



PERMEX PETROLEUM
C O R P O R A T I O N

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2019

(EXPRESSED IN CANADIAN DOLLARS)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Permex Petroleum Corporation

Opinion

We have audited the accompanying consolidated financial statements of Permex Petroleum Corporation (the "Company"), which comprise the consolidated statements of financial position as at September 30, 2019 and 2018 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 of the consolidated financial statements, which indicates that the Company has incurred net losses since inception in the amount of \$3,944,157 and, as of that date, the Company's current liabilities exceeded its current assets by \$850,001. As stated in Note 2, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Glenn Parchomchuk.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

January 28, 2020

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

	Note	2019	2018
ASSETS			
Current assets			
Cash		\$ 3,574	\$ 17,129
Trade and other receivables	5	137,786	357,031
Prepaid expenses and deposits		74,861	72,405
		216,221	446,565
Non-current assets			
Restricted cash	6	25,000	25,000
Reclamation deposits	7	258,180	252,525
Property and equipment	7	9,805,517	9,188,303
Total assets		\$ 10,304,918	\$ 9,912,393
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	8	\$ 936,003	\$ 844,654
Amounts due to related parties	10	130,219	18,752
		1,066,222	863,406
Non-current liabilities			
Decommissioning liabilities	9	3,155,623	2,529,806
Deferred income tax liability	18	-	272,000
Total liabilities		4,221,845	3,665,212
Equity			
Share capital	11	8,210,041	7,626,979
Share subscription proceeds		40,500	-
Reserves	12	1,777,526	1,679,471
Accumulated other comprehensive loss		(837)	(296)
Deficit		(3,944,157)	(3,058,973)
Total equity		6,083,073	6,247,181
Total liabilities and equity		\$ 10,304,918	\$ 9,912,393

Nature of business (Note 1)

Commitments and contingencies (Note 19)

Event after the reporting period (Note 20)

The financial statements were authorized for issue by the board of directors on January 28, 2020 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
YEARS ENDED SEPTEMBER 30

	Note	2019	2018
Revenue			
Oil and gas sales		\$ 1,606,817	\$ 941,089
Direct operating expenses			
Producing and operating		(957,601)	(631,755)
		649,216	309,334
Expenses			
Accounting and audit		105,450	187,615
Accretion of decommissioning liabilities	9	77,420	28,371
Consulting	10	70,838	131,832
Depletion and depreciation	7	91,596	56,717
Filing and transfer agent		39,903	41,155
Investor relations and news dissemination		178,053	149,454
Legal fees		57,766	179,843
Management fees		165,417	186,250
Marketing and promotion		227,655	419,104
Office and miscellaneous		119,791	119,460
Rent		50,194	49,460
Salaries	10	101,707	76,793
Share-based payments	12	90,162	1,177,486
Travel		38,267	94,872
		(1,414,219)	(2,898,412)
Other items			
Foreign exchange gain		78	3,754
Interest income		1,397	-
Finance fee		(70,000)	-
Loss on shares issued for services		-	(40,625)
Impairment loss on property	7	(323,656)	-
		(392,181)	(36,871)
Loss before income taxes		(1,157,184)	(2,625,949)
Deferred income tax expense (recovery)	18	272,000	(272,000)
Net loss for the year		(885,184)	(2,897,949)
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Foreign currency translation adjustment		(541)	(296)
Comprehensive loss for the year		\$ (885,725)	\$ (2,898,245)
Basic and diluted loss per common share	11	\$ (0.02)	\$ (0.10)

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, 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 proceeds received	11	-	-	-	40,500	-	-	-	40,500
Share issuance costs	11	-	(24,493)	7,893	-	-	-	-	(16,600)
Share-based payments	12	-	-	90,162	-	-	-	-	90,162
Loss for the year		-	-	-	-	-	-	(885,184)	(885,184)
Other comprehensive loss for the year		-	-	-	-	-	(541)	-	(541)
Balance, September 30, 2019		40,024,114	\$ 8,210,041	\$ 1,777,526	\$ 40,500	\$ -	\$ (837)	\$ (3,944,157)	\$ 6,083,073

	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	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
Corporate finance fees	11	203,387	101,694	-	-	-	-	-	101,694
Advisory fees	11	312,500	165,625	-	-	(12,500)	-	-	153,125
Share issuance costs	11	-	(949,666)	231,325	-	-	-	-	(718,341)
Share-based payments	12	-	-	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

