PERMEX PETROLEUM
CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Six Months Ended March 31, 2020

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 May 28, 2020, and should be read in conjunction with the unaudited interim consolidated financial statements and related notes of the Company for the six months ended March 31, 2020, and the audited consolidated financial statements of the Company together with the related notes thereto for the year ended September 30, 2019. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts are stated in Canadian dollars unless otherwise indicated.

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

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking information and statements. The use of any of the words "target", "plans", "anticipate", "continue", "estimate", "intends", "expect", "may", "will", "project", "should", "believe", "potential", and similar expressions are intended to identify forward-looking information. Forward-looking information is based on management's current expectations and projections about its future results. Forward-looking statements are statements that are not historical facts, and include, but are not limited to, estimates and their underlying assumptions; statements regarding the Company's plans, objectives and expectations with respect to future operations, the production of oil and gas from the Company's properties, the potential acquisition of additional properties, capital raising initiatives, the impact of industry and macroeconomic factors on the Company's operations, and market opportunities; and statements regarding future performance.

Forward-looking statements used in this MD&A are subject to various risks, uncertainties and other factors, most of which are difficult to predict and are generally beyond the control of the Company. These risks, uncertainties and other factors may include, but are not limited to, those set forth under "*Risks and Uncertainties*" below.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this MD&A or as of the date otherwise specifically indicated herein. Due to risks, uncertainties and other factors, including the risks, uncertainties and other factors identified above and elsewhere in this MD&A, actual events may differ materially from current expectations. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by securities law.

COMPANY OVERVIEW

Permex was incorporated on April 24, 2017 under the laws of British Columbia, Canada. The Company is primarily engaged in the acquisition, development and production of oil and gas properties in North America. 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 low risk infill drilling and development. Currently, Permex owns and operates oil and gas properties located in Texas and New Mexico, USA. The Company's common shares are listed on the Canadian Securities Exchange (the "CSE") under the symbol "OIL" and on the OTCQB under the symbol "OILCF".

Highlights of fiscal 2020

- The Company issued secured convertible debentures of $200,000 to the CEO of the Company and a director of the Company. The debentures are secured by an interest in all of the Company's right, title, and interest in all of its oil and gas assets, have a maturity date of September 30, 2021 and February 20, 2022, and bear interest at a rate of 12% per annum, payable on maturity. The debentures are convertible at the holder's option into units of the Company at $0.15 per unit. Each unit will be comprised of one common share of the Company and one share purchase warrant; each warrant entitles the holder to acquire one additional common share for a period of three years at an exercise price of $0.20.

- On December 17, 2019, the Company announced the opening of a new office in Dallas, Texas, which can strengthen the company’s partnerships with local investment bankers, operators, marketers and agencies in the region. This expansion positions the Company to enhance its current operation in the Permian Basin of West Texas, and increase its corporate footprint.

- On March 16, 2020, the Company announced the appointment of Greg Montgomery as a director of the Company.

Impact of Covid-19

On March 11, 2020, the COVID-19 outbreak was declared a global pandemic by the World Health Organization. As at the date of these financial statements, the duration of the business disruptions and related financial impact on the Company of COVID-19 cannot currently be reasonably estimated. However, the Company is closely monitoring developments and adapting its business plans accordingly. The Company has implemented a work from home policy for its executives and consultants. Additionally, the Company has reduced discretionary corporate activities.

As a result of COVID-19 and historical crude oil volatility such as negative pricing for WTI, management began shutting down fields and wellbores that were not economic at lower than $30 NYMEX pricing. These fields were extensively monitored to ensure no reservoir damage would occur due to the shut downs.

