

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 three months ended March 31, 2016 is dated May 10, 2016 and should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three months ended March 31, 2016, as well as the Company's audited consolidated annual financial statements for the year ended December 31, 2015. 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 ("AIF") dated March 17, 2016, 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 an oil and gas company actively engaged in crude oil exploration, development and production in Colombia. Headquartered in Calgary, Canada, Parex, through its foreign subsidiaries, holds interests in onshore exploration and production blocks totaling approximately 1,870,122 gross acres. The common shares of the Company trade on the Toronto Stock Exchange ("TSX") under the symbol PXT.

Abbreviations

Refer to the end of the MD&A for commonly used abbreviations in the document. Refer to page 15 for the Advisory on Forward-Looking Statements and page 17 for Non-GAAP Terms used.

Three months ended March 31, 2016 ("first quarter or Q1") Highlights

- Quarterly oil production was 28,702 bbl/d, slightly in excess of oil production for the previous quarter ended December 31, 2015 and an increase of 7 percent over the prior year comparative period. Combined oil and natural gas production for the quarter was 28,900 boe/d;
- Generated funds flow from operations of \$15.5 million (\$0.10 per share basic as compared to \$0.24 per share for the comparative period). Funds flow has decreased from the comparative period due to lower oil prices partially offset by higher production volumes;
- Realized Brent referenced sales price of \$27.08 per barrel ("bbl") during the period at an \$8.13/bbl discount to the average Brent price, and an operating netback of \$8.06/boe. Operating and transportation combined unit costs of \$16.79/boe were approximately 12 percent less than the fourth quarter of 2015 and 28 percent less than the comparative period;
- Working capital increased to \$80.0 million at March 31, 2016 compared to \$76.7 million at December 31, 2015 and \$9.9 million in the comparative period. Bank debt was \$nil compared to \$39.5 million in the comparative period.

Financial Summary

For the three months ended March 31

(Financial figures in 000s except per share amounts)

	2016	2015
Average daily oil production (bbl/d)	28,702	26,729
Average daily natural gas production (mcf/d)	1,190	-
Average oil and natural gas production (boe/d)	28,900	26,729
Production split (% crude oil)	99	100
Average realized sales price (\$/boe)	\$ 27.10	\$ 49.42
Operating netback (\$/boe)	\$ 8.06	\$ 21.66
Oil and natural gas sales (including purchased oil sales)	\$ 81,518	\$ 134,307
Funds flow from continuing operations	\$ 15,457	\$ 32,958
Per share – basic	0.10	0.24
Per share – diluted ⁽¹⁾	0.10	0.24
Net (loss)	\$ (7,630)	\$ (15,544)
Per share – basic	(0.05)	(0.12)
Per share – diluted	(0.05)	(0.12)
Capital expenditures	\$ 4,507	\$ 26,963
Total assets (end of period)	\$ 943,675	\$ 1,010,116
Working capital (end of period) ⁽²⁾	\$ 79,955	\$ 9,878
Bank debt (end of period) ⁽³⁾	\$ -	\$ 39,500
Weighted average shares outstanding (000s)		
Basic	151,525	134,740
Diluted	152,575	135,852
Outstanding shares (end of period) (000s)	151,722	134,779

⁽¹⁾ Non-GAAP term. See “Non-GAAP Terms”.

⁽²⁾ Working capital calculation does not take into consideration the undrawn \$200.0 million (March 31, 2015 - \$160.5 million) available under the syndicated bank credit facility.

⁽³⁾ Syndicated bank credit facility borrowing base of \$200 million as at March 31, 2016.

Strategy

The Company’s strategy is to leverage South American and Western Canadian experience and capability to create shareholder value. Jurisdictions will be targeted that have stable fiscal regimes coupled with oil-prone hydrocarbon-rich basins in under-explored areas. Parex will apply proven technology used in the Western Canada Sedimentary Basin in basins with large oil-in-place potential. The Company will focus on short cycle time from discovery to bringing new reserves on-stream and use a portfolio approach to manage surface, subsurface and commercial risks.

Principal Properties

As at March 31, 2016, the Company's principal land holdings and interests in exploration blocks held by its subsidiaries were as follows:

	Working Interest	Gross Acres	Net Acres
Colombia Llanos Basin			
<u>Operated Properties</u>			
LLA-16, 20, 29 and 30	100%	201,864	201,864
LLA-57	100%	52,285	52,285
Los Ocarros	50%	31,066	15,533
El Eden	60%	6,397	3,838
Cabrestero	100%	29,562	29,562
LLA-40	50%	83,465	41,732
LLA-24	100%	147,100	147,100
LLA-26	100%	184,061	184,061
Cebucan	100%	109,185	109,185
Cerrero ⁽¹⁾	100%	83,903	83,903
Capachos ⁽¹⁾	50%	64,073	32,037
LLA-32	70%	57,040	39,928
LLA-10 ⁽¹⁾	50%	189,544	94,772
<u>Non-Operated Properties</u>			
LLA-34	55%	68,382	37,610
Balay	10%	4,500	450
Colombia Magdalena Basin			
<u>Operated Properties</u>			
VMM-11	100%	116,826	116,826
Morpho	100%	51,420	51,420
VIM-1	100%	223,651	223,651
VMM-9	100%	152,412	152,412
Aguas Blancas ⁽¹⁾	50%	13,386	6,693
Total		1,870,122	1,624,862

⁽¹⁾ Lands are subject to farm-in-agreement earning terms and/or regulatory approval.

Exploration properties that are deemed non-commercial will be relinquished in due course. Accordingly, the gross and net acres described above may decrease over time as lands deemed non-commercial are relinquished. For a description of blocks phase, commitments and performance guarantees secured by letters of credit refer to the AIF dated March 17, 2016.

2016 Guidance

The Company had previously released that assuming Brent oil prices of \$35-\$40/bbl, the 2016 capital expenditures budget and funds flow from operations was anticipated to be approximately \$40-\$80 million with average production for the year of 29,000 boe/d. With current Brent oil prices of approximately \$45/bbl, 2016 capital expenditures are now anticipated to increase to \$80-\$100 million and be funded from funds flow from operations. In addition, the Company has approximately \$80 million of net working capital, no debt and an undrawn bank facility available for future growth opportunities. Production guidance for 2016 will remain at 29,000 boe/d pending review and evaluation of exploration drilling results.

The 2016 drilling program has recently commenced with the Jaruki-1 exploration prospect on the Cabrestero Block in the Llanos Basin. Overall, the Company is targeting to drill up to 9 exploration wells and 4 appraisal/development wells including the drilling of 3 wells in the Middle Magdalena Basin. In addition, the Company will be acquiring approximately 400 km² of 3D seismic on Block VIM-1 in the Lower Magdalena Basin. Further, the Company is reviewing options to accelerate the drilling of 4-7 appraisal wells on the Aguas Blancas Block into 2016 with an additional \$20 million of capital expenditure.

Financial and Operational Results

Consolidated Results of Operations

Parex' operations are conducted in Colombia and Canada which are the Company's active reportable segments.

For the three months ended March 31,	2016	2015
Average daily production		
Colombia – oil (bbl/d)	28,702	26,729
Colombia – natural gas (mcf/d)	1,190	-
Total (boe/d)	28,900	26,729
Production split (% crude oil production)	99	100
Average daily sales of oil and natural gas		
Colombia – produced oil (bbl/d)	30,198	26,909
Colombia – purchased oil (bbl/d)	1,290	3,052
Colombia – Ocesa overlift (bbl/d)	1,369	-
Colombia – produced natural gas (Mcf/d)	1,190	-
Total (boe/d)	33,055	29,961
Operating netback (000s) ⁽¹⁾		
Oil and natural gas sales	\$ 81,518	\$ 134,307
Royalties	(6,232)	(10,476)
Net revenue	75,286	123,831
Production expense	(13,639)	(19,579)
Transportation expense	(34,185)	(42,021)
Purchased oil expense	(4,090)	(8,565)
Operating netback	\$ 23,372	\$ 53,666
Operating netback (per boe) ⁽¹⁾		
Oil and natural gas sales	\$ 27.10	\$ 49.42
Royalties	(2.25)	(4.29)
Net revenue	24.85	45.13
Production expense	(4.93)	(8.01)
Transportation expense	(11.86)	(15.46)
Operating netback	\$ 8.06	\$ 21.66

⁽¹⁾ Average daily sales and the operating netback calculation includes the Company's working interest sales volumes and excludes purchased oil sales volumes and the Ocesa overlift volumes.

The Company's operating netback on a per boe basis for the three months ended March 31, 2016 was \$8.06/boe (\$21.66/boe - three months ended March 31, 2015). The average realized sales price for the three months ended March 31, 2016 was \$27.10/boe (\$49.42/boe - three months ended March 31, 2015).

Royalty charges for the three months ended March 31, 2016 were \$2.25/boe (\$4.29/boe - three months ended March 31, 2015).

Production expense for the three months ended March 31, 2016 was \$4.93/boe (\$8.01/boe - three months ended March 31, 2015). Transportation expense for the three months ended March 31, 2016 was \$11.86/boe (\$15.46/boe - three months ended March 31, 2015) compared to \$12.46/boe for the fourth quarter of 2015. On a combined basis production expense and transportation costs were \$16.79/boe compared to \$23.47/boe in the comparative period.

Overall the price of the Company's benchmark Brent crude decreased by \$9.48/boe in the first quarter of 2016 as compared to the fourth quarter of 2015 while the operating netback declined by \$7.06/boe in the same period, mainly as a result of cost savings from decreased transportation, production and royalty costs per boe realized in the period partially offset by a widening of the Company's realized price as compared to the Brent reference price (see Commodity Prices).

