PERMEX PETROLEUM
CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2021 AND 2020

(EXPRESSED IN UNITED STATES DOLLARS)

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 sheets of Permex Petroleum Corporation (the "Company") as of September 30, 2021 and 2020, and the related consolidated statements of loss and comprehensive loss, equity, and cash flows for the years ended September 30, 2021 and 2020, 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 2020, and the results of its operations and its cash flows for the years ended September 30, 2021 and 2020, 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 audits. 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 audits 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 audits 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 audits 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 audits 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 audits provide 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, and Note 3)

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PERMEX PETROLEUM CORPORATION
CONSOLIDATED BALANCE SHEETS
AS AT SEPTEMBER 30

		2021		2020
ASSETS				
Current assets				
Cash	$	25,806	$	5,517
Trade and other receivables		12,984		44,702
Prepaid expenses and deposits		46,151		15,603
Assets held for sale		-		2,714,341
Total current assets		84,941		2,780,163
Non-current assets				
Reclamation deposits		144,847		194,750
Property and equipment		6,638,975		3,248,550
Right of use asset		72,539		49,870
Total assets	$	6,941,302	$	6,273,333
LIABILITIES AND EQUITY				
Current liabilities				
Trade and other payables	$	402,979	$	699,592
Amounts due to related party		16,628		165,457
Convertible debentures – current portion		78,500		75,000
Lease liability – current portion		51,963		21,202
Liabilities held for sale		-		1,591,097
Total current liabilities		550,070		2,552,348
Non-current liabilities				
Asset retirement obligations		552,594		271,402
Convertible debentures		-		75,000
Lease liability		26,986		31,926
Loan payable		31,400		30,000
Total liabilities		1,161,050		2,960,676
Equity				
Common stock, no par value per share; unlimited shares authorized, 1,103,010 and 667,073 shares issued and outstanding as of September 30, 2021 and September 30, 2020, respectively.		8,976,747		6,453,039
Additional paid-in capital		2,476,717		1,422,477
Accumulated other comprehensive loss		(127,413)		(270,302)
Deficit		(5,545,799)		(4,292,557)
Total equity		5,780,252		3,312,657
Total liabilities and equity	$	6,941,302	$	6,273,333

The financial statements were authorized for issue by the board of directors on July 14, 2022 and were signed on its behalf by:

"Mehran Ehsan" Director *"Gregory Montgomery"* Director

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

		2021		2020
Revenue				
Oil and gas sales	$	46,703	$	682,786
Royalty income		37,922		-
Total revenue		84,625		682,786
Operating expenses				
Production		59,671		557,624
General and administrative		496,381		412,594
Depletion and depreciation		60,479		37,291
Accretion on asset retirement obligations		19,907		49,700
Foreign exchange gain (loss)		24,301		(5,402)
Gain on settlement of asset retirement obligations		-		(10,415)
Forfeiture of reclamation deposit		50,165		-
Loss on disposal of property and equipment		613,457		879,070
Total operating expenses		(1,324,361)		(1,920,462)
Loss from operations		(1,239,736)		(1,237,676)
Other income (expense)				
Interest income		-		50
Finance expense		(13,506)		(15,905)
Total other income (expense)		(13,506)		(15,855)
Net loss		(1,253,242)		(1,253,531)
Other comprehensive income (loss)				
Foreign currency translation adjustment		142,889		(30,706)
Comprehensive loss	$	(1,110,353)	$	(1,284,237)
Basic and diluted loss per common share	$	(1.84)	$	(1.88)

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, 2019	667,073	$6,453,039	$1,418,302	$ (239,595)	$(3,039,026)	$ 4,592,720
Share-based payments	-	-	4,175	-	-	4,175
Net loss	-	-	-	-	(1,253,531)	(1,253,531)
Other comprehensive income	-	-	-	(30,707)	-	(30,707)
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

