Apr 27, 2023

Nat Resources

OILCF

OTCQB

Rating

Outperform

Unchanged

Current Price

$3.47

Target Price

$40.00

Market Capitalization **7.01M**

Shares Outstanding **1.93M**

Float **1.41M**

Institutional Holdings **3.5%**

12-Month Low/High **$1.64/$10.11**

Average 90-Day Volume **5980**

Fiscal Year End **09/30/2023**

Revenues ($ MIL)

Period	2021 A	2022 E	2023 E
Q1	4 A	132 A	1,404 E
Q2	0 A	299 A	2,449 E
Q3	43 A	277 A	3,299 E
Q4	60 A	228 E	4,019 E
	106 A	935 E	11,171 E

EPS ($)

Period	2021 A	2022 E	2023 E
Q1	$(0.19) A	$(1.19) A	$0.18 E
Q2	$(0.38) A	$(0.10) A	$0.45 E
Q3	$(0.01) A	$(0.52) A	$0.66 E
Q4	$(0.22) A	$(0.16) E	$0.84 E
	$(0.70) A	$(1.31) E	$2.15 E

Permex Petroleum

Company Presentation Provides A Few Company Updates

CEO/P Mehran Ehsan made a presentation at the Planet Microcap Showcase on April 26. The short, ten-minute presentation largely restated the company's case that there is a disconnect between its asset value and its stock price. Mr. Ehsan once again pointed to a reserve study of its properties that values its properties at $428 million using a 10% discount rate versus the stock's current enterprise value of $9 million. If one were to value the company based on just proved reserves, the value would still be $128 million. In fact, the value from only wells currently producing is $12 million, still above the current market capitalization.

Management believes the disconnect stems from its listing on the OTCQB exchange which limits manager investments in the company. The company has dropped plans to list on the New York Stock Exchange and now plans to list on the NASDAQ exchange. We believe such a move is prudent and that it will help reduce the valuation disconnect. This is especially important given Permex's need for capital to drill out additional wells. Along those lines, management indicated that it plans to convert a vertical well drill last fall to a horizontal well. The drilling will use $1.1 million of the $1.67 million in cash on hand and take a few months to complete.

We agree with management that the shares are grossly undervalued. The company is in a cash crunch and has fallen behind the drilling schedule that we originally projected. That said, the value is still there and just needs to be unleashed by drilling wells. The company will most likely need to do an equity offering which we believe it will do upon listing on NASDAQ (an offering was part of the original plan to list on the NYSE). With financing, we look for the company to drill a well every quarter or two, which should start providing the cash flow needed to finance future drilling. We recommend investors view the stock as a long-term holding with a large upside once things get going.

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Refer to the last two pages for Analyst Certification & Disclosures

Company Profile

Permex Petroleum Corporation (Permex) is a junior oil and gas company with a focus on combining low-cost producing oil and natural gas assets with Blue Sky projects for growth in the states of Texas and New Mexico. Permex receives royalty interest from 73 producing wells providing cash flow to cover corporate operating costs. In addition, the company owns 11,000+ acres of land in the Permian Basin and has recently begun drilling on its largest property, the Breedlove Field in Martin County, TX. Estimated proved and probable reserves are worth an estimated $428 million under a PV-10 analysis. The shares of Permex trade on the Canadian Stock Exchange under the symbol OIL and U.S. OTC exchange under the symbol OILCD and have a market capitalization of approximately C$13 million or US$9 million based on 1.9 million shares, a mere fraction of its estimated asset value despite having virtually no debt.

