PERMEX PETROLEUM CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Six Months Ended March 31, 2018

(Unaudited – Prepared by Management)

MANAGEMENT'S RESPONSIBILITY FOR INTERIM FINANCIAL REPORT

The accompanying unaudited condensed consolidated interim financial report of Permex Petroleum Corporation (the "Company") has been prepared by and is the responsibility of the Company's management. The Company's independent auditor has not performed a review of this financial report.

PERMEX PETROLEUM CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited – Prepared by Management)

	Note	March 31, 2018	September 30, 2017
ASSETS			
Current assets			
Cash		$ 2,481	$ 552,169
Trade and other receivables	6	165,602	154,664
Prepaid expenses and deposits		90,595	21,266
		258,678	728,099
Non-current assets			
Restricted cash	7	25,000	25,000
Reclamation deposits	9	283,800	156,250
Prepaid expenses and deposits – non-current	9	-	112,348
Deferred property acquisition costs	8	-	329,083
Property and equipment	9	4,583,707	3,599,895
		4,892,507	4,222,576
Total assets		$ 5,151,185	$ 4,950,675
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	10	$ 488,169	$ 164,730
Amounts due to related parties	12	35,379	7,500
		523,548	172,230
Non-current liabilities			
Decommissioning liabilities	11	921,671	697,677
Total liabilities		1,445,219	869,907
Equity			
Share capital	13	4,234,211	3,238,632
Reserves	13	1,121,052	270,660
Share subscription proceeds	13	-	720,000
Commitment to issue shares	13,20	87,500	12,500
Deficit		(1,736,797)	(161,024)
Total equity		3,705,966	4,080,768
Total liabilities and equity		$ 5,151,185	$ 4,950,675

Nature of business (Note 1)
Commitments (Note 20)

The financial statements were authorized for issue by the board of directors on May 30, 2018 and were signed on its behalf by:

"Mehran Ehsan" Director *"Scott Kelly"* Director

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

PERMEX PETROLEUM CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Unaudited – Prepared by Management)

	Note	Three Months Ended March 31, 2018	Six Months Ended March 31, 2018
Revenue			
Oil and gas sales		$ 128,379	$ 240,912
Direct operating expenses			
Producing and operating		(124,171)	(234,031)
		4,208	6,881
Expenses			
Accounting and audit		58,800	115,395
Accretion of decommissioning liabilities	11	5,901	11,802
Consulting	12	20,295	78,498
Depletion and depreciation	9	11,414	24,297
Filing and transfer agent		2,235	7,269
Legal fees		19,759	95,814
Marketing and promotion		76,314	168,813
Office and miscellaneous		32,177	42,451
Property taxes		-	18,032
Rent		12,267	24,326
Salaries	12	51,485	104,355
Share-based payments	12	-	850,392
Travel		26,808	47,572
		(317,455)	(1,589,016)
Other items			
Foreign exchange gain		7,750	6,362
Loss and comprehensive loss for the period		$ (305,497)	$ (1,575,773)
Basic and diluted loss per common share	13	$ (0.01)	$ (0.06)

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

PERMEX PETROLEUM CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited – Prepared by Management)

	Note	Number of Shares		Share capital		Reserves		Share subscription proceeds		Commitment to issue shares		Deficit		Total equity
Balance, September 30, 2017		23,815,000	$	3,238,632	$	270,660	$	720,000	$	12,500	$	(161,024)	$	4,080,768
Shares repurchased for cancellation	13	(139)		(56)		-		-		-		-		(56)
Private placements	13	3,507,500		1,003,000		-		(720,000)		-		-		283,000
Share issuance costs	13	-		(7,365)		-		-		-		-		(7,366)
Commitment to issue shares	13	-		-		-		-		75,000		-		75,000
Share-based payments	13	-		-		850,392		-		-		-		850,392
Loss for the period		-		-		-		-		-		(1,575,773)		(1,270,276)
Balance, March 31, 2018		27,322,361	$	4,234,211	$	1,121,052	$	-	$	87,500	$	(1,736,797)	$	3,705,966

