



PERMEX PETROLEUM CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Six Months Ended March 31, 2020

(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	March 31, 2020	September 30, 2019
ASSETS			
Current assets			
Cash		\$ 24,609	\$ 3,574
Trade and other receivables	5	75,783	137,786
Prepaid expenses and deposits		32,526	74,861
		132,918	216,221
Non-current assets			
Restricted cash	6	-	25,000
Reclamation deposits	7	276,900	258,180
Property and equipment	7	9,993,352	9,805,517
Total assets		\$ 10,403,170	\$ 10,304,918
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	8	\$ 727,946	\$ 936,003
Amounts due to related party	10	105,713	130,219
		833,659	1,066,222
Non-current liabilities			
Decommissioning liabilities	9	3,205,678	3,155,623
Lease obligation	3	143,957	-
Loan debenture to related parties	10	200,000	-
Total liabilities		4,383,294	4,221,845
Equity			
Share capital	11	8,210,041	8,210,041
Share subscription proceeds		40,500	40,500
Reserves	12	1,780,552	1,777,526
Accumulated other comprehensive loss		(6,280)	(837)
Deficit		(4,004,937)	(3,944,157)
Total equity		6,019,876	6,083,073
Total liabilities and equity		\$ 10,403,170	\$ 10,304,918

Nature of business (Note 1)

Commitments and contingencies (Note 18)

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

	Note	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019	Six Months Ended March 31, 2020	Six Months Ended March 31, 2019
Revenue					
Oil and gas sales		\$ 267,932	\$ 387,203	\$ 639,099	\$ 799,798
Direct operating expenses					
Producing and operating		(152,096)	(236,636)	(347,650)	(473,373)
		115,836	150,567	291,449	326,425
Expenses					
Accounting and audit		15,000	21,900	30,000	39,000
Accretion of decommissioning liabilities	9	15,241	18,878	30,463	38,705
Consulting		21,963	8,704	39,472	25,885
Depletion and depreciation	7	22,565	21,609	47,072	45,178
Filing and transfer agent		12,248	8,428	20,989	15,455
Interest		9,595	5,025	18,248	6,267
Investor relations and news dissemination		23,324	24,570	54,859	66,697
Legal fees		13,946	12,526	13,946	43,891
Management fees	10	50,408	49,165	87,908	100,415
Marketing and promotion		7,381	46,749	17,167	164,330
Office and miscellaneous		14,749	35,718	26,104	78,135
Salaries		13,997	33,258	27,567	72,968
Share-based payments	12	3,026	-	3,026	90,162
Travel		3,343	3,525	13,200	16,017
		(226,786)	(290,055)	(430,021)	(806,705)
Other item					
Foreign exchange gain		45,995	(6,574)	36,369	4,012
Finance fees		-	-	-	(70,000)
Other income		67	-	10,067	-
Settlement of trade payables		-	-	31,356	-
		46,062	(6,574)	77,792	(65,988)
Net loss for the period		(64,888)	(146,062)	(60,780)	(546,268)
Other comprehensive income					
Item that may be reclassified subsequently to profit or loss:					
Foreign currency translation adjustment		6,343	(241)	(5,443)	(910)
Comprehensive loss for the period		\$ (58,545)	\$ (146,303)	\$ (66,223)	\$ (547,178)
Basic and diluted loss per common share	11	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.02)

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	Accumulated other comprehensive loss	Deficit	Total equity
Balance, September 30, 2019		40,024,114	\$ 8,210,041	\$ 1,777,526	\$ 40,500	\$ (837)	\$ (3,944,157)	\$ 6,083,073
Share-based payments	12	-	-	3,026	-	-	-	3,026
Loss for the period		-	-	-	-	-	(60,780)	(60,780)
Other comprehensive loss for the period		-	-	-	-	(5,443)	-	(5,443)
Balance, March 31, 2020		40,024,114	\$ 8,210,041	\$ 1,780,552	\$ 40,500	\$ (6,280)	\$ (4,004,937)	\$ 6,019,876

