FORM 51-102F1

MANAGEMENT DISCUSSION AND ANALYSIS

For the Three Months Ended December 31, 2024

Introduction

This Management's Discussion and Analysis ("MD&A") has been prepared by the management of Permex Petroleum Corporation ("Permex" or the "Company") as of February 14, 2025, and should be read in conjunction with the unaudited interim consolidated financial statements and related notes of the Company for the three month period ended December 31, 2024, and the audited consolidated financial statements of the Company together with the related notes thereto for the year ended September 30, 2024. The financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). All amounts are stated in United States dollars unless otherwise indicated.

Additional information related to the Company and its operations is available on SEDAR at www.sedarplus.ca and on the Company web site at www.permexpetroleum.com.

Forward-Looking Statements

This Report contains forward-looking statements. These statements relate to future events or our future financial performance. These statements are only predictions. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors, including the risks outlined at the beginning of this Report under "Cautionary Notice Regarding Forward-Looking Statements" the risks outlined under the heading "Risk Factors" in our annual report on Form 10-K for the fiscal year ended September 30, 2024 and in our other reports we file with the SEC. These factors may cause our actual results to differ materially from any forward-looking statements. All amounts in this report are in U.S. dollars, unless otherwise noted.

Reserve engineering is a method of estimating underground accumulations of natural gas and oil that cannot be measured in an exact way. The accuracy of any reserve estimate depends on the quality of available data, the interpretation of such data and price and cost assumptions made by reserve engineers. In addition, the results of drilling, testing and production activities may justify revisions of previous estimates. If significant, such revisions would change the schedule of any further production and development drilling. Accordingly, reserve estimates may differ significantly from the quantities of natural gas and oil that are ultimately recovered.

Company Overview

The Company was incorporated on April 24, 2017 under the laws of British Columbia, Canada. The Company is an independent energy company engaged in the acquisition, exploration, development and production of oil and gas properties on private, state and federal land in the United States, primarily in the Permian Basin which includes the Midland Basin and Delaware Basin. The Company focuses on acquiring producing assets at a discount to market, increasing production and cash-flow through recompletion and re-entries, secondary recovery and lower risk infill drilling and development. Currently, the Company owns and operates 97 oil and gas wells across more than 11,700 net acres including 66 shut-in opportunities, 17 saltwater disposal wells and two water supply wells allowing for waterflood secondary recovery. Additionally, the Company holds royalty interests in 73 wells and five permitted wells across 3,800 acres within the Permian Basin.

The Company's common shares are listed on the Canadian Securities Exchange ("CSE") under the symbol "OIL" and on the Frankfurt Stock Exchange under the symbol "75P". There is currently a limited U.S. public market for the Company's common shares, the stock price may be volatile or may decline regardless of our operating performance and holders may not be able to resell the Company's common shares at or above their acquisition price. Due to our prior delinquency in filing our periodic reports, the Form 211 originally filed with, and cleared by, the Financial Industry Regulatory Authority ("FINRA") pursuant to Rule 15c2-11 of the Exchange Act covering the Common Shares was revoked by FINRA. Consequently, until a new Form 211 is filed with, and cleared by FINRA, the Company's common shares will not be eligible for proprietary broker-dealer quotations on the OTC Pink Sheets and all quotes in the Company's common shares on the OTC Pink Sheets will only reflect unsolicited customer orders. Unsolicited-Only stocks have a higher risk of wider spreads, increased volatility, and price dislocations.

<u>Key activities:</u>

- On November 1, 2024, the Company closed the first tranche of a private placement of convertible debenture units for gross proceeds of $4,276,389. Under the terms of the private placement, each unit consisted of one convertible debenture in the principal amount of $1,000 and 523 common share purchase warrant, that was to be exercisable for a period of five years from the date of issuance for one common share at an exercise price of $1.91. The debentures will mature one-year from the date of issuance. Upon issuance, the debentures rank senior to all other existing and future indebtedness of the Company and will be secured by a general security agreement over certain assets of the Company. The bear simple interest at a rate of 10% per annum, payable on the maturity date or the date on which all or any portion of the Subsequent Debenture is repaid. Interest will be paid in cash or common shares at the holder's option based on a conversion price of $1.91 per share. As a result, the Company issued debentures with an aggregate principal amount of $4,276,389 and 2,236,551 share purchase warrants. Concurrently with the completion of the first tranche of this Private Placement, the Company retired its outstanding debentures, consisting of $1,365,000 in aggregate principal amount and $59,788 in accrued interest in exchange for the debentures issued in this private placement. The holders of the prior debentures also agreed to cancel a total of 401,310 share purchase warrants.

