

CONSOLIDATED INTERIM FINANCIAL STATEMENTS
Consolidated Balance Sheets (unaudited)

As at (thousands of United States dollars)	NOTE	March 31, 2017	December 31, 2016
ASSETS			
Current assets			
Cash		\$ 184,647	\$ 149,246
Accounts receivable	5	66,428	46,019
Prepays and other current assets		2,318	2,502
Crude oil inventory	6	90	2,834
Derivative financial instruments	18	1,214	—
		254,697	200,601
Deferred tax asset	14	15,751	17,324
Goodwill		73,452	73,452
Exploration and evaluation	7	85,909	101,024
Property, plant and equipment	8	555,046	526,270
		\$ 984,855	\$ 918,671
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 98,451	\$ 86,313
Derivative financial instruments	18	—	1,704
Current income and equity tax payable	14	14,328	8,404
Current portion of decommissioning and environmental liabilities	11	10,862	10,890
		123,641	107,311
Other long-term liabilities	10	2,253	1,652
Decommissioning and environmental liabilities	11	44,617	40,256
Deferred tax liability	14	52,810	55,660
		223,321	204,879
Shareholders' equity			
Share capital	12	827,068	822,227
Contributed surplus		45,003	42,208
Deficit		(110,537)	(150,643)
		761,534	713,792
		\$ 984,855	\$ 918,671

Commitments (note 20)

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	2017	2016
Oil and natural gas sales		\$ 150,142	\$ 81,518
Royalties		(13,252)	(6,232)
Revenue		136,890	75,286
Commodity risk management contracts	18	1,318	(4,975)
		138,208	70,311
Expenses			
Production		15,389	13,639
Transportation		34,243	34,185
Purchased oil		2,374	4,090
General and administrative		7,740	8,826
Share-based compensation equity settled	12	4,726	2,656
Share-based compensation cash settled	13	1,803	1,906
Depletion, depreciation and amortization	8	24,409	31,027
Foreign exchange (gain) loss		1,584	(477)
		92,268	95,852
Finance (income)	9	(384)	(616)
Finance expense	9	2,638	2,665
Net finance expense		2,254	2,049
Net income (loss) before taxes		43,686	(27,590)
Income tax expense (recovery)			
Current income tax expense (recovery)	14	4,857	(2,647)
Deferred income tax (recovery)	14	(1,277)	(17,313)
		3,580	(19,960)
Net income (loss) and comprehensive income (loss) for the period		\$ 40,106	\$ (7,630)
Basic net income (loss) per common share	15	\$ 0.26	\$ (0.05)
Diluted net income (loss) per common share	15	\$ 0.26	\$ (0.05)

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)

	2017		2016	
Share Capital				
Balance, beginning of period	\$	822,227	\$	812,737
Issuance of common shares under share-based compensation plans		4,841		1,286
Balance, end of period	\$	827,068	\$	814,023
Contributed Surplus				
Balance, beginning of period	\$	42,208	\$	33,388
Share-based compensation		4,726		2,656
Options exercised		(1,931)		(532)
Balance, end of period	\$	45,003	\$	35,512
Deficit				
Balance, beginning of period	\$	(150,643)	\$	(104,199)
Net income (loss) for the period		40,106		(7,630)
Balance, end of period		(110,537)		(111,829)
Total Equity	\$	761,534	\$	737,706

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	2017	2016
Operating activities			
Net income (loss)		\$ 40,106	\$ (7,630)
Add (deduct) non-cash items			
Depletion, depreciation and amortization	8	24,409	31,027
Non-cash finance expense	9	835	145
Share-based compensation equity settled	12	4,726	2,656
Share-based compensation cash settled	13	1,803	1,906
Deferred tax (recovery)	14	(1,277)	(17,313)
Unrealized foreign exchange loss (gain)		596	(999)
Unrealized (gain) loss on commodity risk management contracts	18	(2,507)	5,824
Abandonment costs paid		(200)	—
Stock appreciation rights paid		(585)	(159)
Funds flow provided by operations		67,906	15,457
Net change in non-cash working capital	16	(14,535)	(13,044)
Cash provided by operating activities		53,371	2,413
Investing activities			
Property, plant and equipment expenditures	8	(24,681)	(2,184)
Exploration and evaluation expenditures	7	(10,882)	(2,323)
Net change in non-cash working capital	16	14,553	(2,465)
Cash (used in) investing activities		(21,010)	(6,972)
Financing activities			
Issuance of common shares under share-based compensation plans	12	2,910	754
Cash provided by financing activities		2,910	754
Increase (decrease) in cash for the period		35,271	(3,805)
Impact of foreign exchange on foreign currency-denominated cash balances		130	479
Cash, beginning of period		149,246	94,823
Cash, end of period		\$ 184,647	\$ 91,497

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



Notes to the Condensed Interim Consolidated Financial Statements

For the period ended March 31, 2017

(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, 2017.

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, 2017 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, 2016, which have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

These condensed interim consolidated financial statements were approved by the Board of Directors on May 10, 2017.

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, 2016.

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, 2017. 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, 2016, except for the following pertaining to the Performance Share Units ("PSUs") that were issued during the three month period ended March 31, 2017:

Compensation cost attributable to performance share units granted to certain employees of the Company is measured at fair value at the date of grant and expensed over the vesting period with a corresponding increase in contributed surplus. The fair value of each PSU granted is based on the share price at which the common shares of the Company traded for on the grant date. The performance share units may be granted with certain market conditions, specified at the grant date as determined by the Company's Board of Directors. If the Company satisfies the market conditions, a pre-determined adjustment factor is applied to PSUs eligible to vest at the end of the performance period. The expense recognized over the vesting period of PSUs is the fair value of the PSUs with an estimated adjustment factor. If the actual final adjustment factor is higher than estimated at grant, additional expense is recognized on vesting for the incremental fair value. Upon the exercise of the PSUs consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.



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, 2016 consolidated financial statements for details concerning determination of fair values.

5. Accounts Receivable

	March 31, 2017	December 31, 2016
Trade receivables	\$ 31,801	\$ 15,469
Colombia income taxes receivable	25,005	19,810
Value added taxes (VAT)	9,622	10,740
	\$ 66,428	\$ 46,019

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 and tax installments. The balance can either be received in cash or applied to Colombian cash income tax payable. VAT receivable is \$9.6 million as at March 31, 2017 (December 31, 2016 - \$10.7 million) and is recoverable in 2017. All accounts receivable are expected to be received within twelve months and are thus recognized as current assets.

6. Inventory

	March 31, 2017	December 31, 2016
Crude oil inventory	\$ 90	\$ 2,834

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, December 31, 2015	\$	121,354
Additions		48,178
Changes in decommissioning liability		1,372
Exploration and evaluation impairment		(69,880)
Balance, December 31, 2016	\$	101,024
Additions		10,882
Transfers to PP&E		(26,429)
Changes in decommissioning liability		432
Balance, March 31, 2017	\$	85,909

Exploration and Evaluation ("E&E") assets consist of the Company's exploration projects which are pending either the determination of proved or probable reserves or impairment. Additions of \$10.9 million for the three months ended March 31, 2017 represent the Company's share of costs incurred on E&E assets during the period. For the three months ended March 31, 2017, \$26.4 million of E&E assets were transferred to PP&E related to the Aguas Blancas Block.

During the year ended December 31, 2016, additions of \$48.2 million represent the Company's share of costs incurred on E&E assets during the period. There were no E&E assets transferred to PP&E during the year ended December 31, 2016. Also in 2016, the Company recorded \$69.9 million of impairment charges related to Cerrero Block, Cebucan Block and Block LLA-24 in the Northern Llanos basin.

At March 31, 2017 the Company did not have E&E assets in Canada.



