PERMEX PETROLEUM
CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2024 AND 2023

(EXPRESSED IN UNITED STATES DOLLARS)

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Permex Petroleum Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Permex Petroleum Corporation (the "Company") as of September 30, 2024 and 2023, the related consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for each of the two years in the period ended September 30, 2024, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2024 and 2023, and the results of its operations and its cash flows for each of the two years in the period ended September 30, 2024, in conformity with accounting principles generally accepted in the United States of America

Explanatory Paragraph – Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 2, the Company has a significant working capital deficiency, has incurred significant losses and needs to raise additional funds to meet its obligations and sustain its operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Marcum LLP

Marcum LLP

We have served as the Company's auditor since 2022.

Houston, Texas
January 14, 2025

PERMEX PETROLEUM CORPORATION
CONSOLIDATED BALANCE SHEETS
AS AT SEPTEMBER 30

	2024	2023
ASSETS		
Current assets		
Cash	$ 1,513,591	$ 82,736
Trade and other receivables (net of allowance: 2024 - $nil; 2023 - $nil)	44,932	78,441
Prepaid expenses and deposits	146,452	127,239
Total current assets	1,704,975	288,416
Non-current assets		
Reclamation deposits	75,000	145,000
Property and equipment, net of accumulated depletion and depreciation	10,281,248	10,361,419
Right of use asset, net	-	146,912
Total assets	$ 12,061,223	$ 10,941,747
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Trade and other payables	$ 3,786,909	$ 3,228,327
Loans payable	160,936	125,936
Convertible debentures	1,365,000	-
Debt subscription proceeds	2,250,000	-
Lease liability – current portion	-	77,069
Total current liabilities	7,562,845	3,431,332
Non-current liabilities		
Asset retirement obligations	392,977	260,167
Lease liability, less current portion	-	81,456
Total liabilities	7,955,822	3,772,955
Stockholders' Equity		
Common stock, no par value per share; unlimited shares authorized, 551,503 shares* issued and outstanding as of September 30, 2024 and 2023.	14,947,150	14,947,150
Additional paid-in capital	5,475,316	4,549,431
Accumulated other comprehensive loss	(127,413)	(127,413)
Accumulated deficit	(16,189,652)	(12,200,376)
Total stockholders' equity	4,105,401	7,168,792
Total liabilities and stockholders' equity	$ 12,061,223	$ 10,941,747

*The number of shares has been restated to reflect the 4:1 reverse stock split effective on October 23, 2023 (Note 1). All historical share and per share amounts reflected in this report have been adjusted to reflect the reverse stock split.

The accompanying notes are an integral part of these consolidated financial statements

PERMEX PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
YEARS ENDED SEPTEMBER 30

	2024	2023
Revenues		
Oil and gas sales	$ 100,220	$ 665,623
Royalty income	15,813	23,204
Total revenues	116,033	688,827
Operating expenses		
Lease operating expense	196,428	879,471
General and administrative	2,718,975	3,536,118
Depletion and depreciation	82,215	154,834
Accretion on asset retirement obligations	36,792	31,976
Loss on settlement of asset retirement obligations	-	66,067
Loss on settlement of lease liability	38,825	-
Write-off of property and equipment	62,046	-
Total operating expenses	(3,135,281)	(4,668,466)
Loss from operations	(3,019,248)	(3,979,639)
Other income (expense)		
Interest income	-	108
Other income	8,000	24,000
Foreign exchange gain (loss)	133	(3,671)
Change in fair value of warrant liability	-	22,570
Gain on settlement of warrant liability	-	930
Interest and debt expense	(483,110)	(4,259)
Loss on debt extinguishment	(495,051)	-
Total other income (expense)	(970,028)	39,678
Net loss and comprehensive loss	(3,989,276)	(3,939,961)
Deemed dividend arising from warrant modification	-	(543,234)
Net loss attributable to common stockholders	$ (3,989,276)	$ (4,483,195)
Basic and diluted loss and comprehensive loss per common share	$ (7.23)	$ (8.81)
Weighted average number of common shares outstanding*	551,503	$ 508,813

*The number of shares has been restated to reflect the 4:1 reverse stock split effective on October 23, 2023 (Note 1). All historical share and per share amounts reflected in this report have been adjusted to reflect the reverse stock split.

The accompanying notes are an integral part of these consolidated financial statements.

PERMEX PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Number of Shares*	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total stockholders' equity
Balance, September 30, 2022	483,150	$14,337,739	$4,513,194	$ (127,413)	$ (8,260,415)	$ 10,463,105
Exercise of warrants	68,353	781,953	-	-	-	781,953
Share issuance costs	-	(172,542)	35,919	-	-	(136,623)
Deemed dividend arising from warrant modification	-	-	543,234	-	-	543,234
Warrant modification	-	-	(543,234)	-	-	(543,234)
Share-based payments	-	-	318	-	-	318
Net loss	-	-	-	-	(3,939,961)	(3,939,961)
Balance, September 30, 2023	551,503	$14,947,150	$4,549,431	$ (127,413)	$(12,200,376)	$ 7,168,792
Warrants issued in private placement	-	-	431,666	-	-	431,666
Warrants issued for debt amendment	-	-	494,219	-	-	494,219
Net loss	-	-	-	-	(3,989,276)	(3,989,276)
Balance, September 30, 2024	551,503	$14,947,150	$5,475,316	$ (127,413)	$(16,189,652)	$ 4,105,401

*The number of shares has been restated to reflect the 4:1 reverse stock split effective on October 23, 2023 (Note 1). All historical share and per share amounts reflected in this report have been adjusted to reflect the reverse stock split.

The accompanying notes are an integral part of these consolidated financial statements.