Operating netbacks

($ per BOE, unless otherwise noted)	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019	Six Months Ended March 31, 2020	Six Months Ended March 31, 2019
Average daily production (BOEPD)	63	92	63	90
Crude oil (US$ per Bbl)	41.70	49.23	50.35	47.53
Natural gas (US$ per Mcf)	1.31	1.86	1.58	2.45
Average price (US$)	39.83	44.24	47.57	45.15
Average price (CN$)	53.57	58.84	63.39	59.83
Royalties	6.63	10.56	8.17	5.27
Operating	26.54	28.45	30.15	28.97
Operating net back	20.40	19.83	25.07	25.59

OIL AND GAS PROPERTIES

The following table shows a summary of the Company’s reserves as at December 31, 2019 and November 30, 2018 which have been derived from the independent appraisal reports prepared by MKM Engineering using standard engineering practices generally accepted by the petroleum industry and conform to those classifications defined in the Canadian Oil and Gas Evaluation Handbook (“COGEH”).

Net After Royalties (BOE)	December 31, 2019	Change (%)	November 30, 2018
Estimated Proved Reserves	4,784,915	+8.8	4,397,116
Estimated Probable Reserves	4,872,193	+4.3	4,671,973
Total Proved and Probable	9,657,108	+6.5	9,069,089

West Henshaw Property and Oxy Yates 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 producing wells and four saltwater disposal wells. Permex holds a 100% working interest in the West Henshaw Property, and a 72% net revenue interest.

The Oxy Yates Property is located in Eddy County, approximately eight miles north of Carlsbad, New Mexico in the Delaware Basin. The Oxy Yates Property covers 680 acres held by production. There are eight producing wells and two 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. Permex holds a 100% working interest in the Oxy Yates Property, and a 77% net revenue interest. In May 2018, the Company signed a farmout agreement with Blackspear Capital Corp to farm out the Oxy Yates property.

ODC San Andres Unit and W.J. "A" Taylor lease - *Texas*

In June 2018, the Company acquired a 41.4% working interest with a 34.7% net revenue interest in the ODC San Andres Unit and 48% working interest with a 41.51% net revenue interest W.J. "A" Taylor lease located in Gaines County, Texas.

The property is just under two contiguous sections for a total of 1,220 gross acres, all held by production with all rights and no depth restrictions in the Central Basin Platform of the Permian Basin. There are a total of 52 vertical wells of which 35 are producers, 13 are injection wells, and 4 are shut in wells.

Mary Bullard Property - Texas

The Mary Bullard Property is located in Stonewall County, about 5 ½ miles south west of Aspermont, Texas. 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 is currently one producing well, four shut-in wells, and two water injection wells. Permex holds a 100% working interest in the Mary Bullard Property, and a 78.625% net revenue interest.

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 consist of the Pittcock North property, the Pittcock South property and the Windy Jones Property.

The Pittcock North property covers 320 acres held by production. There are currently six producing wells, four shut-in wells, two saltwater disposal wells, and a water injection well. Permex 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 eight producing wells, eleven shut-in wells and two saltwater disposal wells. Permex holds a 100% working interest in the lease, and a 71.90% net revenue interest.

The Windy Jones Property consists of forty acres and includes two injection wells and two suspended oil wells. The sole purpose of the Windy Jones property is to provide waterflood to the offset wells being the Pittcock wells located east boundary of the Windy Jones property. Permex holds a 100% working interest in the Windy Jones Property, and a 78.9% net revenue interest.

Peavy Property - Texas

The Peavy Property is located in Young County, Texas in the Permian basin. Young County is in North Central Texas. The Peavy Property covers 160 acres held by production. There are currently nine producing wells, four shut-in wells, and one saltwater disposal well. Permex holds a 100% working interest in the Peavy Property, and a 70.48% net revenue interest.

McMurtry and Loving Properties - Texas

The McMurtry and Loving Properties are located on the boundary between Jack and Young Counties in Texas. The asset is situated on the north end of the Fort Worth Basin, on the east flank of the Bend Arch.

