

# Fundamental

## Research Corp.

*Investment Analysis for Intelligent Investors*

July 10, 2018

### Permex Petroleum Corporation (CSE: OIL) – Initiating Coverage: New Oil Producer in West Texas and Southeast New Mexico

Sector/Industry: Junior Oil and Gas

www.permexpetroleum.com

#### Market Data (as of July 10, 2018)

|               |             |
|---------------|-------------|
| Current Price | C\$0.49     |
| Fair Value    | C\$1.46     |
| Rating*       | BUY         |
| Risk*         | 4           |
| 52 Week Range | N/A         |
| Shares O/S    | 35,942,498  |
| Market Cap    | C\$17.61 mm |
| Current Yield | N/A         |
| P/E (forward) | N/A         |
| P/B           | 2.3x        |
| YoY Return    | N/A         |
| YoY TSXV      | 23.1%       |

\*see back of report for rating and risk definitions



- boe – barrel of oil equivalent
- boepd – barrel of oil equivalent per day
- Mboe – thousand boe
- mm boe – million boe
- mcfpd – thousand cubic feet per day

#### Investment Highlights

- Permex Petroleum Corporation (“company”, Permex”) is a junior oil producer focused on low cost production in the Permian Basin of west Texas, and the Delaware Basin of south east New Mexico, U.S.
- The company went public through an Initial Public Offering (“IPO”) in May 2018 led by Canaccord Genuity (TSX: CF)
- Permex’s current portfolio includes eight producing oil and gas properties (primarily focused on light oil), including six in Texas, and two in New Mexico. The projects cover over 6,500 acres, and include 72 producing wells, 37 shut-in wells, 10 salt water disposal wells, and 24 water injection wells. Management has identified potential for at least 59 new wells on the properties.
- The current gross daily production is 198 barrels of oil equivalent per day (122 boepd net).
- The total 2P reserves (proved and probable) are 9 mm boe, and the after-tax Net Asset Value @ 10% is US\$136.43 million. Given that there are currently 35.94 million shares outstanding, this implies an after-tax NAV per share of \$4.93.
- Management owns 8.8% of the outstanding shares, which we believe, aligns management and investors’ interest.
- The company recently completed a \$4.07 million financing, and is in a healthy cash position, with no debt.
- **We are initiating coverage with a BUY rating, and a fair value estimate of \$1.46 per share.**

#### Risks

- Volatility of oil prices.
- Development and operational risks.
- Access to capital and share dilution.
- Exchange rate risk.

#### Key Financial Data (FYE - Sept 30)

| (C\$)             | 2018 (6M)    | 2018E        | 2019E        |
|-------------------|--------------|--------------|--------------|
| Cash              | \$2,481      | \$558,415    | \$277,952    |
| Working Capital   | -\$264,870   | \$534,926    | \$212,550    |
| Debt              | -            | -            | 1.00         |
| Total Assets      | \$5,151,185  | \$7,773,169  | \$8,201,661  |
| Revenues          | \$240,912    | \$985,473    | \$2,743,857  |
| Net Income (Loss) | -\$1,575,773 | -\$2,168,719 | -\$1,178,301 |
| EPS               | -\$0.06      | -\$0.06      | -\$0.03      |

## Overview

Permex, incorporated in April 2017, is based out of Vancouver, B.C. The company went public through an IPO in May 2018, and raised \$4.07 million at \$0.50 per share. Over the past few years, Permex's management has been accumulating a portfolio of quality assets at reasonable valuations. Their key criteria for acquisitions are listed below:

- Exclusive focus on onshore oil projects in North America
- Projects with reserves estimates
- Includes wells that have been in production for a sufficiently long period to establish production characteristics;
- Stable existing production rate with a long remaining production life (10+ years)
- Targeted operating cost of US\$8 - US\$15 per boe
- At least 50% of the project's acquisition price should be from proved producing reserves.
- Potential for enhanced production through refurbishing existing wells or re-drilling
- Potential for enhanced oil recoveries by applying recent technologies and methods that have been developed, including fracking, water flooding, carbon dioxide or nitrogen injection, as appropriate, for the specific pool.

**We believe the above criteria clearly indicate management's focus on medium risk, relatively advanced / lower cost projects, with development potential and minimum exploration.**

## Portfolio Summary

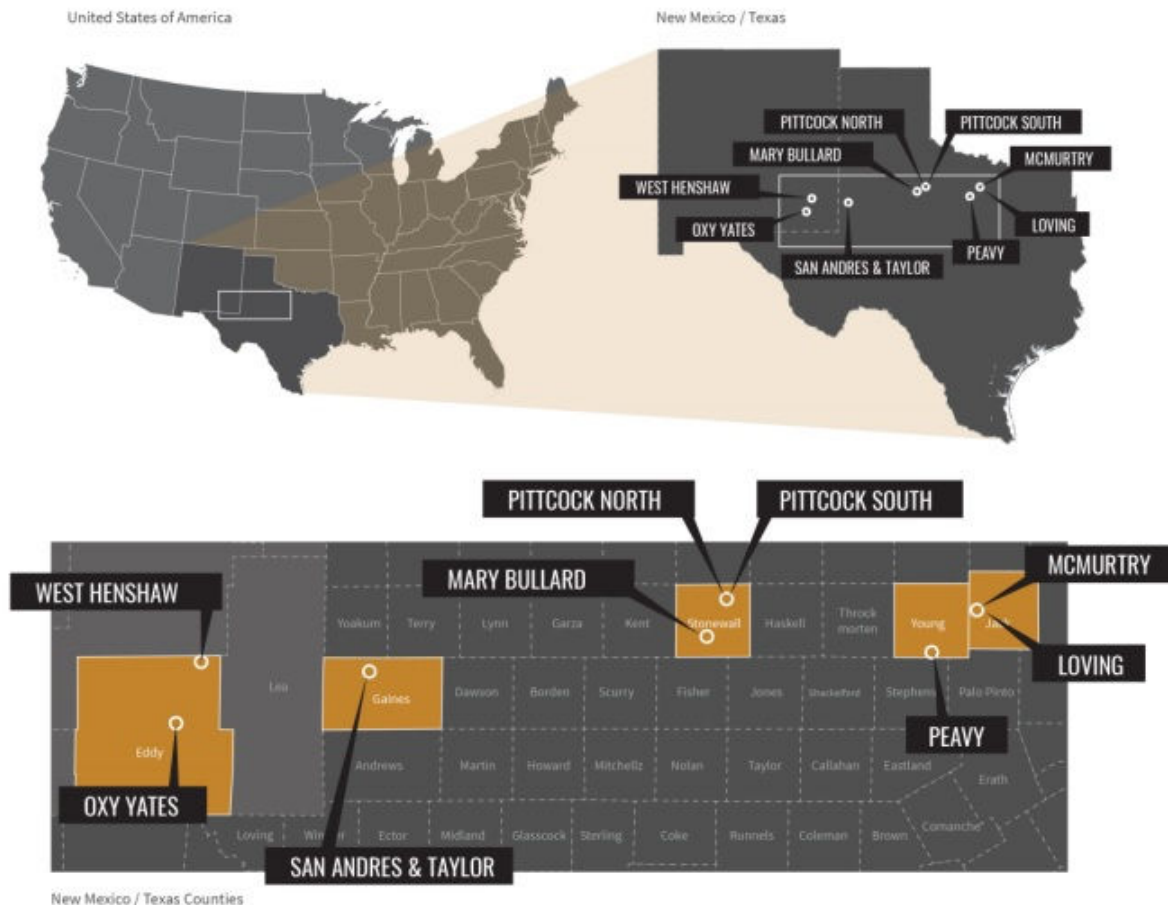
The company currently holds eight producing oil and gas properties (primarily focused on light oil), including six in Texas with a focus on the Permian Basin, and two in New Mexico, with a focus on the Delaware Basin. A few of the assets in the current portfolio were acquired from a Limited Partnership managed by the same team. Permex has a 100% WI in seven projects. The Net Revenue Interest (NRI) ranges between 34.7% and 81.3%. As shown in the table, the eight projects cover over 6,500 acres, and include 72 producing wells, 37 shut-in wells, 10 salt water disposal wells, and 24 water injection wells. Management has identified potential for at least 59 new wells on the properties.

### Portfolio Summary

|   | Property / Lease                        | Location                       | Acreage     | Working Interest (%) | Net Revenue Interest (%) | Producing Wells | Shut-in Wells | Saltwater Disposal Wells | Water Injection Wells | Proved Undeveloped Wells |
|---|---|--------------------------------|-------------|----------------------|--------------------------|-----------------|---------------|--------------------------|-----------------------|--------------------------|
| 1 | Pittcock North                          | Stonewall County, Texas        | 320         | 100%                 | 81.25%                   | 6               | 4             | 2                        | 1                     | 8                        |
| 2 | Pittcock South Property                 | Stonewall County, Texas        | 498         | 100%                 | 71.90%                   | 8               | 11            | 2                        |                       | 12                       |
| 3 | Mary Bullard Property                   | Stonewall County, Texas        | 241         | 100%                 | 78.63%                   | 1               | 4             |                          | 2                     | 3                        |
| 4 | McMurtry and Loving Properties          | Jack and Young Counties, Texas | 1510        | 100%                 | 75.00%                   | 5               | 8             | 1                        |                       | 5                        |
| 5 | Peavy Property                          | Young County, Texas            | 160         | 100%                 | 70.48%                   | 9               | 4             | 1                        |                       | 5                        |
| 6 | ODC San Andres Unit and W.J. "A" Taylor | Gaines County, Texas           | 1220        | 41.4% / 48.0%        | 34.7% / 41.5%            | 26              | 4             |                          | 21                    |                          |
| 7 | West Henshaw                            | Eddy County, New Mexico        | 1880        | 100%                 | 72.00%                   | 9               |               | 4                        |                       | 16                       |
| 8 | Oxy Yates                               | Eddy County, New Mexico        | 680         | 100%                 | 77.00%                   | 8               | 2             |                          |                       | 10                       |
|   |   |                                | <b>6509</b> |                      |                          | <b>72</b>       | <b>37</b>     | <b>10</b>                | <b>24</b>             | <b>59</b>                |

Source: Company / FRC

## Project Locations



Source: Company

The projects are currently producing 198 boepd (92% light oil). According to the audited numbers included in the prospectus, the projects have historically had **high operating netbacks of over US\$25 / boe at a US\$46 per boe oil price**. At oil prices of above US\$60 per bbl, management estimates netbacks of over \$38 / boe. The current WTI crude price is US\$74 / boe.

