

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Consolidated Balance Sheets (unaudited)

As at (thousands of United States dollars)	NOTE	March 31, 2019	December 31, 2018
ASSETS			
Current assets			
Cash and cash equivalents		\$ 432,906	\$ 462,891
Accounts receivable	5	194,568	148,211
Prepays and other current assets		6,326	4,935
Crude oil inventory	6	2,049	1,446
		\$ 635,849	\$ 617,483
Deferred tax asset	15	124,246	132,706
Goodwill		73,452	73,452
Exploration and evaluation	7	134,216	127,800
Property, plant and equipment	8	793,373	775,531
		\$ 1,761,136	\$ 1,726,972
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 164,490	\$ 160,535
Derivative financial instruments	19	3,259	8,290
Current income tax payable	15	254,046	220,821
Current portion of decommissioning and environmental liabilities	12	6,640	9,311
		428,435	398,957
Lease obligation	9	1,540	—
Cash settled share-based compensation liabilities	14	6,587	5,175
Decommissioning and environmental liabilities	12	49,891	48,290
Deferred tax liability	15	3,703	1,518
		490,156	453,940
Shareholders' equity			
Share capital	13	826,530	848,946
Contributed surplus		53,067	54,742
Retained earnings		391,383	369,344
		1,270,980	1,273,032
		\$ 1,761,136	\$ 1,726,972

Commitments (note 21)

See accompanying Notes to the Consolidated Interim Financial Statements

Approved by the Board:

"signed"
Paul Wright
Director

"signed"
Ron Miller
Director

Consolidated Statements of Comprehensive Income (unaudited)

For the three months ended March 31,

(thousands of United States dollars, except per share amounts)	NOTE	2019	2018
Oil and natural gas sales	10	\$ 246,594	\$ 202,450
Royalties		(29,270)	(26,179)
Revenue		217,324	176,271
Commodity risk management contracts (loss)	19	—	(396)
		217,324	175,875
Expenses			
Production		26,157	19,202
Transportation		19,146	15,343
Purchased oil		5,653	1,436
General and administrative		8,527	8,155
Equity settled share-based compensation expense	13	2,219	3,513
Cash settled share-based compensation expense	14	6,938	771
Depletion, depreciation and amortization	8	29,465	22,439
Foreign exchange loss		6,686	4,579
		104,791	75,438
Finance (income)	11	(7,631)	(545)
Finance expense	11	3,039	1,640
Net finance (income) expense		(4,592)	1,095
Income before income taxes		117,125	99,342
Income tax expense			
Current tax expense	15	24,466	27,280
Deferred tax expense	15	10,645	550
		35,111	27,830
Net income and comprehensive income for the period		\$ 82,014	\$ 71,512
Basic net income per common share	16	\$ 0.54	\$ 0.46
Diluted net income per common share	16	\$ 0.53	\$ 0.45

See accompanying Notes to the Consolidated Interim Financial Statements

Consolidated Statements of Changes in Equity (unaudited)

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

	2019	2018
Share capital		
Balance, beginning of period	\$ 848,946	\$ 836,166
Issuance of common shares under share-based compensation plans	6,200	13,028
Repurchase of shares	(28,616)	(3,673)
Balance, end of period	826,530	845,521
Contributed surplus		
Balance, beginning of period	54,742	52,431
Share-based compensation	2,219	3,513
Options exercised	(3,894)	(4,730)
Balance, end of period	53,067	51,214
Retained earnings		
Balance, beginning of period	369,344	(323)
Net income for the period	82,014	71,512
Repurchase of shares	(59,975)	(7,478)
Balance, end of period	391,383	63,711
	\$ 1,270,980	\$ 960,446

See accompanying Notes to the Consolidated Interim Financial Statements

Consolidated Statements of Cash Flows (unaudited)

For the three months ended March 31,

(thousands of United States dollars)	NOTE	2019	2018
Operating activities			
Net income		\$ 82,014	\$ 71,512
Add (deduct) non-cash items			
Depletion, depreciation and amortization	8	29,465	22,439
Non-cash finance (income) expense	11	(3,965)	1,220
Equity settled share-based compensation	13	2,219	3,513
Cash settled share-based compensation	14	6,938	771
Deferred tax expense	15	10,645	550
Unrealized foreign exchange loss		6,200	3,516
Unrealized loss on commodity risk management contracts	19	—	216
Gain on settlement of decommissioning liabilities	12	(11)	—
Abandonment costs paid	12	(2,659)	(875)
Cash settled share-based compensation paid		(4,266)	(1,961)
Funds flow provided by operations		126,580	100,901
Net change in non-cash working capital	17	(13,504)	11,792
Cash provided by operating activities		113,076	112,693
Investing activities			
Property, plant and equipment expenditures	8	(46,013)	(39,280)
Exploration and evaluation expenditures	7	(6,520)	(18,930)
Net change in non-cash working capital	17	(6,759)	7,498
Cash (used in) investing activities		(59,292)	(50,712)
Financing activities			
Issuance of common shares under option plans	13	2,306	8,298
Common shares repurchased	13	(88,591)	(11,151)
Payments on lease obligation	9	(167)	—
Net change in non-cash working capital	17	2,333	—
Cash (used in) financing activities		(84,119)	(2,853)
(Decrease) increase in cash for the period		(30,335)	59,128
Impact of foreign exchange on foreign currency-denominated cash balances		350	327
Cash, beginning of period		462,891	235,042
Cash, end of period		\$ 432,906	\$ 294,497

Supplemental Disclosure of Cash Flow Information (note 17)

See accompanying Notes to the Consolidated Interim Financial Statements

Notes to the Condensed Interim Consolidated Financial Statements

For the period ended March 31, 2019

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

1. Corporate Information

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

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

The condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on May 7, 2019.

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

a) *Statement of compliance*

The condensed interim consolidated financial information for the three months ended March 31, 2019 has been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed interim consolidated financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2018, which have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of May 7, 2019, the date of approval by the Board of Directors.

b) *Basis of measurement*

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

c) *Use of management estimates, judgments and measurement uncertainty*

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

In preparing these condensed interim consolidated financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2018.

3. Summary of Significant Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year as described in note 3 of the Company's consolidated financial statements for the year ended December 31, 2018, except for the following adoption of new accounting standards effective January 1, 2019:

a) *Adoption of IFRS 16, Leases*

Effective January 1, 2019, the Company adopted IFRS 16 Leases ("IFRS 16"), which replaces previous IFRS guidance on leases: IAS 17 Leases ("IAS 17"). Under IAS 17, lessees were required to determine if the lease was a finance or operating lease, based on specified criteria of whether the lease transferred significantly all the risks and rewards associated with ownership of the underlying asset. Finance leases were recognized on the consolidated balance sheet while operating leases were recognized in net income (loss) and comprehensive income (loss) in the consolidated statements of comprehensive income (loss). IFRS 16 introduced a single lease accounting model for lessees which requires a right-of-use asset and liability to be recognized on the balance sheet for contracts that are, or contain, a lease. The Company adopted IFRS 16 using the modified

retrospective approach, whereby the cumulative effect of initially applying the standard was recognized as a \$2.2 million increase to right-of-use assets (included in "Property, Plant and Equipment") with a corresponding increase to lease obligations (the non-current portion of \$1.5 million is recorded in "Lease Obligation" and the current portion of \$0.7 million is recorded in "accounts payable and accrued liabilities"). On adoption of IFRS 16, the Company's lease liabilities related to contracts classified as a lease are measured at the discounted present value of the remaining minimum lease payments, excluding short-term and low-value leases. The right-of-use assets recognized were measured at amounts equal to the present value of the lease obligations. The weighted average incremental borrowing rate used to determine the lease obligation at adoption was approximately 5.0%. The right-of-use asset and lease obligation recognized relate to the Company's head office lease in Calgary. The Company elected to not apply lease accounting to certain leases for which the lease term ends within 12 months of the date of initial application. The measurement of lease obligations are subject management's judgment and the application incremental borrowing rate.

