PERMEX PETROLEUM
CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended December 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	December 31, 2021	September 30, 2021
ASSETS			
Current assets			
Cash		$ 304,080	$ 32,791
Trade and other receivables	5	166,852	16,496
Prepaid expenses and deposits		62,282	58,771
		533,214	108,058
Non-current assets			
Reclamation deposits	6	184,150	184,150
Property and equipment	6	10,089,246	10,081,390
Total assets		$ 10,806,610	$ 10,373,598
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	7	$ 545,433	$ 513,321
Amounts due to related party	11	28,134	21,182
Convertible debentures – current portion	8	99,037	97,298
Lease obligation – current portion	10	66,077	66,077
		738,681	697,878
Non-current liabilities			
Decommissioning obligations	9	2,079,650	2,069,200
Lease obligations	10	19,594	34,340
Loan payable	12	40,000	40,000
Total liabilities		2,877,925	2,841,418
Equity			
Share capital	13	12,043,396	11,403,791
Share subscription proceeds		40,500	40,500
Reserves		3,779,052	2,983,479
Convertible debentures - equity component	8	13,797	13,797
Accumulated other comprehensive income (loss)		1,829	2,509
Deficit		(7,949,889)	(6,911,896)
Total equity		7,928,685	7,532,180
Total liabilities and equity		$ 10,806,610	$ 10,373,598

Nature of business (Note 1)

The financial statements were authorized for issue by the board of directors on February 28, 2022 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	2021	2020
Revenue			
Oil and gas sales		$ 113,376	$ 3,967
Royalty income		20,739	-
Direct operating expenses			
Producing and operating		(103,157)	(343)
		30,958	3,624
Expenses			
Accounting and audit		17,892	15,000
Consulting		17,157	4,953
Depletion and depreciation	6	55,066	15,000
Filing and transfer agent		32,696	8,358
Interest		7,618	11,287
Investor relations		29,555	1,370
Legal fees		6,793	873
Management fees	11	63,451	48,835
Marketing and promotion		38,356	10,905
Office and miscellaneous		26,656	10,793
Share-based payments	14	764,894	1,300
Travel		4,787	545
		(1,064,921)	(132,955)
Operating loss		(1,033,963)	(129,331)
Accretion on decommissioning obligations	9	(10,397)	(3,736)
Foreign exchange gain (loss)		6,230	(21,657)
Other income		137	3,225
Net loss for the period		(1,037,993)	(147,763)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation adjustment		(680)	4,101
Comprehensive loss for the period		$ (1,038,673)	$ (143,662)
Basic and diluted loss per common share	13	$ (0.02)	$ (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, 2021		66,180,364	$ 11,403,791	$ 2,983,479	$ 40,500	$ 13,797	$ 2,509	$ (6,911,896)	$ 7,532,180
Private placements	13	2,647,037	714,700	-	-	-	-	-	714,700
Share issuance costs	13	-	(75,095)	30,679	-	-	-	-	(44,416)
Share-based payments	14	-	-	764,894	-	-	-	-	764,894
Loss for the period		-	-	-	-		-	(1,037,993)	(1,037,993)
Other comprehensive income for the period		-	-	-	-	-	(680)	-	(680)
Balance, December 31, 2021		68,827,401	$ 12,043,396	$ 3,779,052	$ 40,500	$ 13,797	$ 1,829	$ (7,949,889)	$ 7,928,685

	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	13	656,250	26,250	-	-	-	-	-	26,250
Share-based payments	14	-	-	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

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	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss for the period		$ (1,037,993)	$ (147,763)
Items not affecting cash:			
Accretion on decommissioning obligations		10,397	3,736
Depletion and depreciation		55,066	15,000
Foreign exchange loss (gain)		(713)	37,165
Interest		7,619	11,287
Share-based payments		764,894	1,300
Shares issued for services		-	8,750
Changes in non-cash working capital items:			
Trade and other receivables		(150,356)	56,039
Prepaid expenses and deposits		(3,511)	4,080
Trade and other payables		(19,886)	(353,177)
Amounts due to related parties		-	(193,417)
Net cash used in operating activities		(374,483)	(557,000)
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures on property and equipment		(10,907)	(92,476)
Lease payments		(17,532)	(7,044)
Proceeds from sale of oil and gas interests		-	1,497,659
Net cash provided by (used in) investing activities		(28,439)	1,398,139
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of share capital		714,700	-
Share issuance costs		(44,416)	-
Loan from related party		3,927	(8,387)
Net cash provided by (used in) financing activities		674,211	(8,387)
Change in cash during the period		271,289	832,752
Cash, beginning of the period		32,791	7,356
Cash, end of the period		$ 304,080	$ 840,108

Supplemental cash flow information (Note 15)

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 500, 666 Burrard Street, Vancouver, British Columbia, Canada, V6C 2X8 and its US office at Suite 700, 100 Crescent Court, Dallas, Texas, 75201. 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", on the OTCQB under the symbol "OILCF", and on the Frankfurt Stock Exchange under the symbol "75P".