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

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

	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss for the year	\$	(885,184)	\$ (2,897,949)
Items not affecting cash:			
Accretion of decommissioning liabilities		77,420	28,371
Depletion and depreciation		91,596	56,717
Deferred income tax expense (recovery)		(272,000)	272,000
Foreign exchange gain		(15,489)	(9,071)
Loss on share issued for services		-	40,625
Shares issued for services		-	112,500
Share-based payments		90,162	1,177,486
Impairment loss on property		323,656	-
Changes in non-cash working capital items:			
Trade and other receivables		219,245	(202,367)
Prepaid expenses and deposits		(2,456)	(51,139)
Trade and other payables		1,731	462,119
Amounts due to related parties		37,498	11,252
Net cash used in operating activities		(333,821)	(999,456)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property and equipment		-	(2,545,879)
Capital expenditures on property and equipment		(323,759)	(785,002)
Decommissioning costs incurred		(61,399)	-
Reclamation deposits		-	31,250
Net cash used in investing activities		(385,158)	(3,299,631)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of share capital		607,555	4,350,750
Share issuance costs		(16,600)	(586,647)
Share subscription proceeds		40,500	-
Repurchase of common shares		-	(56)
Amounts due to related party		73,969	-
Net cash provided by financing activities		705,424	3,764,047
Change in cash during the year		(13,555)	(535,040)
Cash, beginning of the year		17,129	552,169
Cash, end of the year	\$	3,574	\$ 17,129

Supplemental cash flow information (Note 13)

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". 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 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 in the amount of \$3,944,157 and not yet achieved profitable operations. As at September 30, 2019, the Company had working capital deficiency of \$850,001. 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 in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") and at amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition. A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets and collect contractual cash flows, its contractual terms give rise on specified dates that are solely payments of principle and interest on the principle amount outstanding, and it is not designated as FVTPL. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, the Company can make an irrevocable election (on an instrument by-instrument basis) on the day of acquisition to designate them as at FVTOCI.

Financial assets at FVTPL

Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the income statement. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in the statement of loss and comprehensive loss in the period in which they arise. None of the Company's financial assets are classified as FVTPL.

Financial assets at FVTOCI

Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. None of the Company's financial assets are classified as FVTOCI.

Financial assets at amortized cost

Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. They are classified as current assets or non-current assets based on their maturity date. The Company's financial assets at amortized cost comprise cash, trade and other receivables, restricted cash and reclamation deposits.

Financial assets are derecognized when they mature or are sold, and substantially all the risks and rewards of ownership have been transferred. Gains and losses on derecognition of financial assets classified as FVTPL or amortized cost are recognized in the statement of loss and comprehensive loss. Gains or losses on financial assets classified as FVTOCI remain within accumulated other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Financial instruments (cont'd...)

(ii) Financial liabilities

The Company classifies its financial liabilities as subsequently measured at amortized cost which include trade and other payables and amounts due to related parties. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or they expire.

(iii) Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the loss allowance is measured for the financial asset at an amount equal to twelve month expected credit losses. For trade receivables the Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss provision. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized. Given the nature and balances of the Company's receivables the Company has no material loss allowance as at September 30, 2018 and September 30, 2019.

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.

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, 2019 and 2018.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

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 the Canadian dollar.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. 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.

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.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”) is a new standard on revenue that superseded 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 has been assessed to not have a significant impact on the Company’s consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

New accounting policies (cont'd...)

IFRS 9 – Financial Instruments

IFRS 9 – Financial Instruments (“IFRS 9”) is a new standard on financial instruments that replaced 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 has been assessed to not have a significant impact on the Company’s consolidated financial statements.

Future changes

A number of new standards and amendments to existing standards have been issued by the IASB that are mandatory for accounting periods beginning on or after January 1, 2019, or later periods. The Company has not applied these new standards in preparing these financial statements. The following pronouncement is considered by the Company to be the most significant of several pronouncements that may affect the financial statements in future periods.

