PERMEX PETROLEUM

CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended December 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	December 31, 2020	September 30, 2020
ASSETS			
Current assets			
Cash		$ 840,108	$ 7,356
Trade and other receivables	5	3,563	59,602
Prepaid expenses and deposits		34,224	20,804
Assets held for sale	6	-	3,899,287
		877,895	3,987,049
Non-current assets			
Reclamation deposits	7	247,650	259,350
Property and equipment	7	5,035,458	5,085,751
Total assets		$ 6,161,003	$ 9,332,150
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	8	$ 511,982	$ 951,586
Amounts due to related party	13	-	201,804
Convertible debentures – current portion	9	95,777	94,354
Lease obligation – current portion	11	20,198	26,509
Liabilities held for sale	6	-	2,401,628
		627,957	3,675,881
Non-current liabilities			
Decommissioning liabilities	10	1,046,120	1,056,313
Convertible debentures	9	92,138	90,399
Lease obligation	11	45,671	44,328
Loan payable	12	40,000	40,000
Total liabilities		1,851,886	4,906,921
Equity			
Share capital	14	8,236,291	8,210,041
Share subscription proceeds		40,500	40,500
Reserves		1,515,758	1,514,458
Convertible debentures - equity component	9	24,842	24,842
Accumulated other comprehensive loss		3,668	(433)
Deficit		(5,511,942)	(5,364,179)
Total equity		4,309,117	4,425,229
Total liabilities and equity		$ 6,161,003	$ 9,332,150

Nature of business (Note 1)
Event after the reporting period (Note 21)

The financial statements were authorized for issue by the board of directors on February 28, 2021 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
THREE MONTHS ENDED DECEMBER 31
(Unaudited – Prepared by Management)

	Note		2020		2019
Revenue					
Oil and gas sales		$	3,967	$	371,167
Direct operating expenses					
Producing and operating			(343)		(195,554)
			3,624		175,613
Expenses					
Accounting and audit			15,000		15,000
Accretion of decommissioning liabilities	10		3,736		15,222
Consulting			4,953		17,509
Depletion and depreciation	7		15,000		24,507
Filing and transfer agent			8,358		8,741
Interest			11,287		8,653
Investor relations and news dissemination			1,370		31,535
Legal fees			873		-
Management fees	13		48,835		37,500
Marketing and promotion			10,905		9,786
Office and miscellaneous			6,018		11,127
Rent			4,775		228
Salaries			-		13,570
Share-based payments	15		1,300		-
Travel			545		9,857
			(132,955)		(203,235)
Operating loss			(129,331)		(27,622)
Foreign exchange loss			(21,657)		(9,626)
Other income			3,225		10,000
Settlement of trade payables			-		31,356
Net income (loss) for the period			(147,763)		4,108
Other comprehensive income					
Item that may be reclassified subsequently to profit or loss:					
Foreign currency translation adjustment			4,101		900
Comprehensive loss for the period		$	(143,662)	$	5,008
Basic and diluted loss per common share	14	$	(0.00)	$	0.00

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	Convertible debentures - option component	Accumulated other comprehensive loss	Deficit	Total equity
Balance, September 30, 2020		40,024,114	$ 8,210,041	$ 1,514,458	$ 40,500	$ 24,842	$ (433)	$ (5,364,179)	$ 4,425,229
Shares issued for service	14	656,250	26,250	-	-	-	-	-	26,250
Share-based payments	15	-	-	1,300	-	-	-	-	1,300
Loss for the period		-	-	-	-		-	(147,763)	(147,763)
Other comprehensive income for the period		-	-	-	-	-	4,101	-	4,101
Balance, December 31, 2020		40,024,114	$ 8,236,291	$ 1,515,758	$ 40,500	$ 24,842	$ 3,668	$ (5,511,942)	$ 4,309,117

	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
Loss for the period		-	-	-	-	-	4,108	4,108
Other comprehensive loss for the period		-	-	-	-	900	-	900
Balance, December 31, 2019		40,024,114	$ 8,210,041	$ 1,777,526	$ 40,500	$ 63	$ (3,940,049)	$ 6,088,081

