



# PERMEX PETROLEUM CORPORATION

## CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Six Months Ended March 31, 2021

(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, 2021	September 30, 2020
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 369,104	\$ 7,356
Trade and other receivables	5	4,462	59,602
Prepaid expenses and deposits		49,375	20,804
Assets held for sale	6	-	3,899,287
		422,941	3,987,049
<b>Non-current assets</b>			
Reclamation deposits	7	182,700	259,350
Royalty interests		135,192	-
Property and equipment	7	5,087,580	5,085,751
<b>Total assets</b>		<b>\$ 5,828,413</b>	<b>\$ 9,332,150</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables	8	\$ 455,404	\$ 951,586
Amounts due to related party	13	6,570	201,804
Convertible debentures – current portion	9	93,839	94,354
Lease obligation – current portion	11	65,317	26,509
Liabilities held for sale	6	-	2,401,628
		621,130	3,675,881
<b>Non-current liabilities</b>			
Decommissioning liabilities	10	1,047,501	1,056,313
Convertible debentures	9	-	90,399
Lease obligation	11	62,318	44,328
Loan payable	12	40,000	40,000
<b>Total liabilities</b>		<b>1,770,949</b>	<b>4,906,921</b>
<b>Equity</b>			
Share capital	14	8,236,291	8,210,041
Share subscription proceeds		40,500	40,500
Reserves		1,516,914	1,514,458
Convertible debentures - equity component	9	13,797	24,842
Accumulated other comprehensive loss		4,719	(433)
Deficit		(5,754,757)	(5,364,179)
<b>Total equity</b>		<b>4,057,464</b>	<b>4,425,229</b>
<b>Total liabilities and equity</b>		<b>\$ 5,828,413</b>	<b>\$ 9,332,150</b>

**Nature of business** (Note 1)

The financial statements were authorized for issue by the board of directors on May 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**  
(Unaudited – Prepared by Management)

	Note	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	Six Months Ended March 31, 2021	Six Months Ended March 31, 2020
<b>Revenue</b>					
Oil and gas sales		\$ -	\$ 267,932	\$ 3,967	\$ 639,099
<b>Direct operating expenses</b>					
Producing and operating		(12,752)	(152,096)	(13,095)	(347,650)
		(12,752)	115,836	(9,128)	291,449
<b>Expenses</b>					
Accounting and audit		23,418	15,000	38,418	30,000
Accretion of decommissioning liabilities	10	3,710	15,241	7,446	30,463
Consulting		12,880	21,963	17,833	39,472
Depletion and depreciation	7	14,385	22,565	29,385	47,072
Filing and transfer agent		35,693	12,248	44,051	20,989
Interest		10,103	9,595	21,390	18,248
Investor relations and news dissemination		1,714	23,324	3,084	54,859
Legal fees		-	13,946	873	13,946
Management fees	13	47,468	50,408	96,303	87,908
Marketing and promotion		15,575	7,381	26,480	17,167
Office and miscellaneous		7,146	14,749	17,939	26,104
Salaries		-	13,997	-	27,567
Share-based payments	15	1,156	3,026	2,456	3,026
Travel		573	3,343	1,118	13,200
		(173,821)	(226,786)	(306,776)	(430,021)
<b>Loss before other items</b>					
		(186,573)	(110,950)	(315,904)	(138,572)
Foreign exchange gain (loss)		(12,497)	45,995	(34,154)	36,369
Forfeiture of reclamation deposit		(63,500)	-	(63,500)	-
Loss on settlement of debenture		(4,223)	-	(4,223)	-
Other income		3,225	67	6,450	10,067
Settlement of trade payables		9,708	-	9,708	31,356
		(67,287)	46,062	(85,719)	77,792
<b>Net loss for the period</b>					
		(253,860)	(64,888)	(401,623)	(60,780)
<b>Other comprehensive income</b>					
Item that may be reclassified subsequently to profit or loss:					
Foreign currency translation adjustment		1,051	6,343	5,152	(5,443)
<b>Comprehensive loss for the period</b>					
		\$ (252,809)	\$ (58,545)	\$ (396,471)	\$ (66,223)
<b>Basic and diluted loss per common share</b>					
	14	\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ (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 - equity 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	-	-	2,456	-	-	-	-	2,456
Adjustment on settlement of convertible debentures		-	-	-	-	(11,045)	-	11,045	-
Loss for the period		-	-	-	-	-	-	(401,623)	(401,623)
Other comprehensive income for the period		-	-	-	-	-	5,152	-	5,152
Balance, March 31, 2021		40,024,114	\$ 8,236,291	\$ 1,516,914	\$ 40,500	\$ 13,797	\$ 4,719	\$ (5,754,757)	\$ 4,057,464

	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	15	-	-	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

