PERMEX PETROLEUM
CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2022 AND 2021

(EXPRESSED IN UNITED STATES DOLLARS)

PERMEX PETROLEUM CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

DAVIDSON & COMPANY LLP Chartered Professional Accountants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Directors of
Permex Petroleum Corporation

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Permex Petroleum Corporation (the “Company”) as of September 30, 2021, and the related consolidated statements of loss and comprehensive loss, equity, and cash flows for the year ended September 30, 2021, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2021, and the results of its operations and its cash flows for the year ended September 30, 2021, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

We have served as the Company’s auditor from 2017 to 2022.

/s/ DAVIDSON & COMPANY LLP

Vancouver, Canada

Chartered Professional Accountants

July 14, 2022 (February, 9, 2023 as to the effects of the reverse stock split discussed in Note 1)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Permex Petroleum Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Permex Petroleum Corporation (the "Company") as of September 30, 2022, the related consolidated statements of loss and comprehensive loss, equity and cash flows for the year ended September 30, 2022, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2022, and the results of its operations and its cash flows for the year ended September 30, 2022, in conformity with accounting principles generally accepted in the United States of America.

Explanatory Paragraph – Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 2, the Company has incurred significant losses and needs to raise additional funds to meet sustain its operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Marcum LLP

Marcum LLP

We have served as the Company's auditor since 2022.

Houston, Texas
February 10, 2023

PERMEX PETROLEUM CORPORATION
CONSOLIDATED BALANCE SHEETS
AS AT SEPTEMBER 30

	2022	2021
ASSETS		
Current assets		
Cash and cash equivalents	$ 3,300,495	$ 25,806
Trade and other receivables, net	137,214	12,984
Prepaid expenses and deposits	317,277	46,151
Total current assets	3,754,986	84,941
Non-current assets		
Reclamation deposits	145,000	144,847
Property and equipment, net of accumulated depreciation and depletion	8,426,776	6,638,975
Right of use asset	240,796	72,539
Total assets	$ 12,567,558	$ 6,941,302
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables	$ 1,561,344	$ 402,979
Amounts due to related party	-	16,628
Convertible debenture	38,291	78,500
Lease liability – current portion	104,224	51,963
Total current liabilities	1,703,859	550,070
Non-current liabilities		
Asset retirement obligations	236,412	552,594
Lease liability	140,682	26,986
Loan payable	-	31,400
Warrant liability	23,500	-
Total liabilities	2,104,453	1,161,050
Equity		
Common stock, no par value per share; unlimited shares authorized, 1,932,604 and 1,103,010 shares issued and outstanding as of September 30, 2022 and September 30, 2021, respectively.	14,337,739	8,976,747
Additional paid-in capital	4,513,194	2,476,717
Accumulated other comprehensive loss	(127,413)	(127,413)
Deficit	(8,260,415)	(5,545,799)
Total equity	10,463,105	5,780,252
Total liabilities and equity	$ 12,567,558	$ 6,941,302

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

PERMEX PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
YEARS ENDED SEPTEMBER 30

		2022		2021
Revenues				
Oil and gas sales	$	815,391	$	46,703
Royalty income		63,068		37,922
Total revenues		878,459		84,625
Operating expenses				
Production		829,194		59,671
General and administrative		2,796,395		496,381
Depletion and depreciation		105,503		60,479
Accretion on asset retirement obligations		55,030		19,907
Foreign exchange gain (loss)		(7,429)		24,301
Forfeiture of reclamation deposit		-		50,165
Loss on disposal of property and equipment		-		613,457
Total operating expenses		(3,778,693)		(1,324,361)
Loss from operations		(2,900,234)		(1,239,736)
Other income (expense)				
Interest income		5,895		-
Other income		24,000		-
Forgiveness of loan		7,800		-
Finance expense		(30,586)		(13,506)
Change in fair value of warrant liability		178,509		-
Total other income (expense)		185,618		(13,506)
Net loss		(2,714,616)		(1,253,242)
Other comprehensive income				
Foreign currency translation adjustment		-		142,889
Comprehensive loss	$	(2,714,616)	$	(1,110,353)
Basic and diluted loss per common share	$	(1.76)	$	(1.84)

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

PERMEX PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY

	Number of Shares*	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Deficit	Total equity
Balance, September 30, 2020	667,073	$ 6,453,039	$ 1,422,477	$ (270,302)	$ (4,292,557)	$ 3,312,657
Acquisition of property	416,666	2,468,750	-	-	-	2,468,750
Acquisition of property - warrants	-	-	1,051,370	-	-	1,051,370
Shares issued for services	19,271	54,958	-	-	-	54,958
Share-based payments	-	-	2,870	-	-	2,870
Net loss	-	-	-	-	(1,253,242)	(1,253,242)
Other comprehensive income	-	-	-	142,889	-	142,889
Balance, September 30, 2021	1,103,010	$ 8,976,747	$ 2,476,717	$ (127,413)	$ (5,545,799)	$ 5,780,252
Private placements	829,594	7,303,161	607,170	-	-	7,910,331
Share issuance costs	-	(1,942,169)	882,972	-	-	(1,059,197)
Share-based payments	-	-	546,335	-	-	546,335
Net loss	-	-	-	-	(2,714,616)	(2,714,616)
Balance, September 30, 2022	1,932,604	$ 14,337,739	$ 4,513,194	$ (127,413)	$ (8,260,415)	$ 10,463,105

*The number of shares has been restated to reflect the 60:1 share consolidation (Note 1).

