PERMEX PETROLEUM CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2018

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Permex Petroleum Corporation

We have audited the accompanying consolidated financial statements of Permex Petroleum Corporation, which comprise the consolidated statements of financial position as at September 30, 2018 and 2017 and the consolidated statements of loss and comprehensive loss, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Permex Petroleum Corporation as at September 30, 2018 and 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

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Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Permex Petroleum Corporation's ability to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada | Chartered Professional Accountants

January 28, 2019

PERMEX PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT SEPTEMBER 30

	Note		2018		2017
ASSETS					
Current assets					
Cash		$	17,129	$	552,169
Trade and other receivables	6		357,031		154,664
Prepaid expenses and deposits			72,405		21,266
			446,565		728,099
Non-current assets					
Restricted cash	7		25,000		25,000
Reclamation deposits	9		252,525		156,250
Deposit – non-current	9		-		112,348
Deferred property acquisition costs	8		-		329,083
Property and equipment	9		9,188,303		3,599,895
Total assets		$	9,912,393	$	4,950,675
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	10	$	844,654	$	164,730
Amounts due to related parties	12		18,752		7,500
			863,406		172,230
Non-current liabilities					
Decommissioning liabilities	11		2,529,806		697,677
Deferred income tax liability	19		272,000		-
Total liabilities			3,665,212		869,907
Equity					
Share capital	13		7,626,979		3,238,632
Reserves	13		1,679,471		270,660
Share subscription proceeds	13		-		720,000
Commitment to issue shares	13		-		12,500
Accumulated other comprehensive loss			(296)		-
Deficit			(3,058,973)		(161,024)
Total equity			6,247,181		4,080,768
Total liabilities and equity		$	9,912,393	$	4,950,675

Nature of business (Note 1)
Commitments and contingencies (Note 20)
Events after the reporting period (Note 22)

The financial statements were authorized for issue by the board of directors on January 28, 2019 and were signed on its behalf by:

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

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

PERMEX PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

	Note	Year ended September 30, 2018	From incorporation on April 24, 2017 to September 30, 2017
Revenue			
Oil and gas sales		$ 941,089	$ 46,779
Direct operating expenses			
Producing and operating		(631,755)	(35,632)
		309,334	11,147
Expenses			
Accounting and audit		187,615	20,250
Accretion of decommissioning liabilities	11	28,371	-
Consulting	12	168,082	49,831
Depletion and depreciation	9	56,717	5,223
Filing and transfer agent		41,155	-
Investor relations and news dissemination		149,454	-
Legal fees		179,843	16,608
Marketing and promotion		419,104	27,953
Office and miscellaneous		101,428	10,016
Property taxes		18,032	-
Rent		49,460	4,020
Salaries	12	226,793	25,000
Share-based payments	12	1,177,486	-
Travel		94,872	13,667
		(2,898,412)	(172,568)
Other item			
Foreign exchange gain		3,754	397
Loss on share issued for services		(40,625)	-
		(36,871)	397
Loss before income taxes		(2,625,949)	(161,024)
Deferred income tax expense	19	(272,000)	-
Net loss for the year		(2,897,949)	(161,024)
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Foreign currency translation adjustment		(296)	-
Comprehensive loss for the year		$ (2,898,245)	$ (161,024)
Basic and diluted loss per common share	13	$ (0.10)	$ (0.04)

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

PERMEX PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Note	Number of Shares	Share capital	Reserves	Share subscription proceeds	Commitment to issue shares	Accumulated other comprehensive loss	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)
Initial public offering	13	8,135,500	4,067,750	-	-	-	-	-	4,067,750
Private placements	13	3,507,500	1,003,000	-	(720,000)	-	-	-	283,000
Corporate finance fees	13	203,387	101,694	-	-	-	-	-	101,694
Advisory fees	13	312,500	165,625	-	-	(12,500)	-	-	153,125
Share issuance costs	13	-	(949,666)	231,325	-	-	-	-	(718,341)
Share-based payments	13	-	-	1,177,486	-	-	-	-	1,177,486
Loss for the year		-	-	-	-	-	-	(2,897,949)	(2,897,949)
Other comprehensive loss for the year		-	-	-	-	-	(296)	-	(296)
Balance, September 30, 2018		35,973,748	$ 7,626,979	$ 1,679,471	$ -	$ -	$ (296)	$ (3,058,973)	$ 6,247,181

	Note	Number of Shares	Share capital	Reserve	Share subscription proceeds	Commitment to issue shares	Accumulated other comprehensive loss	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 consolidated financial statements.