- On December 30, 2024, the Company announced the appointment of BaShara (Bo) Crystelle Boyd to serve on the Board effective December 23rd, 2024, and Richard Little as the Non-Executive Chairman of the Board.

- On January 13, 2025, the Company announced an agreement with a private oil and gas operator concerning assets owned by such operator in the Permian Basin. This arrangement granted Permex operating rights over 19 wells in the Permian Basin for a 12-month term in exchange for a monthly operating fee of up to $75,000 per month based on production volumes and commodity prices.

Oil And Gas Properties

<u>*Breedlove "B" Clearfork Leases - Texas*</u>

In September 2021, the Company, through its wholly-owned subsidiary, Permex Petroleum US Corporation, acquired a 100% Working Interest and an 81.75% Net Revenue Interest in the Breedlove "B" Clearfork leases located in Martin County, Texas. The Breedlove "B" Clearfork properties situated in Martin County, Texas are over 12 contiguous sections for a total of 7,870.23 gross and 7,741.67 net acres, of which 98% is held by production in the core of the Permian Basin. The asset includes 27 vertical wells: 12 producers, 4 saltwater disposal wells, and 11 shut-in wells with re-entry potential. In April 2024, the Breedlove assets were shut in due to financial constraints. In September 2024, Permex launched a capital program aimed at resuming production, repairing infrastructure, and evaluating additional production zones. Given the prolonged shut-in period, extensive workover operations and tubing replacements were necessary. As of December 31, 2024, all 12 previously producing wells had been brought back online, with an average gross production of 30.40 barrels of oil per day in December. Additionally, multiple tank batteries and the Company's wholly owned Saltwater Disposal Infrastructure were fully operational, handling 100% of produced water from active wells. Permex also completed two up-hole completions using existing wellbores to enhance production from a new formation. While test results are ongoing, the Company remains confident in the potential of these completions.

In addition to the significant recompletion and re-entry opportunities across the existing wellbores, the Breedlove property includes substantial undeveloped potential and is the focus of the Company's proved undeveloped reserves development program, pending sufficient and successful capital raising efforts by the Company.

Pittcock Leases - Texas

The Pittcock Leases are situated in Stonewall County. Stonewall County is in Northwest Texas, in the central part of the North Central Plains and consists of the Pittcock North property, the Pittcock South property and the Windy Jones Property. It is bounded on the north by King County, on the east by Haskell County, on the south by Fisher and Jones Counties, and on the west by Kent County. The Pittcock North property covers 320 acres held by production. There are currently eleven shut-in wells, two saltwater disposal wells, and a water supply well. The Company holds a 100% working interest in the Pittcock North Property and an 81.25% net revenue interest. The Pittcock South property covers 498 acres in four tracts. There are currently 19 shut-in wells and two saltwater disposal wells. The Company holds a 100% working interest in the lease and a 71.90% net revenue interest. The Windy Jones Property consists of 40 acres and includes two injection wells and two suspended oil wells. The sole purpose of the Windy Jones property is to provide waterflood assistance to the offset wells being the Pittcock wells located east boundary of the Windy Jones Property. The Company holds a 100% working interest in the Windy Jones Property and a 78.9% net revenue interest. These assets became shut-in commencing in October 2023 due to the Company having insufficient funds to operate them and remain shut in pending successful capital raising of the Company.

Mary Bullard Property - Texas

The Company acquired the Mary Bullard Property in August 2017 for a cash consideration of approximately $50,000. The Mary Bullard Property is located in Stonewall County, about 5 ½ miles southwest of Aspermont, Texas. It is bounded on the north by King County, on the east by Haskell County, on the south by Fisher and Jones Counties, and on the west by Kent County. The asset is situated on the Eastern Shelf of the Midland Basin in the central part of the North Central Plains. The Mary Bullard Property covers 241 acres held by production and is productive in the Clearfork formation at a depth of approximately 3,200 feet. There are currently five shut-in wells, and two water injection wells. The Company holds a 100% working interest in the Mary Bullard Property and a 78.625% net revenue interest. These assets were shut-in in December 2023 and remain shut in pending successful capital raising of the Company.

