

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Consolidated Balance Sheets (unaudited)

As at (thousands of United States dollars)	NOTE	June 30, 2022	December 31, 2021
ASSETS			
Current assets			
Cash and cash equivalents		\$ 392,786	\$ 378,338
Accounts receivable	5	271,668	182,149
Prepays and other current assets		29,116	12,166
Crude oil inventory	6	1,483	1,385
		695,053	574,038
Deferred tax asset		3,956	6,859
Goodwill		73,452	73,452
Exploration and evaluation	7	198,549	120,501
Property, plant and equipment	8	1,115,397	1,009,371
		\$ 2,086,407	\$ 1,784,221
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 288,395	\$ 201,285
Derivative financial instruments	18	—	471
Current income tax payable		88,183	39,812
Current portion of decommissioning and environmental liabilities	12	6,979	6,690
		383,557	248,258
Lease obligation	9	5,694	4,512
Cash settled share-based compensation liabilities	14	10,828	14,322
Decommissioning and environmental liabilities	12	43,701	48,264
Deferred tax liability		131,324	75,174
		575,104	390,530
Shareholders' equity			
Share capital	13	705,180	731,713
Contributed surplus		19,874	24,530
Retained earnings		786,249	637,448
		1,511,303	1,393,691
		\$ 2,086,407	\$ 1,784,221
Commitments (note 20)			

See accompanying Notes to the Consolidated Interim Financial Statements

Approved by the Board:

"signed"
Sigmund Cornelius
Director

"signed"
Bob MacDougall
Director

Consolidated Statements of Comprehensive Income (unaudited)

(thousands of United States dollars, except per share amounts)	NOTE	For the three months ended June 30,		For the six months ended June 30,	
		2022	2021	2022	2021
Oil and natural gas sales	10	\$ 448,255	\$ 247,318	\$ 861,871	\$ 469,376
Royalties		(103,223)	(35,724)	(186,368)	(61,295)
Revenue		345,032	211,594	675,503	408,081
Expenses					
Production		31,001	27,527	60,335	51,943
Transportation		13,828	12,414	28,170	26,852
Purchased oil		(4,768)	2,545	5,632	5,128
General and administrative		13,021	10,754	25,016	19,602
Equity settled share-based compensation expense	13	310	253	616	1,151
Cash settled share-based compensation expense	14	742	3,226	11,998	12,730
Depletion, depreciation and amortization	8	34,746	28,162	69,014	57,323
Foreign exchange gain		(15,182)	(3,985)	(9,959)	(8,220)
		73,698	80,896	190,822	166,509
Finance (income)	11	(1,432)	(495)	(2,056)	(708)
Finance expense	11	3,419	3,862	7,235	5,515
Net finance expense		1,987	3,367	5,179	4,807
Income before income taxes		269,347	127,331	479,502	236,765
Income tax expense					
Current tax expense		68,775	26,213	124,671	48,489
Deferred tax expense		57,444	9,456	59,053	49,154
		126,219	35,669	183,724	97,643
Net income and comprehensive income for the period		\$ 143,128	\$ 91,662	\$ 295,778	\$ 139,122
Basic net income per common share	15	\$ 1.24	\$ 0.72	\$ 2.53	\$ 1.08
Diluted net income per common share	15	\$ 1.24	\$ 0.72	\$ 2.53	\$ 1.08

See accompanying Notes to the Consolidated Interim Financial Statements

Consolidated Statements of Changes in Equity (unaudited)

For the six months ended June 30,
(thousands of United States dollars)

	2022	2021
Share capital		
Balance, beginning of period	\$ 731,713	\$ 763,372
Issuance of common shares under share-based compensation plans	10,932	27,552
Repurchase of shares	(37,465)	(39,900)
Balance, end of period	\$ 705,180	\$ 751,024
Contributed surplus		
Balance, beginning of period	\$ 24,530	\$ 43,228
Share-based compensation	616	1,151
Options, RSUs and PSUs exercised	(5,272)	(16,265)
Balance, end of period	\$ 19,874	\$ 28,114
Retained earnings		
Balance, beginning of period	\$ 637,448	\$ 533,878
Net income for the period	295,778	139,122
Repurchase of shares	(111,636)	(96,131)
Dividends	(35,341)	—
Balance, end of period	\$ 786,249	\$ 576,869
	\$ 1,511,303	\$ 1,356,007

See accompanying Notes to the Consolidated Interim Financial Statements

Consolidated Statements of Cash Flows (unaudited)

(thousands of United States dollars)	NOTE	For the three months ended June 30,		For the six months ended June 30,	
		2022	2021	2022	2021
Operating activities					
Net income		\$ 143,128	\$ 91,662	\$ 295,778	\$ 139,122
Add (deduct) non-cash items					
Depletion, depreciation and amortization	8	34,746	28,162	69,014	57,323
Non-cash finance expense	11	2,241	2,915	3,409	3,633
Equity settled share-based compensation expense	13	310	253	616	1,151
Cash settled share-based compensation expense	14	742	3,226	11,998	12,730
Deferred tax expense		57,444	9,456	59,053	49,154
Unrealized foreign exchange gain		(10,860)	(4,087)	(7,594)	(6,913)
Loss on settlement of decommissioning liabilities	12	45	15	1,010	371
Net change in non-cash working capital	16	16,987	(19,744)	2,106	(16,571)
Cash provided by operating activities		244,783	111,858	435,390	240,000
Investing activities					
Property, plant and equipment expenditures	8	(93,346)	(45,547)	(177,214)	(84,062)
Exploration and evaluation expenditures	7	(39,435)	700	(78,065)	(377)
Net change in non-cash working capital	16	(1,179)	9,715	16,228	12,840
Cash (used in) investing activities		(133,960)	(35,132)	(239,051)	(71,599)
Financing activities					
Issuance of common shares under equity-settled plans	13	673	1,147	5,660	11,287
Common shares repurchased	13	(51,697)	(75,923)	(149,101)	(136,031)
Dividends	13	(22,226)	—	(35,341)	—
Payments on lease obligation	9	(394)	(216)	(463)	(459)
Cash (used in) financing activities		(73,644)	(74,992)	(179,245)	(125,203)
Increase in cash for the period		37,179	1,734	17,094	43,198
Impact of foreign exchange on foreign currency-denominated cash balances		(6,496)	(137)	(2,646)	(2,409)
Cash, beginning of period		362,103	369,756	378,338	330,564
Cash, end of period		\$ 392,786	\$ 371,353	\$ 392,786	\$ 371,353

Supplemental Disclosure of Cash Flow Information (note 16)
See accompanying Notes to the Consolidated Interim Financial Statements

Notes to the Condensed Interim Consolidated Financial Statements

For the period ended June 30, 2022

(Tabular amounts in thousands of United States dollars, unless otherwise stated. Amounts in text are in United States dollars, unless otherwise stated.)

1. Corporate Information

Parex Resources Inc. and its subsidiaries ("Parex" or "the Company") are in the business of the exploration, development, production and marketing of oil and natural gas in Colombia.

Parex Resources Inc. is a publicly traded company, incorporated and domiciled in Canada. Its registered office is at 2400, 525-8th Avenue S.W., Calgary, Alberta T2P 1G1. The Company was incorporated on August 17, 2009, pursuant to the Business Corporations Act (Alberta).

The condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on August 3, 2022.

2. Basis of Presentation and Adoption of International Financial Reporting Standards ("IFRS")

a) Statement of compliance

The condensed interim consolidated financial information for the three and six months ended June 30, 2022 has been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed interim consolidated financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2021, which have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of August 3, 2022, the date of approval by the Board of Directors.

b) Basis of measurement

The condensed interim consolidated financial statements have been prepared under the historical cost convention except for derivative financial instruments and share-based compensation transactions which are measured at fair value. The methods used to measure fair values are discussed in note 4 - Determination of Fair Values.

c) Use of management estimates, judgments and measurement uncertainty

The timely preparation of the condensed interim consolidated financial statements requires that management make estimates and use judgment (including those affected by and related to the future effects of the COVID-19 pandemic) regarding the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the condensed interim consolidated financial statements and the reported amounts of revenues and expenses during the period. Such estimates primarily relate to unsettled transactions and events as at the date of the condensed interim consolidated financial statements. Accordingly, actual results could differ from estimated amounts as future confirming events occur.

In preparing these condensed interim consolidated financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2021.

3. Summary of Significant Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year as described in note 3 of the Company's consolidated financial statements for the year ended December 31, 2021.

4. Determination of Fair Values

The methods used in the determination of fair value, for financial and non-financial assets and liabilities have not changed from the previous financial year. Refer to note 4 of the December 31, 2021 consolidated financial statements for details concerning determination of fair values.

5. Accounts Receivable

	June 30, 2022	December 31, 2021
Trade receivables	\$ 255,198	\$ 179,799
Receivables from partners	15,101	—
Value added taxes (VAT)	1,369	2,350
	\$ 271,668	\$ 182,149

Trade receivables consist primarily of oil sale receivables related to the Company's oil sales. VAT receivable is \$1.4 million as at June 30, 2022 (December 31, 2021 - \$2.4 million) and is recoverable within one year. All accounts receivable are expected to be received within twelve months and are thus recognized as current assets.

6. Crude Oil Inventory

	June 30, 2022	December 31, 2021
Crude oil inventory	\$ 1,483	\$ 1,385

Crude oil inventory consists of crude oil in transit at the balance sheet date and is valued at the lower of cost using the weighted average cost method and net realizable value. Costs include direct and indirect expenditures incurred in bringing the crude oil to its existing condition and location.

7. Exploration and Evaluation Assets

Cost	
Balance at December 31, 2020	\$ 79,365
Additions	65,082
Changes in decommissioning liability	3,054
Exploration and evaluation impairment	(27,000)
Balance at December 31, 2021	\$ 120,501
Additions	78,065
Changes in decommissioning liability	(17)
Balance at June 30, 2022	\$ 198,549

Exploration and Evaluation ("E&E") assets consist of the Company's exploration projects which are pending either the determination of proved or probable reserves or impairment. Additions of \$78.1 million for the six months ended June 30, 2022 represent the Company's share of costs incurred on E&E assets during the period.

There were no indicators of exploration and evaluation impairment in the period ended June 30, 2022.

At June 30, 2022 and December 31, 2021 the Company did not have any E&E assets in Canada.

8. Property, Plant and Equipment

	Canada	Colombia	Total
Cost			
Balance at December 31, 2020	\$ 8,165	\$ 2,434,900	\$ 2,443,065
Additions	471	211,682	212,153
Right-of-use-asset addition (non-cash)	3,250	—	3,250
Changes in decommissioning and environmental liability	—	12,132	12,132
Balance at December 31, 2021	\$ 11,886	\$ 2,658,714	\$ 2,670,600
Additions	1,610	175,604	177,214
Right-of-use-asset addition (non-cash)	1,832	—	1,832
Changes in decommissioning and environmental liability	—	(4,072)	(4,072)
Balance at June 30, 2022	\$ 15,328	\$ 2,830,246	\$ 2,845,574
Accumulated Depreciation, Depletion and Amortization			
Balance at December 31, 2020	\$ 5,450	\$ 1,534,716	\$ 1,540,166
Depletion and depreciation for the year	189	120,549	120,738
Depreciation - Right-of-use-asset	658	—	658
DD&A included in crude oil inventory costing	—	(333)	(333)
Balance at December 31, 2021	\$ 6,297	\$ 1,654,932	\$ 1,661,229
Depletion and depreciation for the period	353	68,303	68,656
Depreciation - Right-of-use-asset	358	—	358
DD&A included in crude oil inventory costing	—	(66)	(66)
Balance at June 30, 2022	\$ 7,008	\$ 1,723,169	\$ 1,730,177
Net book value:			
As at December 31, 2020	\$ 2,715	\$ 900,184	\$ 902,899
As at December 31, 2021	\$ 5,589	\$ 1,003,782	\$ 1,009,371
As at June 30, 2022	\$ 8,320	\$ 1,107,077	\$ 1,115,397

In the six months ended June 30, 2022 property, plant and equipment ("PPE") additions of \$177.2 million mainly relate to drilling costs in Colombia at blocks LLA-34, Cabretero, Capachos, Fortuna, and Boranda and facility costs at blocks LLA-34, Cabretero, Capachos and VIM-1.

For the six months ended June 30, 2022 future development costs of \$364.1 million (six months ended June 30, 2021 - \$364.4 million) were included in the depletion calculation for development and production assets. For the six months ended June 30, 2022 \$4.4 million of general and administrative costs (six months ended June 30, 2021 - \$4.3 million) have been capitalized in respect of development and production activities during the current period.

At June 30, 2022 there were no indicators of impairment noted, or indicators requiring a reversal of previously recorded impairments.

9. Lease Obligation

The Company has the following future commitments associated with its office lease obligation:

	June 30, 2022		December 31, 2021	
Balance, beginning of period	\$	5,079	\$	2,570
Additions		1,832		—
Interest expense		22		7
Lease payments		(485)		(748)
Modifications		—		3,250
Balance, end of period		6,448		5,079
Current portion of lease obligations		(754)		(567)
Non-current portion of lease obligations	\$	5,694	\$	4,512

During the six months ended June 30, 2022, the Company has included an addition for the office lease where the Company has signed a new agreement for additional office space.

During the year ended December 31, 2021, the Company had included a modification for an office lease where the Company had signed a new agreement to extend the term of the existing lease.

The consolidated statements of comprehensive income for the six months ended June 30, 2022 includes expenses related to leases as follows: \$22 thousand (six months ended June 30, 2021 - \$4 thousand) of interest expense related to the lease obligation, \$0.4 million (six months ended June 30, 2021 - \$0.3 million) of depreciation for right-of-use assets, \$0.3 million (six months ended June 30, 2021 - \$0.3 million) of non-lease components associated with the office lease obligation and \$0.8 million (six months ended June 30, 2021 - \$0.7 million) related to short-term and low value leases.

Total cash outflows related to the office lease obligation were \$1.2 million for the six months ended June 30, 2022 (six months ended June 30, 2021 - \$1.1 million).

10. Revenue

The Company's oil and natural gas production revenue is determined pursuant to the terms of its crude oil sales agreements. The transaction price for crude oil and natural gas is based on the benchmark commodity price in the month of production, adjusted for quality, location, allowable deductions, if any, or other factors. Commodity prices are based on market indices that are determined primarily on a monthly basis.

The Company's crude oil and natural gas revenues by product are as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Crude oil	\$ 441,480	\$ 242,210	\$ 847,910	\$ 458,617
Natural gas	6,775	5,108	13,961	10,759
Oil and natural gas sales	\$ 448,255	\$ 247,318	\$ 861,871	\$ 469,376

At June 30, 2022, receivables from contracts with customers, which are included in accounts receivable, were \$255.2 million (December 31, 2021 - \$179.8 million).

11. Net Finance Expense

	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Bank charges and credit facility fees	\$ 1,018	\$ 930	\$ 1,796	\$ 1,507
Accretion on decommissioning and environmental liabilities	1,363	1,049	2,855	1,995
Interest and other income	(1,432)	(495)	(2,056)	(708)
Right-of-use-asset interest	13	2	22	4
Loss on settlement of decommissioning liabilities	45	15	1,010	371
Expected credit loss provision	886	1,866	756	1,638
Other	94	—	796	—
Net finance expense	\$ 1,987	\$ 3,367	\$ 5,179	\$ 4,807

	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Non-cash finance expense	\$ 2,286	\$ 2,930	\$ 4,419	\$ 4,004
Cash finance expense (income), net	(299)	437	760	803
Net finance expense	\$ 1,987	\$ 3,367	\$ 5,179	\$ 4,807

12. Decommissioning and Environmental Liabilities

	Decommissioning	Environmental	Total
Balance, December 31, 2020	\$ 38,210	\$ 12,901	\$ 51,111
Additions	3,353	3,776	7,129
Settlements of obligations during the year	(8,311)	(1,183)	(9,494)
Loss on settlement of obligations	1,136	—	1,136
Accretion expense	2,279	1,345	3,624
Change in estimate - inflation and discount rates	(1,345)	2,754	1,409
Change in estimate - costs	6,068	580	6,648
Foreign exchange (gain)	(4,660)	(1,949)	(6,609)
Balance, December 31, 2021	\$ 36,730	\$ 18,224	\$ 54,954
Additions	1,599	2,354	3,953
Settlements of obligations during the period	(2,214)	(214)	(2,428)
Loss on settlement of obligations	1,010	—	1,010
Accretion expense	1,715	1,140	2,855
Change in estimate - inflation and discount rates	(8,166)	(2,796)	(10,962)
Change in estimate - costs	3,117	(200)	2,917
Foreign exchange (gain)	(951)	(668)	(1,619)
Balance, June 30, 2022	\$ 32,840	\$ 17,840	\$ 50,680
Current obligation	(5,474)	(1,505)	(6,979)
Long-term obligation	\$ 27,366	\$ 16,335	\$ 43,701

The total environmental, decommissioning and restoration obligations were determined by management based on the estimated costs to settle environmental impact obligations incurred and to reclaim and abandon the wells and well sites based on contractual requirements. The obligations are expected to be funded from the Company's internal resources available at the time of settlement.