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	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss for the period		\$ (401,623)	\$ (60,780)
Items not affecting cash:			
Accretion of decommissioning liabilities		7,446	30,463
Depletion and depreciation		29,385	47,072
Foreign exchange loss		43,072	(37,809)
Forfeiture of reclamation bond		63,500	-
Interest		21,390	18,248
Loss on settlement of debenture		4,223	-
Settlement of trade payables		(9,708)	(31,356)
Share-based payments		2,456	3,026
Shares issued for service		21,875	-
Changes in non-cash working capital items:			
Trade and other receivables		55,140	62,003
Prepaid expenses and deposits		(24,196)	42,335
Trade and other payables		(377,304)	(128,366)
Amounts due to related parties		(191,734)	41,749
		(756,078)	(13,415)
Interest paid		(16,570)	(2,428)
Net cash used in operating activities		(772,648)	(15,843)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditures on property and equipment		(103,679)	(101,248)
Purchase of royalty interests		(135,192)	-
Lease payments		(20,892)	(20,619)
Proceeds from redemption of deposit		-	25,000
Proceeds from sale of oil and gas interests		1,497,659	-
Net cash provided by (used in) investing activities		1,237,896	(96,867)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Convertible debentures		(100,000)	200,000
Loan from related party		(3,500)	(66,255)
Net cash provided by (used in) financing activities		(103,500)	133,745
<b>Change in cash during the period</b>		<b>361,748</b>	<b>21,035</b>
<b>Cash, beginning of the period</b>		<b>7,356</b>	<b>3,574</b>
<b>Cash, end of the period</b>		<b>\$ 369,104</b>	<b>\$ 24,609</b>

**Supplemental cash flow information** (Note 16)

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, 2021

(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 10<sup>th</sup> 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 \$5,754,757 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.

**PERMEX PETROLEUM CORPORATION**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED MARCH 31, 2021**  
(Unaudited – Prepared by Management)

---

**5. TRADE AND OTHER RECEIVABLES**

	March 31, 2021	September 30, 2020
Trade receivables	\$ 1,265	\$ 53,925
Goods and services taxes recoverable	3,197	5,677
	<u>\$ 4,462</u>	<u>\$ 59,602</u>

The Company anticipates full recovery of its receivables and therefore no allowance has been recorded against these amounts as at March 31, 2021 (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 six months ended March 31, 2021, the Company sold its interest in the oil and gas leases classified in assets and liabilities held for sale for \$1,497,659.

**PERMEX PETROLEUM CORPORATION**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED MARCH 31, 2021**  
(Unaudited – Prepared by Management)

**7. PROPERTY AND EQUIPMENT**

	Oil and natural gas properties	Corporate	Right of use asset	Total
<b>Cost</b>				
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
Right of use office lease assets	-	-	72,270	72,270
Foreign exchange movement	(41,199)	-	-	(41,199)
Balance at March 31, 2021	\$ 5,028,572	\$ 56,582	\$ 161,560	\$ 5,246,714
<b>Accumulated depletion and depreciation</b>				
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	5,088	17,541	29,385
Foreign exchange movement	(24)	-	(119)	(143)
Balance at March 31, 2021	\$ 78,522	\$ 40,392	\$ 40,220	\$ 159,134
<b>Net amount</b>				
Balance at March 31, 2021	\$ 4,950,050	\$ 16,190	\$ 121,340	\$ 5,087,580
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 March 31, 2021, the Company held reclamation bonds of \$182,700 (US\$145,000) (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. During the six months ended March 31, 2021, the Company wrote off \$63,500 (US\$50,000) of reclamation deposit forfeited by the State government due to violation on a previous owned property.

**PERMEX PETROLEUM CORPORATION**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED MARCH 31, 2021**  
(Unaudited – Prepared by Management)

**8. TRADE AND OTHER PAYABLES**

	March 31, 2021	September 30, 2020
Trade payables	\$ 394,008	\$ 795,837
Accrued liabilities	-	89,135
Accrued loan interest	13,315	18,805
Other payables	48,081	47,809
	<u>\$ 455,404</u>	<u>\$ 951,586</u>

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 six months ended March 31, 2021, the Company repaid \$100,000 of the convertible debenture together with accrued interest of \$16,570 and recognized accretion expense of \$4,863.

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

	March 31, 2021	September 30, 2020
Balance, beginning of the year	\$ 184,753	\$ -
Additions (repayment)	(100,000)	175,158
Loss recognized at repayment	4,223	-
Interest expense	4,863	9,595
Balance, end of the period	<u>\$ 93,839</u>	<u>\$ 184,753</u>
Current liability	\$ 93,839	\$ 94,354
Long-term liability	\$ -	\$ 90,399

**PERMEX PETROLEUM CORPORATION**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED MARCH 31, 2021**  
(Unaudited – Prepared by Management)

**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 March 31, 2021 (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% (2020 - 2.0%) and discounted using a risk-free rate of 1.23% (2020 - 1.93%) based on expected settlement date.