West Henshaw Property - New Mexico

The West Henshaw Property is located in Eddy County, New Mexico, 12 miles northeast of Loco Hills in the Delaware Basin. Eddy County is in Southeast New Mexico. It is bounded by Chaves County to the north, Otero County to the east, Loving County, Texas to the south, and Lea County to the west. The West Henshaw Property covers 1,880 acres held by production. There are nine shut-in wells and four saltwater disposal wells. The Company holds a 100% working interest in the West Henshaw Property and a 72% net revenue interest. Throughout 2023, the Company completed a number of re-entry and basic workover efforts to try and establish more steady production from the West Henshaw assets. These assets were shut-in in March 2024 due to financial constraints and remain shut in pending successful capital raising of the Company.

Oxy Yates Property - New Mexico

The Oxy Yates Property is located in Eddy County, approximately eight miles north of Carlsbad, New Mexico in the Delaware Basin. It is bounded by Chaves County to the north, Otero County to the east, Loving County, Texas to the south, and Lea County to the west. The Oxy Yates Property covers 680 acres held by production. There are ten shut-in wells. The Yates formation is located at an average depth of 1,200 feet and overlies the Seven River formation and underlies the Tansill formation. The Company holds a 100% working interest in the Oxy Yates Property and a 77% net revenue interest. These assets were shut-in in March 2024 due to financial constraints and remain shut in pending successful capital raising of the Company.

Royalty Interest Properties

The Company holds royalty interests in 73 producing oil and gas wells located in Texas and New Mexico.

Conversion of Undeveloped Acreage

The Company's process for converting undeveloped acreage to developed acreage is tied to whether there is any drilling being conducted on the acreage in question. Management expects to restart its drilling and development program in the first part of 2025, subject to receipt of additional funding.

An aggregate of 1,186 MBO and 858 MMCF, of the Company's proved undeveloped reserves as of September 30, 2024, are part of a development plan that has been adopted by management that calls for these undeveloped reserves to be drilled within the next five years, thus resulting in the conversion of such proved undeveloped reserves to developed status within five years of initial disclosure at September 30, 2024. Management currently anticipates spending approximately $6 million in capital expenditures towards developing the Company's proved undeveloped reserves during the 2025 fiscal year, subject to the Company acquiring the necessary financing.

Financing of Proved and Probable Undeveloped Reserves

The Company currently estimates that the total cost to develop the Company's proved undeveloped reserves of 1,186.7 MBbl of oil and 858.6 MMcf of natural gas as of September 30, 2024 is $15,620,000. The Company expects to finance these capital costs through a combination of current cash on hand, debt financing through a line of credit or similar debt instrument, one or more offerings of debt or equity, and from cash generated from estimated revenues from sales of oil and natural gas produced at the Company's wells.

The Company currently estimates that the total cost to develop the Company's probable undeveloped reserves of 12,212.7 MBbl of oil and 15,427.2 MMcf of natural gas as of September 30, 2024 is $134,328,500. The Company expects to finance these capital costs through a combination of joint ventures, farm-in agreements, direct participation programs, one or more offerings of equity, a debt offering or entering into a line of credit, and from cash generated from estimated revenues from sales of oil and natural gas produced at the Company's wells.

Drilling Activities

The Company drilled one well during the last three fiscal years. As at September 30, 2024, the Company had 78 gross wells and 5 net productive wells. The Company's gross developed acreage totaled 5,177 and net developed acreage totaled 3,942 with the following property breakdown:

Property	**Gross Developed Acreage**	**Net Developed Acreage**	**Gross Productive Wells**	**Net Productive Wells**
Pittcock	818	664.63	0	0
Henshaw	1,880	1,353.60	0	0
Oxy Yates	680	489.60	0	0
Bullard	241	187.98	0	0
Breedlove	1,558	1,246.40	5	4.00
Royalty Interest Properties	-	-	73	0.01

The Company has 6,000 gross undeveloped acres and 4,800 net undeveloped acres. All of the Company's undeveloped acreage is on the Company's Breedlove property.

The Company's leases are nearly entirely held by production in perpetuity. If a field/lease is undeveloped it typically has a 2, 3 or 5-year term of expiry. The Company has over 340 leases covering undeveloped acreage and less than 5% of these leases have an active expiry date that is less than two years from the date of this Report.