The projects in Texas have potential for low cost development growth (re-entries, acid stimulations, refracturing, waterflooding, in-fill drilling, etc.). The recently acquired project in Gaines county, Texas, and the projects in New Mexico, have horizontal drilling opportunities (higher CAPEX / higher upside potential). The company's plans for 2018 are to re-stimulate current producing wells, bring online 37 shut in wells, start five waterfloods, and infill drilling on their fields. The company is also actively evaluating additional oil and gas assets for acquisitions, with a focus on the Permian basin of west Texas, and the Delaware basin of southeast New Mexico.

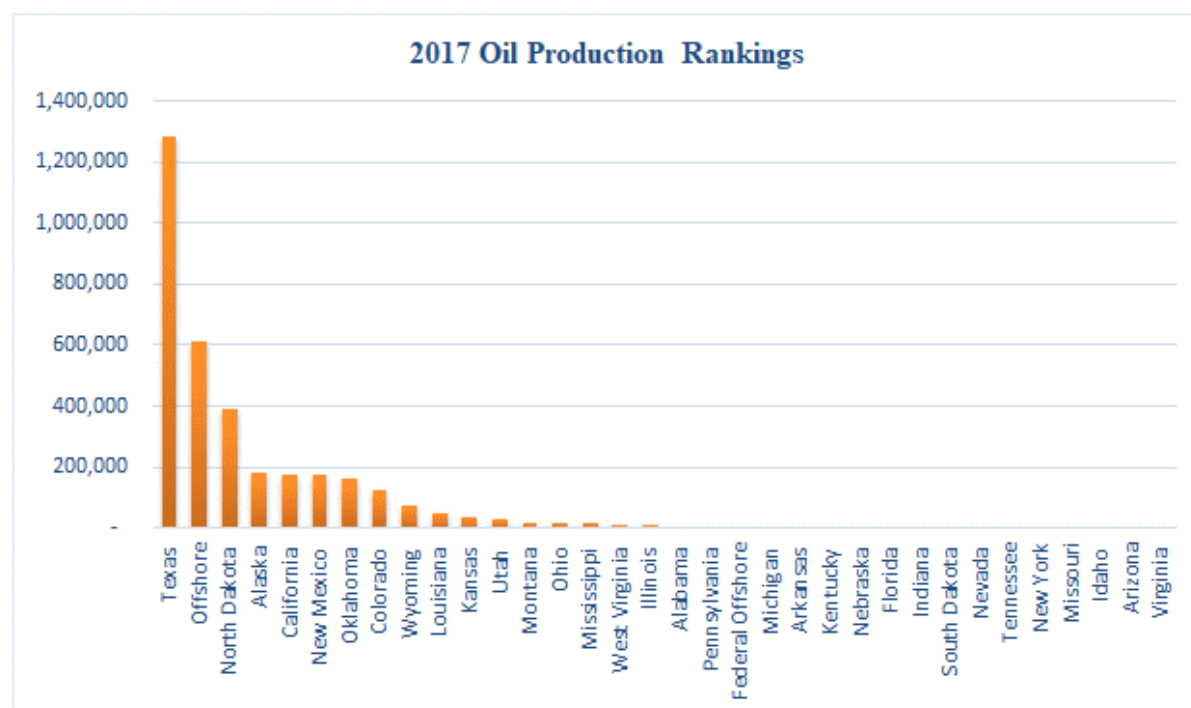
The average cost to drill and complete wells on Permex's assets vary across west Texas and south east New Mexico. Typically, the cost of vertical wells can range between US\$70,000 (shallow) to US\$450,000 per well, and their Initial Production (IP) can range between 10

## Overview of Texas and New Mexico

boepd to 100 boepd, with decline rates at 5% - 8% p.a. Their well life is typically 25 – 30 years.

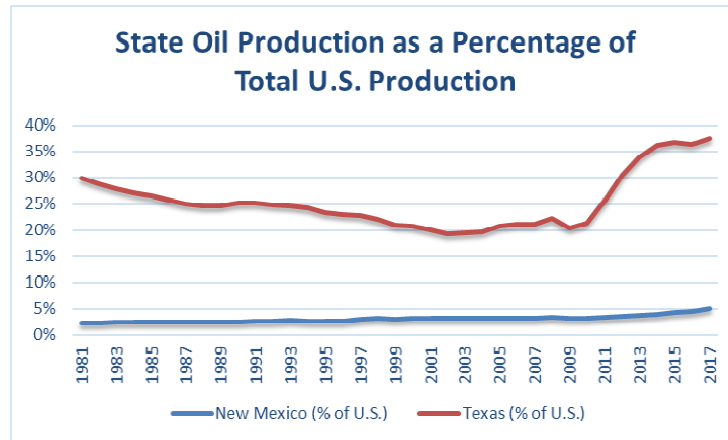
As for horizontal wells, the typical cost (to drill and complete a 1.0 – 1.5 mile lateral) is US\$3 million to US\$5 million. The IP can range between 250 boepd and 400 boepd per well, with decline rates at 15% p.a.

In 2017, the U.S. Energy Information Administration (EIA) statistics showed that the U.S., as a whole, produced 3.41 billion barrels of crude oil. Of this number, Texas and New Mexico produced 1.28 billion barrels and 172.82 million barrels, respectively. **This ranked Texas as the top producing state, whilst New Mexico was ranked sixth.**



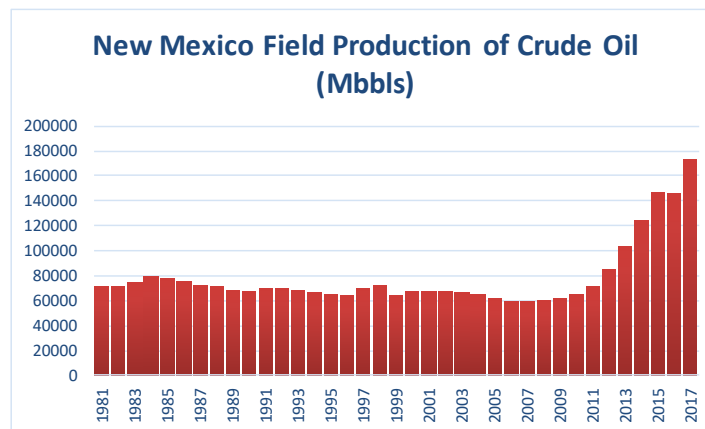
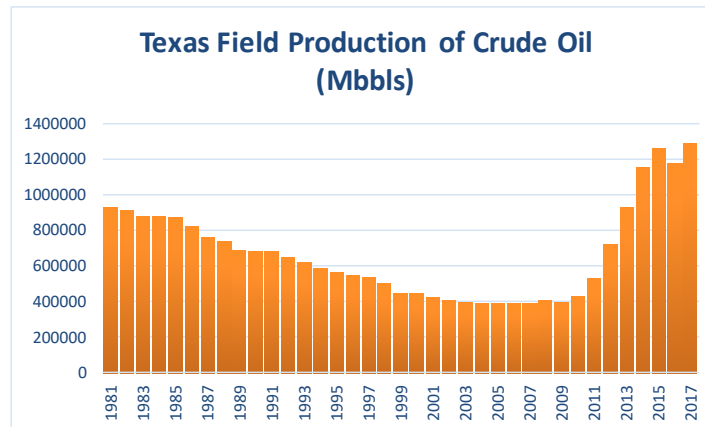
Source: EIA, FRC

As a proportion of total U.S. crude production in 2017, Texas produced 37.57% of the total production, whilst New Mexico produced 5.06%. The following chart outlines the change in each state's contribution to total U.S. oil production over time. Note that both states have been producing an increasingly higher proportion of U.S. oil since the turn of the century.



Source: EIA, FRC

The following charts outline historical production of both states.



Source: EIA, FRC

In the following sections, we present a brief overview of the company's projects.

**Pittcock North,  
Texas**

**Pittcock North (100% WI / 81.25% NRI)**

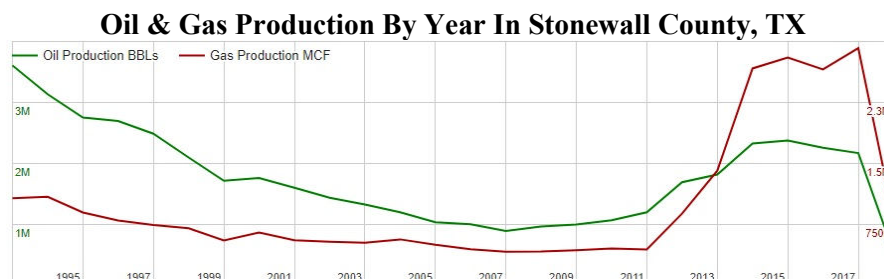
The Pittcock North, covering 320 acres, is situated in Stonewall county in northwest Texas.