	Note	Number of Shares	Share capital	Reserves	Share subscription proceeds	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
Share subscription proceeds	11	-	-	-	161,500	-	-	161,500
Share-based payments	12	-	-	90,162	-	-	-	90,162
Loss for the period		-	-	-	-	-	(546,268)	(546,268)
Other comprehensive loss for the period		-	-	-	-	(910)	-	(910)
Balance, March 31, 2019		35,973,748	\$ 7,626,979	\$ 1,769,633	\$ 161,500	\$ (1,206)	\$ (3,605,241)	\$ 5,951,665

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

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

	Note	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss for the period		\$ (60,780)	\$ (546,268)
Items not affecting cash:			
Accretion of decommissioning liabilities		30,463	38,705
Depletion and depreciation		47,072	45,178
Foreign exchange loss (gain)		(37,809)	(21,994)
Interest		18,248	-
Share-based payments		3,026	90,162
Settlement of trade payables		(31,356)	-
Changes in non-cash working capital items:			
Trade and other receivables		62,003	295,840
Prepaid expenses and deposits		42,335	18,912
Trade and other payables		(128,366)	148,105
Amounts due to related parties		41,749	26,950
		(13,415)	95,590
Interest paid		(2,428)	-
Net cash provided by operating activities		(15,843)	95,590
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures on property and equipment		(101,248)	(180,440)
Decommissioning costs incurred		-	(83,230)
Lease payments		(20,619)	-
Restricted cash		25,000	-
Net cash used in investing activities		(96,867)	(263,670)
CASH FLOWS FROM FINANCING ACTIVITIES			
Share subscription proceeds		-	161,500
Amounts due to related party		(66,255)	-
Loan debenture from related party		200,000	-
Net cash provided by financing activities		133,745	161,500
Change in cash during the period		21,035	(6,580)
Cash, beginning of the period		3,574	17,129
Cash, end of the period		\$ 24,609	\$ 10,549

Supplemental cash flow information (Note 13)

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

PERMEX PETROLEUM CORPORATION
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED MARCH 31, 2020
(Unaudited – Prepared by Management)

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 2300, 1066 West Hastings Street, Vancouver, British Columbia, Canada, V6E 3X2. Its registered office is located at 10th floor, 595 Howe Street, Vancouver, British Columbia, Canada, V6C 2T5. The Company is primarily engaged in the acquisition, development and production of oil and gas properties in the United States. The Company’s oil and gas interests are located in Texas and New Mexico, USA. The Company is listed on the Canadian Securities Exchange (the “CSE”) under the symbol “OIL” and on the OTCQB under the symbol “OILCF”.

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, 2019, 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 in the amount of \$4,004,937 and not yet achieved profitable operations. As at March 31, 2020, the Company had working capital deficiency of \$700,741. 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, 2019 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

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.

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

New accounting policies (cont'd...)

IFRS 16 – Leases (cont'd...)

The Company adopted IFRS 16 on October 1, 2019. On initial adoption, the Company has elected to record right-of-use assets based on the corresponding lease obligation. Right-of-use asset and lease obligation of \$155,629 were recorded as of October 1, 2019, with no impact on deficits. When measuring the present value of lease obligations, the Company discounted remaining lease payments using its incremental borrowing rate at October 1, 2019, which was a weighted-average rate of 12%.

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.

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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(Unaudited – Prepared by Management)

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

Critical accounting estimates and assumptions

Decommissioning obligations

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

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

Depreciation

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

Petroleum and natural gas interests

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

Share-based payments

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

Going concern assumption

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

5. TRADE AND OTHER RECEIVABLES

	March 31, 2020	September 30, 2019
Trade receivables	\$ 71,046	\$ 122,103
Goods and services taxes recoverable	4,737	15,683
	\$ 75,783	\$ 137,786

The Company anticipates full recovery of its receivables and therefore no allowance has been recorded against these amounts as at March 31, 2020 (September 30, 2019 - \$nil).