Fundamental Analysis – 2.5 / 5.0 Checks

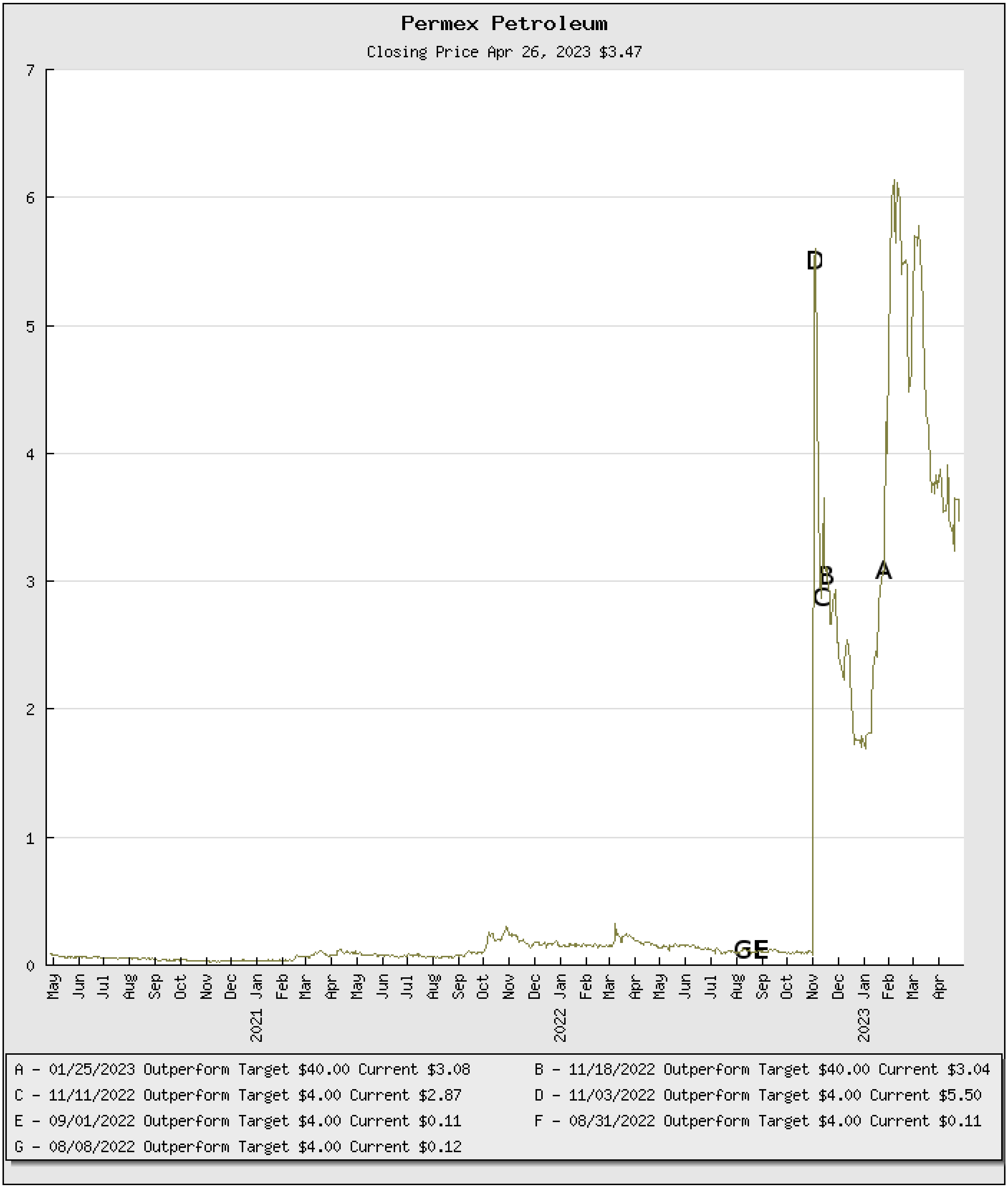
Our fundamental assessment rating, separate from our investment rating and valuation, is based on five attributes consisting of corporate governance/management, market opportunity, competitive position, operating leverage, and financial leverage. We assign 2.5 checks out of 5.0 checks, which falls within our "Average" range. The company's corporate governance practices are average with a limited external oversight of management (four of seven board members are independent). We view Permex's market opportunity favorably given expected above-average top-line growth for its business segments. Permex's competitive position is somewhat challenged given its small size relative to competitors. This could affect its ability to acquire properties or lock in suppliers. However, it has an enviable collection of assets and should have no problems selling any oil or gas it produces. Operating leverage is below average given recent operating and cash losses but is expected to improve quickly. Financial leverage is favorable due to the company's strong balance sheet. For further explanation of our fundamental analysis, refer to the disclosures at the end of this report.