	Note	Number of Shares		Share capital		Reserve		Share subscription proceeds		Commitment to issue shares		Deficit		Total equity
Balance, April 24, 2017 (date of incorporation)		1	$	1	$	-	$	-	$	-	$	-	$	1
Cancellation of incorporation share	13	(1)		(1)		-		-		-		-		(1)
Acquisition of Permex LP net assets	5	23,815,000		3,238,632		270,660		-		-		-		3,509,292
Private placements	13	-		-		-		720,000		-		-		720,000
Commitment to issue shares	13	-		-		-		-		12,500		-		12,500
Loss for the period		-		-		-		-		-		(161,024)		(161,024)
Balance, September 30, 2017		23,815,000	$	3,238,632	$	270,660	$	720,000	$	12,500	$	(161,024)	$	4,080,768

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

PERMEX PETROLEUM CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED MARCH 31, 2018
(Unaudited – Prepared by Management)

CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss for the period	$ (1,575,773)
Items not affecting cash:	
Accretion of decommissioning liabilities	11,802
Commitment to issue shares	75,000
Depletion and depreciation	24,297
Foreign exchange gain	(8,800)
Share-based payments	850,392
Changes in non-cash working capital items:	
Trade and other receivables	(10,938)
Prepaid expenses and deposits	43,019
Trade and other payables	173,782
Amounts due to related parties	27,879
Net cash used in operating activities	(389,340)
CASH FLOWS FROM INVESTING ACTIVITIES	
Capital expenditures on property and equipment	(435,927)
Net cash used in investing activities	(435,927)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from issuance of share capital	283,000
Share issuance costs	(7,365)
Repurchase of common shares	(56)
Net cash provided by financing activities	275,579
Change in cash during the period	(549,688)
Cash, beginning of the period	552,169
Cash, end of the period	$ 2,481

Supplemental cash flow information (Note 15)

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

1. NATURE OF BUSINESS

Permex Petroleum Corporation (the “Company”) was incorporated on April 24, 2017 under the laws of British Columbia, Canada and maintains its head office at Suite 1290, 625 Howe Street, Vancouver, British Columbia, Canada, V6C 2T6. 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 seeking to list on the Canadian Stock Exchange (“CSE”) through an Initial Public Offering (“IPO”).

On November 13, 2017, the Company signed an engagement letter with Canaccord Genuity Corp. and Gravitas (collectively, the “Agents”) to act as Agents in connection with the proposed IPO of securities of the Company and concurrent listing of the common shares of the Company on the CSE. It was anticipated that the IPO would seek aggregate gross proceeds of a minimum of $2,500,000 through the sale of 5,000,000 common shares at $0.50 per share, and up to a maximum of $10,000,000 through the sale of 20,000,000 common shares at $0.50 per share. The Company filed its preliminary prospectus in connection with the IPO on December 22, 2017 and obtained a receipt for its final prospectus filed with the securities regulatory authorities in each of the provinces of British Columbia, Alberta, Saskatchewan and Ontario on March 7, 2018.

On May 16, 2018, the Company completed its IPO of 8,135,500 common shares of the Company at a price of $0.50 per share for aggregate gross proceeds of $4,067,750. In connection with the IPO, the Company paid the Agents a cash commission of $325,420 and legal and other fees of $146,161, and issued 203,387 common shares of the Company with a fair value of $101,694 as a corporate financing fee and 650,840 agent’s warrants. Each agent’s warrant entitles the holder to acquire one common share at a price of $0.50 until May 16, 2021.

The Company’s common shares commenced trading on the Canadian Securities Exchange (the "CSE") on May 17, 2018 under the symbol “OIL”.

2. BASIS OF PREPARATION

Statement of compliance

These condensed unaudited interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*.

The condensed unaudited interim consolidated financial statements do not include all of the disclosures required for a complete set of annual financial statements and should be read in conjunction with the audited annual financial statements for the period from incorporation on April 24, 2017 to September 30, 2017, which have been prepared in accordance with IFRS as issued by the IASB.

Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Permex Petroleum US Corporation. All inter-company transactions, balances, income and expenses are eliminated in full on consolidation.

2. BASIS OF PREPARATION (cont'd…)

Basis of measurement

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values. In addition these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Functional and presentation currency

These condensed interim consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiary.

Going concern of operations

These condensed interim 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 and not yet achieved profitable operations. The Company's ability to continue as a going concern is dependent on its ability to obtain adequate financing on reasonable terms from lenders, shareholders and other investors and/or to commence profitable operations in the future. While the Company has been successful in securing financing to date, there can be no assurances that it will be able to do so in the future. The aforementioned factors indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Subsequent to March 31, 2018, the Company completed its IPO of of 8,135,500 common shares of the Company at a price of $0.50 per share for aggregate gross proceeds of $4,067,750.