PERMEX PETROLEUM CORPORATION
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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(Unaudited – Prepared by Management)

6. RESTRICTED CASH

The Company had 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 had a one-year term deposit of \$25,000 earning annual interest of 0.5%. During the six months ended March 31, 2020, the Company cancelled the corporate credit card and the collateral deposit was released back to the Company.

7. PROPERTY AND EQUIPMENT

	Oil and natural gas properties	Corporate	Total
Cost			
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
Capital expenditures	25,836	-	25,836
Right of use office lease assets	-	155,629	155,629
Foreign exchange movement	53,474	-	53,474
Balance at March 31, 2020	\$ 9,980,076	\$ 212,211	\$ 10,192,287
Accumulated depletion and depreciation			
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
Depletion and depreciation	21,404	25,668	47,072
Foreign exchange movement	32	-	32
Balance at March 31, 2020	\$ 149,564	\$ 49,371	\$ 198,935
Net amount			
Balance at March 31, 2020	\$ 9,830,512	\$ 162,840	\$ 9,993,352
Balance at September 30, 2019	\$ 9,772,638	\$ 32,879	\$ 9,805,517

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 March 31, 2020, the Company held reclamation bonds of \$276,900 (US\$195,000) (September 30, 2019 - \$258,180 (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 CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED MARCH 31, 2020
(Unaudited – Prepared by Management)

8. TRADE AND OTHER PAYABLES

	March 31, 2020	September 30, 2019
Trade payables	\$ 592,044	\$ 829,392
Accrued liabilities	82,967	63,102
Other payables	52,935	43,509
	\$ 727,946	\$ 936,003

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 March 31, 2020 (September 30, 2019 - \$3,912,727) 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% (2019 - 2.0%) and discounted using a risk-free rate of 1.93% (2019 - 3.13%) based on expected settlement date.

Changes to the decommissioning liabilities are as follows:

	March 31, 2020	September 30, 2019
Decommissioning liabilities, beginning of the year	\$ 3,155,623	\$ 2,529,806
Decommissioning costs incurred	-	(61,399)
Change in discount rate	-	605,204
Accretion expense	30,463	77,420
Foreign exchange movement	19,592	4,592
	\$ 3,205,678	\$ 3,155,623

PERMEX PETROLEUM CORPORATION
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED MARCH 31, 2020
(Unaudited – Prepared by Management)

10. RELATED PARTY TRANSACTIONS

Included in amounts due to related parties are \$98,000 (September 30, 2019 - \$56,250) related to services rendered to the Company by the Chief Executive Officer (“CEO”) of the Company and \$7,713 (September 30, 2019 - \$73,969) in advances from the CEO of the Company. Amounts due to related parties are unsecured, non-interest bearing, and have no specific terms of repayment.

During the six months ended March 31, 2020, the Company issued secured convertible debentures of \$200,000 to the CEO 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. As at March 31, 2020, the interest accrued on the loan was \$6,773.

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

	2020	2019
Management fees	\$ 87,908	\$ 100,415
Share-based payments	3,026	63,519
Total	\$ 90,934	\$ 163,934

The Company entered into the following transactions relating to key management personnel and entities over which they have control or significant influence during the six month period ended March 31, 2020:

- a) Incurred management fees of \$87,908 (2019 - \$75,000) to a company controlled by the CEO of the Company.
- b) Incurred management fees of \$nil (2019 - \$15,000) to a company controlled by the Chief Financial Officer of the Company.
- c) Incurred management fees of \$ nil (2019 - \$10,415) to a director of the Company.

The Company has entered into an employment agreement with the CEO of the Company for monthly base salary of US\$12,500, with no specified term. The employment agreement may be terminated with 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 March 31, 2020, the Company had 40,024,114 common shares outstanding (September 30, 2019 - 40,024,114).

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 March 31, 2020, 1,462,500 common shares remained in escrow.

Share issuance

There were no shares issued during the six months ended March 31, 2020.

During the year ended September 30, 2019, the Company completed a non-brokered private placement 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.