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, 2018 consolidated financial statements for details concerning determination of fair values.

5. Accounts Receivable

	March 31, 2019	December 31, 2018
Trade receivables	\$ 84,426	\$ 55,987
Receivables from partners	418	—
Colombia income taxes receivable	103,180	84,852
Value added taxes (VAT)	6,544	7,372
	\$ 194,568	\$ 148,211

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 \$6.5 million as at March 31, 2019 (December 31, 2018 - \$7.4 million) and is recoverable within one year. All accounts receivable are expected to be received within twelve months and are thus recognized as current assets.

6. Crude Oil Inventory

	March 31, 2019	December 31, 2018
Crude oil inventory	\$ 2,049	\$ 1,446

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

7. Exploration and Evaluation Assets

Cost	
Balance at December 31, 2017	\$ 107,144
Additions	103,523
Transfers to PP&E	(68,484)
Changes in decommissioning liability	789
Exploration and evaluation impairment	(15,172)
Balance at December 31, 2018	\$ 127,800
Additions	6,520
Changes in decommissioning liability	(104)
Balance at March 31, 2019	\$ 134,216

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 \$6.5 million for the three months ended March 31, 2019 represent the Company's share of costs incurred on E&E assets during the period.

There were no indicators of impairment noted as of March 31, 2019.

During the year ended December 31, 2018, additions of \$103.5 million represent the Company's share of costs incurred on E&E assets during the period. During the year ended December 31, 2018 \$68.5 million of E&E assets were transferred to PP&E mainly related to the Capachos Block. Also in 2018, the Company recorded \$15.2 million of impairment charges primarily associated with VMM-9 in the Middle Magdalena basin.

At March 31, 2019 the Company did not have E&E assets in Canada.

8. Property, Plant and Equipment

	Canada	Colombia	Total
Cost			
Balance at December 31, 2017	\$ 3,780	\$ 1,787,822	\$ 1,791,602
Additions	87	198,733	198,820
Transfers from E&E assets	—	68,484	68,484
Changes in decommissioning and environmental liability	—	9,841	9,841
Balance at December 31, 2018	\$ 3,867	\$ 2,064,880	\$ 2,068,747
Additions	22	45,991	46,013
Right-of-use-asset addition (non-cash)	2,227	—	2,227
Changes in decommissioning and environmental liability	—	(733)	(733)
Balance at March 31, 2019	\$ 6,116	\$ 2,110,138	\$ 2,116,254

Accumulated Depreciation, Depletion and Amortization

Balance at December 31, 2017	\$ 3,533	\$ 1,186,632	\$ 1,190,165
Depletion and depreciation for the year	145	103,161	103,306
DD&A included in crude oil inventory costing	—	(255)	(255)
Balance at December 31, 2018	\$ 3,678	\$ 1,289,538	\$ 1,293,216
Depletion and depreciation for the period	34	29,241	29,275
Depreciation - Right of Use Asset	190	—	190
DD&A included in crude oil inventory costing	—	200	200
Balance at March 31, 2019	\$ 3,902	\$ 1,318,979	\$ 1,322,881

Net book value:

As at December 31, 2017	\$ 247	\$ 601,190	\$ 601,437
As at December 31, 2018	\$ 189	\$ 775,342	\$ 775,531
As at March 31, 2019	\$ 2,214	\$ 791,159	\$ 793,373

In the three months ended March 31, 2019 property, plant and equipment ("PPE") additions of \$46.0 million mainly relate to drilling costs in Colombia at Block LLA-34, Capachos, Cabrestero and the Aguas Blancas blocks.

For the three months ended March 31, 2019 future development costs of \$399.8 million (three months ended March 31, 2018 - \$389.4 million) were included in the depletion calculation for development and production assets. For the three months ended March 31, 2019 -\$2.2 million of general and administrative costs (three months ended March 31, 2018 - \$2.4 million) have been capitalized in respect of development and production activities during the current period.

There were no indicators of impairment noted as of March 31, 2019.

During the year ended December 31, 2018, additions of \$198.8 million mainly related to drilling costs in Colombia at Block LLA-34, Cabrestero block, and the Aguas Blancas block. For the year ended December 31, 2018, \$68.5 million of E&E assets were transferred to PP&E related to the Capachos block.

9. Lease Obligation

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

	March 31, 2019	
Less than 1 year	\$	919
2-3 years		1,350
Total lease payments	\$	2,269
Amounts representing interest over the term of the lease		(181)
Present value of net lease payments		2,088
Current portion of lease obligations		(548)
Non-current portion of lease obligations	\$	1,540

For the three months ended March 31, 2019, non-cash interest expense of \$27,263 was recognized relating to lease obligations. Total cash outflows were \$0.2 million for the three months ended March 31, 2019.

10. Revenue

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

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

	For the three months ended March 31,			
	2019		2018	
Crude oil	\$	243,732	\$	200,496
Natural gas		2,862		1,954
Oil and natural gas sales	\$	246,594	\$	202,450

At March 31, 2019, receivables from contracts with customers, which are included in accounts receivable, were \$84.4 million (December 31, 2018 - \$56.0 million).

11. Net Finance Expense (Income)

	For the three months ended March 31,			
	2019		2018	
Bank charges and credit facility fees	\$	624	\$	420
Accretion on decommissioning and environmental liabilities		1,040		1,220
Interest and other income		(2,599)		(545)
Realized loss on foreign currency risk management contracts		1,359		—
Unrealized (gain) on foreign currency risk management contracts		(5,032)		—
Right of use asset interest		27		—
Gain on settlement of decommissioning liabilities		(11)		—
Net finance (income) expense	\$	(4,592)	\$	1,095

	For the three months ended March 31,			
	2019		2018	
Non-cash finance (income) expense	\$	(3,976)	\$	1,220
Cash finance (income)		(616)		(125)
Net finance (income) expense	\$	(4,592)	\$	1,095

12. Decommissioning and Environmental Liabilities

	Decommissioning		Environmental		Total
Balance, December 31, 2017	\$	36,774	\$	15,906	\$ 52,680
Additions		7,974		6,146	14,120
Settlements of obligations during the year		(8,060)		(2,352)	(10,412)
Loss on settlement of obligations		5,531		—	5,531
Accretion expense		2,657		2,231	4,888
Additions related to change in estimate - inflation and discount rates		(1,703)		(139)	(1,842)
Additions related to change in estimate - costs		2,604		(4,252)	(1,648)
Foreign exchange (gain)		(3,725)		(1,991)	(5,716)
Balance, December 31, 2018	\$	42,052	\$	15,549	\$ 57,601
Additions		993		—	993
Settlements of obligations during the period		(2,613)		(46)	(2,659)
Gain on settlement of obligations		(11)		—	(11)
Accretion expense		813		227	1,040
Additions related to change in estimate - costs		(1,370)		(460)	(1,830)
Foreign exchange loss		1,036		361	1,397
Balance, March 31, 2019	\$	40,900	\$	15,631	\$ 56,531
Current obligation		(3,966)		(2,674)	(6,640)
Long-term obligation	\$	36,934	\$	12,957	\$ 49,891

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, 2019, 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 \$70.6 million as at March 31, 2019 (December 31, 2018 – \$70.3 million) with the majority of these costs anticipated to occur in 2022 or later. A risk-free discount rate of 7.5 percent and an inflation rate of 3.2 percent were used in the valuation of the liabilities (December 31, 2018 – 7.5 percent risk-free discount rate and a 3.2 percent inflation rate). The risk-free discount rate and the inflation rate used are based on forecast Colombia rates.