Stonewall County has:

- ✓ 187 Producing Leases
- ✓ 63 Producing Operators
- ✓ 7,262 Drilled Wells

Source: [www.texas-drilling.com](http://www.texas-drilling.com)

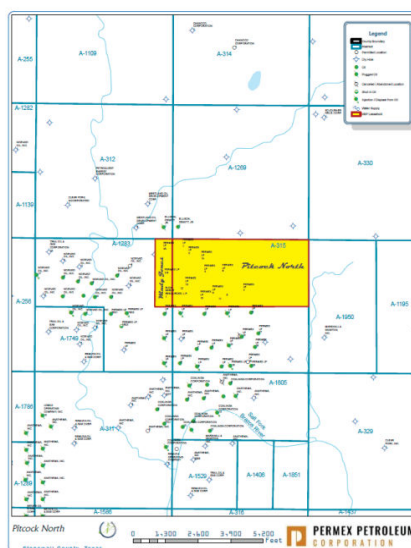
The county produced 2.18 mmbbls of oil and 2.92 bcf gas in 2017. The following chart shows its historic production:



Source: [www.texas-drilling.com](http://www.texas-drilling.com)

Permex's project has six producing wells, four shut-in wells, two saltwater disposal wells, and a water injection well. The company has not disclosed its current production rates. The total historic production is estimated to be 239 Mbbbl oil, and 20 mmcf gas. Production has been focused on the Clearfork horizons (namely the Upper and Lower Tannehill) at a depth of approximately 2,900 feet. Oil is trapped in the reservoir with underlying water. The reservoir sand is of high permeability and high porosity (19% to 23%), consisting of coarse grained sandstone with minimal amounts of calcite cementation. **The project is considered to have excellent waterflood potential.**

#### Property Location



Source: Company



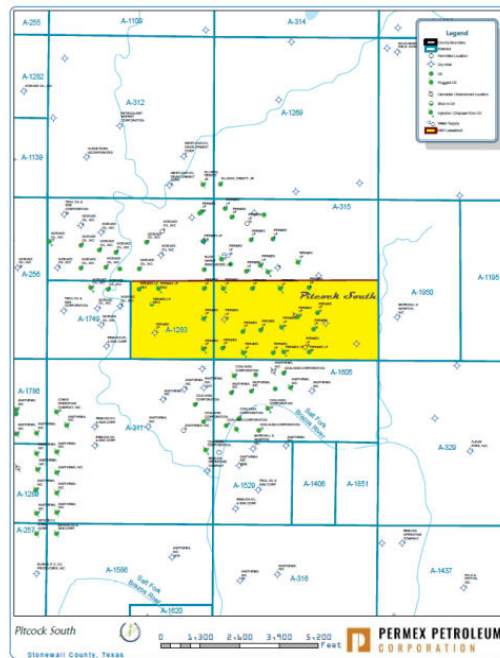
In February 2016, the predecessor LP initiated a waterflood enhanced oil recovery program. The program resulted in higher reservoir pressure. A water injection rate of 450 bwpd resulted in 45 bopd of oil production. The company has plans to increase the daily water injection, and re-enter the four shut-in wells in 2018. The company also has plans to drill eight proved undeveloped wells.

*Pittcock South,  
Texas*

**Pittcock South Property (100% WI / 71.90% NRI)**

The Pittcock South Property, covering 498 acres, is also in Stonewall county.

## Property Location



*Source: Company*

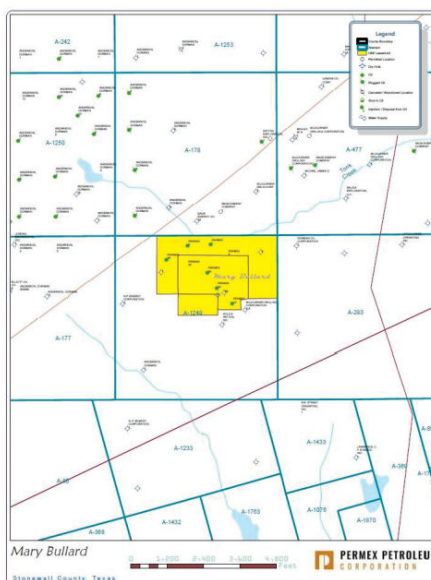
The project has eight producing wells, eleven shut-in wells and two saltwater disposal wells. The total historic production is estimated to be 270 Mbbl oil. Similar to the Pittcock North, production is focused on the Clearfork horizons, and management intends to initiate a waterflood program (similar to the Pittcock North) to enhance production. The company also has plans to re-enter the 11 shut-in wells, and drill 12 proved undeveloped wells.

*Mary Bullard,  
Texas*

**Mary Bullard Property (100% WI / 78.625% NRI)**

The Mary Bullard property, covering 241 acres, is also located in Stonewall county.

### Property Location



*Source: Company*

The project has one producing well, four shut-in wells and two water injection wells. The total historic production is estimated to be 177 Mboe oil, and 28 mmcf natural gas. Similar to the Pittcock North and South, production is focused on the Clearfork horizons, and management intends to initiate a waterflood program to enhance production. The company has plans to re-enter the four shut-in wells, and drill three proved undeveloped wells.

### McMurtry and Loving, Texas

#### McMurtry and Loving Properties (100% WI / 75.00% NRI)

The McMurtry (530 net acres), and Loving properties (980 acres), are located on the boundary between Jack and Young counties in Texas.

Jack county has:

- ✓ 1,516 Producing Leases
- ✓ 176 Producing Operators
- ✓ 21,048 Drilled Wells

*Source: www.texas-drilling.com*

The county produced 0.75 mmbbls of oil and 18.90 bcf gas in 2017. The following chart shows its historic production.



### Oil & Gas Production By Year In Jack County, TX



Source: [www.texas-drilling.com](http://www.texas-drilling.com)

Young county has:

- ✓ 995 Producing Leases
- ✓ 179 Producing Operators
- ✓ 33,090 Drilled Wells

Source: [www.texas-drilling.com](http://www.texas-drilling.com)

The county produced 0.94 mmbbls of oil and 2.51 bcf gas in 2017. The following chart shows its historic production. Similar to Jack county, oil production has been declining in Young country.

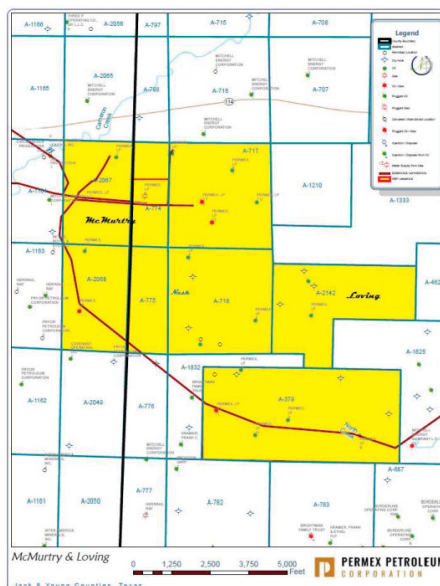
### Oil & Gas Production By Year In Young County, TX



Source: [www.texas-drilling.com](http://www.texas-drilling.com)

Permex's McMurtry lease has three producing wells and two shut-in wells. The Loving Estate lease has two producing wells, six shut-in wells, and a water disposal well. The total historic production is estimated to be 76 Mboe oil, and 203 mmcf natural gas. The three primary productive formations are the Bryson (3,200 feet), Caddo (4,300 feet), and the Marble Falls Limestone (4,500 feet). Management plans to enhance production through in-fill drilling (drill five proved undeveloped wells), re-entering shut-in wells, and waterflooding focused on the Caddo formation.

### Property Location



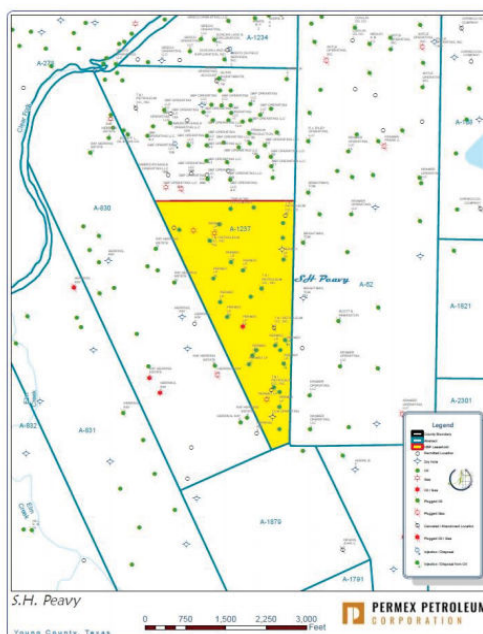
Source: Company

### Peavy, Texas

#### Peavy Property (100% WI / 70.48% NRI)

The Peavy Property, covering 160 acres, is located in Young county.

### Property Location



Source: Company

The project has nine producing wells, four shut-in wells, and one saltwater disposal well. The total historic production is estimated to be 60 Mboe oil, and 415 mmcf natural

*New Acquisition in Texas*

gas. Similar to the McMurtry and Loving properties, production on this project is also focused on formations at depths of between 2,000 feet and 4,500 feet (primarily the Caddo and the Marble Falls formations). Management plans to enhance production through drilling five proved undeveloped wells, re-entering shut-in wells, and waterflooding focused on the Caddo formation.

On June 5, 2018, the company announced the signing of an agreement with Energy Properties 2000-1 LLC for the purchase of their interest in the ODC San Andres Unit and W.J. “A” Taylor lease located in Gaines county, Texas for US\$1.95 million in cash. There is approximately US\$1.2 million in equipment on the field, implying an acquisition price of approximately US\$0.75 million for the oil reserves. **We consider this a very attractive price for Permex as a reserve report prepared in June 2018, showed an after-tax NAV at 10% of US\$32.25 million.** Based on an average working interest of 45%, we estimate the acquisition price reflects a multiple of approximately US\$10,400 per flowing barrel – which we believe is very reasonable. **We estimate the comparable average is currently approximately US\$31,900 per bbl.**

Gaines county is a major producer, and has:

- ✓ 585 Producing Leases
- ✓ 105 Producing Operators
- ✓ 15,832 Drilled Wells

*Source: www.texas-drilling.com*

The county produced 23.71 mmbbls of oil and 22.57 bcf gas in 2017. The following chart shows its historic production:

**Oil & Gas Production By Year In Gaines County, TX**



*Source: www.texas-drilling.com*

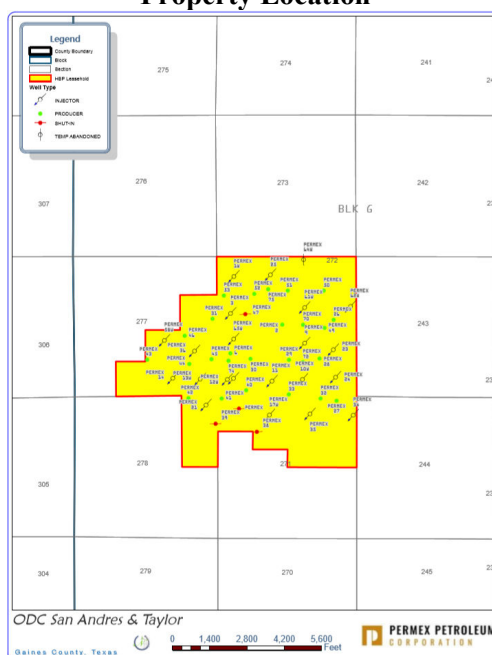
Permex will be the operator and will hold:

- ✓ a 41.4% WI, a 34.7% NRI, and a 0.006% overriding royalty interest with 0.21% royalty interest in the ODC San Andres Unit, and a
- ✓ a 48% WI, a 41.51% net revenue interest, and a 0.083% royalty interest in the W.J. “A” Taylor lease.