IFRS 16 – Leases

This standard replaces IAS 17, Leases. IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position for all leases, with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16 changes the definition of a lease; sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods; changes the accounting for sale and leaseback arrangements; and introduces new disclosure requirements. Under IFRS 16, a lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Right-of-use assets will be initially measured at cost, which includes the initial measurement of the lease liabilities and other costs, less lease incentives. Lease liabilities will initially be measured at the present value of future lease payments and subsequently measured at amortized cost using the effective interest method. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 with early application permitted in certain circumstances and may be applied retrospectively to each prior period presented (full retrospective approach) or with the cumulative effect of adoption recognized at initial application (modified retrospective approach). The modified retrospective approach offers the option, on a lease by lease basis, to either measure the right-of-use asset retrospectively using the discount rate as at the date of initial application or to measure the right-of-use asset at an amount equal to the lease liability.

The Company intends to adopt IFRS 16 using the modified retrospective approach without restatement of comparative amounts. An assessment has been made and the estimated impact to the Company’s consolidated financial statements will be to set up a lease liability and a corresponding right-of-use asset of approximately \$155,000 for its office lease as at October 1, 2019.

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.

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.

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

Critical accounting estimates and assumptions (cont'd...)

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

	2019	2018
Trade receivables	\$ 122,103	\$ 272,062
Goods and services taxes recoverable	15,683	51,159
Other receivables	-	33,810
	\$ 137,786	\$ 357,031

The Company anticipates full recovery of its receivables and therefore no allowance has been recorded against these amounts as at September 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%.

PERMEX PETROLEUM CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

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	413,377	-	413,377
Change in decommissioning provisions	605,204	-	605,204
Foreign exchange movement	13,884	-	13,884
Impairment write-offs	(325,360)	-	(325,360)
Balance at September 30, 2019	\$ 9,900,766	\$ 56,582	\$ 9,957,348
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	78,570	13,026	91,596
Foreign exchange movement	(1)	-	(1)
Write-off adjustment	(1,704)	-	(1,704)
Balance at September 30, 2019	\$ 128,128	\$ 23,703	\$ 151,831
Net amount			
Balance at September 30, 2019	\$ 9,772,638	\$ 32,879	\$ 9,805,517
Balance at September 30, 2018	\$ 9,142,398	\$ 45,905	\$ 9,188,303

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, 2019, the Company held reclamation bonds of \$258,180 (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.

PERMEX PETROLEUM CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

8. TRADE AND OTHER PAYABLES

	2019	2018
Trade payables	\$ 829,392	\$ 708,789
Accrued liabilities	63,102	57,218
Other payables	43,509	78,647
	\$ 936,003	\$ 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 \$3,912,727 as at September 30, 2019 (September 30, 2018 - \$4,092,362) and expected to be incurred on average in 18 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 1.93% (2018 - 3.13%) based on expected settlement date.

Changes to the decommissioning liabilities are as follows:

	2019	2018
Decommissioning liabilities, beginning of the year	\$ 2,529,806	\$ 697,677
New liabilities recognized	-	1,896,970
Decommissioning costs incurred	(61,399)	-
Change in discount rate	605,204	(93,212)
Accretion expense	77,420	28,371
Foreign exchange movement	4,592	-
	\$ 3,155,623	\$ 2,529,806

10. RELATED PARTY TRANSACTIONS

Included in amounts due to related parties are \$56,250 (September 30, 2018 - \$17,500) related to services rendered to the Company by the President and the Chief Financial Officer of the Company and \$73,969 (September 30, 2018 - \$1,252) in advances from the President of the Company. Amounts due to related parties 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 years ended September 30 is as follows:

	2019	2018
Management fees	\$ 165,417	\$ 186,250
Share-based payments	63,519	839,625
Total	\$ 228,936	\$ 1,025,875

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

- a) Incurred management fees of \$150,000 (2018 - \$150,000) to a company controlled by the President of the Company.
- b) Incurred management fees of \$5,000 (2018 - \$30,000) to a company controlled by the Chief Financial Officer of the Company.
- c) Incurred management fees of \$10,417 (2018 - \$6,250) 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 September 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 September 30, 2019, 1,950,000 common shares remained in escrow.