Included in the decommissioning liability is \$4.0 million (December 31, 2018 – \$6.6 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 \$22.7 million as at March 31, 2019 (December 31, 2018 – \$20.8 million) with the majority of these costs anticipated to occur in 2020 or later in Colombia. A risk-free discount rate of 7.5 percent and an inflation rate of 3.2 percent were used in the valuation of the liabilities (December 31, 2018 – 7.5 percent risk-free discount rate and a 3.2 percent inflation rate). The risk-free discount rate and the inflation rate used are based on forecast Colombia rates.

Included in the environmental liability is \$2.7 million (December 31, 2018 – \$2.7 million) that is classified as a current obligation.

13. Share Capital

a) Issued and outstanding common shares

	Number of shares	Amount
Balance, December 31, 2017	154,742,134	\$ 836,166
Issued for cash – exercise of options and RSUs	3,017,354	14,270
Allocation of contributed surplus – exercise of options and RSUs	—	11,218
Repurchase of shares	(2,745,580)	(12,708)
Balance, December 31, 2018	155,013,908	\$ 848,946
Issued for Cash - exercise of options and RSUs	568,158	2,306
Allocation of contributed surplus – exercise of options and RSUs	—	3,894
Repurchase of shares	(6,207,510)	(28,616)
Balance, March 31, 2019	149,374,556	\$ 826,530

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

In the three months ended March 31, 2019, a total of 568,158 options and RSUs were exercised for proceeds of \$2.3 million (year ended December 31, 2018 - 3,017,354 options and RSUs were exercised for proceeds of \$14.3 million).

Also in 2019, the Company repurchased 6,207,510 common shares pursuant to its Normal Course Issuer Bid at a cost of \$88.6 million (average cost per share of Cdn\$19.21). In 2018, the Company repurchased 2,745,580 common shares pursuant to its Normal Course Issuer Bid at a cost of \$45.9 million (average cost per share of Cdn\$19.95). The cost to repurchase common shares at a price in excess of their average book value has been charged to retained earnings.

b) Stock options

The Company has a stock option plan which provides for the issuance of options to the Company's officers and certain employees to acquire common shares. The maximum number of options and restricted share units (including performance share units) reserved for issuance under the stock option and restricted share unit plans may not exceed 9 percent of the number of common shares issued and outstanding, provided the maximum number of restricted share units (including performance share units) may not exceed 4 percent of the number of common shares issued and outstanding. The stock options vest over a three-year period and expire five years from the date of grant.

	Number of stock options	Weighted average exercise price Cdn\$/option
Balance, December 31, 2017	6,479,435	11.13
Granted	193,650	18.52
Exercised	(2,301,471)	7.92
Forfeited	(29,867)	13.61
Balance, December 31, 2018	4,341,747	13.14
Granted	180,300	18.77
Exercised	(276,333)	11.08
Balance, March 31, 2019	4,245,714	13.51

Stock options outstanding and the weighted average remaining life of the stock options at March 31, 2019 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
\$6.54- \$10.59	760,984	0.62	\$ 10.11	760,984	0.62	\$ 10.11
\$10.60 - \$11.24	1,299,838	1.61	\$ 10.94	1,299,838	1.61	\$ 10.94
\$11.25 - \$15.84	1,232,924	2.63	\$ 15.58	763,316	2.61	\$ 15.62
\$15.85 - \$16.45	565,518	2.94	\$ 16.02	374,054	2.94	\$ 16.02
\$16.46 - \$20.88	386,450	4.29	\$ 18.59	70,794	3.74	\$ 18.38
	4,245,714	2.15	\$ 13.51	3,268,986	1.81	\$ 12.58

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,	2019	2018
Risk-free interest rate (%)	1.80	1.93
Expected life (years)	4	4
Expected volatility (%)	40	43
Forfeiture rate (%)	3	3
Expected dividends	—	—

The weighted average fair value at the grant date for the three months ended March 31, 2019 was Cdn\$6.30 per option (three months ended March 31, 2018 - Cdn\$6.68 per option). The weighted average share price on the exercise date for options exercised in the three months ended March 31, 2019 was Cdn\$20.08 (three months ended March 31, 2018 - Cdn\$18.43).

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.

In 2019 the Company put in place a new Cash or Share settled RSU/PSU plan ("CosRSU") which will replace this equity settled RSU/PSU plan. The Company does not plan to issue future grants under this plan going forward.

	Number of RSU's	Weighted average exercise price Cdn\$/RSU
Balance, December 31, 2017	2,730,295	0.01
Granted	537,025	0.01
Exercised	(715,883)	0.01
Forfeited	(24,369)	0.01
Balance, December 31, 2018	2,527,068	0.01
Exercised	(291,825)	0.01
Balance, March 31, 2019	2,235,243	0.01

RSUs outstanding and the weighted average remaining life of the RSUs at March 31, 2019 are as follows:

RSUs outstanding			RSUs vested	
Exercise price Cdn\$	Number of RSUs	Weighted average remaining life (years)	Number of RSUs	Weighted average remaining life (years)
0.01	2,235,243	2.53	1,429,548	2.11

The fair value of each RSU granted is based on the market price of Parex shares on the date of issuance. There were no RSUs granted during the three months ended March 31, 2019. The weighted average fair value at the grant date for three months ended March 31, 2018 was Cdn\$18.51 per RSU. For the three months ended March 31, 2019 a weighted average forfeiture rate of 3% was applied (three months ended March 31, 2018 - 3%).

Pursuant to 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. PSUs may be granted with certain performance measures, specified at the grant date as determined by the Company's Board of Directors. Based upon the achievement of the performance measures, a pre-determined adjustment factor of between 0-2x is applied to PSUs eligible to vest at the end of the performance period.

	Number of PSU's	Weighted average exercise price Cdn\$/PSU
Balance, December 31, 2017	103,500	0.01
Granted	217,000	0.01
Balance, December 31, 2018	320,500	0.01
Balance, March 31, 2019	320,500	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. There were no PSUs granted during the three months ended March 31, 2019. The weighted average fair value at the grant date for three months ended March 31, 2018 was Cdn\$18.52 per PSU.

d) Equity settled share-based compensation

	For the three months ended March 31,	
	2019	2018
Option expense	\$ 469	\$ 959
Restricted and performance share units expense	1,750	2,554
Total	\$ 2,219	\$ 3,513

14. Cash Settled Share-Based Compensation Plans

a) 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, 2017	2,388,007	13.38
Exercised	(715,495)	12.12
Forfeited	(80,646)	14.54
Balance, December 31, 2018	1,591,866	13.90
Exercised	(307,871)	12.41
Forfeited	(5,736)	13.82
Balance, March 31, 2019	1,278,259	14.26

As at March 31, 2019, 800,593 SARs were vested (December 31, 2018 - 1,077,326).

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,	2019	2018
Risk-free interest rate (%)	1.64	1.72
Expected life (years)	1.5	2
Expected volatility (%)	35	36
Share price (\$/Cdn)	20.92	18.12
Expected dividends	—	—

As at March 31, 2019, the total SARs liability accrued is \$7.6 million (December 31, 2018 - \$5.9 million) of which \$34 thousand (December 31, 2018 - \$0.1 million) is classified as long-term in accordance with the three-year vesting period.

b) Deferred share units ("DSUs")

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

	Number of DSU's	Weighted average exercise price Cdn\$/DSU
Balance, December 31, 2017	193,975	—
Granted	48,475	—
Exercised on board retirement	(23,100)	—
Balance, December 31, 2018	219,350	—
Balance, March 31, 2019	219,350	—

The fair value at the grant date is equivalent to the five-day weighted average share price at which the common shares of the Company traded for immediately preceding the grant date. There were no DSUs granted during the three months ended March 31, 2019 and 2018.

Given the DSUs vest immediately, obligations for payments of cash under the DSUs plan are accrued as compensation expense immediately based on the fair value of the DSU. As at March 31, 2019, the total DSUs liability accrued is \$3.5 million (December 31, 2018 - \$2.7 million) of which \$3.5 million is classified as long-term in accordance with the terms of the DSU plan (December 31, 2018 - \$2.7 million was classified as long-term).