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

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

	Note	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss for the period		$ (147,763)	$ 4,108
Items not affecting cash:			
Accretion of decommissioning liabilities		3,736	15,222
Depletion and depreciation		15,000	24,507
Foreign exchange loss		37,165	14,067
Interest		11,287	4,592
Settlement of trade payables		-	(31,356)
Share-based payments		1,300	-
Shares issued for service		8,750	-
Changes in non-cash working capital items:			
Trade and other receivables		56,039	17,557
Prepaid expenses and deposits		4,080	35,870
Trade and other payables		(353,177)	(116,197)
Amounts due to related parties		(193,417)	37,500
Net cash provided by (used in) operating activities		(557,000)	5,870
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures on property and equipment		(92,476)	(95,879)
Lease payments		(7,044)	(12,372)
Proceeds from sale of oil and gas interests		1,497,659	-
Net cash provided by (used in) investing activities		1,398,139	(108,251)
CASH FLOWS FROM FINANCING ACTIVITIES			
Convertible debentures		-	100,000
Loan from related party		(8,387)	(589)
Net cash provided by (used in) financing activities		(8,387)	99,411
Change in cash during the period		832,752	(2,970)
Cash, beginning of the period		7,356	3,574
Cash, end of the period		$ 840,108	$ 604

Supplemental cash flow information (Note 16)

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 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, 2020, which have been prepared in accordance with IFRS as issued by the IASB.

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.

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 $5,511,942 and has not yet achieved profitable operations. The Company's ability to continue as a going concern is dependent on its ability to obtain adequate financing on reasonable terms from lenders, shareholders and other investors and/or to commence profitable operations in the future. While the Company has been successful in securing financing to date, there can be no assurances that it will be able to do so in the future. The aforementioned factors indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

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.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds at this time.

2. BASIS OF PREPARATION (cont'd…)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out in the Company's audited annual consolidated financial statements for the year ended September 30, 2020 were consistently applied to all the periods presented unless otherwise noted below.

New accounting standards

There were no new or amended IFRS pronouncements effective October 1, 2020 that impacted the Company's interim financial statements.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

Critical accounting judgments

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

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

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

Critical accounting judgments (cont'd…)

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

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

Critical accounting estimates and assumptions

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

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

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

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

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

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

5. TRADE AND OTHER RECEIVABLES

		December 31, 2020		September 30, 2020
Trade receivables	$	1,265	$	53,925
Goods and services taxes recoverable		2,298		5,677
	$	3,563	$	59,602

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

6. ASSETS AND LIABILITIES HELD FOR SALE

During the year ended September 30, 2020, the Company initiated a plan to dispose of its interest in certain oil and gas leases. As a result, the carrying costs of the related assets and its associated decommissioning liabilities were included in a disposal group and classified as assets held for sale and liabilities held for sale, respectively, as at September 30, 2020. The disposal group classified as held for sale were measured at the fair value less costs to sell and an impairment loss of $1,181,545 was recognized in the profit and loss during the year ended September 30, 2020. The Company believes the disposal group is not a separate major line of business; therefore, disclosure of discontinued operation is not being presented.

The recoverable amount of the disposal group as at September 30, 2020 are as follows.

Assets held for sale		
Oil and gas properties (Note 7)	$	3,899,287
Liabilities held for sale		
Decommissioning liabilities (Note 9)	$	2,401,628

During the three months ended December 31, 2020, the Company sold its interest in the oil and gas leases classified in assets and liabilities held for sale for $1,497,659.

7. PROPERTY AND EQUIPMENT

		Oil and natural gas properties		Corporate		Right of use asset		Total
Cost								
Balance at September 30, 2019	$	9,900,766	$	56,582	$	-	$	9,957,348
Capital expenditures		87,180		-		-		87,180
Change in decommissioning provisions		254,176		-		-		254,176
Right of use office lease assets		-		-		89,290		89,290
Reclassification to assets held for sale (Note 7)		(3,994,148)		-		-		(3,994,148)
Impairment		(1,181,545)		-		-		(1,181,545)
Foreign exchange movement		3,342		-		-		3,342
Balance at September 30, 2020	$	5,069,771	$	56,582	$	89,290	$	5,215,643
Foreign exchange movement		(35,293)		-		-		(35,293)
Balance at December 31, 2020	$	5,034,478	$	56,582	$	89,290	$	5,180,350
Accumulated depletion and depreciation								
Balance at September 30, 2019	$	128,128	$	23,703	$	-	$	151,831
Depletion and depreciation		38,521		11,601		22,798		72,920
Reclassification to assets held for sale (Note 7)		(94,861)		-		-		(94,861)
Foreign exchange movement		2		-		-		2
Balance at September 30, 2020	$	71,790	$	35,304	$	22,798	$	129,892
Depletion and depreciation		6,756		2,545		5,699		15,000
Foreign exchange movement		-		-		-		-
Balance at December 31, 2020	$	78,546	$	37,849	$	28,497	$	144,892
Net amount								
Balance at December 31, 2020	$	4,955,932	$	18,733	$	60,793	$	5,035,458
Balance at September 30, 2020	$	4,997,981	$	21,278	$	66,492	$	5,085,751

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 December 31, 2020, the Company held reclamation bonds of $247,650 (US$195,000) (September 30, 2020 - $259,350 (US$195,000), which are expected to be released after all reclamation work has been completed with regard to its oil and natural gas interests.