These condensed interim consolidated financial statements do not include adjustments that would be required if the going concern assumption is not an appropriate basis for preparation of the financial statements. These adjustments could be material.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out in the Company's audited annual consolidated financial statements for the period from incorporation on April 24, 2017 to September 30, 2017 were consistently applied to all the periods presented unless otherwise noted below.

Comparative information

Certain comparative information in these financial statements has been reclassified to conform to the presentation of the current period financial statements.

New accounting policies

There were no new standards effective for periods beginning on or after January 1, 2017 that had an impact on the Company's financial statements. A number of new standards and amendments to existing standards have been issued by the IASB that are mandatory for accounting periods beginning on or after January 1, 2018, or later periods. The Company has not applied these new standards in preparing these condensed interim consolidated financial statements. The following pronouncements are considered by the Company to be the most significant of several pronouncements that may affect the financial statements in future periods.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

New accounting policies (cont'd…)

- New standard IFRS 9 *Financial Instruments* ("IFRS 9") has been issued by the IASB to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 has two measurement categories: amortized cost and fair value. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018.

- New standard IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") has been issued by IASB to replace IAS 18 *Revenue* and IAS 11 *Construction Contracts*. This new standard sets out the requirements for recognizing and disclosing revenues that apply to all contracts with customers. The effective date of IFRS 15 is for annual periods beginning on or after January 1, 2018.

- New standard IFRS 16 *Leases* ("IFRS 16") has been issued by the IASB to replace IAS 17 Leases. This new standard sets out the requirements for recognizing and disclosing leases. The objective is to ensure that lessees and lessors provide relevant information that faithfully represents the transactions. The effective date of IFRS 16 is for annual periods beginning on or after January 1, 2019.

The Company is currently assessing the impact that these new standards will have on its financial statements and has not early adopted any of the new standards.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of these condensed interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and reported amounts of revenue and expenses during the reporting period. Actual outcomes could differ from these estimates. The condensed interim consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future years.

<u>Critical accounting judgments</u>

Identification of Cash-generating units ("CGUs")

The Company's assets are aggregated into CGUs for the purpose of calculating impairment. CGUs are based on an assessment of the unit's ability to generate independent cash inflows. The determination of these CGUs is based on management's judgment with regard to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality.

Recoverability of asset carrying values

At each reporting date, the Company assesses its petroleum and natural gas properties and exploration and evaluation assets for possible impairment, to determine if there is any indication that the carrying amounts of the assets may not be recoverable.

The determination of the functional currency

The functional currency of the Company is the currency of the Company's economic environment and the Company reconsiders the functional currency if there is a change in events and conditions, which determines the primary economic environment.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (cont'd…)

Critical accounting estimates and assumptions

Decommissioning obligations

Decommissioning obligations require the use of management's best estimates of future decommissioning expenditures, expected timing of expenditures and future inflation rates.

Depreciation

Equipment is amortized over the estimated useful life of the assets. Changes in the estimated useful lives or depreciation rate used could significantly increase or decrease the amount of depreciation recorded during the period and the carrying value of equipment.

Petroleum and natural gas interests

Reserves resources are used in the unit-of-production calculation for depreciation and depletion and the impairment analysis, which affects net loss. There are numerous uncertainties inherent in estimating petroleum and natural gas ("P&NG") reserves. Estimating reserves is complex, requiring many judgments based on geological, geophysical, engineering and economic data. Changes in these judgments could have a material impact on the estimated reserves. These estimates may change, having either a negative or positive effect on net earnings as further information becomes available and as the economic environment changes.

Share-based payments

The determination of the fair value of stock options and agent's warrants using stock pricing models, require the input of highly subjective assumptions, including the expected price volatility. Changes in the subjective input assumptions could materially affect the fair value estimate.

Going concern assumption

The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

5. ASSET ACQUISITION

On August 31, 2017, the Company entered into an Asset Purchase Agreement ("APA") with Permex Petroleum Limited Partnership ("Permex LP"), whereby the Company would purchase the majority of Permex LP's assets and liabilities as at August 31, 2017 in exchange for the issuance of 23,815,000 common shares of the Company. Permex LP subsequently distributed the common shares received to its partnership unitholders and dissolved the partnership.