* 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

		2021		2020
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss	$	(1,253,242)	$	(1,253,531)
Adjustments to reconcile net loss to net cash from operating activities:				
Accretion on asset retirement obligations		19,907		49,700
Depletion and depreciation		60,479		37,291
Foreign exchange loss (gain)		87,747		(2,209)
Forfeiture of reclamation bond		50,165		-
Interest		13,506		15,905
Gain on settlement of decommissioning obligations		-		(10,415)
Settlement of trade payables		(9,682)		(23,329)
Proceeds from redemption of credit card deposit		-		18,600
Share-based payments		2,870		4,175
Shares issued for services		54,958		-
Loss on disposal of property and equipment		613,457		879,070
Trade and other receivables		34,092		58,169
Prepaid expenses and deposits		(29,977)		40,218
Trade and other payables		(234,475)		82,876
Amounts due to related parties		(162,598)		102,052
Right of use asset and lease liability		3,010		3,232
Net cash provided by (used in) operating activities		(749,783)		1,804
CASH FLOWS FROM INVESTING ACTIVITIES				
Capital expenditures on property and equipment		(265,717)		(128,752)
Proceeds from sale of oil and gas interests		1,123,244		-
Net cash provided by (used in) investing activities		857,527		(128,752)
CASH FLOWS FROM FINANCING ACTIVITIES				
Convertible debentures		(79,000)		148,800
Loan proceeds		-		29,760
Loan from related party		(8,455)		(48,793)
Net cash provided by (used in) financing activities		(87,455)		129,767
Change in cash during the year		20,289		2,819
Cash, beginning of the year		5,517		2,698
Cash, end of the year	$	25,806	$	5,517
Supplemental disclosures of non-cash investing and financing activities:				
Common stock issued in connection with property acquisition agreement	$	2,468,750	$	-
Common stock purchase warrants issued in connection with property acquisition agreement		1,051,370		-
Trade and other payables related to property and equipment		68,735		157,240
Adjustments to decommissioning liabilities		376,647		(116,191)
Supplemental cash flow disclosures:				
Interest paid		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 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 10^{th} 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

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Permex Petroleum US Corporation and have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP").

These consolidated financial statements are presented in United States dollars ("USD"). The functional currency of the Company is the Canadian dollar ("CAD"). The functional currency for the subsidiary of the Company is the United States dollar ("USD").

Principles of Consolidation

The accompanying consolidated financial statements include the assets, liabilities, revenue and expenses of all wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in accordance with 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) amounts subject to allowances and returns; (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) petroleum and natural gas reserves; 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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Trade and other receivables

Trade and other receivables are stated at net realizable value. The majority of customers are not extended credit and therefore time to maturity for receivables is short. 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, 2021 and September 30, 2020.

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.

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 equipment consist primarily of leasehold improvements and computer 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 as follows:

Computer equipment	2 years
Leasehold improvements	5 years

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Property and equipment (cont'd…)

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 Financial Accounting Standards Board ASC 360, *Property, Plant and Equipment*. Long-lived assets (asset group), such as property and equipment and capitalized software development costs subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of the asset. The amount of impairment loss, if any, is measured as the difference between the carrying value of the asset and its estimated fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary. As of September 30, 2021 and 2020, no impairment charge has been recorded.

Asset retirement obligations

The Company's activities give rise to dismantling, decommissioning, and site disturbance remediation activities. A provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Asset retirement obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. Changes in the present value of the estimated expenditure are reflected as an adjustment to the provision and the relevant asset. The unwinding of the discount on the asset retirement obligations is recognized as an accretion expense. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision to the extent the provision was recognized.

Asset retirement obligations require the use of management's best estimates of future remediation 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 retirement 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.

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 financial statements as of and for the years ended September 30, 2021 and 2020, 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.

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 obligation at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease obligation 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 obligation. The lease obligation 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.

Warrants issued with private placement units are classified as equity and initially recorded at fair value with no subsequent remeasurement. Proceeds from the issuance of private placement units are allocated between the private placement warrants and common shares on a relative fair value basis.

Earnings (loss) per share

Basic earnings (loss) per share ("EPS") is calculated by dividing the EPS 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, 2021 and 2020.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

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 approach. The amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. Each tranche in an award is considered a separate grant with a different vesting date and fair value and is accounted for on that basis.

The offset to the recorded cost is to share-based payments reserve. 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. Consideration received on the exercise of stock options is recorded as share capital and the related share-based payments reserve is transferred to share capital.

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).

Revenue

In accordance with ASC 606, *Revenue from Contracts with Customers,* the Company recognizes revenue when a customer obtains control of a promised good. For natural gas, this is generally at the time product enters the pipeline. For crude oil, this is generally at the time the product reaches a trucking terminal. For natural gas liquids, this is generally at the time the product reaches a gas plant. The amount of revenue recognized reflects consideration that the Company expects to be entitled to receive in exchange for these goods, net of discounts, customs duties, royalties and withholding tax. Royalty income represents net revenue interests from the sale of crude oil and natural gas and is recognized when the operators of the properties complete the sale of crude oil and natural gas.

For natural gas, this is generally at the time product enters the pipeline. For crude oil, this is generally at the time the product reaches a trucking terminal. For natural gas liquids, this is generally at the time the product reaches a gas plant. Revenue is measured net of discounts, customs duties, royalties and withholding tax. Royalty income represents net revenue interests from the sale of crude oil and natural gas and is recognized upon the operators of the properties completing the sale of crude oil and natural gas.

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 historically have not been significant. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Foreign currencies

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.

Financial statements of the parent company prepared under their functional currencies are translated into United States dollars for consolidation purposes as follows: assets and liabilities are translated using the exchange rate prevailing at the reporting date; revenue and expenses are translated using the average rates of exchange for the period. Gains and losses resulting from translation adjustments are recorded to other comprehensive income (loss) and accumulated as a separate component of shareholders' equity, described as foreign currency translation adjustment.