The total decommissioning and environmental liability is estimated based on the Company's net ownership in wells drilled as at June 30, 2022, the estimated costs to abandon and reclaim the wells and well sites and the estimated timing of the costs to be paid in future periods. The total undiscounted amount of cash flows required to settle the Company's decommissioning liability is approximately \$94.0 million as at June 30, 2022 (December 31, 2021 – \$88.0 million) with the majority of these costs anticipated to occur in 2033 or later in Colombia. A risk-free discount rate of 12.5% and an inflation rate of 5% were used in the valuation of the liabilities (December 31, 2021 – 9.3% risk-free discount rate and a 5% inflation rate). The risk-free discount rate and the inflation rate used are based on forecast Colombia rates.

Included in the decommissioning liability is \$5.5 million (December 31, 2021 – \$5.7 million) that is classified as a current obligation.

The total undiscounted amount of cash flows required to settle the Company's environmental liability is approximately \$23.9 million as at June 30, 2022 (December 31, 2021 – \$25.9 million) with the majority of these costs anticipated to occur in 2033 or later in Colombia. A risk-free discount rate of 12.5% and an inflation rate of 5% were used in the valuation of the liabilities (December 31, 2021 – 9.3% risk-free discount rate and a 5% inflation rate). The risk-free discount rate and the inflation rate used are based on forecast Colombia rates.

Included in the environmental liability is \$1.5 million (December 31, 2021 – \$1.0 million) that is classified as a current obligation.

13. Share Capital

a) Issued and outstanding common shares

	Number of shares	Amount
Balance, December 31, 2020	130,872,676	\$ 763,372
Issued for cash – exercise of options, RSUs and PSUs	2,261,550	14,509
Allocation of contributed surplus – exercise of options, RSUs and PSUs	—	20,419
Repurchase of shares	(12,868,562)	(66,587)
Balance, December 31, 2021	120,265,664	\$ 731,713
Issued for cash - exercise of options and RSUs	656,059	5,660
Allocation of contributed surplus – exercise of options and RSUs	—	5,272
Repurchase of shares	(7,111,300)	(37,465)
Balance, June 30, 2022	113,810,423	\$ 705,180

The Company has authorized an unlimited number of voting common shares without nominal or par value.

In the six months ended June 30, 2022, a total of 656,059 options and RSUs were exercised for proceeds of \$5.7 million (year ended December 31, 2021 - 2,261,550 options, RSUs and PSUs were exercised for proceeds of \$14.5 million). Also in the six months ended June 30, 2022, the Company repurchased 7,111,300 common shares pursuant to its Normal Course Issuer Bid at a cost of \$149.1 million (average cost per share of Cdn\$26.14).

For the year ended December 31, 2021, the Company repurchased 12,868,562 common shares pursuant to its Normal Course Issuer Bid at a cost of \$218.5 million (average cost per share of Cdn\$21.25). The cost to repurchase common shares at a price in excess of their average book value has been charged to retained earnings.

b) Stock options

The Company has a stock option plan which provides for the issuance of options to the Company's officers and certain employees to acquire common shares. The maximum number of options reserved for issuance under the stock option plan may not exceed 5% of the number of common shares issued and outstanding. The stock options vest over a three-year period and expire five years from the date of grant.

	Number of stock options	Weighted average exercise price Cdn\$/option
Balance, December 31, 2020	2,062,461	17.17
Granted	197,470	21.68
Exercised	(1,153,117)	15.87
Forfeited	(111,682)	19.11
Balance, December 31, 2021	995,132	19.36
Granted	172,103	27.01
Exercised	(409,187)	17.47
Balance, June 30, 2022	758,048	22.12

Stock options outstanding and the weighted average remaining life of the stock options at June 30, 2022 are as follows:

Exercise price Cdn\$	Options outstanding			Options vested		
	Number of options	Weighted average remaining life (years)	Weighted average exercise price Cdn\$/option	Number of options	Weighted average remaining life (years)	Weighted average exercise price Cdn\$/option
\$18.24 - \$18.64	102,559	0.71	\$ 18.52	98,967	0.61	\$ 18.53
\$18.65 - \$21.37	140,468	1.66	\$ 19.22	136,968	1.64	\$ 19.17
\$21.38 - \$21.92	167,537	3.61	\$ 21.65	47,701	3.61	\$ 21.65
\$21.93 - \$24.06	175,381	2.65	\$ 22.19	104,706	2.64	\$ 22.19
\$24.07 - \$28.39	172,103	4.62	\$ 27.01	—	—	\$ —
	758,048	2.86	\$ 22.12	388,342	1.89	\$ 20.13

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

For the six months ended June 30,	2022	2021
Risk-free interest rate (%)	1.55	0.38
Expected life (years)	4	4
Expected volatility (%)	48	46
Forfeiture rate (%)	3	3
Expected dividend yield (%)	4.59	—

The weighted average fair value at the grant date for the six months ended June 30, 2022 was Cdn\$10.50 per option (six months ended June 30, 2021 - Cdn\$7.85 per option). The weighted average share price on the exercise date for options exercised in the six months ended June 30, 2022 was Cdn\$26.15 (six months ended June 30, 2021 - Cdn\$22.11).

c) Restricted share units

The Company has a restricted share unit plan pursuant to which the Company granted restricted shares to certain employees. The restricted shares vest at 33% on each of the first, second and third anniversaries of the grant date and expire five years from date of grant.

In 2019 the Company put in place a new Cash or Share settled RSU/PSU plan ("CosRSU") and the 2019 awards were issued pursuant to the CosRSU plan.

	Number of RSU's	Weighted average exercise price Cdn\$/RSU
Balance, December 31, 2020	1,025,359	0.01
Exercised	(680,943)	0.01
Cancelled/Forfeited/Expired	(5,500)	0.01
Balance, December 31, 2021	338,916	0.01
Exercised	(246,872)	0.01
Cancelled/Forfeited/Expired	(12,402)	0.01
Balance, June 30, 2022	79,642	0.01

RSUs outstanding and the weighted average remaining life of the RSUs at June 30, 2022 are as follows:

Exercise price Cdn\$	RSUs outstanding		RSUs vested	
	Number of RSUs	Weighted average remaining life (years)	Number of RSUs	Weighted average remaining life (years)
0.01	79,642	0.61	79,642	0.61

The fair value of each RSU granted is based on the market price of Parex shares on the date of issuance. For the six months ended June 30, 2022 and 2021 a weighted average forfeiture rate of 3% was applied.

d) Equity settled share-based compensation

	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Option expense	\$ 310	\$ 252	\$ 616	\$ 572
Restricted and performance share units expense	—	1	—	579
Total equity settled share-based compensation expense	\$ 310	\$ 253	\$ 616	\$ 1,151

14. Cash Settled Share-Based Compensation Plans

a) Cash or Share Settled Restricted Share Units and Performance Share Units ("CosRSU and CosPSU")

In 2019 Parex put in place a new cash or share settled RSU/PSU incentive plan in order to reduce the issuance of treasury shares to settle long-term incentives. This new plan replaced the equity settled RSU/PSU plan. This plan provides for the issuance of RSUs and PSUs to certain employees of Parex Canada. The plan entitles the holders to receive a cash payment equal to the market price of the Company's common shares at the time of exercise or the employee can elect to receive the award in Parex common shares. CosRSUs and CosPSUs vest over a three-year period and are exercised at the vest date.

CosRSU:

	Number of CosRSUs
Balance, December 31, 2020	1,046,021
Granted ⁽¹⁾	646,882
Exercised	(425,588)
Forfeited	(70,983)
Balance, December 31, 2021	1,196,332
Granted ⁽¹⁾	521,992
Exercised	(559,689)
Forfeited	(23,286)
Balance, June 30, 2022	1,135,349

(1) Grants include units related to dividend equivalents granted on awards outstanding.

CosPSU:

	Number of CosPSUs
Balance, December 31, 2020	433,700
Granted ⁽¹⁾	292,800
Exercised	(2,794)
Forfeited	(22,705)
Balance, December 31, 2021	701,001
Granted ⁽¹⁾	231,815
Granted by performance factor	146,232
Exercised	(372,716)
Forfeited	(2,004)
Balance, June 30, 2022	704,328

(1) Grants include units related to dividend equivalents granted on awards outstanding.

As at June 30, 2022, no CosRSUs and CosPSUs were vested.

The weighted average fair value at the grant date for the six months ended June 30, 2022 was Cdn\$27.36 per CosRSU and CosPSU (six months ended June 30, 2021 - Cdn\$20.77 per CosRSU and CosPSU.)

Pursuant to the cash or share settled restricted share unit and performance share unit plan, the Company has granted cash or share settled performance share units to certain employees. The CosPSUs vest three years after the grant date. CosPSUs may be granted with certain performance measures, specified at the grant date as determined by the Company's Board of Directors. Based upon the achievement of the performance measures, a pre-determined adjustment factor of between 0-2x is applied to CosPSUs eligible to vest at the end of the performance period. In March 2022 the board of directors approved a multiplier of 1.64X be applied to the 2019 CosPSU grant resulting in 146,232 CosPSU's issued.

Obligations for payments of cash under the CosRSUs and CosPSUs plans are accrued as compensation expense over the vesting period based on the fair value of CosRSUs and CosPSUs. The fair value of CosRSUs and CosPSUs is equivalent to the trading value of a common share of the Company on the valuation date. As at June 30, 2022, the total CosRSUs and CosPSUs liability accrued is \$13.0 million (December 31, 2021 - \$22.7 million) of which \$4.4 million (December 31, 2021 - \$7.4 million) is classified as long-term in accordance with the three-year vesting period.

b) Deferred share units ("DSUs")

The Company has in place a deferred share unit plan pursuant to which the Company may grant deferred shares to all non-employee directors. The deferred share units vest immediately and are settled in cash upon the retirement of the non-employee director from the Parex Board. The value of the DSUs at the exercise date is equivalent to the five-day weighted average share price at which the common shares of the Company traded for immediately preceding the exercise date. DSUs can only be redeemed following departure from the Company in accordance with the terms of the DSU Plan. The DSUs liability cannot be settled by the issuance of common shares.

	Number of DSU's
Balance, December 31, 2020	217,145
Granted ⁽¹⁾	38,383
Balance, December 31, 2021	255,528
Granted ⁽¹⁾	34,433
Balance, June 30, 2022	289,961

(1) Grants include units related to dividend equivalents granted on awards outstanding.

The fair value at the grant date is equivalent to the five-day weighted average share price at which the common shares of the Company traded for immediately preceding the grant date. The weighted average fair value at the grant date for the six months ended June 30, 2022 was Cdn\$24.00 per DSU (six months ended June 30, 2021 - Cdn\$23.07 per DSU).

Given the DSUs vest immediately, obligations for payments of cash under the DSUs plan are accrued as compensation expense immediately based on the fair value of the DSU. As at June 30, 2022, the total DSUs liability accrued is \$4.9 million (December 31, 2021 - \$4.4 million) all of which is classified as long-term in accordance with the terms of the DSU plan.

c) Cash settled restricted share units ("CRSUs")

Parex Colombia has a CRSUs plan that provides for the issuance of CRSUs to certain employees of Parex Colombia. The plan entitles the holders to receive a cash payment equal to the market price of the Company's common shares at the time of exercise. CRSUs vest over a three-year period and are exercised at the vest date. The CRSUs liability cannot be settled by the issuance of common shares.

	Number of CRSUs
Balance, December 31, 2020	875,701
Granted ⁽¹⁾	430,227
Exercised	(449,594)
Forfeited	(37,405)
Balance, December 31, 2021	818,929
Granted ⁽¹⁾	331,655
Exercised	(382,784)
Forfeited	(13,896)
Balance, June 30, 2022	753,904

(1) Grants include units related to dividend equivalents granted on awards outstanding.

The weighted average fair value at the grant date for six months ended June 30, 2022 was Cdn\$27.34 per CRSU (six months ended June 30, 2021 - Cdn\$21.88 per CRSU).

Obligations for payments of cash under the CRSUs plan are accrued as compensation expense over the vesting period based on the fair value of CRSUs. The fair value of CRSUs is equivalent to the trading value of a common share of the Company on the valuation date. As at June 30, 2022, the total CRSUs liability accrued is \$5.4 million (December 31, 2021 - \$8.9 million) of which \$1.5 million (December 31, 2021 - \$2.6 million) is classified as long-term in accordance with the three-year vesting period.

d) Share appreciation rights ("SARs")

Parex Colombia had a SARs plan that provides for the issuance of SARs to certain employees of Parex Colombia. The plan has now been extinguished and was replaced with the CRSU plan.

As at June 30, 2022 the total SARs liability accrued is \$nil (December 31, 2021 - \$24 thousand, all of which was classified as current in accordance with the three-year vesting period).

e) Cash settled share-based compensation

	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
CosRSUs and CosPSUs expense	786	2,155	10,160	8,695
DSUs (recovery) expense	(368)	301	550	1,183
CRSUs expense	324	1,195	1,318	2,810
SARs (recovery) expense	\$ —	\$ (425)	\$ (30)	\$ 42
Total cash settled share-based compensation expense	\$ 742	\$ 3,226	\$ 11,998	\$ 12,730
Cash payments made upon exercise in the period	\$ 1,816	\$ 1,535	\$ 27,522	\$ 14,120

15. Net Income per Share

a) Basic net income per share

	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Net income				
Net income for the purpose of basic net income per share	\$ 143,128	\$ 91,662	\$ 295,778	\$ 139,122
Weighted average number of shares for the purposes of basic net income per share (000s)	115,134	127,346	116,828	128,524
Basic net income per share	\$ 1.24	\$ 0.72	\$ 2.53	\$ 1.08

b) Diluted net income per share

	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Net income				
Net income used to calculate diluted net income per share	\$ 143,128	\$ 91,662	\$ 295,778	\$ 139,122
Weighted average number of shares for the purposes of basic net income per share (000s)	115,134	127,346	116,828	128,524
Dilutive effect of stock options, RSUs and PSUs on potential common shares	122	694	131	683
Weighted average number of shares for the purposes of diluted net income per share (000s)	115,256	128,040	116,959	129,207
Diluted net income per share	\$ 1.24	\$ 0.72	\$ 2.53	\$ 1.08

For the three and six months ended June 30, 2022, 175,800 stock options (three and six months ended June 30, 2021 - 411,662) were excluded from the diluted weighted average shares calculation as they were anti-dilutive.

16. Supplemental Disclosure of Cash Flow Information

a) Net change in non-cash working capital

	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Accounts receivable	\$ (32,102)	\$ (43,050)	\$ (89,519)	\$ (41,178)
Prepays and other current assets	(3,869)	3,063	(16,950)	1,049
Oil inventory	(1,483)	2,579	(98)	1,239
Accounts payable and accrued liabilities	53,890	29,066	127,395	38,435
Depletion related to oil inventory	271	(803)	(66)	(496)
Decommissioning and environmental liabilities	(899)	(884)	(2,428)	(2,780)
Net change in non-cash working capital	\$ 15,808	\$ (10,029)	\$ 18,334	\$ (3,731)
Operating	\$ 16,987	\$ (19,744)	\$ 2,106	\$ (16,571)
Investing	(1,179)	9,715	16,228	12,840
Net change in non-cash working capital	\$ 15,808	\$ (10,029)	\$ 18,334	\$ (3,731)

b) Interest and taxes paid

	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Cash interest paid	\$ —	\$ —	\$ —	\$ —
Cash income taxes paid	\$ 30,587	\$ —	\$ 30,587	\$ —

17. Capital Management

The Company's strategy is to maintain a strong capital base in order to provide flexibility in the future development of the business and maintain the confidence of investors and capital markets.