Colombian Oil and Natural Gas Sales

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

For the three months ended March 31,	2016	2015
Block LLA-34 (Tigana, Tua, Tarotaro & Max fields)	17,516	12,315
Block LLA-26 (Rumba & Bazar fields)	4,062	-
Block Cabretero (Kitaro & Akira fields)	2,183	2,920
Block LLA-32 (Kananaskis, Carmentea, Maniceno and Bandola fields)	1,664	5,558
Block LLA-30 (Adalia field)	1,239	1,047
Block Los Ocarros (Las Maracas field)	989	2,209
Other	1,049	2,680
Total Crude Oil Production	28,702	26,729
Natural gas production	198	-
Total crude oil and natural gas production	28,900	26,729
Crude oil inventory draw	1,496	180
Average daily sales of produced oil and natural gas	30,396	26,909
Purchased oil	1,290	3,052
Overlifted Ocesa pipeline volumes	1,369	-
Sales Volumes	33,055	29,961

Oil and natural gas production for the first quarter of the year averaged 28,900 boe/d, an increase of approximately 8 percent from the first quarter of 2015. The increase in oil sales in the first quarter of 2016 compared to the reported Colombian oil sales of 29,961 boe/d for the three months ended March 31, 2015 was primarily a result of the crude oil inventory draw, and overlifted Ocesa pipeline volumes. The Company expects the overlift position will be eliminated by August 2016.

b) Average Crude Oil Reference and Realized Prices

For the three months ended March 31,	2016	2015
Reference Prices		
Brent (\$/bbl)	35.21	55.13
Vasconia (\$/bbl)	29.71	49.74
WTI (\$/bbl)	33.63	48.57
Average Realized Prices		
Realized sales price (\$/bbl)	27.08	49.42
Realized oil hedging gain (\$/bbl)	0.28	-
Realized price after hedging (\$/bbl)	27.36	49.42
Realized price differential to Brent crude (\$/bbl)	(8.13)	(5.71)

During Q1 2016, the differential between Brent reference pricing and the realized sale price was \$8.13/bbl. The differential during Q1 was wider than historical averages. The main driver of this increase in differential is related to timing of oil sales as the company sold approximately 50% of first quarter production in January 2016. The January Brent reference price was the lowest among the three months in the quarter. Also impacting differential were negative quality adjustments on certain oil sale contracts.

The table below provides a quarter-by-quarter view of Parex' historical pricing in Colombia:

Average price for the period	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Brent (\$/bbl)	35.21	44.69	51.16	63.50	55.13
Vasconia (\$/bbl)	29.71	37.15	45.83	58.79	49.74
Parex realized sales price (\$/bbl)	27.08	36.69	44.62	56.31	49.42
Parex realized price (differential) to Brent crude (\$/bbl)	(8.13)	(8.00)	(6.54)	(7.19)	(5.71)
Parex realized price (differential) to Vasconia crude (\$/bbl)	(2.63)	(0.46)	(1.21)	(2.48)	(0.32)

c) Natural Gas Revenue and Realized Prices

For the three months ended March 31,	2016		2015	
Revenue (000's)	\$	566	\$	-
Realized sales price (\$/Mcf)	\$	5.24	\$	-

In the first quarter Parex began recording gas revenues for the sale of Block LLA-32 natural gas production.

d) Oil and Natural Gas Revenue

First quarter 2016 oil and natural gas revenue decreased \$52.8 million or 39 percent as reconciled in the table below to the first quarter of 2015:

(000s)			
Oil and natural gas revenue, three months ended March 31, 2015		\$	134,307
Sales volume of produced oil and natural gas, an increase of 13% (3,487 boe/d)			15,682
Sales volume of purchased oil, a decrease of 58% (1,761 bbl/d)			(7,920)
Oil and natural gas sales price decrease of 45%			(67,269)
Sales of overlifted Ocesa pipeline volumes			6,152
Sales volume of produced gas, an increase of 198 boe/d			566
Oil and natural gas revenue, three months ended March 31, 2016		\$	81,518

Oil and natural gas revenue decreased in the three months ended March 31, 2016 compared to the same period in 2015 due to a 45% reduction in sales prices per barrel. This decrease in sales is partially offset by an increase in sales volumes of produced oil and natural gas, purchased oil, and overlifted Ocesa pipeline volumes.

e) Colombian Crude Oil Inventory in Transit (Overlift)

For the three months ended March 31,	2016		2015	
(000s)				
Crude oil in transit	\$	-	\$	7,479

As at March 31, 2016, the Company had nil mbbbls of crude oil inventory in transit (214.4 mbbbls for the first quarter of 2015). Based on timing of Company oil sale export cargo's the Company was overlifted from the Ocesa pipeline by 124.6 mbbbls at March 31, 2016. The overlift position is expected to be eliminated by August 2016. A reconciliation of quarter to quarter crude oil inventory movements is provided below:

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

For the periods ended (mbbbls)	March 31, 2016	Dec. 31, 2015	Sept. 30, 2015	June 30, 2015
Crude oil inventory in transit - beginning of the period	136.2	272.0	232.5	214.4
Oil production	2,611.9	2,629.9	2,518.6	2,459.3
Oil sales	(2,990.0)	(2,938.7)	(2,761.8)	(2,765.1)
Purchased oil	117.4	173.0	282.7	323.9
Crude oil inventory in transit (overlift) – end of the period	(124.6)	136.2	272.0	232.5
% of period production	-	5.1	10.8	9.5

Crude oil inventory build and draw down from period to period are subject to factors that the Company does not control such as timing, and the number of shipments from storage to export.

f) Purchased Oil

For the three months ended March 31,	2016		2015	
Purchased oil expense (000s)	\$	4,090	\$	8,565

Purchased oil expense for the three months ended March 31, 2016 was \$4.1 million compared to \$8.6 million for the comparative period and \$4.7 million for the fourth quarter of 2015. Transportation costs are incurred by the Company to transport purchased oil to sale delivery points. Included in purchased oil expense is an accrual based upon the fair value of the overlift position with the Ocesa pipeline.

Colombian Royalties

For the three months ended March 31,		2016		2015
Royalties (000s)	\$	6,232	\$	10,476
Per unit (\$/boe)		2.25		4.29
Percentage of oil and natural gas sales ⁽¹⁾		8.3%		8.3%

⁽¹⁾ Calculated based on Company working interest sales volumes excluding purchased oil volumes sold.

In the three months ended March 31, 2016 royalties as a percentage of sales of 8.3% was equal to the percentage in the three months ended March 31, 2015.

In the second half of 2015 both the Tua and Tigana oil fields began being subject to the High Price Share (HPR) as they have reached cumulative production greater than 5 million barrels. Royalties however are highly dependent on the global price of crude oil as oil prices and crude quality are components of the HPR calculation. At WTI prices below \$40/bbl the HPR royalty does not come into effect.

Colombian Production Expense

For the three months ended March 31,		2016		2015
Production expense (000s)	\$	13,639	\$	19,579
Per unit (\$/boe)		4.93		8.01

A breakdown of the production expense on a per boe basis between operated and non-operated fields are provided below:

For the three months ended March 31,		2016		2015
Per unit (\$/boe) – based on sales volumes – operated ⁽¹⁾		5.52		8.84
Per unit (\$/boe) – based on sales volumes – non-operated ⁽¹⁾		4.54		7.05

⁽¹⁾ Calculated based on Company working interest sales volumes excluding purchased oil volumes sold.

Production expense includes the cost of activities in the field to operate wells and facilities, lift to surface, gather, process, treat and store production.

Production expense for the first quarter on a per barrel basis of \$4.93/boe is lower in comparison of the fourth quarter of \$6.57/boe and the comparative period of \$8.01/boe. Operated properties production expense in the first quarter was \$5.52/boe compared to \$8.51/boe for the fourth quarter of 2015 and non-operated properties production expense was \$4.54/bbl for the first quarter compared to \$5.26/boe for the fourth quarter of 2015. The quarter over quarter decrease in operated production expense relates to structural changes in managing costs and direct cost reductions with vendors. The depreciation of the Colombian peso has also had a minor role in the significant decrease in operated production expense. The quarter over quarter decrease in the non-operated properties production expense relates to Block LLA-34 as fixed operating cost absorption has increased as a result of increased production from this Block.

The Company has worked with its vendors to seek price reductions given the current oil price environment and continues to temporarily shut-in higher cost production where appropriate.

Colombian Transportation Expense

For the three months ended March 31,		2016		2015
Transportation expense (000s)	\$	34,185	\$	42,021
Per unit (\$/boe)		11.86		15.46

Transportation expense includes trucking costs incurred to transport production to several offloading stations for sale and for the majority of crude volume the Ocesa pipeline tariff and offloading fee. For the three months ended March 31, 2016, the cost of transportation of \$11.86/boe has decreased compared to the fourth quarter 2015 cost of \$12.46/boe and decreased from the comparative period of \$15.46/boe. The decrease from the comparative period is a result of

decreased trucking costs, the depreciation of the Colombian peso compared to US\$ and a decrease in pipeline costs. Also impacting the transportation on a per boe basis is the clear-out of inventoried bbls in the first quarter of 2016, this positive impact was approximately \$0.70/boe as the inventory costing of the transportation component of inventoried bbls is lower than current transportation expenses realized on a per bbl basis.

The Company expects transportation costs on a per boe basis for the remainder of 2016 to be slightly higher and likely in the \$12.50/boe range with variability depending on the marketing mix, delivery points and the Colombian peso/US\$ exchange rate.

General and Administrative Expense (“G&A”)

For the three months ended March 31,
(000s)

	2016	2015
Gross G&A	\$ 9,679	\$ 11,628
G&A recoveries	(58)	(46)
Capitalized G&A	(795)	(1,857)
Total G&A	\$ 8,826	\$ 9,725
G&A reclassified to discontinued operations ⁽¹⁾	-	149
Net G&A expense – continuing operations	\$ 8,826	\$ 9,576
Per unit (\$/boe) ⁽²⁾	3.36	3.98

⁽¹⁾ Due to the sale of Parex Resources (Trinidad) Ltd.