Valuation Summary

Our price target for the shares of Permex Petroleum is $40 per share (CAD$50 for the shares of OIL.CN on the Canadian Exchange). Our price target is based on a two-stage discounted cash flow analysis that assumes a weighted average cost of capital of 23%, near term cash flow projections based on current energy prices that decline each year until reaching an oil price of $60/bbl and a gas price of $4.00/mcf, and a long-term growth rate of 3% or roughly the rate of expected long-term inflation. We then adjust the present value of projected cash flows to add in expected cash and debt at the end of twelve months and divide by the expected share count.

Risks to reaching our price target include but are not limited to:

- Energy price risk – Sales are highly dependent upon prevailing oil and gas prices. Should energy prices decline significantly, sales, operating income, earnings, and cash flow may be materially lower than projected.
- Drilling risk – Permex's drilling efforts are focused on low-risk, recompletion and in-fill drilling. That said, a series of unsuccessful drilling results could adversely affect the perceived value of the company's assets.
- Operating risk – Current operating wells carry low operating cost. A sharp rise in operating costs could materially affect corporate profitability and cash flow.
- Financing risk – As Permex expands its drilling operations, additional financing may be necessary. Should the company be unable to secure financing in a timely and economic manner, results may not meet our projections.
- Foreign currency risk – Corporate operations are in the United States, but Permex reports results in Canadian dollars. Should exchange rates between the United States and Canada change materially, financial results may be adversely affected.


Permex Petroleum
Closing Price Apr 26, 2023 $3.47
0
1
2
3
4
5
6
7
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
Apr
2021
2022
2023
D
B
C
A
GE
A – 01/25/2023 Outperform Target $40.00 Current $3.08
B – 11/18/2022 Outperform Target $40.00 Current $3.04
C – 11/11/2022 Outperform Target $4.00 Current $2.87
D – 11/03/2022 Outperform Target $4.00 Current $5.50
E – 09/01/2022 Outperform Target $4.00 Current $0.11
F – 08/31/2022 Outperform Target $4.00 Current $0.11
G – 08/08/2022 Outperform Target $4.00 Current $0.12

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The Company has attended Noble investor conference(s) in the last 12 months.

Noble intends to seek compensation for investment banking services and non-investment banking services (securities and non-securities related) within the next 3 months.

Noble is not a market maker in the Company.

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The fundamental assessment rating system is designed to provide insights on the company's fundamentals both on a macro level, which incorporates a company's market opportunity and competitive position, and on a micro/company specific level. The micro/company specific attributes include operating & financial leverage, and corporate governance/management. The number of check marks that a company receives is designed to provide a quick reference and easy determination of the company's fundamentals based upon the following five attributes of the company (weighting reflects the importance of each attribute in the overall scoring of company's fundamental analysis):

Attribute	Weighting
Corporate Governance/Management	20%
Market Opportunity Analysis	20%
Competitive Position	20%
Operating Leverage	20%
Financial Leverage	20%

For each attribute, the analysts score the company from a low of zero to a high of ten based upon the analysis described below. The final rating and resulting check marks is a result of dividing the overall score (out of 100%) by ten.

Rating	Score	Checks
Superior	9.1 to 10	Five Checks
Superior	8.1 to 9	Four & A Half Checks
Above Average	7.1 to 8	Four Checks
Above Average	6.1 to 7	Three & A Half Checks
Average	5.1 to 6	Three Checks
Average	4 to 5	Two & A Half Checks
Below Average	3 to 3.9	Two Checks
Below Average	2 to 2.9	One & A Half Checks
Low Quality	0 to 1.9	One Check

While these are the attributes currently used for the analyst's fundamental analysis, the attributes and weighting may be reviewed, updated with additional attributes, and/or changed in the future based on discussions with the analysts and recommendations from the Director of Research.

Following is the description of each attribute in the fundamental analysis.

Corporate Governance/Management

We believe that a review of corporate governance and assessment of the senior management are important tools to determine investment merit. Good corporate governance aligns management with the interests of stakeholders. As such, analysts are to rank the company on the basis of good corporate governance principles that may include rules and procedures, board composition and staggered term limits, rights and responsibilities, corporate objectives, monitoring of actions and policies, and accountability. In addition, analysts will assess issues with controlling shareholders and whether decisions have been made in the past that were in the interests of all shareholders. In addition, management will be assessed based on industry experience, expertise, and/or track record.

High ranking example: Board and management that is aligned with the interests of shareholders with incentives based on stock price appreciation and with an experienced management team known for exceptional shareholder returns.

