



**FORM 51-102F1**  
**MANAGEMENT DISCUSSION AND ANALYSIS**

For the Three and Six Months Ended March 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 August 7, 2024, and should be read in conjunction with the unaudited interim consolidated financial statements and related notes of the Company for the three and six month period ended March 31, 2024, and the audited consolidated financial statements of the Company together with the related notes thereto for the year ended September 30, 2023. 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](http://www.sedarplus.ca) and on the Company web site at [www.permexpetroleum.com](http://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, 2023 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 various oil and gas properties located in Texas and New Mexico. In addition, the Company holds various royalty interests in 73 wells and 5 permitted wells across 3,800 acres within the Permian Basin of West Texas and southeast New Mexico. Moreover, the Company has more than 11,700 net acres of producing oil and gas assets, 62 shut-in opportunities, and 17 salt water disposal wells allowing for waterflood secondary recovery.

The Company's common shares are listed on the Canadian Securities Exchange under the symbol "OIL", and on the Frankfurt Stock Exchange under the symbol "75P". On April 16, 2024, the Company received a cease trade order issued by the British Columbia Securities Commission (the "BCSC") due to its failure to file the annual financial statements for fiscal 2023 and quarterly reports for fiscal 2024. The trading was halted on the CSE effective April 17, 2024. The Company is currently working to bring all required filings up to date.

Key activities:

- On October 23, 2023, the Company effected a 1-for-4 reverse split of the Company's outstanding common shares.
- On February 28, 2024, the Company announced a private placement of convertible debenture units of the Company (the "Units") for gross proceeds of up to \$20,000,000. Each Unit will consist of one convertible debenture (a "Debenture") in the principal amount of \$1,000 and one common share purchase warrant (a "Warrant"). Each Warrant will be exercisable for a period of five years from the date of issuance for one common share of the Company (a "Share") at an exercise price of \$4.08. On May 29, 2024, the Company amended the terms of the Units. Each Unit will now consist of one convertible debenture (a "Debenture") in the principal amount of \$1,000 and 294 common share purchase warrants (each a "Warrant"). Each Warrant will be exercisable for a period of five years from the date of issuance for one common share of the Company (a "Share") at an exercise price of \$4.08. The Debentures will mature (the "Maturity Date") on the earlier of: (i) one-year from the date of issuance or (ii) three-months from the date of issuance if the Company does not enter into a securities exchange, unit purchase or merger agreement with a third party to the reasonable satisfaction of a majority of the holders of Debentures. The Debentures will 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 Debenture is repaid, and have a conversion price of \$3.40 per share. Interest will be paid in cash or Shares based on a conversion price of \$3.40.
- On April 16, 2024, the Company announced the closing of the first tranche of the private placement announced on February 28, 2024, consisting of 500 Units for gross proceeds of \$500,000. As a result, the Company issued a Debenture with a principal amount of \$500,000 and 147,000 Warrants.
- On May 1, 2024, the Company announced the appointment of Bradley Taillon as the President and Chief Executive Officer ("CEO") of the Company. Mehran Ehsan, the former President and CEO of the Company, will now serve as Vice President of Business Development.
- On May 29, 2024, the Company announced that it has applied to the British Columbia Securities Commission (the "BCSC") for a partial revocation of the failure-to-file cease trade order that was issued by the BCSC against the Company on April 16, 2024 (the "FFCTO") for failing to file certain outstanding continuous disclosure documents in a timely manner (the "Partial Revocation Order").
- On June 16, 2024, the Company announced the closing of the second tranche of the private placement announced on February 28, 2024, consisting of 865 Units for gross proceeds of \$865,000. As a result, the Company issued a Debenture with a principal amount of \$865,000 and 254,310 Warrants. The Second Tranche was conducted pursuant to a partial revocation order (the "Partial Revocation Order") issued by the BCSC on June 5, 2024. The Partial Revocation Order partially revoked the FFCTO that was issued by the BCSC against the Company on April 16, 2024 for failing to file certain outstanding continuous disclosure documents in a timely manner. The FFCTO continues to apply in all other respects. The Company intends to use the proceeds of the Second Tranche to prepare and file all outstanding financial statements and continuous disclosure records, pay all outstanding related fees and penalties, pay outstanding amounts owing pursuant to summary judgments and to continue operations until it can apply for and receive a full revocation of the FFCTO. If and when the Company has filed all such outstanding financial statements and continuous disclosure records, the Company intends to apply for a full revocation of the FFCTO and request that trading of its Shares on the CSE be reinstated.
- On June 27, 2024, the Company announced the appointment of Bradley Taillon, the President and CEO, to the Company's Board of Directors. As a part of Permex's strategic reconstitution and expansion of the Board, the