The McMurtry lease covers 530 net acres in Young County and has five shut-in wells. The Loving Estate lease, located in Jack County, contains 980 net acres and has six shut-in wells, and a water disposal well. Permex holds 100% working interest in the McMurtry and Loving Properties, and a 75% net revenue interest. During the year ended September 30, 2019, the Company decided not to proceed with further work on the properties and thus write off the related capitalized costs of $325,360. The Company is looking to farm out the McMurtry and Loving Properties.

DISCUSSION OF OPERATIONS

Six month period ended March 31, 2020

During the six months ended March 31, 2020, the Company expended $25,836 (2019 - $294,926) in development costs. A breakdown of capital expenditures on each property is as follows:

		Six Months Ended March 31, 2020		Six Months Ended March 31, 2019
ODC,	$	13,654	$	53,069
Taylor		4,257		5,713
Mary Bullard		-		50,838
Pittcock North		-		102,522
Pittcock South		571		7,165
Windy Jones		-		23,732
Peavy		-		788
West Henshaw & Oxy Yates		7,354		51,099
Total	$	25,836	$	294,926

During the six months ended March 31, 2020, the Company reported a net loss of $60,780 as compared to a net loss of $546,268 for the six months ended March 31, 2019. Revenue for the six months ended March 31, 2020 decreased 20% to $639,099 from $799,798 for the six months ended March 31, 2019. The Company has reduced or shut down production on certain properties due to the lower oil prices and reduced profit margin. The Company incurred direct operating expenses of $347,650 (2019 - $473,373), an increase of 4.09% per barrel compared to the corresponding period in 2019 due to certain maintenance costs required on the shut down properties. The gross profit margin for the six months ended March 31, 2020 increased to 45.6% from 40.8% for the 2019 comparative period.

The general administrative expenses excluding accretion and share-based payment expenses for the six months ended March 31, 2020 were $396,532 (2019 - $677,838), a decrease of 41% from the 2019 period. The decrease in general administrative expenses over the prior period has been driven by the Company's efforts to reduce costs in all areas of operations. The variance was mainly attributable to:

- Legal fees of $13,946 (2019 - $43,891) have decreased due to the decrease in overall corporate activities during the 2020 period.
- Marketing and promotion of $17,167 (2019 - $164,330) has decreased significantly over the comparative period as a result of the Company scaling down its marketing activities.
- Office and miscellaneous of $26,104 (2019 - $78,135) have decreased from the comparative period and are in line with the Company's effort to cut costs. The reduction is also partly a result of the adoption of the new IFRS 16, Leases, in fiscal 2020. The rent payments of $20,619 (2019 - $24,971) were charged as a reduction to lease liability instead of being recorded to the profit and loss.
- Salaries of $27,567 (2019 - $72,968) have decreased from the comparative period. The Company had three full time employees during the 2019 period and has retained only one employee since February 2019.

Decommissioning liabilities are the present value of management's estimate of future costs to be incurred to properly abandon and reclaim the properties held by the Company. Accretion expense is the increase in the decommissioning liability resulting from the passage of time. The accretion of decommissioning liabilities is $30,463 (2019 - $38,705) for the six months ended March 31, 2020.

<u>Three month period ended March 31, 2020</u>

During the three months ended March 31, 2020, the Company reported a net loss of $64,888 as compared to a net loss of $146,062 for the three months ended March 31, 2019. Revenue for the three months ended March 31, 2020 decreased 30% to $267,932 from $387,203 for the three months ended March 31, 2019. Oil production on the West Henshaw, Mary Bullard, Pittcock, and Peavy properties were shut down for the quarter. The Company incurred direct operating expenses of $152,096 (2019 - $236,636), a decrease of 6.69% per barrel compared to the corresponding period in 2019. The gross profit for the three months ended March 31, 2020 increased to 43% from 39% for the 2019 comparative period.