5. ASSET ACQUISITION (cont'd…)

The transfer of assets between entities under common control is excluded from the scope of IFRS 3 – Business Combinations. The Company has accounted for the acquisition using the predecessor accounting method with assets transferred and liabilities assumed based on the carrying amounts recorded by Permex LP as at August 31, 2017. The carrying value of the net assets of Permex LP transferred is as follows.

Cash	$	187,782
Trade and other receivables		131,263
Amount due from related party		11,774
Prepaid expenses and deposits – current		23,649
Prepaid expenses and deposits – non-current		112,349
Property and equipment		3,460,143
Reclamation deposits		93,750
Trade and other payables		(155,131)
Decommissioning liabilities		(626,947)
	$	3,238,632

Permex LP also forgave an amount owing totalling $270,660 pertaining to amounts paid directly on the Company's behalf. The forgiveness was pursuant to the terms of the APA, and has been accounted for as a contribution and recorded to reserves.

6. TRADE AND OTHER RECEIVABLES

		March 31, 2018		September 30, 2017
Trade receivables	$	64,015	$	70,031
GST recoverable		93,023		81,337
Other receivables		3,613		3,296
	$	165,602	$	154,664

The Company anticipates full recovery of its receivables and therefore no allowance has been recorded against these amounts as at March 31, 2018 (September 30, 2017 - none).

7. RESTRICTED CASH

The Company has provided a corporate credit card to its Chief Executive Officer ("CEO") with a credit limit totalling $25,000 for the Company's expenses. As collateral for the credit cards, the Company has a one-year term deposit of $25,000 earning annual interest of 0.5%.

8. DEFERRED PROPERTY ACQUISITION COSTS

In September 2017, the Company paid $329,083 to a related party of which $210,333 (US$170,000) was to acquire a 100% working interest in certain oil and gas leases located in New Mexico, US, known as the West Henshaw and Oxy Yates projects. The additional $118,750 (US$95,000) was paid to purchase reclamation bonds in connection with the future operation of the projects. As at September 30, 2017, the title and working interest had not yet been transferred to the Company and was contingent on the Company incorporating a new U.S. subsidiary. On November 30, 2017 the Company incorporated a wholly-owned US subsidiary, Permex Petroleum U.S. Corporation and completed the acquisition of the West Henshaw and Oxy Yates projects. As a result of the acquisition, $210,333 was reclassified to property and equipment and $118,750 was reclassified to reclamation deposits (Note 9).

9. PROPERTY AND EQUIPMENT

	Oil and natural gas properties	Corporate	Total
Cost			
Balance at April 24, 2017	$ -	$ -	$ -
Acquisition of Permex LP	3,430,315	29,828	3,460,143
Additions	74,245	-	74,243
Change in decommissioning provisions	70,730	-	70,730
Balance at September 30, 2017	$ 3,575,290	$ 29,828	$ 3,605,118
Additions	795,917	-	795,917
Change in decommissioning provisions	212,192	-	212,192
Balance at March 31, 2018	$ 4,583,399	$ 29,828	$ 4,613,227
Accumulated depletion and depreciation			
Balance at April 24, 2017	$ -	$ -	$ -
Depletion and depreciation	4,042	1,181	5,223
Balance at September 30, 2017	$ 4,042	$ 1,181	$ 5,223
Depletion and depreciation	17,213	7,084	24,297
Balance at March 31, 2018	$ 21,255	$ 8,265	$ 29,520
Net amount			
Balance at March 31, 2018	$ 4,562,144	$ 21,563	$ 4,583,707
Balance at September 30, 2017	$ 3,571,248	$ 28,647	$ 3,599,895

The Company is engaged in the exploration for, and the development of, petroleum and natural gas projects in the United States. The Company holds 100% working interests and 70% to 89% net revenue interests in the various oil and gas properties located in Texas and New Mexico. The Company operates a total of 98 wells on these properties.

As of March 31, 2018, the Company held reclamation bonds of $283,800 (US$220,000) (September 30, 2017 - $156,250 (US$125,000), which are expected to be released after all reclamation work has been completed with regard to its oil and natural gas interests. Further, as at September 30, 2017, the Company has $112,348 in prepayments outstanding for property and equipment expenditures. The amount was transferred to property and equipment during the three months ended March 31, 2018 upon completion of the work.