8. Property, Plant and Equipment

	Canada	Colombia	Total
Cost			
Balance, December 31, 2015	\$ 3,607	\$ 1,537,663	\$ 1,541,270
Additions	126	59,393	59,519
Additions related to property acquisition	—	4,025	4,025
Changes in decommissioning and environmental liability	—	13,042	13,042
Balance, December 31, 2016	\$ 3,733	\$ 1,614,123	\$ 1,617,856
Additions	24	24,657	24,681
Transfers from E&E assets	—	26,429	26,429
Changes in decommissioning and environmental liability	—	1,286	1,286
Balance, March 31, 2017	\$ 3,757	\$ 1,666,495	\$ 1,670,252

Accumulated Depreciation, Depletion and Amortization

Balance, December 31, 2015	\$ 3,062	\$ 963,895	\$ 966,957
Depletion and depreciation for the year	286	115,491	115,777
DD&A included in crude oil inventory costing	—	(745)	(745)
Impairment	—	9,597	9,597
Balance, December 31, 2016	\$ 3,348	\$ 1,088,238	\$ 1,091,586
Depletion and depreciation for the period	46	24,363	24,409
DD&A included in crude oil inventory costing	—	(789)	(789)
Balance, March 31, 2017	\$ 3,394	\$ 1,111,812	\$ 1,115,206

Net book value:

As at December 31, 2015	\$ 545	\$ 573,768	\$ 574,313
As at December 31, 2016	\$ 385	\$ 525,885	\$ 526,270
As at March 31, 2017	\$ 363	\$ 554,683	\$ 555,046

In the three months ended March 31, 2017 additions of \$24.7 million mainly relate to drilling costs in Colombia at Block LLA-34 and Cabrestero Block. For the three months ended March 31, 2017, \$26.4 million of E&E assets were transferred to PP&E related to the Aguas Blancas Block.

For the three months ended March 31, 2017 future development costs of \$253.2 million (three months ended March 31, 2016 - \$252.1 million) were included in the depletion calculation for development and production assets. For the three months ended March 31, 2017 \$1.3 million of general and administrative costs (three months ended March 31, 2016 - \$0.8 million) have been capitalized in respect of development and exploration activities during the current period.

During the year ended December 31, 2016, additions mainly related to development expenditures in the amount of \$59.5 million in Colombia at Block LLA-34 and exploration drilling on Block LLA-32 and Cabrestero. There were no transfers from E&E for the year ended December 31, 2016. Also in 2016, the Company recorded \$9.6 million of impairment charges related to the Block LLA-30 CGU.

9. Net Finance Expense (Income)

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

	2017	2016
Bank taxes and credit facility fees	\$ 909	\$ 428
Accretion on decommissioning and environmental liabilities	835	393
Interest and other income	(384)	(616)
Colombian net wealth tax	894	2,092
Unrealized (gain) on foreign currency risk management contracts	—	(248)
Net finance expense	\$ 2,254	\$ 2,049



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

	2017		2016	
Non-cash finance expense	\$	835	\$	145
Cash finance expense		1,419		1,904
Net finance expense	\$	2,254	\$	2,049

Colombian Net Wealth Tax ("NWT")

On December 23, 2014 the Colombian government passed a law imposing a 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 2017 is \$0.9 million and will be paid in two equal semi-annual installments in 2017.

10. Other Long-Term Liabilities

Other long-term liabilities are comprised of the following:

	March 31, 2017		December 31, 2016	
Long-term SARs payable	\$	2,253	\$	1,652

11. Decommissioning and Environmental Liabilities

	Decommissioning		Environmental		Total	
Balance, December 31, 2015	\$	26,811	\$	8,588	\$	35,399
Additions		5,241		703		5,944
Settlements of obligations during the year		(75)		(103)		(178)
Accretion expense		1,432		399		1,831
Additions related to change in estimate - inflation and discount rates		7,697		1,482		9,179
Additions related to change in estimate - costs		(2,386)		1,677		(709)
Foreign exchange (gain)		—		(320)		(320)
Balance, December 31, 2016	\$	38,720	\$	12,426	\$	51,146
Additions		1,309		409		1,718
Settlements of obligations during the period		(163)		(37)		(200)
Accretion expense		625		210		835
Foreign exchange loss		1,500		480		1,980
Balance, March 31, 2017	\$	41,991	\$	13,488	\$	55,479
Current obligation		(4,065)		(6,797)		(10,862)
Long-term obligation	\$	37,926	\$	6,691	\$	44,617

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, 2017, the estimated costs to abandon and reclaim the wells and well sites and the estimated timing of the costs to be paid in future periods. The total undiscounted amount of cash flows required to settle the Company's decommissioning liability is approximately \$94.6 million as at March 31, 2017 (December 31, 2016 – \$92.1 million) with the majority of these costs anticipated to occur after 2029. A risk-free discount rate of 7.15 percent and an inflation rate of 7.52 percent were used in the valuation of the liabilities (December 31, 2016 – 7.15 percent risk-free discount rate and a 7.52 percent inflation rate). The discount rate used in 2017 is based on a Colombia risk-free rate.

Included in the decommissioning liability is \$4.1 million (December 31, 2016 – \$4.2 million) that is classified as a current obligation.

The total undiscounted amount of cash flows required to settle the Company's environmental liability is approximately \$16.6 million as at March 31, 2017 (December 31, 2016 – \$16.1 million) with the majority of these costs anticipated to occur in 2017 or later in Colombia. A risk-free discount rate of 7.15 percent and an inflation rate of 7.52 percent were used in the valuation of the liabilities (December 31, 2016 – 7.15 percent risk-free discount rate and a 7.52 percent inflation rate). The discount rate used is based on a Colombia risk-free rate.

Included in the environmental liability is \$6.8 million (December 31, 2016 – \$6.7 million) that is classified as a current obligation.



12. Share Capital

a) Issued and outstanding common shares

	Number of shares	Amount
Balance, December 31, 2015	151,489,302 \$	812,737
Issued for cash – exercise of options and RSUs	1,501,193	5,492
Allocation of contributed surplus – exercise of options and RSUs	—	3,998
Balance, December 31, 2016	152,990,495 \$	822,227
Issued for cash – exercise of options and RSUs	723,741	2,910
Allocation of contributed surplus – exercise of options and RSUs	—	1,931
Balance, March 31, 2017	153,714,236 \$	827,068

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

In the three months ended March 31, 2017, a total of 723,741 options and RSUs were exercised for proceeds of \$2.9 million (year ended December 31, 2016 - 1,501,193 options and RSUs were exercised for \$5.5 million).

b) Stock options

The Company has a stock option plan which provides for the issuance of options to the Company's officers and certain employees to acquire common shares. The maximum number of options, restricted share units (including performance 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 five 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	1,375,500	15.60
Exercised	(1,179,235)	6.07
Forfeited	(309,002)	9.80
Balance, December 31, 2016	7,741,774	9.68
Granted	622,350	15.96
Exercised	(591,407)	6.47
Forfeited	(44,417)	12.82
Balance, March 31, 2017	7,728,300	10.42

Stock options outstanding and the weighted average remaining life of the stock options at March 31, 2017 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 - \$6.31	2,418,106	1.49	5.97	2,418,106	1.49	5.97
\$6.33 - \$10.59	1,510,801	2.62	10.04	982,361	2.62	10.04
\$10.60 - \$11.24	1,787,834	3.61	10.94	578,828	3.61	10.94
\$11.25 - \$15.84	1,418,459	4.50	15.38	42,916	2.32	11.99
\$15.85 - \$16.87	593,100	4.93	16.05	—	—	—
	7,728,300	3.00	9.68	4,022,211	2.25	7.59



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,	2017	2016
Risk-free interest rate (%)	1.09	—
Expected life (years)	4	—
Expected volatility (%)	43.96	—
Forfeiture rate (%)	3	—
Expected dividends	—	—

The weighted average fair value at the grant date for the three months ended March 31, 2017 was Cdn\$5.65 per option. The weighted average share price on the exercise date for options exercised in the three months ended March 31, 2017 was Cdn\$16.11 (three months ended March 31, 2016 - Cdn\$11.38). No options were granted during the three months ended March 31, 2016.

c) Restricted and performance share units

The Company has in place a restricted share unit plan pursuant to which the Company may grant restricted shares to certain employees. The restricted shares 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	692,475	0.01
Exercised	(321,958)	0.01
Forfeited	(89,336)	0.01
Balance, December 31, 2016	2,588,146	0.01
Granted	562,025	0.01
Exercised	(132,334)	0.01
Forfeited	(21,584)	0.01
Balance, March 31, 2017	2,996,253	0.01

RSUs outstanding and the weighted average remaining life of the RSUs at March 31, 2017 are as follows:

Exercise price Cdn\$	RSUs outstanding		RSUs vested	
	Number of RSUs	Weighted average remaining life (years)	Number of RSUs	Weighted average remaining life (years)
0.01	2,996,253	3.66	952,956	2.50

The fair value of each RSU granted is based on the market price of Parex shares on the date of issuance. The weighted average fair value at the grant date for the three months ended March 31, 2017 was Cdn\$15.98 per RSU. For the three months ended March 31, 2017 a weighted average forfeiture rate of 3% was applied. There were no RSUs granted during the three months ended March 31, 2016.