PERMEX PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30

		2024		2023
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss	$	(3,989,276)	$	(3,939,961)
Adjustments to reconcile net loss to net cash from operating activities:				
Accretion on asset retirement obligations		36,792		31,976
Depletion and depreciation		82,215		154,834
Foreign exchange loss (gain)		(133)		-
Amortization of debt discount		430,834		-
Loss on debt extinguishment		495,051		-
Change in fair value of warrant liability		-		(22,570)
Gain on settlement of warrant liability		-		(930)
Loss on settlement of asset retirement obligations		-		66,067
Share-based payments		-		318
Loss on settlement of lease liability		38,825		-
Gain on settlement of trade payables		(185,119)		-
Write-off of property and equipment		62,046		-
Changes in operating assets and liabilities:				
Trade and other receivables		33,509		58,773
Prepaid expenses and deposits		(19,213)		190,038
Trade and other payables		778,989		1,157,736
Right of use asset and lease liability		(50,438)		7,503
Net cash used in operating activities		(2,285,918)		(2,296,216)
CASH FLOWS FROM INVESTING ACTIVITIES				
Capital expenditures on property		(3,227)		(1,445,021)
Reclamation deposit redemption		70,000		-
Net cash provided by (used in) investing activities		66,773		(1,445,021)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from debenture financing		1,365,000		-
Proceeds from debt financing subscriptions received		2,250,000		-
Proceeds from exercise of warrants		-		781,953
Share issuance costs		-		(136,623)
Convertible debenture repayment to related party		-		(38,291)
Loan payable proceeds		45,000		-
Loan repayment		(10,000)		(83,561)
Net cash provided by financing activities		3,650,000		523,478
Change in cash during the year		1,430,855		(3,217,759)
Cash, beginning of the year		82,736		3,300,495
Cash, end of the year	$	1,513,591	$	82,736
Supplemental cash flow disclosures:				
Interest paid	$	2,272	$	4,259
Taxes paid	$	-	$	-
Supplemental disclosures of non-cash investing and financing activities:				
Share purchase warrants issued in connection with debt issuance	$	431,666	$	-

Share purchase warrants issued in connection with exercise of warrants	$	-	$	579,153
Trade and other payables related to property and equipment	$	-	$	1,299,929
Equipment transferred in settlement with former CEO	$	35,155	$	-
Loan payable issued for settlement	$	-	$	209,497
Changes in estimates of asset retirement obligations	$	(96,018)	$	7,934

The accompanying notes are an integral part of these consolidated financial statements.

1. BACKGROUND

Permex Petroleum Corporation (the "Company") was incorporated on April 24, 2017 under the laws of British Columbia, Canada and maintains its head office at 1700 Post Oak Boulevard, 2 Blvd Place Suite 600, Houston Texas, 77056. Its registered office is located at 10th floor, 595 Howe Street, Vancouver, British Columbia, Canada, V6C 2T5. The Company is primarily engaged in the acquisition, development and production of oil and gas properties in the United States. The Company's oil and gas interests are located in Texas and New Mexico, USA. The Company is listed on the Canadian Securities Exchange (the "CSE") under the symbol "OIL".

On September 12, 2023, the Company's board of directors approved a reverse stock split of the Company's issued and outstanding common stock at a 1 for 4 ratio, which was effective October 23, 2023. All issued and outstanding common stock, options, and warrants to purchase common stock and per share amounts contained in the financial statements have been retroactively adjusted to reflect the reverse stock splits for all periods presented.

These consolidated financial statements were approved by the Board of Directors and authorized for issuance by the Board of Directors on January 14, 2025.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Company's consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC").

Principles of Consolidation

The accompanying consolidated financial statements include the assets, liabilities, revenue and expenses of the Company's wholly-owned subsidiary, Permex Petroleum US Corporation. All intercompany balances and transactions have been eliminated.

Going concern of operations

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The Company has incurred losses since inception in the amount of $16,189,652, has a working capital deficiency of $5,857,870 as of September 30, 2024 and has not yet achieved profitable operations. The Company requires equity or debt financings to fund its continuing operation, which it has been unable to secure in sufficient amounts to date, and there can be no assurances that it will be able to do so in the future. The aforementioned factors raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued.

The Company expects to raise additional funds through equity and debt financings. There is no assurance that such financing will be available in the future. During the year ended September 30, 2024, the Company raised $1,365,000 through the issuance of convertible debentures and received additional proceeds of $2,250,000 from debt financing subscriptions. Subsequent to September 30, 2024, the Company received further subscription proceeds of $601,601 to complete a convertible debenture financing with total gross proceeds of $4,276,389. The $1,365,000 convertible debentures that matured on September 12, 2024 and accrued interest of $59,788 were retired in exchange for the new convertible debenture units. Management believes that these actions provide a path for the Company to continue as a going concern subject to its continued ability to raise funds to maintain its operations and manage its working capital deficiency.

In view of these matters, continuation as a going concern is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to meet its financial requirements, raise additional capital, and the success of its future operations. The financial statements do not include any adjustments to the amount and classification of assets and liabilities that may be necessary should the Company not continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Management evaluates these estimates and judgments on an ongoing basis and bases its estimates on experience, current and expected future conditions, third-party evaluations and various other assumptions that management believes are reasonable under the circumstances.

Significant estimates have been used by management in conjunction with the following: (i) the fair value of assets when determining the existence of impairment factors and the amount of impairment, if any; (ii) the costs of site restoration when determining decommissioning liabilities; (iii) the useful lives of assets for the purposes of depletion and depreciation; (iv) petroleum and natural gas reserves; and (v) share-based payments. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, and makes adjustments when facts and circumstances dictate. These estimates are based on information available as of the date of the financial statements; therefore, actual results could differ from those estimates.

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents. Cash and cash equivalents are recorded at cost, which approximates fair value. The Company had no cash equivalents as of September 30, 2024 and 2023.

Trade and other receivables

Trade and other receivables are stated at net realizable value. The majority of customers have payment terms of 30 days or less. The Company's oil and gas revenues are mainly derived from three significant customers. As a result, the Company's trade receivables are exposed to a concentration of credit risk. The Company routinely assesses the financial strength of its customers. On a periodic basis, management evaluates its accounts receivable and determines whether to provide an allowance or if any accounts should be written off based on a past history of write-offs, collections, and current credit conditions. A receivable is considered past due if the Company has not received payments based on agreed-upon terms.

Property and equipment

The Company follows the successful efforts method of accounting for its oil and gas properties. All costs for development wells along with related acquisition costs, the costs of drilling development wells, and related estimated future asset retirement costs are capitalized. Exploration costs, such as exploratory geological and geophysical costs, and costs associated with non-productive exploratory wells, delay rentals and exploration overhead are expensed. Costs of drilling exploratory wells are capitalized pending determination of whether the wells found proved reserves. Costs of wells that are assigned proved reserves remain capitalized. Costs also are capitalized for exploratory wells that have found crude oil and natural gas reserves even if the reserves cannot be classified as proved when the drilling is completed, provided the exploratory well has found a sufficient quantity of reserves to justify its completion as a producing well and the Company is making sufficient progress assessing the reserves and the economic and operating viability of the project. The Company groups its oil and gas properties with a common geological structure or stratigraphic condition ("common operating field") for purposes of computing depletion expenses, assessing proved property impairments and accounting for asset dispositions.