The general administrative expenses excluding accretion and share-based payment expenses for the three months ended March 31, 2020 were $208,519 (2019 - $271,177). The variance was mainly attributable to marketing and promotion of $7,381 (2019 - $46,749), office and miscellaneous of $14,749 (2019 - $35,718) and salaries of $13,997 (2019 - $33,258). Factors affecting these decreases are similar to those explained above.

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 March 31, 2020.

	For the Three Months Ended							
	Fiscal 2020		**Fiscal 2019**				**Fiscal 2018**	
	Mar. 31, 2020	**Dec. 31, 2019**	**Sept. 30, 2019**	**Jun. 30, 2019**	**Mar. 31, 2019**	**Dec. 31, 2018**	**Sept. 30, 2018**	**Jun. 30, 2018**
	($)	**($)**	**($)**	**($)**	**($)**	**($)**	**($)**	**($)**
Total revenues	267,932	371,167	386,078	420,941	387,203	412,595	577,266	122,911

Net income (loss)	(64,888)	4,108	(232,230)	(106,686)	(146,062)	(400,206)	(721,651)	(600,525)
Earnings (loss) per share - basic and diluted	(0.00)	0.00	(0.01)	(0.00)	(0.00)	(0.01)	(0.02)	(0.02)

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2020, the Company had a cash balance of $24,609, an increase of $21,035 from the cash balance of $3,574 on September 30, 2019. During the six months ended March 31, 2020, cash used in the operating activities is $15,843. The Company spent $101,248 on capital expenditures on its oil and gas assets and $20,619 on office lease payments. The Company raised net proceeds of $200,000 from issuance of a loan debenture to the CEO and a director of the Company.

The Company had working capital deficiency of $700,741 as at March 31, 2020 compared to working capital deficiency of $850,001 as at September 30, 2019.

Management estimates that the gross revenue from oil and gas sales for the next 12 months will be approximately $1,000,000 and the general administrative expenses, excluding share-based payments expense, will be approximately $500,000. In addition, the Company expects to invest additional capital on its oil and gas project development. At present, the Company does not have sufficient working capital to meet these anticipated operating and capital requirements. The Company will continue to monitor the current economic and financial market conditions and evaluate their impact on the Company's liquidity and future prospects.

Going Concern

The Company has incurred losses since inception and not yet achieved profitable operations. The Company's ability to continue as a going concern is dependent on its ability to obtain adequate financing on reasonable terms from lenders, shareholders and other investors and/or to commence profitable operations in the future. While the Company has been successful in securing financing to date, there can be no assurances that it will be able to do so in the future. The aforementioned factors indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Management believes it will be able to raise equity capital as required in the long term, but recognizes there will be risks involved that may be beyond their control. The annual and interim financial statements do not include any adjustments to the recoverability and classification of reduced asset amounts and classification of liabilities that might be necessary should the Company be unable to continue operations. These adjustments could be material. The Company is not subject to material externally-imposed capital constraints.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

Included in amounts due to related parties are $98,000 (September 30, 2019 - $56,250) related to services rendered to the Company by the Chief Executive Officer ("CEO") of the Company and $7,713 (September 30, 2019 - $73,969) in advances from the CEO of the Company. Amounts due to related parties are unsecured, non-interest bearing, and have no specific terms of repayment.

During the six months ended March 31, 2020, the Company issued secured convertible debentures of $200,000 to the CEO and a director of the Company. 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 bear interest at a rate of 12% per annum, payable on maturity. The debentures are convertible at the holder's option into units of the

Company at $0.15 per unit. Each unit will be comprised of one common share of the Company and one share purchase warrant; each warrant entitles the holder to acquire one additional common share for a period of three years at an exercise price of $0.20. As at March 31, 2020, the interest accrued on the loan was $6,773.