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 is recognized on temporary differences arising 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 income tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, only to the extent that it is probable that future taxable profit will be available against which they can be utilized.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

New accounting standards

In August 2020, the FASB issued ASU No. 2020-06, *Debt — Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40) – Accounting for Convertible Instruments and Contracts in an Entity's Own Equity* ("ASU 2020-06"). ASU 2020-06 simplifies the guidance on the issuer's accounting for convertible debt instruments by removing the separation models for (1) convertible debt with a cash conversion feature and (2) convertible instruments with a beneficial conversion feature. As a result, entities will not separately present in equity an embedded conversion feature in such debt. Instead, they will account for a convertible debt instrument wholly as debt, and for convertible preferred stock wholly as preferred stock, unless (1) a convertible instrument contains features that require bifurcation as a derivative under ASC 815 or (2) a convertible debt instrument was issued at a substantial premium. The elimination of these models will reduce reported interest expense and increase reported net income for entities that have issued a convertible instrument that is within the scope of ASU 2020-06. ASU 2020-06 requires entities to provide expanded disclosures about the terms and features of convertible instruments, how the instruments have been reported in the entity's financial statements, and information about events, conditions, and circumstances that can affect the amount or timing of an entity's future cash flows related to those instruments. ASU 2020-06 further removes three of the conditions for equity classification from ASC 815-40-25-10 and requires freestanding contracts on an entity's own equity that do not qualify as equity under ASC 815-40 to be accounted for at fair value, with changes in fair value recognized in earnings, irrespective of whether such contracts meet the definition of a derivative in ASC 815. ASU 2020-06 also requires the application of the if-converted method for calculating diluted earnings per share and the treasury stock method will be no longer available. ASU 2020-06 is effective for fiscal years beginning after December 15, 2023, with early adoption permitted, but no earlier than fiscal years beginning after December 15, 2020. The Company adopted ASU 2020-06 during the year ended September 30, 2021.

In June 2016, the FASB issued ASU No. 2016-13 (Topic 326), *Financial Instruments — Credit Losses – Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 changes how to recognize expected credit losses on financial assets. The standard requires more timely recognition of credit losses on loans and other financial assets and also provides additional transparency about credit risk. The current credit loss standard generally requires that a loss actually be incurred before it is recognized, while the new standard will require recognition of full lifetime expected losses upon initial recognition of the financial instrument. Originally, ASU 2016-13 was effective for fiscal years beginning after December 15, 2019, with early adoption permitted. In November 2019, FASB issued ASU No. 2019-10, *Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*. This ASU defers the effective date of ASU 2016-13 for non-public companies to fiscal years beginning after December 15, 2022. The Company is currently evaluating the impact of this standard on its financial statements and related disclosures.

3. IMMATERIAL CORRECTION TO PRIOR PERIODS

During fiscal 2022, The Company has discovered errors in prior years financial statements. The errors are as follows:

(a) The Company had previously used the US Treasury bond rate in calculating its asset retirement obligations rather than an appropriate credit adjusted risk free rate. This caused the asset retirement obligations and related oil and gas properties in prior years to be overstated.
(b) During fiscal 2021, the Company issued warrants for the acquisition of the Breedlove property. An incorrect volatility was used in the calculation of the fair value of the warrants causing an overstatement of oil and gas properties and equity.
(c) The Company incorrectly reduced reserves and reduced accumulated deficit for cancellations of stock options on fully vested share-based compensation awards.
(d) During 2021, payments on operating leases were accounted for as financing cash flows. These payments should have been operating cash flows.

3. IMMATERIAL CORRECTION TO PRIOR PERIODS (cont'd…)

The table below represents the balances of the affected accounts on the Consolidated Balance Sheet as of September 30, 2021, the Consolidated Statement of Loss and Comprehensive Loss for the year ended September 30, 2021, Consolidated Statement of Equity, and the Consolidated Statement of Cash Flows for the year ended September 30, 2021. Certain of the prior year figures have been reclassified to conform to the current financial statement presentation.

