



PERMEX PETROLEUM **C O R P O R A T I O N**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Six Months Ended March 31, 2022

(EXPRESSED IN UNITED STATES DOLLARS)

(UNAUDITED)

PERMEX PETROLEUM CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	March 31, 2022	September 30, 2021
ASSETS		
Current assets		
Cash	\$ 6,727,758	\$ 25,806
Trade and other receivables	146,403	12,984
Prepaid expenses and deposits	81,236	46,151
Total current assets	6,955,397	84,941
Non-current assets		
Reclamation deposits	145,000	144,847
Property and equipment	6,639,233	6,638,975
Right of use asset	49,195	72,539
Total assets	\$ 13,788,825	\$ 6,941,302
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables	\$ 581,772	\$ 402,979
Amounts due to related party	2,290	16,628
Convertible debentures	80,000	78,500
Lease liability – current portion	47,559	51,963
Total current liabilities	711,621	550,070
Non-current liabilities		
Asset retirement obligations	569,070	552,594
Lease liability	8,414	26,986
Loan payable	32,000	31,400
Warrant liability	121,978	-
Total liabilities	1,443,083	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 March 31, 2022 and September 30, 2021, respectively.	14,356,535	8,976,747
Additional paid-in capital	4,571,535	2,476,717
Accumulated other comprehensive loss	(127,413)	(127,413)
Deficit	(6,454,915)	(5,545,799)
Total equity	12,345,742	5,780,252
Total liabilities and equity	\$ 13,788,825	\$ 6,941,302

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

PERMEX PETROLEUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(UNAUDITED)

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021	Six Months Ended March 31, 2022	Six Months Ended March 31, 2021
Revenue				
Oil and gas sales	\$ 228,497	\$ 40	\$ 318,487	\$ 3,094
Royalty income	13,389	-	29,848	-
Total revenue	241,886	40	348,335	3,094
Operating expenses				
Production	115,000	9,949	196,879	10,213
General and administrative	204,366	115,037	1,013,972	197,791
Depletion and depreciation	56,884	2,077	88,895	9,238
Accretion on asset retirement obligations	8,223	2,931	16,476	5,805
Foreign exchange loss	3,644	10,476	8,614	27,152
Forfeiture of reclamation deposit	-	50,483	-	50,483
Total operating expenses	(388,117)	(190,953)	(1,324,836)	(300,682)
Loss from operations	(146,231)	(190,913)	(976,501)	(297,588)
Other income (expense)				
Interest income	2	-	2	-
Other income	12,000	-	12,000	-
Finance expense	(1,180)	(5,110)	(24,648)	(9,768)
Change in fair value of warrant liability	(22,519)	-	80,031	-
Total other income (expense)	(11,697)	(5,110)	67,385	(9,768)
Net loss	(157,928)	(196,023)	(909,116)	(307,356)
Other comprehensive income				
Foreign currency translation adjustment	-	40,389	-	196,182
Comprehensive loss	\$ (157,928)	\$ (155,634)	\$ (909,116)	\$ (111,173)
Basic and diluted loss per common share	\$ (0.13)	\$ (0.29)	\$ (0.79)	\$ (0.46)

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

PERMEX PETROLEUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(UNAUDITED)

Three months ended March 31

	Number of Shares*	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Deficit	Total equity
Balance, December 31, 2021	1,147,127	\$ 9,307,648	\$ 3,108,585	\$ (127,413)	\$ (6,296,987)	\$ 5,991,833
Private placements	785,477	6,933,410	607,170	-	-	7,540,580
Share issuance costs	-	(1,884,522)	858,429	-	-	(1,026,093)
Share-based payments	-	-	(2,649)	-	-	(2,649)
Net loss	-	-	-	-	(157,928)	(157,928)
Balance, March 31, 2022	<u>1,932,604</u>	<u>\$ 14,356,535</u>	<u>\$ 4,571,535</u>	<u>\$ (127,413)</u>	<u>\$ (6,454,915)</u>	<u>\$ 12,345,742</u>

	Number of Shares*	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Deficit	Total equity
Balance, December 31, 2020	678,011	\$ 6,473,147	\$ 1,423,477	\$ (114,141)	\$ (4,403,890)	\$ 3,378,593
Share-based payments	-	-	915	-	-	915
Net loss	-	-	-	-	(196,023)	(196,023)
Other comprehensive income	-	-	-	40,389	-	40,389
Balance, March 31, 2021	<u>678,011</u>	<u>\$ 6,473,147</u>	<u>\$ 1,424,392</u>	<u>\$ (73,752)</u>	<u>\$ (4,599,913)</u>	<u>\$ 3,223,874</u>

*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 condensed interim consolidated financial statements.