Key management personnel include directors (executive and non-executive) and officers of the Company. The compensation paid or payable to key management personnel during the six month periods ended March 31 is as follows:

		2020		2019
Management fees	$	87,908	$	100,415
Share-based payments		3,026		63,519
Total	$	90,934	$	163,934

The Company entered into the following transactions relating to key management personnel and entities over which they have control or significant influence during the six month period ended March 31, 2020:

a) Incurred management fees of $87,908 (2019 - $75,000) to a company controlled by the President of the Company.

b) Incurred management fees of $nil (2019 - $15,000) to a company controlled by the Chief Financial Officer of the Company.

c) Incurred management fees of $ nil (2019 - $10,415) to a director of the Company.

The Company has entered into an employment agreement with the CEO of the Company for monthly base salary of US$12,500, with no specified term. The employment agreement may be terminated with a termination payment equal to twelve months of accrued base salary and a bonus equal to 20% of the annual salary.

COMMITMENTS

Office lease

The Company has entered into an office lease agreement for its office premises for a term ending August 31, 2023. The annual minimum lease commitments under the lease are as follows:

2020	$	28,867
2021		49,581
2022		50,614
2023		46,396
	$	175,458

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the period. Actual results could differ from these estimates. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised. Significant areas requiring the use of management estimates include:

Decommissioning obligations

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

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

Depreciation

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

Petroleum and natural gas interests

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

Share-based payments

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

Going concern assumption

The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

FINANCIAL INSTRUMENTS

The Company classified its financial instruments as follows: cash, trade and other receivables, restricted cash and reclamation deposits as subsequently measured at amortized cost; and trade and other payables and amounts due to related parties as subsequently measured at amortized cost financial liabilities. Information on certain types of financial instruments is included elsewhere in these financial statements as follows: trade and other receivables, restricted cash, reclamation deposits, trade and other payables, amounts due to related parties and loan debenture.

The carrying amount of cash, trade and other receivables, restricted cash, reclamation deposits, trade and other payables and amounts due to related parties carried at amortized cost is a reasonable approximation of fair value due to the relatively short period to maturity of these financial instruments and/or the rate of interest being charged.

Financial risk management

The Company's financial risks arising from its financial instruments are credit risk, liquidity risk, foreign currency exchange risk, interest rate risk and commodity price risk. The Company's exposures to these risks and the policies on how to mitigate these risks are set out below. Management monitors and manages these exposures to ensure appropriate measures are implemented on a timely basis and in an effective manner.

Credit risk

Credit risk is the risk of potential loss to the Company if the counter party to a financial instrument fails to meet its contractual obligations. The credit risk of the Company is associated with cash, trade and other receivables, amount due from related party, restricted cash and reclamation deposits. The credit risk with respect to its cash, restricted cash and reclamation deposits is minimal as they are held with high-credit quality financial institutions. The Company's GST recoverable is due from the Canadian Government. Management does not expect these counterparties to fail to meet their obligations. The Company does not anticipate any default of its trade receivables, as it transacts with creditworthy customers and management does not expect any losses from non-performance by these customers.

Liquidity risk

Liquidity risk is the risk that the Company will not meet its obligations associated with its financial liabilities as they fall due. The Company performs cash flow forecasting to ensure sufficient cash is available to fund its projects and operations. As at March 31, 2020, the Company has current assets of $132,918 and current liabilities of $833,659. The Company's financial liabilities include accrued expenses and trade and other payables which have contractual maturities of 30 days or are due on demand.

At present, the Company's operations do not generate positive cash flows. The Company's primary source of funding has been the issuance of equity securities through private placements and revenue from oil and gas production. Despite previous success in acquiring these financings, there is no guarantee of obtaining future financings.

Foreign exchange rate risk

Foreign currency exchange risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's functional currency is the Canadian dollar and administrative expenditures are transacted in Canadian dollars. The Company funds its oil and gas operations in the United States by using United States dollars ("US dollars") converted from its Canadian bank accounts. At March 31, 2020, the Company had financial assets of $347,945 and financial liabilities of $370,075 denominated in United States dollars. A 10% strengthening of the US dollar would affect net loss by approximately $2,000. The Company does not hedge its foreign exchange risk.