The transaction was closed in July 2018. The seller is a subsidiary of Wilbanks Reserves Corporation (a privately held oil and gas company). The remaining WI is owned by the major, Occidental Petroleum Corporation (NYSE: OXY /Market capitalization – US\$64 billion). The region also has other well-known companies such as Devon Energy (NYSE: DVN), Hess Corporation (NYSE: HES), and Fasken Oil and Ranch.

The land package covers 1,220 gross acres in the Central Basin latform of the Permian Basin. The current gross production is approximately 158 bopd, and 13 mcfpd gas from 26 wells. In addition, there are 21 injection wells, and four shut in wells. Production is from the San Andres and Devonian formations. According to management, there is potential for shallower productive zones (Yates, 7 Rivers, Queen, and Grayburg) and deeper productive zones, namely, the Glorieta, Abo, and the Wolfcamp.

**Property Location**



*Source: Company*

Management plans to re-stimulate the producing wells, bring online shut-in wells, frac, and drill new vertical and horizontal wells on the property. **Ring Energy (NYSE: REI) has had extremely positive results from recently drilled horizontal wells (San Andres wells – 1 to 1.5 miles long). The average IP on 12 completed wells in Q1-2018 was approximately 436 boepd. REI is planning 60 new horizontal wells this year. We consider this very encouraging for Permex.**

*West Henshaw,  
New Mexico*

**West Henshaw (100% WI / 72% NRI)**

The property, covering 1,880 acres, is located in Eddy County, southeast New Mexico in the Delaware basin.

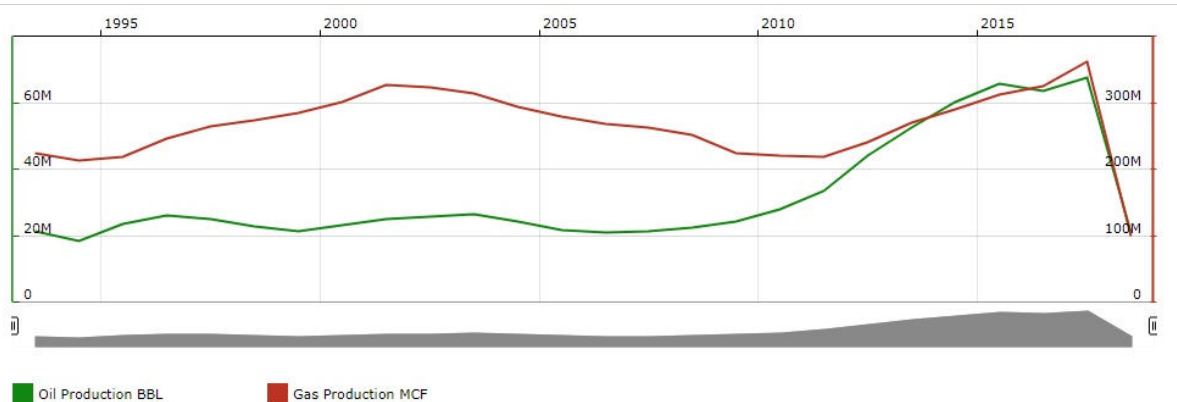
Eddy county has:

- ✓ 4,443 Producing Leases
- ✓ 144 Producing Operators
- ✓ 11,354 Producing Wells

Source: [www.drillingedge.com](http://www.drillingedge.com)

The county produced 67.60 mmbls of oil and 361.91 bcf gas in 2017. The following chart shows its historic production:

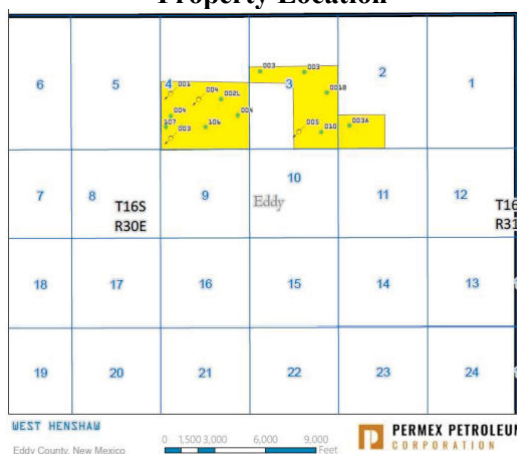
**Oil & Gas Production By Year In Eddy County, NM**



Source: [www.drillingedge.com](http://www.drillingedge.com)

**Approximately 59% of Permex's current reserve estimates come from this property.** The project has nine producing wells and four saltwater disposal wells. The producing reservoir is a stratigraphic trap. The current production is from the Grayburg sand of Permian age, located at an average depth of 2,850 feet. The Delaware basin also has potential from the deeper Bone Springs and Wolfcamp zones (between 5,000 and 9,000 feet).

**Property Location**



Source: Company

Management plans to enhance production through in-fill drilling (10 acre spacing versus the

**Oxy Yates, New Mexico**

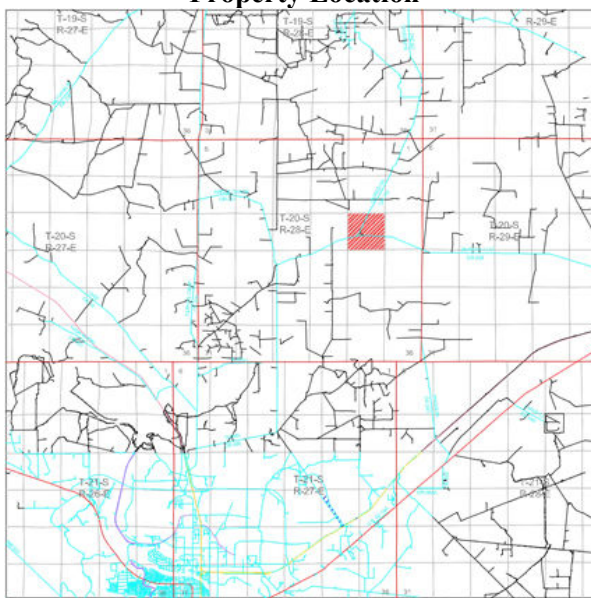
current 40 acre spacing), enhanced oil recovery (acid treatment), and drill 10 proved undeveloped wells (focused on the Bone Springs and lower Wolfcamp), and six on the premier sand).

In June 2018, the company announced a non-binding letter of intent for the purchase of a 100% WI (83.9% NRI) on 840 acres of additional land in Eddy county for US\$0.10 million. The project has seven vertical wells, of which, two are producing 5 bopd, and five shut-in wells. This is a strategic move as it is a direct offset property of Permex's West Henshaw.

**Oxy Yates Lease (100% WI / 77% NRI)**

The Oxy Yates Property, covering 680 acres, is also located in Eddy county. The project has eight producing wells and two shut-in wells, currently producing 6 bopd, and 15 mcfpd. Historic production is estimated to be approximately 27 Mboe oil, and 425 mmcf gas, with minimal water. The oil bearing sands occur at a shallow average depth of 1,200 feet, from the Yates sand (50 to 60 feet thick). The Yates formation is between the Tansill formation and the Seven River formation.

**Property Location**



*Source: Company*

Management plans to enhance production through in-fill drilling (10 acre spacing versus the current 40 acre spacing), enhanced oil recovery (acid treatment), and drill 10 proved undeveloped wells.

On May 29, 2018, the company announced a farmout agreement with Blackspear Capital Corp (a privately held venture capital firm). Blackspear is preparing to get its shares listed on the CSE, and will commence a drill program of at least five wells, with an option to drill a test well every six months thereafter. Blackspear will retain a 75% WI on each drilled well until payout, and 50% thereafter. We believe this transaction allows Permex to diversify its risk exposure, while allowing it to channel its resources to its other core assets.