PERMEX PETROLEUM CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EQUITY
(UNAUDITED)

Six months ended March 31

	Number of Shares*	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Deficit	Total equity
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	-	(1,923,373)	882,972	-	-	(1,040,401)
Share-based payments	-	-	604,676	-	-	604,676
Net loss	-	-	-	-	(909,116)	(909,116)
Balance, March 31, 2022	<u>1,932,604</u>	<u>\$ 14,356,535</u>	<u>\$ 4,571,535</u>	<u>\$ (127,413)</u>	<u>\$ (6,454,915)</u>	<u>\$ 12,345,742</u>

	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
Shares issued for services	10,938	20,108	-	-	-	20,108
Share-based payments	-	-	1,915	-	-	1,915
Net loss	-	-	-	-	(307,356)	(307,356)
Other comprehensive income	-	-	-	196,550	-	196,550
Balance, March 31, 2021	<u>678,011</u>	<u>\$ 6,473,147</u>	<u>\$ 1,424,392</u>	<u>\$ (73,752)</u>	<u>\$ (4,599,913)</u>	<u>\$ 3,223,874</u>

*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 condensed interim consolidated financial statements.

PERMEX PETROLEUM CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED MARCH 31
(UNAUDITED)

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (909,116)	\$ (307,356)
Adjustments to reconcile net loss to net cash from operating activities:		
Accretion on asset retirement obligations	16,476	5,805
Depletion and depreciation	88,895	9,238
Foreign exchange loss	2,710	87,814
Forfeiture of reclamation bond	-	49,530
Finance expense	12,359	8,642
Change in fair value of warrant liability	(80,031)	-
Settlement of trade payables	-	(7,572)
Share-based payments	604,676	1,915
Shares issued for services	-	16,696
Changes in operating assets and liabilities:		
Trade and other receivables	(133,419)	43,009
Prepaid expenses and deposits	(35,085)	(19,013)
Trade and other payables	179,859	(286,934)
Amounts due to related parties	(18,960)	(162,477)
Right of use asset and lease liability	(261)	1,528
Net cash used in operating activities	<u>(271,897)</u>	<u>(559,175)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures on property and equipment	(90,219)	(195,419)
Proceeds from sale of oil and gas interests	-	1,123,244
Net cash provided by (used in) investing activities	<u>(90,219)</u>	<u>927,825</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	8,112,340	-
Share issuance costs	(1,049,072)	-
Convertible debentures	-	(2,730)
Loan from related party	800	(78,000)
Net cash provided by (used in) financing activities	<u>7,064,068</u>	<u>(80,730)</u>
Change in cash during the period	6,701,952	287,920
Cash, beginning of the period	<u>25,806</u>	<u>5,517</u>
Cash, end of the period	<u>\$ 6,727,758</u>	<u>\$ 293,437</u>
Supplemental disclosures of non-cash investing and financing activities:		
Trade and other payables related to property and equipment	\$ 82,054	\$ 76,855
Share issued for services included in prepaid	-	3,413
Share purchase warrants issued in connection with private placement	1,692,151	-
Supplemental cash flow disclosures:		
Interest paid	<u>18,960</u>	<u>13,090</u>

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

PERMEX PETROLEUM CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED MARCH 31, 2022
(UNAUDITED)

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 700, 100 Crescent Court, Dallas, Texas, 75201. Its registered office is located at 10th floor, 595 Howe Street, Vancouver, British Columbia, Canada, V6C 2T5. The Company is primarily engaged in the acquisition, development and production of oil and gas properties in the United States. The Company’s oil and gas interests are located in Texas and New Mexico, USA. The Company is listed on the Canadian Securities Exchange (the “CSE”) under the symbol “OIL” 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 unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“US GAAP”) and applicable rules and regulations of the United States Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the condensed consolidated financial statements include all adjustments necessary, which are of a normal and recurring nature, for the fair presentation of the Company’s financial position and of the results of operations and cash flows for the periods presented. These interim results are not necessarily indicative of the results to be expected for the fiscal year ending September 30, 2022 or for any other interim period or for any other future fiscal year. These condensed consolidated financial statements should be read in conjunction with the Company’s audited financial statements and notes thereto included in the Company’s amended Form S-1 for the fiscal year ended September 30, 2021 filed with the SEC on February 10, 2023. There have been no material changes in the Company’s significant accounting policies from those that were disclosed in the fiscal 2021 financial statements, except as noted below.