Consolidated Balance Sheet

	Balance as reported on September 30, 2021	Adjustment of asset retirement obligations	Adjustment for correction of warrant fair value	Adjustment for reclassification of option cancellation	Total Adjustments	Balance as revised at September 30, 2021
Cash	$ 25,806					$ 25,806
Trade and other receivables	$ 12,984					$ 12,984
Prepaid expenses and deposits	$ 46,151					$ 46,151
Reclamation deposits	$ 144,847					$ 144,847
Property and equipment, net	$ 7,846,145	$ (1,077,822)	$ (129,348)		$ (1,207,170)	$ 6,638,975
Right of use asset	$ 72,539					$ 72,539
Total assets	$ 8,148,472	$ (1,077,822)	$ (129,348)		$ (1,207,170)	$ 6,941,302
Trade and other payables	$ 402,979					$ 402,979
Amounts due to related party	$ 16,628					$ 16,628
Convertible debentures	$ 78,500					$ 78,500
Lease liability	$ 78,949					$ 78,949
Loan payable	31,400					$ 31,400
Asset retirement obligations	$ 1,627,465	$ (1,074,871)			$ (1,074,871)	$ 552,594
Total liabilities	$ 2,235,921	$ (1,074,871)			$ (1,074,871)	$ 1,161,050
Common stock	$ 8,976,747					$ 8,976,747
Additional paid-in capital	$ 2,383,105		$ (129,348)	$ 222,960	$ 93,612	$ 2,476,717
Accumulated other comprehensive loss	$ (128,532)	1,119			$ 1,119	$ (127,413)
Deficit	$ (5,318,769)	$ (4,070)		(222,960)	$ (227,030)	$ (5,545,799)
Total equity	$ 5,912,551	$ (2,951)	$ (129,348)		$ (132,299)	$ 5,780,252
Total liabilities and equity	$ 8,148,472	$ (1,077,822)	$ (129,348)		$ (1,207,170)	$ 6,941,302

3. IMMATERIAL CORRECTION TO PRIOR PERIODS (cont'd…)

Consolidated Statement of Loss and Comprehensive Loss

	For the year ended September 30, 2021		
	Previously reported	Adjustments	As Revised
Revenue	$ 84,625	$ -	$ 84,625
Operating expenses	$ (661,632)	$ (8,185)	$ (669,817)
Other income (expense)	$ (668,050)	$ -	$ (668,050)
Net Loss	$ (1,245,057)	$ (8,185)	$ (1,253,242)
Foreign currency translation adjustment	$ 141,703	$ 1,186	$ 142,889
Comprehensive loss	$ (1,102,709)	$ (6,999)	$ (1,109,708)
Loss Per Share- basic and diluted	$ (1.83)	$ (0.01)	$ (1.84)

Consolidated Statement of Equity

	For the year ended September 30, 2021		
	Previously reported	Adjustments	As Revised
Deficit at September 30, 2020	$ (4,096,774)	$ (195,783)	$ (4,292,557)
Adjustment on cancelation of stock options	$ (23,062)	$ 23,062	$ -
Deficit at September 30, 2021	$ (5,318,769)	$ (227,030)	$ (5,545,799)
Reserve at September 30, 2020	$ 1,192,123	$ 199,898	$ 1,392,021
Acquisition of property - warrants	$ 1,180,718	$ (129,348)	$ 1,051,370
Reserve at September 30, 2021	$ 2,383,105	$ 93,612	$ 2,446,261
Net Loss	$ (1,245,057)	$ (8,185)	$ (1,253,242)
Accumulated other comprehensive income at September 30, 2020	$ (270,235)	$ (67)	$ (270,302)
Other comprehensive loss	$ 141,703	$ 1,186	$ 142,889
Accumulated other comprehensive income at September 30, 2021	$ (128,532)	$ 1,119	$ (127,413)

Consolidated Statement of Cash Flows

	For the year ended September 30, 2021		
	Previously reported	Adjustments	As Revised
Net loss	$ (1,245,057)	$ (8,185)	$ (1,253,242)
Net cash provided by (used in) operating activities	$ (705,851)	$ (35,747)	$ (749,783)
Net cash provided by (used in) investing activities	$ 857,527	$ -	$ 857,527
Net cash provided by (used in) financing activities	$ (131,387)	$ 43,932	$ (87,455)
Change in cash during the year	$ 20,289	$ -	$ 20,289
Cash, beginning of the year	$ 5,517	$ -	$ 5,517
Cash, end of the year	$ 25,806	$ -	$ 25,806

3. IMMATERIAL CORRECTION TO PRIOR PERIODS (cont'd…)

The table below represents the balances of the affected accounts on the Consolidated Balance Sheet as of September 30, 2020, the Consolidated Statement of Loss and Comprehensive Loss for the year ended September 30, 2020, Consolidated Statement of Equity, and the Consolidated Statement of Cash Flows for the year ended September 30, 2020. Certain of the prior year figures have been reclassified to conform to the current financial statement presentation.