PERMEX PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended September 30, 2018	From incorporation on April 24, 2017 to September 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	$ (2,897,949)	$ (161,024)
Items not affecting cash:		
Accretion of decommissioning liabilities	28,371	-
Depletion and depreciation	56,717	5,223
Deferred income taxes	272,000	-
Foreign exchange gain	(9,071)	-
Loss on share issued for services	40,625	-
Commitment to issue shares	-	12,500
Shares issued for services	112,500	-
Share-based payments	1,177,486	-
Changes in non-cash working capital items:		
Trade and other receivables	(202,367)	(11,627)
Prepaid expenses and deposits	(51,139)	2,384
Trade and other payables	462,119	88,488
Amounts due to related parties	11,252	-
Net cash used in operating activities	(999,456)	(64,056)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment	(2,545,879)	-
Capital expenditures on property and equipment	(785,002)	(56,224)
Deferred property acquisition costs	-	(210,333)
Reclamation deposits	31,250	-
Restricted cash	-	(25,000)
Net cash used in investing activities	(3,299,631)	(291,557)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	4,350,750	187,782
Share issuance costs	(586,647)	-
Proceeds from share subscriptions	-	720,000
Repurchase of common shares	(56)	-
Net cash provided by financing activities	3,764,047	907,782
Change in cash during the period	(535,040)	552,169
Cash, beginning of the period	552,169	-
Cash, end of the period	$ 17,129	$ 552,169

Supplemental cash flow information (Note 15)

The accompanying notes are an integral part of these 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. On May 16, 2018, the Company completed an Initial Public Offering ("IPO") and its 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 consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of consolidation

These 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.

Basis of measurement

These 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 consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company. The functional currency for the subsidiary of the Company is the United States dollar ("USD"), and the financial statement items of the subsidiary are measured using that functional currency.

2. BASIS OF PREPARATION (cont'd…)

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 and not yet achieved profitable operations. As at September 30, 2018, the Company had working capital deficiency of $416,841. 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.

These 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 below have been consistently applied to the period presented in these financial statements, unless otherwise indicated.

Cash

Cash consists of cash on hand and at banks and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash.

Exploration and evaluation assets

Pre-license costs are recognized in profit or loss as incurred. All exploratory costs incurred subsequent to acquiring the right to explore for oil and natural gas and before technical feasibility and commercial viability of the area have been established are capitalized. Such costs can typically include costs to acquire land rights, geological and geophysical costs, decommissioning costs and exploration well costs.

Exploration and evaluation costs are not depreciated and are accumulated in cost centers by well, field or exploration area and carried forward pending determination of technical feasibility and commercial viability.

The technical feasibility and commercial viability of extracting oil and gas from exploration and evaluation assets is considered to be generally determinable when proved and probable reserves are determined to exist. Upon determination of proved and probable reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to property and equipment, net of any impairment loss.

Management reviews and assesses exploration and evaluation assets to determine if technical feasibility and commercial viability exist. If management decides not to continue the exploration and evaluation activity, the unrecoverable costs are charged to profit or loss in the period in which the determination occurs.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Property and equipment

Property and equipment are stated at cost, less accumulated depletion and depreciation and accumulated impairment losses. All costs directly associated with the development of oil and natural gas reserves are capitalized on an area by area basis. Development costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include proved property acquisitions, development drilling, completion, gathering and infrastructure, decommissioning costs and transfers of exploration and evaluation assets.

Costs incurred subsequent to development and production that are significant are recognized as oil and gas properties only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of oil and gas properties are recognized in profit or loss.

Costs accumulated within each area are depleted using the unit-of-production method based on proved and probable reserves using estimated future prices and costs. Costs subject to depletion include estimated future costs to be incurred in developing proved and probable 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. There should be a 50 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proved and probable and a 50 percent probability that it will be less.