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

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

	Number of CRSUs	Weighted average exercise price Cdn\$/CRSU
Balance, December 31, 2017	492,350	—
Granted	487,075	—
Exercised	(161,607)	—
Forfeited	(32,743)	—
Balance, December 31, 2018	785,075	—
Granted	468,070	—
Exercised	(149,123)	—
Forfeited	(9,668)	—
Balance, March 31, 2019	1,094,354	—

As at March 31, 2019, 2,900 CRSUs were fully vested.

The weighted average fair value at the grant date for three months ended March 31, 2019 was Cdn\$18.90 per CRSU (three months ended March 31, 2018 Cdn\$17.58 per CRSU).

Obligations for payments of cash under the CRSUs plan are accrued as compensation expense over the vesting period based on the fair value of CRSUs. The fair value of CRSUs is equivalent to the trading value of a common share of the Company on the valuation date. As at March 31, 2019, the total CRSUs liability accrued is \$6.5 million (December 31, 2018 - \$5.4 million) of which \$2.6 million (December 31, 2018 - \$2.3 million) is classified as long-term in accordance with the three-year vesting period. For the three months ended March 31, 2019, Parex recorded \$2.7 million of compensation costs related to the outstanding CRSUs (year ended December 31, 2018 - \$5.1 million).

d) Cash or share settled Restricted Share Units and Performance Share Units ("CosRSU and CosPSU")

In 2019 Parex put in place a new Cash or share settled RSU/PSU incentive plan. This new plan will replace the equity settled RSU/PSU plan. This plan provides for the issuance of RSUs and PSUs to certain employees of Parex Canada. The plan entitles the holders to receive a cash payment equal to the market price of the Company's common shares at the time of exercise or the employee can elect to receive the award in Parex common shares. CosRSUs and CosPSUs vest over a three-year period and are exercised at the vest date. The CosRSUs and CosPSUs liabilities can be settled by cash or the issuance of award of common shares purchased on the market at the employee's election.

CosRSU:

	Number of CosRSUs
Balance, December 31, 2018	—
Granted	449,350
Balance, March 31, 2019	449,350

CosPSU:

	Number of CosPSUs
Balance, December 31, 2018	—
Granted	222,100
Balance, March 31, 2019	222,100

As at March 31, 2019, no CosRSUs and CosPSUs were fully vested.

The weighted average fair value at the grant date for three months ended March 31, 2019 was Cdn\$18.77 per CosRSU and CosPSU.

Obligations for payments of cash under the CosRSUs and CosPSUs plans are accrued as compensation expense over the vesting period based on the fair value of RSUs and PSUs. The fair value of CosRSUs and CosPSUs is equivalent to the trading value of a common share of the Company on the valuation date. As at March 31, 2019, the total CosRSUs and CosPSUs liability accrued is \$0.7 million (December 31, 2018 - \$nil) of which \$0.4 million (December 31, 2018 - \$nil) is classified as long-term in accordance with the three-year vesting period. For the three months ended March 31, 2019, Parex recorded \$0.7 million of compensation costs related to the outstanding CosRSUs and CosPSUs (year ended December 31, 2018 - \$nil).

e) Cash settled share-based compensation

	For the three months ended March 31,	
	2019	2018
SARs expense	\$ 2,726	\$ (750)
DSUs expense	750	(13)
CRSUs expense	2,733	1,534
CosRSUs and CosPSUs expense	729	—
Total	\$ 6,938	\$ 771

15. Income Tax

The components of tax expense for the three months ended March 31, 2019, and 2018 were as follows:

	For the three months ended March 31,	
	2019	2018
Current tax expense	\$ 24,466	\$ 27,280
Deferred tax expense	10,645	550
Income tax expense	\$ 35,111	\$ 27,830

16. Net Income per Share

a) Basic net income per share

	For the three months ended March 31,	
	2019	2018
Net income		
Net income for the purpose of basic net income per share	\$ 82,014	\$ 71,512
Weighted average number of shares for the purposes of basic net income per share (000s)	151,581	155,037
Basic net income per share	\$ 0.54	\$ 0.46

b) Diluted net income per share

	For the three months ended March 31,	
	2019	2018
Net income		
Net income used to calculate diluted net income per share	\$ 82,014	\$ 71,512
Weighted average number of shares for the purposes of basic net income per share (000s)	151,581	155,037
Dilutive effect of stock options, RSUs and PSUs on potential common shares	3,765	3,053
Weighted average number of shares for the purposes of diluted net income per share	155,346	158,090
Diluted net income per share	\$ 0.53	\$ 0.45

For the three months ended March 31, 2019, 309,406 stock options (three months ended March 31, 2018 - 193,650) were excluded from the diluted weighted average shares calculation as they were anti-dilutive.

17. Supplemental Disclosure of Cash Flow Information

a) Net change in non-cash working capital

	For the three months ended March 31,	
	2019	2018
Accounts receivable	\$ (46,357)	\$ (8,571)
Prepays and other current assets	(1,391)	(2,055)
Oil inventory	(603)	(764)
Accounts payable and accrued liabilities	30,221	30,291
Depletion related to oil inventory	200	389
Net change in non-cash working capital	\$ (17,930)	\$ 19,290
Operating	\$ (13,504)	\$ 11,792
Investing	(6,759)	7,498
Financing	2,333	—
Net change in non-cash working capital	\$ (17,930)	\$ 19,290

b) Interest and taxes paid

	For the three months ended March 31,	
	2019	2018
Cash interest paid	\$ 3	\$ 1
Cash income taxes paid	\$ —	\$ 310

18. 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, 2019 had a borrowing base in the amount of \$200.0 million (December 31, 2018 - \$200.0 million). The credit facility is intended to serve as means to increase liquidity and fund cash needs as they arise. As at March 31, 2019, \$nil (December 31, 2018 - \$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 21 - Commitments). This performance guarantee facility has a limit of \$150.0 million (December 31, 2018 - limit of \$150.0 million) of which \$88.0 million (December 31, 2018 - \$79.7 million) is utilized at March 31, 2019. At March 31, 2019, there is an additional \$31.3 million (December 31, 2018 - \$31.9 million) of letters of credit that are provided by a Latin American bank on an unsecured basis.

As at March 31, 2019, the Company's net working capital surplus was \$207.4 million (December 31, 2018 - \$218.5 million), of which \$432.9 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, 2019 shareholders' equity was \$1,271.0 million (December 31, 2018 - \$1,273.0 million).

19. 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, 2019 had the majority of its oil sales to 10 counterparties. Accounts receivable balance as at March 31, 2019 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, 2019, there were no accounts receivable past due (December 31, 2018 - \$nil).

b) Liquidity risk

The Company's approach to managing liquidity risk is to have sufficient cash and/or credit facilities to meet its obligations when due. Management typically forecasts cash flows for a period of 12 to 36 months to identify any financing requirements. Liquidity is managed through daily and longer-term cash, debt and equity management strategies. These include estimating future cash generated from operations based on reasonable production and pricing assumptions, estimating future discretionary and non-discretionary capital expenditures and assessing the amount of equity or debt financing available. The Company is committed to maintaining a strong balance sheet and has the ability to change its capital program based on expected operating cash flows. The balance drawn on the Company's \$200.0 million credit facility at March 31, 2019 was \$nil.

The following are the contractual maturities of financial liabilities at March 31, 2019:

	Less than 1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities ⁽¹⁾	\$ 155,390	—	—	—	\$ 155,390
Current income tax payable	254,046	—	—	—	254,046
Lease obligation	548	1,540	—	—	2,088
Cash settled equity plans payable	11,811	6,587	—	—	18,398
Total	\$ 421,795	8,127	—	—	\$ 429,922

⁽¹⁾ Includes the liability for derivative financial instruments.