Consolidated Balance Sheet

	Balance as reported on September 30, 2020	Adjustment of asset retirement obligations	Adjustment for correction of warrant fair value	Adjustment for reclassification of option cancellation	Total Adjustments	Balance as revised at September 30, 2020
Cash	$ 5,517					$ 5,517
Trade and other receivables	$ 44,702					$ 44,702
Prepaid expenses and deposits	$ 15,603					$ 15,603
Assets held for sale	$ 2,924,465	$ (210,124)			$ (210,124)	$ 2,714,341
Reclamation deposits	$ 194,750					$ 194,750
Property and equipment, net	$ 3,765,914	$ (517,364)			$ (517,364)	$ 3,248,550
Right of use asset	$ 49,870					$ 49,870
Total assets	$ 7,000,821	$ (727,488)			$ (727,488)	$ 6,273,333
Trade and other payables	$ 713,696					$ 713,696
Amounts due to related party	$ 151,353					$ 151,353
Convertible debentures	$ 150,000					$ 150,000
Liabilities held for sale	$ 1,801,221	$ (210,124)			$ (210,124)	$ 1,591,097
Lease liability	$ 53,128					$ 53,128
Loan payable	30,000					$ 30,000
Asset retirement obligations	$ 792,814	$ (521,412)			$ (521,412)	$ 271,402
Total liabilities	$ 3,692,212	$ (731,536)			$ (731,536)	$ 2,960,676
Common stock	$ 6,453,039					$ 6,453,039
Additional paid-in capital	$ 1,222,579			$ 199,898	$ 199,898	$ 1,422,477
Accumulated other comprehensive loss	$ (270,235)	(67)			$ (67)	$ (270,302)
Deficit	$ (4,096,774)	$ 4,115		(199,898)	$ (195,783)	$ (4,292,557)
Total equity	$ 3,308,609	$ 4,048			$ 4,048	$ 3,312,657
Total liabilities and equity	$ 7,000,821	$ (727,488)			$ (727,488)	$ 6,273,333

3. IMMATERIAL CORRECTION TO PRIOR PERIODS (cont'd…)

Consolidated Statement of Loss and Comprehensive Loss

	For the year ended September 30, 2020		
	Previously reported	Adjustments	As Revised
Revenue	$ 682,786	$ -	$ 682,786
Operating expenses	$ (1,101,747)	$ (4,329)	$ (1,106,076)
Other income (expense)	$ (830,241)	$ -	$ (830,241)
Net Loss	$ (1,249,202)	$ (4,329)	$ (1,253,531)
Foreign currency translation adjustment	$ (39,084)	$ 8,377	$ (30,707)
Comprehensive loss	$ (270,235)	$ (67)	$ (270,302)
Loss Per Share- basic and diluted	$ (1.87)	$ (0.01)	$ (1.88)

Consolidated Statement of Equity

	For the year ended September 30, 2020		
	Previously reported	Adjustments	As Revised
Deficit at September 30, 2019	$ (3,047,470)	$ 8,444	$ (3,039,026)
Adjustment on cancelation of stock options	$ (199,898)	$ 199,898	$ -
Deficit at September 30, 2020	$ (4,096,774)	$ (195,783)	$ (4,292,557)
Reserve at September 30, 2020	$ 1,192,123	$ 199,898	$ 1,392,021
Net Loss	$ (1,249,202)	$ (4,329)	$ (1,253,531)
Accumulated other comprehensive income at September 30, 2019	$ (231,151)	$ (8,444)	$ (239,595)
Other comprehensive loss	$ (39,084)	$ 8,377	$ (30,707)
Accumulated other comprehensive income at September 30, 2020	$ (270,235)	$ (67)	$ (270,302)

Consolidated Statement of Cash Flows

	For the year ended September 30, 2020		
	Previously reported	Adjustments	As Revised
Net loss	$ (1,249,202)	$ (4,329)	$ (1,253,531)
Net cash provided by (used in) operating activities	$ 22,766	$ (20,962)	$ 1,804
Net cash provided by (used in) investing activities	$ (128,752)	$ -	$ (128,752)
Net cash provided by (used in) financing activities	$ 108,805	$ 20,962	$ 129,767
Change in cash during the year	$ 2,819	$ -	$ 2,819
Cash, beginning of the year	$ 2,698	$ -	$ 2,698
Cash, end of the year	$ 5,517	$ -	$ 5,517

4. CONCENTRATION OF CREDIT RISK

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.

During the year ended September 30, 2021, the Company generated 49% of total revenue from one customer (2020 - 45%). As at September 30, 2021, one customer represented $2,927 (26%) of the trade receivable balance (2020 - one customer represented $38,465 (95%)). It is in management's opinion that the Company is not exposed to significant credit risk.

5. NON-CURRENT ASSETS

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.

Reclamation bonds

As of September 30, 2021, the Company held reclamation bonds of $144,847 (2020 - $194,750), 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 reclamation deposit forfeited by the Texas State government due to violation on a previous owned property.

Property and equipment

Property and equipment as of September 30, 2021 and 2020 consisted of the following:

		2021		2020
Oil and natural gas properties	$	6,723,778	$	3,336,906
Corporate assets		-		42,436
Property and equipment, at cost		6,723,778		3,379,342
Less: accumulated depreciation and depletion		(84,803)		(130,792)
Property and equipment, net	$	6,638,975	$	3,248,550

Depreciation and depletion expense was $60,479 and $37,291 for the years ended September 30, 2021 and 2020, respectively.

Acquisition

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 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 $9.42 per share (CAD$12.00) and are exercisable until September 30, 2031.

