PERMEX PETROLEUM CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Nine Months Ended June 30, 2019

(Unaudited – Prepared by Management)

(EXPRESSED IN CANADIAN DOLLARS)

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.

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

	Note	June 30, 2019	September 30, 2018
ASSETS			
Current assets			
Cash		$ 19,863	$ 17,129
Trade and other receivables	5	48,999	357,031
Prepaid expenses and deposits		93,677	72,405
		162,539	446,565
Non-current assets			
Restricted cash	6	25,000	25,000
Reclamation deposits	7	255,450	252,525
Property and equipment	7	9,464,776	9,188,303
Total assets		$ 9,907,765	$ 9,912,393
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	8	$ 803,152	$ 844,654
Amounts due to related parties	10	49,397	18,752
		852,549	863,406
Non-current liabilities			
Decommissioning liabilities	9	2,506,960	2,529,806
Deferred income tax liability		272,000	272,000
Total liabilities		3,631,509	3,665,212
Equity			
Share capital	11	8,211,041	7,626,979
Reserves	12	1,777,526	1,679,471
Accumulated other comprehensive loss		(384)	(296)
Deficit		(3,711,927)	(3,058,973)
Total equity		6,276,256	6,247,181
Total liabilities and equity		$ 9,907,765	$ 9,912,393

Nature of business (Note 1)
Commitments and contingencies (Note 18)

The financial statements were authorized for issue by the board of directors on August 29, 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
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Unaudited – Prepared by Management)

	Note	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Nine Months Ended June 30, 2019	Nine Months Ended June 30, 2018
Revenue					
Oil and gas sales		$ 420,941	$ 122,911	$ 1,220,739	$ 363,823
Direct operating expenses					
Producing and operating		(240,672)	(103,612)	(714,045)	(337,643)
		180,269	19,299	506,694	26,180
Expenses					
Accounting and audit		15,000	30,865	54,000	146,260
Accretion of decommissioning liabilities	9	19,368	5,901	58,073	17,703
Consulting		15,536	43,840	45,019	107,338
Depletion and depreciation	7	21,796	7,217	66,974	31,514
Filing and transfer agent		17,688	22,318	33,143	29,587
Investor relations and news dissemination		41,798	37,762	108,495	81,392
Legal fees		10,312	46,938	54,203	142,752
Management fees	10	45,000	45,000	145,417	135,000
Marketing and promotion		45,252	213,442	209,582	338,625
Office and miscellaneous		21,795	31,722	81,226	74,173
Property taxes		-	-	-	18,032
Rent		12,599	12,372	37,570	36,698
Salaries	10	13,511	16,570	86,479	45,925
Share-based payments	12	-	108,160	90,162	958,552
Travel		15,249	22,019	31,266	69,591
		(294,904)	(644,126)	(1,101,609)	(2,233,142)
Other item					
Foreign exchange gain		7,949	24,302	11,961	30,664
Finance fees		-	-	(70,000)	-
		7,949	24,302	(58,039)	30,664
Net loss for the period		(106,686)	(600,525)	(652,954)	(2,176,298)
Other comprehensive income					
Item that may be reclassified subsequently to profit or loss:					
Foreign currency translation adjustment		822	-	(88)	-
Comprehensive loss for the period		$ (105,864)	$ (600,525)	$ (653,042)	$ (2,176,298)
Basic and diluted loss per common share	11	$ (0.00)	$ (0.02)	$ (0.02)	$ (0.08)

The accompanying notes are an integral part of these 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	Accumulated other comprehensive loss	Deficit	Total equity
Balance, September 30, 2018		35,973,748	$ 7,626,979	$ 1,679,471	$ -	$ -	$ (296)	$ (3,058,973)	$ 6,247,181
Private placements	11	4,050,366	607,555	-	-	-	-	-	607,555
Share issuance costs	11	-	(23,493)	7,893	-	-	-	-	(15,600)
Share-based payments	12	-	-	90,162	-	-	-	-	90,162
Loss for the period		-	-	-	-	-	-	(652,954)	(652,954)
Other comprehensive loss for the period		-	-	-	-	-	(88)	-	(88)
Balance, June 30, 2019		40,024,114	$ 8,211,041	$ 1,777,526	$ -	$ -	$ (384)	$ (3,711,927)	$ 6,276,256

	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	11	(139)	(56)	-	-	-	-	(56)
Initial public offering	11	8,135,500	4,067,750	-	-	-	-	4,067,750
Private placements	11	3,507,500	1,003,000	-	(720,000)	-	-	283,000
Shares issued as corporate finance fees	11	203,387	-	-	-	-	-	-
Shares issued as advisory fees	11	281,250	112,500	-	-	(112,500)	-	-
Share issuance costs	11	-	(811,542)	231,325	-	-	-	(580,217)
Commitment to issue shares	11	-	-	-	-	112,500	-	112,500
Share-based payments	11	-	-	958,552	-	-	-	958,552
Loss for the period		-	-	-	-	-	(2,176,298)	(2,176,298)
Balance, June 30, 2018		35,942,498	$ 7,610,284	$ 1,460,537	$ -	$ 12,500	$ (2,337,322)	$ 6,745,999