Parex has a senior secured credit facility which as at June 30, 2022 had a borrowing base in the amount of \$200.0 million (December 31, 2021 - \$200.0 million). The credit facility is intended to serve as a means to increase liquidity and fund cash needs as they arise. As at June 30, 2022, \$nil (December 31, 2021 - \$nil) was drawn on the credit facility.

The Company has also provided a general security agreement to Export Development Canada ("EDC") in connection with the performance security guarantees that support letters of credit provided to the Colombian National Hydrocarbon Agency ("ANH") related to the exploration work commitments on its Colombian concessions (see note 20 - Commitments). This performance guarantee facility has a limit of \$150.0 million (December 31, 2021 - limit of \$150.0 million) of which \$12.5 million (December 31, 2021 - \$11.6 million) is utilized at June 30, 2022. At June 30, 2022, there is an additional \$40.2 million (December 31, 2021 - \$36.3 million) of letters of credit that are provided by select Latin American banks on an unsecured basis.

As at June 30, 2022, the Company's net working capital surplus was \$311.5 million (December 31, 2021 - \$325.8 million), of which \$392.8 million is cash.

Parex has the ability to adjust its capital structure by drawing on its existing secured credit facility and making adjustments to its capital expenditure, share buy-back and dividend programs to the extent the capital expenditures are not committed. The Company considers its capital structure at this time to include shareholders' equity and the credit facility. As at June 30, 2022 shareholders' equity was \$1,511.3 million (December 31, 2021 - \$1,393.7 million).

18. Financial Instruments and Risk Management

The Company's non-derivative financial instruments recognized on the consolidated balance sheet consist of cash, accounts receivable, accounts payable and accrued liabilities. Non-derivative financial instruments are recognized initially at fair value. The fair values of the current financial instruments approximate their carrying value due to their short-term maturity. The fair value of the revolving credit facility is equal to its carrying amount as the facility bears interest at floating rates and the credit spreads within the facility are indicative of market rates.

a) Credit risk

Credit risk is the risk of loss associated with the inability of a third party to fulfill its payment obligations. The Company is exposed to the risk that third parties that owe it money do not meet their obligations. The Company assesses the financial strength of its joint venture partners and oil marketing counterparties in its management of credit exposure.

The Company for the six months ended June 30, 2022 had the majority of its oil sales to 10 counterparties. The accounts receivable balance as at June 30, 2022 are substantially made up of receivables with customers in the oil and gas industry and are subject to normal industry credit risks. The Company historically has not experienced any collection issues with its crude oil customers. At June 30, 2022, there were no accounts receivable past due (December 31, 2021 - \$nil).

None of the Company's receivables are impaired at June 30, 2022. The maximum credit risk exposure associated with accounts receivable is the total carrying value.

b) Liquidity risk

The Company's approach to managing liquidity risk is to have sufficient cash and/or credit facilities to meet its obligations when due. Management typically forecasts cash flows for a period of 12 to 36 months to identify any financing requirements. Liquidity is managed through daily and longer-term cash, debt and equity management strategies. These include estimating future cash generated from operations based on reasonable production and pricing assumptions, estimating future discretionary and non-discretionary capital expenditures and assessing the amount of equity or debt financing available. The Company is committed to maintaining a strong balance sheet and has the ability to change its capital program based on expected operating cash flows. The balance drawn on the Company's \$200.0 million credit facility at June 30, 2022 was \$nil.

The following are the contractual maturities of financial liabilities at June 30, 2022:

	Less than 1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities	\$ 275,224	—	—	—	\$ 275,224
Current income tax payable	88,183	—	—	—	88,183
Lease obligation	754	5,694	—	—	6,448
Cash settled equity plans payable	12,417	10,828	—	—	23,245
Total	\$ 376,578	16,522	—	—	\$ 393,100

The following are the contractual maturities of financial liabilities at December 31, 2021:

	Less than 1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities	\$ 179,502	—	—	—	\$ 179,502
Current income tax payable	39,812	—	—	—	39,812
Lease obligation	567	4,512	—	—	5,079
Cash settled equity plans payable	21,687	14,322	—	—	36,009
Total	\$ 241,568	18,834	—	—	\$ 260,402

c) Commodity price risk

The Company is exposed to commodity price movements as part of its operations, particularly in relation to the prices received for its oil production. Crude oil is sensitive to numerous worldwide factors, many of which are beyond the Company's control. Changes in global supply and demand fundamentals in the crude oil market and geopolitical events can significantly affect crude oil prices. Consequently, these changes could also affect the value of the Company's properties, the level of spending for exploration and development and the ability to meet obligations as they come due. The Company's oil production is sold under short-term contracts, exposing it to the risk of near-term price movements.

As at June 30, 2022, the Company had no outstanding commodity price risk management contracts.

d) Foreign currency risk

The Company is exposed to foreign currency risk as various portions of its cash balances are held in Canadian dollars (Cdn\$) and Colombian pesos (COP\$) while its committed capital expenditures are expected to be primarily denominated in US dollars.

As at June 30, 2022, the Company had no foreign currency risk management contracts in place.

The table below summarizes the gain on the foreign currency risk management contracts that were in place during the three months ended June 30, 2022 and 2021:

	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Unrealized (gain) on foreign currency risk management contracts	—	—	\$ (471)	\$ —
Total	\$ —	\$ —	\$ (471)	\$ —

As at June 30, 2022, with other variables unchanged, the impact on the Company's financial instruments of a 10% strengthening (weakening) of the Canadian dollar and COP against the US dollar would have decreased (increased) net income by approximately \$5.4 million.

19. Segmented Information

The Company has foreign subsidiaries and the following segmented information is provided:

For the three months ended June 30, 2022 (unaudited)	Canada		Colombia		Total
Oil and natural gas sales	\$	—	\$	448,255	\$ 448,255
Royalties		—		(103,223)	(103,223)
Revenue		—		345,032	345,032
Expenses					
Production		—		31,001	31,001
Transportation		—		13,828	13,828
Purchased oil		—		(4,768)	(4,768)
General and administrative		8,031		4,990	13,021
Equity settled share-based compensation expense		310		—	310
Cash settled share-based compensation expense		419		323	742
Depletion, depreciation and amortization		458		34,288	34,746
Foreign exchange (gain) loss		188		(15,370)	(15,182)
		9,406		64,292	73,698
Finance (income)		(311)		(1,121)	(1,432)
Finance expense		524		2,895	3,419
Net finance expense		213		1,774	1,987
Income (loss) before taxes		(9,619)		278,966	269,347
Current tax expense		3,763		65,012	68,775
Deferred tax expense		2,919		54,525	57,444
Net income (loss)	\$	(16,301)	\$	159,429	\$ 143,128
Capital assets (end of period)	\$	8,320	\$	1,305,626	\$ 1,313,946
Capital expenditures	\$	1,044	\$	131,737	\$ 132,781
Total assets (end of period)	\$	263,092	\$	1,823,315	\$ 2,086,407
For the three months ended June 30, 2021 (unaudited)					
Oil and natural gas sales	\$	—	\$	247,318	\$ 247,318
Royalties		—		(35,724)	(35,724)
Revenue		—		211,594	211,594
Expenses					
Production		—		27,527	27,527
Transportation		—		12,414	12,414
Purchased oil		—		2,545	2,545
General and administrative		6,123		4,631	10,754
Equity settled share-based compensation expense		253		—	253
Cash settled share-based compensation expense		2,457		769	3,226
Depletion, depreciation and amortization		209		27,953	28,162
Foreign exchange (gain)		(21)		(3,964)	(3,985)
		9,021		71,875	80,896
Finance (income)		(51)		(444)	(495)
Finance expense		694		3,168	3,862
Net finance expense		643		2,724	3,367
Income (loss) before taxes		(9,664)		136,995	127,331
Current tax expense		—		26,213	26,213
Deferred tax expense		462		8,994	9,456
Net income (loss)	\$	(10,126)	\$	101,788	\$ 91,662
Capital assets (end of period)	\$	2,452	\$	1,008,785	\$ 1,011,237
Capital expenditures	\$	78	\$	44,769	\$ 44,847
Total assets (end of period)	\$	144,195	\$	1,454,115	\$ 1,598,310

For the six months ended June 30, 2022 (unaudited)	Canada	Colombia	Total
Oil and natural gas sales	\$ —	\$ 861,871	\$ 861,871
Royalties	—	(186,368)	(186,368)
Revenue	—	675,503	675,503
Expenses			
Production	—	60,335	60,335
Transportation	—	28,170	28,170
Purchased oil	—	5,632	5,632
General and administrative	15,444	9,572	25,016
Equity settled share-based compensation expense	616	—	616
Cash settled share-based compensation expense	10,711	1,287	11,998
Depletion, depreciation and amortization	711	68,303	69,014
Foreign exchange (gain)	(207)	(9,752)	(9,959)
	27,275	163,547	190,822
Finance (income)	(360)	(1,696)	(2,056)
Finance expense	801	6,434	7,235
Net finance expense	441	4,738	5,179
Income (loss) before taxes	(27,716)	507,218	479,502
Current tax expense	3,785	120,886	124,671
Deferred tax expense	2,903	56,150	59,053
Net income (loss)	\$ (34,404)	\$ 330,182	\$ 295,778
Capital assets (end of period)	\$ 8,320	\$ 1,305,626	\$ 1,313,946
Capital expenditures	\$ 1,610	\$ 253,669	\$ 255,279
Total assets (end of period)	\$ 263,092	\$ 1,823,315	\$ 2,086,407

For the six months ended June 30, 2021 (unaudited)	Canada	Colombia	Total
Oil and natural gas sales	\$ —	\$ 469,376	\$ 469,376
Royalties	—	(61,295)	(61,295)
Revenue	—	408,081	408,081
Expenses			
Production	—	51,943	51,943
Transportation	—	26,852	26,852
Purchased oil	—	5,128	5,128
General and administrative	11,964	7,638	19,602
Equity settled share-based compensation expense	1,151	—	1,151
Cash settled share-based compensation expense	9,878	2,852	12,730
Depletion, depreciation and amortization	404	56,919	57,323
Foreign exchange (gain) loss	9	(8,229)	(8,220)
	23,406	143,103	166,509
Finance (income)	(120)	(588)	(708)
Finance expense	979	4,536	5,515
Net finance expense	859	3,948	4,807
Income (loss) before taxes	(24,265)	261,030	236,765
Current tax expense	—	48,489	48,489
Deferred tax expense (recovery)	(810)	49,964	49,154
Net income (loss)	\$ (23,455)	\$ 162,577	\$ 139,122
Capital assets (end of period)	\$ 2,452	\$ 1,008,785	\$ 1,011,237
Capital expenditures	\$ 141	\$ 84,298	\$ 84,439
Total assets (end of period)	\$ 144,195	\$ 1,454,115	\$ 1,598,310

In Colombia the majority of oil sales are with ten customers in the oil and gas industry and are subject to normal industry credit risks for both periods ending June 30, 2022 and 2021.

20. Commitments

a) Colombia

At June 30, 2022, performance guarantees are in place with the Colombian National Hydrocarbon Agency ("ANH") for certain blocks. The guarantees are in the form of issued letters of credit totaling \$52.7 million (December 31, 2021 - \$47.9 million) to support the exploration work commitments in respect of the 44 blocks in Colombia.

At June 30, 2022, Export Development Canada ("EDC") has provided the Company's bank with performance security guarantees to support approximately \$12.5 million (December 31, 2021 - \$11.6 million) of the letters of credit issued on behalf of Parex. EDC guarantees have been secured by a general security agreement issued by Parex in favour of EDC. At June 30, 2022, there is an additional \$40.2 million (December 31, 2021 - \$36.3 million) of letters of credit that are provided by select Latin American banks on an unsecured basis. The letters of credit issued to the ANH are reduced from time to time to reflect completed work on an ongoing basis.

The value of the Company's exploration commitments as at June 30, 2022 in respect of the Colombia work commitments under E&P contracts, and joint venture farm-in arrangements are estimated to be as follows:

2022	\$	22,116
2023		297,720
Thereafter		145,757
	\$	465,593

b) Operating leases

In the normal course of business, Parex has entered into arrangements and incurred obligations that will impact the Company's future operations and liquidity. These commitments include leases for office space and accommodations. The existing minimum lease payments for office space and accommodations at June 30, 2022 are as follows:

	Total	2022	2023	2024	2025	2026	Thereafter
Office and accommodations	\$ 8,153	1,196	1,306	1,093	955	815	2,788

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Parex Resources Inc. ("Parex" or "the Company") for the period ended June 30, 2022 is dated August 3, 2022 and should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the period ended June 30, 2022, as well as the Company's audited consolidated annual financial statements for the year ended December 31, 2021. The unaudited condensed interim consolidated financial statements and the audited consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board.

Additional information related to Parex and factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities, including the Company's Annual Information Form dated March 1, 2022 ("AIF"), and may be accessed through the SEDAR website at www.sedar.com.

All financial amounts are in United States (US) dollars unless otherwise stated.

Company Profile

Parex is the largest independent oil and gas company in Colombia, focusing on sustainable, conventional production. Parex's corporate headquarters are in Calgary, Canada, and the Company has an operating office in Bogotá, Colombia. Parex is a member of the S&P/TSX Composite ESG Index and its common shares trade on the Toronto Stock Exchange ("TSX") under the symbol PXT.

Abbreviations

Refer to the final page of the MD&A for commonly used abbreviations in the document. Refer to the Advisory on Forward-Looking Statements and Non-GAAP and Other Financial Measures Advisory.

References to crude oil or natural gas production in this MD&A refer to the light and medium crude oil and heavy crude oil and conventional natural gas, respectively, product types as defined in National Instrument 51-101 - *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101").

Three months ended June 30, 2022 ("second quarter" or "Q2") Highlights

- Quarterly average oil and natural gas production was 51,143 boe/d (96% crude oil and 4% natural gas), an increase of 16% over the second quarter of 2021. Refer to "Consolidated Results of Operations" for production split by product type.
- Recognized net income of \$143.1 million (\$1.24 per share basic) compared to net income of \$91.7 million (\$0.72 per share basic) in the comparative quarter of 2021.
- Generated quarterly funds flow provided by operations ("FFO")* of \$227.8 million (\$1.98 per share basic**) compared to \$131.6 million (\$1.03 per share basic) in the comparative quarter of 2021.
- A total of \$73.9 million was returned to shareholders in the second quarter through a Cdn\$0.25 per common share dividend for a cost of \$22.2 million, as well the repurchase of 2,686,300 common shares for a total cost of \$51.7 million.
- Generated an operating netback of \$65.66/boe** (2021 - \$41.29/boe) and an FFO netback of \$50.12/boe** (2021 - \$32.02/boe) from an average Brent price of \$111.98/bbl (2021 - \$69.08/bbl).

Production Guidance

Third quarter 2022 production is expected to average 53,000 boe/d to 55,000 boe/d, with full-year 2022 production expected to be 54,000 to 56,000 boe/d.

* "Capital Management Measure" (as defined in National Instrument 52-112 – *Non-GAAP and Other Financial Measures Disclosure* ("NI 52-112")), which is not a standardized financial measure under IFRS and might not be comparable to similar financial measures disclosed by other issuers. See "Non-GAAP and Other Financial Measures Advisory" for the composition of such measure, an explanation of how such measure provides useful information to a reader and the additional purposes for which management uses such measure, and a reconciliation of such financial measure to the most directly comparable IFRS measure disclosed in the Company's financial statements.

** "Non-GAAP ratio" (as defined in NI 52-112), which is not a standardized financial measure under IFRS and might not be comparable to similar financial measures disclosed by other issuers. See "Non-GAAP and Other Financial Measures Advisory" for the composition of such measure and an explanation of how such measure provides useful information to a reader and the additional purposes for which management uses such measure.