Basic and diluted loss per share

The calculation of basic and diluted loss per share for the six month period ended March 31, 2020 was based on the loss attributable to common shareholders of \$60,780 (2019 - \$546,268) and a weighted average number of common shares outstanding of 40,024,114 (2019 - 35,973,748).

At March 31, 2020, 2,840,189 stock options (2019 - 2,540,189) and 4,805,206 (2019 - 650,840) warrants were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED MARCH 31, 2020
(Unaudited – Prepared by Management)

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, 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
Granted	300,000	0.05
Balance, March 31, 2020	2,840,189	\$ 0.43
Exercisable at March 31, 2020	2,615,189	\$ 0.46
Weighted average fair value of options granted during the period	\$ 0.04	(2019 - \$0.21)

The options outstanding at March 31, 2020 have exercise prices in the range of \$0.05 to \$0.50 and a weighted average remaining contractual life of 8.02 years.

The total share-based payments calculated for stock options granted during the six months ended March 31, 2020 was \$11,256 (2019 - \$63,519) using the Black-Scholes option pricing model. During the six months ended March 31, 2020, the Company recognized share based payment expense of \$3,026 (2019 - \$90,162) 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:

	2020	2019
Risk-free interest rate	0.78%	2.48%
Expected life of options	10 Years	10 Years
Expected annualized volatility	120%	120%
Dividend rate	Nil	Nil

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

Stock options (cont'd...)

As at March 31, 2020, 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
300,000	\$ 0.05	March 16, 2030
2,840,189		

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, 2018	650,840	\$ 0.50
Warrants issued	4,050,366	0.25
Agent's warrants issued	104,000	0.25
Balance, September 30, 2019 and March 31, 2020	4,805,206	\$ 0.28

The warrants outstanding at March 31, 2020 have exercise prices in the range of \$0.25 to \$0.50 and a weighted average remaining contractual life of 1.10 years.

As at March 31, 2020, 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		

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13. SUPPLEMENTAL CASH FLOW INFORMATION

Significant non-cash transactions during the six months ended March 31, 2020 included:

- a) Included in trade and other payables are \$220,032 related to property and equipment.

Significant non-cash transactions during the six months ended March 31, 2019 included:

- a) Included in trade and other payables are \$320,312 related to property and equipment.

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 March 31, 2020:

	Canada	USA	Total
Reclamation deposits	\$ -	\$ 276,900	\$ 276,900
Property and equipment	162,840	9,830,512	9,993,352
	\$ 162,840	\$ 10,107,412	\$ 10,270,252

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

All of the Company's oil and gas sales and direct operating expenses are incurred in the United States. During the six months ended March 31, 2020, the Company generated 98% of total revenue from three customers (2019 - 86%). As at March 31, 2020, three customers represented \$67,154 (95%) of the trade receivable balance (September 30, 2019 - three customers represented \$127,947 (61%)). 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 and loan debenture as fair value through profit or loss. 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), amounts due to related parties and loan debenture (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 March 31, 2020, the Company has current assets of \$132,918 and current liabilities of \$833,659. 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 March 31, 2020, the Company had financial assets of \$347,945 and financial liabilities of \$370,075 denominated in United States dollars. A 10% strengthening of the US dollar would affect net loss by approximately \$2,000. 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 March 31, 2020, the carrying amount of loan debenture measured at fair value through profit or loss is a reasonable approximation of fair value due to its relatively short period to maturity and/or the rate of interest being charged. There have been no changes in these levels and no changes in classifications during the six months ended March 31, 2020.

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.

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18. COMMITMENTS

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	\$	28,867
2021		49,581
2022		50,614
2023		<u>46,396</u>
	\$	175,458

19. IMPACT OF COVID-19

On March 11, 2020, the COVID-19 outbreak was declared a global pandemic by the World Health Organization. As at the date of these financial statements, the duration of the business disruptions and related financial impact on the Company of COVID-19 cannot currently be reasonably estimated. However, the Company is closely monitoring developments and adapting its business plans accordingly. The Company has implemented a work from home policy for its executives and consultants. Additionally, the Company has reduced discretionary corporate activities.