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

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

		2022		2021
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss	$	(2,714,616)	$	(1,253,242)
Adjustments to reconcile net loss to net cash from operating activities:				
Accretion on asset retirement obligations		55,030		19,907
Depletion and depreciation		105,503		60,479
Foreign exchange loss (gain)		(7,168)		87,747
Forfeiture of reclamation bond		-		50,165
Forgiveness of loan payable		(7,800)		-
Finance expense		18,031		13,506
Change in fair value of warrant liability		(178,509)		-
Loss on disposal of property and equipment		-		613,457
Extinguishment of trade and other payables		(4,368)		(9,682)
Share-based payments		546,335		2,870
Shares issued for services		-		54,958
Changes in operating assets and liabilities:				
Trade and other receivables		(124,230)		34,092
Prepaid expenses and deposits		(271,126)		(29,977)
Trade and other payables		584,216		(234,475)
Amounts due to related parties		(24,536)		(162,598)
Right of use asset and lease liability		(785)		3,010
Net cash used in operating activities		(2,024,023)		(749,783)
CASH FLOWS FROM INVESTING ACTIVITIES				
Capital expenditures on property and equipment		(1,685,999)		(265,717)
Proceeds from sale of oil and gas interests		-		1,123,244
Net cash provided by (used in) investing activities		(1,685,999)		857,527
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of share capital		8,112,340		-
Share issuance costs		(1,067,868)		-
Convertible debenture repayment		(34,709)		(79,000)
Loan from related party		(1,452)		(8,455)
Loan repayment		(23,600)		-
Net cash provided by (used in) financing activities		6,984,711		(87,455)
Change in cash and cash equivalents during the year		3,274,689		20,289
Cash and cash equivalents, beginning of the year		25,806		5,517
Cash and cash equivalents, end of the year	$	3,300,495	$	25,806
Supplemental disclosures of non-cash investing and financing activities:				
Common stock issued in connection with property acquisition agreement	$	-	$	2,468,750
Share purchase warrants issued in connection with private placements and property acquisition		1,692,151		1,051,370
Trade and other payables related to property and equipment		647,252		68,735
Adjustments to asset retirement obligations		(371,212)		376,647
Supplemental cash flow disclosures:				
Interest paid		24,536		13,090

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

1. BACKGROUND

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 925, 2911 Turtle Creek Blvd, Dallas, Texas, 75219. 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".

On October 26, 2022, the Company's board of directors approved a reverse stock split of the Company's issued and outstanding common stock at a 1 for 60 ratio, which was effective November 2, 2022. The par value and authorized shares of common stock were not adjusted as a result of the reverse stock split. All issued and outstanding common stock, options, and warrants to purchase common stock and per share amounts contained in the financial statements have been retroactively adjusted to reflect the reverse stock split for all periods presented.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Company's consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC").

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Permex Petroleum US Corporation. All intercompany balances and transactions have been eliminated.

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 $8,260,415 and has not yet achieved profitable operations. The Company has been relying on equity financing and loans from related parties to fund its operation in the past. 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 raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued.

Management plans to fund operations of the Company with its current working capital and through increasing productions from its oil and gas leases. The Company also expects to raise additional funds through equity financings. There are no written agreements in place for such funding or issuance of securities and there can be no assurance that such will be available in the future. Management believes that this plan provides an opportunity for the Company to continue as a going concern.

In view of these matters, continuation as a going concern is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to, meets its financial requirements, raise additional capital, and the success of its future operations. The financial statements do not include any adjustments to the amount and classification of assets and liabilities that may be necessary should the Company not continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Use of Estimates

The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Management evaluates these estimates and judgments on an ongoing basis and bases its estimates on experience, current and expected future conditions, third-party evaluations and various other assumptions that management believes are reasonable under the circumstances.

Significant estimates have been used by management in conjunction with the following: (i) petroleum and natural gas reserves; (ii) the fair value of assets when determining the existence of impairment factors and the amount of impairment, if any; (iii) the costs of site restoration when determining asset retirement obligations; (iv) income taxes receivable or payable; (v) the useful lives of assets for the purposes of depreciation; (vi) general credit risk associated with receivables and other assets; and (vii) share-based payments. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, and makes adjustments when facts and circumstances dictate. These estimates are based on information available as of the date of the financial statements; therefore, actual results could differ from those estimates.

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents. Cash and cash equivalents are recorded at cost, which approximates fair value.

Trade and other receivables

Trade and other receivables are stated at net realizable value. The majority of customers are not extended credit and the majority of the receivables has payment terms of 30 days or less. On a periodic basis, management evaluates its accounts receivable and determines whether to provide an allowance or if any accounts should be written off based on a past history of write-offs, collections, and current credit conditions. A receivable is considered past due if the Company has not received payments based on agreed-upon terms. Given the nature and balances of the Company's receivables the Company has no material loss allowance as at September 30, 2022 and September 30, 2021.

Property and equipment

The Company follows the successful efforts method of accounting for its oil and gas properties. All costs for development wells along with related acquisition costs, the costs of drilling development wells, and related asset retirement obligation (ARO) assets are capitalized. Exploration costs, such as exploratory geological and geophysical costs, and costs associated with non-productive exploratory wells, delay rentals and exploration overhead are expensed. Costs of drilling exploratory wells are capitalized pending determination of whether the wells found proved reserves. Costs of wells that are assigned proved reserves remain capitalized. Costs also are capitalized for exploratory wells that have found crude oil and natural gas reserves even if the reserves cannot be classified as proved when the drilling is completed, provided the exploratory well has found a sufficient quantity of reserves to justify its completion as a producing well and the Company is making sufficient progress assessing the reserves and the economic and operating viability of the project. The Company groups its oil and gas properties with a common geological structure or stratigraphic condition ("common operating field") for purposes of computing depletion expenses, assessing proved property impairments and accounting for asset dispositions.