Results of Operations

Sales and Production

The average sales prices of the Company's oil and gas products sold in the three months ended December 31, 2024 and 2023, and the fiscal year ended September 30, 2024 was $65.93/Boe, $71.82/Boe, and $70.53/Boe, respectively.

The Company's net production quantities by final product sold in the three months ended December 31, 2024 and 2023, and the fiscal year ended September 30, 2024 was 2,450.92 Boe, 919.94 Boe, and 1,963.82 Boe, respectively.

The Company's average production costs per unit for the three months ended December 31, 2024 and 2023, and the fiscal year ended September 30, 2024, was $174.74/Boe, $99.39/Boe, and $100.02/Boe, respectively.

The breakdown of production and prices between oil/condensate and natural gas was as follows:

Net Production Volumes	**Three Months Ended December 31, 2024**	**Three Months Ended December 31, 2023**	**Fiscal Year Ended September 30, 2024**
Oil/Condensate (Bbl)	2,451	920	1,964
Natural Gas (Mcf)	-	-	-

Average Sales Price	**Three Months Ended December 31, 2024**	**Three Months Ended December 31, 2023**	**Fiscal Year Ended September 30, 2024**
Oil/Condensate ($/Bbl)	65.93	71.82	70.53
Natural Gas ($/Mcf)	-	-	-

The breakdown of the Company's production quantities by individual product type for each of the Company's fields that contain 15% or more of the Company's total proved reserves expressed on an oil-equivalent-barrels basis was as follows:

Breedlove

Net Production Volumes	**Three Months Ended December 31, 2024**	**Three Months Ended December 31, 2023**	**Fiscal Year Ended September 30, 2024**
Oil/Condensate (Bbl)	2,451	541	1,229
Natural Gas (Mcf)	-	-	-

Henshaw

Net Production Volumes	**Three Months Ended December 31, 2024**	**Three Months Ended December 31, 2023**	**Fiscal Year Ended September 30, 2024**
Oil/Condensate (Bbl)	-	379	735
Natural Gas (Mcf)	-	-	-

Pittcock & Mary Bullard

Net Production Volumes	**Three Months Ended December 31, 2024**	**Three Months Ended December 31, 2023**	**Fiscal Year Ended September 30, 2024**
Oil/Condensate (Bbl)	-	-	-
Natural Gas (Mcf)	-	-	-

Operating Results

During the three months ended December 31, 2024, the Company reported a net loss of $1,828,721, compared to a net loss of $751,881 for the three months ended December 31, 2023. The net loss for the first quarter of the current fiscal year was mainly attributable to operating expenses of $1,576,277 compared to $806,294 in the corresponding quarter of the previous fiscal year, being partially offset by revenue from oil and gas sales and royalty income totaling $126,781 up from $53,115 in the same quarter of fiscal 2024.

The Company reported oil and gas sales revenue of $123,215 in the first quarter of the current fiscal year compared to $47,651 in the same quarter of the last fiscal year. This increase was largely due to the resumption of oil production at the Breedlove field. Net oil-equivalent production by final product sold in the current quarter averaged 26.64 barrels per day in the current quarter, compared to 10 barrels per day in the prior year's first quarter.

The lease operating expense for the quarter ended December 31, 2024 was $428,268, compared to $91,435 for the quarter ended December 31, 2023. The increase in lease operating expense was attributed to higher production levels in the current quarter. Additionally, lease operating expenses significantly exceeded oil and gas sales revenue due to extensive workover and maintenance costs incurred to restart the Breedlove wells.

General and administrative expenses

	2024	2023
Accounting and audit	$ 262,360	$ 122,746
Consulting	238,187	33,207
Filing and transfer agent	32,587	18,694
Insurance	42,696	42,837
Investor relations	21,370	58,696
Legal fees	318,032	188,730
Marketing and promotion	16,674	23,170
Office and miscellaneous	47,717	49,353
Rent	6,006	36,501
Salaries and benefits	145,352	90,138
Stock-based compensation	135,237	-
Travel	8,306	19,611
	$ 1,274,524	$ 683,683

The general and administrative expenses for the three months ended December 31, 2024 were $1,274,524, a significant increase from $683,683 in the three months ended December 31, 2023. The increase was mainly due to increased property development and corporate activities during the current quarter. Specifically, the variance compared to the prior year's quarter was mainly attributable to the following factors:

- Accounting and audit fees of $262,360, up from $122,746 in the first quarter of the previous fiscal year. The increase was largely due to the delayed start of the 2024 quarterly review work and the costs associated with bringing the delinquent SEC filings up to date.