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, 2021, 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.

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.

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 $7,949,889 and has not yet achieved profitable operations and has a working capital deficiency of $205,467. 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.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out in the Company's audited annual consolidated financial statements for the year ended September 30, 2021 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, 2021 that will impact the Company's consolidated 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.

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

Critical accounting judgments

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

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

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

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

Critical accounting estimates and assumptions

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

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

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

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

Critical accounting estimates and assumptions (cont'd…)

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

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

Going concern assumption
The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Company is aware 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, 2021	September 30, 2021
Trade receivables	$ 163,879	$ 14,372
Goods and services taxes recoverable	2,973	2,124
	$ 166,852	$ 16,496

The Company anticipates full recovery of its receivables and therefore no allowance has been recorded against these amounts as at December 31, 2021 (September 30, 2021 - $nil).

6. PROPERTY AND EQUIPMENT

	Oil and natural gas properties	Corporate	Right of use asset	Total
Cost				
Balance at September 30, 2020	$ 5,069,771	$ 56,582	$ 89,290	$ 5,215,643
Acquisitions	4,845,240	-	-	4,845,240
Capital expenditures	11,880	-	-	11,880
Change in decommissioning provisions	1,182,092	-	-	1,182,092
Right of use office lease assets	-	-	72,270	72,270
Impairment/disposal	(956,034)	(56,582)	-	(1,012,616)
Foreign exchange movement	(25,527)	-	574	(24,953)
Balance at September 30, 2021	$ 10,127,422	$ -	$ 162,134	$ 10,289,556
Capital expenditures	62,905	-	-	62,905
Foreign exchange movement	388	-	-	388
Balance at December 31, 2021	$ 10,190,715	$ -	$ 162,134	$ 10,352,849
Accumulated depletion and depreciation				
Balance at September 30, 2020	$ 71,790	$ 35,304	$ 22,798	$ 129,892
Depletion and depreciation	66,181	10,177	46,887	123,245
Impairment/disposal	-	(45,481)	-	(45,481)
Foreign exchange movement	319	-	191	510
Balance at September 30, 2021	$ 138,290	$ -	$ 69,876	$ 208,166
Depletion and depreciation	40,332	-	14,734	55,066
Foreign exchange movement	300	-	71	371
Balance at December 31, 2021	$ 178,922	$ -	$ 84,681	$ 263,603
Net amount				
Balance at December 31, 2021	$ 9,989,132	$ -	$ 92,258	$ 10,089,246
Balance at September 30, 2021	$ 9,989,132	$ -	$ 92,258	$ 10,081,390

The Company is engaged in the exploration for, and the development of, petroleum and natural gas projects in the United States. The Company holds 100% working interests and 71.9% to 81.75% net revenue interests and certain royalty interests in the various oil and gas properties located in Texas and New Mexico.

During the year ended September 30, 2021, the Company, through its wholly-owned subsidiary, Permex Petroleum US Corporation, acquired a 100% Working Interest and a 81.75% Net Revenue Interest in the Breedlove "B" Clearfork leases located in Martin County, Texas. The purchase price is comprised of 25,000,000 common shares of the Company (issued with a fair value of $3,125,000) and 12,500,000 share purchase warrants. The share purchase warrants have an exercise price $0.20 per share and are exercisable until October 1, 2031. The warrants were valued at $1,494,580 using the Black-Scholes option pricing model (assuming a risk-free interest rate of 1.51%, an expected life of 10 year, annualized volatility of 131.82% and a dividend rate of 0%).

6. PROPERTY AND EQUIPMENT (cont'd…)

During the year ended September 30, 2021, the Company sold its interests in Peavy leases together with reclamation obligations for US$10,000 and recognized an impairment loss of $765,427 from the sale. The Company also recognized an impairment loss of $11,101 from the disposal of equipment.