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.

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

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.

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.

Recently adopted accounting pronouncement

None.

3. IMMATERIAL CORRECTION TO PRIOR PERIODS

The Company changed the functional currency from Canadian dollars ("CAD") to U.S. dollars in fiscal 2022. The change in functional currency from Canadian dollars to U.S. dollars is accounted for prospectively from October 1, 2021. The Company's interim financial statements previously filed for quarter two and three of fiscal 2022 were based on Canadian dollars as its functional currency.

The tables below represent the balances of the affected accounts for the effect of the change in functional currency as well as the adjustments of 2021 that affect 2022 on the Consolidated Balance Sheet as of March 31, 2022 and the Condensed Consolidated Statement of Loss and Comprehensive Loss for the three and six months ended March 31, 2022. Certain of the prior period figures have been reclassified to conform to the current financial statement presentation.

PERMEX PETROLEUM CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED MARCH 31, 2022
(UNAUDITED)

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

Consolidated Balance Sheet as of March 31, 2022

	Balance as March 31, 2022		
	Previously reported	Adjustments	As Revised
Cash	\$ 6,727,758	\$	\$ 6,727,758
Trade and other receivables	146,403		146,403
Prepaid expenses and deposits	81,236		81,236
Reclamation deposits	145,000		145,000
Property and equipment, net	7,967,249	(1,077,822)(a) (129,348)(b) (120,846)(c)	6,639,233
Right of use asset	49,736	(541)(c)	49,195
Total assets	15,117,382	(1,328,557)	13,788,825
Trade and other payables	581,772		581,772
Amounts due to related party	2,290		2,290
Convertible debentures	80,000		80,000
Lease liability	55,973		55,973
Loan payable	32,000		32,000
Warrant liability	-	121,978(c)	121,978
Asset retirement obligations	1,655,428	(1,074,871)(a) (11,487)(c)	569,070
Total liabilities	2,407,463	(964,380)	1,443,083
Common stock	14,399,373	(42,838)(c)	14,356,535
Additional paid-in capital	4,615,869	(129,348)(a) 222,960(d) (137,946)(c)	4,571,535
Accumulated other comprehensive income	(18,845)	(108,568)(c)	(127,413)
Deficit	(6,286,478)	(4,070)(a) (222,960)(b) 58,593(c)	(6,454,915)
Total equity	12,709,919	(364,177)	12,345,742
Total liabilities and equity	\$ 15,117,382	\$ (1,328,557)	\$ 13,788,825

Consolidated Statements of Loss and Comprehensive Loss for the three and six months ended March 31, 2022

	For the three months ended March 31, 2022			For the six months ended March 31, 2022		
	Previously reported	Adjustments	As revised	Previously reported	Adjustments	As revised
Revenue	\$ 241,886	-	\$ 241,886	\$ 348,335		\$ 348,335
Operating expenses	\$ (391,241)	3,124	\$ (388,117)	\$ (1,324,358)	(478)(c)	\$ (1,324,836)
Other income (expense)	\$ 4,402	(16,099)(c)	\$ (11,697)	\$ 8,314	\$ 59,071(c)	\$ 67,385
Net Loss	\$ (144,953)	(12,975)	\$ (157,928)	\$ (967,709)	\$ 58,593	\$ (909,116)
Foreign currency translation adjustment	\$ 82,825	\$ (82,825)(c)	\$ -	\$ 109,687	\$ (109,687)(c)	\$ -
Comprehensive loss	\$ (62,128)	\$ (95,800)	\$ (157,928)	\$ (858,022)	(51,094)	\$ (909,116)
Loss Per Share- basic and diluted	\$ (0.12)	\$ (0.01)	\$ (0.13)	\$ (0.84)	\$ 0.05	\$ (0.79)

- (a) Adjustment of decommissioning liability
(b) Adjustment for correction of warrant fair value
(c) Adjustment for functional currency change
(d) Adjustment for reclassification of option cancellation

PERMEX PETROLEUM CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED MARCH 31, 2022
(UNAUDITED)