- Consulting fees of $238,187 in the current quarter, up significantly from $33,207 in the same quarter of the prior fiscal year. The increase was primarily due to the engagement of three consultants to support potential acquisition activities, financing efforts, and corporate legal matters. The Company also retained contract consultants for geological, project management, and corporate consulting work.

- Legal fees of $318,032 in the current quarter, up from $188,730 in the comparative quarter. The fees were mainly related to the regulatory work associated with the Company's financing, its proposed uplisting to a major U.S. exchange, as well as compliance with the disclosure requirements under the Exchange Act in the United States.

- Salaries and benefits expenses of $145,352 in the current quarter, compared to $90,138 in the same quarter of the prior year. The increase was primarily due to a $50,000 performance bonus paid pursuant to the Company's Chief Executive Officer's employment agreement.

- Share-based compensation expenses of $135,237 were recognized in connection with the 65,000 stock options granted to the Company's directors and consultants. This amount represents a non-cash charge, reflecting the estimated fair value of the stock options granted and vested during the period. The Company used the Black-Scholes option pricing model for the fair value calculation.

Update on Use of Proceeds

During the three months ended December 31, 2024, the Company completed a private placement of convertible debenture units for gross proceeds of $4,276,389, of which $2,250,000 was received as subscriptions as of September 30, 2024, and $1,424,788 was issued in exchange for the outstanding debentures comprising $1,365,000 in principal and $59,788 in accrued interest. The remaining proceeds of $2,851,601 were intended for potential acquisitions, drilling and development, and general working capital purposes. As of the date of this Report, the Company has spent $188,040 on property development, $16,383 on potential acquisitions, and approximately $2,250,000 on operating activities.

Summary Of Quarterly Results

The following table sets forth selected unaudited financial information for the Company's eight most recent quarters ending with the last quarter for the three month period ended December 31, 2024.

	For the Three Months Ended							
	Fiscal 2025	**Fiscal 2024**				**Fiscal 2023**		
	Dec. 31, 2024	**Sept. 30, 2024**	**Jun. 30, 2024**	**Mar. 31, 2024**	**Dec. 31, 2023**	**Sept. 30, 2023**	**Jun. 30, 2023**	**Mar. 31, 2023**
	($)	**($)**	**($)**	**($)**	**($)**	**($)**	**($)**	**($)**
Total revenues	123,215	29,377	2,671	30,870	53,115	129,228	157,019	180,638
Net income (loss)	(1,828,721)	(1,573,285)	(1,248,755)	(415,355)	(751,881)	(609,854)	(1,452,827)	(1,111,323)
Earnings (loss) per share - basic and diluted	(3.32)	(2.85)	(2.26)	(0.75)	(1.36)	(1.11)	(2.96)	(2.30)

Factors That Affect the Comparability of the Annual Financial Data Disclosed Above

Net losses for the quarters were mainly attributable to operating expenses, partially offset by revenue from oil and gas sales and royalty income. The Company scaled back activities beginning in the third quarter of fiscal 2023 due to financial constraints. Operating expenses remained relatively consistent throughout fiscal 2023 and 2024. Oil and gas sales revenue remained steady for the first three quarters of fiscal 2023 but declined over the past five quarters due to financial constraints. In Q3 2024, oil and gas production was shut down across all fields. However, in Q1 2025, the Breedlove producing wells were brought back online. The significant increase in the loss for Q3 2024 was primarily due to a non-cash loss of $495,051 on debt extinguishment resulting from the modification of the number of warrants issued with a debenture loan. The increased losses in the last two quarters were mainly driven by higher corporate and field activity levels.

Liquidity and Capital Resources

As of December 31, 2024, the Company had a cash balance of $690,798, a decrease of $822,793 from the cash balance of $1,513,591 on September 30, 2024. During the three months ended December 31, 2024, the Company used

$1,236,354 in operating activities, primarily for accounting, consulting, insurance, legal, salaries, and lease operating expenses. The Company received $601,601 in proceeds from debenture financing and spent $188,040 on its oil and gas property development.