Low ranking example: Concentrated ownership without independent directors that do not necessarily align with all shareholders' interests.

The Market Opportunity Analysis

In this review, the analyst assesses the company's macro environment as a measure of understanding the industry. Factors considered include the size and growth potential of the industry under various economic conditions, the emerging demands in the market, technological benefits/disruptions, competition, geographical opportunities, and customer demands/needs, and an assessment of supply and distribution channels. In addition, the analyst will review legal and regulatory trends, as well as potential shifts in consumer or social behavior and natural environment changes.

High rank example: A company in an industry that is growing revenues well above GDP rates (which are on average 2% plus) and/or may have unmet or under-served needs in a rapidly growing market opportunity.

Low rank example: A mature industry that is in secular decline and likely to grow below GDP rates.

Competitive Position

The evaluation of the company's competitive position is another macro environment attribute designed to measure the relevance, market share, position and value proposition, and sustainable differentiations of the company and its products/services within its industry. Ease of entry into the industry and the ability of other well-funded players to potentially enter the market would be determined. As such, the assessment would consider the company's strengths and advantages of its products/services against weaknesses and limitations. This may include the company's current brand awareness, pricing and cost structure, current market strategies and geographic penetration that may affect demand for its products/services. In addition, the company's competitors would be evaluated.

High rank example: An analyst would consider the company's product to be superior to its competitors and that should allow the company to gain market share.

Low rank example: A company with a "me-too" product that does not have any significant technology advantages in an industry that has low barriers to entry.

Operating Leverage

Simplistically, operating leverage is determined by the operating income relative to changes in revenue. The analyst will calculate the impact on sensitivity on gross margins and variable costs to determine operating leverage. The analyst will take into account the ability of the company to cut fixed and variable costs in a challenged revenue environment and technological changes that may impact operating expenses. In addition, the analyst is to assess corporate strategies that include capital investment, which may be required for sustainable revenue growth, marketing expenses, and the company's ability to attract and retain talent and/or employees. The analyst should focus on the revenue opportunity and determine the price elasticity of demand for the company's products or services. In other words, the analyst is to rank the company based on improved operating margins going forward on an absolute and relative basis.

High rank example: A company that has improving margins for the foreseeable future, with significant price elasticity.

Low rank example: A company that is in a challenged revenue environment with a fixed cost structure and limited ability to cut costs, indicating an outlook for declining margins.

Financial Leverage

A strict definition of financial leverage is total debt divided by total shareholder's equity. Financial leverage analysis is to determine the company's ability to improve shareholder value by means of utilizing its balance sheet to grow organically or to acquire assets. Analysts may look at the company's debt to cash flow leverage ratio, interest coverage ratios, or debt to equity ratios. In addition, the interest rate environment and the outlook for interest rates are a factor in determining the company's ability to manage financial leverage. Finally, the analyst is expected to determine the ability to service the debt given the industry and/or company profile, such as cyclicality, barriers to entry, history of bankruptcy, consistency in revenue and profit growth, or predictability in sales and profits and large cash reserves. The analyst is expected to take into account capital intensity of the company and the anticipated of capital allocation decisions.

High rank example: A company with predictable and growing revenue and cash flow with modest debt levels. This may indicate that the company could improve shareholder value through growth investments, including acquisitions, using debt financing.

Low rank example: A company in a cyclical industry in a late stage economic cycle that has above average debt leverage and is in an industry that has a history of financial challenges, including bankruptcies.

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NOBLE RATINGS DEFINITIONS	% OF SECURITIES COVERED	% IB CLIENTS
Outperform: potential return is >15% above the current price	92%	24%
Market Perform: potential return is -15% to 15% of the current price	8%	1%
Underperform: potential return is >15% below the current price	0%	0%

NOTE: On August 20, 2018, Noble Capital Markets, Inc. changed the terminology of its ratings (as shown above) from "Buy" to "Outperform", from "Hold" to "Market Perform" and from "Sell" to "Underperform." The percentage relationships, as compared to current price (definitions), have remained the same.

Additional information is available upon request. Any recipient of this report that wishes further information regarding the subject company or the disclosure information mentioned herein, should contact Noble Capital Markets, Inc. by mail or phone.

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