

PETRICHOR ENERGY INC.
MANAGEMENT DISCUSSION AND ANALYSIS
NINE MONTHS ENDED SEPTEMBER 30, 2020

Date prepared: November 04, 2020

This management discussion and analysis (the “MDA”) covers the operations of Petrichor Energy Inc. (the “Company”) for the period ended September 30, 2020. All monetary amounts referred to herein are in Canadian dollars unless otherwise stated. The following discussion and analysis should be read in conjunction with the Company’s condensed consolidated interim financial statements for the nine months ended September 30, 2020, and the audited consolidated financial statements for the year ended December 31, 2019.

Additional information related to the Company is available on SEDAR at www.sedar.com, on the Company’s website at www.petrichorenergy.com, or by requesting further information from the Company’s head office in Vancouver.

FORWARD LOOKING STATEMENTS

Information contained in this MDA that is not historical fact may be considered “forward looking statements”. These forward-looking statements sometimes include words to the effect that management believes or expects a stated condition or result. All estimates and statements that describe the Company’s objectives, goals or plans are forward looking statements. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors, including such variables as new information regarding recoverable reserves, changes in demand for and commodity prices of crude oil and natural gas, legislative, environmental and other regulatory or political changes, competition in areas where the Company operates, and other factors discussed herein. Readers are cautioned not to place undue reliance on this forward-looking information.

OVERVIEW

Corporate Development

The Company is in the business of exploration, development and production of oil and gas. On September 25, 2019, the Company’s shares were transferred from the TSX Venture Exchange (the “TSX-V”) to the NEX Board.

Marble Falls Prospect, Texas

In prior years, the Company entered into participation agreements to acquire a working interest in 11,895.65 net acres at the Marble Falls Prospect (Young, Jack, Archer and Clay Counties) in Texas.

The Company’s participation is a 66.67% cost-bearing working interest through the first 10 wells, burdened by a 5% carried working interest in favor of the vendor on the first 10 wells, converting to a cost-bearing 5% working interest starting on the 11th well.

As at December 31, 2019, the Company owed the operator of the Marble Falls Prospect \$3,478,440 (US\$2,678,195) relating to its share of costs incurred, inclusive of the \$555,301 land purchase commitment. During the year ended December 31, 2018, the vendor served notice of default and has taken action under the terms of the operator’s agreement. During the year ended December 31, 2018, the Company recognized an impairment on the Marble Falls Prospect in the amount of \$3,262,029 (December 31, 2017: \$4,685,440).

During the period ended September 30, 2020, the Company completed a settlement agreement with the operator of the Company’s Marble Falls Prospect. As the operator had an operator’s lien for the unpaid debts on the property of approximately US\$2.67 million (Note 8 to the financial statements), the operator had a first priority debt. The Company agreed to settle with the operator instead of proceeding through the process of a court judgment, which would have resulted in the loss of Company’s rights to the property, and the potential of significant additional damages being awarded plus legal bills. The Company has released its claim to any rights it may have had to the leases and wells in the Prospect (Notes 6, 7 to the financial statements) in exchange for the operator releasing the Company from any and all past claims and obligations for work and commitments relating to the Marble Falls Prospect.

This settlement clears all of the Company’s obligations of approximately US\$2.67 million to the operator and any eliminates any further actions they make take under the terms of the operator’s agreement.

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Further, this agreement extinguished trade receivables of CAD\$5,575 (Note 4 to the financial statements) and decommissioning liabilities of CAD\$22,554 (Note 11 to the financial statements). As at September 30, 2020, the Company recognized a gain of \$3,495,417 on the settlement.

RESULTS OF OPERATIONS

In the nine months ended September 30, 2020, the net income was \$2,941,529 (2019: \$411,844 loss). See the table below for explanations of the most significant variances.

Certain comparative figures may have been reclassified to conform to the current year's presentation.

COMPARISON OF RESULTS OF OPERATIONS

Significant variances between the nine months ended September 30, 2020 and 2019 are detailed as follows:

	2020	2019
	- \$ -	- \$ -
General and administrative	59,513	70,179
<i>The decrease in general and administrative fees in the current period is due to the Company reducing the fees to maintain the on-going operation of the Company;</i>		
Foreign exchange loss (gain)	28,893	(105,418)
<i>The change was due directly to the US dollar exchange rate changes over the comparative periods applied to the outstanding US dollar denominated debt;</i>		
Unrealized gain on short-term investments	(41)	(13,093)
<i>The change was due to the market value change in the short-term investments in the comparative period;</i>		
Gain on settlement	(3,495,417)	-
<i>Pursuant to a settlement agreement with the Operator of the Marble Falls Prospect, the Company surrendered its rights and title to its leases and wells in the area, returning them to the Operator. The agreement eliminated debts of approximately US\$2.67 million, extinguished trade receivable of \$5,575 and decommissioning liabilities of CAD\$22,554, resulting in the reported gain in the current period.</i>		

Significant variances between the three months ended September 30, 2020 and 2019 are detailed as follows:

	2020	2019
	- \$ -	- \$ -
Interest and finance fees	150,975	149,584
<i>The increase in interest and finance fees in the current period was due to the interest-bearing loans from related parties during the current period;</i>		
Foreign exchange loss (gain)	(52,192)	50,786
<i>The change was due directly to the US dollar exchange rate changes over the comparative period applied to the outstanding US dollar denominated debt;</i>		
Unrealized (gain) on short-term investments	(30)	1,360
<i>The change was due to the market value change in the short-term investments in the comparative period.</i>		

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SELECTED ANNUAL INFORMATION

The following table provides a brief summary of the Company's financial operations for the prior three fiscal years. For more detailed information, refer to the Company's financial statements for the years then ended.

	Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017
	-\$ -	-\$ -	-\$ -
Total assets	32,502	19,952	3,361,672
Property, plant and equipment	1	1	662,411
Exploration and evaluation assets	1	1	2,599,196
Working capital deficiency	(13,188,366)	(12,697,406)	(11,545,694)
Shareholders' deficiency	(13,210,918)	(12,719,298)	(8,334,947)
Revenues	-	-	81,394
Comprehensive loss	(491,620)	(4,384,351)	(8,384,168)
Loss per share – basic and diluted	(0.01)	(0.12)	(0.24)

Year ended December 31, 2019:

In the year ended December 31, 2019, the Company's total assets increased to \$32,502 (2018: \$19,952) while total liabilities increased to \$13,243,420 (2018: \$12,739,250), and many other items changed as explained previously. The comprehensive loss decreased to \$491,620 (2018: \$4,384,351) primarily as a result of the impairment of the property plant and equipment and the exploration and evaluation assets in prior year.

Year ended December 31, 2018:

In the year ended December 31, 2018, the Company's total assets decreased to \$19,952 (2017: \$3,361,672) while total liabilities increased to \$12,739,250 (2017: \$11,696,619). Revenue decreased to \$nil (2017: \$81,394), and many other items changed as explained previously. The comprehensive loss decreased to \$4,384,351 (2017: \$8,384,168). The primary reasons for the decreased loss in 2018 compared to 2017 were the decrease in gross profit to \$nil (2017: \$89,400 loss) and impairment of property, plant and equipment \$3,262,029 (2017: \$7,112,950).

SUMMARY OF QUARTERLY RESULTS

The following is a summary of selected financial information compiled from the quarterly unaudited financial statements for eight quarters ending September 30, 2020.

	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019
Three months ended	-\$ -	-\$ -	-\$ -	-\$ -
Total assets	26,842	27,425	26,722	32,502
Exploration and evaluation assets	-	-	-	1
Property, plant and equipment	-	-	-	1
Working capital deficiency	(10,269,389)	(10,145,279)	(9,965,296)	(13,188,366)
Long term debt	-	-	-	22,554
Shareholders' equity deficiency	(10,269,389)	(10,145,279)	(9,965,296)	(13,210,918)
Revenues	-	-	-	-
Net income (loss)	(124,110)	(179,983)	3,245,622	(79,776)
Income (loss) per share - basic and diluted	(0.00)	(0.01)	0.09	(0.00)

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Three months ended	September 30, 2019 - \$ -	June 30, 2019 - \$ -	March 31, 2019 - \$ -	December 31, 2018 - \$ -
Total assets	32,792	34,964	30,453	19,952
Exploration and evaluation assets	1	1	1	1
Property, plant and equipment	1	1	1	1
Working capital deficiency	(13,108,755)	(12,878,023)	(12,793,630)	(12,697,406)
Long term debt	22,389	22,224	22,059	21,894
Shareholders' equity deficiency	(13,131,142)	(12,900,245)	(12,815,687)	(12,719,298)
Revenues	-	-	-	-
Net loss	(230,897)	(84,558)	(96,389)	(3,760,079)
Loss per share - basic and diluted	(0.01)	(0.00)	(0.00)	(0.11)

LIQUIDITY AND CAPITAL RESOURCES

In the nine months ended September 30, 2020, significant cash flows are as follows:

Operating activities required cash flows of \$35,177 (2019: \$30,655) primarily as a result of the interest and finance fees of \$451,453 (2019 : \$446,181) and foreign exchange loss of \$28,073 (2019 : \$24,897 gain), which were offset by a gain of \$3,495,417 (2019 : \$nil) on settlement, increase accounts receivable of \$4 (2019: \$344), and increase trade payables and accrued liabilities of \$39,230 (2019: \$27,153 decrease).

Financing activities provided cash flows of \$35,050 (2019: \$30,058) from funds advanced from related parties.

At September 30, 2020, the Company had a working capital deficiency of \$10,269,389 (December 31, 2019: \$13,188,366), and had an accumulated deficit of \$81,278,688 (December 31, 2019: \$84,220,217).

On September 26, 2016, the Company's secured debenture for \$3,400,000 matured and has not been paid. At September 30, 2020, interest of \$2,181,958 (December 31, 2019: \$1,870,090) is overdue and payable on these debentures.