Financial Summary

(Financial figures in \$'000s except per share amounts)	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Light Crude Oil and Medium Crude Oil (bbl/d)	6,734	5,881	6,214	6,999
Heavy Crude Oil (bbl/d)	42,373	36,308	43,114	36,627
Average oil production (bbl/d) ⁽¹⁾	49,107	42,189	49,328	43,626
Average conventional natural gas production (mcf/d) ⁽¹⁾	12,216	10,266	12,516	10,236
Average oil and natural gas production (boe/d)	51,143	43,900	51,414	45,332
Production split (% crude oil)	96	96	96	96
Realized sales price (\$/boe) ⁽⁷⁾	98.22	59.68	92.08	56.21
Operating netback (\$/boe) ⁽²⁾	65.66	41.29	62.58	39.32
Oil and natural gas sales	448,255	247,318	861,871	469,376
Funds flow provided by operations ⁽⁸⁾	227,796	131,602	433,284	256,571
Per share – basic ⁽²⁾⁽⁴⁾	1.98	1.03	3.71	2.00
Per share – diluted ⁽²⁾⁽⁴⁾	1.98	1.03	3.70	1.99
Net income	143,128	91,662	295,778	139,122
Per share – basic ⁽⁴⁾	1.24	0.72	2.53	1.08
Per share – diluted ⁽⁴⁾	1.24	0.72	2.53	1.08
Dividends paid	22,226	—	35,341	—
Per share - Cdn\$ ⁽⁴⁾⁽⁷⁾	0.25	—	0.39	—
Shares repurchase cost	51,697	75,923	149,101	136,031
Number of shares repurchased (000s)	2,686	4,212	7,111	7,714
Capital expenditures ⁽³⁾	132,781	44,847	255,279	84,439
Free funds flow ⁽³⁾	95,015	86,755	178,005	172,132
Total assets (end of period)	2,086,407	1,598,310	2,086,407	1,598,310
Working capital surplus (end of period) ⁽⁵⁾⁽⁸⁾	311,496	352,188	311,496	352,188
Bank debt (end of period) ⁽⁶⁾	—	—	—	—
Weighted average shares outstanding (000s)				
Basic	115,134	127,346	116,828	128,524
Diluted	115,256	128,040	116,959	129,207
Outstanding shares (end of period) (000s)	113,810	124,938	113,810	124,938

(1) Reference to crude oil or natural gas production in the above table and elsewhere in this MD&A refer to the light and medium crude oil and heavy crude oil and conventional natural gas, respectively, product types as defined in NI 51-101.

(2) Non-GAAP ratio. See "Non-GAAP and Other Financial Measures Advisory".

(3) Non-GAAP financial measure (as defined in NI 52-112), which is not a standardized financial measure under IFRS and might not be comparable to similar financial measures disclosed by other issuers. See "Non-GAAP and Other Financial Measures Advisory" for the composition of such measure, an explanation of how such measure provides useful information to a reader and the additional purposes for which management uses such measure, and a reconciliation of such financial measure to the most directly comparable IFRS measure disclosed in the Company's financial statements.

(4) Per share amounts (with the exception of dividends) are based on weighted average common shares. Dividends paid per share are based on the number of common shares outstanding at each dividend record date.

(5) Working capital calculation does not take into consideration the undrawn amount available under the syndicated bank credit facility.

(6) Syndicated bank credit facility borrowing base of \$200.0 million as at June 30, 2022.

(7) Supplementary Financial Measure (as defined in NI 52-112). See "Non-GAAP and Other Financial Measures Advisory" for the composition of such measure.

(8) Capital Management Measure. See "Non-GAAP and Other Financial Measures Advisory".

Financial and Operational Results

Consolidated Results of Operations

Parex' oil and gas operations are conducted in Colombia with head office functions conducted in Canada.

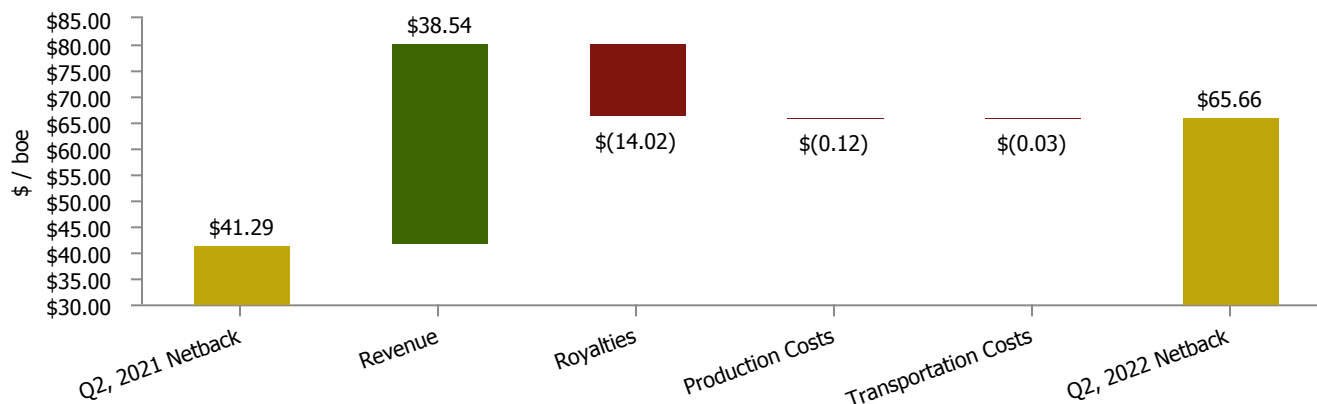
	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Average daily production				
Light Crude Oil and Medium Crude Oil (bbl/d)	6,734	5,881	6,214	6,999
Heavy Crude Oil (bbl/d)	42,373	36,308	43,114	36,627
Crude oil (bbl/d)	49,107	42,189	49,328	43,626
Conventional Natural Gas (mcf/d)	12,216	10,266	12,516	10,236
Total (boe/d)	51,143	43,900	51,414	45,332
Production split (% crude oil production)	96	96	96	96
Average daily sales of oil and natural gas				
Produced crude oil (bbl/d)	47,914	43,455	49,383	44,033
Purchased crude oil (bbl/d)	203	376	243	393
Produced natural gas (mcf/d)	12,216	10,266	12,516	10,236
Total (boe/d)	50,153	45,542	51,712	46,132
Operating netback (000s) ⁽¹⁾				
Oil and natural gas sales	\$ 448,255	\$ 247,318	\$ 861,871	\$ 469,376
Royalties	(103,223)	(35,724)	(186,368)	(61,295)
Net revenue	345,032	211,594	675,503	408,081
Production expense	(31,001)	(27,527)	(60,335)	(51,943)
Transportation expense	(13,828)	(12,414)	(28,170)	(26,852)
Purchased oil	4,768	(2,545)	(5,632)	(5,128)
Operating netback	\$ 304,971	\$ 169,108	\$ 581,366	\$ 324,158
Operating netback (per boe) ⁽³⁾				
Oil and natural gas sales ⁽²⁾	\$ 98.22	\$ 59.68	\$ 92.08	\$ 56.21
Royalties ⁽²⁾	(22.71)	(8.69)	(20.01)	(7.40)
Net revenue ⁽²⁾	75.51	50.99	72.07	48.81
Production expense ⁽²⁾	(6.82)	(6.70)	(6.48)	(6.27)
Transportation expense ⁽²⁾	(3.03)	(3.00)	(3.01)	(3.22)
Operating netback ⁽³⁾	\$ 65.66	\$ 41.29	\$ 62.58	\$ 39.32

(1) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures Advisory".

(2) Supplementary financial measure. See "Non-GAAP and Other Financial Measures Advisory" for the composition of such measures.

(3) Non-GAAP ratio. See "Non-GAAP and Other Financial Measures Advisory".

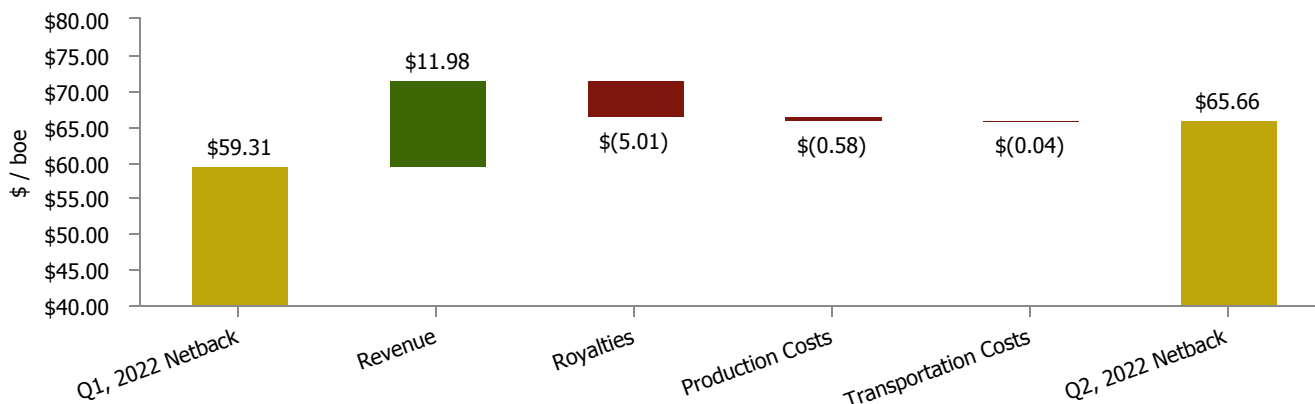
**Change in Operating Netback by Component
Q2/21 vs. Q2/22**



Overall, the Company's benchmark Brent crude oil price increased by \$42.90/bbl, while revenue increased by \$38.54/boe in the second quarter of 2022 as compared to the second quarter of 2021. The decrease in revenue relative to the Brent crude benchmark increase was mainly the result of weaker Vasconia crude oil pricing (and thereby a higher differential to Brent oil price) in the quarter as compared to the comparative period. Royalties increased by \$14.02/boe as a result of higher crude oil benchmark prices in the quarter. Production costs increased by \$0.12/boe mainly as a result of increased well workovers and maintenance in the current quarter on Block LLA-34. Transportation costs in the quarter were comparable to the second quarter of 2021.

Overall, the operating netback increased by \$24.37/boe compared to a Brent benchmark crude price increase of \$42.90/bbl.

**Change in Operating Netback by Component
Q1/22 vs. Q2/22**



In the second quarter of 2022, the Company's benchmark Brent oil price increased by \$14.08/bbl, while revenue increased by \$11.98/boe. The decrease in revenue relative to the Brent crude oil benchmark increase is mainly the result of weaker Vasconia crude oil pricing (and thereby a higher differential to Brent oil price) in the quarter as compared to the comparative period. Royalties increased by \$5.01/boe as a result of higher crude oil benchmark prices in the quarter. Production costs increased by \$0.58/boe mainly as a result of increased well workovers and maintenance in the current quarter on Block LLA-34. Transportation costs were comparable to the prior quarter.

Overall, the operating netback increased by \$6.35/boe compared to a Brent benchmark crude price increase of \$14.08/bbl.

Oil and Natural Gas Sales

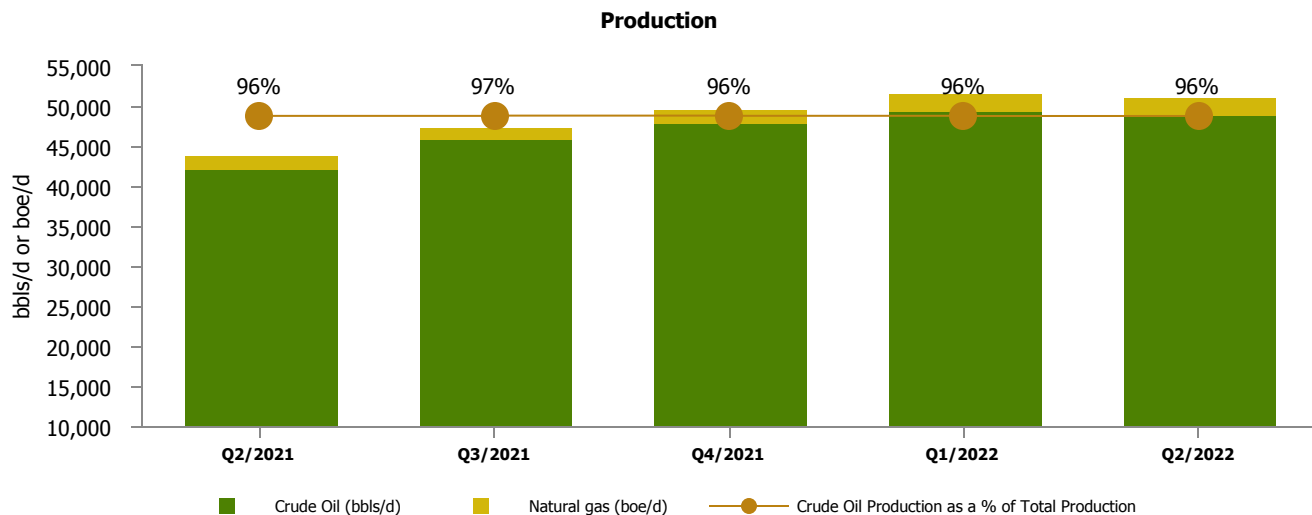
a) Average Daily Production and Sales Volumes (boe/d)

	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Block LLA-34	31,332	29,963	31,838	30,176
Southern Llanos	14,067	8,455	13,597	8,748
Northern Llanos	2,638	2,987	2,824	3,848
Magdalena Basin	1,070	784	1,069	854
Total Crude Oil Production	49,107	42,189	49,328	43,626
Natural gas production	2,036	1,711	2,086	1,706
Total Crude oil and natural gas production	51,143	43,900	51,414	45,332
Crude oil inventory draw (build)	(1,193)	1,266	55	407
Average daily sales of produced oil and natural gas	49,950	45,166	51,469	45,739
Purchased oil	203	376	243	393
Sales Volumes	50,153	45,542	51,712	46,132

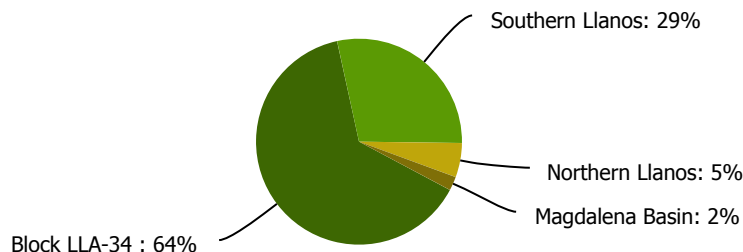
Crude oil and natural gas production for the second quarter of 2022 averaged 51,143 boe/d a modest decrease compared to the first quarter of 2022 production of 51,688 boe/d. The decrease is primarily due to well timing as well as higher than expected downtime that has since normalized.

Second quarter 2022 production increased approximately 16% compared to the comparative period in 2021. The increase in oil and natural gas production in the second quarter of 2022 compared to the second quarter of 2021 is mainly the result of reduced downtime of production on Block LLA-34 and additional wells drilled on Block LLA-34 and on the Cabrestero block.

Oil and natural gas sales in the second quarter of 2022 were 50,153 boe/d compared to 45,542 boe/d for the second quarter of 2021. The increase in oil sales volumes was a result of the increase in oil and natural gas production, partially offset by decreased purchased oil sales over the comparative period.



