plans to fund operations through increasing production from its oil and gas leases, which may only occur if the company can raise additional funds through equity and/or debt financings. However, there are no written agreements in place for such funding or issuance of securities and there can be no assurance that such will be available in the future. If the company is unable to secure additional financing it will likely have to curtail its operations and could cease operations. **That is why the company may not continue as a going concern within the next twelve months.**

Commodity price risk
The prices OILCF 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.

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.

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.

Shareholder Control
Officers and directors own approximately 32.5% of the company's outstanding voting stock based on OILCF's SEC filing on August 29, 2023. Also, the company has four holders that combined own 32% of the common stock outstanding. Collectively this ownership could potentially greatly influence the outcome of matters requiring stockholder approval. These decisions may or may not be in the best interests of the other shareholders.

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.

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 approximately 1.3 million shares in the float and the average daily volume over the last three months to September 11, 2023 was approximately 1,500 shares.

Consolidated Balance Sheets
(in thousands $)

	2021A	2022A	3Q23A	**2023E**	**2024E**
Cash	26	3,300	764	**473**	**786**
Trade and other receivables	13	137	97	**70**	**131**
Prepaid expenses and deposits	46	317	136	**145**	**200**
Total current assets	85	3,755	997	**688**	**1,116**
Reclamation deposits	145	145	145	**145**	**145**
Right of use asset	73	241	167	**167**	**167**
Property and equipment	6,639	8,427	10,368	**10,365**	**10,500**
Total assets	6,941	12,568	11,678	**11,365**	**11,928**
Trade and other payables	403	1,561	3,419	**3,938**	**3,991**
Amounts due to related party	17	-	-	**-**	**-**
Convertible debentures	79	38	-	**-**	**-**
Lease obligation	52	104	80	**90**	**90**
Liabilites held for sale	-	-	-	**-**	**-**
Total current liabilities	550	1,704	3,499	**4,028**	**4,081**
Asset retirement obligations	553	236	260	**260**	**260**
Lease obligations	27	141	97	**95**	**75**
Warrant liability	-	24	-	**-**	**-**
Loan payable	31	-	-	**-**	**5,000**
Total liabilities	1,161	2,104	3,856	**4,383**	**9,416**
Total stockholders' equity	5,780	10,463	7,822	**6,982**	**2,513**
Total liabilities & stockholders' equity	6,941	12,568	11,678	**11,365**	**11,928**

Source: Company filings and Taglich Brothers' estimates

Income Statements for the Fiscal Years Ended - September 30,
(in thousands $)

	FY21A	FY22A	**FY23E**	**FY24E**
Oil and gas sales	47	815	**716**	**3,500**
Royalty income	38	63	**23**	**20**
Total revenue	85	878	**740**	**3,520**
Production expenses	60	829	**1,013**	**2,035**
Gross profit	25	49	**(273)**	**1,485**
Depletion and depreciation	60	106	**155**	**315**
Accretion on asset retirement obligation	20	55	**32**	**140**
Foreign exchange gain (loss)	-	(7)	**-**	**-**
Other expense (gain)	688	-	**9**	**4**
General and administrative	496	2,796	**3,814**	**3,765**
Operating income (loss)	(1,240)	(2,900)	**(4,284)**	**(2,739)**
Other (gain)	14	(186)	**(20)**	**440**
Deemed dividend from warrant modification	-	-	**(543)**	**-**
Net income / (loss) - to common shareholders	(1,253)	(2,715)	**(4,807)**	**(3,179)**
EPS	(1.84)	(1.76)	**(2.39)**	**(0.65)**
Shares Outstanding	679	1,543	**2,010**	**4,854**
Margin Analysis				
Gross margin	29.5%	5.6%	**(36.9)%**	**42.2%**
Operating margin	71.5%	12.0%	**21.0%**	**8.9%**
Year / Year Growth				
Total Revenues	(87.6)%	938.1%	**(15.8)%**	**375.9%**