Capitalized costs of proved oil and gas properties are depleted by individual field using a unit-of-production method based on proved and probable developed reserves. Proved reserves are estimated using reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids, which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Property and equipment (cont'd…)

Proved oil and natural gas properties are assessed for possible impairment by comparing their carrying values with their associated undiscounted, future net cash flows. Events that can trigger assessments for possible impairments include write-downs of proved reserves based on field performance, significant decreases in the market value of an asset (including changes to the commodity price forecast or carbon costs), significant change in the extent or manner of use of or a physical change in an asset, and a more-likely-than-not expectation that a long-lived asset or asset group will be sold or otherwise disposed of significantly sooner than the end of its previously estimated useful life. Impaired assets are written down to their estimated fair values, generally their discounted, future net cash flows. For proved oil and natural gas properties, the Company performs impairment reviews on a field basis, annually or as appropriate.

Other corporate property and equipment consist primarily of leasehold improvements, vehicle, and office furniture and equipment and are stated at cost less accumulated depreciation. The capitalized costs are generally depreciated on a straight line basis over their estimated useful lives ranging from three to five years.

For property dispositions, measurement is at fair value, unless the transaction lacks commercial substance or fair value cannot be reliably measured. Where the exchange is measured at fair value, a gain or loss is recognized in net income. Any deferred consideration recorded on property dispositions are recognized as revenue in the statement of loss and comprehensive loss over the reserve life.

Gains or losses are recorded for sales or dispositions of oil and gas properties which constitute an entire common operating field or which result in a significant alteration of the common operating field's depletion rate. These gains and losses are classified as asset dispositions in the accompanying consolidated statements of loss and comprehensive loss. Partial common operating field sales or dispositions deemed not to significantly alter the depletion rates are generally accounted for as adjustments to capitalized costs with no gain or loss recognized.

Impairment of long-lived assets

The Company assesses long-lived assets for impairment in accordance with the provisions of the Financial Account Standards Board Accounting Standards Codification ("ASC") regarding long-lived assets. It requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of the assets. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value. As of September 30, 2022 and September 30, 2021, no impairment charge has been recorded.

Asset retirement obligations

The Company recognizes asset retirement obligations ("ARO") associated with tangible assets such as well sites when there is a legal obligation associated with the retirement of such assets and the amount can be reasonably estimated. The ARO are measured at the present value of management's best estimate of the future remediation expenditures at the reporting date. The initial measurement of an ARO is recorded as a liability at its fair value, with an offsetting asset retirement cost recorded as an increase to the associated property and equipment on the consolidated balance sheet. When the assumption used to estimate a recorded ARO change, a revision is recorded to both the ARO and the asset retirement cost. The ARO is accreted to its then present value each period, and the asset retirement cost is depreciated using a systematic and rational method similar to that used for the associated property and equipment.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Fair value measurement

Fair value accounting is applied for all assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Fair value is defined as the exchange price that would be received for an asset or an exit price that would be paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company follows the established framework for measuring fair value and expands disclosures about fair value measurements.

The Company categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

The carrying values of cash and cash equivalents, trade receivable, other current receivables, due from/to related parties, trade payable, other current payables, accrued expenses, convertible debenture and lease liability included in the accompanying consolidated balance sheets approximated fair value at September 30, 2022 and September 30, 2021. The financial statements as of and for the years ended September 30, 2022 and September 30, 2021, do not include any recurring or nonrecurring fair value measurements relating to assets or liabilities.

Subsequent to initial recognition, the Company may re-measure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Company has not elected to measure any existing financial instruments at fair value. However, it may elect to measure newly acquired financial instruments at fair value in the future.

Earnings (loss) per share

Basic earnings (loss) per share ("EPS") is calculated by dividing net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding in the period. The diluted EPS reflects all dilutive potential common share equivalents, in the weighted average number of common shares outstanding during the period, if dilutive. All of the outstanding convertible securities, stock options and warrants were anti-dilutive for the years ended September 30, 2022 and 2021.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Leases

At inception of a contract, the Company assesses whether a contract is, or contains a lease based on whether the contract conveys the right to control the use of an identified asset for a period in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date.

The lease obligation is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability. The lease liability is subsequently measured at amortized cost using the effective interest rate method.

Share capital

The Company records proceeds from the issuance of its common shares as equity. Incremental costs directly attributable to the issue of new common shares are shown in equity as a deduction, net of tax, from the proceeds. Common shares issued for consideration other than cash are valued based on their market value at the date that the shares are issued.

Share purchase warrants

The fair value of warrants issued with private placement units is determined using the Black-Scholes option pricing model. Proceeds from the issuance of private placement units are allocated between the private placement warrants and common shares on a relative fair value basis. Share purchase warrants with exercise prices denominated in a currency other than its functional currency are classified as a liability. Proceeds from the issuance of private placement units are first allocated to the warrant liability based on their fair value and the residual is allocated to common shares issued while for equity warrants, proceeds are allocated on a relative fair value basis. The changes in fair value of the warrant liability are recorded in the statement of loss and comprehensive loss.