Company also announced the resignations of Melissa Folz, Barry Whelan, James Perry Bryan, Mehran Ehsan, Douglas Charles Urch and John James Lendrum from the Board of Directors.

## **Oil And Gas Properties**

### Breedlove "B" Clearfork Leases - Texas

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. It is bounded on the north by Dawson County, on the east by Howard County, on the south by Glasscock and Midland Counties, and on the west by Andrews County. There is a total of 25 vertical wells of which 12 are producers, 4 are saltwater disposal wells and 9 that are shut-in opportunities. In January 2022, the Company began the pilot re-entry on the Carter Clearfork well #5, which is one of 67 shut-in wells that it currently owns. The re-entry involved targeting the Clearfork formation at a depth of 7,200 feet. Due to the high water content, management plans to maximize utilization of existing injection wells on the property when putting the well on line. By doing so management plans to reduce operating expenses from water disposal in third party disposal facilities. During fiscal 2023, the Company engaged in various operating activities across the Breedlove assets including the completion and production of the Eoff #3 well that was completed in November 2022. The Eoff #3 was put online fully following the build out of production facilities, tank battery, etc. The Eoff #3 was subsequently shut in due to maintenance issues that were deferred due to financing efforts being undertaken by the Company. The Eoff #3 is currently available to resume production potentially as a top recompletable candidate for the Company, pending successful capital raising efforts. The Company is currently evaluating a number of re-entry opportunities across this asset including the 9 currently shut-in wells as well as opportunities across the existing producing wells.

### 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 is currently one producing well, ten 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.

### 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 south west 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 is currently one producing well, four 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.

### 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 two producing wells, seven 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.

In January 2022, the Company began the pilot re-entry on the West Henshaw well #15-3, one out of the 67 shut-in wells it currently owns. The re-entry and re-stimulation involved the West Henshaw property targeting the Grayburg formation at a depth of 2,850 feet. The recompletion was successful and came online at an initial rate of 30 bopd and has stabilized at 15 bopd.

In April 2022, the Company began the re-entry on the West Henshaw well #6-10. The re-entry and re-stimulation involved the West Henshaw property targeting the Grayburg formation at a depth of 2,850 feet. The recompletion was successful and came online at an initial rate of 15 bopd and has stabilized at 10 bopd. 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.

The remaining 67 shut-in wells that the Company plans to re-enter have potential to yield similar results increasing our total daily production solely by re-entering shut-in wells.

#### *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 is one producing well and nine 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.

#### *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. The Company has started development and conversion of its undeveloped acreage located in Martin County, Texas. The PPC Eoff #3 well, operated by Permex Petroleum, is the first of two permitted wells to be drilled by the Company on the 7,780 gross acre Breedlove oilfield. Drilling of the first well commenced on September 14, 2022. Management expects to restart its drilling and development program in the second half of 2024, subject to receipt of additional funding.

An aggregate of 1,609 MBO and 1,277 MMCF, of the Company's proved undeveloped reserves as of September 30, 2023, 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, 2023. Management currently anticipates spending approximately \$1.25 million in capital expenditures towards developing the Company's proved undeveloped reserves during the 2024 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 1,609.7 MBbl of oil and 1,277.1 Mcf of natural gas as of September 30, 2023 is \$15,710,000. 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 9,290.4 MBbl of oil and 10,882.8 Mcf of natural gas as of September 30, 2023 is \$134,428,500. 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, 2023, the Company had 103 gross wells and 23 net productive wells. The Company's gross developed acreage totaled 5,177 and net developed acreage totaled 3,942 with the following property breakdown:

<b>Property</b>	<b>Gross Developed Acreage</b>	<b>Net Developed Acreage</b>	<b>Gross Productive Wells</b>	<b>Net Productive Wells</b>
Pittcock	818	664.63	1	0.81
Henshaw	1,880	1,353.60	8	5.76
Oxy Yates	680	489.60	5	3.60
Bullard	241	187.98	1	0.78
Breedlove	1,558	1,246.40	15	12.00
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 six months ended March 31, 2024 and 2023, and the fiscal year ended September 30, 2023 was \$72.14/Boe, \$75.35/Boe, and \$71.45/Boe, respectively. The average sales prices of the Company's oil and gas products sold in the three months ended March 31, 2024 and 2023 was \$72.65/Boe and \$69.86/Boe, respectively.