Dispositions

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.

5. NON-CURRENT ASSETS (cont'd…)

Assets held for sale

During the year ended September 30, 2020, the Company initiated a plan to dispose of its interest in certain oil and gas leases. As a result, the carrying costs of the related assets and its associated decommissioning liabilities were included in a disposal group and classified as assets held for sale and liabilities held for sale, respectively, at September 30, 2020. The disposal group classified as held for sale were measured at the fair value less costs to sell and an impairment loss of $879,070 was recognized in the profit and loss during the year ended September 30, 2020. The Company believes the disposal group is not a separate major line of business; therefore, disclosure of discontinued operation is not being presented.

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

Assets held for sale		
Oil and gas properties	$	2,714,341
Liabilities held for sale		
Decommissioning liabilities	$	1,591,097

During the year ended September 30, 2021, the Company sold its interest in the oil and gas leases classified in assets and liabilities held for sale for $1,123,244.

6. ASSET RETIREMENT OBLIGATIONS

The total future asset retirement 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.

Changes to the asset retirement obligations are as follows:

		2021		2020
Asset retirement obligations, beginning of the year	$	271,402	$	1,942,075
Obligations acquired		258,726		-
Obligations derecognized		(125,511)		(116,192)
Change in estimates		117,921		-
Accretion expense		19,907		49,700
Reclassification to liabilities held for sale		-		(1,591,097)
Foreign exchange movement		10,149		(13,084)
	$	552,594	$	271,402

6. ASSET RETIREMENT OBLIGATIONS (cont'd…)

During the year ended September 30, 2021, the Company derecognized $125,511 (2020 - $116,192) in asset retirement obligations as a result of an assignment of certain oil and gas interests. The asset retirement obligations were offset by the asset retirement provision of $112,317 (2020 - $105,777) and a gain of $13,194 was netted against the loss realized from the sale of properties (2020 - a gain of $10,415 realized).

7. DEBT

Convertible debentures

The Company issued a total of $150,000 (CAD$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 $7.20 (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 $9.60 (CAD$12.00).

During the year ended September 30, 2021 and 2020, the Company accrued interest of $13,506 and $13,991, respectively, and is included within amounts due to related party on the consolidated balance sheets. During the year ended September 30, 2021, the Company repaid $79,000 (CAD$100,000) of the convertible debenture together with accrued interest of $13,090.

Loan payable

In May 2020, the Company opened a Canada Emergency Business Account ("CEBA") and received a loan of $30,000(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 and not-for-profits to help them cover operating costs during the COVID-19 pandemic. The loan is unsecured and non-interest bearing with an original repayment deadline of December 31, 2022. In January 2022, the Canadian government extended the repayment deadline to December 31, 2023 in order for the loan to be considered for partial forgiveness of up to one-third of the balance. Any loans not repaid by December 31, 2023 convert to two-year term loans bearing interest at an annual rate of 5% starting January 1, 2024, with loans fully due by December 31, 2025.

8. COMMITMENTS AND CONTINGENCIES

Lease Liability

The Company has entered into office lease agreements for its office premises for terms ending in 2023. As of September 30, 2021, the Company's lease had a weighted-average remaining term of 1.6 years. The undiscounted future lease payments as of September 30, 2021 are as follows:

2022	$	55,402
2023		31,885
	$	87,287

8. COMMITMENTS AND CONTINGENCIES (cont'd…)

Lease Liability (cont'd…)

The components of lease expense were as follows:

		2021		2020
Fixed lease expense	$	43,932	$	20,962
Variable lease expense		10,404		6,048
Total	$	54,336	$	27,010

The following is a continuity schedule of lease liability:

		2021		2020
Balance, beginning of the year	$	53,128	$	-
Addition		57,357		66,432
Interest expense		9,812		7,233
Lease payments		(43,932)		(20,962)
Foreign exchange movement		2,584		425
Balance, end of the year	$	78,949	$	53,128
Current liability	$	51,963	$	21,202
Long-term liability	$	26,986	$	31,926

9. RELATED PARTY TRANSACTIONS

During the year ended September 30, 2020, the Company issued a total of $150,000 (CAD$200,000) in convertible debentures to the CEO and a director of the Company for cash (Note 6). During the year ended September 30, 2021, the Company repaid $79,000 (CAD$100,000) of the convertible debenture due to a director of the Company together with accrued interest of $13,090. As of September 30, 2021, $78,500 (CAD$100,000) of the debenture loan remained outstanding and the accrued interest of $15,176 (2020 - $14,104) was included in amounts due to related parties.

During the year ended September 30, 2021, the Company incurred management fees of $149,806 (2020 - $144,288) to a company controlled by 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.

Included in amounts due to related parties are $1,321 (2020 - $145,063) related to accrued management fees to the Company by the Chief Executive Officer ("CEO") and a director of the Company and $131 (2020 - $6,290) 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.