11. SHARE CAPITAL (cont'd...)

Share issuance

During the year ended September 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 \$16,600 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 Gravititas Securities Inc. ("Gravititas").
- 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 year ended September 30, 2019 was based on the loss attributable to common shareholders of \$885,184 (2018 - \$2,897,949) and a weighted average number of common shares outstanding of 37,582,798 (2018 - 30,185,613). At September 30, 2019, 2,540,189 stock options (2018 - 2,631,612) and 4,805,206 (2018 - 650,840) 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, September 30, 2019	2,540,189	\$ 0.48
Exercisable at September 30, 2019	2,540,189	\$ 0.48
Weighted average fair value of options granted during the year	\$ 0.21	(2018 - \$0.38)

The options outstanding at September 30, 2019 have exercise prices in the range of \$0.30 to \$0.50 and a weighted average remaining contractual life of 8.29 years.

The total share-based payments calculated for stock options granted during the year ended September 30, 2019 was \$63,519 (2018 - \$1,442,893) using the Black-Scholes option pricing model. During the year ended September 30, 2019, the Company recognized share based payment expense of \$90,162 (2018 - \$1,177,486) 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

PERMEX PETROLEUM CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

12. SHARE-BASED PAYMENTS (cont'd...)

Stock options (cont'd...)

As at September 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. 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, September 30, 2019	4,805,206	\$ 0.28

The warrants outstanding at September 30, 2019 have exercise prices in the range of \$0.25 to \$0.50 and a weighted average remaining contractual life of 1.61 years.

As at September 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 year ended September 30, 2019 included:

- a) Included in trade and other payables are \$295,444 related to property and equipment.
- b) Net changes in respect to non-cash adjustments to the Company's decommissioning liabilities totalled \$605,204.

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.

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 September 30, 2019:

	Canada	USA	Total
Restricted cash	\$ 25,000	\$ -	\$ 25,000
Reclamation deposits	-	258,180	258,180
Property and equipment	32,879	9,772,638	9,805,517
	\$ 57,879	\$ 10,030,818	\$ 10,088,697

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. During the year ended September 30, 2019, the Company generated 59% of total revenue from one customer (2018 - 40%). As at September 30, 2019, two customers represented \$108,603 (95%) of the trade receivable balance (2018 - three customers represented \$216,309 (79%)). It is in management's opinion that the Company is not exposed to significant credit risk.

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 September 30, 2019, the Company has current assets of \$216,221 and current liabilities of \$1,066,222. 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, 2019, the Company had financial assets of \$380,799 and financial liabilities of \$493,133 denominated in United States dollars. A 10% strengthening of the US dollar would affect net loss by approximately \$11,000. 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 September 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 year ended September 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.

PERMEX PETROLEUM CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

18. INCOME TAXES

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

	2019	2018
Loss before income taxes	\$ (1,157,184)	\$ (2,625,949)
Expected income tax recovery at statutory rates	\$ (312,000)	\$ (702,000)
Change in statutory, foreign tax, foreign exchange rates and other	2,000	(87,000)
Permanent differences	48,000	332,000
Share issuance cost	(4,000)	(165,000)
Unrecognized temporary differences	105,000	(36,000)
Adjustment to prior years provision versus statutory tax returns	(111,000)	930,000
Deferred income tax expense (recovery)	\$ (272,000)	\$ 272,000

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

	2019	2018
Non-capital losses available for future periods	\$ 497,000	\$ 428,000
Property and equipment	(632,000)	(833,000)
Financing fees	135,000	133,000
Unrecognized deferred income tax assets (liabilities)	\$ -	\$ (272,000)

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:

	2019	Expiry Date Range	2018	Expiry Date Range
Temporary differences:				
Financing fees	\$ 500,000	2039 to 2043	\$ 493,000	2039 to 2042
Non-capital losses available for future periods				
Canada	\$ 2,219,000	2037 to 2039	\$ 1,584,000	2037 to 2038
USA	\$ 32,000	No expiry date	\$ 19,000	No expiry date

19. 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:

2020	\$	49,487
2021		49,581
2022		50,614
2023		<u>46,396</u>
	\$	196,078

20. EVENT AFTER THE REPORTING PERIOD

Subsequent to September 30, 2019, the Company issued secured convertible debentures of \$200,000 to the President of the Company and a director of the Company. The debentures are secured by an interest in all of the Company's right, title, and interest in all of its oil and gas assets, have a maturity date of September 30, 2021, and bear interest at a rate of 12% per annum, payable on maturity. The debentures are convertible at the holder's option into units of the Company at \$0.15 per unit. Each unit will be comprised of one common share of the Company and one share purchase warrant; each warrant entitles the holder to acquire one additional common share for a period of three years at an exercise price of \$0.20.