## Reserve and NAV Estimates

As of September 30, 2017, the company's projects had 9.82 mm boe of gross reserves (proved plus probable – 82% oil), and 7.16 mm boe of net reserves (82% oil).

| Summary of Oil and Gas Reserves<br>As of September 30, 2017<br>Forecast Prices and Costs |                      |               |                 |               |                     |               |
|--|----------------------|---------------|-----------------|---------------|---------------------|---------------|
| United States  |                      |               |                 |               |                     |               |
| Reserves Category  | Light and Medium Oil |               | Natural Gas     |               | Natural Gas Liquids |               |
|  | Gross<br>(Mbbl)      | Net<br>(Mbbl) | Gross<br>(MMcf) | Net<br>(MMcf) | Gross<br>(Mbbl)     | Net<br>(Mbbl) |
| Proved   |                      |               |                 |               |                     |               |
| Developed Producing  | 245                  | 189           | 98              | 71            | 0                   | 0             |
| Developed Non-Producing  | 291                  | 219           | 69              | 53            | 0                   | 0             |
| Undeveloped  | 2,765                | 2,041         | 166             | 128           | 0                   | 0             |
| <b>Total Proved</b>  | <b>3,301</b>         | <b>2,449</b>  | <b>333</b>      | <b>252</b>    | <b>0</b>            | <b>0</b>      |
| Probable   | 4,739                | 3,427         | 10,352          | 7,457         | 0                   | 0             |
| <b>Total Proved Plus Probable</b>  | <b>8,040</b>         | <b>5,876</b>  | <b>10,685</b>   | <b>7,709</b>  | <b>0</b>            | <b>0</b>      |

Source: Company

The following table shows the recoverable reserves, as of May 2018, calculated by MKM Engineering. **Note that these estimates do not account for the recent acquisition in Texas.**

| PROPERTY                                       | Total Remaining Recoverable Reserves<br>BOE |
|--|---|
| Pittcock North                                 | 342,450                                     |
| Pittcock South                                 | 247,450                                     |
| Peavy  | 170,967                                     |
| McMurtry & Loving                              | 768,650                                     |
| West Henshaw Premier Unit                      | 5,276,892                                   |
| Marry Bullard                                  | 161,620                                     |
| Oxy Yates (JV - 25% Before Payout – 50% After) | 193,348                                     |
| <b>Total (May 29, 2018)</b>                    | <b>7,161,377</b>                            |

Source: Company

The before-tax NAV @ 10% was US\$115.21 million. The after-tax NAV @ 10% was US\$104.17 million.

| Net Present Value of Future Net Revenue<br>As of September 30, 2017<br>Forecast Prices & Costs |   |                |                |               |               |  |                |                |               |               |
|--|---|----------------|----------------|---------------|---------------|--|----------------|----------------|---------------|---------------|
| United States  | Before Future Income Tax Expense<br>Discounted At (%/year): |                |                |               |               | After Future Income Tax Expense<br>Discounted At (%/year): |                |                |               |               |
|  | 0%  | 5%             | 10%            | 15%           | 20%           | 0%   | 5%             | 10%            | 15%           | 20%           |
|  | (US\$ thousands)  |                |                |               |               | (US\$ thousands)   |                |                |               |               |
| Reserves Category  |   |                |                |               |               |  |                |                |               |               |
| Proved   |   |                |                |               |               |  |                |                |               |               |
| Developed Producing  | 7,412   | 5,222          | 3,866          | 3,007         | 2,432         | 6,671  | 4,713          | 3,498          | 2,728         | 2,213         |
| Developed Non-Producing  | 9,978   | 7,261          | 5,542          | 4,400         | 3,600         | 8,980  | 6,553          | 5,016          | 3,992         | 3,275         |
| Undeveloped  | 81,942  | 52,333         | 34,418         | 23,245        | 15,944        | 73,748   | 47,226         | 31,134         | 21,073        | 14,481        |
| <b>Total Proved</b>  | <b>99,332</b>   | <b>64,816</b>  | <b>43,826</b>  | <b>30,652</b> | <b>21,976</b> | <b>89,399</b>  | <b>58,492</b>  | <b>39,648</b>  | <b>27,793</b> | <b>19,969</b> |
| Probable   | 160,194   | 102,059        | 71,382         | 52,631        | 39,988        | 144,157  | 92,063         | 64,517         | 47,644        | 36,242        |
| <b>Total Proved Plus Probable</b>  | <b>259,526</b>  | <b>166,875</b> | <b>115,208</b> | <b>83,283</b> | <b>61,964</b> | <b>233,556</b>   | <b>150,555</b> | <b>104,165</b> | <b>75,437</b> | <b>56,211</b> |

Source: Company

We believe the study used conservative commodity price forecasts, considering that the current prices are significantly higher than the forecasts used from 2018 to 2021. The study used the following commodity prices.

| Summary of Pricing and Inflation Rate Assumptions<br>As of September 30, 2017<br>Forecast Prices & Costs |                           |   |                          |
|--|---------------------------|---|--------------------------|
| Year   | WTI Cushing<br>(US\$/bbl) | Natural Gas U.S.<br>Henry Hub<br>(US\$/MMBtu) | Inflation Rate<br>%/Year |
| Forecast:  |                           |   |                          |
| 2017   | 52.50                     | 3.00  | 2.0                      |
| 2018   | 55.00                     | 3.00  | 2.0                      |
| 2019   | 58.70                     | 3.15  | 2.0                      |
| 2020   | 62.40                     | 3.30  | 2.0                      |
| 2021   | 69.00                     | 3.65  | 2.0                      |
| 2022   | 73.10                     | 3.85  | 2.0                      |
| 2023   | 74.50                     | 3.90  | 2.0                      |
| 2024   | 76.00                     | 4.00  | 2.0                      |
| 2025   | 77.50                     | 4.10  | 2.0                      |
| 2026   | 79.10                     | 4.15  | 2.0                      |
| 2027   | 80.70                     | 4.25  | 2.0                      |
| Thereafter   | 2%/year                   | 2%/year                                       | 2.0                      |

Source: Company

The table below outlines the expected future net revenues of the company's properties, also giving the expected per barrel net revenue:

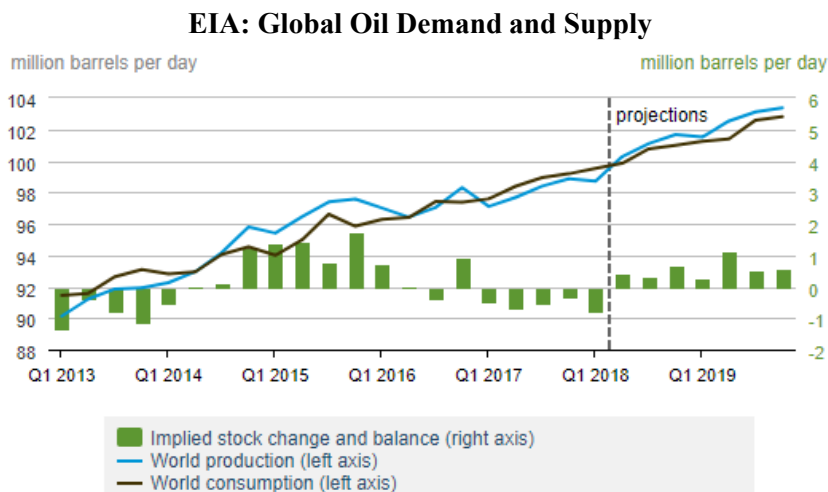
| Total Future Net Revenue<br>(NPV discounted 10% before deducting Future Income Tax Expenses, by Production Group)<br>As of September 30, 2017<br>Forecast Prices & Costs |                      |                          |                |                          |
|--|----------------------|--------------------------|----------------|--------------------------|
| United States  |                      |                          |                |                          |
| Reserves Category  | Light and Medium Oil |                          | Natural Gas    |                          |
|  | US\$ thousands       | Unit Value<br>(US\$/bbl) | US\$ thousands | Unit Value<br>(US\$/Mcf) |
| Proved   |                      |                          |                |                          |
| Developed Producing  | 3,803                | 20.11                    | 63             | 0.89                     |
| Developed Non-Producing  | 5,474                | 24.94                    | 84             | 1.58                     |
| Proved Undeveloped   | 34,305               | 16.81                    | 113            | 0.99                     |
| <b>Total Proved</b>  | <b>43,567</b>        | <b>17.80</b>             | <b>260</b>     | <b>0.92</b>              |
| Total Probable   | 64,465               | 18.81                    | 6,917          | 0.93                     |
| <b>Total Proved Plus Probable</b>  | <b>108,032</b>       | <b>18.39</b>             | <b>7,177</b>   | <b>0.92</b>              |

Source: Company

In a press release on July 4, 2018, the company announced that the latest acquisition in Texas has increased the total 2P reserves to 9 mm boe, up from 7.16 mm boe, or a 25.6% increase. **The after-tax NAV at 10% increased by 31% to US\$136.43 million. Given that there are currently 35.94 million shares outstanding, this implies an after-tax NAV per share of \$4.93.**

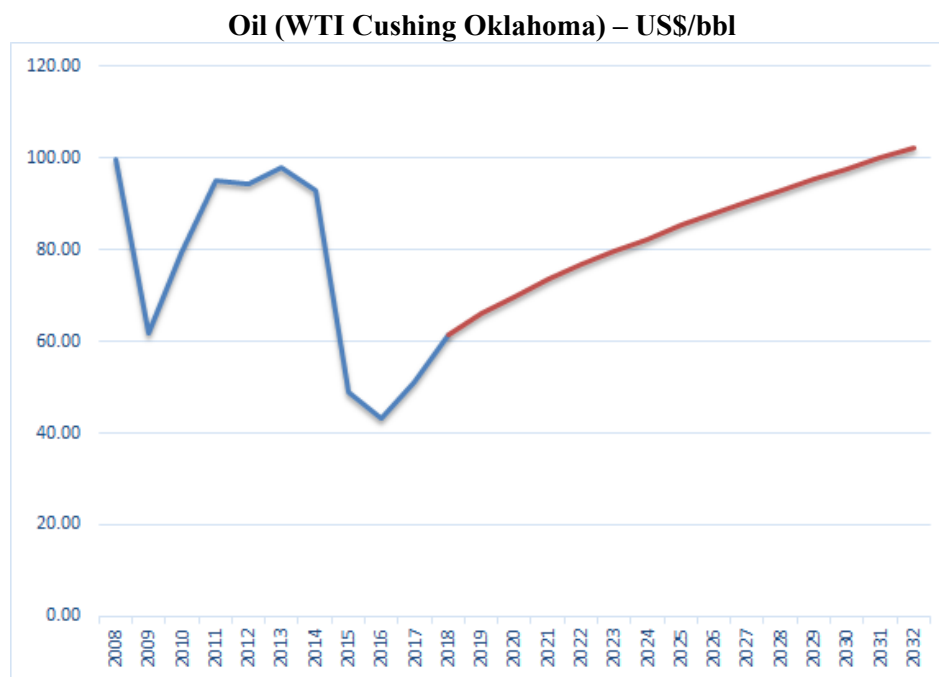
## Oil Price Outlook

The price of oil is a function of worldwide oil production and consumption. Deficits in the oil supply result in higher oil prices, reflecting excess demand, whereas oil supply gluts lead to lower oil prices. The chart below from the U.S. Energy Information Administration (EIA) outlines worldwide oil supply and demand projections:



Source: EIA

The consensus oil price forecasts through 2032 are shown below. Note that the blue line represents historical consensus prices, whilst the red line represents consensus price forecasts.