Interest rate risk

The Company is exposed to interest rate risk arising from cash held in Canadian financial institutions. The interest rate risk on cash is not considered significant due to its short-term nature and maturity. The exposure to interest rates for the Company is considered minimal. The Company has not used any financial instrument to hedge potential fluctuations in interest rates.

Commodity price risk

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in the price of oil and natural gas. Commodity prices are impacted by world economic events that affect supply and demand, which are generally beyond the Company's control. Changes in crude oil prices may significantly affect the Company's results of operations, cash generated from operating activities, capital spending and the Company's ability to meet its obligations. The Company manages this risk by constantly monitoring commodity prices and factoring them into operational decisions, such as contracting or expanding its capital expenditures program.

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	40,024,114
Stock options	2,840,189
Warrants	4,805,206
	47,669,509

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

New accounting policies

IFRS 16 – Leases

This standard replaces IAS 17, Leases. IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position for all leases, with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16 changes the definition of a lease; sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods; changes the accounting for sale and leaseback arrangements; and introduces new disclosure requirements. Under IFRS 16, a lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Right-of-use assets will be initially measured at cost, which includes the initial measurement of the lease liabilities and other costs, less lease incentives. Lease liabilities will initially be measured at the present value of future lease payments and subsequently measured at amortized cost using the effective interest method. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 with early application permitted in certain circumstances and may be applied retrospectively to each prior period presented (full retrospective approach) or with the cumulative effect of adoption recognized at initial application (modified retrospective approach). The modified retrospective approach offers the option, on a lease by lease basis, to either measure the right-of-use asset retrospectively using the discount rate as at the date of initial application or to measure the right-of-use asset at an amount equal to the lease liability.

The Company adopted IFRS 16 on October 1, 2019. On initial adoption, the Company has elected to record right-of-use assets based on the corresponding lease obligation. Right-of-use asset and lease obligation of $155,629 were recorded as of October 1, 2019, with no impact on deficits. When measuring the present value of lease obligations, the Company discounted remaining lease payments using its incremental borrowing rate at October 1, 2019, which was a weighted-average rate of 12%.

RISK AND UNCERTAINTIES

Commodity price risk

The prices we receive for our oil and natural gas production heavily influence our revenue, operating results, profitability, access to capital, future rate of growth and carrying value of our properties. Oil and natural gas are commodities, and, therefore, their prices are subject to wide fluctuations in response to relatively minor changes in supply and demand.

Historically, the commodities markets have been volatile, and these markets will likely continue to be volatile in the future. If the prices of oil and natural gas experience a substantial decline, our operations, financial condition and level of expenditures for the development of our oil and natural gas reserves may be materially and adversely affected. The prices we receive for our production, and the levels of our production, depend on numerous factors beyond our control and include the following:

- changes in global supply and demand for oil and natural gas;
- the actions of the Organization of Petroleum Exporting Countries, or OPEC;
- political conditions, including embargoes, in or affecting other oil-producing activity;
- the level of global oil and natural gas exploration and production activity;
- the level of global oil and natural gas inventories;
- weather conditions;
- technological advances affecting energy consumption; and
- the price and availability of alternative fuels.

Volatile oil and natural gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and natural gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

Our revenues, operating results, profitability and future rate of growth depend primarily upon the prices we receive for oil and, to a lesser extent, natural gas that we sell. Prices also affect the amount of cash flow available for capital expenditures and our ability to borrow money or raise additional capital. In addition, we may need to record asset carrying value write-downs if prices fall. A significant decline in the prices of natural gas or oil could adversely affect our financial position, financial results, cash flows, access to capital and ability to grow.