The Company had a working capital deficiency of $5,934,270 as of December 31, 2024, compared to a working capital deficiency of $5,857,870 as of September 30, 2024. The Company will need substantial additional funding to pay the outstanding payables and bring the operated assets back to full production. This raises substantial doubt about the Company's ability to continue as a going concern. The Company has decreased its activity to a minimal level to limit increases in the Company's working capital deficiency. The Company has also limited its ongoing commitments and account demands going forward. Additionally, the Company is actively engaging with its trade partners to remedy its current working capital deficiency through all means available to it including but not limited to financing arrangements, payment plans, and principal reductions.

Management has budgeted approximately $3 million in operating expenses and $6.5 million in capital expenditures for the next 12 months, which the Company plans to finance principally from one or more equity or debt financings. The purpose of these funds will be to resume full field operations, reduce the working capital deficit, as well as invest in additional oil and gas production activities across the Company's assets. The amount and timing of capital expenditures will depend on several factors including, but not limited to, the speed with which the Company is able to bring its wells to production, its ability to complete an equity financing or to secure a suitable line of credit, commodity prices, supply/demand considerations and attractive rates of return. There are no guarantees that the Company will be able to acquire the necessary funds to meet its budgeted capital expenditures, and any postponement of its planned development of its proved undeveloped reserves could materially affect its business, financial condition and results of operations.

Although the Company has budgeted investments of additional capital in the continued development of its oil and gas operations, it currently does not have any material commitments for capital expenditures. As of the date of this report, the Company does not have sufficient working capital to meet its anticipated operating and capital requirements over the next 12 months. The Company continues to monitor the current economic and financial market conditions and is actively evaluating its financing options.

Critical Accounting Estimates

The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Management evaluates these estimates and judgments on an ongoing basis and bases its estimates on experience, current and expected future conditions, third-party evaluations and various other assumptions that management believes are reasonable under the circumstances. We believe the following discussions of critical accounting estimates address all important accounting areas where the nature of accounting estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change.

<u>Oil and natural gas reserves</u>

Crude oil and natural gas reserves are estimates of future production that impact certain asset and expense accounts included in the consolidated financial statements. Proved reserves are the estimated quantities of oil and gas that geoscience and engineering data demonstrate with reasonable certainty to be economically producible in the future under existing economic conditions, operating methods and government regulations. Proved reserves include both developed and undeveloped volumes. Proved developed reserves represent volumes expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are volumes expected to be recovered from new wells on undrilled proved acreage, or from existing wells where a relatively major expenditure is required for recompletion. Variables impacting the Company's estimated volumes of crude oil and natural gas reserves include field performance, available technology, commodity prices, and development, production and carbon costs.

The estimation of proved reserves is important to the consolidated statements of operations because the proved reserve estimate for a field serves as the denominator in the unit-of-production calculation of the depletion of the capitalized costs for that asset. If the estimates of proved reserves used in the unit-of-production calculations had been lower by 10 percent across all calculations, the depletion in the first quarter of fiscal 2025 would have increased by approximately $6,000.

Impairment

The Company tests long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of the assets. Individual assets are grouped for impairment purposes at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets, generally on a field-by-field basis for oil and gas assets. Because there usually is a lack of quoted market prices for long-lived assets, the fair value of impaired assets is typically determined based on the present values of expected future cash flows using discount rates and prices believed to be consistent with those used by principal market participants. The expected future cash flows used for impairment reviews and related fair value calculations are based on estimated future production volumes, commodity prices, operating costs and capital decisions, considering all available evidence at the date of review. Differing assumptions could affect the timing and the amount of an impairment in any period.

Asset retirement obligations

The Company is subject to retirement obligations for certain assets. The fair values of these obligations are recorded as liabilities on a discounted basis, which is typically at the time the assets are installed. In the estimation of fair value, the Corporation uses assumptions and judgments regarding such factors as the existence of a legal obligation for an asset retirement obligation, technical assessments of the assets, estimated amounts and timing of settlements, discount rates, and inflation rates.

A sensitivity analysis of the ARO impact on earnings is not practicable, given the broad range of the company’s long-lived assets and the number of assumptions involved in the estimates. Favorable changes to some assumptions would have reduced estimated future obligations, thereby lowering accretion expense and amortization costs, whereas unfavorable changes would have the opposite effect.