Pursuant to the the restricted share unit plan, the Company may grant performance share units to certain employees. The performance share units vest three years after the grant date and expire one month after the vesting date. The vesting of PSUs is conditional on the satisfaction of certain performance criteria as determined by the Company's Board of Directors. If the Company satisfies the performance criteria, PSUs become eligible to vest and a pre-determined multiplier is applied to eligible PSUs.

	Number of PSU's	Weighted average exercise price Cdn\$/PSU
Balance at December 31, 2016	—	—
Granted	103,500	0.01
Balance, March 31, 2017	103,500	0.01

The fair value of each PSU granted is based on the share price at which the common shares of the Company traded for on the grant date. The weighted average fair value at the grant date for the three months ended March 31, 2017 was Cdn\$16.01 per PSU.



d) *Deferred share units*

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

	Number of DSU's	Weighted average exercise price Cdn\$/DSU
Balance, December 31, 2015	78,600	0.01
Granted	67,300	0.01
Balance, December 31, 2016 and March 31, 2017	145,900	0.01

The fair value at the grant date is based on the share price at which the common shares of the Company traded for on the grant date. No DSUs were granted during the three months ended March 31, 2017. The weighted average fair value at the grant date for the year ended December 31, 2016 was Cdn\$16.82 per DSU.

e) *Share-based compensation*

For the three months ended March 31,	2017	2016
Option expense	\$ 1,957	\$ 1,198
Restricted and performance share units expense	2,769	1,458
Total	\$ 4,726	\$ 2,656

13. Share Appreciation Rights

Share appreciation rights ("SARs")

Parex Colombia has a SARs plan that provides for the issuance of SARs to certain employees of Parex Colombia. 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 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	9.03
Granted	1,574,468	15.55
Exercised	(961,233)	7.72
Forfeited	(281,999)	10.26
Balance, December 31, 2016	3,806,237	11.91
Granted	104,486	16.09
Exercised	(108,064)	8.28
Forfeited	(5,523)	12.42
Balance, March 31, 2017	3,797,136	12.13

As at March 31, 2017, 1,017,604 SARs were vested (December 31, 2016 - 1,077,450).

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,	2017	2016
Risk-free interest rate (%)	0.88	0.58
Expected life (years)	4	4
Expected volatility (%)	46	47
Share price (\$/Cdn)	16.95	10.95
Expected dividends	—	—

As at March 31, 2017, the total SARs liability accrued is \$14.7 million (December 31, 2016 -\$13.5 million) of which \$2.3 million (December 31, 2016 - \$1.7 million) is classified as long-term in accordance with the three year vesting period. For the year ended March 31, 2017, Parex recorded \$1.8 million of compensation costs related to the outstanding SARs (year ended December 31, 2016 – \$12.9 million). The intrinsic value of vested SARs at March 31, 2017 was \$8.9 million (December 31, 2016 – \$9.3 million).

14. Income Tax

The components of tax expense for the three months ended March 31, 2017 and 2016 were as follows:

For the three months ended March 31,	2017	2016
Current tax expense (recovery)	\$ 4,857	\$ (2,647)
Deferred tax (recovery)	(1,277)	(17,313)
Total tax expense (recovery)	\$ 3,580	\$ (19,960)

15. Net income (loss) per Share

a) Basic net (loss) per share

For the three months ended March 31	2017	2016
Net income (loss)		
Net income (loss) for the purpose of basic net income (loss) per share	\$ 40,106	\$ (7,630)
Weighted average number of shares for the purposes of basic net income (loss) per share (000's)	153,284	151,525
Basic net income (loss) per share	0.26	(0.05)

b) Diluted net income (loss) per share

For the three months ended March 31	2017	2016
Net income (loss)		
Net income (loss) used to calculate diluted net income (loss) per share	\$ 40,106	\$ (7,630)
Weighted average number of shares for the purposes of basic net income (loss) per share (000's)	153,284	151,525
Dilutive effect of share options and RSUs on potential common shares	3,418	-
Weighted average number of shares for the purposes of diluted net income (loss) per share	156,702	151,525
Diluted net income (loss) per share	0.26	(0.05)

At March 31, 2017, 316,313 (December 31, 2016 - nil) 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.



16. Supplemental Disclosure of Cash Flow Information

a) Net change in non-cash working capital

For the three months ended March 31,	2017	2016
Accounts receivable	\$ (20,409)	\$ (13,411)
Prepays and other current assets	184	5,623
Oil inventory	2,744	3,207
Accounts payable and accrued liabilities	18,244	(9,431)
Depletion related to oil inventory	(745)	(1,497)
Net change in non-cash working capital	\$ 18	\$ (15,509)
Operating	\$ (14,535)	\$ (13,044)
Investing	14,553	(2,465)
Financing	-	-
Net change in non-cash working capital	\$ 18	\$ (15,509)

b) Interest and taxes paid

For the three months ended March 31,	2017	2016
Cash interest paid	\$ 20	\$ 48
Cash income and equity taxes paid	\$ -	\$ 3,241

17. Capital Management

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

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, 2017 had a borrowing base in the amount of \$175.0 million. The credit facility is intended to serve as means to increase liquidity and fund cash needs as they arise. As at March 31, 2017, \$nil (December 31, 2016 - \$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 20 - Commitments). This performance guarantee facility has a limit of \$200.0 million (December 31, 2016 - limit of \$200.0 million) of which \$126.3 million (December 31, 2016 - \$126.4 million) is utilized at March 31, 2017. At March 31, 2017, there is an additional \$20.1 million (December 31, 2016 - \$21.3 million) of letters of credit that are provided by a Latin American bank on an unsecured basis.

As at March 31, 2017, the Company's net working capital surplus was \$131.1 million (December 31, 2016 - \$93.3 million), of which \$184.6 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, 2017 shareholders' equity was \$761.5 million (December 31, 2016 - \$713.8 million).

18. Financial Instruments and Risk Management

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



a) Credit risk

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

The Company for the three months ended March 31, 2017 had the majority of its oil sales to 10 counterparties. Accounts receivable balance as at March 31, 2017 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, 2017, there are \$1.5 million of accounts receivable past due, all of which are considered collectible (December 31, 2016 - \$0.6 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 \$175.0 million credit facility at March 31, 2017 was \$nil.

The following are the contractual maturities of financial liabilities at March 31, 2017:

	Less than 1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities	\$ 85,966	—	—	—	\$ 85,966
SARs payable	12,485	2,253	—	—	14,738
Total	\$ 98,451	2,253	—	—	\$ 100,704

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

	Less than 1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities ⁽¹⁾	\$ 76,199	—	—	—	\$ 76,199
SARs payable	11,818	1,652	—	—	13,470
Total	\$ 88,017	1,652	—	—	\$ 89,669

⁽¹⁾ Includes the liability for derivative financial instruments.

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, 2017, 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, 2017:

Period Hedged	Reference	Volume bbls/d	Sold Put	Purchased Put	Sold Call	Premium
January 1, 2017 to February 28, 2017	ICE Brent	5,000	\$ 44.00	\$ 48.00	\$ 63.35	—
January 1, 2017 to March 31, 2017	ICE Brent	5,000	\$ 40.00	\$ 45.00	\$ 59.40	—
April 1, 2017 to June 30, 2017	ICE Brent	5,000	\$ 40.00	\$ 45.00	\$ 64.00	—
April 1, 2017 to September 30, 2017	ICE Brent	5,000	\$ 40.00	\$ 50.00	—	\$1.30

The fair value of the ICE Brent priced crude oil risk management contracts at March 31, 2017 is a \$1.2 million asset (December 31, 2016 – liability of \$1.7 million) and is recorded in the financial statement line item "Derivative financial instruments" in the consolidated balance sheet.