The Company's net production quantities by final product sold in the six months ended March 31, 2024 and 2023, and the fiscal year ended September 30, 2023 was 1,470.20 Boe, 7,004.20 Boe, and 12,979.36 Boe, respectively. The Company's net production quantities by final product sold in the three months ended March 31, 2024 and 2023 was 550.26 Boe and 3,381.30 Boe, respectively.

The Company's average production costs per unit for the six months ended March 31, 2024 and 2023, and the fiscal year ended September 30, 2023, was \$105.35/Boe, \$75.26/Boe, and \$67.76/Boe, respectively. The Company's average production costs per unit for the three months ended March 31, 2024 and 2023 was \$115.31/Boe and \$70.70/Boe, respectively.

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

	<b>Three Months Ended March 31, 2024</b>	<b>Three Months Ended March 31, 2023</b>	<b>Six Months Ended March 31, 2024</b>	<b>Six Months Ended March 31, 2023</b>
<b>Net Production Volumes</b>				

Oil/Condensate (Bbl)	550	3,026	1,470	6,567
Natural Gas (Mcf)	-	2,134	-	2,621
	<b>Three Months Ended March 31, 2024</b>	<b>Three Months Ended March 31, 2023</b>	<b>Six Months Ended March 31, 2024</b>	<b>Six Months Ended March 31, 2023</b>
<b>Average Sales Price</b>				
Oil/Condensate (\$/Bbl)	72.65	73.64	72.14	77.88
Natural Gas (\$/Mcf)	-	6.28	-	6.22

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*

	<b>Three Months Ended March 31, 2024</b>	<b>Three Months Ended March 31, 2023</b>	<b>Six Months Ended March 31, 2024</b>	<b>Six Months Ended March 31, 2023</b>
<b>Net Production Volumes</b>				
Oil/Condensate (Bbl)	194	1,962	735	4,573
Natural Gas (Mcf)	-	2,134	-	2,621

*Henshaw*

	<b>Three Months Ended March 31, 2024</b>	<b>Three Months Ended March 31, 2023</b>	<b>Six Months Ended March 31, 2024</b>	<b>Six Months Ended March 31, 2023</b>
<b>Net Production Volumes</b>				
Oil/Condensate (Bbl)	356	723	735	1,488
Natural Gas (Mcf)	-	-	-	-

*Pittcock & Mary Bullard*

	<b>Three Months Ended March 31, 2024</b>	<b>Three Months Ended March 31, 2023</b>	<b>Six Months Ended March 31, 2024</b>	<b>Six Months Ended March 31, 2023</b>
<b>Net Production Volumes</b>				
Oil/Condensate (Bbl)	-	340	-	507
Natural Gas (Mcf)	-	-	-	-

Operating Results

*Three Months Ended March 31, 2024 and 2023*

During the three months ended March 31, 2024, the Company reported a net loss of \$415,355 as compared to a net loss of \$1,111,323 for the three months ended March 31, 2023 mostly as a result of decreased general and administrative expenses during the second quarter of fiscal 2024 compared to the same quarter in fiscal 2023.

The Company reported oil and gas sales revenue of \$27,815 in the second quarter of the current fiscal year compared with revenue of \$170,989 in the same quarter during the last fiscal year. The decrease is due to reduced oil and gas production across all fields, attributed to financial constraints affecting field operations. Net oil-equivalent production by final product sold in the current quarter averaged 6.04 barrels per day, compared with 37.57 barrels per day in the same quarter of the previous fiscal year.