As of December 31, 2021, the Company held reclamation bonds of $184,150 (US$145,000) (September 30, 2021 - $184,150 (US$145,000), which are expected to be released after all reclamation work has been completed with regard to its oil and natural gas interests. During the year ended September 30, 2021, the Company wrote off $63,500 (US$50,000) of reclamation deposit forfeited by the Texas State government due to violation on a previous owned property.

7. TRADE AND OTHER PAYABLES

	December 31, 2021	September 30, 2021
Trade payables	$ 471,117	$ 448,821
Accrued liabilities	20,000	20,000
Other payables	54,316	44,500
	$ 545,433	$ 513,321

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.

8. 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, 2021, the Company repaid $100,000 of the convertible debenture together with accrued interest of $16,570 and recognized accretion expense of $6,322. During the three months ended December 31, 2021, the Company accrued interest of $3,025 and recognized accretion expense of $1,739.

8. CONVERTIBLE DEBENTURES (cont'd…)

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

	December 31, 2021	September 30, 2021
Balance, beginning of the year	$ 97,298	$ 184,753
Additions (repayment)	-	(100,000)
Loss recognized at early repayment	-	4,223
Interest expense	1,739	8,322
	$ 99,037	$ 97,298

9. DECOMMISSIONING OBLIGATIONS

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 obligations is approximately $2,836,777 as at December 31, 2021 (September 30, 2021 - $2,836,777) and expected to be incurred between 2031 to 2041. The estimated net present value of the decommissioning obligations was calculated using an inflation factor of 2.0% (2020 - 2.0%) and discounted using a risk-free rate of 2.02% (2020 - 2.02%) based on expected settlement date.

Changes to the decommissioning obligations are as follows:

	December 31, 2021	September 30, 2021
Decommissioning obligations, beginning of the year	$ 2,069,200	$ 1,056,313
Obligations acquired	-	988,367
Obligations derecognized	-	(178,107)
Change in estimates	-	296,396
Change in discount rate	-	(102,671)
Accretion expense	10,397	14,822
Reclassification to liabilities held for sale (Note 6)	-	-
Foreign exchange movement	53	(5,920)
	$ 2,079,650	$ 2,069,200

During the year ended September 30, 2021, the Company derecognized $178,107 in decommissioning obligations as a result of an assignment of certain oil and gas interests. The decommissioning obligations were offset by the decommissioning provision of $161,405 and a gain of $16,702 was netted against the impairment loss realized from the sale of properties.

10. LEASE OBLIGATION

The Company has entered into office lease agreements for its office premises for terms ending in 2023. The undiscounted future lease payments are as follows:

2022	$	52,838
2023		40,576
	$	93,414

The following is a continuity schedule of lease obligation:

		December 31, 2021		September 30, 2021
Balance, beginning of the year	$	100,417	$	70,837
Addition		-		72,270
Interest expense		2,855		12,398
Lease payments		(17,532)		(55,485)
Foreign exchange movement		(69)		397
Balance, end of the year / period	$	85,671	$	100,417
Current liability	$	66,077	$	66,077
Long-term liability	$	19,594	$	34,340

11. RELATED PARTY TRANSACTIONS

Included in amounts due to related parties are $1,683 (September 30, 2021 - $1,683) related to services rendered to the Company by a director of the Company and $4,095 (September 30, 2021 - $167) 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 8). During the year ended September 30, 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 December 31, 2021, $100,000 of debenture loan remained outstanding and the interest accrued on the loan was $22,356 (September 30, 2021 - $19,332).

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:

		2021		2020
Management fees	$	63,451	$	48,835
Share-based payments		614,350		1,300
Total	$	677,801	$	50,135

11. RELATED PARTY TRANSACTIONS (cont'd…)

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, 2021:

a) Incurred management fees of $63,451 (2020 - $48,835) 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 an annual base salary of US$200,000, 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.

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, 2023.

13. 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, 2021, the Company had 68,827,401 common shares outstanding (September 30, 2021 - 66,180,364).

Share issuance

During the three months ended December 31, 2021, the Company completed a non-brokered private placement of 2,647,037 units at a price of $0.27 per unit for gross proceeds of $714,700. Each unit is comprised of one common share and one half of share purchase warrant; each whole warrant entitles the holder to acquire one additional common share for a period of 24 months at an exercise price of $0.54. No value was allocated to the warrants based on the residual method. The Company paid $43,416 and issued 160,800 finder's warrants as a finders' fee. The finder's warrants have the same terms as the warrants issued under the private placement. The finder's warrants were valued at $30,679 using the Black-Scholes option pricing model (assuming a risk-free interest rate of 0.98%, an expected life of 2 year, annualized volatility of 153.02% and a dividend rate of 0%). The Company also incurred filing and other expenses of $1,000 in connection with the private placement.