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements 2022A - 2024E

	12/21A	3/22A	6/22A	9/22A	FY22A	12/22A	3/23A	6/23A	9/23E	**FY23E**	12/23E	3/24E	6/24E	9/24E	**FY24E**
Oil and gas sales	90	228	259	238	815	214	171	157	175	**716**	200	300	1,000	2,000	**3,500**
Royalty income	16	13	18	15	63	8	10	0	5	**23**	5	5	5	5	**20**
Total revenue	106	242	277	253	878	222	181	157	180	**740**	205	305	1,005	2,005	**3,520**
Production expenses	82	115	135	497	829	293	234	236	250	**1,013**	260	275	700	800	**2,035**
Gross profit	25	127	141	(243)	49	(71)	(54)	(78)	(70)	**(273)**	(55)	30	305	1,205	**1,485**
Depletion and depreciation	32	57	73	(56)	106	40	43	37	35	**155**	35	30	100	150	**315**
Accretion on asset retirement obligation	8	8	8	30	55	8	8	8	8	**32**	35	35	35	35	**140**
Foreign exchange gain (loss)	-	(3)	0	(5)	(7)	-	-	-	-	**-**	-	-	-	-	**-**
Other expense (gain)	-	-	-	-	-	3	1	3	1	**9**	1	1	1	1	**4**
General and administrative	213	221	1,070	1,292	2,796	1,215	1,011	789	800	**3,814**	815	850	900	1,200	**3,765**
Operating income (loss)	(229)	(157)	(1,010)	(1,505)	(2,900)	(1,337)	(1,116)	(916)	(914)	**(4,284)**	(941)	(886)	(731)	(181)	**(2,739)**
Other (gain)	(5)	(4)	(241)	64	(186)	(29)	(5)	(6)	20	**(20)**	110	110	110	110	**440**
Deemed dividend from warrant modification	-	-	-	-	-	-	-	(543)	-	**(543)**	-	-	-	-	**-**
Net income / (loss) - to common shareholders	(224)	(153)	(769)	(1,569)	(2,715)	(1,309)	(1,111)	(1,453)	(934)	**(4,807)**	(1,051)	(996)	(841)	(291)	**(3,179)**
EPS	(0.20)	(0.13)	(0.54)	(0.81)	(1.76)	(0.68)	(0.58)	(0.74)	(0.42)	**(2.39)**	(0.47)	(0.17)	(0.15)	(0.05)	**(0.65)**
Shares Outstanding	1,130	1,151	1,412	1,933	1,543	1,933	1,933	1,964	2,210	**2,010**	2,220	5,725	5,730	5,740	**4,854**
Margin Analysis															
Gross margin	23.0%	52.4%	51.1%	(96.0)%	5.6%	(31.9)%	(29.8)%	(50.0)%	(38.9)%	**(36.9)%**	(26.8)%	9.8%	30.3%	60.1%	**42.2%**
Operating margin	30.1%	23.5%	26.4%	(22.3)%	12.0%	18.1%	23.8%	23.7%	19.4%	**21.0%**	17.1%	9.8%	10.0%	7.5%	**8.9%**
Year / Year Growth															
Total Revenues	NMF	NMF	707.0%	433.6%	938.1%	108.6%	(25.3)%	(43.3)%	(29.0)%	**(15.8)%**	(7.6)%	68.8%	540.0%	1013.9%	**375.9%**