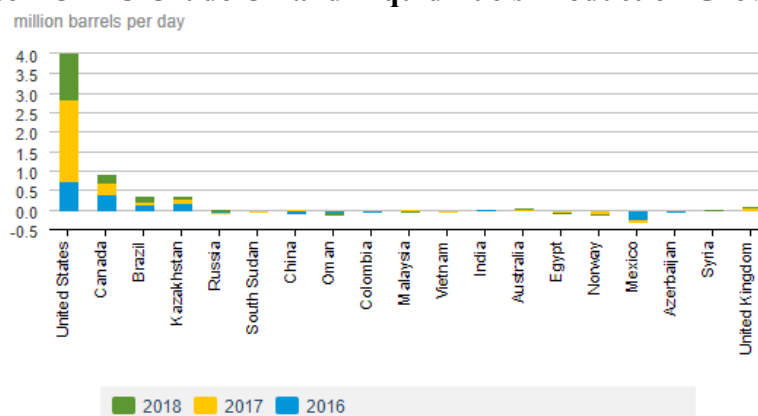


Source: GLJ, Sproule, EPA, FRC

**Based on consensus forecasts, WTI prices are expected to range between US\$62/ bbl**

and US\$77/ bbl between 2018 and 2022. This is despite significant growth in U.S. production, which has grown significantly between 2016 and 2018.

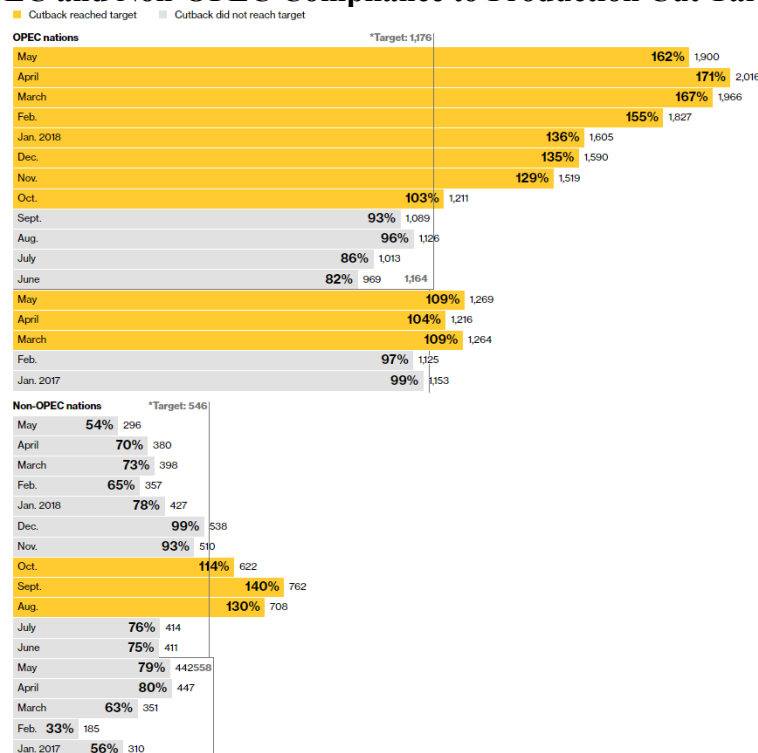
### Non-OPEC Crude Oil and Liquid Fuels Production Growth



Source: EIA

Offsetting the growth in U.S. production may be OPEC-mandated supply cuts. OPEC members recently committed to significant production cuts in order to stabilize and push oil prices upwards. As the chart below shows, OPEC's adherence to production cut targets has been strong across the board, whilst non-OPEC adherence has been markedly lower.

### OPEC and Non-OPEC Compliance to Production Cut Targets



Source: Bloomberg, OPEC, EIA

## Management

OPEC members have historically influenced the global price of oil via the use of cartel-wide production adjustments. However, the recent shale boom in the U.S. has led to a decline in the price-setting power of OPEC. OPEC countries are highly reliant on oil revenues. For example, oil accounts for more than 40% of Saudi Arabia's GDP, and more than 50% of Kuwait and Libya's GDP comes from oil.

We believe that if the price of oil is not significantly above the US\$50-US\$60 per barrel range, exploration and development spending will drop drastically. At the same time, as per the Energy Information Administration, the global demand for oil is expected to grow at 1.1% p.a. **Overall, we believe the market timing is conducive for oil focused juniors such as Permex.**

**The company's board has five members, of which, two are independent.** We believe that the Board of Directors of a company should include independent or unrelated directors who are free of any relationships or business that could materially interfere with the director's ability to act in the best interest of the company. **Management owns 8.84% of the outstanding shares, which we believe, aligns management and investors' interest.**

### Share Ownership

| Management                                       | Shares           | % of Total   |
|--|------------------|--------------|
| Mehran Ehsan - President, CEO, Director          | 2,543,500        | 7.08%        |
| Scott Kelly - CFO, Corporate Secretary, Director | 250,000          | 0.70%        |
| Barry Whelan - COO, Director                     | 385,000          | 1.07%        |
| Justin Kates - Director                          | -                | 0.00%        |
| Edward Odishaw - Director                        | -                | 0.00%        |
|  | <b>3,178,500</b> | <b>8.84%</b> |

Source: Company Data, SEDI, FRC

**Another aspect that aligns management and investors' interest is that management's shares have a hold period of up to three years from the IPO date.**

|                               |  |
|-------------------------------|--|
| On listing date:              | No release                             |
| 6 months after listing date:  | 1/4 of the escrow securities           |
| 12 months after listing date: | 1/5 of the remaining escrow securities |
| 18 months after listing date: | 1/4 of the remaining escrow securities |
| 24 months after listing date: | 1/3 of the remaining escrow securities |
| 30 months after listing date: | 1/2 of the remaining escrow securities |
| 36 months after listing date: | The remaining escrow securities        |

**Note:** \$0.20 shareholders have all been voluntarily locked up for 1 year from the date of issuance, and certain of such shareholders have also voluntarily entered into 36 month lock-up agreements with timed release dates.

Certain \$0.40 shareholders have been voluntarily locked up for 1 year from the listing of the IPO.

Source: Company

Brief biographies of the management team and board members, as provided by the company, follow:

### **Mehran Ehsan – CEO, President & Director**

Mr. Ehsan has over 12 years of experience in the oil and gas industry. He has led teams in the creation of many upstream oil and gas companies with a focus on acquisitions and divestitures. Over the last 12 years Mr. Ehsan has been involved as owner of O&G DPP programs, manager in mergers, acquisitions & 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 a spectrum of marketing management, business management, wealth management and Petroleum based curriculums and programs such as engineering and geology, he is also an MBA candidate with specialty in Finance. Mr. Ehsan has authored various articles in the oil and gas industry, with presence as a guest speaker and judge in both this industry and academia related events.

### **Scott Kelly – CFO, Corporate Secretary & Director**

Scott Kelly has 15 years of experience acting as a senior officer and/or director of various private and public companies with large scale resource assets throughout North and South America. Mr. Kelly obtained his Bachelor of Commerce degree from Royal Roads University in 2001 and has since helped manage companies through all stages of their life cycle; from initial public offerings through to being successfully acquired by major multinational corporations.

### **Barry Whelan – COO & Director**

Barry Whelan has more than 40 years' experience as a geologist, initially with Gulf Oil in International Operations, then with such companies 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., Bighorn Petroleum to name a few. As a Geological Consultant, Mr. Whelan has been active in natural resource and industrial development companies with natural resource holdings in oil, gas and minerals, worldwide. Mr. Whelan received his Bachelor of Arts, Geology, from University of Western Ontario in 1961, Bachelors of Science, Honours Geology, McMaster University, 1965. He is or has been also a member of 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.

### **Earl Tobin – Geologist**

Earl Tobin has more than 30 years of experience working as a geologist building and growing both public and private oil and gas companies. As a new graduate of University of Saskatchewan, Mr. Tobin joined Tri Link Resources Ltd. where he gained significant experience and success drilling horizontal wells. At Tri Link, Mr. Tobin ultimately moved into the role of Chief Geologist, Alberta. In this position, he managed all gas properties, and through a five-year process of drilling and acquisition, gas assets increased by over 100 BCF. Mr. Tobin then joined Bolt Energy Ltd. as Manager of Exploration when the company went public in 1997. Mr. Tobin was quickly promoted to Vice President, Exploration, and in that role was responsible for all aspects of growing the company, from corporate development to financial management. Mr. Tobin assisted in the growth of the company to



approximately 900 BOPD with minimal debt. Bolt was subsequently successfully merged with Blue Mountain Energy. At Blue Mountain Energy, Mr. Tobin was responsible for the discovery and exploitation of several key assets. Blue Mountain Energy was then sold to Trilogy Energy Corp. for \$142 million in October 2006. Mr. Tobin went on to be the co-founder of the GAMET Resources Ltd., a private company. Mr. Tobin is a member of the Association of Professional Engineers, and Geoscientists of Alberta (APEGA), the Project Management Institute (PMI), Canadian Society of Petroleum Geologists, and the American Association of Petroleum Geologists.