The Company's total operating expenses for the three months ended March 31, 2024 was \$451,842 compared to \$1,297,061 for the same period in 2023. Lease operating expenses amounted to \$63,449, decreased from \$234,478 in the comparative period due to decreased production. General and administrative expenses for the three month period ended March 31, 2024 were \$361,219, compared to \$1,010,542 for the comparable three month period of the prior fiscal year. The main differences in costs include accounting and audit decreased to \$21,700 (2023 - \$202,557); insurance decreased to \$18,805 (2023 - \$122,695); marketing and investor relations decreased to \$22,363 (2023 - \$273,926); and travel decreased to \$6,028 (2023 - \$66,577). Management scaled back all activities in the current quarter due to tighter financial constraints.

#### *Six Months Ended March 31, 2024 and 2023*

During the six months ended March 31, 2024, the Company reported a net loss of \$1,167,236 as compared to a net loss of \$2,420,514 for the six months ended March 31, 2023. The net loss for the first half of current fiscal year was mainly attributable to operating expenses of \$1,258,136 compared to operating expenses of \$2,851,966 in the same period in the previous fiscal year, being partially offset by revenue from oil and gas sales and royalty income of \$83,985 compared to \$402,580 in the fiscal 2023 period.

The Company reported oil and gas sales revenue of \$75,466 in the first half of the current fiscal year compared with revenue of \$384,743 in the same period during the last fiscal year. The decrease is due to reduced oil and gas production across all fields, attributed to financial constraints affecting field operations. Net oil-equivalent production by final product sold in the current period averaged 8.03 barrels per day, compared with 38.48 barrels per day in the same quarter of the previous fiscal year.

The lease operating expenses for the six months ended March 31, 2024 were \$154,884 compared with \$527,157 in the six months ended March 31, 2023. The decrease in lease operating expenses is attributed to reduced production in the current period compared to the same period in the previous fiscal year. Lease operating expenses exceeded oil and gas sales revenue mainly due to significant maintenance expenses on the West Henshaw wells.

The general and administrative expenses for the six months ended March 31, 2024 were \$1,044,902, compared with \$2,225,331 in the six months ended March 31, 2023. The reduction is mainly due to the decreased property development and corporate activities during the current period. Specifically, the variance in the first six months of the current fiscal year from the same period in the previous fiscal year was mainly attributable to:

- Accounting and audit fees of \$144,447, which decreased from \$522,178 in the first half of the previous fiscal year. The decrease was largely due to the delayed start of audit work. The substantial fee in the current quarter was mainly associated with regulatory compliance work related to the US uplisting activities in November 2023.
- Consulting fees of \$67,157 in the current period compared to \$142,875 in the first half of the previous fiscal year. This decrease was primarily attributed to fewer fees paid to contract consultants for geological, project management, and general regulatory and corporate consulting work. The variance was largely due to reduced property development and corporate activities in the current period.
- Legal fees of \$277,060 in the current period, down from \$389,552 in the same period of the previous fiscal year. The legal fees were mainly related to the regulatory work associated with the Company's proposed uplisting to the NASDAQ in November 2023 as well as compliance with the disclosure requirements under the Exchange Act in the United States.

- Marketing, investor relations, news and media, and promotion expenses of \$104,230 in the current period, compared to \$472,432 in the same period of the previous fiscal year. The reduction was due to the Company scaling back marketing and promotion activities.
- Travel expenses of \$25,639 in the current period compared to \$99,081 in the same period of the previous fiscal year. The reduction was due to reduced travel by management for marketing and promotion 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 March 31, 2024.

	<b>For the Three Months Ended</b>							
	<b>Fiscal 2024</b>		<b>Fiscal 2023</b>				<b>Fiscal 2022</b>	
	<b>Mar. 31, 2024</b>	<b>Dec. 31, 2023</b>	<b>Sept. 30, 2023</b>	<b>Jun. 30, 2023</b>	<b>Mar. 31, 2023</b>	<b>Dec. 31, 2022</b>	<b>Sept. 30, 2022</b>	<b>Jun. 30, 2022</b>
	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>
Total revenues	30,870	53,115	129,228	157,019	180,638	221,942	253,402	276,722
Net income (loss)	(415,355)	(751,881)	(609,854)	(1,452,827)	(1,111,323)	(1,309,191)	(916,831)	(888,669)
Earnings (loss) per share - basic and diluted	(0.75)	(1.36)	(1.11)	(2.96)	(2.30)	(2.71)	(1.90)	(1.84)

### **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 operating expenses remained generally consistent from fiscal 2022 Q3 to fiscal 2023 Q2 following the Company's completion of \$8 million in private placement financings on March 30, 2022. The Company has scaled back activities in the last four quarters due to financial constraints. Oil and gas sales revenue was generally consistent for fiscal 2022 and the first three quarters of fiscal 2023 but has decreased in the last three quarters due to financial constraints.