Changes to the decommissioning liabilities are as follows:

	March 31, 2021	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	7,446	60,989
Reclassification to liabilities held for sale (Note 7)	-	(2,401,628)
Foreign exchange movement	(16,258)	1,151
	<u>\$ 1,047,501</u>	<u>\$ 1,056,313</u>

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	34,594
2022	70,126
2023	<u>40,468</u>
	<u>\$ 145,188</u>

The following is a continuity schedule of lease obligation:

	March 31, 2021	September 30, 2020
Balance, beginning of the year	\$ 70,837	\$ 89,290
Addition	72,270	-
Interest expense	5,448	9,722
Lease payments	(20,892)	(28,175)
Foreign exchange movement	(28)	-
Balance, end of the period	<u>\$ 127,635</u>	<u>\$ 70,837</u>
Current liability	\$ 65,317	\$ 26,509
Long-term liability	\$ 62,318	\$ 44,328

**PERMEX PETROLEUM CORPORATION**  
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
SIX MONTHS ENDED MARCH 31, 2021  
(Unaudited – Prepared by Management)

---

**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 \$1,683 (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 \$4,887 (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). During the six months ended March 31, 2021, the Company repaid \$100,000 of the convertible debenture due to a director of the Company together with accrued interest of \$16,570. As at March 31, 2021, the interest accrued on the loan was \$13,315 (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 six month periods ended March 31 is as follows:

---

---

	2021	2020
Management fees	\$ 96,303	\$ 87,908
Share-based payments	2,456	3,026
Total	\$ 98,759	\$ 90,934

---

---

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, 2021:

- a) Incurred management fees of \$96,303 (2020 - \$87,908) 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.

**PERMEX PETROLEUM CORPORATION**  
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
SIX MONTHS ENDED MARCH 31, 2021  
(Unaudited – Prepared by Management)

---

**14. 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, 2021, 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 March 31, 2021, 487,500 common shares remained in escrow. Subsequent to March 31, 2021, all escrowed shares were released from escrow.

**Share issuance**

During the six months ended March 31, 2021, 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 six months ended March 31, 2021 was based on the loss attributable to common shareholders of \$401,623 (2020 - \$60,780) and a weighted average number of common shares outstanding of 40,503,681 (2020 - 40,024,114).

At March 31, 2021, \$93,839 convertible debentures convertible into 666,667 common shares, 2,340,189 stock options (2020 - 2,540,189) and 4,805,206 (2020 - 4,805,206) warrants were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

**PERMEX PETROLEUM CORPORATION****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

SIX MONTHS ENDED MARCH 31, 2021

(Unaudited – Prepared by Management)

**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 March 31, 2021	2,340,189	\$ 0.42
Exercisable at March 31, 2021	2,190,189	\$ 0.44
Weighted average fair value of options granted during the period	\$ nil	(2020 - \$nil)

The options outstanding at March 31, 2021 have exercise prices in the range of \$0.05 to \$0.50 and a weighted average remaining contractual life of 7.09 years.

During the six months ended March 31, 2021, the Company recognized share based payment expense of \$2,456 (2020 - \$3,026) for the portion of stock options that vested during the period.

As at March 31, 2021, 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		



**PERMEX PETROLEUM CORPORATION**  
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
SIX MONTHS ENDED MARCH 31, 2021  
(Unaudited – Prepared by Management)

---

**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 six months ended March 31, 2021.

The warrants outstanding at March 31, 2021 have exercise prices in the range of \$0.25 to \$0.50 and a weighted average remaining contractual life of 0.10 years.

As at March 31, 2021, the following warrants were outstanding:

---

---

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

---

---

**16. SUPPLEMENTAL CASH FLOW INFORMATION**

Significant non-cash transactions during the six months ended March 31, 2021 included:

- a) Included in trade and other payables are \$96,673 related to property and equipment.
- b) Included in prepaid expenses and deposits are \$4,375 related to shares issued for services.

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.

**PERMEX PETROLEUM CORPORATION**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED MARCH 31, 2021**  
(Unaudited – Prepared by Management)

**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 March 31, 2021:

	Canada	USA	Total
Reclamation deposits	\$ -	\$ 182,700	\$ 182,700
Property and equipment	71,283	5,016,297	5,087,580
	\$ 71,283	\$ 5,198,997	\$ 5,270,280

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 six months ended March 31, 2021, the Company generated 100% of total revenue from one customer (2020 - 98%). As at March 31, 2021, 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 March 31, 2021, the Company has current assets of \$422,941 and current liabilities of \$621,130. 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 and debenture loan due within the next 12 months.

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, 2021, the Company had financial assets of \$536,758 and financial liabilities of \$183,494 denominated in United States dollars. A 10% strengthening of the US dollar would affect net loss by approximately \$35,000. 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.