The following are the contractual maturities of financial liabilities at December 31, 2018:

	Less than 1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities ⁽¹⁾	\$ 159,925	—	—	—	\$ 159,925
Current income tax payable	220,821	—	—	—	220,821
Cash settled equity plans payable	8,900	5,175	—	—	14,075
Total	\$ 389,646	5,175	—	—	\$ 394,821

⁽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, 2019 and December 31, 2018, the Company had no outstanding risk management contracts which are used to manage its exposure to downward fluctuations in the price of crude oil.

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

	For the three months ended March 31,	
	2019	2018
Premiums paid on commodity risk management contracts	\$ —	\$ 180
Unrealized loss on commodity risk management contracts	—	216
Total	\$ —	\$ 396

d) Foreign currency risk

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

The following is a summary of the foreign currency risk management contracts in place as at March 31, 2019:

Period Hedged	Reference	Currency Option Type	Amount USD	Strike Price COP
June 28, 2018 to April 25, 2019	COP	Costless Collar	\$43,350,000	2,750-3,160
July 24, 2018 to July 25, 2019	COP	Costless Collar	\$60,000,000	2,750-3,100

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

	For the three months ended March 31,	
	2019	2018
Realized loss on foreign currency risk management contracts	\$ 1,359	\$ —
Unrealized (gain) on foreign currency risk management contracts	(5,032)	—
Total	\$ (3,673)	\$ —

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

The Company recorded a \$5.0 million unrealized gain on these contracts in the three months ended March 31, 2019 which is recorded in the financial statement line item "Finance income" in the consolidated statements of comprehensive income. Refer to note 11.

The following sensitivity shows the resulting unrealized loss (gain) and impact on net income before tax for the foreign exchange risk management contracts for the respective changes in the period end foreign exchange rates at March 31, 2019:

Impact for the three months ended March 31, 2019				
		Appreciation of COP 10%		Depreciation of COP 10%
Exchange Rate USD/COP	Period end	\$	(3,289)	\$ 8,141

20. Segmented Information

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

For the three months ended March 31, 2019 (unaudited)	Canada	Colombia	Total
Oil and natural gas sales	\$ —	\$ 246,594	\$ 246,594
Royalties	—	(29,270)	(29,270)
Revenue	—	217,324	217,324
Expenses			
Production	—	26,157	26,157
Transportation	—	19,146	19,146
Purchased oil	—	5,653	5,653
General and administrative	4,215	4,312	8,527
Equity settled share-based compensation expense	2,219	—	2,219
Cash settled share-based compensation expense	1,479	5,459	6,938
Depletion, depreciation and amortization	224	29,241	29,465
Foreign exchange loss (gain)	(608)	7,294	6,686
	7,529	97,262	104,791
Finance (income)	(1,745)	(5,886)	(7,631)
Finance expense	344	2,695	3,039
Net finance (income)	(1,401)	(3,191)	(4,592)
Income (loss) before taxes	(6,128)	123,253	117,125
Current tax expense	449	24,017	24,466
Deferred tax expense	1,554	9,091	10,645
Net income (loss)	\$ (8,131)	\$ 90,145	\$ 82,014
Capital assets (end of period)	\$ 2,184	\$ 925,405	\$ 927,589
Capital expenditures	\$ 22	\$ 52,511	\$ 52,533
Total assets (end of period)	\$ 115,006	\$ 1,646,130	\$ 1,761,136

For the three months ended March 31, 2018 (unaudited)	Canada	Colombia	Total
Oil and natural gas sales	\$ —	\$ 202,450	\$ 202,450
Royalties	—	(26,179)	(26,179)
Revenue	—	176,271	176,271
Commodity risk management contracts (loss)	—	(396)	(396)
	—	175,875	175,875
Expenses			
Production	—	19,202	19,202
Transportation	—	15,343	15,343
Purchased oil	—	1,436	1,436
General and administrative	2,949	5,206	8,155
Equity settled share-based compensation expense	3,513	—	3,513
Cash settled share-based compensation expense (recovery)	(13)	784	771
Depletion, depreciation and amortization	35	22,404	22,439
Foreign exchange loss (gain)	(27)	4,606	4,579
	6,457	68,981	75,438
Finance (income)	(179)	(366)	(545)
Finance expense	141	1,499	1,640
Net finance expense (income)	(38)	1,133	1,095
Income (loss) before taxes	(6,419)	105,761	99,342
Current tax expense	—	27,280	27,280
Deferred tax expense	—	550	550
Net income (loss)	\$ (6,419)	\$ 77,931	\$ 71,512
Capital assets (end of period)	\$ 214	\$ 746,006	\$ 746,220
Capital expenditures	\$ 2	\$ 58,208	\$ 58,210
Total assets (end of period)	\$ 75,365	\$ 1,154,532	\$ 1,229,897

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

21. Commitments

a) Colombia

At March 31, 2019, performance guarantees are in place with Ecopetrol for the Capachos and Aguas Blancas farm-in blocks and with the ANH for all other blocks. The guarantees are in the form of issued letters of credit totaling \$119.3 million (December 31, 2018 - \$111.6 million) to support the exploration work commitments in respect of the 21 blocks in Colombia.

At March 31, 2019, EDC has provided the Company's bank with performance security guarantees to support approximately \$88.0 million (December 31, 2018 - \$79.7 million) of the letters of credit issued on behalf of Parex. The EDC guarantees have been secured by a general security agreement issued by Parex in favour of EDC. At March 31, 2019, there is an additional \$31.3 million (December 31, 2018 - \$31.9 million) of letters of credit that are provided by a Latin American bank on an unsecured basis. 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, 2019 in respect of the Colombia blocks are estimated to be as follows:

2019		\$	29,503
2020			6,495
Thereafter			89,091
		\$	125,089

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, 2019 are as follows:

	Total	2019	2020	2021	2022	2023	Thereafter
Office and accommodations	\$ 10,429	1,774	2,131	1,789	1,587	1,628	1,520

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Parex Resources Inc. ("Parex" or "the Company") for the period ended March 31, 2019 is dated May 7, 2019 and should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the period ended March 31, 2019, as well as the Company's audited consolidated annual financial statements for the year ended December 31, 2018. 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 6, 2019 ("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 2,179,280 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 20 for the Advisory on Forward-Looking Statements and page 22 for Non-GAAP Terms used.

Three months ended March 31, 2019 ("first quarter or Q1") Highlights

- Quarterly production was 51,208 boe/d (98% crude oil), representing an increase of 4 percent over the previous quarter ended December 31, 2018 and an increase of 26% over the prior year comparative period;
- Earned net income of \$82.0 million (\$0.54 per share basic) compared to net income of \$71.5 million (\$0.46 basic per share) in the comparative quarter of 2018;
- Generated an operating netback of \$36.17/boe (2018 - \$39.10/boe) and funds flow provided by operations ("FFO") netback of \$27.65/boe (2018 - \$28.10/boe) from an average Brent price of \$63.83/bbl (2018 - \$67.27/bbl);
- Funds flow provided by operations was \$126.6 million (\$0.84 per share basic) a 25% increase as compared to \$100.9 million (\$0.65 per share basic) for the prior year comparative period with a 5% decrease in Brent reference pricing year over year;
- Utilized free cash flow of \$74.0 million and cash on hand to purchase 6,207,510 of the Company's common shares for a total cost of \$88.6 million (average price of Cdn\$19.21/share) pursuant to the Company's normal course issuer bid program ("NCIB");
- Capital expenditures were \$52.5 million in the period compared to \$58.2 million in the comparative period of 2018. Capital expenditures were funded from FFO;
- Working capital was \$207.4 million at March 31, 2019 compared to \$218.5 million at December 31, 2018 and \$205.8 million at March 31, 2018. The Company has an undrawn syndicated bank credit facility of \$200.0 million; and
- Participated in drilling 8 gross wells (5.30 net) in Colombia resulting in 8 oil wells, for a success rate of 100 percent compared to 12 gross (8.85 net) wells in the comparative period of 2018.