Such reserves may be considered commercially producible if management has the intention of developing and producing them. Such intention is based on:

- A reasonable assessment of the future economics of such production;
- A reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and
- Evidence that the necessary production, transmission and transportation facilities are available or can be made available.

Reserves may only be considered proved if supported by either actual production or conclusive formation tests. The area of reservoir considered proved includes (a) that portion delineated by drilling and defined by as-oil and/or oil-water contracts, if any, or both, and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data. In the absence of information of fluid contacts, the lowest known structural occurrence of oil and natural gas controls the lower proved limit of the reservoir.

Reserves that can be produced economically through application of improved recovery techniques such as fluid injection are only included in the proved classification when successful testing by a pilot project, the operation of such an installed program in the reservoir or other reasonable evidence (such as, experience of the same techniques on similar reservoirs or reservoir simulation studies) provides support for the engineering analysis on which the project or program was based.

Corporate assets consist primarily of leasehold improvements and computer equipment and are stated at cost less accumulated depreciation. Corporate assets are generally depreciated on a straight line basis over their estimated useful lives as follows:

Computer equipment	2 years
Leasehold improvements	5 years

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Property and equipment (cont'd…)

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. Any deferred consideration recorded on property dispositions are recognized as revenue in the statement of loss and comprehensive loss over the reserve life.

Impairment of long-lived assets

Cash-generating units ("CGUs")

Oil and gas properties are grouped into CGUs for purposes of impairment testing. Management has evaluated the oil and gas properties of the Company, and grouped the properties into CGUs on the basis of their ability to generate independent cash flows, similar reserve characteristics, geographical location and shared infrastructure.

Financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If a financial asset is impaired, the amount of the loss is measured as the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The loss is recognized in profit or loss in the period incurred.

Non-financial assets

Exploration and evaluation assets are assessed for impairment when they are reclassified to developing and producing assets and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

An impairment loss would be recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

When management judges that circumstances indicate potential impairment, property and equipment are tested for impairment by comparing the carrying values to their recoverable amounts. The recoverable amounts of CGUs are determined based on the higher of value in use calculations and fair value less costs to sell. Fair value less costs to sell can be determined by using an observable market or by using discounted future net cash flows of proved and probable reserves using forecasted prices and costs. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU.

These calculations require the use of estimates and assumptions that are subject to change as new information becomes available, including information on future commodity prices, expected production volumes, quantities of reserves, discount rates, future development costs and operating costs.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

Exploration and evaluation assets are grouped together with the Company's CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances, as well as upon their eventual reclassification to developing and producing assets (oil and natural gas properties).

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Decommissioning liabilities

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. A provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning liabilities are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. Changes in the present value of the estimated expenditure are reflected as an adjustment to the provision and the relevant asset. The unwinding of the discount on the decommissioning provision is recognized as an accretion expense. Actual costs incurred upon settlement of the decommissioning liabilities are charged against the provision to the extent the provision was recognized.

Financial instruments

(i) Financial assets

The Company classifies its financial assets into one of the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

Fair value through profit or loss

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss. None of the Company's financial assets are classified as fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at fair value plus any directly attributable transaction costs and subsequently carried at amortized cost less any impairment. The Company's loans and receivables comprise cash, trade and other receivables, restricted cash and reclamation deposits.

Held-to-maturity

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost at the settlement date using the effective interest method of amortization. None of the Company's financial assets are classified as held-to-maturity assets.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or not classified in any of the other financial asset categories. Subsequent to initial recognition, changes in the fair value of available-for-sale financial assets other than impairment losses are recognized as other comprehensive income and classified as a component of equity. When available-for-sale financial assets are sold, the accumulated fair value adjustments recognized in other comprehensive income are transferred to profit and loss. None of the Company's financial assets are classified as available-for-sale assets.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial instruments (cont'd…)

(ii) Financial liabilities

The Company classifies its financial liabilities as other financial liabilities which include trade and other payables. Other financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(iii) Impairment of financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset is impaired.