Capitalized costs of proved oil and gas properties are depleted by individual field using a unit-of-production method based on proved and probable developed reserves. Proved reserves are estimated using reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids, which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Property and equipment (cont'd…)

Proved oil and natural gas properties are assessed for possible impairment by comparing their carrying values with their associated undiscounted future net cash flows. Events that can trigger assessments for possible impairments include write-downs of proved reserves based on field performance, significant decreases in the market value of an asset (including changes to the commodity price forecast or carbon costs), significant change in the extent or manner of use of or a physical change in an asset, and a more-likely-than-not expectation that a long-lived asset or asset group will be sold or otherwise disposed of significantly sooner than the end of its previously estimated useful life. Impaired assets are written down to their estimated fair values, generally their discounted, future net cash flows. For proved oil and natural gas properties, the Company performs impairment reviews on a field basis, annually or as appropriate.

Other corporate property and equipment consist primarily of leasehold improvements, vehicle, and office furniture and equipment and are stated at cost less accumulated depreciation. The capitalized costs are generally depreciated on a straight line basis over their estimated useful lives ranging from three to five years.

For property dispositions, measurement is at fair value, unless the transaction lacks commercial substance or fair value cannot be reliably measured. Where the exchange is measured at fair value, a gain or loss is recognized in net income.

Gains or losses are recorded for sales or dispositions of oil and gas properties which constitute an entire common operating field or which result in a significant alteration of the common operating field's depletion rate. These gains and losses are classified as asset dispositions in the accompanying consolidated statements of loss and comprehensive loss. Partial common operating field sales or dispositions deemed not to significantly alter the depletion rates are generally accounted for as adjustments to capitalized costs with no gain or loss recognized.

Impairment of long-lived assets

The Company assesses long-lived assets for impairment in accordance with the provisions of the Financial Accounting Standards Board Accounting Standards Codification ("ASC") regarding long-lived assets. It requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of the assets. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value. As of September 30, 2024 and 2023, no impairment charge has been recorded.

Asset retirement obligations

The Company recognizes asset retirement obligations ("ARO") associated with tangible assets such as well sites when there is a legal obligation associated with the retirement of such assets and the amount can be reasonably estimated. The ARO are measured at the present value of management's best estimate of the future remediation expenditures at the reporting date. The initial measurement of an ARO is recorded as a liability at its fair value, with an offsetting asset retirement cost recorded as an increase to the associated property and equipment on the consolidated balance sheet. When the assumption used to estimate a recorded ARO change, a revision is recorded to both the ARO and the asset retirement cost. The ARO is accreted to its then present value each period, and the asset retirement cost is depreciated using a systematic and rational method similar to that used for the associated property and equipment.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Fair value measurement

Fair value accounting is applied for all assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Fair value is defined as the exchange price that would be received for an asset or an exit price that would be paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company follows the established framework for measuring fair value and expands disclosures about fair value measurements.

The Company categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

The carrying values of cash, trade receivable, other current receivables, due from/to related parties, trade payable, other current payables, accrued expenses, convertible debenture and lease liability included in the accompanying consolidated balance sheets approximated fair value at September 30, 2024 and 2023. The financial statements as of and for the years ended September 30, 2024 and 2023, do not include any recurring or nonrecurring fair value measurements relating to assets or liabilities.

Subsequent to initial recognition, the Company may re-measure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Company has not elected to measure any existing financial instruments at fair value. However, it may elect to measure newly acquired financial instruments at fair value in the future.

Earnings (loss) per share

Basic earnings (loss) per share ("EPS") is calculated by dividing net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding in the period. The diluted EPS reflects all dilutive potential common share equivalents, in the weighted average number of common shares outstanding during the period, if dilutive. All of the outstanding convertible securities, stock options and warrants were anti-dilutive for the years ended September 30, 2024 and 2023.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Leases

At inception of a contract, the Company assesses whether a contract is or contains a lease based on whether the contract conveys the right to control the use of an identified asset for a period in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date.

The lease obligation is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability. The lease liability is subsequently measured at amortized cost using the effective interest rate method.

Share capital

The Company records proceeds from the issuance of its common shares as equity. Incremental costs directly attributable to the issue of new common shares are shown in equity as a deduction from the proceeds. Common shares issued for consideration other than cash are valued based on their fair value at the date that the shares are issued.

Share purchase warrants

The fair value of warrants is determined using the Black-Scholes option pricing model. Proceeds from the issuance of private placement units are allocated between the private placement warrants and common shares on a relative fair value basis. Share purchase warrants with exercise prices denominated in a currency other than its functional currency are classified as a liability. Proceeds from the issuance of private placement units are first allocated to the warrant liability based on their fair value and the residual is allocated to common shares issued while for equity warrants, proceeds are allocated to common stock and additional paid in capital on a relative fair value basis. The changes in fair value of the warrant liability are recorded in the statement of loss and comprehensive loss.

Warrants issued for oil and gas interests and warrants issued as finder's fees are share-based payments and are measured at fair value on the date of the grant as determined using the Black-Scholes option pricing model.

Share-based payments

The Company issues stock options and other share-based compensation to directors, employees and other service providers. Equity awards including stock options and share purchase warrants are measured at grant date at the fair value of the instruments issued and amortized over the vesting periods using a graded vesting approach. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount ultimately recognized as an expense is based on the number of options that eventually vest. The Company has elected to account for forfeitures as they occur rather than estimate expected forfeitures.

The fair value of the equity awards is determined using the Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility), weighted average expected life of the instruments (based on historical experience), expected dividends, and the risk-free interest rate (based on government bonds).

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Revenue

In accordance with ASC 606, *Revenue from Contracts with Customers,* the Company recognizes revenue when the performance obligation is satisfied, which typically occurs at the point in time when control of the product transfer to the customer. For natural gas, this is generally at the time product enters the pipeline. For crude oil, this is generally at the time the product is loaded into customer operated transports. Revenue is measured net of discounts, customs duties, royalties and withholding tax. Royalty income represents net revenue interests from certain crude oil and natural gas wells and is recognized upon the operators of the properties producing revenue from subject oil and gas wells.

The Company records revenue in the month production is delivered to the purchaser. However, production statements for oil and gas sales may not be received until the following month end after the products are purchased, and as a result, the Company is required to estimate the amount of revenue to be received. The Company records the differences between its estimates and the actual amounts received for revenue in the month that payment is received from the customer. The Company believes that the pricing provisions of its oil, natural gas and natural gas liquids contracts are customary in the industry. To the extent actual volumes and prices of oil and natural gas sales are unavailable for a given reporting period because of timing or information not received from third parties, the revenue related to sales volumes and prices for those good sold are estimated and recorded.