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

For the three months ended March 31,	2017		2016
Realized gain on commodity risk management contracts	\$	—	\$ (2,053)
Premiums paid on commodity risk management contracts		1,189	1,204
Unrealized (gain) loss on commodity risk management contracts		(2,507)	5,824
Total	\$	(1,318)	\$ 4,975

As shown in the table above, as at March 31, 2017, Parex had committed to the future sale of 1,370,000 barrels of oil with collars from Brent oil prices of \$40.00 to \$64.00 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, 2017:

	Brent Price	Impact for the three months ended March 31, 2017	
		Increase of \$10/bbl	Decrease of \$10/bbl
Oil hedged contract total	Period end \$	1,035	\$ (946)

Subsequent to March 31, 2017 Parex entered into the following ICE Brent priced crude oil risk management contract:

Period Hedged	Reference	Volume bbls/d	Sold Put	Purchased Put	Sold Call	Premium
July 1, 2017 to September 30, 2017	ICE Brent	5,000	\$ 45.00	\$ 50.00	—	\$0.95

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 table below summarizes the (gains) losses on foreign currency risk management contracts:

For the three months ended March 31,	2017		2016
Unrealized (gain) on foreign currency risk management contracts	\$	—	\$ (248)

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



19. Segmented Information

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

For the three months ended March 31, 2017

	Canada	Colombia	Total
Oil sales	\$ —	\$ 150,142	\$ 150,142
Royalties	—	(13,252)	(13,252)
Revenue	—	136,890	136,890
Risk management contracts	—	1,318	1,318
	—	138,208	138,208
Expenses			
Production	—	15,389	15,389
Transportation	—	34,243	34,243
Purchased oil	—	2,374	2,374
General and administrative	2,852	4,888	7,740
Share-based compensation equity settled	4,726	—	4,726
Share-based compensation cash settled	—	1,803	1,803
Depletion, depreciation and amortization	46	24,363	24,409
Foreign exchange loss	81	1,503	1,584
	7,705	84,563	92,268
Finance (income)	(142)	(242)	(384)
Finance expense	305	2,333	2,638
Net finance expense	163	2,091	2,254
Net income (loss) before taxes	(7,868)	51,554	43,686
Current tax expense	—	4,857	4,857
Deferred tax (recovery)	—	(1,277)	(1,277)
Net income (loss)	\$ (7,868)	\$ 47,974	\$ 40,106
Capital assets (end of period)	\$ 363	\$ 640,592	\$ 640,955
Capital expenditures	\$ 24	\$ 35,539	\$ 35,563
Total assets (end of period)	\$ 88,095	\$ 896,760	\$ 984,855

For the three months ended March 31, 2016

	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

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.

20. Commitments

a) Colombia

At March 31, 2017, performance guarantees are in place with Ecopetrol for the Capachos and Aguas Blancas farm-in blocks and the ANH for all other blocks. The guarantees are in the form of issued letters of credit totaling \$146.4 million (December 31, 2016 - \$148.7 million) to support the exploration work commitments in respect of the 22 blocks in Colombia.

At March 31, 2017, EDC has provided the Company's bank with performance security guarantees to support approximately \$126.3 million (December 31, 2016 - \$126.4 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, 2017 in respect of the Colombia blocks are estimated to be as follows:

2017	\$	66,763
2018		105,982
Thereafter		41,600
	\$	214,345



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, 2017 are as follows:

	Total	2017	2018	2019	2020	2021	Thereafter
Office and accommodations	\$ 3,892	1,407	1,148	1,030	61	61	185



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, 2017 is dated May 10, 2017 and should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three months ended March 31, 2017, as well as the Company's audited consolidated annual financial statements for the year ended December 31, 2016. The unaudited condensed interim consolidated financial statements and the audited consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board.

Additional information related to Parex and factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities, including the Company's Annual Information Form dated March 21, 2017 ("AIF"), and may be accessed through the SEDAR website at www.sedar.com.

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

Company Profile

Parex is 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 1,698,931 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, 2017 ("first quarter or Q1") Highlights

- Quarterly production was 32,591 boe/d (99% crude oil), representing an increase of 5 percent over the previous quarter ended December 31, 2016 and an increase of 13 percent over the prior year comparative period;
- Generated funds flow from operations of \$67.9 million (\$0.44 per share basic as compared to \$0.10 per share for the comparative period) which includes approximately \$2.2 million (\$0.02 per share basic) of funds flow earned due to a drawn down of oil inventory. Funds flow has increased from the comparative period mainly due to an increase in oil prices and increased production volumes;
- Earned net income of \$40.1 million (\$0.26 per share basic) compared to the comparative quarter of 2016 where a net loss of \$7.6 million (\$0.05 loss per share basic) was recorded;
- Realized a sales price of \$48.72/boe during the period at a \$5.89/boe discount to the average Brent price, and an operating netback of \$28.14/boe;
- Capital expenditures were \$35.6 million in the period compared to \$4.5 million in the comparative period of 2016. Parex still expects to invest \$200 - \$225 million in capital projects in 2017. It is expected that activity levels will increase significantly in the second half of 2017;
- Working capital increased to \$131.1 million at March 31, 2017 compared to \$93.3 million at December 31, 2016 and \$80.0 million at March 31, 2016 mainly as a result of free funds flow of \$32.3 million in the quarter. Bank debt continues to be \$nil;
- Participated in drilling 9 gross wells in Colombia resulting in 6 oil wells, 1 disposal well and 2 under test, for a success rate of 100 percent.

Financial Summary

For the three months ended March 31 (Financial figures in 000s except per share amounts)	2017	2016
Average daily oil production (bbl/d)	32,317	28,702
Average daily natural gas production (mcf/d)	1,644	1,190
Average oil and natural gas production (boe/d)	32,591	28,900
Production split (% crude oil)	99	99
Average realized sales price (\$/boe)	\$ 48.72	\$ 27.10
Operating netback (\$/boe) ⁽¹⁾	\$ 28.14	\$ 8.06
Oil and natural gas sales (including purchased oil sales)	\$ 150,142	\$ 81,518
Funds flow provided by operations	\$ 67,906	\$ 15,457
Per share – basic	\$ 0.44	\$ 0.10
Per share – diluted ⁽¹⁾	\$ 0.43	\$ 0.10
Net income (loss)	\$ 40,106	\$ (7,630)
Per share – basic	\$ 0.26	\$ (0.05)
Per share – diluted	\$ 0.26	\$ (0.05)
Capital expenditures	\$ 35,563	\$ 4,507
Total assets (end of period)	\$ 984,855	\$ 943,675
Working capital (end of period) ⁽²⁾	\$ 131,056	\$ 79,955
Bank debt (end of period) ⁽³⁾	-	-
Weighted average shares outstanding (000s)		
Basic	153,284	151,525
Diluted	156,702	152,575
Outstanding shares (end of period) (000s)	153,714	151,722

(1) Non-GAAP terms. See "Non-GAAP Terms" on page 17.

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

(3) Syndicated bank credit facility borrowing base of \$175.0 million as at March 31, 2017 (March 31, 2016 - \$200.0 million).

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, 2017, 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			
<i>Operated Properties</i>			
LLA-16, 20, 29 and 30	100 %	201,864	201,864
Los Ocarros	100 %	31,066	31,066
El Eden	100 %	6,397	6,397
Cabrestero	100 %	29,562	29,562
LLA-40	50 %	83,465	41,732
LLA-26	100 %	184,061	184,061
Capachos ⁽¹⁾	50 %	64,073	32,037
LLA-32	70 %	57,040	39,928
LLA-10	50 %	189,544	94,772
<i>Non-Operated Properties</i>			
LLA-34	55 %	68,382	37,610
Balay	10 %	4,500	450
Colombia Magdalena Basin			
<i>Operated Properties</i>			
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
De Mares ⁽¹⁾	50 %	174,387	87,194
Playon ⁽¹⁾	50 %	43,200	21,600
Sogamoso ⁽¹⁾	100 %	3,695	3,695
Total		1,698,931	1,362,970

(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 letters of credit refer to the Company's AIF.

2017 Guidance

We had previously released that assuming a Brent oil price of \$50/bbl, we expected our 2017 capital expenditures budget and funds flow from operations to be approximately \$200-\$225 million and production of 34,000 - 36,000 boe/d.

Our 2017 drilling program is more heavily weighted to the second half of 2017 as we commence our Capachos Block and Middle Magdalena Basin appraisal and exploration drilling programs. Overall, we expect to drill over 40 wells in 2017 and we are not dependent on further exploration success to achieve our annual production target.



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,	2017	2016
Average daily production		
Colombia – oil (bbl/d)	32,317	28,702
Colombia – natural gas (mcf/d)	1,644	1,190
Total (boe/d)	32,591	28,900
Production split (% crude oil production)	99	99
Average daily sales of oil and natural gas		
Colombia – produced and drawn oil inventory (bbl/d)	33,308	30,198
Colombia – purchased oil (bbl/d)	657	1,290
Colombia – Ocesa overlift (bbl/d)	—	1,369
Colombia – produced natural gas (Mcf/d)	1,644	1,190
Total (boe/d)	34,239	33,055
Operating netback (000s) ⁽¹⁾		
Oil and natural gas sales	150,142	81,518
Royalties	(13,252)	(6,232)
Net revenue	136,890	75,286
Production expense	(15,389)	(13,639)
Transportation expense	(34,243)	(34,185)
Purchased oil expense	(2,374)	(4,090)
Operating netback	84,884	23,372
Operating netback (per boe) ⁽¹⁾		
Oil and natural gas sales	48.72	27.10
Royalties	(4.38)	(2.25)
Net revenue	44.34	24.85
Production expense	(5.09)	(4.93)
Transportation expense	(11.11)	(11.86)
Operating netback	28.14	8.06

(1) Refer to page 17 "Non-GAAP Terms" for a description and details of the operating netback calculation.