Source: Company filings and Taglich Brothers' estimates

Permex Petroleum Corporation

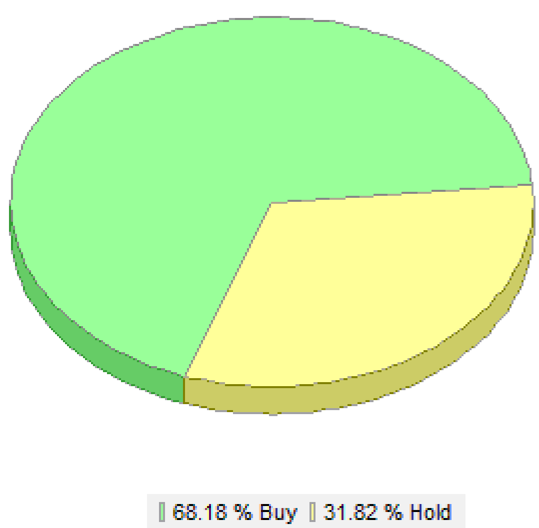
Statement of Cash Flows for the Periods Ended
(in thousands $)

	FY21A	FY22A	9M23A	**FY23E**	**FY24E**
Net income (loss)	(1,253)	(2,715)	(3,330)	**(4,807)**	**(3,179)**
Accretion on asset retirement obligations	20	55	24	**32**	**140**
Depletion and depreciation	60	106	120	**155**	**315**
Foreing exchange (gain) loss	88	(7)	-	**-**	**-**
Forfeiture of reclamation bond	50	-	-	**-**	**-**
Forgiveness of loan payable	-	(8)	-	**-**	**-**
Interest	14	18	-	**-**	**-**
Change in fair value of warrant liability	-	(179)	(23)	**(23)**	**-**
Settlement of trade payables	(10)	(4)	-	**-**	**-**
Gain on setttlement of warrant liability	-	-	(1)	**(1)**	**-**
Share-based payments	3	546	0	**250**	**750**
Shares issued for services	55	-	-	**-**	**250**
Loss on property and equipment	613	-	-	**-**	**-**
Cash earnings (loss)	(360)	(2,188)	(3,209)	**(4,394)**	**(1,724)**
Changes in assets and liabilities					
Trade and other receivables	34	(124)	41	**67**	**(61)**
Prepaid expenses and deposits	(30)	(271)	181	**172**	**(55)**
Trade and other payables	(234)	584	1,045	**2,377**	**52**
Right of use asset and lease liability	3	(25)	6	**-**	**-**
Amounts due to related parties	(163)	(1)	-	**-**	**-**
(Increase) decrease in working capital	(390)	164	1,273	**2,616**	**(64)**
Net cash provided by (used in) operations	(750)	(2,024)	(1,936)	**(1,777)**	**(1,788)**
Capital expenditures	(266)	(1,686)	(1,250)	**(1,700)**	**(7,500)**
Proceeds from sale of oil and gas interests	1,123	-	-	**-**	**-**
Net cash provided by (used in) investing	858	(1,686)	(1,250)	**(1,700)**	**(7,500)**
Proceeds from issuance of share capital	-	8,112	-	**-**	**5,000**
Proceeds from exercise of warrants	-	-	782	**782**	**-**
Share issuance costs	-	(1,068)	(94)	**(94)**	**(400)**
Convertible debentures	(79)	(35)	(38)	**(38)**	**-**
Loan proceeds (payments)	-	(24)	-	**-**	**5,000**
Loan from related party	(8)	(1)	-	**-**	**-**
Net cash provided by (used in) financing	(87)	6,985	650	**650**	**9,600**
Net change in cash	20	3,275	(2,536)	**(2,827)**	**312**
Cash - beginning of period	27	26	3,300	**3,300**	**473**
Cash - end of period	47	3,300	765	**473**	**786**

Source: Company filings and Taglich Brothers' estimates

Price Chart
Closing Price Sep 11, 2023: $1.81

Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	**4**	**22**
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.

All research issued by Taglich Brothers, Inc. is based on public information. The company paid a monetary fee of $6,000 (USD) in April 2022 for the creation and dissemination of research reports for the first three months. After the first three months from initial publication, the company began paying a monthly monetary fee of $2,000 (USD) to Taglich Brothers, Inc., for a minimum of twelve months for the creation and dissemination of research reports.

General Disclosures

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Analyst Certification

I, Howard Halpern, 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.