Warrants issued for oil and gas interests and warrants issued as finder's fees are share-based payments and are measured at fair value on the date of the grant as determined using the Black-Scholes option pricing model.

Share-based payments

The Company issues stock options and other share-based compensation to directors, employees and others service providers. Equity awards including stock options and share purchase warrants are measured at grant date at the fair value of the instruments issued and amortized over the vesting periods using a graded vesting approach. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount ultimately recognized as an expense is based on the number of options that eventually vest. The Company has elected to account for forfeitures as they occur rather than estimate expected forfeitures.

The fair value of the equity awards is determined using the Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility), weighted average expected life of the instruments (based on historical experience), expected dividends, and the risk-free interest rate (based on government bonds).

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Revenue

In accordance with ASC 606, *Revenue from Contracts with Customers,* the Company recognizes revenue when the performance obligation is satisfied, which typically occurs at the point in time when control of the product transfer to the customer. For natural gas, this is generally at the time product enters the pipeline. For crude oil, this is generally at the time the product is loaded into customer operated transports. Revenue is measured net of discounts, customs duties, royalties and withholding tax. Royalty income represents net revenue interests from certain crude oil and natural gas wells and is recognized upon the operators of the properties producing revenue from subject oil and gas wells.

The Company records revenue in the month production is delivered to the purchaser. However, production statements for oil and gas sales may not be received until the following month end after the products are purchased, and as a result, the Company is required to estimate the amount of revenue to be received. The Company records the differences between its estimates and the actual amounts received for revenue in the month that payment is received from the customer. Identified differences between the Company's revenue estimates and actual revenue received are $1,395 and $nil for years ended September 30, 2022 and September 30, 2021, respectively. The Company believes that the pricing provisions of its oil, natural gas and natural gas liquids contracts are customary in the industry. To the extent actual volumes and prices of oil and natural gas sales are unavailable for a given reporting period because of timing or information not received from third parties, the revenue related to sales volumes and prices for those good sold are estimated and recorded.

The Company does not have any contract assets or liabilities, or capitalized contract costs.

Foreign Currency

These consolidated financial statements are presented in United States dollars ("U.S. dollar"). The functional currency of the Company and the subsidiary of the Company is the U.S. dollar. The Company changed its functional currency from Canadian dollars ("CAD") to the U.S. dollars as at October 1, 2021. The change in functional currency from Canadian dollars to U.S. dollars is accounted for prospectively from October 1, 2021. Management determined that the Company's functional currency had changed based on the assessment related to significant changes of the Company's economic facts and circumstances. These significant changes included the fact that the Company's equity financings and the primary economic environment are now in the U.S. as well as the expectation of the majority of the Company's expenses will be denominated in U.S. dollars. Moreover, the Company's place of business and management are now located in the United States.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are charged to profit or loss.

2. **SIGNIFICANT ACCOUNTING POLICIES** (cont'd…)

Income taxes

Current taxes receivable or payable are estimated on taxable income or loss for the current year at the statutory tax rates enacted or substantively enacted at the reporting date.

Deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax assets and liabilities are measured at the tax rates that have been enacted or substantially enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets also result from unused loss carry forwards, resource related pools and other deductions. At the end of each reporting year the Company reassesses unrecognized deferred tax assets. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority.

New accounting standards

There are not currently any new or pending accounting standards that have a significant impact on the Company's consolidated financial statements.

3. REVENUE

Revenue from contracts with customers is presented in "Oil and gas sales" on the Consolidated Statement of Loss and Comprehensive Loss.

As of September 30, 2022 and September 30, 2021, receivable from contracts with customers, included in trade and other receivables, were $56,639 and $nil, respectively.

The following table present our revenue from contracts with customers disaggregated by product type and geographic areas.

Year ended September 30, 2022		Texas		New Mexico		Total
Crude oil	$	621,275	$	140,236	$	761,511
Natural gas		53,880		-		53,880
Revenue from contracts with customers	$	675,155	$	140,236	$	815,391

Year ended September 30, 2021		Texas		New Mexico		Total
Crude oil	$	44,425	$	-	$	44,425
Natural gas		2,278		-		2,278
Revenue from contracts with customers	$	46,703	$	-	$	46,703

4. CONCENTRATION OF CREDIT RISK

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of its cash equivalents and trade receivables. The Company's cash balances sometimes exceed the United States' Federal Deposit Insurance Corporation insurance limits. The Company mitigates this risk by placing its cash and cash equivalents with high credit quality financial institutions and attempts to limit the amount of credit exposure with any one institution. To date, the Company has not recognized any losses caused by uninsured balances.

The majority of the Company's receivable balance is concentrated in trade receivables, with a balance of $91,928 as of September 30, 2022. Three customers represented $79,942 (87%) of the trade receivable balance. The Company routinely assesses the financial strength of its customers. The non-trade receivable balance consists of GST recoverable of $39,770 and interest receivable of $5,516. GST recoverable is due from the Canadian Government. Interest receivable is due from a financial institution with high credit rating. It is in management's opinion that the Company is not exposed to significant credit risk. To date, the Company has not recognized any credit losses on its receivables.

5. ACQUISITION AND DISPOSITION

Acquisition

During the year ended September 30, 2021, the Company and 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 Company issued 416,666 common shares and 208,333 share purchase warrants as consideration for this acquisition. The Company valued the 416,666 common shares issued at a fair value of $2,468,750. The share purchase warrants were valued at $1,051,370 using the Black-Scholes option pricing model (assuming a risk-free interest rate of 1.51%, an expected life of 10-years, annualized volatility of 96.56% and a dividend rate of 0%). The warrants have an exercise price $8.76 per share (CAD$12.00) and are exercisable until September 30, 2031.