The Company does not have any contract assets or liabilities, or capitalized contract costs.

Foreign Currency

These consolidated financial statements are presented in United States dollars ("U.S. dollar"). The functional currency of the Company and the subsidiary of the Company is the U.S. dollar. Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. All gains and losses on these foreign currency transactions are charged to profit or loss.

Income taxes

Current taxes receivable or payable are estimated on taxable income or loss for the current year at the statutory tax rates enacted or substantively enacted at the reporting date.

Deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax assets and liabilities are measured at the tax rates that have been enacted or substantially enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets also result from unused loss carry forwards, resource related pools and other deductions. At the end of each reporting year the Company reassesses unrecognized deferred tax assets. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority.

The Company recognizes a tax benefit in the financial statements for an uncertain tax position only if management assesses that the position is more likely than not (i.e., a likelihood greater than 50%) to be allowed by the tax jurisdiction, based solely on the technical merits of the position. The term "tax position," as defined in the accounting standards for income taxes, refers to a position in a previously filed tax return or a position expected to be taken in a future tax return. This position is reflected in the measurement of current or deferred income tax assets and liabilities for interim or annual periods.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

New accounting standards

In November 2023, the FASB issued ASU 2023 - 07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which becomes effective for fiscal years beginning after December 15, 2024. This update requires public entities to disclose significant expenses for reportable segments in both interim and in annual reporting periods, while entities with only a single reportable segment must now provide all segment disclosures required both in ASC 280 and under the amendments in ASU 2023-07. The Company does not expect the standard to have a material effect on its consolidated financial statements and has begun evaluating disclosure presentation alternatives.

In December 2023, the FASB issued ASU 2023 - 09, Income Taxes (Topic740) Improvements to Income Tax Disclosures, which becomes effective for fiscal years beginning after December 15, 2024. The standard requires companies to disclose specific categories in the income tax rate reconciliation table and the amount of income taxes paid per major jurisdiction. The Company does not expect the standard to have a material effect on its consolidated financial statements and has begun evaluating disclosure presentation alternatives.

3. REVENUE

Revenue from contracts with customers is presented in "Oil and gas sales" on the Consolidated Statement of Operations.

As of September 30, 2024 and 2023, receivables from contracts with customers, included in trade and other receivables, were $26,873 and $48,165, respectively.

The following tables present our revenue from contracts with customers disaggregated by product type and geographic area.

Year ended September 30, 2024	Texas	New Mexico	Total
Crude oil	$ 64,611	$ 35,609	$ 100,220
Natural gas	-	-	-
Revenue from contracts with customers	$ 64,611	$ 35,609	$ 100,220

Year ended September 30, 2023	Texas	New Mexico	Total
Crude oil	$ 501,920	$ 154,700	$ 656,620
Natural gas	9,003	-	9,003
Revenue from contracts with customers	$ 510,923	$ 154,700	$ 665,623

4. CONCENTRATION OF CREDIT RISK

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of its cash and trade receivables. The Company's cash balances sometimes exceed the United States' Federal Deposit Insurance Corporation insurance limits. The Company mitigates this risk by placing its cash with high credit quality financial institutions and attempts to limit the amount of credit exposure with any one institution. To date, the Company has not recognized any losses caused by uninsured balances.

Trade receivables included in the Company's receivable balance are $26,873 as of September 30, 2024 (September 30, 2023 - $73,021). For the years ended September 30, 2024 and 2023, we had two significant customers that accounted for approximately 100% and 99%, respectively, of our total oil, and natural gas revenues. The Company routinely assesses the financial strength of its customers. The non-trade receivable balance consists of goods and services tax ("GST") recoverable of $18,060 (September 30, 2023 - $5,420). GST recoverable is due from the Canadian Government. It is management's opinion that the Company is not exposed to significant credit risk. During the year ended September 30, 2024, the Company recognized $9,587 (2023 - $nil) in credit losses on its other receivables.

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	September 30, 2024	September 30, 2023
Oil and natural gas properties, at cost	$ 10,600,489	$ 10,501,244
Less: accumulated depletion	(330,036)	(289,456)
Oil and natural gas properties, net	10,270,453	10,211,788
Other property and equipment, at cost	18,505	205,315
Less: accumulated depreciation	(7,710)	(55,684)
Other property and equipment, net	10,795	149,631
Property and equipment, net	$ 10,281,248	$ 10,361,419

Depletion and depreciation expenses were $82,215 and $154,834 for the years ended September 30, 2024 and 2023, respectively. The Company also recorded write-offs of property and equipment of $62,046 and $nil for the years ended September 30, 2024 and 2023, respectively

6. LEASES

All of the Company's right-of-use assets are operating leases related to its office premises. Details of the Company's right-of-use assets and lease liabilities are as follows:

	September 30, 2024	September 30, 2023
Right-of-use assets	$ -	$ 146,912
Lease liabilities		
Balance, beginning of the year	$ 158,525	$ 244,906
Addition	-	-
Liability accretion	12,346	24,221
Lease payments	(113,638)	(110,602)
Termination of lease	(57,233)	-
Balance, end of the year	$ -	$ 158,525
Current lease liabilities	$ -	$ 77,069
Long-term lease liabilities	$ -	$ 81,456
Weighted-average remaining lease term (in years)	-	2.17
Weighted-average discount rate	-%	12%

The following table presents the Company's total lease cost.

	2024	2023
Operating lease cost	$ 63,200	$ 118,105
Variable lease expense	51,062	65,245
Sublease income	-	(25,390)
Net lease cost	$ 114,262	$ 157,960

The Company had one office lease agreement for its office premises for terms ending in November 2025. During the year ended September 30, 2024, the Company entered into a settlement agreement to terminate the office lease agreement. The termination resulted in a loss of $38,825, consisting of the settlement payment and the write-off of the remaining right-of-use asset and lease liability associated with the terminated lease.

7. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations reflects the estimated present value of the amount of dismantlement, removal, site reclamation, and similar activities associated with the Company's oil and gas properties. Changes to the asset retirement obligations are as follows:

		2024		2023
Asset retirement obligations, beginning of the year	$	260,167	$	236,412
Obligations recognized		27,859		-
Obligations derecognized		-		(287)
Revisions of estimates		68,159		(7,934)
Accretion expense		36,792		31,976
	$	392,977	$	260,167

During the year ended September 30, 2024, the Company had a revision of estimates totaling $68,159 (2023 - $7,934) primarily due to changes in the timing of expected cash flows. During the year ended September 30, 2023, the Company incurred plugging and abandonment costs of $66,354 and recognized a loss of $66,067 on the settlement.

Reclamation deposits

As of September 30, 2024, the Company held reclamation deposits of $75,000 (September 30, 2023 - $145,000), which are expected to be released after all reclamation work has been completed with regard to its oil and natural gas interests. During the year ended September 30, 2024, the Company redeemed $70,000 in reclamation deposits.

8. DEBT

Convertible debentures

During the year ended September 30, 2024, the Company completed private placement financings of 1,365 convertible debenture units (each a "Unit") for gross proceeds of $1,365,000. Each Unit is comprised of one senior secured convertible debenture in the principal amount of $1,000 and 294 common share purchase warrants as amended. Each warrant is exercisable for a period of five years from the date of issuance for one common share of the Company at an exercise price of $4.08 per share. As a result, the Company issued convertible debentures with an aggregate principal amount of $1,365,000 and 401,310 Warrants.

Of the 1,365 Units issued, 500 Units were originally comprised of one secured convertible debenture in the principal amount of $1,000 and 1 common share purchase warrant. The number of warrants issued with these Units was subsequently modified to 294 warrants per Unit. No other terms of the debt or warrant were modified. This modification was assessed as a debt extinguishment. A loss of $495,051 was recognized, consisting of $494,219 representing the fair value of the amended warrants determined using the Black-Scholes option pricing model (assuming a risk-free interest rate of 3.41%, an expected life of 5 years, annualized volatility of 128.69% and a dividend rate of 0%) and an unamortized discount of $832 on the original warrants.

The Company allocated the proceeds received from the issuance of the convertible debentures and warrants between the debt and equity components based on their relative fair values at the issuance date. Due to the lack of an active market for the Company's privately placed debt instruments and the absence of relevant observable inputs, the Company determined that a reliable estimate of the fair value of the convertible debentures could not be obtained. Accordingly, the face value of the debentures is considered to be a reasonable approximation of their fair value at the issuance date. The fair value of the warrants issued was determined using the Black-Scholes option pricing model (assuming a risk-free interest rate of 3.41%, an expected life of 5 years, annualized volatility of 128.69% and a dividend rate of 0%). $431,666 of the proceeds allocated to the warrants was recorded as additional paid-in capital with a corresponding debt discount, which is being amortized over the term of the debt. As of September 30, 2024, the debt discount was fully amortized.

8. DEBT (cont'd…)

The Convertible Debentures were secured by the Company's assets, bore simple interest at a rate of 10% per annum, and matured on September 12, 2024. These Convertible Debentures were convertible into common shares of the Company at a conversion price of $3.40 per share. Interest was payable on the maturity date or upon the repayment of all or a portion of the Convertible Debenture and could be settled in cash or shares at the same conversion price. As of September 30, 2024, the Company had recorded $50,008 in accrued interest on the Convertible Debentures.

As September 30, 2024, the following Convertible Debentures were outstanding:

Principal Amount	Interest rate	Maturity Date
$ 500,000	10%	September 12, 2024
865,000	10%	September 12, 2024
$ 1,365,000		

As of September 30, 2024, these Convertible Debentures were in default due to the Company's failure to repay the principal and accrued interest by the maturity date. Subsequent to September 30, 2024, the Company repaid the Convertible Debentures and the accrued interest in full.

Proceeds from debt financing subscriptions

In September 2024, the Company announced a non-brokered private placement of up to 18,635 convertible debenture units of the Company (each, a "Unit"). Each Unit consists of one convertible debenture (a "Debenture") in the principal amount of $1,000 and 523 common share purchase warrants. Each warrant is exercisable for a period of five years from the date of issuance for one common share of the Company at an exercise price of $1.91 per share. The Debentures will be secured by the Company's assets, mature one-year from the date of issuance, and bear simple interest at a rate of 10% per annum, payable on the maturity date or upon repayment of all or any portion of the Debenture. The Debentures are convertible into common shares of the Company at a conversion price of $1.91 per share. Interest will be payable in cash or shares based on the same conversion price. As of September 30, 2024, the Company had received subscription proceeds totaling $2,250,000. The private placement was completed on November 1, 2024 for total gross proceeds of $4,276,389 (Note 15).

Loan payable

During the year ended September 30, 2024, the Company received a $45,000 loan from a former director of the Company. The loan is unsecured, non-interest bearing, and has no specific repayment terms.

On April 28, 2023, the Company issued a promissory note with a principal amount of $209,497 to a supplier to settle an outstanding trade payable. The promissory note is unsecured and bears interest at 6% per annum, payable on September 30, 2023. At September 30, 2024, the Company has an outstanding unpaid principal amount of $115,936 (September 30, 2023 - $125,936). The promissory note was in default due to the Company's failure to repay the principal amount by its maturity date.

Debenture loan – Related party

During the year ended September 30, 2023, the Company repaid the remaining principal amount of $38,291 (CAD$52,454) on the debenture loan due to the former CEO of the Company. During the years ended September 30, 2023, the Company recorded interest of $1,182.

9. RELATED PARTY TRANSACTIONS

(a) The Company entered into an employment agreement with Bradley Taillon, the Company's Chief Executive Officer, on April 29, 2024, for an annual base salary of base salary of $250,000, which shall be reviewed by the Company annually. Subject to the discretion of the board of directors, Mr. Taillon is also eligible on an annual basis for a cash bonus of up to 100% of annual salary and additional performance bonuses ranging from $50,000 to $750,000 upon the closing of a qualified financing with proceeds to the Company of $1 million or greater. Further, the terms of this employment agreement provide that if Mr. Taillon's employment with the Company is terminated without "cause" (as defined in the agreement) than Mr. Taillon is entitled to a severance payment equal to two years of base salary and a bonus equal to 50% of his annual base salary. During the year ended September 30, 2024, the Company incurred management salary of $122,312 and a one-time sign-on bonus of $50,000 for Mr. Taillon.