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

Consolidated Statements of Cash Flows

	For the six months ended		
	March 31, 2022		
	Previously reported	Adjustments	As Revised
Net loss	\$ (967,709)	\$ 58,593	\$ (909,116)
Net cash provided by (used in) operating activities	\$ (231,131)	\$ (40,766)	\$ (271,897)
Net cash provided by (used in) investing activities	\$ (90,657)	\$ 438	\$ (90,219)
Net cash provided by (used in) financing activities	\$ 7,023,740	\$ 40,328	\$ 7,064,068
Change in cash during the period	\$ 6,701,952	\$ -	\$ 6,701,952
Cash, beginning of the period	\$ 25,806	\$ -	\$ 25,806
Cash, end of the period	\$ 6,727,758	\$ -	\$ 6,727,758

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 six months ended March 31, 2022, the Company generated 75% of total revenue from one customer (2021 - 100%). As at March 31, 2022, one customer represented \$55,255 (40%) of the trade receivable balance (September 30, 2021 - \$2,927 (26%)). 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.

Property and equipment

Property and equipment consisted of the following:

	March 31, 2022	September 30, 2021
Oil and natural gas properties, at cost	\$ 6,812,931	\$ 6,723,778
Less: accumulated depreciation	(173,698)	(84,803)
Property, net	\$ 6,639,233	\$ 6,638,975

Depreciation expense was \$88,895 and \$9,238 for the six month periods ended March 31, 2022 and 2021, respectively.

PERMEX PETROLEUM CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED MARCH 31, 2022
(UNAUDITED)

5. NON-CURRENT ASSETS (cont'd...)

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.

Reclamation bonds

As of March 31, 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 reclamation deposit forfeited by the Texas State government due to violation on a previous owned property.

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:

	<u>March 31, 2022</u>	<u>September 30, 2021</u>
Asset retirement obligations, beginning of the year	\$ 552,594	\$ 271,402
Obligations acquired	-	258,726
Obligations derecognized	-	(125,511)
Change in estimates	-	117,921
Accretion expense	16,476	19,907
Foreign exchange movement	-	10,149
	<u>\$ 569,070</u>	<u>\$ 552,594</u>

During the year ended September 30, 2021, the Company derecognized \$125,511 in decommissioning obligations as a result of an assignment of certain oil and gas interests. The decommissioning obligations were offset by the decommissioning provision of \$112,317 and a gain of \$13,194 was netted against the loss realized from the sale of properties.

PERMEX PETROLEUM CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED MARCH 31, 2022
(UNAUDITED)

7. DEBT

Convertible debentures

The Company issued a total of \$157,000 (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). As of March 31, 2022, \$80,000 (CAD\$100,000) (September 30, 2021 - \$78,500) of debenture loan remained outstanding and the interest accrued on the loan was \$nil (September 30, 2021 - \$15,176).

During the six months ended March 31, 2022 and 2021, the Company recorded interest of \$3,688 and \$9,768, 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. During the six months ended March 31, 2022, the Company paid interest of \$18,960 (2020 - \$13,090) accrued on the debentures.

Loan payable

In May 2020, the Company opened a Canada Emergency Business Account ("CEBA") and received a loan of \$32,000 (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 March 31, 2022, the Company's lease had a weighted-average remaining term of 1.16 years. The undiscounted future lease payments as of March 31, 2022 are as follows:

2022	\$	27,921
2023		<u>32,288</u>
	\$	60,209

PERMEX PETROLEUM CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED MARCH 31, 2022
(UNAUDITED)

8. COMMITMENTS AND CONTINGENCIES (cont'd...)

The components of lease expense for the six month periods ended March 31 were as follows:

	<u>2022</u>	<u>2021</u>
Fixed lease expense	\$ 27,774	\$ 16,389
Variable lease expense	5,744	3,747
Total	<u>\$ 33,518</u>	<u>\$ 20,136</u>

The following is a continuity schedule of the lease liability:

	<u>March 31, 2022</u>	<u>September 30, 2021</u>
Balance, beginning of the year	\$ 78,949	\$ 53,128
Addition	-	57,357
Interest expense	4,169	9,812
Lease payments	(27,145)	(43,932)
Foreign exchange movement	-	2,584
Balance, end of the year	<u>\$ 55,973</u>	<u>\$ 78,949</u>
Current liability	\$ 47,559	\$ 51,963
Long-term liability	<u>\$ 8,414</u>	<u>\$ 26,986</u>

9. RELATED PARTY TRANSACTIONS

During the year ended September 30, 2020, the Company issued a total of \$157,000 (CAD\$200,000) in convertible debentures to the CEO and a director of the Company for cash. 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 March 31, 2022, \$80,000 (CAD\$100,000) (September 30, 2021 - \$78,500) of the debenture loan remained outstanding and the interest accrued on the loan was \$nil (September 30, 2021 - \$15,176).