**Production By Area
(Three Months ended June 30, 2022)**



b) Crude Oil Reference and Realized Prices

Average price for the period	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021
Brent (\$/bbl)	111.98	97.90	79.66	73.23	69.08
Vasconia (\$/bbl)	106.69	93.78	75.05	69.21	66.12
Brent/Vasconia crude (differential) (\$/bbl)	(5.29)	(4.12)	(4.61)	(4.02)	(2.96)
Parex quality differential (\$/bbl)	0.06	0.19	(0.04)	(0.04)	(0.07)
Parex wellhead sales discount (\$/bbl)	(5.92)	(5.69)	(6.61)	(4.97)	(5.32)
Parex realized oil sales price (\$/bbl)⁽²⁾	100.83	88.28	68.40	64.20	60.73
Parex realized price (differential) to Brent crude (\$/bbl)	(11.15)	(9.62)	(11.26)	(9.03)	(8.35)
Parex transportation expense (\$/bbl) ⁽¹⁾⁽²⁾	(3.03)	(2.99)	(2.72)	(2.99)	(3.00)
Parex price differential and transportation expense (\$/bbl)	(14.18)	(12.61)	(13.98)	(12.02)	(11.35)

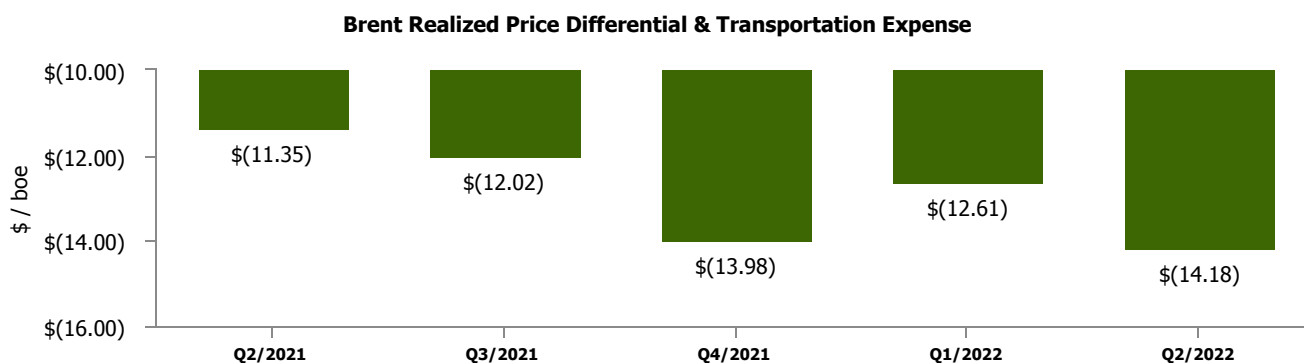
(1) Applies only to direct export cargo sales where Parex incurs the pipeline fees directly. See "Transportation Expense".

(2) Supplementary financial measure. See "Non-GAAP and Other Financial Measures Advisory" for the composition of such measure.

During the second quarter of 2022, the differential between Brent reference pricing and the Company's realized oil sale price was \$11.15/boe. The differential to Brent crude during the second quarter of 2022 increased by \$1.53/boe compared to the first quarter of 2022 where the differential was \$9.62/boe as a result of the Brent/Vasconia differential increasing to \$5.29/bbl from \$4.12/bbl in the first quarter of 2022. Parex' Colombian oil production is fully exposed to swings in the Vasconia differential to Brent (see below).

Differences between Parex' realized oil price and Vasconia crude price is mainly related to quality adjustments, wellhead sale marketing contracts, and timing of oil sales compared to quarter averages. The differential between Vasconia crude pricing and Brent crude pricing also affects Parex' realized sales price and is set in liquid global markets and therefore attributed to factors that are beyond the Company's control.

The average July 2022 Brent/Vasconia crude differential was approximately \$2.50/bbl.



c) Natural Gas Revenue and Realized Prices

	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Revenue (000's) ⁽¹⁾	\$ 6,775	\$ 5,108	\$ 13,961	\$ 10,759
Realized sales price (\$/Mcf) ⁽¹⁾	6.09	5.47	6.16	5.81

(1) Supplementary financial measure. See "Non-GAAP and Other Financial Measures Advisory" for the composition of such measure.

Parex natural gas revenues were \$6.8 million and \$14.0 million for the three and six months ended June 30, 2022 compared to \$5.1 million and \$10.8 million in the same periods of 2021. The increase in natural gas sales from the prior periods is related to increased natural gas volumes sold from Block LLA-32, the Capachos block, and the VIM-1 block.

d) Oil and Natural Gas Revenue

Second quarter 2022 oil and natural gas revenue increased \$200.9 million or 81% as reconciled in the table below to the second quarter of 2021:

(\$000s)	
Oil and natural gas revenue, three months ended June 30, 2021	\$ 247,318
Sales volume of produced oil, an increase of 10% (4,459 bopd)	24,642
Sales volume of purchased oil, a decrease of 46% (173 bopd)	(956)
Oil sales price increase of 66%	175,584
Sales volume and price change of produced natural gas	1,667
Oil and natural gas revenue, three months ended June 30, 2022	\$ 448,255

Oil and natural gas revenue increased in the three months ended June 30, 2022 compared to the same period in 2021 mainly due to the increase in world oil prices.

e) Crude Oil Inventory in Transit

As at June 30, (\$000s)	2022	2021
Crude oil in transit	\$ 1,483	\$ 676

As at June 30, 2022, the Company had 36.6 mbbls of crude oil inventory compared to 25.7 mbbls at June 30, 2021, which was injected into the Colombian pipelines. The inventory was valued based on direct and indirect expenditures (including production costs, certain transportation costs, depletion expense and royalty expense) at \$40.52/bbl at June 30, 2022 compared to \$26.30/bbl at June 30, 2021 incurred in bringing the crude oil to its existing condition and location.

A reconciliation of quarter to quarter crude oil inventory movements is provided below:

For the periods ended (mbbls)	Jun. 30, 2022	Mar. 31, 2022	Dec. 31, 2021	Sep. 30, 2021
Crude oil inventory in transit - beginning of the period	(71.9)	46.6	88.4	25.7
Oil production	4,468.8	4,459.7	4,387.1	4,206.4
Oil sales	(4,378.7)	(4,603.7)	(4,457.5)	(4,177.6)
Purchased oil	18.4	25.5	28.6	33.9
Crude oil inventory in transit (overlift) - end of the period	36.6	(71.9)	46.6	88.4
% of period production	0.8	(1.6)	1.1	2.1

Crude oil inventory build and (draw) from period to period are subject to factors that the Company does not control such as timing of the number of shipments from storage to export. The Company expects crude oil inventory in future periods to remain in line with normal historic levels of below 5% of period production.

f) Purchased Oil

	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Purchased oil expense (recovery) (\$000s)	\$ (4,768)	\$ 2,545	\$ 5,632	\$ 5,128

Purchased oil expense for the three and six months ended June 30, 2022 was a recovery of \$4.8 million and an expense of \$5.6 million compared to \$2.5 million and \$5.1 million expense for the 2021 comparative periods and \$10.4 million in the first quarter of 2022. In the second quarter of 2022, the Company delivered previously overlifted oil volumes back to the Ocesa system with a corresponding impact on purchased oil expense in the quarter.

Purchased oil expense relates to oil blending operations and purchases of partner crude from the Capachos block. Transportation costs are incurred by the Company to transport purchased oil to sale delivery points.

Royalties

	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Royalties (\$000s)	\$ 103,223	\$ 35,724	\$ 186,368	\$ 61,295
Per unit (\$/boe) ⁽¹⁾	22.71	8.69	20.01	7.40
Percentage of sales ⁽¹⁾	23.1	14.6	21.7	13.2

(1) Supplementary financial measure. See "Non-GAAP and Other Financial Measures Advisory" for the composition of such measure.

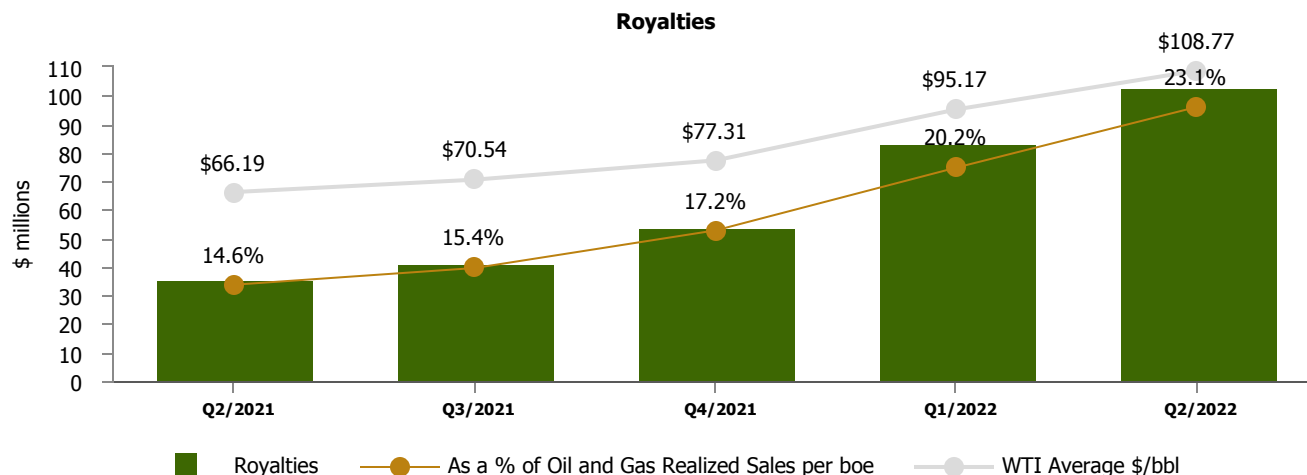
In the three and six months ended June 30, 2022 royalties as a percentage of sales were 23.1% and 21.7% compared to 20.2% during the three months ended March 31, 2022 and 14.6% and 13.2% for the 2021 comparative periods. The increase in royalties as a percentage of sales in the quarter from the previous quarter ended March 31, 2022 was a result of higher benchmark WTI prices which are used in the high price share royalty ("HPR") calculation. Effectively higher realized WTI oil prices result in a higher royalty percentage realized.

Benchmark WTI price for the three and six months ended June 30, 2022 were \$108.77 and \$101.97 compared to \$95.17 during the three months ended March 31, 2022, and \$66.19 and \$62.22 for the 2021 comparative periods.

The increase in royalty expense to \$103.2 million and \$186.4 million in the three and six months ended June 30, 2022 compared to \$35.7 million and \$61.3 million for the 2021 comparative prior year periods is mainly a result of higher benchmark WTI prices used in the calculation of royalties.

At WTI prices between \$95-\$110/bbl the Company expects royalties as a percentage of sales to be between 20-23.5%.

For further information concerning the HPR please refer to the Company's AIF, which may be accessed through the SEDAR website at www.sedar.com.



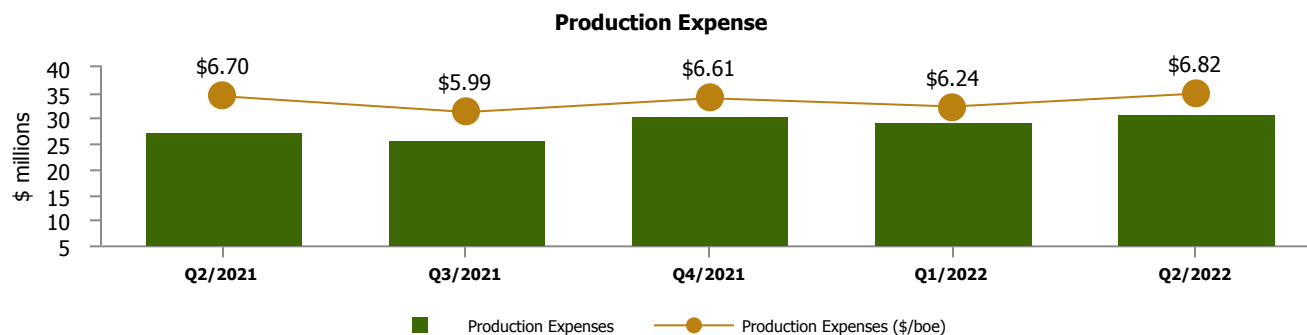
Production Expense

	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Production expense (000s)	\$ 31,001	\$ 27,527	\$ 60,335	\$ 51,943
Per unit (\$/boe) ⁽¹⁾	6.82	6.70	6.48	6.27

(1) Supplementary financial measure. See "Non-GAAP and Other Financial Measures Advisory" for the composition of such measure.

Production expense for the three and six months ended June 30, 2022 was \$6.82/boe and \$6.48/boe compared to \$6.70/boe and \$6.27/boe in the three and six months ended June 30, 2021. Production expense for the first quarter of 2022 was \$6.24/boe.

The increase in production expense for the six months ended June 30, 2022 over the 2021 comparative period is mainly the result of increased well workovers and maintenance on Block LLA-34 compared to the prior period.



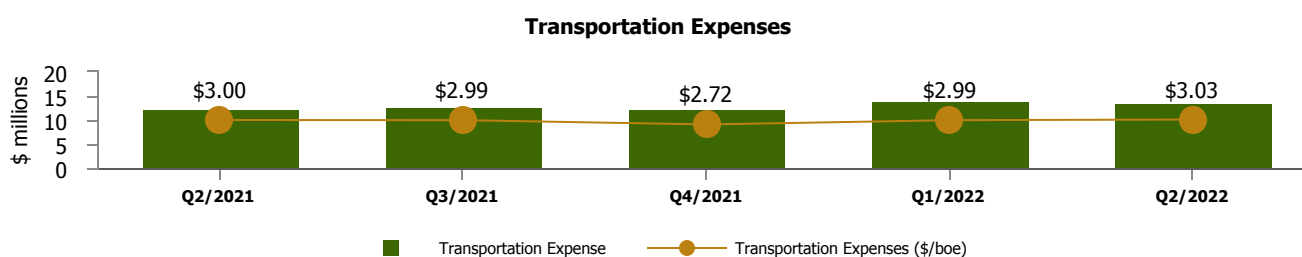
Transportation Expense

	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Transportation expense (\$000s)	\$ 13,828	\$ 12,414	\$ 28,170	\$ 26,852
Per unit (\$/boe) ⁽¹⁾	3.03	3.00	3.01	3.22

(1) Supplementary financial measure. See "Non-GAAP and Other Financial Measures Advisory" for the composition of such measure.

For the three months ended June 30, 2022 the cost of transportation on a per boe basis was \$3.03/boe compared to \$2.99/boe in the first quarter of 2022 and \$3.00/boe in the comparative period in 2021. On a year to date basis transportation expense has decreased to \$3.01/boe from \$3.22/boe in the comparative period in 2021. Transportation expense will fluctuate period over period due to the mix of sales contract types in force during the period.

The combined transportation expense and price differential from Brent, on a per boe basis, has increased from the second quarter of 2021 and the first quarter of 2022. See "Crude Oil Reference and Realized Prices".



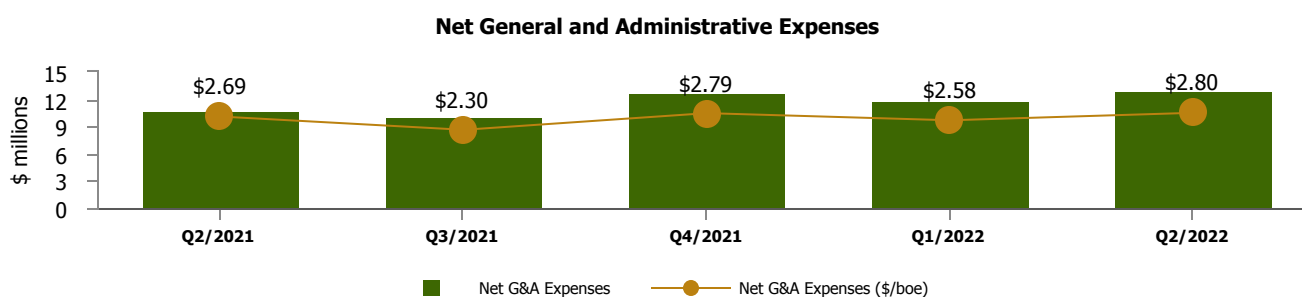
General and Administrative Expense ("G&A")

(000s)	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Gross G&A	\$ 15,824	\$ 13,066	\$ 30,734	\$ 25,152
G&A recoveries	(664)	(697)	(1,302)	(1,298)
Capitalized G&A	(2,139)	(1,615)	(4,416)	(4,252)
Total net G&A	\$ 13,021	\$ 10,754	\$ 25,016	\$ 19,602
Per unit (\$/boe) ⁽¹⁾	2.80	2.69	2.69	2.39

(1) Supplementary financial measure. See "Non-GAAP and Other Financial Measures Advisory" for the composition of such measure.

Net G&A was \$13.0 million and \$25.0 million for the three and six months ended June 30, 2022 compared to \$10.8 million and \$19.6 million for the same periods in 2021. Gross G&A was \$15.8 million and \$30.7 million for the three and six months ended June 30, 2022 (three and six months ended June 30, 2021 - \$13.1 million and \$25.2 million). Gross and net G&A has increased mainly as a result of an increase in head count in the current year to manage the increased capital expenditure program. For the six months ended June 30, 2022, on a per boe basis, net G&A has increased 13% compared to the comparative period in 2021 mainly as result of increased staffing levels as noted above.