10. EQUITY

Common stock

The Company has authorized an unlimited number of common shares with no par value. At September 30, 2021 and 2020, the Company had 1,103,010 and 667,073 common shares issued and outstanding, respectively. During the year ended September 30, 2021, the Company issued the following shares:

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

b) 416,666 common shares of the Company with a value of $2,468,750 pursuant to a property acquisition agreement (Note 5).

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

Share-based payments

Stock options

The Company has a stock option plan (the "Plan") in place under which it is authorized to grant options to executive officers and directors, employees and consultants. Pursuant to the Plan, the Company may issue aggregate stock options totaling up to 10% of the issued and outstanding common stock of the Company. Further, the Plan calls for the exercise price of each option to be equal to the market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 10 years and vest at the discretion of the Board of Directors at the time of grant.

Stock option transactions are summarized as follows:

	Number of options	Weighted Average Exercise Price
Balance, September 30, 2019	42,336	$ 21.58
Granted	5,000	2.23
Cancelled	(8,333)	22.32
Balance, September 30, 2020	39,003	$ 18.75
Cancelled	(1,086)	23.70
Balance, September 30, 2021	37,917	$ 19.51
Exercisable at September 30, 2021	35,417	$ 20.72
Weighted average fair value of options granted during the year	$ nil	(2020 - $1.69)

The aggregate intrinsic value of options outstanding and exercisable as at September 30, 2021 was $nil (2020 - $nil).

10. EQUITY (cont'd…)

Share-based payments (cont'd…)

The options outstanding as of September 30, 2021 equalled 37,917 shares, and have exercise prices in the range of $2.36 to $23.55 and a weighted average remaining contractual life of 6.60 years. The weighted average fair value of options granted during the year ended September 30, 2020 was $1.69. There were no options granted during the year ended September 30, 2021.

During the years ended September 30, 2021 and 2020, the Company recognized share-based payment expense of $2,870 and $4,175, 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:

	2021	2020
Risk-free interest rate	-	0.78%
Expected life of options	-	10 Years
Expected annualized volatility	-	120%
Dividend rate	-	Nil

As at September 30, 2021, the following stock options were outstanding:

Number of Options		Exercise Price	Expiry Date
27,917	$	23.55	December 4, 2027
5,000	$	14.13	November 1, 2028
5,000	$	2.36	March 16, 2030
37,917			

Warrants

Warrant transactions are summarized as follows:

	Number of Warrants		Weighted Average Exercise Price
Balance, September 30, 2019 and 2020	80,087	$	12.77
Granted	208,333		9.48
Warrants expired	(80,087)		13.46
Balance, September 30, 2021	208,333	$	9.42

The 208,333 warrants outstanding at September 30, 2021 have an exercise price of $9.42 and expire on September 30, 2031.

11. LOSS PER SHARE

The calculation of basic and diluted loss per share for the years ended September 30, 2021 and 2020 was based on the losses attributable to common shareholders. The following table sets forth the computation of basic and diluted loss per share:

	2021	2020
Net loss	$ (1,253,242)	$ (1,253,531)
Weighted average common shares outstanding	678,958	667,069
Basic and diluted loss per share	$ (1.84)	$ (1.88)

As of September 30, 2021, $78,500 (CAD$100,000) of convertible debentures convertible into 11,111 common shares, 37,917 (2020 - 39,003) stock options and 208,333 (2020 - 80,087) warrants were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

12. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2021	2020
Loss before income taxes	$ (1,253,242)	$ (1,253,531)
Expected income tax recovery at statutory rates	$ (338,000)	$ (338,000)
Change in statutory, foreign tax, foreign exchange rates and other	(53,000)	50,000
Permanent differences	1,000	2,000
Adjustment to prior years provision versus statutory tax returns	(11,000)	(13,000)
Unrecognized temporary differences	401,000	299,000
Deferred income tax recovery	$ -	$ -

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

	2021	2020
Non-capital losses available for future periods	$ 780,000	$ 571,000
Property and equipment	(9,000)	(233,000)
Financing fees	38,000	70,000
	809,000	408,000
Unrecognized deferred income tax assets	(809,000)	(408,000)
Net deferred income tax assets	$ -	$ -

The significant components of the Company's temporary differences include financing fees and non-capital losses available for future periods. For the years ended September 30, 2021 and 2020, the Company had financing fees of $140,000 and $254,000, respectively, with expiration dates between 2041 and 2043. The Company also had non-capital losses available for future periods in both Canada and the United States. For the years ended September 30, 2021 and 2020, the Canada losses totaled $2,707,000 and $1,130,000, respectively, with expiration dates ranging from 2037 to 2041 and 2037 to 2040, respectively. The United States non-capital losses for the years ended September 30, 2021 and 2020 totaled $213,000 and $106,000, respectively, and had no expiration dates.

13. 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.