(b) The Company had an employment agreement with Mehran Ehsan, the former Chief Executive Officer of the Company, for an annual base salary of $250,000, with no specified term. Mr. Ehsan was also eligible on an annual basis for a cash bonus of up to 100% of annual salary, subject to the discretion of the board of directors. During the year ended September 30, 2024, the Company incurred management salary of $229,167 (2023 - $250,000), for Mr. Ehsan, with no bonuses incurred in either period. Further, the terms of this employment agreement provided that if Mr. Ehsan's employment with the Company is terminated without "cause" (as defined in the agreement) than Mr. Ehsan was entitled to a severance payment equal to three years of base salary and a bonus equal to 20% of his annual base salary. Mr. Ehsan resigned as President and CEO of the Company on April 29, 2024. On May 15, 2024, the Company amended the employment agreement to change his role to Vice President of Business Development. All other terms and conditions of the employment agreement remained the same. On August 30, 2024, the Company signed a separation agreement to terminate Mr. Ehsan's employment. The settlement includes: i) a lump sum payment of $100,000 by October 31, 2024 (subsequently paid); ii) six equal monthly payments of $7,500 starting October 1, 2024; and iii) the transfer of ownership of a Company vehicle with a fair value of $35,155. The settlement amount of $145,000 was accrued as of September 30, 2024.

c) On May 1, 2022, the Company entered into an employment agreement with the CFO of the Company for an annual base salary of $50,000, with no specified term. The CFO is also eligible on an annual basis for a cash bonus of up to 100% of annual salary, subject to the discretion of the board of directors. The employment agreement may be terminated with a termination payment equal to two months of base salary. During the year ended September 30, 2024, the Company incurred management salary of $50,000 (2023 - $50,000), to the CFO of the Company, with no bonuses incurred in either period.

d) The convertible debenture loan from the former CEO of the Company mentioned in Note 8 was repaid off during the year ended September 30, 2023.

10. LOSS PER SHARE

The calculation of basic and diluted loss per share for the years ended September 30, 2024 and 2023 was based on the net losses attributable to common shareholders. The following table sets forth the computation of basic and diluted loss per share:

	2024	2023
Net loss	$ (3,989,276)	$ (4,483,195)
Weighted average common shares outstanding	551,503	508,813
Basic and diluted loss per share	$ (7.23)	$ (8.81)

For the year ended September 30, 2024, 10,105 stock options, 676,663 warrants, and $1,365,000 of convertible debentures convertible into 401,471 common shares were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

For the year ended September 30, 2023, 20,313 stock options and 279,746 warrants were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

11. EQUITY

Common stock

The Company has authorized an unlimited number of common shares with no par value. At September 30, 2024 and 2023, the Company had 551,503 common shares issued and outstanding after giving effect to the 4:1 reverse stock split effective October 23, 2023. All issued and outstanding common stock, options, and warrants to purchase common stock and per share amounts contained in the financial statements have been retroactively adjusted to reflect the reverse stock split.

There were no share issuance transactions during the year ended September 30, 2024

During the year ended September 30, 2023, the Company announced a warrant exercise incentive program (the "Program") whereby the Company amended the exercise prices of 253,966 warrants (the "Eligible Warrants") from $50.40 per share to $11.44 per share if the holders of the Eligible Warrants exercised the Eligible Warrants before June 30, 2023 (the "Program Period"). In addition to the repricing, the Company offered, to each warrant holder who exercised the Eligible Warrants during the Program Period, the issuance of one additional common share purchase warrant for each warrant exercised during the Program Period (each, an "Incentive Warrant"). Each Incentive Warrant entitles the warrant holder to purchase one common share of the Company for a period of 5 years from the date of issuance, at a price of $18.00 per Share.

On June 30, 2023, the Company issued 68,353 common shares at a price of $11.44 per share from the exercise of the Eligible Warrants pursuant to the Program for gross proceeds of $781,953 (net proceeds of $645,330). In connection with the Program, the Company issued 68,353 Incentive Warrants. The Company also incurred $62,556 and issued 5,470 warrants as a finders' fee to its investment bank. The finder's warrants are on the same terms as the Incentive Warrants. The Incentive Warrants and finder's warrants were valued at $449,005 and $35,919, respectively, using the Black-Scholes option pricing model (assuming a risk-free interest rate of 3.68%, an expected life of 5 years, annualized volatility of 128.81% and a dividend rate of 0%). The repricing of the Eligible Warrants is accounted for as a modification under ASC 815-40-35-14 through 18. The effect of the modification is $544,164, measured as the excess of the fair value of the repriced warrants over the fair value of the original warrants immediately before it was modified and the fair value of the incentive warrants issued as an additional inducement to exercise the warrants. The fair values were measured using the Black-Scholes option pricing model (assuming a risk-free interest rate of 4.21%, an expected life of 3.75 years, annualized volatility of 137.62% and a dividend rate of 0%). The Company recognized a deemed dividend of $543,234 for the fair value of the Incentive Warrants and the portion of inducement related to the equity-classified warrants. The effect of the repricing of the liability-classified warrants was $930 and was recorded in the statement of operations and comprehensive loss. The Company also incurred legal and other expenses of $74,066 in connection with the Program.

11. EQUITY (cont'd…)

Share-based payments

Stock options

The Company has a stock option plan (the "SOP") in place under which it is authorized to grant options to executive officers and directors, employees and consultants. Pursuant to the SOP, the Company may issue aggregate stock options totaling up to 10% of the issued and outstanding common stock of the Company. Further, the SOP calls for the exercise price of each option to be equal to the market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 10 years and vest at the discretion of the Board of Directors at the time of grant.

Stock option transactions are summarized as follows:

	Number of options	Weighted Average Exercise Price
Balance, September 30, 2022	21,146	$ 53.04
Cancelled	(833)	42.62
Balance, September 30, 2023	20,313	$ 54.23
Cancelled	(10,208)	55.24
Balance, September 30, 2024	10,105	$ 53.21
Exercisable at September 30, 2024	10,105	$ 53.21

The aggregate intrinsic value of options outstanding and exercisable as of September 30, 2024 was $nil (September 30, 2023 - $nil).

The options outstanding as of September 30, 2024 have exercise prices in the range of $8.88 to $88.80 and a weighted average remaining contractual life of 5.6 years.

During the year ended September 30, 2024, the Company recognized $nil share-based payment expense. During the year ended September 30, 2023, the Company recognized share-based payment expense of $nil and $318, respectively, for the portion of stock options that vested during the year.