Related Party Transactions

(a) The Company entered into an employment agreement with Bradley Taillon, the Company’s Chief Executive Officer, on April 29, 2024, for an annual base salary of base salary of $250,000, which shall be reviewed by the Company annually. Subject to the discretion of the board of directors, Mr. Taillon is also eligible on an annual basis for a cash bonus of up to 100% of annual salary and additional performance bonuses ranging from $50,000 to $750,000 upon the closing of a qualified financing with proceeds to the Company of $1 million or greater. Further, the terms of this employment agreement provide that if Mr. Taillon’s employment with the Company is terminated without “cause” (as defined in the agreement) than Mr. Taillon is entitled to a severance payment equal to two years of base salary and a bonus equal to 50% of his annual base salary. During the three months ended December 31, 2024, the Company incurred management salary of $62,500 and a performance bonus of $50,000 for Mr. Taillon.

(b) On May 1, 2022, the Company entered into an employment agreement Gregory Montgomery, the Company’s Chief Financial Officer, for an annual base salary of $50,000, with no specified term. Mr. Montgomery is also eligible on an annual basis for a cash bonus of up to 100% of annual salary, subject to the discretion of the board of directors. The employment agreement may be terminated with a termination payment equal to two months of base salary. During the three months ended December 31, 2024, the Company incurred management salary of $12,500 (2023 - $12,500), to Mr. Montgomery, with no bonuses incurred in either period.

(c) The Company had an employment agreement with Mehran Ehsan, the former Chief Executive Officer of the Company, for an annual base salary of $250,000, with no specified term. Mr. Ehsan was also eligible on an annual basis for a cash bonus of up to 100% of annual salary, subject to the discretion of the board of directors. Further, the terms of this employment agreement provided that if Mr. Ehsan’s employment with the Company is terminated without "cause" (as defined in the agreement) than Mr. Ehsan was entitled to a severance payment equal to three years of base salary and a bonus equal to 20% of his annual base salary. Mr. Ehsan resigned as President and CEO of the Company on April 29, 2024. On May 15, 2024, the Company amended the employment agreement to change his role to Vice President of Business Development. All other terms and conditions of the employment agreement remained the same. On August 30, 2024, the Company signed a separation agreement to terminate Mr. Ehsan's employment. The settlement includes: i) a lump sum payment of $100,000 by October 31, 2024 (subsequently paid); ii) six equal monthly payments of $7,500 starting October 1, 2024; and iii) the transfer of ownership of a Company vehicle with a fair value of $35,155. The settlement amount of $145,000 was accrued as of September 30, 2024. During the three months ended December 31, 2023, the Company incurred management salary of $62,500, for Mr. Ehsan, with no bonuses incurred in the period.

Outstanding Share Data

The Company had the following common shares, stock options and warrants outstanding as at the date of this report:

Issued and Outstanding Common shares	551,503
Stock options	69,167
Warrants	2,511,904
	3,132,574

As of the date of this report, the Company also has convertible debentures of $4,276,389 convertible into 2,238,947 common shares.

Contingencies

The Company from time to time may be involved with disputes, claims and litigation related to the conduct of its business. The Company had $594,656 in claims from certain trade vendors for non-payment, of which $571,703 have been accrued as of December 31, 2024. The Company plans to continue engaging with these claimants faithfully and is working on potential settlements for all outstanding claims.

New accounting standards

In November 2023, the FASB issued ASU 2023 - 07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which becomes effective for fiscal years beginning after December 15, 2024. This update requires public entities to disclose significant expenses for reportable segments in both interim and in annual reporting periods, while entities with only a single reportable segment must now provide all segment disclosures required both in ASC 280 and under the amendments in ASU 2023-07. The Company does not expect the standard to have a material effect on its consolidated financial statements and has begun evaluating disclosure presentation alternatives.

In December 2023, the FASB issued ASU 2023 - 09, Income Taxes (Topic740) Improvements to Income Tax Disclosures, which becomes effective for fiscal years beginning after December 15, 2024. The standard requires companies to disclose specific categories in the income tax rate reconciliation table and the amount of income taxes paid per major jurisdiction. The Company does not expect the standard to have a material effect on its consolidated financial statements and has begun evaluating disclosure presentation alternatives.

Disclosure Controls

In connection with Exemption Orders issued by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to the financial information contained in the audited annual financial statements and respective accompanying Management's Discussion and Analysis.

In contrast to the certificates under National Instrument ("NI") 52-109 (Certification of disclosure in an Issuer's Annual and Interim Filings), the Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting as defined in NI 52-109.

Approval

The Board of Directors of Permex Petroleum Corporation has approved the contents of this management discussion and analysis on February 14, 2025.