Loans and receivables

For loans and receivables, a provision for impairment is made and an impairment loss is recognized in profit or loss when there is objective evidence (such as default or delinquency by a debtor, the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the agreement. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Available-for-sale financial assets

For equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is evidence that the assets are impaired. The Company will measure impairment on the basis of an instrument's fair value using an observable market price. An amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Impairment losses recognised on equity instruments are not reversed through profit or loss if the unrealized fair value of the impaired equity instruments increases.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

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, net of tax, from the proceeds. Common shares issued for consideration other than cash are valued based on their market value at the date that the shares are issued.

The Company has adopted the residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Earnings (loss) per share

Basic earnings (loss) per share ("EPS") is calculated by dividing the EPS attributable to common shareholders by the weighted average number of common shares outstanding in the period. The diluted EPS reflects all dilutive potential common shares equivalents, in the weighted average number of common shares outstanding during the period, if dilutive. All of the outstanding stock options and warrants were anti-dilutive for the year ended September 30, 2018.

Share-based payments

Share-based payments to employees and others providing similar services are measured at grant date at the fair value of the instruments issued and amortized over the vesting periods using a graded approach. The amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. Each tranche in an award is considered a separate grant with a different vesting date and fair value and is accounted for on that basis.

Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received.

The offset to the recorded cost is to share-based payments reserve. 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. Consideration received on the exercise of stock options is recorded as share capital and the related share-based payments reserve is transferred to share capital.

The fair value of the stock options 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).

Foreign currencies

The financial statements for the Company and its subsidiary are prepared using their functional currencies. Functional currency is the currency of the primary economic environment in which an entity operates. The Company's presentation currency is Canadian dollars.

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. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are charged to profit or loss.

Financial statements of the subsidiary prepared under their functional currencies are translated into Canadian dollars for consolidation purposes as follows: assets and liabilities are translated using the exchange rate prevailing at the reporting date; revenue and expenses are translated using the average rates of exchange for the period. Gains and losses resulting from translation adjustments are recorded to other comprehensive income (loss) and accumulated in a separate component of shareholders' equity, described as foreign currency translation adjustment. In the event of a reduction of the Company's net investment in its foreign operations, the portion of accumulated other comprehensive income related to the reduction is realized and recognized in operations.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Revenue

Revenue from the sale of petroleum and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer, revenue can be measured reliably, and collectability is reasonably assured. Risks and rewards of ownership transfer when legal title passes to the external party. For natural gas, this is generally at the time product enters the pipeline. For crude oil, this is generally at the time the product reaches a trucking terminal. For natural gas liquids, this is generally at the time the product reaches a gas plant. Revenue is measured net of discounts, customs duties, royalties and withholding tax.

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 is recognized on temporary differences arising 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 income tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, only to the extent that it is probable that future taxable profit will be available against which they can be utilized.

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.

Comparative information

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

Recent Accounting Pronouncements

Certain new accounting standards, amendments to standards and interpretations have been issued, effective for annual years beginning on or after January 1, 2018.

<u>IFRS 15 – Revenue from Contracts with Customers</u>

IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") is a new standard on revenue that will supersede the following standards: IAS 11 – Construction Contracts; IAS 18 – Revenue; IFRIC 13 – Customer Loyalty Programmes; IFRIC 15 – Agreements for the Construction of Real Estate; IFRIC 18 – Transfers of Assets from Customers; and SIC 31 – Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes a comprehensive five-step framework for the timing and measurement of revenue recognition. This standard is effective for years beginning on or after January 1, 2018. The Company has assessed this standard to not have a significant impact on the Company's existing accounting policies or financial statement presentation.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Recent Accounting Pronouncements (cont'd…)

IFRS 9 – Financial Instruments

IFRS 9 – Financial Instruments ("IFRS 9") is a new standard on financial instruments that will replace IAS 39 – Financial Instruments: Recognition and Measurement. The standard addresses classification and measurement of financial assets and financial liabilities as well as derecognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is measured at fair value through profit or loss. This standard is effective for years beginning on or after January 1, 2018. The Company has assessed this standard to not have a significant impact on the Company's existing accounting policies or financial statement presentation

IFRS 16 – Leases

IFRS 16 – Leases ("IFRS 16") is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract: the lessee and the lessor. IFRS 16 eliminates the classification of leases as either operating or finance leases, as is currently required by IAS 17 – Leases, and instead introduces a single lessee accounting model. This standard is effective for years beginning on or after January 1, 2019. The Company is currently assessing the impact that this new standards will have on its financial statements and has not early adopted any of the new standard.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of these 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 consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the 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.