As September 30, 2024, the following stock options were outstanding:

Number of Options	Exercise Price	Issuance Date	Expiry Date
3,230	$ 88.88	December 4, 2017	December 4, 2027
1,250	$ 8.88	March 16, 2020	March 16, 2030
5,625	$ 42.62	October 6, 2021	October 6, 2031
10,105			

11. EQUITY (cont'd…)

Share-based payments (cont'd…)

Warrants

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, September 30, 2022	274,276	$ 48.48
Exercised	(68,353)	11.44
Granted	73,823	18.00
Balance, September 30, 2023	279,746	$ 39.79
Granted	401,810	4.08
Cancelled	(500)	4.08
Expired	(4,393)	95.90
Balance, September 30, 2024	676,663	$ 18.25

As September 30, 2024, the following warrants were outstanding:

Number of Warrants	Exercise Price	Issuance Date	Expiry Date
149,447	$ 50.40	March 29, 2022	March 29, 2027
73,823	$ 18.00	June 30, 2023	June 30, 2028
147,000	$ 4.08	April 16, 2024 (Subsequently cancelled – Note 15)	April 16, 2029
254,310	$ 4.08	June 12, 2024 (Subsequently cancelled – Note 15)	June 12, 2029
52,083	$ 35.52	September 30, 2021	September 30, 2031
676,663			

12. INCOME TAXES

	2024	2023
Loss before income taxes	$ (3,989,276)	$ (3,939,961)
Expected income tax recovery at statutory rates	$ (598,000)	$ (591,000)
Provincial income tax recovery	(373,000)	(290,000)
Effect of income taxes from US operations	(58,000)	(100,000)
Change in statutory, foreign tax, foreign exchange rates and other	(3,000)	(18,000)
Permanent differences – debt discount	116,000	-
Permanent differences – debt extinguishment	134,000	-
Permanent differences - Other	11,000	3,000
Adjustment to prior years provision versus statutory tax returns	3,000	(43,000)
Change in valuation allowance	768,000	1,039,000
Deferred income tax recovery	$ -	$ -

Components of the Company's pre-tax loss and income taxes are as follows:

	2024	2023
Loss for the year		
Canada	$ (3,110,348)	$ (2,418,491)
US	(878,928)	(1,521,470)
	$ (3,989,276)	$ (3,939,961)
Expected income tax (recovery)		
Canada	$ (589,000)	$ (659,000)
US	(177,000)	(319,000)
	$ (766,000)	$ (978,000)
Deferred income tax		
Canada	$ 589,000	$ 659,000
US	177,000	319,000
	$ 766,000	$ 978,000
Deferred income tax recovery	$ -	$ -

The significant components of the Company's deferred tax assets and liabilities are as follows:

	2024	2023
Tax loss carryforwards	$ 3,037,000	$ 2,313,000
Property and equipment	15,000	39,000
Financing fees	130,000	191,000
Accrued liabilities	129,000	-
	3,311,000	2,543,000
Deferred tax assets valuation allowance	(3,311,000)	(2,543,000)
Net deferred tax assets	$ -	$ -

The significant components of the Company's temporary differences include unamortized financing fees and tax loss carryforwards. The valuation allowance reduces the deferred tax assets to amounts that are, in management's assessment, more likely than not to be realized. This conclusion is primarily due to the Company's history of cumulative losses and its expectation of continued losses in the foreseeable future. The Company had tax loss carryforwards of approximately $11,991,000 in Canada and the United States. For the years ended September 30, 2024 and 2023, the Canada tax loss carryforwards totaled $9,421,000 and $7,019,000, respectively, with expiration dates ranging from 2037 to 2043 and 2037 to 2042, respectively. The United States tax loss carryforwards for the years ended September 30, 2024 and 2023 totaled $2,569,000 and $2,367,000, respectively, and had no expiration dates, subject to 80% of taxable income. The United States tax loss carryforwards include $290,000 attributable to New Mexico state tax losses, with expiration dates ranging from 2037 to 2043.

13. SEGMENT INFORMATION

Operating segments

The Company operates in a single reportable segment – the acquisition, development and production of oil and gas properties in the United States.

14. CONTINGENCIES

The Company from time to time may be involved with disputes, claims and litigation related to the conduct of its business. The Company had $545,505 in claims from certain trade vendors for non-payment, of which $499,162 have been accrued as of September 30, 2024. The Company plans to continue engaging with these claimants faithfully and is working on potential settlements for all outstanding claims.

15. SUBSEQUENT EVENTS

i) On October 2, 2024, the Company granted stock options to directors and officers of the Company to purchase 65,000 common shares at an exercise price of $2.44 per share for a period of 10 years.

ii) On November 1, 2024, the Company closed the first tranche of a non-brokered private placement of convertible debenture units of the Company announced in September 2024 for gross proceeds of $4,276,389, of which $2,250,000 was received as subscriptions as of September 30, 2024, and $1,424,788 was issued in exchange for the outstanding debentures in the principal amount of $1,365,000 and accrued interest of $59,788. Each debenture unit consists of one convertible debenture (a “Debenture”) in the principal amount of $1,000 and 523 common share purchase warrants. Each warrant is exercisable for a period of five years from the date of issuance for one common share of the Company (a “Share”) at an exercise price of $1.91 per share. As a result, the Company issued convertible debentures with an aggregate principal amount of $4,276,389 and 2,236,551 Warrants. The Debentures are secured by the Company’s assets, mature one-year from the date of issuance, and bear simple interest at a rate of 10% per annum, payable on the maturity date or upon repayment of all or any portion of the Debenture. The Debentures are convertible into common shares of the Company at a conversion price of $1.91 per share. Interest is payable in cash or shares based on the same conversion price.

iii) In October 2024, the Company retired its previously outstanding debentures of $1,365,000 along with accrued interest of $59,788 in exchange for the new debenture units. The debenture holders also agreed to cancel a total of 401,310 warrants issued in connection with the debentures. This exchange was assessed as a debt extinguishment and a loss of $105,349 was recognized in October 2024.

iv) The Company’s Long Term Incentive Plan was approved by Board on October 2, 2024, which Long Term Incentive Plan was amended and such amended plan was approved by the Board on October 23, 2024 (as amended, the “Long Term Incentive Plan”) and was approved by shareholders at the Company’s Annual General Meeting of Shareholders on November 4, 2024. The Board approved the adoption of the Long-Term Incentive Plan to replace the Company’s 2017 Stock Option Plan and all awards previously issued under the 2017 Stock Option Plan will be deemed issued under the Long-Term Incentive Plan. The maximum aggregate number of Shares issuable in respect of all Incentive Securities granted or issued under the Company’s Security Based Compensation Plans, at any point, shall not exceed (twenty percent (20%) of the total number of issued and outstanding Shares.