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

PERMEX PETROLEUM CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED JUNE 30
(Unaudited – Prepared by Management)

	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss for the period		$ (652,954)	$ (2,176,298)
Items not affecting cash:			
Accretion of decommissioning liabilities		58,073	17,703
Depletion and depreciation		66,974	31,514
Foreign exchange gain		(7,885)	(14,740)
Commitment to issue shares		-	112,500
Share-based payments		90,162	958,552
Changes in non-cash working capital items:			
Trade and other receivables		308,032	56,169
Prepaid expenses and deposits		(21,272)	24,524
Trade and other payables		(129,866)	122,333
Amounts due to related parties		30,645	4,477
Net cash used in operating activities		(258,091)	(863,266)
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures on property and equipment		(247,900)	(918,297)
Decommissioning costs incurred		(83,230)	-
Net cash used in investing activities		(331,130)	(918,297)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of share capital		607,555	4,350,750
Repurchase of common shares		(15,600)	(580,217)
Loan proceeds from related party		-	(56)
Net cash provided by financing activities		591,955	3,770,477
Change in cash during the period		2,734	1,988,914
Cash, beginning of the period		17,129	552,169
Cash, end of the period		$ 19,863	$ 2,541,083

Supplemental cash flow information (Note 13)

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". The Company's common shares also become listed on the OTCQB under the symbol "OILCF" effective April 17, 2019.

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 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 year ended September 30, 2018, which have been prepared in accordance with IFRS as issued by the IASB.

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 June 30, 2019, the Company had working capital deficiency of $690,010. 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 in the Company's audited annual consolidated financial statements for the year ended September 30, 2018 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

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…)

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

Future changes

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.

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

Critical accounting judgments (cont'd…)

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.

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. TRADE AND OTHER RECEIVABLES

		June 30, 2019		September 30, 2018
Trade receivables	$	28,296	$	272,062
Goods and services taxes recoverable		20,703		51,159
Other receivables		-		33,810
	$	48,999	$	357,031

The Company anticipates full recovery of its receivables and therefore no allowance has been recorded against these amounts as at June 30, 2019 (September 30, 2018 - $nil).

6. 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%.

7. PROPERTY AND EQUIPMENT

		Oil and natural gas properties		Corporate		Total
Cost						
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
Capital expenditures		336,264		-		336,264
Foreign exchange movement		7,185		-		7,185
Balance at June 30, 2019	$	9,537,110	$	56,582	$	9,593,692
Accumulated depletion and depreciation						
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
Depletion and depreciation		57,204		9,770		66,974
Foreign exchange movement		2		-		2
Balance at June 30, 2019	$	108,469	$	20,447	$	128,916
Net amount						
Balance at June 30, 2019	$	9,428,641	$	36,135	$	9,464,776
Balance at September 30, 2018	$	9,142,398	$	45,905	$	9,188,303

7. PROPERTY AND EQUIPMENT (cont'd…)

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 June 30, 2019, the Company held reclamation bonds of $255,450 (US$195,000) (September 30, 2018 - $252,525 (US$195,000), which are expected to be released after all reclamation work has been completed with regard to its oil and natural gas interests.

8. TRADE AND OTHER PAYABLES

		June 30, 2019		September 30, 2018
Trade payables	$	672,621	$	708,789
Accrued liabilities		34,852		57,218
Other payables		95,679		78,647
	$	803,152	$	844,654

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.

9. 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 June 30, 2019 (September 30, 2018 - $3,070,577) 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% (2018 - 2.0%) and discounted using a risk-free rate of 3.13% (2018 - 3.13%) based on expected settlement date.

Changes to the decommissioning liabilities are as follows:

		June 30, 2019		September 30, 2018
Decommissioning liabilities, beginning of the year	$	2,529,806	$	697,677
New liabilities recognized		-		1,896,970
Decommissioning costs incurred		(83,230)		-
Change in discount rate		-		(93,212)
Accretion expense		58,073		28,371
Foreign exchange movement		2,311		-
	$	2,506,960	$	2,529,806

10. RELATED PARTY TRANSACTIONS

Amounts due to related parties were for services rendered to the Company by the directors and officers or companies controlled by its directors and officers and advances made by directors and are unsecured, non-interest bearing, and have no specific terms of repayment.

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 nine month period ended June 30 is as follows:

		2019		2018
Management fees	$	145,417	$	135,000
Share-based payments		63,519		700,873
Total	$	208,936	$	835,873

The Company entered into the following transactions relating to key management personnel and entities over which they have control or significant influence during the nine months ended June 30, 2019:

a) Incurred management fees of $112,500 (2018 - $112,500) to a company controlled by the President of the Company.

b) Incurred management fees of $22,500 (2018 - $22,500) to a company controlled by the Chief Financial Officer of the Company.

c) Incurred management fees of $10,417 (2018 - $nil) to a director of the Company.

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.

11. SHARE CAPITAL

Authorized share capital

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

Issued share capital

At June 30, 2019, the Company had 40,024,114 common shares outstanding (September 30, 2018 - 35,973,748).