Critical accounting judgments

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 regards to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality.

Impairment assessment of property and equipment
The assessment of any impairment of property and equipment is dependent upon estimates of recoverable amounts that take into account factors such as reserves, economic and market conditions, timing of cash flows, the useful lives of assets and their related salvage values.

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. A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability. Provisions are not recognized for future operating losses.

Provisions for decommissioning associated with the Company's oil and gas operations are based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows may differ from estimates due to changes in laws and regulations, public expectations, prices, discovery and analysis of site conditions and changes in clean up technology. Estimates are made using internal and external information.

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

		2018		2017
Trade receivables	$	272,062	$	70,031
Goods and services taxes recoverable		51,159		81,337
Other receivables		33,810		3,296
	$	357,031	$	154,664

The Company anticipates full recovery of its receivables and therefore no allowance has been recorded against these amounts as at September 30, 2018 (September 30, 2017 - $nil).

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
Acquisitions		2,747,350		26,754		2,774,104
Capital expenditures		1,067,263		-		1,067,263
Change in decommissioning provisions		1,803,758		-		1,803,758
Balance at September 30, 2018	$	9,193,661	$	56,582	$	9,250,243
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		47,221		9,496		56,717
Balance at September 30, 2018	$	51,263	$	10,677	$	61,940
Net amount						
Balance at September 30, 2018	$	9,142,398	$	45,905	$	9,188,303
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 41% to 100% working interests and 34.7% to 81.3% net revenue interests in the various oil and gas properties located in Texas and New Mexico.

As of September 30, 2018, the Company held reclamation bonds of $252,525 (US$195,000) (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 year ended September 30, 2018 upon completion of the work.

10. TRADE AND OTHER PAYABLES

		2018		2017
Trade payables	$	708,789	$	99,525
Accrued liabilities		57,218		20,000
Other payables		78,647		45,205
	$	844,654	$	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 $3,070,577 as at September 30, 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% (2017 - 2.0%) and discounted using a risk-free rate of 3.13% (2017 - 2.63%) based on expected settlement date.

Changes to the decommissioning liabilities are as follows:

		2018		2017
Decommissioning liabilities, beginning of the year	$	697,677	$	-
Acquisition of Permex LP		-		626,947
New liabilities recognized		1,896,970		70,730
Change in discount rate		(93,212)		-
Accretion expense		28,371		-
	$	2,529,806	$	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 periods ended September 30 is as follows:

	2018	2017
Consulting fees	$ 36,250	$ 7,500
Salaries	150,000	25,000
Share-based payments	839,625	-
Total	$ 1,025,875	$ 32,500

On August 1, 2017, the Company entered into an employment agreement with its Chief Executive Officer ("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 September 30, 2018, a total of $1,252 (September 30, 2017 - $nil) is owing to the Company's CEO for expenses paid on behalf of the Company. The amount is unsecured, non-interest bearing, and repayable on demand.

As at September 30, 2018, a total of $17,500 (September 30, 2017 - $7,500) is owing to the Company's Chief Financial Officer ("CFO") for consulting services provided. The amount is unsecured, non-interest bearing, and repayable on demand.

13. SHARE CAPITAL

Authorized share capital

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

Issued share capital

At September 30, 2018, the Company had 35,973,748 common shares outstanding (September 30, 2017 - 23,815,000).

Escrowed shares

3,250,000 common shares issued prior to the completion of the IPO are subject to an escrow agreement dated March 7, 2018. Under the terms of the escrow agreement, 10% of the escrowed common shares will be released from escrow on the listing date and 15% will be released every six months thereafter over a period of thirty six months. As at September 30, 2018, 2,925,000 common shares remained in escrow. Subsequent to September 30, 2018, 487,500 common shares were released from escrow.