The average realized sales price for the three months ended March 31, 2017 was \$48.72/boe (\$27.10/boe - three months ended March 31, 2016) compared to \$44.84/boe for the fourth quarter of 2016.

Royalty charges for the three months ended March 31, 2017 were \$4.38/boe (\$2.25/boe - three months ended March 31, 2016) compared to \$3.75/boe for the fourth quarter of 2016.

Production expense for the three months ended March 31, 2017 was \$5.09/boe (\$4.93/boe - three months ended March 31, 2016) compared to \$5.56/boe for the fourth quarter of 2016. Transportation expense for the three months ended March 31, 2017 was \$11.11/boe (\$11.86/boe - three months ended March 31, 2016) compared to \$11.13/boe for the fourth quarter of 2016. On a combined basis production expense and transportation costs were \$16.20/boe compared to \$16.79/boe in the comparative period.

The Company's operating netback on a per boe basis for the three months ended March 31, 2017 was \$28.14/boe (\$8.06/boe - three months ended March 31, 2016) compared to \$24.40/boe for the fourth quarter of 2016.

Overall the price of the Company's benchmark Brent crude increased by \$3.48/boe in the first quarter of 2017 as compared to the fourth quarter of 2016 while the operating netback increased by \$3.74/boe in the same period, mainly as a result of a narrowing of the Company's realized price as compared to the Brent reference price.



Colombian Oil and Natural Gas Sales

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

For the three months ended March 31,	2017	2016
Block LLA-34 (Tigana, Jacana, Tua, Tarotaro & Max fields)	22,406	17,516
Block LLA-26 (Rumba and Bazar fields)	3,845	4,062
Block Cabrestero (Kitaro & Akira fields)	2,515	2,183
Block Los Ocarros (Las Maracas field)	1,315	989
Block LLA-32 (Kananaskis, Carmentea, Maniceno, Calona and Bandola fields)	1,012	1,664
Block LLA-30 (Adalia field)	668	1,239
Other	556	1,049
Total Crude Oil Production	32,317	28,702
Natural gas production	274	198
Total crude oil and natural gas production	32,591	28,900
Crude oil inventory (build) draw	991	1,496
Average daily sales of produced oil and natural gas	33,582	30,396
Purchased oil	657	1,290
Overlifted Ocesa pipeline volumes	—	1,369
Sales Volumes	34,239	33,055

Oil and natural gas production for the first quarter of the year averaged 32,591 boe/d, an increase of approximately 13 percent from the first quarter of 2016, and an increase of approximately 5 percent over the fourth quarter of 2016. Oil sales in the first quarter of 2017 increased to 34,239 boe/d compared to the reported Colombian oil sales of 33,055 boe/d for the three months ended March 31, 2016. The increase in oil sales was primarily due to an increase in oil production over the comparative period.

b) Average Crude Oil Reference and Realized Prices

For the three months ended March 31,	2017	2016
Reference Prices		
Brent (\$/bbl)	54.61	35.21
Vasconia (\$/bbl)	49.57	29.71
WTI (\$/bbl)	51.77	33.63
Average Realized Prices		
Realized sales price (\$/bbl)	48.72	27.08
Realized oil hedging (loss) gain (\$/bbl)	(0.39)	0.28
Realized price after hedging (\$/bbl)	48.33	27.36
Realized price differential to Brent crude (\$/bbl)	(5.89)	(8.13)

During Q1 2017, the differential between Brent reference pricing and the realized sale price was \$5.89/bbl. The differential during Q1 was less than historical averages. The main driver of this reduction in differential is related to a decrease in Vasconia crude oil supply in Colombia, coupled with greater demand for heavy oil blends at US Gulf coast refineries.

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

Average price for the period	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Brent (\$/bbl)	54.61	51.13	46.98	47.03	35.21
Vasconia (\$/bbl)	49.57	46.17	41.92	41.03	29.71
Parex realized sales price (\$/bbl)	48.72	44.84	40.22	39.69	27.08
Parex realized price (differential) to Brent crude (\$/bbl)	(5.89)	(6.29)	(6.76)	(7.34)	(8.13)
Parex realized price (differential) to Vasconia crude (\$/bbl)	(0.85)	(1.33)	(1.70)	(1.34)	(2.63)



c) Natural Gas Revenue and Realized Prices

For the three months ended March 31,		2017		2016
Revenue (000's)	\$	993	\$	566
Realized sales price (\$/Mcf)	\$	6.71	\$	5.24

d) Oil and Natural Gas Revenue

First quarter 2017 oil and natural gas revenue increased \$68.6 million or 84 percent as reconciled in the table below to the first quarter of 2016:

(000s)		2017		2016
Oil and natural gas revenue, three months ended March 31, 2016			\$	81,518
Sales volume of produced oil, an increase of 10% (3,186 bbl/d)				7,580
Sales volume of purchased oil, a decrease of 49% (633 bbl/d)				(1,543)
Oil and natural gas sales price increase of 80%				62,587
Oil and natural gas revenue, three months ended March 31, 2017			\$	150,142

Oil and natural gas revenue increased in the three months ended March 31, 2017 compared to the same period in 2016 mainly due to an 80% increase in sales prices per boe. Also contributing to the increase in oil sales was an increase in sales volumes of produced oil and natural gas, slightly offset however by a decrease in purchased oil sold.

e) Colombian Crude Oil Inventory in Transit

For the three months ended March 31,		2017		2016
(000s)				
Crude oil in transit	\$	90	\$	—

As at March 31, 2017, the Company had 3.1 mbbbls of crude oil inventory in transit (124.6 mbbbls of overlifted volumes for the first quarter of 2016).

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

For the periods ended (mbbbls)	March 31, 2017	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016
Crude oil inventory in transit - beginning of the period	92.3	(335.7)	9.3	(124.6)
Oil production	2,908.5	2,830.1	2,714.1	2,631.1
Oil sales	(3,056.9)	(2,467.7)	(3,149.8)	(2,610.9)
Purchased oil	59.2	65.6	90.7	113.7
Crude oil inventory in transit (overlift) – end of the period	3.1	92.3	(335.7)	9.3
% of period production	-	3.3	—	—

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,		2017		2016
Purchased oil expense (000s)	\$	2,374	\$	4,090

Purchased oil expense for the three months ended March 31, 2017 was \$2.4 million compared to \$4.1 million for the comparative period and \$2.8 million for the fourth quarter of 2016. Transportation costs are incurred by the Company to transport purchased oil to sale delivery points.



Colombian Royalties

For the three months ended March 31,		2017		2016
Royalties (000s)	\$	13,252	\$	6,232
Per unit (\$/boe)		4.38		2.25
Percentage of oil and natural gas sales ⁽¹⁾		9.0%		8.3%

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

In the three months ended March 31, 2017 royalties as a percentage of sales was 9.0% as compared to 8.3% in the three months ended March 31, 2016. The increase in royalties as a percentage of sales is a result of the high price share royalty (HPR) being applicable on fields where accumulated production is in excess of 5 million barrels produced. The calculation includes a minimum baseline WTI oil price which in the prior comparative period this minimum was not reached and therefore the HPR was not applicable. In the current quarter the minimum WTI price was reached and the HPR is applicable.

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

Colombian Production Expense

For the three months ended March 31,		2017		2016
Production expense (000s)	\$	15,389	\$	13,639
Per unit (\$/boe)		5.09		4.93

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,		2017		2016
Per unit (\$/boe) – based on sales volumes – operated ⁽¹⁾		7.96		5.52
Per unit (\$/boe) – based on sales volumes – non-operated ⁽¹⁾		3.91		4.54

(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 three months ended March 31, 2017 was \$5.09/boe compared to \$4.93/boe for the three months ended March 31, 2016 and \$5.56/boe for the fourth quarter of 2016.

Operated properties production expense in the first quarter of 2017 was \$7.96/boe compared to \$5.52/boe for the three months ended the March 31, 2016 and \$6.93/boe for the fourth quarter of 2016. The increase in operated production expense per boe compared to the three months ended the March 31, 2016 is a result of bringing on higher cost field production. Higher cost field production was suspended due to low oil prices experienced in the comparative period. The quarter over quarter increase in operated production expense relates to an increase in water handling costs on operated fields.