Disposition

During the year ended September 30, 2021, the Company sold its interests in the Peavy leases together with reclamation obligations for $10,000 and recognized a loss of $604,687 from the sale. The Company also recognized a loss of $8,770 from the disposal of equipment.

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	September 30, 2022	September 30, 2021
Oil and natural gas properties, at cost	$ 8,029,234	$ 6,723,778
Construction in progress	460,306	-
Less: accumulated depletion	(184,658)	(84,803)
Oil and natural gas properties, net	8,304,882	6,638,975
Other property and equipment, at cost	127,542	-
Less: accumulated depreciation	(5,648)	-
Other property and equipment, net	121,894	-
Property and equipment, net	$ 8,426,776	$ 6,638,975

Depletion and depreciation expense was $105,503 and $60,479 for the years ended September 30, 2022 and September 30, 2021, respectively.

7. LEASES

All of the Company's right-of-use assets are operating leases related to its office premises. Details of the Company's right-of-use assets and lease liabilities are as follows:

	2022	2021
Right-of-use assets	$ 240,796	$ 72,539
Lease liabilities		
Balance, beginning of the year	$ 78,949	$ 53,128
Addition	220,368	57,357
Interest expense	9,042	9,812
Lease payments	(63,453)	(43,932)
Foreign exchange movement	-	2,584
Balance, end of the year	$ 244,906	$ 78,949
Current lease liabilities	$ 104,224	$ 51,963
Long-term lease liabilities	$ 140,682	$ 26,986

The following table presents the Company's total lease cost.

	2022	2021
Amortization of right-of-use assets	$ 52,111	$ 37,129
Interest on lease liabilities	9,042	9,812
Variable lease expense	36,216	16,564
Sublease income	(36,633)	(10,191)
Rent subsidy	(1,644)	(9,169)
Net lease cost	$ 59,092	$ 44,145

As of September 30, 2022, maturities of the Company's operating lease liabilities are as follows:

Year	
2023	$ 110,593
2024	82,190
2025	84,664
2026	14,180
Total lease payments	291,627
Less: imputed interest	(46,721)
Total lease liabilities	$ 244,906

8. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations reflects the estimated present value of the amount of dismantlement, removal, site reclamation, and similar activities associated with the Company's oil and gas properties. Changes to the asset retirement obligations are as follows:

		2022		2021
Decommissioning obligations, beginning of the year	$	552,594	$	271,402
Obligations recognized		-		258,726
Obligations derecognized		-		(125,511)
Revisions of estimates		(371,212)		117,921
Accretion expense		55,030		19,907
Foreign exchange movement		-		10,149
	$	236,412	$	552,594

During the year ended September 30, 2022, the Company had revision of estimates totaling $371,212 (2021 - increase of $117,921) primarily due to changes in future cost estimates and retirement dates for its oil and gas assets.

Reclamation bonds

As of September 30, 2022, the Company held reclamation bonds of $145,000 (September 30, 2021 - $144,847), 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 $50,165 of a reclamation deposit forfeited by the Texas State government due to a violation on a previously owned property.

9. DEBT

Convertible debenture

As of September 30, 2022, the Company had a debenture loan of $73,000 (CAD$100,000) (September 30, 2021 - $78,500) from the CEO of the Company outstanding. The debenture loan is secured by an interest in all of the Company's right, title, and interest in all of its oil and gas assets, bears interest at a rate of 12% per annum and has a maturity date of December 20, 2022. The debenture is convertible at the holder's option into units of the Company at $6.57 (CAD$9.00) 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 $8.76 (CAD$12.00).

During the year ended September 30, 2022, the Company repaid $34,709 of the loan (CAD$47,546). Subsequent to September 30, 2022, the Company repaid the remaining principal loan amount of CAD$52,454.

During the years ended September 30, 2022 and September 30, 2021, the Company recorded interest of $9,360 and $13,506, respectively.

Loan payable

In May 2020, the Company opened a Canada Emergency Business Account ("CEBA") and received a loan of $28,640 (CAD$40,000) from the Canadian Government. The CEBA program was established to provide interest-free loans of up to CAD$60,000 to small businesses to help them cover operating costs during the COVID-19 pandemic. The loan was unsecured and non-interest bearing with a repayment deadline of December 31, 2023. During the year ended September 30, 2022, the Company repaid the loan balance of $23,600 (CAD$30,000) and recognized a gain of $7,800 (CAD$10,000) on the forgiven amount.

10. RELATED PARTY TRANSACTIONS

i) In October 2019, the Company issued $76,000 (CAD$100,000) in convertible debenture to a director of the Company for cash. The debenture loan was secured by an interest in all of the Company's right, title, and interest in all of its oil and gas assets, bore interest at a rate of 12% per annum and had a maturity date of September 30, 2021. During the year ended September 30, 2021, the Company repaid the principal loan amount of CAD$100,000 together with accrued interest of $13,090. During the year ended September 30, 2021, the Company recorded interest of $4,026.

ii) In February 2020, the Company issued $76,000 (CAD$100,000) in convertible debenture to the CEO of the Company for cash. The debenture loan is secured by an interest in all of the Company's right, title, and interest in all of its oil and gas assets, bears interest at a rate of 12% per annum and has an original maturity date of February 20, 2022. During the year ended September 30, 2022, the Company extended the maturity date to December 20, 2022 and repaid $34,709 of the loan (CAD$47,546). During the years ended September 30, 2022 and September 30, 2021, the Company recorded interest of $9,360 and $9,480, respectively. As at September 30, 2021, accrued interest of $15,176 was included in amounts due to related parties.