### **Liquidity and Capital Resources**

As at March 31, 2024, the Company had a cash balance of \$4,715, a decrease of \$78,021 from the cash balance of \$82,736 on September 30, 2023. During the six months ended March 31, 2024, cash used in operating activities was \$148,647, primarily consisting of accounting, insurance, salary and general office expenses. The Company spent \$34,374 on capital expenditures for its oil and gas assets in the first half of the fiscal year. The Company received \$70,000 from reclamation deposit redemption and \$45,000 from a related party loan and repaid \$10,000 on a third-party loan.

The Company had working capital deficiency of \$4,181,211 as at March 31, 2024 compared to working capital deficiency of \$3,142,916 as at September 30, 2023.

Management has budgeted approximately \$1.5 million in minimum operating expenses and \$0.5 million in capital expenditures for the next 12 months, which the Company plans to finance principally from one or more equity financings and/or a line of credit. The amount and timing of capital expenditures will depend on several factors including, but not limited to, the speed with which we are able to bring our wells to production, our 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 we will be able to acquire the necessary funds to meet our



budgeted capital expenditures, and any postponement of our planned development of our proved undeveloped reserves could materially affect our business, financial condition and results of operations.

Although the Company has budgeted investments of additional capital in the continued development of our oil and gas operations, the Company currently does not have any material commitments for capital expenditures. As of the date of our Quarterly Report on Form 10-Q for the six months ended March 31, 2024, the Company does not have sufficient working capital to meet its anticipated operating and capital requirements over the next 12 months, and, consequently, the Company is currently evaluating options to support our funding requirements over this time period, including but not limited to, completing a financing transaction. The Company will also continue to monitor the current economic and financial market conditions and evaluate their impact on the Company's liquidity and future prospects.

### **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.

#### Oil and natural gas reserves

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 fiscal 2023 would have increased by an estimated \$13,000.

#### 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 for 2023 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 convertible debenture loan from the CEO of the Company mentioned in Note 8 was paid off during the six months ended March 31, 2023.
- (b) The Company has an employment agreement with Mehran Ehsan, the former CEO of the Company, for an annual base salary of \$250,000, with no specified term. Mr. Ehsan 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. During the six month ended March 31, 2024, the Company incurred management salary of \$125,000 (2023 - \$125,000), for Mr. Ehsan, with no bonuses incurred in either quarter. During the six month ended March 31, 2024, the Company incurred management salary of \$62,500 (2023 - \$62,500), for Mr. Ehsan. Further, the terms of this employment agreement provide that if Mr. Ehsan's employment with the Company is terminated without "cause" (as defined in the agreement) than Mr. Ehsan is 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 remain the same. 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.
- (c) On May 1, 2022, the Company entered into an employment agreement with the CFO of the Company for an annual base salary of \$50,000, with no specified term. The CFO is also eligible on an annual basis for a cash bonus of up to 100% of annual salary, 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 six month ended March 31, 2024, the Company incurred management salary of \$25,000 (2023 - \$25,000), to the CFO of the Company, with no bonuses incurred in either year. During the three months ended March 31, 2024, the Company incurred management salary of \$12,500 (2023 - \$12,500). 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.

### **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	16,980
Warrants	676,663
	<hr/>
	1,245,146

As of the date of this report, the Company also has convertible debentures of \$1,365,000 convertible into 401,471 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 currently has \$455,447 in claims from certain trade vendors for non-payment, of which \$446,783 have been accrued as of March 31, 2024. The Company plans to continue engaging with these claimants faithfully and is working on potentially settlements for all outstanding claims.

### **Changes In Accounting Policies Including Initial Adoption**

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 August 7, 2024.