⁽²⁾ Calculated based on Company working interest production volumes.

Net G&A from continuing operations was \$8.8 million for the three months ended March 31, 2016 compared to \$9.6 million for the same period in 2015. Net G&A is impacted by capitalized G&A which with reduced activity levels has decreased from the prior period. Gross G&A was \$9.7 million for the three months ended March 31, 2016 (three months ended March 31, 2015 - \$11.6 million). On a per boe basis net G&A for the year has declined 16% from the comparative year. Net G&A on a per boe basis is expected to decrease as the Company begins its 2016 capital program in Q2 and increased G&A capitalization associated with capital projects.

The Company’s G&A expense is mainly denominated in local currencies of COP and Cdn dollar which have both depreciated significantly against the USD throughout 2015 and the first quarter of 2016.

Share-Based Compensation Expense

For the three months ended March 31,
(000s)

	2016	2015
Share-based compensation expense	\$ 1,198	\$ 1,404
Restricted share units expense	1,458	1,159
Share appreciation rights expense	1,906	507
Total expense	\$ 4,562	\$ 3,070
SARs (recovery) expense reclassified as discontinued operations	-	(22)
Total expense – continuing operations	\$ 4,562	\$ 3,092

Share-based compensation expense was \$4.6 million for the three months ended March 31, 2016 compared to \$3.1 million for the same period in 2015.

Share-based compensation expense relating to stock options was \$1.2 million for the three months ended March 31, 2016 compared to \$1.4 million for the same period in 2015.

Share appreciation rights (“SARs”) expense was \$1.9 million in the first quarter of 2016 compared to \$0.5 million for the same period in 2015 as a result of the share price of the Company increasing in the period from Cdn\$10.16/share as at December 31, 2015 to Cdn\$10.95/share as at March 31, 2016 and the issuance of SARs. As at March 31, 2016, the total SARs liability accrued is \$7.6 million (December 31, 2015 - \$5.8 million).

Restricted share unit (“RSUs”) expense was \$1.5 million for the three months ended March 31, 2016 compared to \$1.1 million for the same period in 2015. The increase is mainly related to a higher number of RSUs outstanding in 2016 versus 2015.

Depletion, Depreciation and Amortization Expense (“DD&A”)

For the three months ended March 31,
(000s)

		2016		2015
DD&A	\$	31,027	\$	40,172
Per unit (\$/boe) ⁽¹⁾		11.80		16.70

⁽¹⁾ DDA per unit (\$/boe) is calculated using Company working interest production volumes and does not include inventory adjustments.

First quarter 2016 DD&A was \$31.0 million (\$11.80/boe) compared to \$40.2 million (\$16.70/boe) for the same period in 2015. This decrease is due to the significant increase in proved and probable reserves, a decrease in future development costs and a change in the CGU production mix from the prior comparative period.

Foreign Exchange

For the three months ended March 31,

		2016		2015
Foreign exchange (gain) loss (000s)	\$	(477)	\$	122

Foreign Exchange Rates

CAD\$/USD ⁽¹⁾		0.73		0.81
Colombian peso/USD ⁽¹⁾		3,249		2,469

⁽¹⁾ Exchange rates shown are averages for the period.

The Company’s main exposure to foreign currency risk relates to the pricing of foreign currency denominated in Canadian dollars and Colombian pesos, as the Company’s functional currency is the US dollar. 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) losses are the revaluation of the Colombian peso denominated income tax, accounts payable and accounts receivable to USD at period end dates. During the three months ended March 31, 2016, the total foreign exchange gain was \$0.5 million (three months ended March 31, 2015 – loss of \$0.1 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 statement of comprehensive income (loss). For the three months ended March 31, 2016, \$0.5 million foreign exchange loss is realized and \$1.0 million foreign exchange gain is unrealized (3 months ended March 31, 2015 - \$0.3 million foreign exchange gain was realized and \$0.4 million foreign exchange loss was unrealized).

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

Net Finance Expense

For the three months ended March 31,
(000s)

		2016		2015
Interest expense and bank charges	\$	428	\$	1,153
Accretion on decommissioning and environmental liabilities		393		395
Unrealized (gain) loss on foreign currency risk management contracts		(248)		999
Interest and other income		(616)		(192)
Colombian net wealth tax		2,092		3,579
Net finance expense	\$	2,049	\$	5,934

For the three months ended March 31,
(000s)

		2016		2015
Non-cash finance expense	\$	145	\$	1,394
Cash finance expense		1,904		4,540
Net finance expense	\$	2,049	\$	5,934

On December 23, 2014 the Colombian government passed a law imposing a Net Wealth Tax (“NWT”) levied on Colombian companies. The tax is assessed and becomes payable on the opening equity as at January 1st of each year beginning in 2015 extending until 2017, at rates from 1.15% in 2015 to 0.4% in 2017. The Company’s NWT for 2016 is expected to be \$2.1 million and will be paid in two equal semi-annual installments in 2016. The entire \$2.1 million of 2016 NWT was accrued for in the first quarter of 2016.

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 US/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 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.

The company has elected not to use hedge accounting and, accordingly, 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.

a) Risk Management Contracts – Brent Crude

The following is a summary of the ICE Brent priced crude oil risk management contracts in place at March 31, 2016:

Period Hedged	Reference	Volume bbls/d	Sold Put	Purchased Put	Sold Call	Premium
January 1, 2016 to June 30, 2016	ICE Brent	5,000	\$47.75	\$52.50	\$70.00	\$1.00
February 1, 2016 to June 30, 2016	ICE Brent	15,000	\$25.00	\$35.00	\$45.00	\$2.08
July 1, 2016 to September 30, 2016	ICE Brent	5,000	\$30.50	\$38.00	\$47.00	\$1.00
July 1, 2016 to September 30, 2016	ICE Brent	5,000	\$34.25	\$40.25	\$49.50	\$1.00

Subsequent to March 31, 2016 Parex entered into the following ICE Brent priced crude oil risk management contract:

Period Hedged	Reference	Type	Volume bbls/d	Price/bbl
October 1, 2016 to December 31, 2016	ICE Brent	Collar	5,000	\$35.00 - \$60.00

The table below summarizes the loss (gain) on commodity risk management contracts:

For the three months ended March 31,	2016	2015
Realized (gain) on commodity risk management contracts	\$ (849)	\$ -
Unrealized loss (gain) on commodity risk management contracts	5,824	(854)
Total	\$ 4,975	\$ (854)

The Company's net unrealized derivative loss on risk management contracts for the period ended March 31, 2016 of \$5.8 million (period ended March 31, 2015 - gain of \$0.9 million) is primarily attributable to the Brent forward benchmark price being in excess of the Company's derivative contracts and the premiums associated with some of the Company's hedge positions. The premiums allowed Parex to enter into contracts that had higher purchase put and higher ceiling call options prices than without the premiums.

b) Risk Management Contracts – Foreign Exchange

The following is a summary of the foreign currency risk management contracts in place as at March 31, 2016:

Period Hedged	Reference	Type	Amount USD	Price (COP)
September 2, 2015 to April 14, 2016	Colombian Peso	Collar	\$8 million	3,000 – 3,228
September 2, 2015 to June 14, 2016	Colombian Peso	Collar	\$8 million	3,000 – 3,228

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

For the three months ended March 31,		2016		2015
Unrealized (gain) loss on foreign currency risk management contracts	\$	(248)	\$	999

The unrealized loss represents the fair value change of the underlying foreign currency risk management contracts as at the balance sheet to be settled in the future.

Income Tax

The components of tax expense for the three months ended March 31, 2016 and 2015 were as follows:

For the three months ended March 31, (000s)		2016		2015
Current tax (recovery) expense	\$	(2,647)	\$	6,838
Deferred tax (recovery) expense		(17,313)		3,549
Total tax (recovery) expense	\$	(19,960)	\$	10,387

The current and future tax (recovery) expense relates to the Company's operations in Colombia. Current tax in the first quarter was \$2.6 million recovery as compared to \$6.8 million expense in the comparative period. The decrease in the current tax expense from the prior period is a result of decreased Colombian cash flows as a result of the decrease in oil prices.

Deferred tax in the first quarter of 2016 was a recovery of \$17.3 million (\$3.5 million expense for the three months ended March 31, 2015). The main driver of the recovery was non-capital losses being generated in the quarter which are partially offsetting the deferred tax payable. 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 yearend 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. At current benchmark crude oil prices the company expects to have marginal current tax expense in 2016.

Capital Expenditures

For the three months ended March 31, (000s)	Colombia		Canada		Total	
	2016	2015	2016	2015	2016	2015
Acquisition of unproved properties	266	5,285	-	-	266	5,285
Geological and geophysical	118	(85)	-	-	118	(85)
Drilling and completion	849	15,875	-	-	849	15,875
Well equipment and facilities	3,101	5,776	-	-	3,101	5,776
Other	80	74	93	38	173	112
	\$ 4,414	\$ 26,925	\$ 93	\$ 38	\$ 4,507	\$ 26,963

Capital Expenditures Summary

During the three months ended March 31, 2016 the Company incurred \$4.5 million of capital expenditures compared to \$27.0 million in the same period of 2015. During Q1, 2016 the Company drilled no wells compared to 1 gross (0.55 net) wells in Q1, 2015. Drilling and completion costs during the first quarter totaled \$0.8 million, all of which relates to workovers and prework costs associated with appraisal wells to be drilled in Colombia, versus \$15.9 million in the comparative period. The Company's 2016 drilling program has commenced in May 2016 and is anticipated to be funded from funds flow from operations.