#### **Dale Lee – Petroleum Engineer**

Mr. Lee has more than 25 years experience in the oil and gas sector. He is currently the President & CEO of DL Petroleum & Engineering Consulting; some of his past notable involvements and experiences include but are not limited to Petro Canada and Breaker Energy as a Reservoir Engineer, Canadian Natural Resources as an Exploitation Engineer. As a reservoir engineer, Mr. Lee has been active in natural resource and industrial development companies with natural resource holdings in oil, gas worldwide. Responsibilities include: Engineering focus to analyze partly depleted reservoirs to predict the locations of underperforming wells based on statistical analyses of hydrocarbon production. Reservoirs' wells are evaluated using spatial statistics (i.e. kriging) to locate underperforming wells or regions within reservoirs. This goal is achieved by using known (measured) petro-physical information from reservoirs' formations and coupling this data with their production history (production/injection flow and pressures). Spatial statistics including other statistical tools, such as regression analysis, are used to evaluate the reservoir's performance with respect to hydrocarbon production. In 1994 Dale earned his Professional Engineering status with The Association of Professional Engineers and Geoscientists of Alberta (APEGA).

#### **Justin Kates – Director**

Justin Kates is a partner of DuMoulin Black, practicing primarily in the areas of securities, corporate finance, mergers and acquisitions, and corporate and commercial law. Justin works with clients in a wide range of industries including oil and gas, technology, life sciences, food & beverage, and natural resources. Justin advises clients from all stages of development ranging from early stage to large public companies. His practice includes advising these clients on a range of matters, including equity and debt financings, stock exchange listings, mergers and acquisitions, reorganizations, and general corporate/commercial matters. Justin received his J.D. from the University of Western Ontario and his Bachelor of Business Administration from Western Michigan University.

#### **Edward Odishaw – Director**

Mr. Edward A. Odishaw serves as the President of Austpro Energy Corp. Mr. Odishaw served as Barrister and Solicitor with the law firm of Swinton & Company, Vancouver, Canada from 1972 to 1992. He was a Barrister and Solicitor with the law firm of Boughton Peterson Yang Anderson, located in Vancouver, Canada from 1992 to 1999. He practiced law in Saskatchewan and British Columbia, Canada, with emphasis on commercial law, corporate mergers, acquisitions and finance from 1964 to 1999. Mr. Odishaw holds Directorships in numerous companies in Canada. Mr. Odishaw is a member in good

## Financials

standing of the Law Society of British Columbia and the Canadian Bar Association and is a non-practicing member of the Law Society of Saskatchewan.

The following is a summary of Permex's operating performance:

| STATEMENT OF OPERATIONS                |                    |                  |                    |
|--|--------------------|------------------|--------------------|
| (in C\$) - YE Sep 30st                 | Q1-2018            | Q2-2018          | 2018 (6M)          |
| Gross Revenues (100%)                  | 112,533            | 128,379          | 240,912            |
| Production Expenses                    | 109,860            | 124,171          | 234,031            |
| Royalties                              |                    |                  |                    |
| <b>Gross Profit</b>                    | <b>2,673</b>       | <b>4,208</b>     | <b>6,881</b>       |
| <b>EXPENSES</b>                        |                    |                  |                    |
| G&A Expense                            | 402,385            | 300,140          | 702,525            |
| Share-based Compensation               | 850,392            |                  | 850,392            |
| <b>EBITDA</b>                          | <b>(1,250,104)</b> | <b>(295,932)</b> | <b>(1,546,036)</b> |
| Depreciation                           | 12,883             | 11,414           | 24,297             |
| <b>EBIT</b>                            | <b>(1,262,987)</b> | <b>(307,346)</b> | <b>(1,570,333)</b> |
| Financing Costs                        |                    |                  |                    |
| <b>EBT</b>                             | <b>(1,262,987)</b> | <b>(307,346)</b> | <b>(1,570,333)</b> |
| Accretion Expense                      | 5901               | 5901             | 11802              |
| Exploration Expense                    |                    |                  |                    |
| Non-recurring expenses                 | 1,388              | -7,750           | -6,362             |
| Taxes                                  |                    |                  |                    |
| <b>Net Profit (Loss)</b>               | <b>(1,270,276)</b> | <b>(305,497)</b> | <b>(1,575,773)</b> |
| FOREX Translation                      |                    |                  |                    |
| <b>Net comprehensive Profit (Loss)</b> | <b>(1,270,276)</b> | <b>(305,497)</b> | <b>(1,575,773)</b> |

Source: Company Data

The company has not disclosed production data. Net oil revenues increased QoQ from \$0.11 million in Q1-FY2018, to \$0.13 million in Q2-FY2018, reflecting QoQ growth of 14.08%. Net oil revenues for the 6 months ended March 31, 2018 were \$0.24 million. Comparable data for the previous year were not disclosed.

Despite generating \$0.24 million in revenues, the gross profit was only \$7k because, according to management, the company incurred significant one-time expenses due to chemical treatments on two properties. Net losses in Q2-FY2018 were \$0.31 million (EPS: -\$0.01). For the six-month period, the net loss was \$1.58 million (EPS: -\$0.06) in 2018.

As production data is not available, we were unable to review and evaluate the company's netbacks.

The following table shows a summary of the company's cash flows:

| Summary of Cash Flows         |           |
|-------------------------------|-----------|
| (\$, mm)                      | 2018 (6M) |
| Operating                     | -\$0.39   |
| Investing                     | -\$0.44   |
| Financing                     | \$0.28    |
| Effects of Exchange Rate      | \$0.00    |
| Net                           | -\$0.55   |
| Free Cash Flows to Firm (FCF) | -\$0.83   |

Source: Company Data

At the end of Q2-FY2018, the company had \$2,481 in cash. Working capital and the current ratio were -\$0.26 million, and 0.49x, respectively. Subsequent to the quarter, the company **raised \$4.07 million** by issuing 8.14 million shares at a price of \$0.50 per share.

| Liquidity & Capital Structure | Q1-2018 | Q2-2018  |
|-------------------------------|---------|----------|
| Cash                          | 150,034 | 2,481    |
| Working Capital               | 223,718 | -264,870 |
| Current Ratio                 | 2.09    | 0.49     |
| LT Debt                       | -       | -        |
| Total Debt                    | -       | -        |
| LT Debt / Capital             | -       | -        |
| Total Debt / Capital          | -       | -        |
| EBIT Interest Coverage        | -       | -        |

Source: Company Data / FRC

**Stock options and warrants:** We estimate that the company has 3.33 million stock options (weighted average exercise price of \$0.48), and 0.65 million warrants (weighted average exercise price of \$0.50) outstanding. 2.98 million options are currently in the money. The company can raise up to \$1.43 million if these warrants and options are exercised.

## Valuation

We estimate an average production of 122 boepd (net) in Q4-2018, which gave us a revenue forecast of \$0.99 million in FY2018, with a net loss of \$2.17 million (EPS: -\$0.06). If production remains flat at 122 boepd (net) in FY2018, we estimate, the company can generate revenues of \$2.74 million, with a net loss of \$1.18 million (EPS: -\$0.03). Our forecasts are very conservative as management's 2018 exit production estimate is 400-500 boepd (gross), and for 2019, after horizontal development of leases, is 3,000 – 4,000 boepd (gross). We will adjust our forecasts as the company announces further details on its development plans.

| <b>STATEMENT OF OPERATIONS</b>         |                    |                    |                    |
|--|--------------------|--------------------|--------------------|
| (in CS) - YE Sep 30st                  | 2018 (6M)          | 2018E              | 2019E              |
| Gross Revenues (100%)                  | 240,912            | 985,473            | 2,743,857          |
| Production Expenses                    | 234,031            | 591,284            | 1,646,314          |
| Royalties                              |                    |                    |                    |
| <b>Gross Profit</b>                    | <b>6,881</b>       | <b>394,189</b>     | <b>1,097,543</b>   |
| <b>EXPENSES</b>                        |                    |                    |                    |
| G&A Expense                            | 702,525            | 1,580,681          | 1,646,314          |
| Share-based Compensation               | 850,392            | 850,392            | 274,386            |
| <b>EBITDA</b>                          | <b>(1,546,036)</b> | <b>(2,036,884)</b> | <b>(823,157)</b>   |
| Depreciation                           | 24,297             | 114,593            | 331,540            |
| <b>EBIT</b>                            | <b>(1,570,333)</b> | <b>(2,151,477)</b> | <b>(1,154,697)</b> |
| <b>Financing Costs</b>                 |                    |                    |                    |
| <b>EBT</b>                             | <b>(1,570,333)</b> | <b>(2,151,477)</b> | <b>(1,154,697)</b> |
| Accretion Expense                      | 11802              | 23,604             | 23,604             |
| Exploration Expense                    |                    |                    |                    |
| Non-recurring expenses                 | -6,362 -           | 6,362              |                    |
| Taxes                                  |                    |                    |                    |
| <b>Net Profit (Loss)</b>               | <b>(1,575,773)</b> | <b>(2,168,719)</b> | <b>(1,178,301)</b> |
| FOREX Translation                      |                    |                    |                    |
| <b>Net comprehensive Profit (Loss)</b> | <b>(1,575,773)</b> | <b>(2,168,719)</b> | <b>(1,178,301)</b> |

Source: FRC

The following table summarizes our valuation on Permex's shares.