Financial Summary

	For the three months ended March 31,	
(Financial figures in \$'000s except per share amounts)	2019	2018
Average daily production (bopd)	50,376	40,063
Average daily natural gas production (mcf/d)	4,992	3,138
Average oil and natural gas production (boe/d)	51,208	40,586
Production split (% crude oil)	98	99
Realized sales price (\$/boe)	52.33	55.98
Operating netback (\$/boe) ⁽¹⁾	36.17	39.10
Oil and natural gas sales	246,594	202,450
Funds flow provided by operations	126,580	100,901
Per share – basic	0.84	0.65
Per share – diluted ⁽¹⁾	0.81	0.64
Net income	82,014	71,512
Per share – basic	0.54	0.46
Per share – diluted	0.53	0.45
Capital expenditures	52,533	58,210
Free funds flow ⁽¹⁾	74,047	42,691
Total assets (end of period)	1,761,136	1,229,897
Working capital surplus (end of period) ⁽²⁾	207,414	205,771
Bank debt (end of period) ⁽³⁾	—	—
Weighted average shares outstanding (000s)		
Basic	151,581	155,037
Diluted	155,346	158,090
Outstanding shares (end of period (000s))	149,375	155,647

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

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

(3) Syndicated bank credit facility borrowing base of \$200.0 million as at March 31, 2019.

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 subsurface and commercial risks.

Principal Properties

As at March 31, 2019 the Company's principal land holdings and interests in exploration and production blocks held by its subsidiaries were as follows:

	Working Interest	Gross Acres	Net Acres
Colombia Llanos Basin			
<i>Operated Properties</i>			
LLA-16, 29 and 30	100 %	197,294	197,294
Los Ocarros	100 %	31,066	31,066
Cabrestero	100 %	7,605	7,605
LLA-40	100 %	82,422	82,422
LLA-26	100 %	93,376	93,376
Capachos	50 %	64,073	32,037
LLA-32	87.5 %	50,211	43,935
LLA-10 ⁽¹⁾	50 %	189,544	94,772
CPO-11 ⁽¹⁾	50 %	570,276	285,138
Merecure ⁽¹⁾	35 %	141,527	49,534
<i>Non-Operated Properties</i>			
LLA-34	55 %	63,530	34,942
Colombia Magdalena Basin			
<i>Operated Properties</i>			
Morpho	100 %	51,420	51,420
VIM-1	100 %	223,651	223,651
VMM-9	100 %	152,412	152,412
Aguas Blancas	50 %	13,386	6,693
De Mares ⁽¹⁾	50 %	174,387	87,194
Playon	50 %	43,200	21,600
Sogamoso ⁽¹⁾	100 %	3,695	3,695
Fortuna	100 %	26,205	26,205
Total		2,179,280	1,524,991

(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.

2019 Guidance

Parex' guidance for 2019, as previously press released on December 18, 2018, is as follows:

Production (average for period)	52,000-54,000 boe/d
Total Capital Expenditures	\$200-\$230 million
Funds Flow provided by Operations (FFO)	At \$60/bbl Brent: \$450-\$500 million
Free Funds Flow (FFO mid-point less Total Capital Expenditures mid-point)	\$260 million

Current 2019 FFO guidance is \$575-\$625 million based on the following assumptions:

- Mid-point annual production average of 53,000 boe/d;
- Brent oil prices of \$65/bbl-\$70/bbl; and
- Brent/Vasconia crude differential less than \$3/bbl.

The Company expects Q2 2019 average production to exceed 52,000 boe/d. Planned capital expenditures are expected to be fully funded by funds flow provided by operations, with working capital being retained for future opportunities and to buy back outstanding shares.

Financial and Operational Results

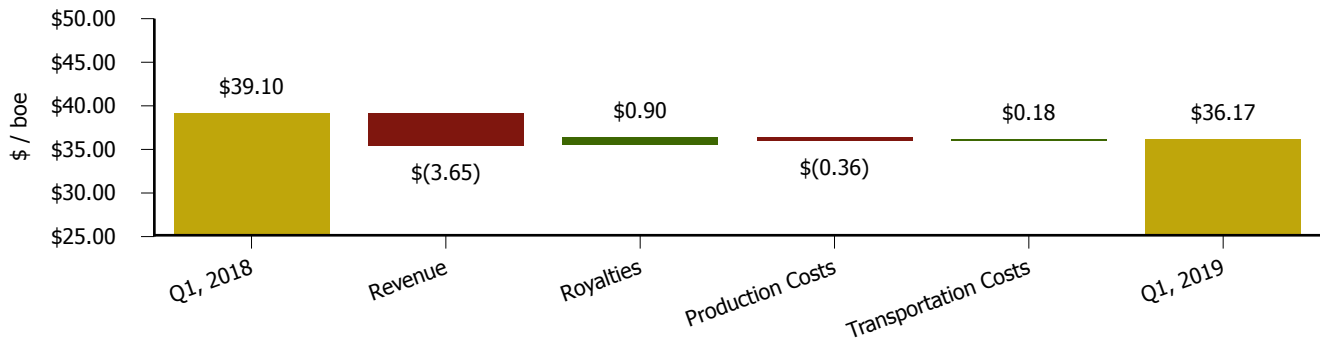
Consolidated Results of Operations

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

	For the three months ended March 31,	
	2019	2018
Average daily production		
Colombia – oil (bbl/d)	50,376	40,063
Colombia – natural gas (mcf/d)	4,992	3,138
Total (boe/d)	51,208	40,586
Production split (% crude oil production)	98	99
Average daily sales of oil and natural gas		
Colombia – produced oil (bbl/d)	50,042	39,378
Colombia – purchased oil (bbl/d)	1,488	285
Colombia – produced natural gas (Mcf/d)	4,992	3,138
Total (boe/d)	52,362	40,186
Operating netback (\$000s) ⁽¹⁾		
Oil and natural gas sales	\$ 246,594	\$ 202,450
Royalties	(29,270)	(26,179)
Net revenue	217,324	176,271
Production expense	(26,157)	(19,202)
Transportation expense	(19,146)	(15,343)
Purchased oil	(5,653)	(1,436)
Operating netback	\$ 166,368	\$ 140,290
Operating netback (per boe) ⁽¹⁾		
Oil and natural gas sales	\$ 52.33	\$ 55.98
Royalties	(6.39)	(7.29)
Net revenue	45.94	48.69
Production expense	(5.71)	(5.35)
Transportation expense	(4.06)	(4.24)
Operating netback	\$ 36.17	\$ 39.10

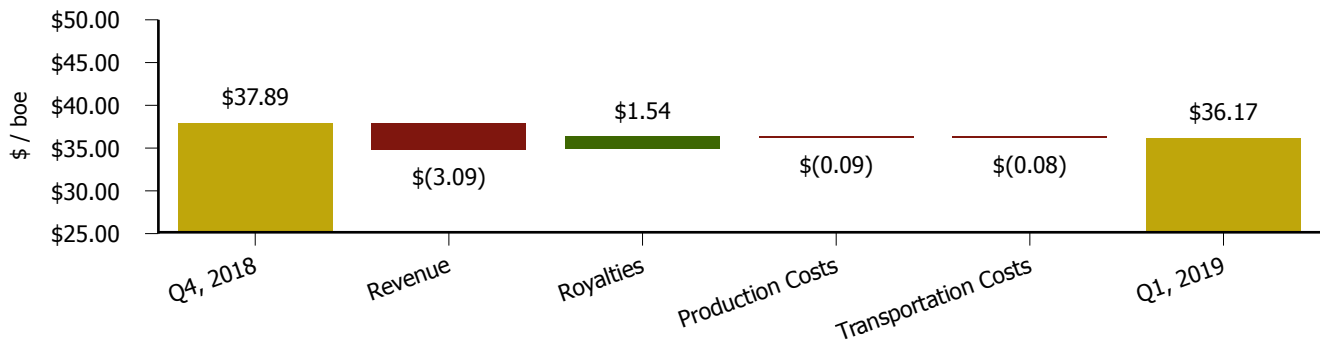
(1) Refer to page 22 "Non-GAAP Terms" for a description and details of the operating netback calculation.