10. TRADE AND OTHER PAYABLES

	March 31, 2018	September 30, 2017
Trade payables	$ 431,788	$ 99,525
Accrued liabilities	5,923	20,000
Other payables	50,458	45,205
	$ 488,169	$ 164,730

Trade payables of the Company are principally comprised of amounts outstanding for trade purchases relating to oil and gas and general operating activities. The usual credit period taken for trade purchases is between 30 to 90 days.

11. DECOMMISSIONING LIABILITIES

The total future decommissioning obligations are based on the Company's net ownership in wells and facilities, estimated costs to reclaim and abandon the wells and facilities, and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of estimated cash flows required to settle the Company's liabilities is approximately $1,455,000 as at March 31, 2018 (September 30, 2017 - $980,725) and expected to be incurred on average in 20 years. The estimated net present value of the decommissioning liabilities was calculated using an inflation factor of 2.0% and discounted using a risk-free rate of 2.63% based on expected settlement date.

Changes to the decommissioning liabilities are as follows:

	March 31, 2018	September 30, 2017
Decommissioning liabilities, beginning of the year	$ 697,677	$ -
Acquisition of Permex LP	-	626,947
New liabilities recognized	212,192	70,730
Accretion expense	11,802	-
	$ 921,671	$ 697,677

12. RELATED PARTY TRANSACTIONS

Key management personnel include directors (executive and non-executive) and officers of the Company. The compensation paid or payable to key management personnel during the six month period ended March 31, 2018 is as follows:

Consulting fees	$	15,000
Salaries		75,000
Share-based payments		700,873
Total	$	790,873

On August 1, 2017, the Company entered into an employment agreement with the CEO of the Company for monthly base salary of $12,500, with no specified term. The employment agreement may be terminated with twelve months' notice or a termination payment equal to twelve months of accrued base salary and a bonus equal to 20% of the annual salary.

As at March 31, 2018, a total of $22,500 (September 30, 2017 - $7,500) is owing to the Company's Chief Financial Officer ("CFO") for consulting services provided and has been included in trade and other payables. The amount is unsecured, non-interest bearing, and repayable on demand.

During the six months ended March 31, 2018, the Company received a loan of $12,879 from the CEO of the Company (September 30, 2017 - $nil). The loan is unsecured, non-interest bearing, and has no specific terms of repayment. Subsequent to March 31, 2018, the Company repaid the loan in full.

13. SHARE CAPITAL

Authorized share capital

The Company has authorized an unlimited number of common shares with no par value.

Issued share capital

At March 31, 2018, the Company had 27,322,361 common shares outstanding (September 30, 2017 - 23,815,000).

Share issuance

During the six months ended March 31, 2018, the Company:

a) Completed a non-brokered private placement of 2,000,000 common shares at a price of $0.20 per share for gross proceeds of $400,000, of which $380,000 was received in advance during the period ended September 30, 2017.

b) Completed a non-brokered private placement of 1,507,500 common shares at a price of $0.40 per share for gross proceeds of $603,000, of which $340,000 was received in advance during the period ended September 30, 2017. The Company incurred legal expenses of $7,365 in connection with the private placement.

c) Repurchased 139 common shares for gross proceeds of $56 for cancellation.

13. SHARE CAPITAL (cont'd…)

Share issuance (cont'd…)

During the period from incorporation on April 24, 2017 to September 30, 2017, the Company:

a) On April 24, 2017, the Company issued 1 incorporation share on incorporation. The Company subsequently cancelled the incorporation share.

b) On August 31, 2017, the Company issued 23,815,000 common shares to unitholders of Permex LP pursuant to the APA to acquire certain assets and liabilities of Permex LP. The shares were recorded at the carrying value of the net assets transferred from Permex LP (Note 5).

Commitment to issue shares

As at March 31, 2018, the Company is committed to issue 218,750 common shares with a value of $87,500 (September 30, 2017 - 31,250 common shares with a value of $12,500) to Gravitas Securities Inc. ("Gravitas") pursuant to the terms of a financial advisory services agreement (Note 20). Subsequent to March 31, 2018, the Company issued 218,750 common shares at $0.40 per share to fulfill the commitment (Note 21).

Basic and diluted loss per share

The calculation of basic and diluted loss per share for the six month period ended March 31, 2018 was based on the loss attributable to common shareholders of $1,575,773 and a weighted average number of common shares outstanding of 26,578,387.