13. SHARE CAPITAL (cont'd…)

Share issuance

During the year ended September 30, 2018, the Company:

a) Completed an 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. The agent's warrants were valued at $231,325 using the Black-Scholes option pricing model (assuming a risk-free interest rate of 2.16%, an expected life of 3 years, annualized volatility of 120% and a dividend rate of 0%). Each agent's warrant entitles the holder to acquire one common share at a price of $0.50 until May 16, 2021. The Company also incurred filing, legal and other expenses of $137,701 in connection with the IPO.

b) Issued 312,500 common shares with a value of $165,625 pursuant to the Advisory Agreement with Gravitas Securities Inc. ("Gravitas").

c) 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.

d) 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.

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

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).

Basic and diluted loss per share

The calculation of basic and diluted loss per share for the year ended September 30, 2018 was based on the loss attributable to common shareholders of $2,897,949 (2017 - $161,024) and a weighted average number of common shares outstanding of 30,185,613 (2017 - 4,493,396).

At September 30, 2018, 2,631,612 stock options (2017 - nil) and 650,840 (2017 - nil) agent's warrants were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

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.

Stock option transactions are summarized as follows:

	Number of options		Weighted Average Exercise Price
Balance, April 24 and September 30, 2017	-	$	-
Granted	3,332,185		0.48
Cancelled	(700,573)		0.40
Balance, September 30, 2018	2,631,612	$	0.50
Exercisable at September 30, 2018	2,364,153	$	0.50
Weighted average fair value of options granted during the year	$ 0.43		(2017 - $nil)

The options outstanding at September 30, 2018 have an exercise price of $0.50 and a weighted average remaining contractual life of 9.1 years.

The total share-based payments calculated for stock options granted during the year ended September 30, 2018 was $1,442,893 using the Black-Scholes option pricing model. During the year ended September 30, 2018, the Company recognized share based payment expense of $1,177,486 for the portion of stock options that vested during the year.

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

Risk-free interest rate	1.89%
Expected life of options	8.2 Years
Expected annualized volatility	106.35%
Dividend rate	Nil

As at September 30, 2018 the following stock options were outstanding:

Number of Options	Exercise Price	Expiry Date
356,612	$ 0.50	May 16, 2021
2,275,000*	$ 0.50	December 4, 2027
2,631,612		

* 34,811 of these options were cancelled subsequent to September 30, 2018.

14. SHARE-BASED PAYMENTS (cont'd…)

Warrants

Agents' warrants are measured at fair value on the date of the grant as determined using the Black-Scholes option pricing model.

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, April 24 and September 30, 2017	-	$ -
Agent's warrants issued	650,840	0.50
Balance, September 30, 2018	650,840	$ 0.50

The warrants outstanding at September 30, 2018 have an exercise price of $0.50 and a weighted average remaining contractual life of 2.63 years.

As at September 30, 2018, the following warrants were outstanding:

	Number of Warrants	Exercise Price	Expiry Date
Agents' warrants	650,840	$ 0.50	May 16, 2021
	650,840		

15. SUPPLEMENTAL CASH FLOW INFORMATION

Significant non-cash transactions during the year ended September 30, 2018 included:

a) Included in trade and other payables are $205,826 related to property and equipment and $30,000 related to share issuance costs.

b) Net changes in respect to non-cash adjustments to the Company's decommissioning liabilities totalled $1,803,758.

c) $210,333 of deferred property acquisition costs and $112,348 of deposits were reclassified to property and equipment and $118,750 was reclassified to reclamation deposits.

15. SUPPLEMENTAL CASH FLOW INFORMATION (cont'd…)

Significant non-cash transactions during the period from April 24, 2017 to September 30, 2017 included:

a) Included in trade and other payables are $18,021 related to property and equipment.

b) Issued 23,815,000 common shares to unitholders of Permex LP pursuant to the APA (Note 5) with a value of $3,236,632.

c) Net changes in respect to non-cash adjustments to the Company's decommissioning liabilities totalled $70,730.

d) Forgiveness of Permex LP debt pursuant to the terms of the APA (Note 5) $270,660.

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.

16. FINANCIAL INSTRUMENTS (cont'd…)

Financial risk management (cont'd…)

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 September 30, 2018, the Company has current assets of $446,565 and current liabilities of $863,406. 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.