Summary of Quarterly Results (Unaudited)

Three months ended (\$000s)	March 31, 2016	Dec. 31, 2015	Sep. 30, 2015	June 30, 2015
Average daily oil and natural gas production (boe/d)	28,900	28,588	27,377	27,025
Average realized sales price – oil and natural gas (\$/boe)	27.10	36.69	44.62	56.31
Financial (000s except per share amounts)				
Oil sales	\$ 81,518	\$ 107,816	\$ 123,249	\$ 155,717
Funds flow from continuing operations	\$ 15,457	\$ 33,628	\$ 13,448	\$ 50,237
Per share – basic	0.10	0.22	0.09	0.35
Per share – adjusted diluted ⁽¹⁾	0.10	0.22	0.09	0.34
Net (loss) income	\$ (7,630)	\$ (3,474)	\$ (27,417)	\$ 1,814
Per share – basic	(0.05)	(0.02)	(0.18)	0.01
Per share – diluted	(0.05)	(0.02)	(0.18)	0.01
Capital Expenditures, excluding corporate acquisitions	\$ 4,507	\$ 23,611	\$ 37,674	\$ 37,234
Total assets (end of period)	\$ 943,675	\$ 957,966	\$ 1,003,271	\$ 1,051,150
Working capital surplus (end of period) ⁽²⁾	\$ 79,955	\$ 76,708	\$ 62,689	\$ 89,754
Bank debt (end of period)	\$ -	\$ -	\$ -	\$ -

⁽¹⁾ Non-GAAP term. See “Non-GAAP Terms” below.

⁽²⁾ Working capital does not include the undrawn amount available on the credit facility.

Three months ended (\$000s)	March 31, 2015	Dec. 31, 2014	Sep. 30, 2014	June 30, 2014
Average daily oil and natural gas production (boe/d)	26,729	26,544	25,175	19,876
Average realized sales price - oil (\$/boe)	49.42	60.08	94.40	104.53
Financial (000s except per share amounts)				
Oil and gas sales	\$ 134,307	\$ 160,584	\$ 228,648	\$ 182,996
Funds flow from continuing operations	\$ 32,958	\$ 49,759	\$ 89,006	\$ 77,799
Per share – basic	0.24	0.37	0.70	0.70
Per share – adjusted diluted ⁽¹⁾	0.24	0.37	0.69	0.65
Net (loss) income	\$ (15,544)	\$ (146,612)	\$ 16,768	\$ 11,408
Per share – basic	(0.12)	(1.09)	0.13	0.10
Per share – diluted	(0.12)	(1.09)	0.13	0.10
Capital Expenditures, excluding corporate acquisitions	\$ 26,963	\$ 83,571	\$ 56,799	\$ 95,101
Total assets (end of period)	\$ 1,010,116	\$ 1,034,415	\$ 1,266,610	\$ 1,226,983
Working capital surplus (end of period) ⁽²⁾	\$ 9,878	\$ 3,261	\$ 45,321	\$ 31,189
Debentures (end of period) ⁽³⁾	\$ -	\$ -	\$ -	\$ 68,375
Bank debt (end of period)	\$ 39,500	\$ 35,000	\$ 42,305	\$ 56,000

⁽¹⁾ Non-GAAP term. See “Non-GAAP Terms” below.

⁽²⁾ Working capital does not include the undrawn amount available on the credit facility.

⁽³⁾ During August and September 2014, the Cdn\$85.0 million principal amount of Debentures was converted for an aggregate of 8,339,991 common shares of the Company and redeemed for \$0.3 million in cash.

Factors that Caused Variations Quarter Over Quarter

During the first quarter of 2016, production of 28,900 boe/d was slightly in excess of oil production for the previous quarter ended December 31, 2015. Revenue and funds flow from operations were lower than the previous quarter mainly due to reduction in realized sales prices per barrel. Working capital has increased to \$80.0 million from \$76.7 million at December 31, 2015. Capital expenditures for the first quarter of 2016 were \$4.5 million compared to \$23.6 million for the fourth quarter of 2015 and mainly related to workovers and facilities costs in Colombia at Block LLA-32 and prework costs associated with appraisal wells to be drilled.

Throughout 2015 Parex grew production quarter over quarter however revenue and funds flow fluctuated significantly due to the fluctuation in world oil prices which impacted the Company’s realized sales price. In 2015, the three month period ended June 30, 2015 saw the highest oil prices and therefore the highest revenue and funds flow from operations was generated. Funds flow decreased significantly in the third quarter from the second quarter due to the decrease in oil prices and recording of the full \$31 million (\$0.21 per share basic) amount of a voluntary tax restructuring impact in the quarter.

On May 5, 2015 the Company completed a bought deal financing in the amount of \$108.7 million (net of share issue costs) which resulted in the significant increase in the Company's cash and working capital positions from the prior quarter.

In the third quarter of 2015 the Company recorded \$4.5 million in non-cash impairments on exploration and evaluation assets in Colombia, and \$31.1 million non-cash impairments on property, plant and equipment in Colombia, resulting in a net loss of \$27.4 million for the quarter. In the fourth quarter of 2015 the Company recorded additional \$22.5 million of non-cash impairments on exploration and evaluation assets in Colombia. This expense was partially offset by a significant deferred tax recovery in the quarter resulting from the voluntary tax restructuring, resulting in a net loss of \$3.5 million for the quarter.

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 March 31, 2016 the Company had a working capital surplus of \$80.0 million, excluding amounts available under the credit facility, as compared to working capital surplus at December 31, 2015 of \$76.7 million and a working capital surplus of \$9.9 million in the comparative period. Bank debt was \$nil million compared to \$nil million at December 31, 2015 and \$39.5 million in the comparative period. The credit facility has a current borrowing base of \$200 million and is subject to a borrowing base redetermination to be completed by the end of May 2016. At March 31, 2016 Parex held \$91.5 million of cash, compared to \$94.8 million at December 31, 2015 and \$32.6 million at March 31, 2015. The Company's cash balances reside in current accounts, the majority of which are held on account in Canada and Barbados in USD. The increase in the Company's cash and working capital positions from prior periods is a result of the May 5, 2015 bought deal financing in the amount of \$108.7 million (net of share issue costs) and the Company generating cash flow in excess of capital expenditures for the year ended December 31, 2015 and the three months ended March 31, 2016.

Parex entered into a senior secured credit facility ("credit facility") with a syndicate of banks led by a major Canadian bank during 2012, with a current borrowing base of \$200 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 March 31, 2016, the Company is in compliance with all covenants. The Company had the credit facilities borrowing base confirmed and redetermined at \$200 million in October 2015 during the semi-annual review. See "Contractual Obligations, Commitments and Guarantees". The next annual review is scheduled to occur at the end of May 2016. There can be no assurance that the credit facilities will be renewed at the current borrowing base level at that time. As the Company currently has zero bank debt and no plans in 2016 to utilize the credit facility, the next re-determination is not expected to impact the Company's current or future operations or reduce the 2016 outlook.

Outstanding Share Data

Parex is authorized to issue an unlimited number of voting common shares without nominal or par value. As at March 31, 2016 the Company had 151,722,380 common shares outstanding.

The Company has a stock option, RSU and DSU plan. The plans provide for the issuance of options, RSUs and DSUs to the Company's directors, officers and certain employees to acquire common shares. The maximum number of options, RSUs and DSUs reserved for issuance under the three plans may not exceed 10 percent of the number of common shares issued and outstanding.

As at May 10, 2016 Parex has the following securities outstanding:

	Number	%
Common shares	151,940,216	94
Stock options	7,314,481	5
Restricted share units	2,200,679	1
Deferred share units	78,600	-
	161,533,976	100

As of the date of this MD&A, total stock options, RSUs and DSUs outstanding represent approximately 6 percent 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. Given the low oil price environment the Colombian energy regulator ("ANH") has instituted means by which Companies can apply for extensions of phase commitments until oil prices improve. The Company has been very proactive in applying for extensions on many blocks that will assist with the Company matching cash flows from operations with capital expenditures. The Company's exploration commitments are described in the Company's AIF dated March 17, 2016 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 ANH and Empresa Colombiana de Petroleos S.A. ("Ecopetrol") which on March 31, 2016 were \$141.5 million (December 31, 2015 - \$150.3 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 ("EDC") has provided performance security guarantees under the Company's \$200.0 million (December 31, 2015 - \$200.0 million) performance guarantee facility to support approximately \$117.5 million (December 31, 2015 - \$123.7 million) of the letters of credit issued on behalf of Parex. The letters of credit issued to the ANH are reduced from time to time to reflect the work performed on the various blocks.

The following table summarizes the Company's estimated commitments as at March 31, 2016:

(000s)	Total	<1 year	1 – 3 years	3 – 5 years	>5 years
Exploration	\$ 253,045	141,444	111,601	-	-
Office and accommodations ⁽¹⁾	5,209	1,969	2,260	786	194
Other provisions	51,774	3,015	6,030	6,030	36,699
Total	\$ 310,028	146,428	119,891	6,816	36,893

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

Decommissioning and Environmental Liabilities

	Decommissioning		Environmental		Total
Balance, December 31, 2014	\$	23,812	\$	10,277	\$ 34,089
Additions		2,724		725	3,449
Settlements of obligations during the year		(193)		(246)	(439)
Accretion expense		1,162		426	1,588
Additions related to change in estimate		(694)		(140)	(834)
Foreign exchange (gain)		-		(2,454)	(2,454)
Balance, December 31, 2015	\$	26,811	\$	8,588	\$ 35,399
Accretion expense		358		35	393
Foreign exchange loss		-		316	316
Balance, March 31, 2016	\$	27,169	\$	8,939	\$ 36,108
Current obligation		-		(2,063)	(2,063)
Long-term obligation	\$	27,169	\$	6,876	\$ 34,045

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 March 31, 2016, 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 \$36.7 million as at March 31, 2016 (December 31, 2015 - \$36.7 million) with the majority of these costs anticipated to occur in 2020 or later. A weighted average risk-free discount rate of 5.25 percent and an inflation rate of 2.5 percent were used in the valuation of the liabilities (December 31, 2015 - 5.25 percent weighted average risk-free discount rate and a 2.5 percent inflation rate). The discount rates used are a blend of US and Colombia risk-free rates.