Reserve recovery risk

There are numerous uncertainties inherent in estimating crude oil and natural gas reserves and their value. Reservoir engineering is a subjective process of estimating underground accumulations of crude oil and natural gas that cannot be measured in an exact manner. Because of the high degree of judgment involved, the accuracy of any reserve estimate is inherently imprecise, and a function of the quality of available data and the engineering and geological interpretation. Our reserves estimates are based on 12-month average prices, except where contractual arrangements exist; therefore, reserves quantities will change when actual prices increase or decrease. In addition, results of drilling, testing, and production may substantially change the reserve estimates for a given reservoir over time. The estimates of our proved reserves and estimated future net revenues also depend on a number of factors and assumptions that may vary considerably from actual results, including:

- historical production from the area compared with production from other areas;
- the effects of regulations by governmental agencies, including changes to severance and excise taxes;
- future operating costs and capital expenditures; and
- workover and remediation costs

For these reasons, estimates of the economically recoverable quantities of crude oil and natural gas attributable to any particular group of properties, classifications of those reserves and estimates of the future net cash flows expected from them prepared by different engineers or by the same engineers but at different times may vary substantially. Accordingly, reserves estimates may be subject to upward or downward adjustment, and actual production, revenue and expenditures with respect to our reserves likely will vary, possibly materially, from estimates.

Additionally, because some of our reserves estimates are calculated using volumetric analysis, those estimates are less reliable than the estimates based on a lengthy production history. Volumetric analysis involves estimating the volume of a reservoir based on the net feet of pay of the structure and an estimation of the area covered by the structure. In addition, realization or recognition of proved undeveloped reserves will depend on our development schedule and plans. A change in future development plans for proved undeveloped reserves could cause the discontinuation of the classification of these reserves as proved.

Property acquisition risk

Although we perform a review of properties that we acquire that we believe is consistent with industry practices, such reviews are inherently incomplete. It generally is not feasible to review in-depth every individual property involved in each acquisition. Ordinarily, we will focus our review efforts on the higher-value properties and will sample the remainder. However, even a detailed review of records and properties may not necessarily reveal existing or potential problems, nor will it permit us as a buyer to become sufficiently familiar with the properties to assess fully and accurately their deficiencies and potential. Inspections may not always be performed on every well, and environmental problems, such as groundwater contamination, are not necessarily observable even when an inspection is undertaken. Even when problems are identified, we often assume certain environmental and other risks and liabilities in connection with acquired properties. There are numerous uncertainties inherent in estimating quantities of proved oil and gas reserves and future production rates and costs with respect to acquired properties, and actual results may vary substantially from those assumed in the estimates. In addition, there can be no assurance that acquisitions will not have an adverse effect upon our operating results, particularly during the periods in which the operations of acquired businesses are being integrated into our ongoing operations.

Weather and climate

Demand for oil and gas are, to a degree, dependent on weather and climate, which impact the price we receive for the commodities we produce. In addition, our exploration and development activities and equipment can be adversely affected by severe weather, which may cause a loss of production from temporary cessation of activity or lost or damaged equipment. Our planning for normal climatic variation, insurance programs, and emergency recovery plans may inadequately mitigate the effects of such weather conditions, and not all such effects can be predicted, eliminated, or insured against.

Environmental factors

As an owner or lessee and operator of oil and gas properties, we are subject to various federal, state, local, and foreign country laws and regulations relating to discharge of materials into, and protection of, the environment. These laws and regulations may, among other things, impose liability on the lessee under an oil and gas lease for the cost of pollution clean-up and other remediation activities resulting from operations, subject the lessee to liability for pollution and other damages, limit or constrain operations in affected areas, and require suspension or cessation of operations in affected areas. Our efforts to limit our exposure to such liability and cost may prove inadequate and result in significant adverse effects to our results of operations. In addition, it is possible that the increasingly strict requirements imposed by environmental laws and enforcement policies could require us to make significant capital expenditures. Such capital expenditures could adversely impact our cash flows and our financial condition.