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 June 30, 2019, 1,950,000 common shares remained in escrow.

11. SHARE CAPITAL (cont'd…)

Share issuance

During the nine months ended June 30, 2019, the Company:

a) Completed the first tranche of the non-brokered private placement announced in April 2019 of 4,050,366 units at a price of $0.15 per unit for gross proceeds of $607,555. Each unit is comprised of one common share and one share purchase warrant; each warrant entitles the holder to acquire one additional common share for a period of 24 months at an exercise price of $0.25. In connection with the private placement, the Company paid a finder's fee of $15,600 and issued 104,000 agent's warrants. The agent's warrants were valued at $7,893 using the Black-Scholes option pricing model (assuming a risk-free interest rate of 1.59%, an expected life of 2 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 $0.25 until May 8, 2021.

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.

Basic and diluted loss per share

The calculation of basic and diluted loss per share for the nine month period ended June 30, 2019 was based on the loss attributable to common shareholders of $652,954 (2018 - $2,176,298) and a weighted average number of common shares outstanding of 36,760,083 (2018 - 28,240,069). At June 30, 2019, 2,540,189 stock options (2018 - 3,332,185) and 4,050,366 (2018 - nil) warrants were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

12. 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, September 30, 2017	-	$ -
Granted	3,332,185	0.48
Cancelled	(700,573)	0.40
Balance, September 30, 2018	2,631,612	$ 0.50
Granted	300,000	0.30
Cancelled	(391,423)	0.50
Balance, June 30, 2019	2,540,189	$ 0.48
Exercisable at June 30, 2019	2,540,189	$ 0.48
Weighted average fair value of options granted during the period	$ 0.21	(2018 - $0.38)

The options outstanding at June 30, 2019 have exercise prices in the range of $0.30 to $0.50 and a weighted average remaining contractual life of 8.54 years.

The total share-based payments calculated for stock options granted during the nine months ended June 30, 2019 was $63,519 (2018 - $1,274,540) using the Black-Scholes option pricing model. During the nine months ended June 30, 2019, the Company recognized share based payment expense of $90,162 (2018 - 958,552) for the portion of stock options that vested during the period.

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

	2019	2018
Risk-free interest rate	2.48%	1.89%
Expected life of options	10 Years	4.79 Years
Expected annualized volatility	120%	106.35%
Dividend rate	Nil	Nil

12. SHARE-BASED PAYMENTS (cont'd…)

Stock options (cont'd…)

As at June 30, 2019, the following stock options were outstanding:

Number of Options	Exercise Price	Expiry Date
2,240,189	$ 0.50	December 4, 2027
300,000	$ 0.30	November 1, 2028
2,540,189		

Warrants

Warrants are issued as private placement incentives. Value was allocated to the warrants issued with private placement units based on the residual method. 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, September 30, 2017	-	$ -
Agent's warrants issued	650,840	0.50
Balance, September 30, 2018	650,840	$ 0.50
Warrants issued	4,050,366	0.25
Agent's warrants issued	104,000	0.25
Balance, June 30, 2019	4,805,206	$ 0.28

The warrants outstanding at June 30, 2019 have exercise prices in the range of $0.25 to $0.50 and a weighted average remaining contractual life of 1.88 years.

As at June 30, 2019, the following warrants were outstanding:

Number of Warrants	Exercise Price	Expiry Date
4,154,366	$ 0.25	May 8, 2021
650,840	$ 0.50	May 16, 2021
4,805,206		

13. SUPPLEMENTAL CASH FLOW INFORMATION

Significant non-cash transactions during the nine months ended June 30, 2019 included:

a) Included in trade and other payables are $294,190 related to property and equipment.

Significant non-cash transactions during the nine months ended June 30, 2018 included:

a) Included in trade and other payables are $151,304 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.

14. 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 June 30, 2019:

	Canada	USA	Total
Restricted cash	$ 25,000	$ -	$ 25,000
Reclamation deposits	-	255,450	255,450
Property and equipment	36,135	9,428,641	9,464,776
	$ 61,135	$ 9,684,091	$ 9,745,226

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

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

15. FINANCIAL INSTRUMENTS

The Company classified its financial instruments as follows: cash, trade and other receivables, restricted cash and reclamation deposits as subsequently measured at amortized cost; and trade and other payables and amounts due to related parties as subsequently measured at amortized cost financial liabilities. Information on certain types of financial instruments is included elsewhere in these financial statements as follows: trade and other receivables (Note 5), restricted cash (Note 6), reclamation deposits (Note 7), trade and other payables (Note 8), and amounts due to related parties (Note 10).

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 June 30, 2019, the Company has current assets of $162,539 and current liabilities of $852,549. 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 June 30, 2019, the Company had financial assets of $286,634 and financial liabilities of $465,729 denominated in United States dollars. A 10% strengthening of the US dollar would affect net loss by approximately $18,000. The Company does not hedge its foreign exchange risk.

15. 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.

16. 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 June 30, 2019, 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 nine months ended June 30, 2019.

17. 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.

18. 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	$	12,372
2020		49,487
2021		49,581
2022		50,614
2023		46,396
	$	208,450

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.