During the year ended September 30, 2021, the Company:

a) Issued 1,156,250 common shares of the Company with a fair value of $68,750 pursuant to service agreements.

b) Issued 25,000,000 common shares of the Company with a value of $3,125,000 pursuant to a property acquisition agreement (Note 7).

13. SHARE CAPITAL

Basic and diluted loss per share

The calculation of basic and diluted loss per share for the three month period ended December 31, 2021 was based on the loss attributable to common shareholders of $1,037,993 (2020 - $165,263) and a weighted average number of common shares outstanding of 67,820,376 (2020 - 40,330,840).

At December 31, 2021, $99,037 convertible debentures convertible into 666,667 common shares, 5,575,000 stock options and 13,984,318 share purchase warrants were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

14. 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, 2020	2,340,189	$ 0.42
Cancelled	(65,189)	0.50
Balance, September 30, 2021	2,275,000	$ 0.41
Granted	3,300,000	0.24
Balance, December 31, 2021	5,575,000	$ 0.31
Exercisable at December 31, 2021	5,425,000	$ 0.32
Weighted average fair value of options granted during the period	$ 0.23	(2020 - $nil)

The options outstanding at December 31, 2021 have exercise prices in the range of $0.05 to $0.50 and a weighted average remaining contractual life of 8.37 years.

14. SHARE-BASED PAYMENTS (cont'd…)

Stock options (cont'd…)

The total fair value of stock options granted during the three months ended December 31, 2021 was $764,303 (2020 - $nil), calculated using the Black-Scholes option pricing model. For the three months ended December 31, 2021, the Company recognized share-based payment expense of $764,894 (2020 - $1,300) for the portion of stock options that vested during the period.

As at December 31, 2021, the following stock options were outstanding:

Number of Options	Exercise Price	Expiry Date
1,675,000	$ 0.50	December 4, 2027
300,000	$ 0.30	November 1, 2028
300,000	$ 0.05	March 16, 2030
3,300,000	$ 0.24	October 6, 2031
5,575,000		

Warrants

Warrants are issued as private placement incentives. Agents' warrants and warrants issued for oil and gas interests are measured at fair value on the date of the grant as determined using the Black-Scholes option pricing model.

	Number of Warrants	Weighted Average Exercise Price
Balance, September 30, 2020	4,805,206	$ 0.28
Granted	12,500,000	0.20
Warrants expired	(4,805,206)	0.28
Balance, September 30, 2021	12,500,000	$ 0.20
Granted	1,484,318	0.54
Balance, December 31, 2021	13,984,318	$ 0.23

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

Number of Warrants	Exercise Price	Expiry Date
1,484,318	$ 0.54	November 4, 2023
12,500,000	$ 0.20	October 1, 2031
13,984,318		

15. SUPPLEMENTAL CASH FLOW INFORMATION

Significant non-cash transactions during the three months ended December 31, 2021 included:

a) Issued 160,800 finder's warrants with a value of $30,679 in connection with the private placement.

b) Included in trade and other payables are $139,558 related to property and equipment.

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.

16. 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, 2021:

	Canada	USA	Total
Reclamation deposits	$ -	$ 184,150	$ 184,150
Property and equipment	37,996	10,051,250	10,089,246
	$ 37,996	$ 10,235,400	$ 10,273,396

At September 30, 2021:

	Canada	USA	Total
Reclamation deposits	$ -	$ 184,150	$ 184,150
Property and equipment	43,695	7,918,115	7,961,810
	$ 43,695	$ 8,102,265	$ 8,145,960

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, 2021, the Company generated 85% of total revenue from one customer (2020 - 100%). As at December 31, 2021, one customer represented $139,778 (85%) of the trade receivable balance (September 30, 2021 - $3,717 (26%)). It is in management's opinion that the Company is not exposed to significant credit risk.

17. 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 6), trade and other payables (Note 7), convertible debentures (Note 8), loan payable (Note 12), amounts due to related parties and loan debenture (Note 11).

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, 2021, the Company has current assets of $533,214 and current liabilities of $738,681. 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 December 31, 2021, the Company had financial assets of $583,019 and financial liabilities of $283,227 denominated in United States dollars. A 10% strengthening of the US dollar would affect net loss by approximately $30,000. The Company does not hedge its foreign exchange risk.

17. 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.

18. 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.

19. 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.