iii) The Company has an employment agreement with the CEO of the Company for an annual base salary of $250,000, with no specified term. The CEO is also eligible on an annual basis for a cash bonus of up to 100% of annual salary. The employment agreement may be terminated with a termination payment equal to three years of base salary and a bonus equal to 20% of the annual base salary. During the years ended September 30, 2022 and September 30, 2021, the Company incurred management fees of $220,834 and $149,806, respectively, to the CEO of the Company. The Company considers this a related party transaction, as it relates to key management personnel and entities over which it has control or significant influence.

iv) On May 1, 2022, the Company entered into an employment agreement with the CFO of the Company for an annual base salary of $50,000, with no specified term. The CFO is also eligible on an annual basis for a cash bonus of up to 100% of annual salary. The employment agreement may be terminated with a termination payment equal to two months of base salary. During the years ended September 30, 2022, the Company incurred salaries of $20,835 to the CFO of the Company. The Company considers this a related party transaction, as it relates to key management personnel and entities over which it has control or significant influence.

Included in amounts due to related parties are $nil (2021 - $1,321) related to accrued management fee to a director of the Company and $nil (2021 - $131) 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.

11. LOSS PER SHARE

The calculation of basic and diluted loss per share for the years ended September 30, 2022 and 2021 was based on the net losses attributable to common shareholders. The following table sets forth the computation of basic and diluted loss per share:

	2022	2021
Net loss	$ (2,714,616)	$ (1,253,242)
Weighted average common shares outstanding	1,543,021	678,958
Basic and diluted loss per share	$ (1.76)	$ (1.84)

As of September 30, 2022, $73,000 (CAD$100,000) of convertible debentures convertible into 11,111 common shares, 84,583 (2021 - 37,917) stock options and 1,097,096 (2021 - 208,333) warrants were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

12. EQUITY

Common stock

The Company has authorized an unlimited number of common shares with no par value. At September 30, 2022 and September 30, 2021, the Company had 1,932,604 and 1,103,010 common shares issued and outstanding, respectively.

During the year ended September 30, 2022, the Company:

a) Completed a non-brokered private placement of 44,117 units at a price of $12.96 (CAD$16.20) per unit for gross proceeds of $571,760 (CAD$714,700). Each unit is comprised of one common share and one half of one 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 $25.80 (CAD$32.40). $202,009 of the proceeds was allocated to the warrants and recorded as a warrant liability. The Company paid $34,733 and issued 2,680 agent'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 $24,543 using the Black-Scholes option pricing model (assuming a risk-free interest rate of 0.98%, an expected life of 2 years, annualized volatility of 153.02% and a dividend rate of 0%). The Company also incurred filing and other expenses of $800 in connection with the private placement. $8,671 of issuance costs related to the warrants was recorded in the statement of loss and comprehensive loss.

b) Completed a brokered private placement of 785,477 units at a price of $9.60 per unit for gross proceeds of $7,540,580. Each unit is comprised of one common share and one common share purchase warrant; each warrant entitles the holder to acquire one additional common share for a period of 5 years at an exercise price of $12.60. $607,170 of the proceeds was allocated to the warrants. ThinkEquity LLC acted as sole placement agent for the private placement. In connection with the private placement, ThinkEquity received a cash commission of $754,058, 78,548 broker warrants and expense reimbursement of $131,560. The broker's warrants have the same terms as the warrants issued under the private placement. The broker's warrants were valued at $858,429 using the Black-Scholes option pricing model (assuming a risk-free interest rate of 2.45%, an expected life of 5 years, annualized volatility of 134.66% and a dividend rate of 0%). The Company also incurred filing and other expenses of $140,475 in connection with the private placement.

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

a) Issued 19,271 common shares of the Company for a fair value of $54,958 pursuant to service agreements.

b) Issued 416,666 common shares of the Company for a value of $2,468,750 pursuant to a property acquisition agreement.

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.

12. EQUITY (cont'd…)

Share-based payments (cont'd…)

Stock option transactions are summarized as follows:

	Number of options	Weighted Average Exercise Price
Balance, September 30, 2020	39,003	$ 18.75
Cancelled	(1,086)	23.70
Balance, September 30, 2021	37,917	$ 19.51
Granted	55,000	10.51
Cancelled	(8,334)	17.34
Balance, September 30, 2022	84,583	$ 13.26
Exercisable at September 30, 2022	83,333	$ 13.42

The aggregate intrinsic value of options outstanding and exercisable as at September 30, 2022 was $nil (2021 - $nil).

The options outstanding as of September 30, 2022 have exercise prices in the range of $2.19 to $21.90 and a weighted average remaining contractual life of 7.72 years. There were no options granted during the year ended September 30, 2021.