The total undiscounted amount of cash flows required to settle the Company's environmental liability is approximately \$15.1 million as at March 31, 2016 (December 31, 2015 - \$15.1 million) with the majority of these costs anticipated to occur in 2017 or later in Colombia. A risk-free discount rate of 8 percent

and an inflation rate of 4 percent were used in the valuation of the liabilities (December 31, 2015 – 8 percent risk-free discount rate and a 4 percent inflation rate). The discount rate used is based on a Colombia risk-free rate.

Included in the environmental liability is \$2.1 million (December 31, 2015 – \$2.1 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:

- the Company's operational strategy and focus, including targeted jurisdictions and technologies used to execute its strategy;
- the Company's approach to manage subsurface and commercial risks;
- the Company's exploration blocks subject to farm-in and earning requirements and the effect on the Company's land holdings as lands deemed non-commercial are released;
- activities to be undertaken in various areas including the fulfillment of exploration commitments and farm-in obligations;
- terms of exploration and production contracts and the timing of release of exploration property deemed non-commercial in respect of the exploration contracts;
- the Company's range of its capital program budget for 2016 and the Company's plans to fund its 2016 capital program from funds flow from operations;
- the Company's forecasted 2016 oil production, capital budget and funds from operations;
- the Company's expectation that the overlifted pipeline volume position will be eliminated including the anticipated timing thereof;
- expected royalty rates and effect of changes in pricing on the Company's overall royalty as a percentage of sales and the calculation and applicability of the HPR;
- the Company's expectations regarding production cost savings related to the depreciation of the Colombian peso and the Company's plans to seek price reductions from vendors and temporarily shut-in higher cost production, where appropriate;
- expected transportation costs on a per barrel basis for the remainder of 2016 and effect of the marketing mix, delivery points and the Colombian peso/US\$ exchange rate on the variability of such transportation costs;
- the expected effect of increased capital expenditures on 2016 G&A;
- terms and cost of share-based compensation plans, including option plan, restricted share unit plan, deferred share unit plan and share appreciation rights;
- 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 US/COP exchange rate and interest rate movements;

- terms of the Company's risk management contracts and the Company's ability to manage and forecast cash flow;
- the Company's expected 2016 NWT;
- the Company's estimated amount of current tax expense for 2016;
- terms of the Company's credit facility including the timing of the next borrowing base redetermination;
- terms of the Company's exploration and other contractual commitments and their timing of settlement;
- estimated amounts, timing and the anticipated sources of funding for the Company's environmental, decommissioning and restoration obligations;
- drilling plans including the targeted number of wells to be drilled, including the anticipated locations of such wells, plans to acquire seismic on the VIM-1 block and timing of drilling, completion and tie-in of wells; and
- effect of business and environmental risks on the Company.

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 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; 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; risks related to the lawsuit brought in Texas against Parex and certain foreign subsidiaries; failure of counterparties to perform under the terms of their contracts; the risks discussed under "Risk Factors" in the Company's AIF dated March 17, 2016 and under "Decommissioning and Environmental Liabilities" and "Business Environment and Risks" 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; 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; 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; royalty rates; future operating costs; foreign exchange rates; 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; 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 to develop such reserves.

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 and, in particular the information in respect of the Company's expected funds flow from operations for 2016, may contain future oriented financial information ("FOFI") within the meaning of applicable securities laws. The FOFI has been prepared by management to provide an outlook of the Company's activities and results and may not be appropriate for other purposes. The FOFI has been prepared based on a number of assumptions including the assumptions discussed above. The actual results of operations of the Company and the resulting financial results may vary from the amounts set forth herein, and such variations may be material. The Company and management believe that the FOFI has been prepared on a reasonable basis, reflecting management's best estimates and judgments. FOFI contained in this MD&A was made as of the date of this MD&A and the Company disclaims any intention or obligations to update or revise any FOFI contained in this MD&A, whether as a result of new information, future events or otherwise, unless required pursuant to applicable law.

Non-GAAP Terms

This report contains financial terms that are not considered measures under GAAP such as operating netback per boe, free cash flow and adjusted funds flow per share that do not have any standardized meaning under IFRS and may not be comparable to similar measures presented by other companies. Management uses these non-GAAP measures for its own performance measurement and to provide shareholders and investors with additional measurements of the Company's efficiency and its ability to fund a portion of its future capital expenditures.

Adjusted funds flow per share is calculated by dividing funds flow provided by continuing operations by the weighted average number of shares outstanding. Parex presents adjusted funds flow provided by continuing operations per share whereby per share amounts are calculated using weighted-average shares outstanding, consistent with the calculation of earnings per share. The following table shows the variables used in the calculation of adjusted funds flow per share:

(\$000s)	For the three months ended March 31,	
	2016	2015
Funds flow provided by continuing operations	\$ 15,457	\$ 32,958
Weighted average number of shares for the purposes of basic funds flow (\$000s)	151,525	134,740
Dilutive effect of share options on potential common shares	1,050	1,112
Weighted average number of shares for the purposes of diluted funds flow	\$ 152,575	\$ 135,852

Operating netback per boe is determined by sales revenue excluding risk management contracts, less royalties, production expense and transportation expense, divided by total equivalent sales volume excluding purchased oil volumes. The Company considers operating netbacks to be a key measure as they demonstrate Parex' profitability relative to current commodity prices.

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.

Free cash flow is determined by funds flow from continuing operations less capital expenditures as follows:

(\$000s)	For the three months ended March 31,	
	2016	2015
Funds flow from continuing operations	\$ 15,457	\$ 32,958
Capital expenditures, excluding corporate acquisitions	4,507	26,963
Free cash flow	\$ 10,950	\$ 5,995

Business Environment and Risks

There have been no significant changes during the three ended March 31, 2016 to the risks and uncertainties identified in the Company's AIF dated March 17, 2016.

Internal Controls over Financial Reporting

There was no change in the Company's internal controls over financial reporting that occurred during the most recently completed period that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Off-Balance-Sheet Arrangements

The Company did not enter into any off-balance-sheet arrangements during the three months ended March 31, 2016.

Financial Instruments and Other Instruments

The Company's non-derivative financial instruments recognized in 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.

Accounting Policies and Estimates

In preparing this Management Discussion and Analysis, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2015.

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Consolidated Balance Sheets (unaudited)

As at (thousands of United States dollars)	NOTE	March 31, 2016	December 31, 2015
ASSETS			
Current assets			
Cash		\$ 91,497	\$ 94,823
Accounts receivable	5	93,266	79,855
Prepays and other current assets		2,773	8,396
Crude oil inventory	6	-	3,207
Derivative financial instruments		-	2,566
		187,536	188,847
Deferred tax asset	13	12,043	-
Goodwill		73,452	73,452
Exploration and evaluation	7	123,677	121,354
Property, plant and equipment	8	546,967	574,313
		\$ 943,675	\$ 957,966
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 59,020	\$ 67,080
Derivative financial instruments	17	3,024	-
Current income and equity tax payable	13	43,475	42,957
Current portion of decommissioning and environmental liabilities	11	2,063	2,102
		107,582	112,139
Other long-term liabilities	10	978	1,969
Decommissioning and environmental liabilities	11	34,045	33,297
Deferred tax liability	13	63,364	68,635
		205,969	216,040
Shareholders' equity			
Share capital	12	814,023	812,737
Contributed surplus		35,512	33,388
Retained earnings (deficit)		(111,829)	(104,199)
		737,706	741,926
		\$ 943,675	\$ 957,966

Commitments (note 19)

See accompanying Notes to the Interim Consolidated Financial Statements

Approved by the Board:



Paul Wright
Director



Ron Miller
Director

Interim Consolidated Statements of Comprehensive Income (Loss) (unaudited)

For the three months ended March 31,

(thousands of United States dollars, except per share amounts)

	NOTE	2016	2015
Oil sales		\$ 81,518	\$ 134,307
Royalties		(6,232)	(10,476)
Revenue		75,286	123,831
Commodity risk management contracts	17	(4,975)	854
		70,311	124,685
Expenses			
Production		13,639	19,579
Transportation		34,185	42,021
Purchased oil		4,090	8,565
General and administrative		8,826	9,576
Share-based compensation	12	4,562	3,092
Depletion, depreciation and amortization	8	31,027	40,172
Foreign exchange (gain) loss		(477)	122
		95,852	123,127
Finance (income)	9	(616)	(194)
Finance expense	9	2,665	6,128
Net finance expense		2,049	5,934
(Loss) from continuing operations before income taxes		(27,590)	(4,376)
Income tax (recovery) expense			
Current income tax (recovery) expense	13	(2,647)	6,838
Deferred income tax (recovery) expense	13	(17,313)	3,549
		(19,960)	10,387
Net (loss) and comprehensive (loss) from continuing operations after income taxes		\$ (7,630)	\$ (14,763)
(Loss) from discontinued operations after income taxes		-	(781)
Net (loss) and comprehensive (loss) for the period		\$ (7,630)	\$ (15,544)
Basic and diluted net (loss) per common share – continuing operations	14	\$ (0.05)	\$ (0.11)
Basic and diluted net (loss) per common share – discontinued operations	14	\$ (0.00)	\$ (0.01)

See accompanying Notes to the Interim Consolidated Financial Statements

Consolidated Statements of Changes in Equity (unaudited)

For the three months ended March 31,
(thousands of United States dollars)