The Company's G&A expense is denominated in local currencies of Colombian peso ("COP") and Canadian dollar ("Cdn") which as they appreciate/depreciate have an impact on G&A expense. Refer to the "Foreign Exchange Sensitivity Analysis" for further information.



Share-Based Compensation

(\$000s)	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Equity settled share-based compensation expense	\$ 310	\$ 253	\$ 616	\$ 1,151
Cash settled share-based compensation expense	742	3,226	11,998	12,730
Total net expense	\$ 1,052	\$ 3,479	\$ 12,614	\$ 13,881

Share-based compensation expense was \$12.6 million for the six months ended June 30, 2022 compared to a \$13.9 million for the same period in 2021.

Equity settled share-based compensation expense was \$0.6 million for the six months ended June 30, 2022 compared to \$1.2 million for the same period in 2021. Equity settled share-based compensation includes the Company's stock option plan and the restricted share unit ("RSU") plan pursuant to which RSUs and performance based RSUs ("PSUs") have been awarded up until 2019.

Cash settled share-based compensation relates to the Company's cash settled incentive plans and includes cash or share settled restricted share units and performance share units ("CosRSUs and "CosPSUs"), cash settled restricted share units ("CRSUs"), deferred share units ("DSUs") and share appreciation rights ("SARs"). For the six months ended June 30, 2022 there was an expense of \$12.0 million related to cash settled incentive plans compared to \$12.7 million for the same period in 2021. This decrease in expense is mainly attributable to a decrease in awards issued under the CosRSU, CosPSU and CRSU incentive plans. Parex share price increased to Cdn\$21.80 at June 30, 2022 from Cdn\$21.61 at December 31, 2021 compared to an increase in share price to Cdn\$20.70 at June 30, 2021 from Cdn\$17.52 at December 31, 2020.

Obligations for payments of cash under the Company's cash settled incentive plans are accrued as expense over the vesting period based on the fair value of the units as described in note 14 of the interim financial statements for the six months ended June 30, 2022. As at June 30, 2022, the total cash settled incentive plans liability accrued was \$23.2 million (December 31, 2021 - \$36.0 million).

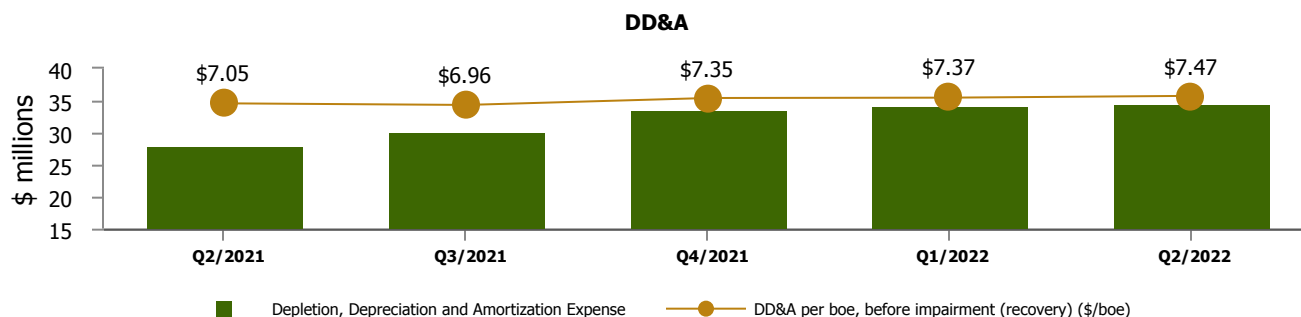
Cash payments to settle cash settled share-based compensation in the three and six months ended June 30, 2022 were \$1.8 million and \$27.5 million compared to \$1.5 million and \$14.1 million for the same periods in 2021. The increase is mainly related to the first settlement of the CosPSUs vested in the first quarter of 2022.

Depletion, Depreciation and Amortization Expense ("DD&A")

	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
DD&A expense (000s)	\$ 34,746	\$ 28,162	\$ 69,014	\$ 57,323
Per unit (\$/boe) ⁽¹⁾	7.47	7.05	7.42	6.99

(1) Supplementary financial measure. See "Non-GAAP and Other Financial Measures Advisory" for the composition of such measure.

Second quarter 2022 DD&A was \$34.7 million (\$7.47/boe) compared to \$28.2 million (\$7.05/boe) for the same period in 2021. DD&A increased compared to the prior period mainly due to the increase in production over the prior period. On a per boe basis, the increase is mainly related to incremental production additions generally having a higher drilling cost than production from legacy fields.



Foreign Exchange

	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Foreign exchange (gain)	\$ (15,182)	\$ (3,985)	\$ (9,488)	\$ (8,220)
Foreign currency risk management contracts (gain)	—	—	(471)	—
Total foreign exchange (gain)	\$ (15,182)	\$ (3,985)	\$ (9,959)	\$ (8,220)
Average foreign exchange rates				
USD\$/CAD\$	1.28	1.23	1.27	1.25
USD\$/Colombian peso	3,915	3,691	3,914	3,622

The Company's main exposure to foreign currency risk relates to the pricing of foreign currency denominated in Canadian dollars and Colombian pesos ("COP"), as the Company's functional currency is the USD. The Company has exposure in Colombia and Canada on costs, such as capital expenditures, local wages, royalties and income taxes, all of which may be denominated in local currencies. The main drivers of foreign exchange gains and losses recorded on the consolidated statements of comprehensive income is the COP denominated income tax payable and tax withholdings receivable, accounts payable and accounts receivable. The timing of payment settlements, accruals and their adjustments have impacts on foreign exchange gains/losses.

For the three months ended June 30, 2022, the total foreign exchange gain was \$15.2 million (three months ended June 30, 2021 – gain of \$4.0 million). Unrealized foreign exchange gains and losses may be reversed in the future as a result of fluctuations in exchange rates and are recorded in the Company's consolidated statements of comprehensive income.

The Company reviews its exposure to foreign currency variations on an ongoing basis and maintains cash deposits primarily in USD denominated deposits in Canada, Barbados, Bermuda and Colombia.

Foreign Exchange Sensitivity Analysis

\$/boe Impact of change in local currency/\$USD exchange rate

Cost component	Estimated percent of cost denominated in local currency		10% appreciation of local currency		10% depreciation of local currency
Production expense	80%	\$	0.55	\$	(0.55)
Transportation expense	80%	\$	0.24	\$	(0.24)
G&A expense	100%	\$	0.28	\$	(0.28)

The table above displays the estimated per boe impact of a change in Parex' local currencies and the effect on Parex' key cost components. The component impact in \$/boe terms uses Q2 2022 per boe costs. This analysis ignores all other factors impacting cost structure including efficiencies, cost reduction strategies, cost inflation etc.

Net Finance Expense

	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Bank charges and credit facility fees	\$ 1,018	\$ 930	\$ 1,796	\$ 1,507
Accretion on decommissioning and environmental liabilities	1,363	1,049	2,855	1,995
Interest and other income	(1,432)	(495)	(2,056)	(708)
Right-of-use-asset interest	13	2	22	4
Loss on settlement of decommissioning liabilities	45	15	1,010	371
Expected credit loss provision	886	1,866	756	1,638
Other	94	—	796	—
Net finance expense	\$ 1,987	\$ 3,367	\$ 5,179	\$ 4,807

	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Non-cash finance expense	\$ 2,286	\$ 2,930	\$ 4,419	\$ 4,004
Cash finance expense (income), net	(299)	437	760	803
Net finance expense	\$ 1,987	\$ 3,367	\$ 5,179	\$ 4,807

Bank taxes and credit facility fees relate to bank taxes paid in Colombia and the standby fees related to the undrawn credit facility. The non-cash components of net finance expense include the accretion on decommissioning and environmental liabilities, loss on settlement of decommissioning liabilities, other and the expected credit loss provision which has decreased compared to the comparative period in 2021 due to the improvement in credit markets and ratings.

Risk Management

Management of cash flow variability is an integral component of Parex' business strategy. Changing business conditions are monitored regularly and, where material, reviewed with the Board of Directors to establish risk management guidelines to be used by management. The risk exposure inherent in movements in the price of crude oil, fluctuations in the USD/COP exchange rate and interest rate movements are all proactively reviewed by Parex and as considered appropriate may be managed through the use of derivatives primarily with financial institutions that are members of Parex' syndicated bank credit facility. The Company considers these derivative contracts to be an effective means to manage and forecast cash flow.

Parex has elected not to apply IFRS prescribed "hedge accounting" rules and, accordingly, pursuant to IFRS the fair value of the financial contracts is recorded at each period-end. The fair value may change substantially from period to period depending on commodity and foreign exchange forward strip prices for the financial contracts outstanding at the balance sheet date. The change in fair value from period-end to period-end is reflected in the earnings for that period. As a result, earnings may fluctuate considerably based on the period-ending commodity and foreign exchange forward strip prices, in respect of any outstanding commodity or foreign exchange derivative contracts.

a) Risk Management Contracts - Brent Crude

At June 30, 2022 the Company had no crude oil risk management contracts in place.

b) Risk Management Contracts – Foreign Exchange

The Company is exposed to foreign currency risk as various portions of its cash balances are held in COP and Cdn to fund ongoing costs denominated in those currencies while its committed capital expenditures are primarily denominated in USD.

As at June 30, 2022, the Company had no foreign currency risk management contracts in place.

As at June 30, 2022, with other variables unchanged, the impact on the Company's financial instruments of a 10% strengthening (weakening) of the Cdn and COP against the USD would have decreased (increased) net income by approximately \$5.4 million.

The table below summarizes the gain on the foreign currency risk management contracts:

	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Unrealized (gain) on foreign currency risk management contracts	—	—	\$ (471)	\$ —
Total	\$ —	\$ —	\$ (471)	\$ —

Income Tax

The components of tax expense for the three and six months ended June 30, 2022 and 2021 were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Current tax expense	\$ 68,775	\$ 26,213	\$ 124,671	\$ 48,489
Deferred tax expense	57,444	9,456	59,053	49,154
Tax expense	\$ 126,219	\$ 35,669	\$ 183,724	\$ 97,643

Current tax expense in the second quarter of 2022 was \$68.8 million as compared to \$26.2 million in the prior year comparative period. The increase from the prior year comparative period is mainly a result of an increase in operating cash flows from the prior period.

Deferred tax expense for the three months ended June 30, 2022 was \$57.4 million as compared to \$9.5 million. The increase in deferred tax expense from the comparative period is mainly related to the foreign exchange impact of the COP denominated tax basis, which has decreased as a result of the depreciation of the COP to USD at the period end date, compared to the previous period end date.

For 2022, the Company expects the effective current tax rate on operating cash flow to be approximately 22-25% based on Brent crude prices averaging between \$90-100/bbl in 2022.

The calculation of current and deferred income tax in Colombia is based on a number of variables which can cause swings in current and deferred income tax. These variables include but are not limited to the year-end producing reserves used in calculating depletion for tax purposes, the timing and number of dry hole write-offs permissible for Colombian tax purposes and currency fluctuations.

Capital Expenditures

For the three months ended June 30, (\$000s)	Colombia		Canada		Total	
	2022	2021	2022	2021	2022	2021
Acquisition of unproved properties	\$ 4,883	\$ 461	\$ —	\$ —	\$ 4,883	\$ 461
Geological and geophysical	1,747	240	—	—	1,747	240
Drilling and completion	107,322	38,287	—	—	107,322	38,287
Well equipment and facilities	17,764	5,542	—	—	17,764	5,542
Other	21	239	1,044	78	1,065	317
Total capital expenditures	\$ 131,737	\$ 44,769	\$ 1,044	\$ 78	\$ 132,781	\$ 44,847

For the six months ended June 30, (\$000s)	Colombia		Canada		Total	
	2022	2021	2022	2021	2022	2021
Acquisition of unproved properties	\$ 5,022	\$ 461	\$ —	\$ —	\$ 5,022	\$ 461
Geological and geophysical	12,192	407	—	—	12,192	407
Drilling and completion	205,697	67,269	—	—	205,697	67,269
Well equipment and facilities	30,584	15,897	—	—	30,584	15,897
Other	174	264	1,610	141	1,784	405
Total capital expenditures	\$ 253,669	\$ 84,298	\$ 1,610	\$ 141	\$ 255,279	\$ 84,439

Below is additional information related to capital expenditures in the period by key operating area:

(\$000s)	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Block LLA-34	\$ 18,938	\$ 21,325	\$ 45,494	\$ 44,148
Southern Llanos	50,932	12,049	99,854	19,175
Northern Llanos	19,898	934	24,020	2,046
Magdalena Basin	41,795	10,197	84,127	18,665
Canada - Corporate	1,218	342	1,784	405
Total capital expenditures	\$ 132,781	\$ 44,847	\$ 255,279	\$ 84,439

During the six months ended June 30, 2022 the Company incurred \$255.3 million of capital expenditures compared to \$84.4 million in the same period of 2021. During the second quarter of 2022 the Company drilled 15 gross (12.25 net) wells, compared to drilling 10 gross (6.55 net) wells in the comparative period upon the re-activation of the development and exploration program. During the second quarter of 2022, total drilling and completion costs were \$107.3 million of which the majority related to drilling, completion and capitalized workover costs at Block LLA-34, Cabrestero, Capachos, Fortuna and Boranda.

Summary of Quarterly Results

Three months ended (\$000s)	Jun. 30, 2022	Mar. 31, 2022	Dec. 31, 2021	Sep. 30, 2021
Average daily oil and natural gas production (boe/d)	51,143	51,688	49,779	47,496
Average realized sales price - oil (\$/boe) ⁽¹⁾	98.22	86.24	67.81	62.77
Financial (000s except per share amounts)				
Oil and natural gas sales	\$ 448,255	\$ 413,616	\$ 315,327	\$ 272,481
Funds flow provided by operations ⁽⁵⁾	\$ 227,796	\$ 205,488	\$ 168,261	\$ 152,713
Per share – basic ⁽²⁾	1.98	1.73	1.39	1.24
Per share – diluted ⁽²⁾	1.98	1.73	1.39	1.23
Net income	\$ 143,128	\$ 152,650	\$ 96,041	\$ 67,942
Per share – basic	1.24	1.29	0.80	0.55
Per share – diluted	1.24	1.29	0.79	0.55
Dividends	\$ 22,226	\$ 13,115	\$ 35,610	\$ 12,021
Per share - Cdn\$ ⁽⁴⁾⁽⁶⁾	0.250	0.140	0.375	0.125
Capital Expenditures ⁽¹⁾	\$ 132,781	\$ 122,498	\$ 118,507	\$ 74,289
Total assets (end of period)	\$ 2,086,407	\$ 1,923,836	\$ 1,784,221	\$ 1,669,243
Working capital surplus (end of period) ⁽²⁾⁽⁵⁾	\$ 311,496	\$ 286,684	\$ 325,780	\$ 349,694

(1) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures Advisory".

(2) Non-GAAP ratio. See "Non-GAAP and Other Financial Measures Advisory".

(3) Working capital does not include the undrawn amount available on the credit facility.

(4) Dividends paid per share are based on the number of common shares outstanding at each dividend record date.

(5) Capital management measure. See "Non-GAAP and Other Financial Measures Advisory".

(6) Supplementary financial measure. See "Non-GAAP and Other Financial Measures Advisory".

Three months ended (\$000s)	Jun. 30, 2021	Mar. 31, 2021	Dec. 31, 2020	Sep. 30, 2020
Average daily oil and natural gas production (boe/d)	43,900	46,779	46,642	44,305
Average realized sales price - oil (\$/boe) ⁽¹⁾	59.68	52.80	36.95	33.88
Financial (000s except per share amounts)				
Oil and natural gas sales	\$ 247,318	\$ 222,058	\$ 167,264	\$ 146,231
Funds flow provided by operations ⁽⁵⁾	\$ 131,602	\$ 124,969	\$ 81,567	\$ 79,384
Per share – basic ⁽²⁾	1.03	0.96	0.61	0.57
Per share – diluted ⁽²⁾	1.03	0.96	0.60	0.57
Net income	\$ 91,662	\$ 47,460	\$ 56,192	\$ 27,619
Per share – basic	0.72	0.37	0.42	0.20
Per share – diluted	0.72	0.36	0.42	0.20
Dividends	\$ —	\$ —	\$ —	\$ —
Per share - Cdn\$ ⁽⁴⁾⁽⁶⁾	—	—	—	—
Capital Expenditures ⁽¹⁾	\$ 44,847	\$ 39,592	\$ 46,932	\$ 17,756
Total assets (end of period)	\$ 1,598,310	\$ 1,550,441	\$ 1,541,081	\$ 1,548,484
Working capital surplus (end of period) ⁽²⁾⁽⁵⁾	\$ 352,188	\$ 341,686	\$ 320,155	\$ 370,722

(1) Non-GAAP financial measure. See "Non-GAAP and Other Financial Measures Advisory".