Non-operated properties production expense was \$3.91/boe for the first quarter of 2017 compared to \$4.54/boe for the three months ended March 31, 2016 and \$4.79/boe for the fourth quarter of 2016. The decrease in non-operated production expense from the comparative period and from the prior quarter is a result of increased fixed operating cost absorption on Block LLA-34.

Colombian Transportation Expense

For the three months ended March 31,		2017		2016
Transportation expense (000s)	\$	34,243	\$	34,185
Per unit (\$/boe)		11.11		11.86

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, 2017, the cost of transportation of \$11.11/boe has decreased compared to the fourth quarter 2016 cost of \$11.13/boe and decreased from the comparative period of \$11.86/boe. The decrease from the comparative period is a result of decreased trucking costs and a decrease in pipeline costs.



General and Administrative Expense ("G&A")

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

	2017	2016
Gross G&A	\$ 9,120	\$ 9,679
G&A recoveries	(129)	(58)
Capitalized G&A	(1,251)	(795)
Net G&A expense	\$ 7,740	\$ 8,826
Per unit (\$/boe) ⁽¹⁾	2.64	3.36

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

Net G&A was \$7.7 million for the three months ended March 31, 2017 compared to \$8.8 million for the same period in 2016. Gross G&A was \$9.1 million for the three months ended March 31, 2017 (three months ended March 31, 2016 - \$9.7 million). On a per boe basis net G&A for the year has declined 21 percent from the comparative year.

The Company's G&A expense is mainly denominated in local currencies of COP and Cdn dollar.

Stock-Based Compensation and Share Appreciation Rights Expense

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

	2017	2016
Stock-based compensation expense (equity settled)	\$ 4,726	\$ 2,656
Share appreciation rights expense (cash settled)	1,854	1,906
Share appreciation rights recoveries	(51)	—
Total net expense	\$ 6,529	\$ 4,562

Stock-based compensation expense was \$4.7 million for the three months ended March 31, 2017 compared to \$2.7 million for the same period in 2016. Stock-based compensation includes the Company's stock option plan, the restricted share unit ("RSU") plan pursuant to which RSUs and performance based RSUs ("PSUs") may be awarded and the deferred share unit ("DSU") plan. The increase from the prior year is related to issuance of new options, RSUs, DSUs and PSUs, as applicable, under the plans and an increased Black-Scholes value in the current year as compared to the prior year.

Share appreciation rights ("SARs") expense was \$1.8 million in the first quarter of 2017 compared to \$1.9 million for the same period in 2016. Obligations for payments of cash under the SARs plan are accrued as SARs expense over the vesting period based on the fair value of SARs, subject to appreciation limits specified in the plan. The fair value of the SARs is measured using the Black-Scholes pricing model at each reporting date. As at March 31, 2017, the total SARs liability accrued is \$14.7 million (December 31, 2016 - \$13.5 million).

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

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

	2017	2016
DD&A	\$ 24,409	\$ 31,027
Per unit (\$/boe) ⁽¹⁾	8.32	11.80

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

First quarter 2017 DD&A was \$24.4 million (\$8.32/boe) compared to \$31.0 million (\$11.80/boe) for the same period in 2016. This decrease is due to the significant increase in proved and probable reserves and a change in the CGU production mix from the prior comparative period.

Foreign Exchange

For the three months ended March 31,
Foreign exchange loss (gain)(000s)

	2017	2016
Foreign exchange loss (gain)(000s)	\$ 1,584	\$ (477)
Foreign Exchange Rates		
USD\$/CAD ⁽¹⁾	1.32	1.37
USD\$/Colombian peso ⁽¹⁾	2,922	3,249

(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 driver of foreign exchange loss and gain recorded on the consolidated statements of comprehensive income (loss) is the Colombian Peso denominated tax withholdings receivable and income tax payable balances in Colombia. During the three months ended March 31, 2017, the total foreign exchange loss was \$1.6 million (three months ended March 31, 2016 – gain of \$0.5 million). The timing of payment settlements, accruals and their adjustments have impacts on foreign exchange gains/losses. 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, 2017, \$1.0 million foreign exchange loss is realized and \$0.6 million foreign exchange loss is unrealized (3 months ended March 31, 2016 - \$0.5 million foreign exchange loss is realized and \$1.0 million foreign exchange gain is unrealized).

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

Foreign Exchange Sensitivity Analysis

Cost component	Estimated percent of cost denominated in local currency	\$/boe Impact of change in local currency/ \$USD exchange rate	
		10% appreciation of local currency	10% depreciation of local currency
Production expense	80%	\$ 0.41	\$ (0.41)
Transportation expense	50%	\$ 0.56	\$ (0.56)
G&A expense	100%	\$ 0.26	\$ (0.26)

The table above displays the estimated per boe impact of a change in Parex' local currencies and the effect on Parex' key cost components. The component impact in \$/boe terms uses Q1 2017 per boe costs. This analysis ignores all other factors impacting cost structure including efficiencies, cost reduction strategies, etc.

Net Finance Expense

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

	2017	2016
Bank taxes and credit facility fees	\$ 909	\$ 428
Accretion on decommissioning and environmental liabilities	835	393
Interest and other income	(384)	(616)
Colombian net wealth tax	894	2,092
Unrealized (gain) on foreign currency risk management contracts	—	(248)
Net finance expense	\$ 2,254	\$ 2,049

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

	2017	2016
Non-cash finance expense	\$ 835	\$ 145
Cash finance expense	1,419	1,904
Net finance expense	\$ 2,254	\$ 2,049

Bank taxes and credit facility fees relate to bank taxes paid in Colombia and the standby fees related to the undrawn credit facility.

On December 23, 2014 the Colombian government passed a law imposing a Net Wealth Tax ("NWT") levied on Colombian businesses. 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 2017 is \$0.9 million and the entire amount has been accrued during the three months ended March 31, 2017 and will be paid in two equal semi-annual installments in 2017.



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 primarily with financial institutions that are members of Parex' syndicated bank credit facility. The Company considers these derivative contracts to be an effective means to manage and forecast cash flow.

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

a) Risk Management Contracts – Brent Crude

The following is a summary of the ICE Brent priced crude oil risk management contracts in place during the three months ended March 31, 2017:

Period Hedged	Reference	Volume bbls/d	Sold Put	Purchased Put	Sold Call	Premium
January 1, 2017 to February 28, 2017	ICE Brent	5,000	\$ 44.00	\$ 48.00	\$ 63.35	—
January 1, 2017 to March 31, 2017	ICE Brent	5,000	\$ 40.00	\$ 45.00	\$ 59.40	—
April 1, 2017 to June 30, 2017	ICE Brent	5,000	\$ 40.00	\$ 45.00	\$ 64.00	—
April 1, 2017 to September 30, 2017	ICE Brent	5,000	\$ 40.00	\$ 50.00	—	\$1.30

The table below summarizes the (gain) loss on the commodity risk management contracts for the three months ended March 31, 2017 and 2016:

For the three months ended March 31,	2017	2016
Realized gain on commodity risk management contracts	\$ —	\$ (2,053)
Premiums paid on commodity risk management contracts	1,189	1,204
Unrealized (gain) loss on commodity risk management contracts	(2,507)	5,824
Total	\$ (1,318)	\$ 4,975

Subsequent to March 31, 2017 Parex entered into the following ICE Brent priced crude oil risk management contract:

Period Hedged	Reference	Volume bbls/d	Sold Put	Purchased Put	Sold Call	Premium
July 1, 2017 to September 30, 2017	ICE Brent	5,000	\$ 45.00	\$ 50.00	—	\$0.95

The Company's net unrealized derivative gain on risk management contracts for the period ended March 31, 2017 was \$2.5 million (period ended March 31, 2016 - loss of \$5.8 million). The net unrealized gain is primarily attributable to the Brent forward benchmark price decreasing since the time the derivative contracts were entered into. The realized loss on commodity risk management contracts including premiums paid for the period ended March 31, 2017 was \$1.2 million (period ended March 31, 2016 - gain of \$0.8 million). 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 table below summarizes the (gains) losses on foreign currency risk management contracts:

For the three months ended March 31,	2017	2016
Unrealized (gain) on foreign currency risk management contracts	\$ —	\$ (248)

The unrealized (gain) 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, 2017 and 2016 were as follows:

For the three months ended March 31,	2017		2016	
Current tax expense (recovery)	\$	4,857	\$	(2,647)
Deferred tax (recovery)		(1,277)		(17,313)
Total tax expense (recovery)	\$	3,580	\$	(19,960)

The current tax expense (recovery) and deferred tax recovery relates to the Company's operations in Colombia. Current tax in the first quarter of 2017 was \$4.9 million expense as compared to \$2.6 million current tax recovery in the comparative period. In the quarter current tax expense as a percentage of Colombian cash flows was 6% compared to the company historical average being 13-15%. This decrease is mainly a result of the Company's tax restructuring completed in the third quarter of 2015. Current tax for the full year 2017 is expected to be approximately \$1.50/boe at current Brent crude strip pricing.