In order to continue operations, fund its exploration and development, and provide adequate working capital for ongoing activities, the Company will need to successfully conclude settlement with the operator of the Marble Falls properties, settlement with the secured debenture holders, settlement with creditors and raise further funds through equity financing, third party financing and cost sharing arrangements. The Company continues to seek capital through various means including the issuance of equity, debt, or through working interest agreements.

There can be no assurance that capital will be available as necessary to meet these continuing exploration and development costs or, if the capital is available, that it will be on terms acceptable to the Company.

RELATED PARTY TRANSACTIONS

Amounts due to related parties consist of charges accrued for office administration, management fees and loans to the Company. These amounts are due to directors, officers, or companies controlled by directors or officers. These amounts are unsecured and are due on demand.

The following amounts are due to related parties:

	September 30, 2020	December 31, 2019
Accrued payables to companies controlled by the CEO, Joe DeVries, or the CFO, Richard Barnett.	\$ 2,287,954	\$ 2,158,511
Loans from a company controlled by the CEO with interest at 12% per annum, unsecured and payable on demand.	857,564	822,514
Total	\$ 3,145,518	\$ 2,981,025

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Related party transactions

	Nine Months Ended	
	September 30, 2020	September 30, 2019
Management fees incurred with companies controlled by the CEO or the CFO	\$ 13,500	\$ 13,500
Interest costs at 12% per annum on unsecured loans advanced to the Company by a company controlled by the CEO	75,377	72,218
General and administrative fees incurred with a company controlled by the CEO	40,565	40,500
	\$ 129,442	\$ 126,218

Key management personnel compensation

	Nine Months Ended	
	September 30, 2020	September 30, 2019
Management fees	\$ 13,500	\$ 13,500

OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet arrangements.

OTHER MATTERS

Shares outstanding

At September 30, 2020 and the current date, the Company has 35,288,809 shares outstanding.

Stock options

At September 30, 2020 and the current date, the Company has no stock options outstanding.

Warrants

At September 30, 2020 and the current date, the Company has no warrants outstanding.

FINANCIAL INSTRUMENTS, RISK MANAGEMENT, AND CAPITAL MANAGEMENT STRATEGY

Financial risk and capital management

The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The majority of cash is deposited in bank accounts held with major banks in Canada. As most of the Company's cash is held by a bank there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution, as determined by rating agencies. The Company's secondary exposure to risk is on accounts receivable. This risk is assessed as moderate.

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Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances and the continued cooperation of its creditors. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. This risk is assessed as high.

Foreign exchange risk

Foreign exchange risk is the risk that the future fair value of cash flows of a financial instrument will fluctuate because of changes in the foreign exchange rates. The Company's financial results are reported in Canadian dollars while it conducts a significant portion of its business activities in US dollars. The assets, liabilities and expenses that are denominated in US Dollars will be affected by changes in the exchange rate between the Canadian dollar and the US Dollar. If the Canadian dollar changes by one percent against the US dollar, with all other variables held constant, the impact on the Company's foreign denominated financial instruments would result in a reduction or increase of net loss of approximately \$9,877.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not currently exposed to significant interest rate risk as it does not hold any debt that bears interest at variable rates.

Capital Management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern such that it can provide returns for shareholders and benefits for other stakeholders.

The Company considers the items included in shareholders' equity as capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, sell assets to settle liabilities or return capital to its shareholders. The Company is not exposed to externally imposed capital requirements. There have been no changes to the Company's capital management structure during the period ended September 30, 2020.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The Company's financial statements and the other financial information included in this management report are the responsibility of the Company's management, and have been examined and approved by the Board of Directors. The financial statements were prepared by management in accordance with generally accepted Canadian accounting principles and include certain amounts based on management's best estimates using careful judgment. The selection of accounting principles and methods is management's responsibility.

Management recognizes its responsibility for conducting the Company's affairs in a manner to comply with the requirements of applicable laws and established financial standards and principles, and for maintaining proper standards of conduct in its activities.

The Board of Directors supervises the financial statements and other financial information through its audit committee, which is comprised of a majority of non-management directors.

This committee's role is to examine the financial statements and recommend that the Board of Directors approve them, to examine the internal control and information protection systems and all other matters relating to the Company's accounting and finances. In order to do so, the audit committee meets annually with the external auditors, with or without the Company's management, to review their respective audit plans and discuss the results of their examination. This committee is responsible for recommending the appointment of the external auditors or the renewal of their engagement.

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DIRECTORS

Certain directors of the Company are also directors, officers and/or shareholders of other companies that are similarly engaged in the business of acquiring, developing and exploring oil and gas properties. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required to act in good faith with a view to the best interests of the Company and to disclose any interest which they may have in any project opportunity of the Company. If a conflict of interest arises at a meeting of the board of directors, any directors in a conflict will disclose their interests and abstain from voting in such matters. In determining whether or not the Company will participate in any project or opportunity, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at the time.