8. TRADE AND OTHER PAYABLES

	December 31, 2020	September 30, 2020
Trade payables	$ 424,859	$ 795,837
Accrued liabilities	20,000	89,135
Accrued loan interest	24,855	18,805
Other payables	42,268	47,809
	$ 511,982	$ 951,586

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. CONVERTIBLE DEBENTURES

The Company issued a total of $200,000 in convertible debentures to the CEO and a director of the Company on October 17, 2019 and February 21, 2020 for cash. 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 February 20, 2022, 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 the convertible debentures were considered to be compound financial instruments, the liability and equity components are presented separately. On initial recognition, the convertible debenture of $200,000 was allocated between the debenture loan ($175,158) and the related conversion option ($24,842) based on the fair value of the instruments. During the year ended September 30, 2020, the Company accrued interest of $18,805 and recognized accretion expense of $9,595. During the three months ended December 31, 2020, the Company accrued interest of $6,049 and recognized accretion expense of $3,162.

The following is a continuity schedule of loan component of the convertible debentures:

	December 31, 2020	September 30, 2020
Balance, beginning of the year	$ 184,753	$ -
Additions	-	175,158
Interest expense	3,162	9,595
Balance, end of the period	$ 187,915	$ 184,753
Current liability	$ 95,777	$ 94,354
Long-term liability	$ 92,138	$ 90,399

10. DECOMMISSIONING LIABILITIES

The total future decommissioning obligations are based on the Company's net ownership in wells and facilities, estimated costs to reclaim and abandon the wells and facilities, and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of estimated cash flows required to settle the Company's liabilities is approximately $1,271,020 as at December 31, 2020 (September 30, 2020 - $1,271,020) and expected to be incurred on average in 17 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 1.23% (2019 - 1.93%) based on expected settlement date.

Changes to the decommissioning liabilities are as follows:

	December 31, 2020	September 30, 2020
Decommissioning liabilities, beginning of the year	$ 1,056,313	$ 3,155,623
Decommissioning derecognized	-	(156,171)
Change in discount rate	-	396,349
Accretion expense	3,736	60,989
Reclassification to liabilities held for sale (Note 7)	-	(2,401,628)
Foreign exchange movement	(13,929)	1,151
	$ 1,046,120	$ 1,056,313

During the year ended September 30, 2020, the Company derecognized $156,171 in decommissioning liability as a result of an assignment of certain oil and gas interests. The decommissioning liability was offset by the decommissioning provision of $142,173 and a gain of $13,998 is realized.

11. LEASE OBLIGATION

The Company has entered into an office lease agreement for its office premises for a term ending August 31, 2023. The undiscounted future lease payments are as follows:

2021	21,225
2022	29,302
2023	26,860
	$ 77,387

The following is a continuity schedule of lease obligation:

	December 31, 2020	September 30, 2020
Balance, beginning of the year (Note 3)	$ 70,837	$ 89,290
Interest expense	2,076	9,722
Lease payments	(7,044)	(28,175)
Balance, end of the period	$ 65,869	$ 70,837
Current liability	$ 20,198	$ 26,509
Long-term liability	$ 45,671	$ 44,328

12. LOAN PAYABLE

In May 2020, the Company opened a Canada Emergency Business Account ("CEBA") and received a loan of $40,000 from the Canadian Government. The loan is unsecured and non-interest bearing until December 31, 2022.

13. RELATED PARTY TRANSACTIONS

Included in amounts due to related parties are $nil (September 30, 2020 - $193,417) related to services rendered to the Company by the Chief Executive Officer ("CEO") and a director of the Company and $nil (September 30, 2020 - $8,387) 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 year ended September 30, 2020, the Company issued a total of $200,000 in convertible debentures to the CEO and a director of the Company for cash (Note 11). As at December 31, 2020, the interest accrued on the loan was $24,855 (September 30, 2020 - $18,805).

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 three month periods ended December 31 is as follows:

	2020	2019
Management fees	$ 48,835	$ 37,500
Share-based payments	1,300	-
Total	$ 50,135	$ 37,500

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

a) Incurred management fees of $48,835 (2019 - $37,500) to a company controlled by the CEO 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.

14. SHARE CAPITAL

Authorized share capital

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

Issued share capital

At December 31, 2020, the Company had 40,680,364 common shares outstanding (September 30, 2020 - 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 December 31, 2020, 487,500 common shares remained in escrow.