14. SHARE-BASED PAYMENTS

Stock options

The Company has a stock option plan (the "Plan") in place under which it is authorized to grant options to executive officers and directors, employees and consultants. Pursuant to the Plan, the Company may issue aggregate stock options totaling up to 10% of the issued and outstanding common stock of the Company. Further, the Plan 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.

14. SHARE-BASED PAYMENTS (cont'd…)

Stock options (cont'd…)

Stock option transactions are summarized as follows:

	Number of options		Weighted Average Exercise Price
Balance, April 24 and September 30, 2017	-	$	-
Granted	2,975,573		0.48
Balance, March 31, 2018	2,975,573	$	0.48
Exercisable at March 31, 2018	2,275,000	$	0.50
Weighted average fair value of options granted during the period	$ 0.38		

The options outstanding at March 31, 2018 have an exercise price in the range of $0.40 to $0.50 and a weighted average remaining contractual life of 9.68 years.

The total share-based payments calculated for stock options granted during the six months ended March 31, 2018 was $1,121,760 using the Black-Scholes option pricing model. During the six months ended March 31, 2018, the Company recognized share based payment expense of $850,392 for the portion of stock options that vested during the period. The 700,573 stock options granted to Gravitas (Note 20) will vest 25% every three months commencing three months after the completion of the IPO.

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted:

Risk-free interest rate	1.69%
Expected life of options	5 Years
Expected annualized volatility	100%
Dividend rate	Nil

15. SUPPLEMENTAL CASH FLOW INFORMATION

Significant non-cash transactions during the six months ended March 31, 2018 included:

a) Included in trade and other payables are $167,678 related to property and equipment.

b) Net changes in respect to non-cash adjustments to the Company's decommissioning liabilities totalled $212,192.

c) $210,333 of deferred property acquisition costs was reclassified to property and equipment and $118,750 was reclassified to reclamation deposits.

16. FINANCIAL INSTRUMENTS

The Company classified its financial instruments as follows: cash, trade and other receivables, restricted cash and reclamation deposits as loans and receivables and measured at amortized cost; and trade and other payables and amounts due to related parties, as other financial liabilities and measured at amortized cost. Information on certain types of financial instruments is included elsewhere in these financial statements as follows: trade and other receivables (Note 6), restricted cash (Note 7), reclamation deposits (Note 9), trade and other payables (Note 10), and amounts due to related parties (Note 12).

The carrying amount of cash, trade and other receivables, restricted cash, reclamation deposits, trade and other payables and amounts due to related parties carried at amortized cost is a reasonable approximation of fair value due to the relatively short period to maturity of these financial instruments and/or the rate of interest being charged.

Financial risk management

The Company's financial risks arising from its financial instruments are credit risk, liquidity risk, foreign currency exchange risk, interest rate risk and commodity price risk. The Company's exposures to these risks and the policies on how to mitigate these risks are set out below. Management monitors and manages these exposures to ensure appropriate measures are implemented on a timely basis and in an effective manner.

Credit risk

Credit risk is the risk of potential loss to the Company if the counter party to a financial instrument fails to meet its contractual obligations. The credit risk of the Company is associated with cash, trade and other receivables, amount due from related party, restricted cash and reclamation deposits. The credit risk with respect to its cash, restricted cash and reclamation deposits is minimal as they are held with high-credit quality financial institutions. The Company's GST recoverable is due from the Canadian Government. Management does not expect these counterparties to fail to meet their obligations. The Company does not anticipate any default of its trade receivables, as it transacts with creditworthy customers and management does not expect any losses from non-performance by these customers.

Liquidity risk

Liquidity risk is the risk that the Company will not meet its obligations associated with its financial liabilities as they fall due. The Company performs cash flow forecasting to ensure sufficient cash is available to fund its projects and operations. As at March 31, 2018, the Company has current assets of $258,678 and current liabilities of $523,548. The Company's financial liabilities include accrued expenses and trade and other payables which have contractual maturities of 30 days or are due on demand.

At present, the Company's operations do not generate positive cash flows. The Company's primary source of funding has been the issuance of equity securities through private placements and revenue from oil and gas production. Despite previous success in acquiring these financings, there is no guarantee of obtaining future financings. Subsequent to March 31, 2018, the Company completed its IPO of of 8,135,500 common shares of the Company at a price of $0.50 per share for aggregate gross proceeds of $4,067,750.