During the years ended September 30, 2022 and 2021, the Company recognized share-based payment expense of $546,335 and $2,870, respectively, for the portion of stock options that vested during the year. The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted:

	2022	2021
Risk-free interest rate	1.50%	-
Expected life of options	10 Years	-
Expected annualized volatility	96.56%	-
Dividend rate	Nil	-
Weighted average fair value of options granted	$ 10.17	$ -

12. EQUITY (cont'd…)

Share-based payments (cont'd…)

As September 30, 2022, the following stock options were outstanding:

Number of Options		Exercise Price	Expiry Date
27,917	$	21.90	December 4, 2027
5,000	$	13.14	November 1, 2028
5,000	$	2.19	March 16, 2030
51,666	$	10.51	October 6, 2031
84,583			

Warrants

Warrant transactions are summarized as follows:

	Number of Warrants		Weighted Average Exercise Price
Balance, September 30, 2020	80,087	$	12.77
Granted	208,333		9.48
Warrants expired	(80,087)		13.46
Balance, September 30, 2021	208,333	$	9.42
Granted	888,763		12.91
Balance, September 30, 2022	1,097,096	$	12.12

As September 30, 2022, the following warrants were outstanding:

Number of Warrants		Exercise Price	Expiry Date
24,739	$	23.65	November 4, 2023
864,024	$	12.60	March 29, 2027
208,333	$	8.76	October 1, 2031
1,097,096			

22,059 warrants issued with private placement units during fiscal 2022 have an exercise price denominated in CAD. These warrants were initially valued at $202,009 using the Black-Scholes option pricing model (assuming a risk-free interest rate of 0.98%, an expected life of 2 years, annualized volatility of 153.02% and a dividend rate of 0%) and recorded as a warrant liability. These warrants were subsequently revaluated and a gain on fair value adjustment of $178,509 was recorded during the year ended September 30, 2022.

The following weighted average assumptions were used for the Black-Scholes valuation of warrants as at September 30, 2022 and November 4, 2021:

		September 30,2022		November 4, 2021
Risk-free interest rate		3.79%		0.98%
Expected life of options		1 Year		2 Years
Expected annualized volatility		135.59%		153.02%
Dividend rate		Nil		Nil
Weighted average fair value of options granted	$	1.46	$	11.45

13. INCOME TAXES

		2022		2021
Loss before income taxes	$	(2,714,616)	$	(1,253,242)
Expected income tax recovery at statutory rates	$	(407,000)	$	(188,000)
Provincial income tax		(244,000)		(137,000)
Effect of income taxes from US operations		(42,000)		(7,000)
Change in statutory, foreign tax, foreign exchange rates and other		(32,000)		(59,000)
Permanent differences		103,000		1,000
Adjustment to prior years provision versus statutory tax returns		(53,000)		(11,000)
Change in valuation allowance		675,000		401,000
Deferred income tax recovery	$	-	$	-

Components of the Company's pre-tax loss and income taxes are as follows:

		2022		2021
Loss for the year				
Canada	$	(2,030,281)	$	(1,144,350)
US		(684,335)		(108,892)
	$	(2,714,616)	$	(1,253,242)
Expected income tax (recovery)				
Canada	$	(549,000)	$	(309,000)
US		(102,000)		(29,000)
	$	(651,000)	$	(338,000)
Deferred income tax (recovery)				
Canada	$	548,000	$	309,000
US		103,000		29,000
	$	651,000	$	338,000
Deferred income tax recovery	$	-	$	-

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

		2022		2021
Tax loss carryforwards	$	1,342,000	$	780,000
Property and equipment		(74,000)		(9,000)
Financing fees		216,000		38,000
		1,484,000		809,000
Deferred tax assets valuation allowance		(1,484,000)		(809,000)
Net deferred tax assets	$	-	$	-

The significant components of the Company's temporary differences include unamortized financing fees and tax loss carryforwards. The valuation allowance reduces the deferred tax assets to amounts that are, in management's assessment, more likely than not to be realized. For the years ended September 30, 2022 and 2021, the Company had financing fees of $801,000 and $140,000, respectively, with expiration dates between 2042 and 2047. The Company also had tax loss carryforwards of approximately $4,832,000 in Canada and the United States. For the years ended September 30, 2022 and 2021, the Canada tax losses totaled $4,028,000 and $2,707,000, respectively, with expiration dates ranging from 2037 to 2042 and 2037 to 2041, respectively. The United States tax losses for the years ended September 30, 2022 and 2021 totaled $804,000 and $213,000, respectively, and had no expiration dates.

14. SEGMENT 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.

15. SUPPLEMENTAL INFORMATION ON OIL AND GAS OPERATIONS (UNAUDITED)

Supplemental unaudited information regarding Permex's oil and gas activities is presented in this note. All of Permex's reserves are located within the U.S.

Costs Incurred in Oil and Gas Producing Activities

	12 Months Ended September 30, 2022	12 Months Ended September 30, 2021
Acquisition of proved properties	$ —	$ 3,699,215
Acquisition of unproved properties	—	—
Development costs	1,676,668	9,403
Exploration costs	—	—
Total costs incurred	$ 1,676,668	$ 3,708,618

Results of Operations from Oil and Gas Producing Activities

	12 Months Ended September 30, 2022	12 Months Ended September 30, 2021
Oil and gas revenues	$ 815,391	$ 46,703
Production costs	(829,194)	(59,671)
Exploration expenses	—	—
Depletion, depreciation and amortization	(99,855)	(52,439)
Impairment of oil and gas properties	—	—
Result of oil and gas producing operations before income taxes	(113,658)	(65,407)
Provision for income taxes	—	—
Results of oil and gas producing activities	$ (113,658)	$ (65,407)

15. SUPPLEMENTAL INFORMATION ON OIL AND GAS OPERATIONS (UNAUDITED) (cont'd…)

Proved Reserves

The Company's proved oil and natural gas reserves have been estimated by the certified independent engineering firm, MKM Engineering. Proved reserves are the estimated quantities that geologic and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are the quantities expected to be recovered through existing wells with existing equipment and operating methods when the estimates were made. Due to the inherent uncertainties and the limited nature of reservoir data, such estimates are subject to change as additional information becomes available. The reserves actually recovered and the timing of production of these reserves may be substantially different from the original estimate. Revisions result primarily from new information obtained from development drilling and production history; acquisitions of oil and natural gas properties; and changes in economic factors.