16. SUPPLEMENTAL INFORMATION ON OIL AND GAS OPERATIONS (UNAUDITED)

Supplemental unaudited information regarding Permex's oil and gas activities is presented in this note. All of Permex's reserves are located within the U.S.

Costs Incurred in Oil and Gas Producing Activities

	12 Months Ended September 30, 2024	12 Months Ended September 30, 2023
Acquisition of proved properties	$ -	$ -
Acquisition of unproved properties	-	-
Development costs	3,227	2,019,639
Exploration costs	-	-
Total costs incurred	$ 3,227	$ 2,019,639

Results of Operations from Oil and Gas Producing Activities

	12 Months Ended September 30, 2024	12 Months Ended September 30, 2023
Oil and gas revenues	$ 116,033	$ 688,827
Production costs	(196,428)	(879,471)
Exploration expenses	-	-
Depletion, depreciation and amortization	(40,580)	(104,798)
Impairment of oil and gas properties	-	-
Result of oil and gas producing operations before income taxes	(120,975)	(295,442)
Provision for income taxes	-	-
Results of oil and gas producing activities	$ (120,975)	$ (295,442)

16. SUPPLEMENTAL INFORMATION ON OIL AND GAS OPERATIONS (UNAUDITED) (cont'd…)

Proved Reserves

The Company's proved oil and natural gas reserves have been estimated by the certified independent engineering firm, MKM Engineering. Proved reserves are the estimated quantities that geologic and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are the quantities expected to be recovered through existing wells with existing equipment and operating methods when the estimates were made. Due to the inherent uncertainties and the limited nature of reservoir data, such estimates are subject to change as additional information becomes available. The reserves actually recovered and the timing of production of these reserves may be substantially different from the original estimate. Revisions result primarily from new information obtained from development drilling and production history; acquisitions of oil and natural gas properties; and changes in economic factors.

Our proved reserves are summarized in the table below:

	Oil (Barrels)	Natural Gas (Mcf)	BOE (Barrels)
Proved developed and undeveloped reserves:			
September 30, 2022	6,237,070	3,001,170	6,737,265
Revisions	(3,588,541)	(951,270)	(3,747,086)
Purchase of proved reserves	-	-	-
Sale reserves	-	-	-
Production	(11,729)	(7,500)	(12,979)
September 30, 2023	2,636,800	2,042,400	2,977,200
Revisions	(939,436)	(904,200)	(1,090,136)
Purchase of proved reserves	-	-	-
Sale reserves	-	-	-
Production	(1,964)	-	(1,964)
September 30, 2024	1,695,400	1,138,200	1,885,100
Proved developed reserves:			
September 30, 2022	1,153,870	864,770	1,297,998
September 30, 2023	1,027,100	765,300	1,154,650
September 30, 2024	508,700	279,600	555,300
Proved undeveloped reserves:			
September 30, 2022	5,083,200	2,136,400	5,439,267
September 30, 2023	1,609,700	1,277,100	1,822,550
September 30, 2024	1,186,700	858,600	1,329,800

16. SUPPLEMENTAL INFORMATION ON OIL AND GAS OPERATIONS (UNAUDITED) (cont'd…)

Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves

The following information is based on the Company's best estimate of the required data for the Standardized Measure of Discounted Future Net Cash Flows as of September 30, 2024 and 2023 in accordance with ASC 932, "Extractive Activities – Oil and Gas" which requires the use of a 10% discount rate. This information is not the fair market value, nor does it represent the expected present value of future cash flows of the Company's proved oil and gas reserves.

Future cash inflows for the years ended September 30, 2024 and 2023 were estimated as specified by the SEC through calculation of an average price based on the 12-month unweighted arithmetic average of the first-day-of-the-month price for the period from October through September during each respective fiscal year. The resulting net cash flow are reduced to present value by applying a 10% discount factor.

	12 Months Ended	
	September 30, 2024	September 30, 2023
Future cash inflows	$ 134,081,000	$ 211,828,000
Future production costs(1)	(31,752,000)	(40,061,000)
Future development costs	(17,496,000)	(17,241,000)
Future income tax expenses	(19,746,000)	(39,262,000)
Future net cash flows	65,087,000	115,264,000
10% annual discount for estimated timing of cash flows	(36,997,000)	(60,184,000)
Standardized measure of discounted future net cash flows at the end of the fiscal year	$ 28,090,000	$ 55,080,000

(1) Production costs include crude oil and natural gas operations expense, production ad valorem taxes, transportation costs and G&A expense supporting the Company's crude oil and natural gas operations.

Average hydrocarbon prices are set forth in the table below.

	Average Price Crude Oil (Bbl)	Natural Gas (Mcf)
Year ended September 30, 2022 (1)	$ 91.72	$ 5.79
Year ended September 30, 2023 (1)	$ 78.54	$ 3.42
Year ended September 30, 2024 (1)	$ 78.64	$ 2.21

(1) Average prices were based on 12-month unweighted arithmetic average of the first-day-of-the-month prices for the period from October through September during each respective fiscal year.

Future production and development costs, which include dismantlement and restoration expense, are computed by estimating the expenditures to be incurred in developing and producing the Company's proved crude oil and natural gas reserves at the end of the year, based on year-end costs, and assuming continuation of existing economic conditions.

16. SUPPLEMENTAL INFORMATION ON OIL AND GAS OPERATIONS (UNAUDITED) (cont'd…)

Sources of Changes in Discounted Future Net Cash Flows

Principal changes in the aggregate standardized measure of discounted future net cash flows attributable to the Company's proved crude oil and natural gas reserves, as required by ASC 932, at fiscal year-end are set forth in the table below.

	12 Months Ended	
	September 30, 2024	September 30, 2023
Standardized measure of discounted future net cash flows at the beginning of the year	$ 55,080,000	$ 144,729,000
Extensions, discoveries and improved recovery, less related costs	-	-
Sales of minerals in place	-	-
Purchase of minerals in place	-	-
Revisions of previous quantity estimates	(25,208,000)	(103,529,000)
Net changes in prices and production costs	(4,323,000)	(52,170,000)
Accretion of discount	7,400,000	19,862,000
Sales of oil produced, net of production costs	80,000	191,000
Changes in future development costs	(107,000)	27,173,000
Changes in timing of future production	(15,706,000)	(16,145,000)
Net changes in income taxes	10,874,000	34,969,000
Standardized measure of discounted future net cash flows at the end of the year	$ 28,090,000	$ 55,080,000