Foreign currency exchange risk

Foreign currency exchange risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's functional currency is the Canadian dollar and administrative expenditures are transacted in Canadian dollars. The Company funds its oil and gas operations in the United States by using United States dollars ("US dollars") converted from its Canadian bank accounts. At March 31, 2018, the Company had financial assets of $283,800 and financial liabilities of $287,438 denominated in United States dollars. A 10% strengthening of the US dollar would affect net loss by approximately $360. The Company does not hedge its foreign exchange risk.

16. FINANCIAL INSTRUMENTS (cont'd…)

Financial risk management (cont'd…)

Interest rate risk

The Company is exposed to interest rate risk arising from cash held in Canadian financial institutions. The interest rate risk on cash is not considered significant due to its short-term nature and maturity. The exposure to interest rates for the Company is considered minimal. The Company has not used any financial instrument to hedge potential fluctuations in interest rates.

Commodity price risk

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in the price of oil and natural gas. Commodity prices are impacted by world economic events that affect supply and demand, which are generally beyond the Company's control. Changes in crude oil prices may significantly affect the Company's results of operations, cash generated from operating activities, capital spending and the Company's ability to meet its obligations. The Company manages this risk by constantly monitoring commodity prices and factoring them into operational decisions, such as contracting or expanding its capital expenditures program.

17. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data or other means. Level 3 inputs are unobservable (supported by little or no market activity). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

As at March 31, 2018, the Company has no financial assets or financial liabilities measured at fair value. There have been no changes in these levels and no changes in classifications during the six months ended March 31, 2018.

18. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the acquisition and development of its oil and gas properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company considers shareholders' equity as the component of capital.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue additional shares, issue new debt, acquire or dispose of assets or adjust the amount of cash.

The Company is not subject to externally imposed capital requirements.

19. SEGMENTED 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.

Geographic segments

The Company's non-current assets are located in Canada and the United States as follows:

At March 31, 2018:

	Canada	USA	Total
Restricted cash	$ 25,000	$ -	$ 25,000
Reclamation deposits	$ -	$ 283,800	$ 283,800
Property and equipment	$ 21,563	$ 4,562,144	$ 4,583,707

At September 30, 2017:

	Canada	USA	Total
Restricted cash	$ 25,000	$ -	$ 25,000
Reclamation deposits	$ -	$ 156,250	$ 156,250
Prepaid expenses and deposits – non-current	$ -	$ 112,348	$ 112,348
Deferred property acquisition costs	$ -	$ 329,083	$ 329,083
Property and equipment	$ 28,647	$ 3,571,248	$ 3,599,895

All of the Company's oil and gas sales and direct operating expenses are incurred in the United States.

20. COMMITMENTS

Office lease

The Company has entered into an office lease agreement for its office premises for a term ending August 31, 2018. The minimum lease commitment under the lease for the remaining term is $11,740.

Advisory Agreement

On August 22, 2017, the Company entered into an Advisory Agreement with Gravitas whereby the Company will accrue $12,500 per month for services over a term of one year, subject to earlier termination. The fee will be payable in 31,250 common shares of the Company per month, which will be issued on a quarterly basis. As at March 31, 2018, a total of 218,750 common shares with a value of $87,500 has been accrued as a commitment to issue shares (September 30, 2017 - 31,250 common shares with a value of $12,500).

21. EVENTS AFTER THE REPORTING PERIOD

i) On May 16, 2018, the Company completed its IPO of of 8,135,500 common shares of the Company at a price of $0.50 per share for aggregate gross proceeds of $4,067,750. In connection with the IPO, the Company paid the Agents a cash commission of $325,420 and legal and other fees of $146,161, and issued 203,387 common shares of the Company with a fair value of $101,694 as a corporate financing fee and 650,840 agent's warrants. Each agent's warrant entitles the holder to acquire one common share at a price of $0.50 until May 16, 2021.

   The Company's common shares commenced trading on the Canadian Securities Exchange (the "CSE") on May 17, 2018 under the symbol "OIL".

ii) The Company issued 281,250 common shares with a value of $112,500 pursuant to the Advisory Agreement with Gravitas (Note 20).

iii) The Company granted stock options to an investor relations firm to purchase 356,612 common shares at an exercise price of $0.50 per share for a period of 3 years. The options will vest 25% every three months from the grant date.