(2) Non-GAAP ratio. See "Non-GAAP and Other Financial Measures Advisory".

(3) Working capital does not include the undrawn amount available on the credit facility.

(4) Dividends paid per share are based on the number of common shares outstanding at each dividend record date.

(5) Capital management measure. See "Non-GAAP and Other Financial Measures Advisory".

(6) Supplementary financial measure. See "Non-GAAP and Other Financial Measures Advisory".

Factors that Caused Variations Quarter Over Quarter

During the second quarter of 2022, production of 51,143 boe/d (consisting of 6,734 bbls/d light and medium crude oil, 42,373 bbls/d of heavy crude oil and 12,216 mcf/d of conventional natural gas) was a decrease of 1% over the previous quarter ended March 31, 2022. Revenue and funds flow provided by operations were higher than the previous quarter due to an increase in realized prices. Working capital increased to \$311.5 million from \$286.7 million at March 31, 2022. Dividends paid on common shares for the quarter were \$22.2 million (Cdn\$0.25 per common share).

During the first quarter of 2022, production of 51,688 boe/d (consisting of 5,687 bbls/d light and medium crude oil, 43,865 bbls/d of heavy crude oil and 12,816 mcf/d of conventional natural gas) was an increase of 4% over the previous quarter ended December 31, 2021. Revenue and funds flow provided by operations were higher than the previous quarter due to an increase in volumes sold and realized prices. Working capital decreased to \$286.7 million from \$325.8 million at December 31, 2021. Dividends paid on common shares for the quarter were \$13.1 million (Cdn\$0.14 per common share).

During the fourth quarter of 2021, production of 49,779 boe/d (consisting of 6,376 bbls/d light and medium crude oil, 41,534 bbls/d of heavy crude oil and 11,214 mcf/d of conventional natural gas) was in excess of production for the previous quarter ended September 30, 2021. Revenue and funds flow provided by operations were higher than the previous quarter due to an increase in volumes sold and realized prices. Working capital decreased to \$325.8 million from \$349.7 million at September 30, 2021. Dividends paid on common shares for the quarter were \$35.6 million (Cdn\$0.375 per common share).

During the third quarter of 2021, production of 47,496 boe/d (consisting of 6,955 bbls/d light and medium crude oil, 38,949 bbls/d of heavy crude oil and 9,552 mcf/d of conventional natural gas) was in excess of production for the previous quarter ended June 30, 2021. Revenue and funds flow provided by operations were higher than the previous quarter due to an increase in realized prices and volumes sold. Working capital decreased to \$349.7 million from \$352.2 million at June 30, 2021. Dividends paid on common shares for the quarter were \$12.0 million (Cdn\$0.125 per common share).

During the second quarter of 2021, production of 43,900 boe/d (consisting of 5,881 bbls/d light and medium crude oil, 36,308 bbls/d of heavy crude oil and 10,266 mcf/d of conventional natural gas) was lower than production for the previous quarter ended March 31, 2021. Revenue and funds flow provided by operations were higher than the previous quarter mainly due to an increase in realized prices, partially offset by a decrease in volumes sold. Working capital increased to \$352.2 million from \$341.7 million at March 31, 2021.

Please refer to "Financial and Operating Results" for detailed discussions on variations during the comparative quarters and to Parex' previously issued annual and interim MD&As for further information regarding changes in prior quarters.

Liquidity and Capital Resources

As at June 30, 2022 the Company had a working capital surplus of \$311.5 million, excluding funds available under the credit facility, as compared to working capital surplus at December 31, 2021 of \$325.8 million. The decrease in working capital is mainly a result of the acceleration of the Company's NCIB in the first quarter of 2022. Bank debt was \$nil as at June 30, 2022, December 31, 2021 and June 30, 2021. The credit facility has a current borrowing base of \$200.0 million (December 31, 2021 - \$200.0 million). At June 30, 2022 Parex held \$392.8 million of cash, compared to \$378.3 million at December 31, 2021 and \$371.4 million at June 30, 2021. The Company's cash balances reside in current accounts with chartered institutions, the majority of which are held on account in Canada, Barbados, Bermuda and Colombia in USD.

Parex' senior secured credit facility with a syndicate of banks has a current borrowing base of \$200.0 million. Key covenants include a rolling four quarters total funded debt to adjusted EBITDA test of 3:50:1, and other standard business operating covenants. Given there is \$nil balance drawn on the facility as at June 30, 2022, the Company is in compliance with all covenants. The next annual review is scheduled to occur in April 2023.

Refer to note 20 - Commitments of the interim financial statements for the period ended June 30, 2022 for a description of the performance guarantee facility with Export Development Canada as well as the unsecured letters of credit.

Outstanding Share Data

Parex is authorized to issue an unlimited number of voting common shares without nominal or par value. As at June 30, 2022 the Company had 113,810,423 common shares outstanding compared to 120,265,664 at December 31, 2021 a decrease of 5.4%. At August 3, 2022 the common shares outstanding has been reduced to 112,217,623.

The Company has a stock option plan and RSU plan. The plans provide for the issuance of stock options and RSUs to the Company's officers, executive and certain employees to acquire common shares. In 2019, Parex created a new cash or share settled RSU and PSU plan. Under this new plan any employee who chooses share settlement will receive common shares of the Company purchased on the open market, hence there will be no new issuance of common shares from treasury under this new plan. Going forward, it is expected that only the grants under the Company's stock option plan and the exercise of previously issued RSUs will result in common shares issued from treasury.

As at August 3, 2022 Parex has the following securities outstanding:

	Number	%
Common shares	112,217,623	99 %
Stock options	758,048	1 %
Restricted share units	79,642	— %
	113,055,313	100 %

As of the date of this MD&A, total stock options and RSUs outstanding represent approximately 1% of the total issued and outstanding common shares.

Contractual Obligations, Commitments and Guarantees

In the normal course of business, Parex has entered into arrangements and incurred obligations that will affect the Company's future operations and liquidity. These commitments primarily relate to exploration work commitments including seismic and drilling activities. The Company has discretion regarding the timing of capital spending for exploration work commitments, provided that the work is completed by the end of the exploration periods specified in the contracts or the Company can negotiate extensions of the exploration periods. The Company's exploration commitments are described in the Company's AIF under "Description of Business - Principal Properties". These obligations and commitments are considered in assessing cash requirements in the discussion of future liquidity.

In Colombia, the Company has provided guarantees to the Colombian National Hydrocarbon Agency ("ANH") which on June 30, 2022 were \$52.7 million (December 31, 2021 - \$47.9 million) to support the exploration work commitments on its blocks. The guarantees have been provided in the form of letters of credit for varying terms. Export Development Canada has provided performance security guarantees under the Company's \$150.0 million (December 31, 2021 - \$150.0 million) performance guarantee facility to support approximately \$12.5 million (December 31, 2021 - \$11.6 million) of the letters of credit issued on behalf of Parex at June 30, 2022. Also at June 30, 2022, there is an additional \$40.2 million (December 31, 2021 - \$36.3 million) of letters of credit that are provided by select Latin American banks on an unsecured basis. The letters of credit issued to the ANH are reduced from time to time to reflect the work performed on the various blocks.

Exploration commitments were approximately \$65.3 million higher at June 30, 2022 compared to December 31, 2021 mainly due to the 18 newly awarded exploration blocks in the Colombia bid round in December 2021 and the farmout extension in Capachos.

The following table summarizes the Company's estimated undiscounted commitments as at June 30, 2022:

(000s)	Total	<1 year	1 – 3 years	3 – 5 years	>5 years
Exploration	\$ 465,593	\$ 22,116	\$ 297,720	\$ 145,757	\$ —
Office and accommodations ⁽¹⁾	8,153	1,706	2,456	1,398	2,593
Decommissioning and Environmental Obligations	117,962	6,979	—	—	110,983
Total	\$ 591,708	\$ 30,801	\$ 300,176	\$ 147,155	\$ 113,576

(1) Includes minimum lease payment obligations associated with leases for office space and accommodations.

Decommissioning and Environmental Liabilities

	Decommissioning	Environmental	Total
Balance, December 31, 2020	\$ 38,210	\$ 12,901	\$ 51,111
Additions	3,353	3,776	7,129
Settlements of obligations during the year	(8,311)	(1,183)	(9,494)
Loss on settlement of obligations	1,136	—	1,136
Accretion expense	2,279	1,345	3,624
Change in estimate - inflation and discount rates	(1,345)	2,754	1,409
Change in estimate - costs	6,068	580	6,648
Foreign exchange (gain)	(4,660)	(1,949)	(6,609)
Balance, December 31, 2021	\$ 36,730	\$ 18,224	\$ 54,954
Additions	1,599	2,354	3,953
Settlements of obligations during the period	(2,214)	(214)	(2,428)
Loss on settlement of obligations	1,010	—	1,010
Accretion expense	1,715	1,140	2,855
Change in estimate - inflation and discount rates	(8,166)	(2,796)	(10,962)
Change in estimate - costs	3,117	(200)	2,917
Foreign exchange (gain)	(951)	(668)	(1,619)
Balance, June 30, 2022	\$ 32,840	\$ 17,840	\$ 50,680
Current obligation	(5,474)	(1,505)	(6,979)
Long-term obligation	\$ 27,366	\$ 16,335	\$ 43,701

The total environmental, decommissioning and restoration obligations were determined by management based on the estimated costs to settle environmental impact obligations incurred and to reclaim and abandon the wells and well sites based on contractual requirements. The obligations are expected to be funded from the Company's internal resources available at the time of settlement.

The total decommissioning and environmental liability is estimated based on the Company's net ownership in wells drilled as at June 30, 2022, the estimated costs to abandon and reclaim the wells and well sites and the estimated timing of the costs to be paid in future periods. The total undiscounted amount of cash flows required to settle the Company's decommissioning liability is approximately \$94.0 million as at June 30, 2022 (December 31, 2021 – \$88.0 million) with the majority of these costs anticipated to occur in 2033 or later in Colombia. A risk-free discount rate of 12.5% and an inflation rate of 5% were used in the valuation of the liabilities (December 31, 2021 – 9.3% risk-free discount rate and a 5% inflation rate). The risk-free discount rate and the inflation rate used are based on forecast Colombia rates.

Included in the decommissioning liability is \$5.5 million (December 31, 2021 – \$5.7 million) that is classified as a current obligation.

The total undiscounted amount of cash flows required to settle the Company's environmental liability is approximately \$23.9 million as at June 30, 2022 (December 31, 2021 – \$25.9 million) with the majority of these costs anticipated to occur in 2033 or later in Colombia. A risk-free discount rate of 12.5% and an inflation rate of 5% were used in the valuation of the liabilities (December 31, 2021 – 9.3% risk-free discount rate and a 5% inflation rate). The risk-free discount rate and the inflation rate used are based on forecast Colombia rates.

Included in the environmental liability is \$1.5 million (December 31, 2021 – \$1.0 million) that is classified as a current obligation.

Decommissioning liabilities are considered critical accounting estimates. There are significant uncertainties related to decommissioning expenditures and the impact on the financial statements could be material. The eventual timing of and costs for these expenditures could differ from current estimates. The main factors that can cause expected estimated cash flows in respect of decommissioning liabilities to change are:

- Changes in laws and legislation;
- Construction of new facilities;
- Change in commodity price;
- Change in the estimate of oil reserves and the resulting amendment to the life of reserves;
- Changes in technology; and
- Execution of decommissioning liabilities.

Advisory on Forward-Looking Statements

Certain information regarding Parex set forth in this MD&A, including assessments by the Company's management of the Company's plans and future operations, contains forward-looking statements that involve substantial known and unknown risks and uncertainties. The use of any of the words "plan", "expect", "forecast", "project", "intend", "believe", "anticipate", "estimate" or other similar words, or statements that certain events or conditions "may" or "will" occur are intended to identify forward-looking statements. Such statements represent the Company's internal projections, estimates or beliefs concerning, among other things, future growth, results of operations, production, future capital and other expenditures (including the amount, nature and sources of funding thereof), competitive advantages, plans for and results of drilling activity, environmental matters, business prospects and opportunities. These statements are only predictions and actual events or results may differ materially. Although the Company's management believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause the Company's actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, Parex. In particular, forward-looking statements contained in this MD&A include, but are not limited to, statements with respect to:

- Company's focus, plans, priorities and strategies;
- Parex' third quarter 2022 and full-year 2022 production guidance;
- Parex' expectation that crude oil inventory in future periods will remain in line with normal historical levels;
- the Company's expectation that higher realized WTI oil prices will result in higher royalty percentage realized;
- the Company's expected royalties as a percentage of sales at certain WTI;
- the Company's estimated per boe impact of a change in Parex' local currencies and the effect on key cost components;
- the Company's estimated undiscounted commitments and the anticipated timing thereof;
- fluctuations in Brent/Vasconia crude differential;
- the amount and timing of the payment of the Company's environmental, decommissioning and restoration obligations and the Company's anticipated means of funding such obligations;
- the Company's expectations regarding the per boe and G&A expense impact caused by appreciation and depreciation of the COP;
- foreign currency risk and the ability to reverse unrealized foreign exchange gains and losses in the future;
- the Company's risk management strategy and the use of derivatives primarily with financial institutions to manage movements in the price of crude oil, fluctuations in the USD/COP exchange rate and interest rate movements;
- that the Company will be able to manage and forecast cash flow through derivative contracts;
- Parex' anticipated effective tax rate on operating cash flow based on certain Brent crude prices;
- terms of the Company's credit facility including the timing of the next borrowing base redetermination;
- terms of certain contractual obligations; and
- the Company's expectation that only the grants under the Company's stock option plan and the exercise of previously issued RSUs and PSUs will result in common shares issued from treasury.

These forward-looking statements are subject to numerous risks and uncertainties, including but not limited to: the impact of general economic conditions in Canada and Colombia; industry conditions including changes in laws and regulations including adoption of new environmental laws and regulations, and changes in how they are interpreted and enforced in Canada and Colombia; continued volatility in market prices for oil; the impact of the COVID-19 pandemic and the ability of Parex to carry on its operations as currently contemplated in light of the COVID-19 pandemic; the impact of significant declines in market prices for oil; competition; lack of availability of qualified personnel; the results of exploration and development drilling and related activities; partner approval of capital work programs and other matters requiring approval; imprecision in reserve and resource estimates; the production and growth potential of Parex' assets; obtaining required approvals of regulatory authorities in Canada and Colombia; risks associated with negotiating with foreign governments as well as country risk associated with conducting international activities; fluctuations in foreign exchange or interest rates; environmental risks; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and natural gas industry; ability to access sufficient capital from internal and external sources; the risk that the Company will not be able to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its undeveloped properties; risk of failure to achieve the anticipated benefits associated with acquisitions; failure of counterparties to perform under the terms of their contracts; changes to pipeline capacity; the timing of the number of crude oil shipments from storage to export; the risk that Parex' evaluation of its existing portfolio of development and exploration opportunities is not consistent with its expectations; failure to meet expected production targets; the risk that Parex does not have sufficient financial resources in the future to provide distributions to its shareholders; the risk that the Board does not declare dividends in the future or that Parex dividend policy changes; the risk that crude oil inventory in future periods may be less than normal historic levels, that crude oil inventory in future periods will remain in line with normal historic levels; the risk that royalties may be less than anticipated; the risk of currency fluctuations; the risk that the Company may not be able to fund its environmental, decommissioning and restoration obligations in the manner anticipated; the risk that Company's borrowing base under its credit facility after its next redetermination will be lower than anticipated; the risks discussed under "Risk Factors" in the Company's December 31, 2021 MD&A and under "Decommissioning and Environmental Liabilities" in this MD&A, and other factors, many of which are beyond the control of the Company. Readers are cautioned that the foregoing list of factors is

not exhaustive. Additional information on these and other factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

Although the forward-looking statements contained in this MD&A are based upon assumptions which management believes to be reasonable, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. With respect to forward-looking statements contained in this MD&A, Parex has made assumptions regarding, among other things: current and future commodity prices and royalty regimes; the impact (and the duration thereof) that the COVID-19 pandemic will have on (i) the demand for crude oil and conventional natural gas; (ii) the supply chain, including the Company's ability to obtain the equipment and services it requires; and (iii) the Company's ability to produce, transport and/or sell its crude oil and conventional natural gas; availability of skilled labour; timing and amount of capital expenditures; uninterrupted access to areas of the Company's operations and infrastructure; future exchange rates; the price of oil, including the anticipated Brent oil price; the impact of increasing competition; conditions in general economic and financial markets; availability of drilling and related equipment; effects of regulation by governmental agencies; recoverability of reserves and future production rates; timing and number of dry hole write-offs permitted for Colombian tax purposes; royalty rates; future operating costs; the status of litigation; timing of drilling and completion of wells; that the Company will have sufficient cash flow, debt or equity sources or other financial resources required to fund its capital and operating expenditures and requirements as needed; that the Company's conduct and results of operations will be consistent with its expectations; that the Company will have the ability to develop the Company's oil and gas properties in the manner currently contemplated; current or, where applicable, proposed industry conditions, laws and regulations will continue in effect or as anticipated as described herein; that the estimates of the Company's reserves volumes and the assumptions related thereto (including commodity prices and development costs) are accurate in all material respects; that the Company will be able to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its undeveloped properties; on-stream timing of production from successful exploration wells; operational performance of non-operated producing fields; pipeline capacity; that Parex will have sufficient financial resources to pay dividends and acquire its shares pursuant to its NCIB in the future; that higher realized WTI oil prices result in higher realized royalty percentages; and other matters. The ability of the Company to carry out its business plan is primarily dependent upon the continued support of its shareholders, the discovery of economically recoverable reserves and the ability of the Company to obtain financing or generate sufficient cash flow to develop such reserves.