Deferred tax in the first quarter of 2017 was a recovery of \$1.3 million (\$17.3 million recovery for the three months ended March 31, 2016). The main driver of the recovery was a result of the appreciation of the Colombian peso from period end dates resulting in the narrowing of the accounting basis and tax basis of monetary assets.

Capital Expenditures

For the three months ended March 31, (000s)	Colombia		Canada		Total	
	2017	2016	2017	2016	2017	2016
Acquisition of unproved properties	125	266	—	—	125	266
Geological and geophysical	(69)	118	—	—	(69)	118
Drilling and completion	32,278	849	—	—	32,278	849
Well equipment and facilities	3,205	3,101	—	—	3,205	3,101
Other	—	80	24	93	24	173
	\$ 35,539	\$ 4,414	\$ 24	\$ 93	\$ 35,563	\$ 4,507

Capital Expenditures Summary

During the three months ended March 31, 2017 the Company incurred \$35.6 million of capital expenditures compared to \$4.5 million in the same period of 2016. During Q1, 2017 the Company drilled 9 gross (5.25 net) wells compared to no wells drilled in Q1, 2016. Drilling and completion costs during the first quarter totaled \$32.3 million, which relates to drilling and completion costs mainly on Block LLA-34, Carbrestero Block and Aguas Blancas Block.



Summary of Quarterly Results (Unaudited)

Three months ended (\$000s)	March 31, 2017	Dec. 31, 2016	Sep. 30, 2016	June 30, 2016
Average daily oil and natural gas production (boe/d)	32,591	31,049	29,754	29,136
Average realized sales price – oil and natural gas (\$/boe)	48.72	44.84	40.19	39.74
Financial (000s except per share amounts)				
Oil sales	\$ 150,142	\$ 131,858	\$ 127,541	\$ 104,571
Funds flow provided by operations	\$ 67,906	\$ 51,791	\$ 45,091	\$ 31,792
Per share – basic	0.44	0.34	0.30	0.21
Per share – adjusted diluted ⁽¹⁾	0.43	0.33	0.29	0.20
Net income (loss)	\$ 40,106	\$ (45,439)	\$ 6,811	\$ (185)
Per share – basic	0.26	(0.30)	0.04	0.00
Per share – diluted	0.26	(0.30)	0.04	0.00
Capital Expenditures, excluding corporate acquisitions	\$ 35,563	\$ 66,890	\$ 26,313	\$ 13,922
Total assets (end of period)	\$ 984,855	\$ 918,671	\$ 947,354	\$ 921,665
Working capital surplus (end of period) ⁽²⁾	\$ 131,056	\$ 93,290	\$ 117,747	\$ 97,532

(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, 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 (\$/boe)	27.10	36.69	44.62	56.31
Financial (000s except per share amounts)				
Oil and gas sales	\$ 81,518	\$ 107,816	\$ 123,249	\$ 155,717
Funds flow provided by 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

(1) Non-GAAP term. See "Non-GAAP Terms" below.

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

Factors that Caused Variations Quarter Over Quarter

During the first quarter of 2017, production of 32,591 boe/d was in excess of oil production for the previous quarter ended December 31, 2016. Revenue and funds flow from operations were higher than the previous quarter mainly due to an increase in realized sales prices per barrel. Working capital has increased to \$131.1 million from \$93.3 million at December 31, 2016 mainly due to funds flow provided by operating activities of \$67.9 million being in excess of capital expenditures of \$35.6 million. Historically, the first quarter has had lower capital expenditures and the Company expects the capital expenditure rate of investment to be higher over the remaining three quarters of the year per the 2017 capital budget.



In Q4 2016, production was 31,049 boe/d, an increase of 4 percent over the previous quarter ended September 30, 2016. Working capital decreased to \$93.3 million from \$117.7 million at September 30, 2016. This was due to capital expenditures of \$67.0 million for the fourth quarter of 2016 being in excess of funds flows provided by operations of \$52.1 million; and an accrual for the 2017 current portion of asset retirement and environmental obligations in the amount of \$10.9 million. Capital expenditures increased significantly in the fourth quarter compared to the third quarter as the company drilled 10 wells (6.35 net) in Q4, 2016 compared to 4 gross (2.65 net) wells during Q3, 2016.

In Q3 2016, production of 29,754 boe/d was slightly in excess of production for the previous quarter ended June 30, 2016. Revenue and funds flow from operations were higher than the previous quarter mainly due to the higher produced sales volumes and overlifted Ocesa pipeline volumes. Working capital increased to \$117.7 million from \$97.5 million at June 30, 2016. Capital expenditures for the third quarter of 2016 were \$26.3 million compared to \$13.9 million for the second quarter of 2016 and mainly related to appraisal drilling on Block LLA-34 and exploration drilling on Block LLA-32, Cerrero and Cabretero.

During the second quarter of 2016, production of 29,136 boe/d was slightly in excess of production for the previous quarter. Revenue and funds flow from operations were higher than the previous quarter mainly due to an increase in realized sales prices per boe. Working capital increased to \$97.5 million from \$80.0 million at March 31, 2016. Capital expenditures for the second quarter of 2016 were \$13.9 million compared to \$4.5 million for the first quarter of 2016 and mainly related to appraisal drilling on Block LLA-34 and exploration drilling on Block LLA-32 and Cabretero.

In the first quarter of 2016 revenue and funds flow from operations were lower than the previous quarter mainly due to reduction in realized sales prices per boe. Working capital 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.

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, 2017 the Company had a working capital surplus of \$131.1 million, excluding funds available under the credit facility, as compared to working capital surplus at December 31, 2016 of \$93.3 million and a working capital surplus of \$80.0 million in the comparative period. Bank debt was \$nil compared to \$nil at December 31, 2016 and \$nil in the comparative period. The credit facility has a current borrowing base of \$175.0 million and is subject to a borrowing base redetermination to be completed by the end of May 2017. At March 31, 2017 Parex held \$184.6 million of cash, compared to \$149.2 million at December 31, 2016 and \$91.5 million at March 31, 2016. 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 Company generating cash flow in excess of capital expenditures for the three months ended March 31, 2017.

Parex' syndicated senior secured credit facility ("credit facility") with a syndicate of banks has a current borrowing base of \$175.0 million. Key covenants include a rolling four quarters total funded debt to adjusted EBITDA test of 3:50:1, and other standard business operating covenants. Given there is \$nil balance drawn on the facility as at March 31, 2017, the Company is in compliance with all covenants. The next annual review is scheduled to occur at the end of May 2017. Parex expects to voluntarily reduce the borrowing base on the credit facility to \$100 million as to reduce costs associated with the credit facility. As the Company currently has \$nil bank debt and no plans in 2017 to utilize the credit facility, the next re-determination is not expected to impact the Company's current or future operations or reduce the 2017 outlook.

Refer to note 20 - Commitments of the interim financial statements for the period ended March 31, 2017 for a description of the performance guarantee facility with EDC as well as the unsecured letters of credit.

Outstanding Share Data

Parex is authorized to issue an unlimited number of voting common shares without nominal or par value. As at March 31, 2017 the Company had 153,714,236 common shares outstanding.

The Company has a stock option, RSU (which includes PSUs), and DSU plan. The plans provide for the issuance of options, RSUs, DSUs and PSUs to the Company's directors, officers and certain employees to acquire common shares. The maximum number of options, RSUs, DSUs and PSUs reserved for issuance under the three plans may not exceed 10 percent of the number of common shares issued and outstanding. RSU's (which includes PSUs) reserved for issuance may not exceed 4 percent of the common shares issued and outstanding.