Governmental risk

Our US operations have been, and at times in the future may be, affected by political developments and by federal, state, and local laws and regulations such as restrictions on production, changes in taxes, royalties and other amounts payable to governments or governmental agencies, price or gathering rate controls, and environmental protection laws and regulations.

The U.S. federal and state income tax laws affecting oil and gas exploration, development, and extraction may be modified by administrative, legislative, or judicial interpretation at any time. Previous legislative proposals, if enacted into law, could make significant changes to such laws, including the elimination of certain key U.S. federal income tax incentives currently available to oil and gas exploration and production companies. These changes include, but are not limited to, (i) the repeal of the percentage depletion allowance for oil and gas properties, (ii) the elimination of current deductions for intangible drilling and development costs, and (iii) an extension of the amortization period for certain geological and geophysical expenditures. The passage or adoption of these changes, or similar changes, could eliminate or postpone certain tax deductions that are currently available with respect to oil and gas exploration and development. We are unable to predict whether any of these changes or other proposals will be enacted. Any such changes could adversely affect our business, financial condition, and results of operations.

Market conditions

The financial markets are subject to fluctuation and are vulnerable to unpredictable shocks. We have a significant development project inventory, which will require substantial future investment. We and/or our partners may need to seek financing in order to fund these or other future activities. Our future access to capital, as well as that of our partners and contractors, could be limited if the debt or equity markets are constrained. This could significantly delay development of our property interests.

Liquidity and future financing risk

The Company is in the early stages of business and has not generated revenue in excess of its expenses. The Company will likely operate at a loss until its business becomes established and the Company may require additional financing in order to fund future operations and expansion plans. The Company's ability to secure any required financing to sustain operations will depend in part upon prevailing capital market conditions and business success. There can be no assurance that the Company will be successful in its efforts to secure any additional financing or additional financing on terms satisfactory to management. If additional financing is raised by issuance of additional shares, control may change and shareholders may suffer dilution. If adequate funds are not available, or are not available on acceptable terms, the Company may be required to scale back its current business plan or cease operating.

Going-Concern risk

The Company's financial statements have been prepared on a going-concern basis under which an entity is considered to be able to realize its assets and satisfy its liabilities in the ordinary course of business. The Company's future operations are dependent upon the identification and successful completion of equity or debt financing and the achievement of profitable operations at an indeterminate time in the future. There can be no assurances that the Company will be successful in completing equity or debt financing or in achieving profitability. The financial statements do not give effect to any adjustments relating to the carrying values and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern.

Global Economy risk

Economic slowdowns and volatility of global capital markets may from time to time make the raising of capital by equity or debt financing more difficult. The Company may be dependent upon capital markets to raise additional financing in the future while concurrently establishing a wider customer base. Access to financing may be negatively impacted by global economic downturns. As such, the Company is subject to liquidity risks in meeting its operating expenditure requirements and future development cost requirements in instances where adequate cash positions are unable to be maintained or appropriate financing is unavailable. These factors may impact the ability to raise equity or obtain loans and other credit facilities in the future and on terms favourable to the Company and its management. If levels of volatility and slow market conditions persist, the Company's operations, the Company's ability to raise capital and the trading price of the Company's shares could be adversely impacted.

Limited prior operating history

The Company has limited operating history, business operations and assets. There is no assurance that it will be profitable or that its investment strategy will be successful. The Company's operations are subject to all of the risks inherent in the creation of new investment activity, including a limited prior operating history.

Dilution

Any sale of the Company's shares will result in dilution to existing holders of shares. The Company may issue additional shares without the consent from the shareholders of the Company.

Loan facilities

The interest expense and banking fees incurred in respect of any loan facility that may be secured by the Company may exceed the incremental capital gains and tax benefits generated by the incremental investment of the Company in any oil and gas properties. There can be no assurance that the borrowing strategy employed by the Company will enhance returns.

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 May 28, 2020.