		2016		2015
Share Capital				
Balance, beginning of period	\$	812,737	\$	694,110
Issuance of common shares under share-based compensation plans		1,286		492
Balance, end of period	\$	814,023	\$	694,602
Contributed Surplus				
Balance, beginning of period	\$	33,388	\$	26,106
Share-based compensation		2,656		2,563
Options exercised		(532)		(176)
Balance, end of period	\$	35,512	\$	28,493
Retained earnings (deficit)				
Balance, beginning of period	\$	(104,199)	\$	(59,578)
Net (loss) for the period		(7,630)		(15,544)
Balance, end of period	\$	(111,829)	\$	(75,122)
Total Equity	\$	737,706	\$	647,973

See accompanying Notes to the Interim Consolidated Financial Statements

Consolidated Statements of Cash Flows (unaudited)

For the three months ended March 31,
(thousands of United States dollars)

	NOTE	2016	2015
Operating activities			
Net (loss) from continuing operations		\$ (7,630)	\$ (14,763)
Add (deduct) non-cash items			
Depletion, depreciation and amortization	8	31,027	40,172
Non-cash finance loss	9	145	1,394
Share-based compensation	12	4,562	3,092
Deferred tax (recovery) expense	13	(17,313)	3,549
Unrealized foreign exchange (gain) loss		(999)	418
Unrealized (gain) loss on commodity risk management contracts	17	5,824	(854)
Stock appreciation rights paid		(159)	(50)
Funds flow provided by operating activities – continuing operations		15,457	32,958
Net change in non-cash working capital – continuing operations	15	(13,044)	(36,379)
Cash provided by (used in) operating activities – continuing operations		2,413	(3,421)
Cash used in operating activities – discontinued operations		-	(238)
Cash provided by (used in) operating activities		2,413	(3,659)
Investing activities			
Property, plant and equipment expenditures	8	(2,184)	(15,324)
Exploration and evaluation expenditures	7	(2,323)	(11,639)
Net change in non-cash working capital – continuing operations	15	(2,465)	18,680
Cash used in investing activities – continuing operations		(6,972)	(8,283)
Cash provided by investing activities – discontinued operations		-	1,672
Cash used in investing activities		(6,972)	(6,611)
Financing activities			
Issuance of common shares under share-based compensation plans	12	754	316
Long-term debt issued		-	4,500
Cash provided by financing activities - continuing operations		754	4,816
Decrease in cash for the period		(3,805)	(5,454)
Impact of foreign exchange on foreign currency-denominated cash balances		479	(963)
Cash, beginning of period		94,823	39,000
Cash, end of period		\$ 91,497	\$ 32,583

Supplemental Disclosure of Cash Flow Information (note 15)

See accompanying Notes to the Interim Consolidated Financial Statements

Notes to the Condensed Interim Consolidated Financial Statements

For the period ended March 31, 2016

(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 South America.

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 May 10, 2016.

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

a) *Statement of compliance*

The condensed interim consolidated financial statements for the three months ended March 31, 2016 have been prepared in accordance with IAS 34, ‘Interim financial reporting’. The condensed interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2015, 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 May 10, 2016, 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 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 that applied to the consolidated financial statements for the year ended December 31, 2015.

3. Summary of Significant Accounting Policies

There is no impact on the condensed interim consolidated financial statements for the adoption of new accounting standards effective January 1, 2016. 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, 2015.

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, 2015 consolidated financial statements for details concerning determination of fair values.

5. Accounts Receivable

	March 31, 2016	December 31, 2015
Trade receivables	\$ 27,092	\$ 26,395
Colombia income taxes receivable	58,961	46,992
Receivables from partners	2,217	2,465
Value added taxes (VAT)	4,996	4,003
	\$ 93,266	\$ 79,855

Trade receivables consist primarily of oil sale receivables related to the Company's oil sales. Colombia income tax receivable is a result of withholding tax incurred on Colombia oil sales. The balance can either be received in cash or applied to Colombian cash income tax payable. Receivables from partners consist of cash calls outstanding from joint venture partners in Colombia to recover ongoing capital costs and operating costs, or overhead recoveries outstanding from joint venture partners. All accounts receivable are expected to be received in 2016 and are thus recognized as current assets.

6. Inventory

	March 31, 2016	December 31, 2015
Crude oil inventory	\$ -	\$ 3,207

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

	Colombia Total
Cost	
Balance at December 31, 2014	\$ 132,048
Additions	60,335
Transfers to PP&E	(44,121)
Changes in decommissioning liability	117
Exploration and evaluation impairment	(27,025)
Balance at December 31, 2015	\$ 121,354
Additions	2,323
Balance at March 31, 2016	\$ 123,677

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 represent the Company's share of costs incurred on E&E assets during the period. For the three months ended March 31, 2016 no transfers from E&E to PP&E were made.

During the year ended December 31, 2015 amounts transferred to PP&E of \$44.1 million were primarily associated with the Block LLA-26 assets. Also in 2015, the Company recorded \$27.0 million of impairment charges.

At March 31, 2016 the Company did not have E&E assets in Canada.

8. Property, Plant and Equipment

	Canada		Colombia		Trinidad & Tobago		Total
Cost							
Balance at December 31, 2014	\$	3,393	\$	1,426,111	\$	238	\$ 1,429,742
Additions		214		64,933		-	65,147
Transfer from E&E assets		-		44,121		-	44,121
Dispositions		-		-		(238)	(238)
Changes in decommissioning liability		-		2,498		-	2,498
Balance at December 31, 2015	\$	3,607	\$	1,537,663	\$	-	\$ 1,541,270
Additions		93		2,091		-	2,184
Balance at March 31, 2016	\$	3,700	\$	1,539,754	\$	-	\$ 1,543,454
Accumulated Depreciation, Depletion and Amortization							
Balance at December 31, 2014	\$	2,815	\$	784,487	\$	238	\$ 787,540
Depletion and depreciation for the year		247		152,152		-	152,399
DD&A included in crude oil inventory costing		-		(3,888)		-	(3,888)
Dispositions		-		-		(238)	(238)
Impairment		-		31,144		-	31,144
Balance at December 31, 2015	\$	3,062	\$	963,895	\$	-	\$ 966,957
Depletion and depreciation for the period		76		30,951		-	31,027
DD&A included in crude oil inventory costing		-		(1,497)		-	(1,497)
Balance at March 31, 2016	\$	3,138	\$	993,349	\$	-	\$ 996,487
Net book value:							
At December 31, 2014	\$	578	\$	641,624	\$	-	\$ 642,202
At December 31, 2015	\$	545	\$	573,768	\$	-	\$ 574,313
At March 31, 2016	\$	562	\$	546,405	\$	-	\$ 546,967

In the three months ended March 31, 2016 additions mainly relate to workovers and facilities costs in Colombia at Block LLA-32 and prework costs associated with appraisal wells to be drilled. There were no transfers from E&E for the three month period ended March 31, 2016.

For the three months ended March 31, 2016 future development costs of \$252.1 million (three months ended March 31, 2015 - \$360.8 million) were included in the depletion calculation for development and production assets. For the three months ended March 31, 2016 \$0.8 million of general and administrative costs (three months ended March 31, 2015 - \$1.9 million) have been capitalized in respect of development and production activities during the current period.

During 2015, additions mainly related to development expenditures in the amount of \$152.2 million in Colombia at Block LLA-32 and Block LLA-34. In the year ended December 31, 2015, \$44.1 million was transferred from E&E assets. Also in 2015, the Company recorded \$31.1 million of impairment charges related to a Llanos Basin CGU.

9. Net Finance Expense (Income)

For the three months ended March 31,
(000s)

	2016		2015	
Interest expense and bank charges	\$	428	\$	1,153
Accretion on decommissioning and environmental liabilities		393		395
Unrealized (gain) loss on foreign currency risk management contracts		(248)		999
Interest and other income		(616)		(192)
Colombian net wealth tax		2,092		3,579
Net finance expense	\$	2,049	\$	5,934

For the three months ended March 31,
(000s)

	2016		2015	
Non-cash finance expense	\$	145	\$	1,394
Cash finance expense		1,904		4,540
Net finance expense	\$	2,049	\$	5,934

10. Other Long-Term Liabilities

Other long-term liabilities are comprised of the following:

	March 31, 2016	December 31, 2015
Long-term SARs payable	\$ 978	\$ 1,969

11. Decommissioning and Environmental Liabilities

	Decommissioning		Environmental		Total
Balance, December 31, 2014	\$	23,812	\$	10,277	\$ 34,089
Additions		2,724		725	3,449
Settlements of obligations during the year		(193)		(246)	(439)
Accretion expense		1,162		426	1,588
Additions related to change in estimate		(694)		(140)	(834)
Foreign exchange (gain)		-		(2,454)	(2,454)
Balance, December 31, 2015	\$	26,811	\$	8,588	\$ 35,399
Accretion expense		358		35	393
Foreign exchange loss		-		316	316
Balance, March 31, 2016	\$	27,169	\$	8,939	\$ 36,108
Current obligation		-		(2,063)	(2,063)
Long-term obligation	\$	27,169	\$	6,876	\$ 34,045

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 March 31, 2016, 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 \$36.7 million as at March 31, 2016 (December 31, 2015 – \$36.7 million) with the majority of these costs anticipated to occur in 2020 or later. A weighted average risk-free discount rate of 5.25 percent and an inflation rate of 2.5 percent were used in the valuation of the liabilities (December 31, 2015 – 5.25 percent weighted average risk-free discount rate and a 2.5 percent inflation rate). The discount rates used are a blend of US and Colombia risk-free rates.

The total undiscounted amount of cash flows required to settle the Company's environmental liability is approximately \$15.1 million as at March 31, 2016 (December 31, 2015 – \$15.1 million) with the majority of these costs anticipated to occur in 2017 or later in Colombia. A risk-free discount rate of 8 percent and an inflation rate of 4 percent were used in the valuation of the liabilities (December 31, 2015 – 8 percent risk-free discount rate and a 4 percent inflation rate). The discount rate used is based on a Colombia risk-free rate.