In addition, statements relating to "reserves" are by their nature forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources described can be profitably produced in the future. The recovery and reserve estimates of Parex' reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered.

Forward-looking statements and other information contained in this MD&A concerning the oil and natural gas industry in the countries in which it operates and the Company's general expectations concerning this industry are based on estimates prepared by Management using data from publicly available industry sources as well as from resource reports, market research and industry analysis and on assumptions based on data and knowledge of this industry which the Company believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While the Company is not aware of any material misstatements regarding any industry data presented herein, the oil and natural gas industry involves numerous risks and uncertainties and is subject to change based on various factors.

Management has included forward looking information and the above summary of assumptions and risks related to forward-looking information in this MD&A in order to provide shareholders with a more complete perspective on the Company's current and future operations and such information may not be appropriate for other purposes. The Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do, what benefits Parex will derive there from. These forward-looking statements are made as of the date of this MD&A and Parex disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

This MD&A contains information that may be considered a financial outlook under applicable securities laws about the Company's potential financial position, including, but not limited to: the Company's expected royalties as a percentage of sales at certain WTI prices; the Company's estimated undiscounted commitments and the anticipated timing thereof; the amount and timing of payment of the Company's environmental, decommissioning and restoration obligations and the Company's anticipated means of funding such obligations; the Company's expectation regarding the per boe and G&A expense impact caused by appreciation and depreciation of the COP, that the Company will be able to manage and forecast cash flow through derivative contracts; and Parex' anticipated effective tax rate on operating cash flow; all of which are subject to numerous assumptions, risk factors, limitations and qualifications, including those set forth in the above paragraphs. The actual results of operations of the Company and the resulting financial results may vary from the amounts set forth in this MD&A and such variations may be material. This information has been provided for illustration only and with respect to future periods are based on budgets and forecasts that are speculative and are subject to a variety of contingencies and may not be appropriate for other purposes. Accordingly, these estimates are not

to be relied upon as indicative of future results. Except as required by applicable securities laws, the Company undertakes no obligation to update such financial outlook. The financial outlook contained in this MD&A was made as of the date of this MD&A and was provided for the purpose of providing further information about the Company's potential future business operations. Readers are cautioned that the financial outlook contained in this MD&A is not conclusive and is subject to change. The Company disclaims any intention or obligations to update or revise any financial outlook contained in this MD&A, whether as a result of new information, future events or otherwise, unless required pursuant to applicable law.

Distribution Advisory

The Company's future shareholder distributions, including but not limited to the payment of dividends and the acquisition by the Company of its shares pursuant to its NCIB, if any, and the level thereof is uncertain. Any decision to pay further dividends on the common shares (including the actual amount, the declaration date, the record date and the payment date in connection therewith and any special dividends) or acquire shares of the Company will be subject to the discretion of the Board of Directors of Parex and may depend on a variety of factors, including, without limitation the Company's business performance, financial condition, financial requirements, growth plans, expected capital requirements and other conditions existing at such future time including, without limitation, contractual restrictions and satisfaction of the solvency tests imposed on the Company under applicable corporate law. Further, the actual amount, the declaration date, the record date and the payment date of any dividend are subject to the discretion of the Board. There can be no assurance that the Company will pay dividends or repurchase any shares of the Company in the future.

Oil & Gas Matters Advisory

This report contains a number of oil and gas metrics, including operating netbacks and FFO netbacks. These oil and gas metrics have been prepared by management and do not have standardized meanings or standard methods of calculation and therefore such measures may not be comparable to similar measures used by other companies and should not be used to make comparisons. Such metrics have been included herein to provide readers with additional measures to evaluate the Company's performance; however, such measures are not reliable indicators of the future performance of the Company and future performance may not compare to the performance in previous periods and therefore such metrics should not be unduly relied upon. Management uses these oil and gas metrics for its own performance measurements and to provide security holders with measures to compare the Company's operations over time. Readers are cautioned that the information provided by these metrics, or that can be derived from the metrics presented in this report, should not be relied upon for investment or other purposes.

The term "Boe" means a barrel of oil equivalent on the basis of 6 thousand cubic feet ("Mcf") of natural gas to 1 bbl. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf:1 Bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6 Mcf:1 Bbl, utilizing a conversion ratio at 6 Mcf:1 Bbl may be misleading as an indication of value.

Non-GAAP and Other Financial Measures Advisory

This MD&A uses various "non-GAAP financial measures", "non-GAAP ratios", "supplementary financial measures" and "capital management measures" (as such terms are defined in NI 52-112), which are described in further detail below. Such measures are not standardized financial measures under IFRS and might not be comparable to similar financial measures disclosed by other issuers. Investors are cautioned that non-GAAP financial measures should not be construed as alternatives to or more meaningful than the most directly comparable GAAP measures as indicators of Parex' performance.

These measures facilitate management's comparisons to the Company's historical operating results in assessing its results and strategic and operational decision-making and may be used by financial analysts and others in the oil and natural gas industry to evaluate the Company's performance. Further, management believes that such financial measures are useful supplemental information to analyze operating performance and provide an indication of the results generated by the Company's principal business activities.

Set forth below is a description of the non-GAAP financial measures, non-GAAP ratios, supplementary financial measures and capital management measures used in this MD&A.

Non-GAAP Financial Measures

Adjusted EBITDA is defined as net income (loss) before interest, taxes, depletion and depreciation and adjusted for other non-cash items, transaction costs and extraordinary and non-recurring items. Adjusted EBITDA is solely used in the calculation of the bank covenant and is not considered a key performance measure by Management.

Capital Expenditures, is a non-GAAP financial measure which the Company uses to describe its capital costs associated with oil and gas expenditures. The measure considers both property, plant and equipment expenditures and exploration and evaluation asset expenditures which are items in the Company's statement of cash flows for the period.

(\$000s)	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Property, plant and equipment expenditures	\$ 93,346	\$ 45,547	\$ 177,214	\$ 84,062
Exploration and evaluation expenditures	39,435	(700)	78,065	377
Total Capital expenditures	\$ 132,781	\$ 44,847	\$ 255,279	\$ 84,439

Free funds flow, is a non-GAAP financial measure that is determined by funds flow provided by operations less capital expenditures. The Company considers free funds flow or free cash flow to be a key measure as it demonstrates Parex' ability to fund return of capital, such as the NCIB or dividends, without accessing outside funds and is calculated as follows:

(\$000s)	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Cash provided by operating activities	\$ 244,783	\$ 111,858	\$ 435,390	\$ 240,000
Net change in non-cash working capital	(16,987)	19,744	(2,106)	16,571
Funds flow provided by operations	227,796	131,602	433,284	256,571
Capital expenditures, excluding corporate acquisitions	132,781	44,847	255,279	84,439
Free funds flow	\$ 95,015	\$ 86,755	\$ 178,005	\$ 172,132

Operating netback

The Company considers operating netback to be a key measure as they demonstrate Parex' profitability relative to current commodity prices. Parex calculates operating netback as oil and natural gas sales less royalties, production, and transportation expense.

Non-GAAP Financial Ratios

Basic and diluted funds flow provided by operations per share is calculated by dividing funds flow provided by operations by the weighted average number of basic and diluted shares outstanding. Parex presents basic and diluted funds flow provided by operations per share whereby per share amounts are calculated using weighted-average shares outstanding, consistent with the calculation of earnings per share.

Funds flow provided by operations per boe or funds flow netback per boe, is a non-GAAP ratio that includes all cash generated from operating activities and is calculated before changes in non-cash working capital, divided by produced oil and natural gas sales volumes. The Company considers funds flow netback to be a key measure as it demonstrates Parex' profitability after all cash costs relative to current commodity prices.

Operating netback per boe

The Company considers operating netback per boe to be a key measure as they demonstrate Parex' profitability relative to current commodity prices. Parex calculates operating netback per boe as operating netback divided by the total equivalent sales volume including purchased and overlifted oil volumes for oil and natural gas sales price and transportation expense per boe and by the total equivalent sales volume and excludes purchased and overlifted oil volumes for royalties and production expense per boe.

Capital Management Measures

Funds flow provided by operations, is a capital management measure that includes all cash generated from operating activities and is calculated before changes in non-cash working capital. A reconciliation from cash provided by operating activities to funds flow provided by operations is as follows:

(\$000s)	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Cash provided by operating activities	\$ 244,783	\$ 111,858	\$ 435,390	\$ 240,000
Net change in non-cash working capital	(16,987)	19,744	(2,106)	16,571
Funds flow provided by operations	\$ 227,796	\$ 131,602	\$ 433,284	\$ 256,571

Working Capital Surplus, is a capital management measure which the Company uses to describe its liquidity position and ability to meet its short term liabilities. Working capital surplus is defined as current assets less current liabilities:

(\$000s)	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Current Assets	\$ 695,053	\$ 505,781	\$ 695,053	\$ 505,781
Current Liabilities	383,557	153,593	383,557	153,593
Working Capital Surplus	\$ 311,496	\$ 352,188	\$ 311,496	\$ 352,188

Supplementary Financial Measures

"Average realized sales price per boe" is comprised of total commodity sales from oil and natural gas production, as determined in accordance with IFRS, divided by the Company's total oil and natural gas sales volumes.

"Average realized natural gas price per Mcf" is comprised of natural gas commodity sales from production, as determined in accordance with IFRS, divided by the Company's natural gas sales volumes.

"Current tax effective rate as a per cent of funds flow provided by operations" is comprised of current income tax expense, as determined in accordance with IFRS, divided by funds flow provided by operations.

"DD&A expense per boe" is comprised of DD&A expense, as determined in accordance with IFRS, divided by the Company's total production.

"Dividends paid per share" is comprised of dividends declared, as determined in accordance with IFRS, divided by the number of shares outstanding at the dividend record date.

"G&A expense per boe" is comprised of net G&A expense after recoveries and capitalization, as determined in accordance with IFRS, divided by the Company's total production.

"Net revenue per boe" is comprised of oil and natural gas sales per boe less royalties per boe.

"Oil and natural gas sales per boe" is determined by sales revenue excluding risk management contracts, as determined in accordance with IFRS, divided by total equivalent sales volume including purchased and overlifted oil volumes.

"Production expense per boe" is comprised of production expense, as determined in accordance with IFRS, divided by the total equivalent sales volume and excludes purchased and overlifted oil volumes.

"Royalties per boe" is comprised of royalties, as determined in accordance with IFRS, divided by the total equivalent sales volume and excludes purchased and overlifted oil volumes.

"Royalties as a percentage of sales" is comprised of royalties, as determined in accordance with IFRS, divided by the total equivalent sales from production, excluding purchased oil volumes, as determined in accordance with IFRS.

"Transportation expense per boe" is comprised of transportation expense, as determined in accordance with IFRS, divided by the total equivalent sales volumes including purchased and overlifted oil volumes.

Business Environment and Risks

Parex is exposed to various market and operational risks. For a discussion of these risks please refer to the Parex' MD&A for the year ended December 31, 2021 as filed on SEDAR at www.sedar.com or Parex' website at www.parexresources.com.

Internal Controls over Financial Reporting

There has been no change in Parex' internal controls over financial reporting ("ICFR") or disclosure controls and procedures ("DC&P") during the period covered by this MD&A that materially affected, or is reasonably likely to materially affect, its ICFR or DC&P.

Off-Balance-Sheet Arrangements

The Company did not enter into any off-balance-sheet arrangements during the six months ended June 30, 2022 other than normal course guarantees entered into in the form of letters of credit to support the exploration work commitments on its blocks. For further information refer to "Contractual Obligations, Commitments and Guarantees" section above and note 20 - Commitments in the unaudited condensed interim consolidated financial statements.

Financial Instruments and Other Instruments

The Company's non-derivative financial instruments recognized in the consolidated balance sheet consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. Non-derivative financial instruments are recognized initially at fair value. The fair values of the current financial instruments approximate their carrying value due to their short-term maturity.

Summary of Significant Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year as described in note 3 of the Company's consolidated financial statements for the year ended December 31, 2021.

DIRECTORS

Wayne Foo
Chairman of the Board

Lynn Azar

Lisa Colnett

Sigmund Cornelius

Robert Engbloom

Bob MacDougall

Glenn McNamara

Imad Mohsen

Carmen Sylvain

Paul Wright

OFFICERS & SENIOR EXECUTIVES

Imad Mohsen
President and Chief Executive Officer

Eric Furlan
Chief Operating Officer

Kenneth Pinsky
Chief Financial Officer & Corporate Secretary

Katie Bernard
Vice President, New Ventures

Daniel Ferreira
President, Parex Colombia & Country Manager

Ryan Fowler
Sr. Vice President, Exploration & Business Development

Michael Kruchten
Sr. Vice President, Capital Markets & Corporate Planning

Joshua Share
Sr. Vice President, Corporate Services

CORPORATE HEADQUARTERS

Parex Resources Inc.
2700, Eighth Avenue Place, West Tower
585 8 Avenue S.W.,
Calgary, Alberta, Canada T2P 1G1

Tel: 403-265-4800
Fax: 403-265-8216
E-mail: info@parexresources.com

OPERATING OFFICES

Parex Resources Colombia Ltd. Sucursal
Calle 113 No. 7-21, Of. 611,
Edificio Teleport, Torre A,
Bogotá, Colombia

Tel: 571-629-1716
Fax: 571-629-1786

AUDITORS

PricewaterhouseCoopers LLP
Calgary, Alberta

LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada
Calgary, Alberta

RESERVES EVALUATORS

GLJ Petroleum Consultants Ltd.
Calgary, Alberta

INVESTOR RELATIONS

Michael Kruchten
Sr. Vice President, Capital Markets & Corporate Planning

Tel: 403-517-1733
Fax: 403-265-8216

E-mail:
Investor.Relations@parexresources.com

Website: www.parexresources.com

ABBREVIATIONS**Oil and Natural Gas Liquids**

bbl(s)	barrel(s)
mbbls	one thousand barrels
bbl(s)/d or bopd	barrel(s) of oil per day
BOE or boe	barrel of oil equivalent, using the conversion factor of 6 Mcf: 1 bbl
boe/d	barrels of oil equivalent per day
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day

Other

WTI	West Texas Intermediate
Brent	Brent Ice
Vasconia	Vasconia Crude
FFO	Funds flow provided by operations

"BOEs" may be misleading, particularly if used in isolation. A BOE conversion ratio of six thousand cubic feet of natural gas to one barrel of oil equivalent (6 mcf: 1 bbl) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.