During the six months ended March 31, 2022, the Company incurred management fees of \$109,773 (2021 - \$75,116) 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.

Subsequent to March 31, 2022, the Company amended the 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.

Subsequent to March 31, 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.

10. EQUITY

Common stock

The Company has authorized an unlimited number of common shares with no par value. At March 31, 2022 and September 30, 2021, the Company had 1,932,604 and 1,103,010 common shares issued and outstanding, respectively.

During the six months ended March 31, 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 with a fair value of \$54,958 pursuant to service agreements.
- b) Issued 416,666 common shares of the Company with 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.

PERMEX PETROLEUM CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED MARCH 31, 2022
(UNAUDITED)

10. EQUITY (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
Balance, March 31, 2022	92,917	\$ 15.00
Exercisable at March 31, 2022	92,917	\$ 15.00
Weighted average fair value of options granted	\$ 11.40	(2021 - \$nil)

The aggregate intrinsic value of options outstanding and exercisable as at March 31, 2022 was \$nil (2021 - \$nil).

The options outstanding as of March 31, 2022 equalled 92,917 shares, and have exercise prices in the range of \$2.40 to \$24 and a weighted average remaining contractual life of 8.13 years. The weighted average fair value of options granted during the six months ended March 31, 2022 was \$11.40. There were no options granted during the year ended September 30, 2021.

During the six month periods ended March 31, 2022 and 2021, the Company recognized share-based payment expense of \$604,676 and \$1,915, respectively, for the portion of stock options that vested during the period. 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	-

As at March 31, 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
55,000	\$ 10.51	October 6, 2031
92,917		

PERMEX PETROLEUM CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED MARCH 31, 2022
(UNAUDITED)

10. EQUITY (cont'd...)

Warrants

Warrants are measured at fair value on the date of the grant as determined using the Black-Scholes option pricing model.

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	<u>(80,087)</u>	<u>13.46</u>
Balance, September 30, 2021	208,333	\$ 9.42
Granted	888,763	12.91
Balance, March 31, 2022	<u>1,097,096</u>	<u>\$ 12.12</u>

As at March 31, 2022, the following warrants were outstanding:

Number of Options	Exercise Price	Expiry Date
24,739	\$ 23.65	November 4, 2023
864,024	\$ 12.60	March 29, 2027
208,333	\$ 8.76	September 30, 2031
<u>1,097,096</u>		

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 and recorded as a warrant liability. These warrants were subsequently revaluated and a gain on fair value adjustment of \$80,031 was recorded during the six month periods ended March 31, 2022.

The following weighted average assumptions were used for the Black-Scholes valuation of warrants as at March 31, 2022 and November 4, 2021:

	March 31, 2022	November 4, 2021
Risk-free interest rate	2.27%	0.98%
Expected life of options	1.5 Year	2 Years
Expected annualized volatility	143.52%	153.02%
Dividend rate	Nil	Nil
Weighted average fair value of options granted	<u>\$ 6.91</u>	<u>\$ 11.45</u>

PERMEX PETROLEUM CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED MARCH 31, 2022
(UNAUDITED)

11. LOSS PER SHARE

The calculation of basic and diluted loss per share for the six month periods ended March 31, 2022 and 2021 was based on the losses attributable to common shareholders. The following table sets forth the computation of basic and diluted loss per share:

	<u>2022</u>	<u>2021</u>
Net loss	\$ (909,116)	\$ (307,356)
Weighted average common shares outstanding	<u>1,151,301</u>	<u>675,062</u>
Basic and diluted loss per share	<u>\$ (0.79)</u>	<u>\$ (0.46)</u>

As of March 31, 2022, \$80,000 (CAD\$100,000) of convertible debentures convertible into 11,111 common shares, 92,917 (2021 - 39,003) stock options and 1,097,096 (2021 - 80,087) warrants were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

12. 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.