| Company                          | Production (boepd)   | % Oil      | 2P Reserves (mmbob) | 2P NAV (After-Tax @ 10% - US\$) | EV (US\$)      | EV/boepd        | EV/2P Reserves | EV/AT - NAV   |
|----------------------------------|----------------------|------------|---------------------|---------------------------------|----------------|-----------------|----------------|---------------|
| 1 Gear Energy Ltd.               | 6,522                | 87%        | 22.6                | \$330.82                        | \$232.30       | \$35,618        | \$10.29        | 70.2%         |
| 2 Prairie Provident Resources    | 5,500                | 70%+       | 18.3                | \$298.47                        | \$77.20        | \$14,036        | \$4.21         | 25.9%         |
| 3 InPlay Oil Corp.               | 4,415                | 61%        | 23.1                | \$318.17                        | \$130.19       | \$29,488        | \$5.63         | 40.9%         |
| 4 Razor Energy Corp.             | 4,353                | 87%        | 16.6                | \$199.38                        | \$54.91        | \$12,615        | \$3.30         | 27.5%         |
| 5 Eagle Energy Corp.             | 2,974                | 80%        | 19.3                | \$272.03                        | \$40.00        | \$13,450        | \$2.07         | 14.7%         |
| 6 Granite Oil Corp.              | 2,500                | 90%+       | 16.6                | \$266.76                        | \$108.38       | \$43,352        | \$6.52         | 40.6%         |
| 7 Strategic Oil & Gas Ltd.       | 2,183                | 78%        | 16.0                | \$130.10                        | \$104.07       | \$47,672        | \$6.50         | 80.0%         |
| 8 Zargon Oil and Gas Ltd.        | 2,145                | 85%        | 12.5                | \$113.25                        | \$38.16        | \$17,788        | \$3.06         | 33.7%         |
| 9 BNK Petroleum Inc.             | 1,464                | 68%        | 37.7                | \$398.40                        | \$115.17       | \$78,669        | \$3.05         | 28.9%         |
| 10 Hemisphere Energy Corp.       | 1,080                | 96%        | 6.2                 | \$95.25                         | \$32.05        | \$29,677        | \$5.19         | 33.7%         |
| 11 Traverse Energy Ltd.          | 673                  | ~50%       | 2.2                 | \$32.07                         | \$19.34        | \$28,738        | \$8.68         | 60.3%         |
| <b>Average (excl. outliers)</b>  | <b>3,273</b>         | <b>77%</b> | <b>16.2</b>         | <b>\$211.75</b>                 | <b>\$79.39</b> | <b>\$31,919</b> | <b>\$5.32</b>  | <b>41.5%</b>  |
| Permex                           | 275 (2018 exit est.) | 92%        | 9.0                 | \$136.43                        | \$10.88        | \$39,557        | \$1.21         | 8.0%          |
| <b>Fair Value Estimate (C\$)</b> |                      |            |                     |                                 |                | <b>\$0.41</b>   | <b>\$1.83</b>  | <b>\$2.14</b> |
| <b>Average (C\$)</b>             |                      |            |                     |                                 |                | <b>\$1.46</b>   |                |               |

Source: FRC/ Various Companies (dollar amounts of comparable companies in US\$)

*Risks*

Permex's shares are currently trading at US\$1.21 per boe (2P reserves), 8% of the after-tax NAV @ 10% estimate, and US\$39k per flowing barrel (2018 exit production forecast). The first two multiples are significantly lower than the comparable average multiples shown in the above table. We are assigning a fair value estimate of \$1.46 per share on Permex's shares, which was based on the comparable average Enterprise Value ("EV") / boepd, EV / boe, and EV / after-tax NAV @ 10%.

**We are initiating coverage on Permex with a BUY rating and a fair value estimate of \$1.46 per share.**

The following risks, though not exhaustive, may cause our estimates to differ from actual results:

- Permex is a new company.
- Revenues and profitability of the company depend heavily on future oil prices.
- Production and development risks.
- Exchange rate risk.
- Access to capital and share dilution.

**We are assigning a risk rating of 4 (Speculative).**

## APPENDIX

| <b>STATEMENT OF OPERATIONS</b>         |                    |                    |                    |
|--|--------------------|--------------------|--------------------|
| <b>(in C\$) - YE Sep 30st</b>          | <b>2018 (6M)</b>   | <b>2018E</b>       | <b>2019E</b>       |
| Gross Revenues (100%)                  | 240,912            | 985,473            | 2,743,857          |
| Production Expenses                    | 234,031            | 591,284            | 1,646,314          |
| Royalties                              |                    |                    |                    |
| <b>Gross Profit</b>                    | <b>6,881</b>       | <b>394,189</b>     | <b>1,097,543</b>   |
| <b>EXPENSES</b>                        |                    |                    |                    |
| G&A Expense                            | 702,525            | 1,580,681          | 1,646,314          |
| Share-based Compensation               | 850,392            | 850,392            | 274,386            |
| <b>EBITDA</b>                          | <b>(1,546,036)</b> | <b>(2,036,884)</b> | <b>(823,157)</b>   |
| Depreciation                           | 24,297             | 114,593            | 331,540            |
| <b>EBIT</b>                            | <b>(1,570,333)</b> | <b>(2,151,477)</b> | <b>(1,154,697)</b> |
| Financing Costs                        |                    |                    |                    |
| <b>EBT</b>                             | <b>(1,570,333)</b> | <b>(2,151,477)</b> | <b>(1,154,697)</b> |
| Accretion Expense                      | 11802              | 23,604             | 23,604             |
| Exploration Expense                    |                    |                    |                    |
| Non-recurring expenses                 | -6,362 -           | 6,362              |                    |
| Taxes                                  |                    |                    |                    |
| <b>Net Profit (Loss)</b>               | <b>(1,575,773)</b> | <b>(2,168,719)</b> | <b>(1,178,301)</b> |
| FOREX Translation                      |                    |                    |                    |
| <b>Net comprehensive Profit (Loss)</b> | <b>(1,575,773)</b> | <b>(2,168,719)</b> | <b>(1,178,301)</b> |



| <b>BALANCE SHEET</b>                             |                  |                  |
|--|------------------|------------------|
| <b>(in C\$) - YE Sep 30st</b>                    | <b>Q1-2018</b>   | <b>Q2-2018</b>   |
| <b>ASSETS</b>                                    |                  |                  |
| <b>CURRENT</b>                                   |                  |                  |
| Cash and cash equiv.                             | 150,034          | 2,481            |
| A/R  | 160,651          | 165,602          |
| Prepaid  | 83,343           | 90,595           |
| Related Party                                    | 34,305           |                  |
| <b>Total Current Assets</b>                      | <b>428,333</b>   | <b>258,678</b>   |
| Restricted Cash                                  | 25,000           | 25,000           |
| Reclamation Deposits                             | 275,000          | 283,800          |
| Prepaid - Non-Current                            | 112,348          |                  |
| Deferred Propoerty Acquisition Costs             |                  |                  |
| PPE  | 4,261,032        | 4,583,707        |
| <b>Total Assets</b>                              | <b>5,101,713</b> | <b>5,151,185</b> |
| <b>LIABILITIES</b>                               |                  |                  |
| <b>CURRENT</b>                                   |                  |                  |
| A/P  | 204,615          | 488,169          |
| Bank Indebtedness                                |                  |                  |
| Related Party                                    |                  | 35,379           |
| Loan Payable                                     |                  |                  |
| <b>Total Current Liabilities</b>                 | <b>204,615</b>   | <b>523,548</b>   |
| Decomissioning Liabilities                       | 915,770          | 921,671          |
| <b>Total Liabilities</b>                         | <b>1,120,385</b> | <b>1,445,219</b> |
| <b>SHAREHOLDERS EQUITY</b>                       |                  |                  |
| Equity   | 4,241,576        | 4,234,211        |
| Reserves   | 1,121,052        | 1,121,052        |
| Share Subscription Proceeds                      |                  |                  |
| Commitment to Issue Shares                       | 50,000           | 87,500           |
| Deficit  | -1,431,300       | -1,736,797       |
| <b>Total shareholders' equity (deficiency)</b>   | <b>3,981,328</b> | <b>3,705,966</b> |
| <b>Total Liabilities and Shareholders Equity</b> | <b>5,101,713</b> | <b>5,151,185</b> |

| <b>STATEMENTS OF CASH FLOWS</b>               |                  |
|---|------------------|
| <b>(in C\$) - YE Sep 30st</b>                 | <b>2018 (6M)</b> |
| <b>OPERATING ACTIVITIES</b>                   |                  |
| Net profit for the year                       | -1,575,773       |
| <b>Adjusted for items not involving cash:</b> |                  |
| Depletion, Depreciation, Amortization         | 24,297           |
| Finance Costs                                 |                  |
| Accretion of Decommissioning Liabilities      | 11,802           |
| A/R Write Off                                 |                  |
| FOREX   | -8,800           |
| Commitment to Issue Shares                    | 75,000           |
| Share-based Compensation                      | 850,392          |
| <b>Funds From Operations</b>                  | <b>-623,082</b>  |
| <b>Change in working capital</b>              |                  |
| A/R   | -10,938          |
| Prepaid                                       | 43,019           |
| Related Party                                 | 27,879           |
| A/P   | 173,782          |
| <b>NET CASH USED IN OPERATING ACTIVITIES</b>  | <b>-389,340</b>  |
| <b>INVESTING ACTIVITIES</b>                   |                  |
| PPE   | -435,927         |
| Decommissioning Liabilities Settled           |                  |
| Reclamation Deposits                          |                  |
| Deferred Property Acquisition Costs           |                  |
| Restricted Cash                               |                  |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>  | <b>-435,927</b>  |
| <b>FINANCING ACTIVITIES</b>                   |                  |
| Cash from Issuance of Shares                  | 283,000          |
| Issuance Costs                                | -7,365           |
| Repurchase of Common Shares                   | -56              |
| Loan Proceeds                                 |                  |
| Increase in Bank Indebtedness                 |                  |
| Proceeds from Share Subscriptions             |                  |
| <b>NET CASH FROM FINANCING ACTIVITIES</b>     | <b>275,579</b>   |
| Foreign Exchange / Others                     |                  |
| <b>INCREASE IN CASH FOR THE YEAR</b>          | <b>-549,688</b>  |
| <b>CASH, BEGINNING OF THE YEAR</b>            | <b>552,169</b>   |
| <b>CASH, END OF THE YEAR</b>                  | <b>2,481</b>     |

#### Fundamental Research Corp. Equity Rating Scale:

**Buy** – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

**Hold** – Annual expected rate of return is between 5% and 12%

**Sell** – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

**Suspended or Rating N/A**— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

#### Fundamental Research Corp. Risk Rating Scale:

**1 (Low Risk)** - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

**2 (Below Average Risk)** - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

**3 (Average Risk)** - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

**4 (Speculative)** - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

**5 (Highly Speculative)** - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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