Included in the environmental liability is \$2.1 million (December 31, 2015 – \$2.1 million) that is classified as a current obligation.

12. Share Capital

a) Issued and outstanding common shares

	Number of shares	Amount
Balance, December 31, 2014	134,689,938	\$ 694,110
Issued for cash – exercise of options and RSUs	1,849,364	6,263
Issued through bought deal financing	14,950,000	113,620
Share issue costs	-	(4,997)
Allocation of contributed surplus – exercise of options and RSUs	-	3,741
Balance, December 31, 2015	151,489,302	\$ 812,737
Issued for cash – exercise of options and RSUs	233,078	754
Allocation of contributed surplus – exercise of options and RSUs	-	532
Balance, March 31, 2016	151,722,380	\$ 814,023

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

b) Stock options

The Company has a stock option plan which provides for the issuance of options to the Company's directors, officers, and certain employees to acquire common shares. The maximum number of options, restricted share units and deferred share units reserved for issuance under the option, restricted share unit and deferred share unit plans may not exceed 10 percent of the number of common shares issued and outstanding. The options vest over a three-year period and expire 5 years from the date of grant.

	Number of options	Weighted average exercise price Cdn\$/option
Balance, December 31, 2015	7,854,511	8.11
Granted	-	-
Exercised	(192,864)	5.18
Forfeited	(160,001)	7.80
Balance, March 31, 2016	7,501,646	8.19

Stock options outstanding and the weighted average remaining life of the stock options at March 31, 2016 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
\$4.36 - \$6.06	554,811	1.60	4.60	495,641	1.51	4.51
\$6.07 - \$6.22	3,157,876	2.54	6.07	1,992,618	2.54	6.07
\$6.23 - \$10.59	1,783,084	3.58	9.93	625,987	3.56	9.86
\$10.60 - \$11.25	1,916,500	4.61	10.94	-	-	-
\$11.26 - \$13.93	89,375	3.38	11.86	29,791	3.38	11.86
	7,501,646	3.26	8.19	3,144,037	2.59	6.63

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 three months ended March 31,	2016	2015
Risk-free interest rate (%)	-	0.89
Expected life (years)	-	4
Expected volatility (%)	-	47
Forfeiture rate (%)	-	3
Expected dividends	-	-

No options were granted during the three months ended March 31, 2016. The weighted average fair value at the grant date for the three months ended March 31, 2015 was Cdn\$2.44 per option. The weighted average share price on the exercise date for options exercised in the three months ended March 31, 2016 was Cdn\$11.38 (three months ended March 31, 2015 – Cdn\$7.36 per option).

c) Share appreciation rights

Parex Colombia has a SARs plan that provides for the issuance of SARs to certain employees. The plan entitles the holders to receive a cash payment equal to the excess of the market price of the Company's common shares at the time of exercise over the grant price. At any time, if the current market price of the Company's common shares exceeds four times the grant price, Parex Colombia has the option to require the holders to exercise all vested SARs. SARs typically vest over a three-year period and expire five years from the date of grant. The SARs liability cannot be settled by the issuance of common shares.

	Number of SARs	Weighted average exercise price Cdn\$/SAR
Balance, December 31, 2015	3,475,001	9.01
Granted	52,043	8.75
Exercised	(65,857)	6.37
Forfeited	(162,947)	10.48
Balance, March 31, 2016	3,298,240	9.01

As at March 31, 2016, 893,405 SARs were vested (December 31, 2015 – 893,702).

Obligations for payments of cash under the SARs plan are accrued as compensation expense over the vesting period based on the fair value of SARs, subject to appreciation limits specified in the plan. The fair value of SARs is measured using the Black-Scholes pricing model at each reporting date based on weighted average pricing assumptions noted below:

For the three months ended March 31,	2016	2015
Risk-free interest rate (%)	0.58	0.55
Expected life (years)	4	3
Expected volatility (%)	47	48
Share price	10.95	8.07
Expected dividends	-	-

As at March 31, 2016, the total SARs liability accrued was \$7.6 million (December 31, 2015 - \$5.8 million) of which \$1.0 million (December 31, 2015 - \$2.0 million) is classified as long-term in accordance with the three year vesting period. For the three months ended March 31, 2016, Parex recorded \$1.9 million of compensation cost related to the outstanding SARs (three months ended March 31, 2015 – \$0.5 million).

d) Restricted Share Units

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

	Number of RSU's	Weighted average exercise price Cdn\$/RSU
Balance, December 31, 2015	2,306,965	0.01
Granted	-	0.01
Exercised	(40,241)	0.01
Forfeited	(35,168)	0.01
Balance, March 31, 2016	2,231,583	0.01

The fair value of each RSU granted is based on the market price of Parex shares on the date of issuance. There were no RSUs granted during the three months ended March 31, 2016. The weighted average fair value at the grant date for the three months ended March 31, 2015 was Cdn\$6.53 per RSU. For the three months ended March 31, 2015 a weighted average forfeiture rate of 3% was applied.

e) Deferred share units

The Company has in place a deferred share unit plan pursuant to which the Company may grant deferred shares to certain non-employee directors. The deferred shares vest immediately, are equivalent in value to the five day weighted average share price at which the common shares of the Company traded for immediately preceding the grant date, and are settled in either common shares or cash at the discretion of the Company. DSUs can only be redeemed following departure from the Company in accordance with the terms of the DSU Plan.

	Number of DSU's	Weighted average exercise price Cdn\$/DSU
Balance, December 31, 2015 and March 31, 2016	78,600	0.01

There were no DSUs granted during the three months ended March 31, 2016. The weighted average fair value at the grant date for the year ended December 31, 2015 was Cdn\$10.88 per DSU.

f) Share-based compensation

For the three months ended March 31,	2016	2015
Share-based compensation expense	\$ 2,656	\$ 2,563
SARs expense	1,906	507
Total	\$ 4,562	\$ 3,070
SARs (recovery) reclassified as discontinued operations	-	(22)
Total – continuing operations	\$ 4,562	\$ 3,092

13. Income Tax

The components of tax expense for the three months ended March 31, 2016 and 2015 were as follows:

For the three months ended March 31,	2016		2015	
Current tax (recovery) expense	\$	(2,647)	\$	6,838
Deferred tax (recovery) expense		(17,313)		3,549
Total tax (recovery) expense	\$	(19,960)	\$	10,387

14. Net (loss) per Share

a) Basic net (loss) per share

For the three months ended March 31,	2016		2015	
Net (loss)				
Net (loss) for the purpose of basic net (loss) per share – continuing operations	\$	(7,630)	\$	(14,763)
Net (loss) for the purpose of basic net (loss) per share – discontinued operations		-		(781)
Net (loss) for the period	\$	(7,630)	\$	(15,544)
Weighted average number of shares for the purposes of basic net (loss) per share (000s)		151,525		134,790
Basic net (loss) per share – continuing operations	\$	(0.05)	\$	(0.11)
Basic net (loss) per share – discontinued operations		-		(0.01)
Basic net (loss) per share	\$	(0.05)	\$	(0.12)

b) Diluted net (loss) per share

For the three months ended March 31,	2016		2015	
Net (loss) – continuing operations				
Net (loss) used to calculate diluted net (loss) per share – continuing operations	\$	(7,630)	\$	(14,763)
Weighted average number of shares for the purposes of basic net (loss) per share (000s)		151,525		134,790
Dilutive effect of share options and RSUs on potential common shares		-		-
Weighted average number of shares for the purposes of diluted net (loss) per share		151,525		134,790
Diluted net (loss) per share	\$	(0.05)	\$	(0.11)
Net (loss) – discontinued operations				
Net (loss) used to calculate diluted net (loss) per share – discontinued operations	\$	-	\$	(781)
Weighted average number of shares for the purposes of diluted net (loss) per share		-		134,790
Diluted net (loss) per share – discontinued operations	\$	-	\$	(0.01)

At March 31, 2016, 3,611,875 (December 31, 2015 - 3,685,542) share options had an exercise price in excess of the average market value of the shares from the option grant date to the end of the period. As a result, these share options are excluded from the calculation of diluted earnings (loss) per share.

15. Supplemental Disclosure of Cash Flow Information

a) Net change in non-cash working capital

For the three months ended March 31,	2016		2015	
Accounts receivable	\$	(13,411)	\$	3,739
Prepays and other current assets		5,623		(1,327)
Oil inventory		3,207		3,480
Accounts payable and accrued liabilities		(9,431)		(21,589)
Depletion related to oil inventory		(1,497)		(2,002)
Net change in non-cash working capital	\$	(15,509)	\$	(17,699)
Operating	\$	(13,044)	\$	(36,379)
Investing		(2,465)		18,680
Financing		-		-
Net change in non-cash working capital	\$	(15,509)	\$	(17,699)

b) Interest and taxes paid

For the three months ended March 31,	2016		2015	
Cash interest paid	\$	48	\$	199
Cash income and equity taxes paid	\$	3,241	\$	-

16. 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.

The Company manages its capital to achieve the following:

- Maintain balance sheet strength in order to meet the Company's strategic growth objectives; and
- Ensure financial capacity is available to fund the Company's exploration commitments.

Parex has a senior secured credit facility which as at March 31, 2016 had a borrowing base in the amount of \$200 million. The credit facility is intended to serve as means to increase liquidity and fund cash needs as they arise. As at March 31, 2016, \$nil (December 31, 2015 - \$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") and Empresa Colombiana de Petroleos S.A. ("Ecopetrol") related to the exploration work commitments on its Colombian concessions (see note 19 - Commitments). This performance guarantee facility has a limit of \$200.0 million (December 31, 2015 - limit of \$200.0 million) of which \$117.5 million (December 31, 2015 - \$123.7 million) is utilized at March 31, 2016.