14. EVENTS AFTER THE REPORTING PERIOD

Subsequent to September 30, 2021, The Company

i) Completed a non-brokered private placement of 44,117 units at a price of $13.20 (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). $137,946 of the proceeds was allocated to the warrants. 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.

ii) 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, broker warrants of 78,548 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.

iii) Granted stock options to directors and consultants of the Company to purchase 55,000 common shares at an exercise price of $11.40 (CAD$14.40) per share for a period of 10 years.

iv) Amended the employment 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.

v) Entered into an employment 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.

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, 2021	12 Months Ended September 30, 2020
Acquisition of proved properties	$ 3,699,215	$ —
Acquisition of unproved properties	—	—
Development costs	9,403	254,299
Exploration costs	—	—
Total costs incurred	$ 3,708,618	$ 254,299

Results of Operations from Oil and Gas Producing Activities

	12 Months Ended September 30, 2021	12 Months Ended September 30, 2020
Oil and gas revenues	$ 46,703	$ 682,786
Production costs	(59,671)	(557,624)
Exploration expenses	—	—
Depletion, depreciation and amortization	(52,439)	(28,660)
Impairment of oil and gas properties	—	—
Result of oil and gas producing operations before income taxes	(65,407)	96,502
Provision for income taxes	—	—
Results of oil and gas producing activities	$ (65,407)	$ 96,502

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.

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

Our proved reserves are summarized in the table below:

	Oil (Barrels)	Natural Gas (Mcf)	BOE (Barrels)
Proved developed and undeveloped reserves:			
September 30, 2019	3,992,240	498,180	4,075,270
Revisions(1)	440,160	251,196	482,026
Discoveries and extensions	—	—	—
Sale of reserves(2)	(709,800)	—	(709,800)
Production	(16,240)	(9,196)	(17,773)
September 30, 2020	3,706,360	740,180	3,829,723
Revisions	(88,263)	38,640	(81,823)
Purchase of proved reserves(3)	5,408,560	2,859,590	5,885,158
Sale reserves(4)	(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
Proved developed reserves:			
September 30, 2019	921,410	104,000	938,743
September 30, 2020	549,390	82,430	563,128
September 30, 2021	587,450	411,910	656,102
Proved undeveloped reserves:			
September 30, 2019	3,070,830	394,180	3,136,527
September 30, 2020	3,156,970	657,750	3,266,595
September 30, 2021	5,611,970	2,606,440	6,046,377

(1)Revisions in 2020 included 120,850 bbls additional proved undeveloped reserves due to economic conditions and approximately 373,000 bbls of oil and 242,000 mcf of natural gas added to the ODC Gaines County property due to two additional productive zones evaluated and included in proved reserves.

(2)During 2020, the Company sold their McMurtry-Loving property.

(3)Revisions in 2021 included 120,850 bbls in proved undeveloped reserves being classified as probable in the 2021 reserve report, net of other immaterial revisions in several properties.

(4)During 2021, the Company purchased 1,246 net acres in Martin County, Texas.

(5)During 2021, the Company sold ODC and Taylor properties.

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, 2021 and September 30, 2020 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, 2021 and September 30, 2020 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, 2021	September 30, 2020
Future cash inflows	$ 355,958,000	$ 150,694,000
Future production costs(1)	(69,683,000)	(50,268,000)
Future development costs	(71,700,000)	(26,263,000)
Future income tax expenses	(57,206,000)	(19,689,000)
Future net cash flows	157,369,000	54,474,000
10% annual discount for estimated timing of cash flows	(84,100,000)	(33,677,000)
Standardized measure of discounted future net cash flows at the end of the fiscal year	$ 73,269,000	$ 20,797,000

(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.

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

Average hydrocarbon prices are set forth in the table below.

	Average Price Crude Oil (Bbl)	Natural Gas (Mcf)
Year ended September 30, 2019 (1)	$ 53.60	$ 2.51
Year ended September 30, 2020 (1)	$ 40.30	$ 1.77
Year ended September 30, 2021 (1)	$ 55.98	$ 2.95

(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.

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, 2021	September 30, 2020
Standardized measure of discounted future net cash flows at the beginning of the year	$ 20,797,000	$ 40,833,000
Extensions, discoveries and improved recovery, less related costs	—	—
Sales of minerals in place	(62,682,000)	(7,509,000)
Purchase of minerals in place	125,927,000	—
Revisions of previous quantity estimates	(1,751,000)	5,099,000
Net changes in prices and production costs	32,573,000	(21,863,000)
Accretion of discount	1,498,000	3,416,000
Sales of oil produced, net of production costs	13,000	(125,000)
Changes in future development costs	(21,339,000)	(919,000)
Changes in timing of future production	(2,580,000)	(5,562,000)
Net changes in income taxes	(19,187,000)	7,427,000
Standardized measure of discounted future net cash flows at the end of the year	$ 73,269,000	$ 20,797,000