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 USD converted from its Canadian bank accounts. At September 30, 2018, the Company had financial assets of $543,200 and financial liabilities of $497,226 denominated in United States dollars. A 10% strengthening of the US dollar would affect net loss by approximately $3,000. The Company does not hedge its foreign exchange risk.

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 September 30, 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 year ended September 30, 2018.

18. 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 September 30, 2018:

	Canada	USA	Total
Restricted cash	$ 25,000	$ -	$ 25,000
Reclamation deposits	-	252,525	252,525
Property and equipment	45,905	9,142,398	9,188,303
	$ 70,905	$ 9,394,923	$ 9,465,828

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
	$ 53,647	$ 4,168,929	$ 4,222,576

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

19. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2018	2017
Loss before income taxes	$ (2,625,949)	$ (161,024)
Expected income tax recovery at statutory rates	$ (702,000)	$ (42,000)
Change in statutory, foreign tax, foreign exchange rates and other	(87,000)	-
Permanent differences	332,000	1,000
Share issuance cost	(165,000)	-
Unrecognized temporary differences	(36,000)	41,000
Adjustment to prior years provision versus statutory tax returns	930,000	-
Deferred income tax expense (recovery)	$ 272,000	$ -

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

	2018	2017
Non-capital losses available for future periods	$ 428,000	$ -
Property and equipment	(833,000)	-
Financing fees	133,000	-
Unrecognized deferred income tax assets (liabilities)	$ (272,000)	$ -

The significant components of the Company's deferred tax assets that have not been included on the consolidated statement of financial position are as follows:

	2018	2017
Non-capital losses available for future periods	$ 4,000	$ 40,000
	4,000	40,000
Unrecognized deferred tax assets	(4,000)	(40,000)
Net deferred income tax assets	$ -	$ -

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	2018	Expiry Date Range	2017	Expiry Date Range
Temporary differences:				
Financing fees	$ 493,000	2039 to 2042	$ -	
Non-capital losses available for future periods				
Canada	$ 1,584,000	2037 to 2038	$ 153,000	2037
USA	$ 19,000	No expiry date	$ -	

20. COMMITMENTS AND CONTINGENCIES

Office lease

The Company has entered into an office lease agreement for its office premises for a term ending August 31, 2023. The annual minimum lease commitments under the lease are as follows:

2019	$	49,487
2020		49,487
2021		49,581
2022		50,614
2023		46,396
	$	245,565

Service agreements

i) On June 18, 2018, the Company entered into a marketing consulting agreement for a six month term for a fee of $40,000, payable in common shares of the Company upon the next round of financing. As at September 30, 2018, the Company has accrued marketing fees of $23,333.

ii) On July 1, 2018, the Company entered into an investor awareness agreement for a three month term for a fee of $40,000, payable in common shares of the Company upon the next round of financing. As at September 30, 2018, the Company has accrued marketing fees of $40,000. Subsequent to September 30, 2018, the Company renewed the investor awareness agreement for an additional three month term (Note 22).

iii) On August 15, 2018, the Company entered into a business development consulting agreement for a six month term for a fee of $50,000, payable in common shares of the Company upon the next round of financing. As at September 30, 2018, the Company has accrued marketing fees of $12,500.

iv) On September 3, 2018, the Company entered into an online marketing agreement for a twelve month term for a fee of $8,200, payable in common shares of the Company upon the next round of financing. As at September 30, 2018, the Company has accrued marketing fees of $683.

Contingencies

During the year ended September 30, 2018, the Company received notice of a claim filed by a former consultant of Permex LP seeking an entitlement to share in the net profit of Permex LP and its general partner due to alleged marketing services previously provided to Permex LP. The former consultant has also claimed an interest, through Permex LP, in the profits of the Company. While the outcome of the matter is uncertain, no additional provision has been accrued in respect of the claim as the Company disputes the claim in its entirety.

21. 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.

22. EVENTS AFTER THE REPORTING PERIOD

i) On October 1, 2018, the Company renewed the investor awareness agreement for an additional three month term for a fee of $40,000, payable in common shares of the Company upon the next round of financing.

ii) Granted 300,000 common share stock options to a director. The options are exercisable at $0.30 per share for a period of ten years.

iii) Received a loan of $30,000 from a director of the Company. The loan is unsecured, non-interest bearing, and repayable on demand.