Share issuance

During the three months ended December 31, 2020, the Company issued 656,250 common shares of the Company at a fair value of $26,250 pursuant to a marketing agreement.

There were no common shares issued during the year ended September 30, 2020.

Basic and diluted loss per share

The calculation of basic and diluted loss per share for the three month period ended December 31, 2020 was based on the loss attributable to common shareholders of $165,263 (2019 - income of $4,108) and a weighted average number of common shares outstanding of 40,330,840 (2019 - 40,024,114).

At December 31, 2020, $187,915 convertible debentures convertible into 1,333,333 common shares, 2,340,189 stock options (2019 - 2,540,189) and 4,805,206 (2019 - 4,805,206) warrants were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

15. 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, 2019	2,540,189	$ 0.48
Granted	300,000	0.05
Cancelled	(500,000)	0.50
Balance, September 30, 2020 and December 31, 2020	2,340,189	$ 0.42
Exercisable at December 31, 2020	2,115,189	$ 0.45
Weighted average fair value of options granted during the period	$ nil	(2019 - $nil)

The options outstanding at December 31, 2020 have exercise prices in the range of $0.05 to $0.50 and a weighted average remaining contractual life of 7.34 years.

During the three months ended December 31, 2020, the Company recognized share based payment expense of $1,300 (2019 - $nil) for the portion of stock options that vested during the period.

As at December 31, 2020, the following stock options were outstanding:

Number of Options	Exercise Price	Expiry Date
1,740,189	$ 0.50	December 4, 2027
300,000	$ 0.30	November 1, 2028
300,000	$ 0.05	March 16, 2030
2,340,189		

15. SHARE-BASED PAYMENTS (cont'd…)

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.

There were no warrant transactions during the year ended September 30, 2020 and the three months ended December 31, 2020.

The warrants outstanding at December 31, 2020 have exercise prices in the range of $0.25 to $0.50 and a weighted average remaining contractual life of 0.35 years.

As at December 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		

16. SUPPLEMENTAL CASH FLOW INFORMATION

Significant non-cash transactions during the three months ended December 31, 2020 included:

a) Included in trade and other payables are $117,177 related to property and equipment.

Significant non-cash transactions during the three months ended December 31, 2019 included:

a) Included in trade and other payables are $221,254 related to property and equipment.

17. 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 December 31, 2020:

	Canada	USA	Total
Reclamation deposits	$ -	$ 247,650	$ 247,650
Property and equipment	79,526	4,955,932	5,035,458
	$ 79,526	$ 5,203,582	$ 5,283,108

At September 30, 2020:

	Canada	USA	Total
Reclamation deposits	$ -	$ 259,350	$ 259,350
Property and equipment	87,770	4,997,981	5,085,751
	$ 87,770	$ 5,257,331	$ 5,345,101

All of the Company's oil and gas sales and direct operating expenses are incurred in the United States. During the three months ended December 31, 2020, the Company generated 100% of total revenue from one customer (2019 - 70%). As at December 31, 2020, two customers represented $1,265 (100%) of the trade receivable balance (September 30, 2020 - one customer represented $51,158 (95%)). It is in management's opinion that the Company is not exposed to significant credit risk.

18. CAPITAL MANAGEMENT

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

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

The Company is not subject to externally imposed capital requirements.

19. FINANCIAL INSTRUMENTS

The Company classified its financial instruments as follows: cash, trade and other receivables, and reclamation deposits as subsequently measured at amortized cost; and trade and other payables, amounts due to related parties, loan payable, and convertible debentures – loan component 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), reclamation deposits (Note 7), trade and other payables (Note 8), convertible debentures(Note 9), loan payable (Note 12), amounts due to related parties and loan debenture (Note 13).

The carrying amount of cash, trade and other receivables, reclamation deposits, trade and other payables, amounts due to related parties, loan payable, and convertible debentures 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, and reclamation deposits. The credit risk with respect to its 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 December 31, 2020, the Company has current assets of $877,895 and current liabilities of $627,957. 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 December 31, 2020, the Company had financial assets of $1,048,998 and financial liabilities of $198,347 denominated in United States dollars. A 10% strengthening of the US dollar would affect net loss by approximately $85,000. The Company does not hedge its foreign exchange risk.

19. 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.

20. 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.

The Company has no financial assets or liabilities recorded at FVTPL.

21. EVENT AFTER THE REPORTING PERIOD

Subsequent to December 31, 2020, the Company acquired various producing royalty interests in various oil and natural gas wells in Texas and New Mexico for $136,265.