As at March 31, 2016 the Company's net working capital surplus is \$80.0 million (December 31, 2015 - \$76.7 million), of which \$91.5 million is cash.

Parex has the ability to adjust its capital structure by issuing new equity or debt and making adjustments to its capital expenditure program 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 March 31, 2016 shareholders' equity was \$737.7 million (December 31, 2015 - \$741.9 million).

17. 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 three months ended March 31, 2016 had the majority of its oil sales to 10 counterparties. Accounts receivable balance as at March 31, 2016 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 March 31, 2016 there are \$0.7 million of accounts receivable past due, all of which are considered collectible (December 31, 2015 - \$1.1 million).

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 million credit facility at March 31, 2016 was \$nil.

The following are the contractual maturities of financial liabilities at March 31, 2016:

	Less than 1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities ⁽¹⁾	\$ 55,450	-	-	-	\$ 55,450
SARs payable	6,594	978	-	-	7,572
Total	\$ 62,044	978	-	-	\$ 63,022

⁽¹⁾ Includes the liability on Derivative Financial Instruments.

The following are the contractual maturities of financial liabilities at December 31, 2015:

	Less than 1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities	\$ 63,224	-	-	-	\$ 63,224
SARs payable	3,856	1,969	-	-	5,825
Total	\$ 67,080	1,969	-	-	\$ 69,049

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 March 31, 2016, the Company had outstanding risk management contracts which are used to manage its exposure to fluctuations in the price of crude oil.

The following is a summary of the ICE Brent priced crude oil risk management contracts in place during the three months ended March 31, 2016:

Period Hedged	Reference	Volume bbls/d	Sold Put	Purchased Put	Sold Call	Premium
January 1, 2016 to June 30, 2016	ICE Brent	5,000	\$47.75	\$52.50	\$70.00	\$1.00
February 1, 2016 to June 30, 2016	ICE Brent	15,000	\$25.00	\$35.00	\$45.00	\$2.08
July 1, 2016 to September 30, 2016	ICE Brent	5,000	\$30.50	\$38.00	\$47.00	\$1.00
July 1, 2016 to September 30, 2016	ICE Brent	5,000	\$34.25	\$40.25	\$49.50	\$1.00

The fair value of the ICE Brent priced crude oil risk management contracts is a \$3.0 million liability (December 31, 2015 – asset of \$2.6 million) and is recorded in the financial statement line item "Derivative financial instruments" in the consolidated balance sheet.

The table below summarizes the loss (gain) on the commodity risk management contracts:

For the three months ended March 31,	2016	2015
Realized (gain) on commodity risk management contracts	\$ (849)	\$ -
Unrealized loss (gain) on commodity risk management contracts	5,824	(854)
Total	\$ 4,975	\$ (854)

As shown in the table above, as at March 31, 2016, Parex had committed to the future sale of 2,285,000 barrels of oil with 3-way collars from Brent oil prices of \$25.00 to \$70.00 per bbl. The following sensitivity shows the resulting unrealized loss (gain) and impact on (loss) income before tax for the oil hedged contracts if Brent oil price were to increase/decrease by \$10/bbl from the spot rate as at March 31, 2016:

	Brent Price	Impact for the three months ended March 31, 2016	
		Increase of 10/bbl	Decrease of 10/bbl
Oil hedged contract total	Period end	\$ 15,322	\$ (10,993)

Subsequent to March 31, 2016 Parex entered into the following ICE Brent priced crude oil risk management contract:

Period Hedged	Reference	Type	Volume bbls/d	Price/bbl
October 1, 2016 to December 31, 2016	ICE Brent	Collar	5,000	\$35.00 - \$60.00

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.

The following is a summary of the foreign currency risk management contracts in place as at March 31, 2016:

Period Hedged	Reference	Type	Amount USD	Price (COP)
September 2, 2015 to April 14, 2016	Colombian Peso	Collar	\$8 million	3,000 – 3,228
September 2, 2015 to June 14, 2016	Colombian Peso	Collar	\$8 million	3,000 – 3,228

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

For the three months ended March 31,	2016	2015
Unrealized (gain) loss on foreign currency risk management contracts	(248)	999

The fair value of the foreign currency risk management contracts is recorded in the financial statement line item “Derivative financial instruments” in the consolidated balance sheet.

The Company recorded a \$0.2 million gain on these contracts in the three months ended March 31, 2016 (three months ended March 31, 2015 - \$1.0 million loss) which is recorded in the financial statement line item “Finance expense” in the consolidated statements of comprehensive income (loss). Refer to note 9.

The following sensitivity show the resulting unrealized loss (gain) and impact on (loss) income before tax for the foreign exchange risk management contracts for the respective changes in the period end foreign exchange rates at March 31, 2016:

Exchange Rate USD/COP	Impact for the three months ended year March 31, 2016	
	Increase of 10%	Decrease of 10%
Total	\$ 844	\$ (1,501)

18. Segmented Information

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

	Canada		Colombia		Total
Oil sales	\$	-	\$	81,518	\$ 81,518
Royalties		-		(6,232)	(6,232)
Revenue		-		75,286	75,286
Risk management contracts		-		(4,975)	(4,975)
				70,311	70,311
Expenses		-		-	-
Production		-		13,639	13,639
Transportation		-		34,185	34,185
Purchased oil		-		4,090	4,090
General and administrative		4,147		4,679	8,826
Share-based compensation		2,656		1,906	4,562
Depletion, depreciation and amortization		76		30,951	31,027
Foreign exchange (gain) loss		(1,025)		548	(477)
		5,854		89,998	95,852
Finance (income)		(128)		(488)	(616)
Finance expense		142		2,523	2,665
Net finance expense		14		2,035	2,049
Net (loss) before taxes		(5,868)		(21,722)	(27,590)
Current tax (recovery)		-		(2,647)	(2,647)
Deferred tax (recovery)		-		(17,313)	(17,313)
Net (loss)	\$	(5,868)	\$	(1,762)	\$ (7,630)
Capital assets (end of period)	\$	562	\$	670,082	\$ 670,644
Capital expenditures	\$	93	\$	4,414	\$ 4,507
Total assets (end of period)	\$	73,081	\$	870,594	\$ 943,675

For the three months ended March 31, 2015

	Canada		Colombia		Trinidad & Tobago		Total
Oil sales	\$	-	\$	134,307	\$	-	\$ 134,307
Royalties		-		(10,476)		-	(10,476)
Revenue		-		123,831		-	123,831
Risk management contracts		-		854		-	854
		-		124,685		-	124,685
Expenses		-		-		-	-
Production		-		19,579		-	19,579
Transportation		-		42,021		-	42,021
Purchased oil		-		8,565		-	8,565
General and administrative		3,950		5,626		-	9,576
Share-based compensation		2,563		529		-	3,092
Depletion, depreciation and amortization		52		40,120		-	40,172
Foreign exchange loss		35		87		-	122
		6,600		116,527		-	123,127
Finance (income)		(104)		(90)		-	(194)
Finance expense		973		5,155		-	6,128
Net finance expense		869		5,065		-	5,934
Net income (loss) before taxes from continuing operations		(7,469)		3,093		-	(4,376)
Current tax expense		-		6,838		-	6,838
Deferred tax expense		-		3,549		-	3,549
Net (loss) from continuing operations	\$	(7,469)	\$	(7,294)	\$	-	\$ (14,763)
Net (loss) from discontinued operations		-		-		(781)	(781)
Net (loss)	\$	(7,469)	\$	(7,294)	\$	(781)	\$ (15,544)
Capital assets (end of period)	\$	564	\$	764,629	\$	-	\$ 765,193
Capital expenditures	\$	38	\$	26,925	\$	-	\$ 26,963
Total assets (end of period)	\$	6,423	\$	1,003,693	\$	-	\$ 1,010,116

In Colombia the majority of oil sales are with 10 customers in the oil and gas industry and are subject to normal industry credit risks.

19. Commitments

a) Colombia

At March 31, 2016 performance guarantees are in place with the ANH and Ecopetrol for the Capachos and Aguas Blancas farm-in blocks. The guarantees are in the form of issued letters of credit totaling \$141.5 million (December 31, 2015 - \$150.3 million) to support the exploration work commitments in respect of the 23 blocks in Colombia.

At March 31, 2016 EDC has provided the Company's bank with performance security guarantees to support approximately \$117.5 million (December 31, 2015 - \$123.7 million) of the letters of credit issued on behalf of Parex. The EDC guarantees have been secured by a general security agreement issued by Parex in favour of EDC. The letters of credit issued to the ANH and Ecopetrol are reduced from time to time to reflect completed work on an ongoing basis.

The value of the Company's exploration commitments as at March 31, 2016 in respect of the Colombia blocks are estimated to be as follows:

2016	\$	25,163
2017		160,882
Thereafter		67,000
	\$	253,045

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 March 31, 2016 are as follows:

	Total	2016	2017	2018	2019	2020	Thereafter
Office and accommodations	\$ 5,209	1,648	1,249	1,063	991	51	207

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John F. Bechtold

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Robert J. Engbloom

Wayne K. Foo

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ABBREVIATIONS

Oil and Natural Gas Liquids

bbls	barrels
mbbls	one thousand barrels
mmbbls	one million barrels
NGLs	natural gas liquids
bbls/d	barrels of oil per day
mbbls/d	one thousand barrels per day
BOE or boe	barrel of oil equivalent, using the conversion factor of 6 Mcf: 1 bbl
mboe	one thousand barrels of oil equivalent
mmbboe	one million barrels of oil equivalent
bfpd	barrels of fluid per day
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

"BOEs" may be misleading, particularly if used in isolation. A BOE conversion ratio of nine 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.