Our proved reserves are summarized in the table below:

	Oil (Barrels)	Natural Gas (Mcf)	BOE (Barrels)
Proved developed and undeveloped reserves:			
September 30, 2020	3,706,360	740,180	3,829,723
Revisions (1)	(88,263)	38,640	(81,823)
Purchase of proved reserves (2)	5,408,560	2,859,590	5,885,158
Sale of reserves (3)	(2,826,290)	(618,650)	(2,929,398)
Production	(947)	(1,410)	(1,182)
September 30, 2021	6,199,420	3,018,350	6,702,478
Revisions	48,320	(5,613)	47,385
Purchase of proved reserves	-	-	-
Sale reserves	-	-	-
Production	(10,670)	(11,567)	(12,598)
September 30, 2022	6,237,070	3,001,170	6,737,265
Proved developed reserves:			
September 30, 2020	549,390	82,430	563,128
September 30, 2021	587,450	411,910	656,102
September 30, 2022	1,153,870	864,770	1,297,998
Proved undeveloped reserves:			
September 30, 2020	3,156,970	657,750	3,266,595
September 30, 2019	5,611,970	2,606,440	6,046,377
September 30, 2022	5,083,200	2,136,400	5,439,267

(1) Revisions in 2021 included 120,850 bbls in proved undeveloped reserves being reclassified as probable in the 2021 reserve report, net of other immaterial revisions in several properties.
(2) During 2021, the Company purchased 1,246 net acres in Martin County, Texas.
(3) During 2021, the Company sold ODC and Taylor properties.

15. SUPPLEMENTAL INFORMATION ON OIL AND GAS OPERATIONS (UNAUDITED) (cont'd…)

Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves

The following information is based on the Company's best estimate of the required data for the Standardized Measure of Discounted Future Net Cash Flows as of September 30, 2022 and September 30, 2021 in accordance with ASC 932, "Extractive Activities – Oil and Gas" which requires the use of a 10% discount rate. This information is not the fair market value, nor does it represent the expected present value of future cash flows of the Company's proved oil and gas reserves.

Future cash inflows for the years ended September 30, 2022 and September 30, 2021 were estimated as specified by the SEC through calculation of an average price based on the 12-month unweighted arithmetic average of the first-day-of-the-month price for the period from October through September during each respective fiscal year. The resulting net cash flow are reduced to present value by applying a 10% discount factor.

	12 Months Ended	
	September 30, 2022	September 30, 2021
Future cash inflows	$ 589,481,000	$ 355,958,000
Future production costs(1)	(91,630,000)	(69,683,000)
Future development costs	(71,700,000)	(71,700,000)
Future income tax expenses	(113,873,000)	(57,206,000)
Future net cash flows	312,278,000	157,369,000
10% annual discount for estimated timing of cash flows	(167,549,000)	(84,100,000)
Standardized measure of discounted future net cash flows at the end of the fiscal year	$ 144,729,000	$ 73,269,000

(1) Production costs include crude oil and natural gas operations expense, production ad valorem taxes, transportation costs and G&A expense supporting the Company's crude oil and natural gas operations.

Average hydrocarbon prices are set forth in the table below.

	Average Price Crude Oil (Bbl)	Natural Gas (Mcf)
Year ended September 30, 2020 (1)	$ 40.30	$ 1.77
Year ended September 30, 2021 (1)	$ 55.98	$ 2.95
Year ended September 30, 2022 (1)	$ 91.72	$ 5.79

(1) Average prices were based on 12-month unweighted arithmetic average of the first-day-of-the-month prices for the period from October through September during each respective fiscal year.

Future production and development costs, which include dismantlement and restoration expense, are computed by estimating the expenditures to be incurred in developing and producing the Company's proved crude oil and natural gas reserves at the end of the year, based on year-end costs, and assuming continuation of existing economic conditions.

15. SUPPLEMENTAL INFORMATION ON OIL AND GAS OPERATIONS (UNAUDITED) (cont'd…)

Sources of Changes in Discounted Future Net Cash Flows

Principal changes in the aggregate standardized measure of discounted future net cash flows attributable to the Company's proved crude oil and natural gas reserves, as required by ASC 932, at fiscal year-end are set forth in the table below.

	12 Months Ended	
	September 30, 2022	September 30, 2021
Standardized measure of discounted future net cash flows at the beginning of the year	$ 73,269,000	$ 20,797,000
Extensions, discoveries and improved recovery, less related costs	—	—
Sales of minerals in place	—	(62,682,000)
Purchase of minerals in place	—	125,927,000
Revisions of previous quantity estimates	1,674,000	(1,751,000)
Net changes in prices and production costs	88,333,000	32,573,000
Accretion of discount	10,077,000	1,498,000
Sales of oil produced, net of production costs	(49,000)	13,000
Changes in future development costs	911,000	(21,339,000)
Changes in timing of future production	(3,099,000)	(2,580,000)
Net changes in income taxes	(26,387,000)	(19,187,000)
Standardized measure of discounted future net cash flows at the end of the year	$ 144,729,000	$ 73,269,000