As at May 10, 2017 Parex has the following securities outstanding:



	Number	%
Common shares	154,312,562	94 %
Stock options	7,225,206	4 %
Restricted and performance share units	3,039,921	2 %
Deferred share units	145,900	0 %
	164,723,589	10%

As of the date of this MD&A, total stock options, RSUs, DSUs and PSUs outstanding represent approximately 7 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 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, 2017 were \$146.4 million (December 31, 2016 - \$148.7 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, 2016 - \$200.0 million) performance guarantee facility to support approximately \$126.3 million (December 31, 2016 - \$126.4 million) of the letters of credit issued on behalf of Parex at March 31, 2017. 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, 2017:

(000s)	Total	<1 year	1 – 3 years	3 – 5 years	>5 years
Exploration	\$ 214,345	72,763	141,582	-	-
Office and accommodations ⁽¹⁾	3,892	1,407	2,239	122	124
Decommissioning and Environmental Obligations	111,258	10,863	—	—	100,395
Total	\$ 329,495	85,033	143,821	122	100,519

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



Decommissioning and Environmental Liabilities

	Decommissioning		Environmental		Total
Balance, December 31, 2015	\$	26,811	\$	8,588	\$ 35,399
Additions		5,241		703	5,944
Settlements of obligations during the year		(75)		(103)	(178)
Accretion expense		1,432		399	1,831
Additions related to change in estimate - inflation and discount rates		7,697		1,482	9,179
Additions related to change in estimate - costs		(2,386)		1,677	(709)
Foreign exchange (gain)		—		(320)	(320)
Balance, December 31, 2016	\$	38,720	\$	12,426	\$ 51,146
Additions		1,309		409	1,718
Settlements of obligations during the period		(163)		(37)	(200)
Accretion expense		625		210	835
Foreign exchange loss		1,500		480	1,980
Balance, March 31, 2017	\$	41,991	\$	13,488	\$ 55,479
Current obligation		(4,065)		(6,797)	(10,862)
Long-term obligation	\$	37,926	\$	6,691	\$ 44,617

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, 2017, the estimated costs to abandon and reclaim the wells and well sites and the estimated timing of the costs to be paid in future periods. The total undiscounted amount of cash flows required to settle the Company's decommissioning liability is approximately \$94.6 million as at March 31, 2017 (December 31, 2016 – \$92.1 million) with the majority of these costs anticipated to occur after 2029. A risk-free discount rate of 7.15 percent and an inflation rate of 7.52 percent were used in the valuation of the liabilities (December 31, 2016 – 7.15 percent risk-free discount rate and a 7.52 percent inflation rate). The discount rate used in 2017 is based on a Colombia risk-free rate.

Included in the decommissioning liability is \$4.1 million (December 31, 2016 – \$4.2 million) that is classified as a current obligation. Parex expects to settle the short term obligation in 2017 with the majority of the work performed in the second half of 2017.

The total undiscounted amount of cash flows required to settle the Company's environmental liability is approximately \$16.6 million as at March 31, 2017 (December 31, 2016 – \$16.1 million) with the majority of these costs anticipated to occur in 2017 or later in Colombia. A risk-free discount rate of 7.15 percent and an inflation rate of 7.52 percent were used in the valuation of the liabilities (December 31, 2016 – 7.15 percent risk-free discount rate and a 7.52 percent inflation rate). The discount rate used is based on a Colombia risk-free rate.

Included in the environmental liability is \$6.8 million (December 31, 2016 – \$6.7 million) that is classified as a current obligation. Similar to the settlement of the company's short term decommissioning liability the company expects this work to be performed in the second half of 2017.

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 capital program budget for 2017, including the expected allocation of such expenditures and the Company's plans to fund its 2017 capital program from funds flow from operations;
- the Company's forecasted 2017 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 the per boe impact caused by appreciation and depreciation of the Colombian peso;
- the effect of the Colombian peso/US\$ exchange rate on the variability of transportation costs;
- the expected effect of increased capital expenditures on 2017 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 2017 NWT;
- the Company's estimated amount of current tax expense for 2017;
- terms of the Company's credit facility including the timing of the next borrowing base redetermination;
- the Company's expectation to reduce the borrowing base on the credit facility to \$100 million in order to reduce costs associated with the credit facility;
- the Company's expectation that the next redetermination of its credit facility will not impact its current or future operations or reduce the 2017 outlook;
- 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; 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 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 capital expenditures for 2017, 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 operations by the weighted average number of shares outstanding. Parex presents adjusted funds flow provided by operations per share whereby per share amounts are calculated using weighted-average shares outstanding, consistent with the calculation of earnings per share. The following table shows the variables used in the calculation of adjusted funds flow per share:



For the three months ended March 31,

(\$000s)	2017	2016
Funds flow provided by continuing operations	\$ 67,906	\$ 15,457
Weighted average number of shares for the purposes of basic funds flow (\$000s)	153,284	151,525
Dilutive effect of share options on potential common shares	3,418	1,050
Weighted average number of shares for the purposes of diluted funds flow	156,702	152,575

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

Operating netback per boe

The Company considers operating netbacks to be a key measure as they demonstrate Parex' profitability relative to current commodity prices. Below is a description of each component of the Company's operating netback and how it is determined.

Oil and natural gas sales per boe is determined by sales revenue excluding risk management contracts less non-cash oil revenue from overlifted Ocesa pipeline volumes divided by total equivalent sales volume including purchased oil volumes. A reconciliation of the calculation of oil and natural gas sales per boe is provided below:

For the three months ended March 31,

(\$000s)	2017	2016
Oil and natural gas revenue excluding risk management contracts	\$ 150,142	\$ 81,518

Denominator (BOEs)

Company produced oil and natural gas sales in period	3,022,380	2,766,067
Overlifted Ocesa oil volumes sold	—	124,568
Purchased oil volumes sold	59,130	117,390
Total oil and natural gas sales volumes	3,081,510	3,008,025

Sales price per boe

	\$ 48.72	\$ 27.10
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Royalties per boe is determined by dividing royalty expense by the total equivalent sales volume and excludes purchased oil volumes. A reconciliation of royalties per boe is provided below:

For the three months ended March 31,

(\$000s)	2017	2016
Royalty expense	\$ 13,252	\$ 6,232

Denominator (BOEs)

Company produced oil and natural gas sales in period	3,022,380	2,765,993
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Royalty expense per boe

	\$ 4.38	\$ 2.25
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Production expense per boe is determined by dividing production expense by the total equivalent sales volume and excludes purchased oil volumes. A reconciliation of production expense per boe is provided below:

For the three months ended March 31,

(\$000s)	2017	2016
Production Expense	\$ 15,389	\$ 13,639

Denominator (BOEs)

Company produced oil and natural gas sales in period	3,022,380	2,766,067
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Production expense per boe

	\$ 5.09	\$ 4.93
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Transportation expense per boe is determined by dividing the transportation expense by the total equivalent sales volumes including purchased oil volumes. A reconciliation of transportation expense per boe is provided below:

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

	2017	2016
Transportation Expense	\$ 34,243	\$ 34,185
Denominator (BOEs)		
Company produced oil and natural gas sales in period	3,022,380	2,766,067
Purchased oil volumes sold	59,130	117,390
Total oil and natural gas sales volumes	3,081,510	2,883,457
Transportation expense per boe	\$ 11.11	\$ 11.86

Free funds flow is determined by funds flow provided by operations less capital expenditures as follows:

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

	2017	2016
Funds flow provided by operations	\$ 67,906	\$ 15,457
Capital expenditures, excluding corporate acquisitions	35,563	4,507
Free cash flow	\$ 32,343	\$ 10,950

Business Environment and Risks

There have been no significant changes during the three ended March 31, 2017 to the risks and uncertainties identified in the Company's AIF.

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, 2017.

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, 2016.



DIRECTORS

Norman F. McIntyre
Chairman of the Board

Curtis D. Bartlett

John F. Bechtold

Lisa Colnett

Robert J. Engbloom

Wayne K. Foo

Bob MacDougall

Glenn McNamara

Ron D. Miller

Paul D. Wright

OFFICERS & SENIOR EXECUTIVES

Wayne K. Foo
Chief Executive Officer

David R. Taylor
President

Kenneth G. Pinsky
Chief Financial Officer

Stu R. Davie
Vice President Corporate Services

CORPORATE HEADQUARTERS

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

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

OPERATING OFFICES

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

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

AUDITORS

PricewaterhouseCoopers LLP
Calgary, Alberta

LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

TRANSFER AGENT AND REGISTRAR

**Computershare Trust Company of
Canada**
Calgary, Alberta

RESERVES EVALUATORS

GLJ Petroleum Consultants Ltd.
Calgary, Alberta

INVESTOR RELATIONS

Michael Kruchten
*VP, Corporate Planning and Investor
Relations*

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

E-mail:
Investor.Relations@parexresources.com

Website: www.parexresources.com

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
mamboe	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.