**Change in Operating Netback by Component
Q1/18 vs. Q1/19**



Overall, the Company's benchmark Brent price decreased by \$3.44/bbl in the first quarter of 2019 as compared to the first quarter of 2018, while the operating netback decreased by \$2.93/boe. The variance in the operating netback on a relative basis compared to the Brent crude decrease is mainly a result of a decrease in royalties in Q1 2019 as a result of lower crude oil benchmark prices.

**Change in Operating Netback by Component
Q4/18 vs. Q1/19**



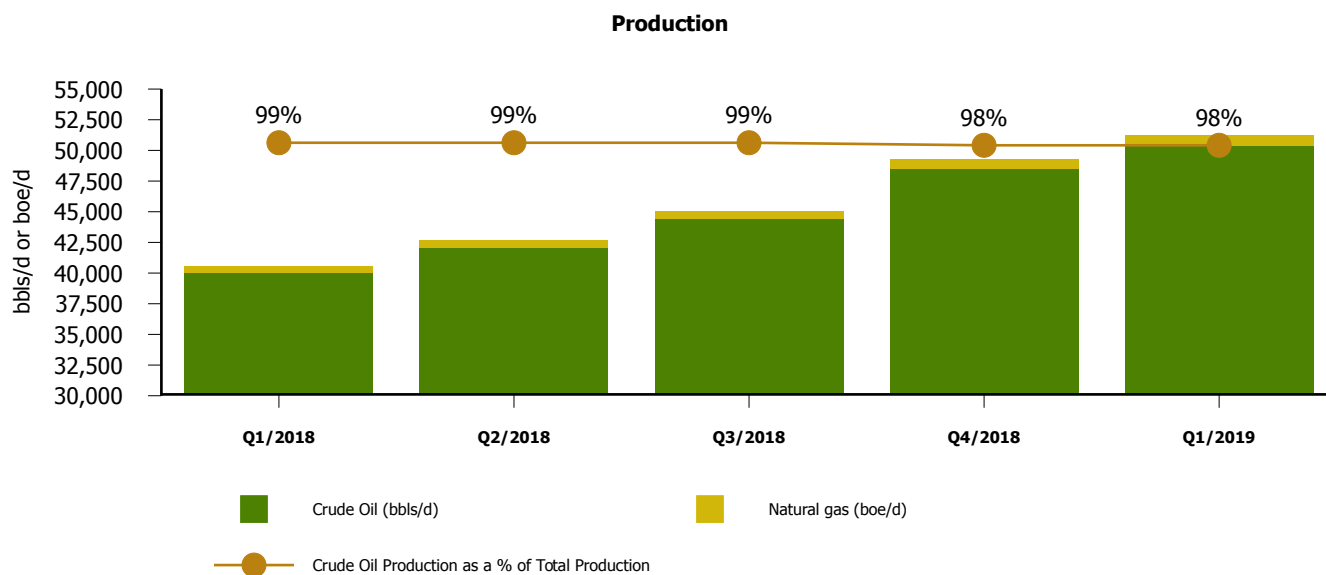
The Company's benchmark Brent price decreased by \$4.49/bbl in the first quarter of 2019 as compared to the fourth quarter of 2018, while the operating netback decreased by \$1.72/boe. The decrease in the operating netback of \$1.72/boe on a relative basis compared to the decrease in the average Brent crude price of \$4.49/bbl is mainly a result of royalties decrease from \$7.93/boe in Q4 2018 to \$6.39/boe in Q1 2019 as a result of lower crude oil benchmark prices.

Colombian Oil and Natural Gas Sales

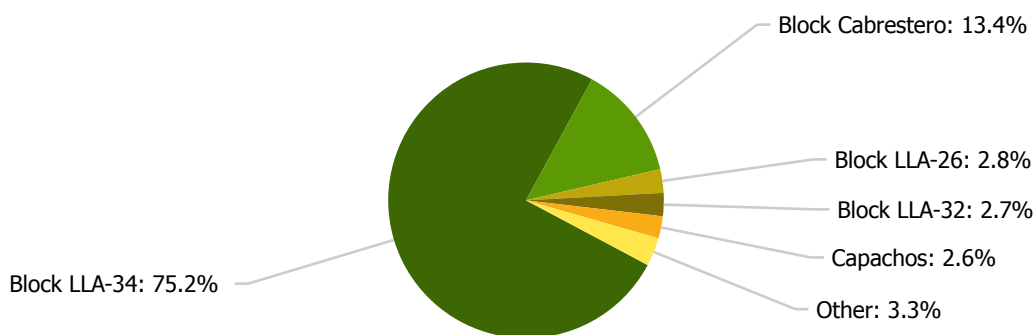
a) Average Daily Production and Sales Volumes (boe/d)

	For the three months ended March 31,	
	2019	2018
Block LLA-34 (Tigana, Jacana, Tua, Tarotaro, and Tilo fields)	37,868	30,781
Block Cabretero (Bacano, Akira and Kitaro fields)	6,756	4,168
Block LLA-26 (Rumba field)	1,399	2,248
Block LLA-32 (Kananaskis, Calona, and Carmentea fields)	1,370	1,017
Block Capachos (Capachos and Andina fields)	1,305	—
Other	1,678	1,849
Total Crude Oil Production	50,376	40,063
Natural gas production	832	523
Total Crude oil and natural gas production	51,208	40,586
Crude oil inventory (build)	(334)	(685)
Average daily sales of produced oil and natural gas	50,874	39,901
Purchased oil	1,488	285
Sales Volumes	52,362	40,186

Oil and natural gas production for the first quarter of 2019 averaged 51,208 boe/d, an increase of approximately 26 percent from the comparative first quarter of 2018 and an increase of 4 percent over the fourth quarter of 2018. Oil and natural gas sales in the first quarter of 2019 were 52,362 boe/d compared to 40,186 boe/d for the first quarter of 2018. The increase in oil sales was a result of the increase in oil production over the comparative period.



**Production By Area
(Three Months ended March 31, 2019)**



b) Average Crude Oil Reference and Realized Prices

	For the three months ended March 31,	
	2019	2018
Reference Prices		
Brent (\$/bbl)	63.83	67.27
Vasconia (\$/bbl)	60.34	62.87
WTI (\$/bbl)	54.87	62.89
Average Realized Prices		
Realized sales price (\$/boe)	52.33	55.98
Realized commodity risk management (loss) (\$/boe)	—	(0.06)
Realized price after commodity risk management (loss) (\$/boe)	52.33	55.92
Realized price (differential) to Brent crude (\$/boe)	(11.50)	(11.29)

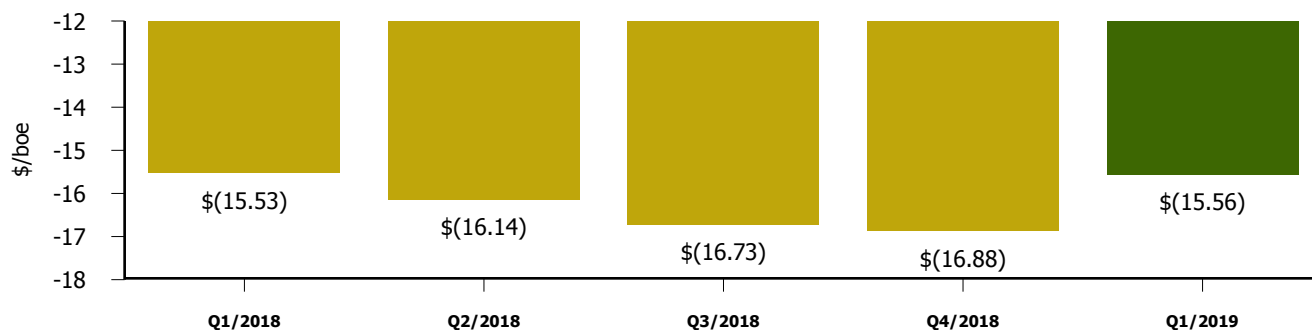
In the table below, the quarter over quarter Brent and Vasconia crude differentials are shown:

Average price for the period	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Brent (\$/bbl)	63.83	68.32	75.84	74.97	67.27
Vasconia (\$/bbl)	60.34	63.06	70.26	70.47	62.87
Brent/Vasconia crude (differential) (\$/bbl)	(3.49)	(5.26)	(5.58)	(4.50)	(4.40)
Parex quality differential (\$/bbl)	(0.06)	(0.13)	(0.43)	(0.71)	(0.24)
Parex wellhead sales discount (\$/bbl)	(7.95)	(7.51)	(8.14)	(7.80)	(6.65)
Parex realized sales price (\$/boe)	52.33	55.42	61.69	61.96	55.98
Parex realized price (differential) to Brent crude (\$/boe)	(11.50)	(12.90)	(14.15)	(13.01)	(11.29)
Parex transportation expense (\$/boe) ⁽¹⁾	(4.06)	(3.98)	(2.58)	(3.13)	(4.24)
Parex price differential and transportation expense (\$/boe)	(15.56)	(16.88)	(16.73)	(16.14)	(15.53)

(1) See Transportation section below.

Parex realized price differential to Brent and Vasconia crudes can fluctuate period over period due to among other factors the type of sales contract and the accounting treatment for a contract sold at the wellhead versus a direct export sales contract.

Brent Realized Price Differential & Transportation Expense



The Brent/Vasconia crude differential has decreased from \$5.26/bbl in Q4 2018, to \$3.49/bbl for the first quarter of 2019, and to below \$2.75/bbl in the second quarter to date. Vasconia crude is the reference price for a large majority of the Company's oil sale contracts.

c) Natural Gas Revenue and Realized Prices

	For the three months ended March 31,	
	2019	2018
Revenue (000's)	\$ 2,862	\$ 1,954
Realized sales price (\$/Mcf)	6.37	6.92

d) Oil and Natural Gas Revenue

First quarter 2019 oil and natural gas revenue increased \$44.1 million or 22 percent as reconciled in the table below to the first quarter of 2018:

(\$000s)	
Oil and natural gas revenue, three months ended March 31, 2018	\$ 202,450
Sales volume of produced oil an increase of 27% (10,664 bopd)	53,942
Sales volume of purchased oil, an increase of 422% (1,203 bopd)	6,082
Oil sales price decrease of 6%	(16,788)
Sales volume and price change of produced natural gas	908
Oil and natural gas revenue, three months ended March 31, 2019	\$ 246,594

Oil and natural gas revenue increased in the three months ended March 31, 2019 compared to the same period in 2018 mainly due to the increased sales volumes of produced oil, partially offset by the decrease in world oil prices.

e) Colombian Crude Oil Inventory in Transit

As at March 31, (\$000s)	2019	2018
Crude oil in transit	\$ 2,049	\$ 3,802

As at March 31, 2019, the Company had 91.0 mbbls of crude oil inventory in transit compared to 61.0 mbbls at December 31, 2018, which was injected into the Colombian pipelines. The inventory was valued based on direct and indirect expenditures (including production costs, certain transportation costs, depletion expense and royalty expense) at approximately \$23/bbl incurred in bringing the crude oil to its existing condition and location.

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

For the periods ended (mbbls)	Mar. 31, 2019	Dec. 31, 2018	Sept. 30, 2018	Jun. 30, 2018
Crude oil inventory in transit - beginning of the period	61.0	324.4	193.7	164.8
Oil production	4,534.0	4,467.3	4,083.2	3,826.7
Oil sales	(4,637.9)	(4,814.2)	(4,008.7)	(3,849.7)
Purchased oil	133.9	83.5	56.2	51.9
Crude oil inventory in transit - end of the period	91.0	61.0	324.4	193.7
% of period production	2.0	1.4	7.9	5.1

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

f) Purchased Oil

	For the three months ended March 31,	
	2019	2018
Purchased oil expense (\$000s)	\$ 5,653	\$ 1,436

Purchased oil expense for the three months ended March 31, 2019 was \$5.7 million compared to \$1.4 million for the 2018 comparative period and \$4.0 million in the fourth quarter of 2018. Purchased oil expense has increased as a result of an increase in oil blending operations. Transportation costs are incurred by the Company to transport purchased oil to sale delivery points.

Colombian Royalties

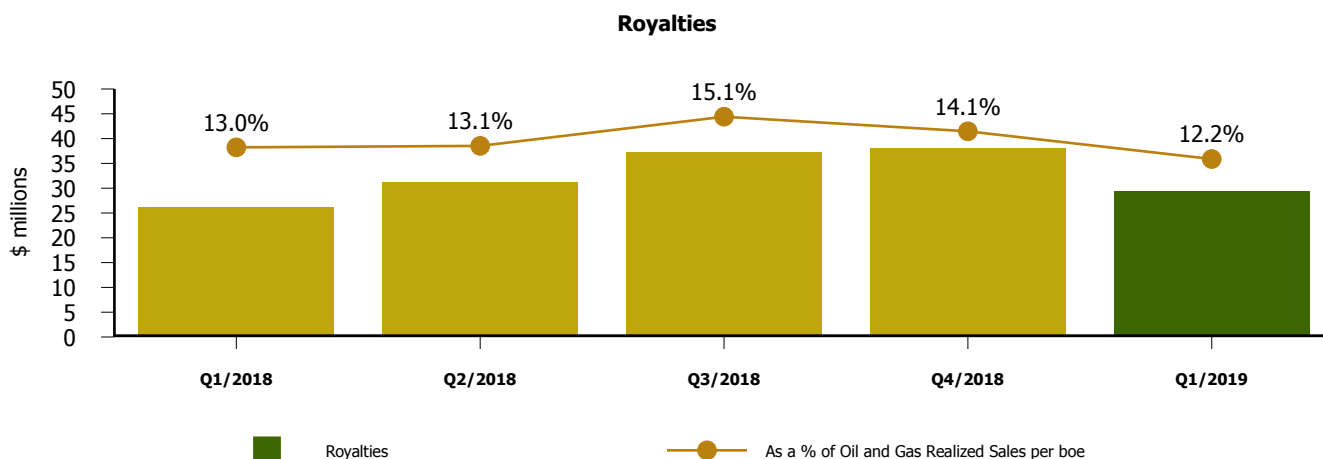
	For the three months ended March 31,	
	2019	2018
Royalties (\$000s)	\$ 29,270	\$ 26,179
Per unit (\$/boe)	6.39	7.29
Percentage of sales ⁽¹⁾	12.2	13.0

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

In the three months ended March 31, 2019 royalties as a percentage of sales were 12.2% compared to 14.1% during the three months ended December 31, 2018, and 13.0% for the 2018 comparative period. The decrease in royalties as a percentage of sales from the comparative period is a result of lower benchmark WTI prices which are applicable on the high price share royalty ("HPR") fields where accumulated production is in excess of 5 million barrels produced. Benchmark WTI price for three months ended March 31, 2019 were \$54.87 compared to \$58.99 during the three months ended December 31, 2018, and \$62.89 for the 2018 comparative period.

The increase in royalty expense to \$29.3 million in the three months ended March 31, 2019 compared to \$26.2 million in the three months ended March 31, 2018 is a result of increased oil production and sales over the prior period.

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,	
	2019	2018
Production expense (000s)	\$ 26,157	\$ 19,202
Per unit (\$/boe) ⁽¹⁾	5.71	5.35

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

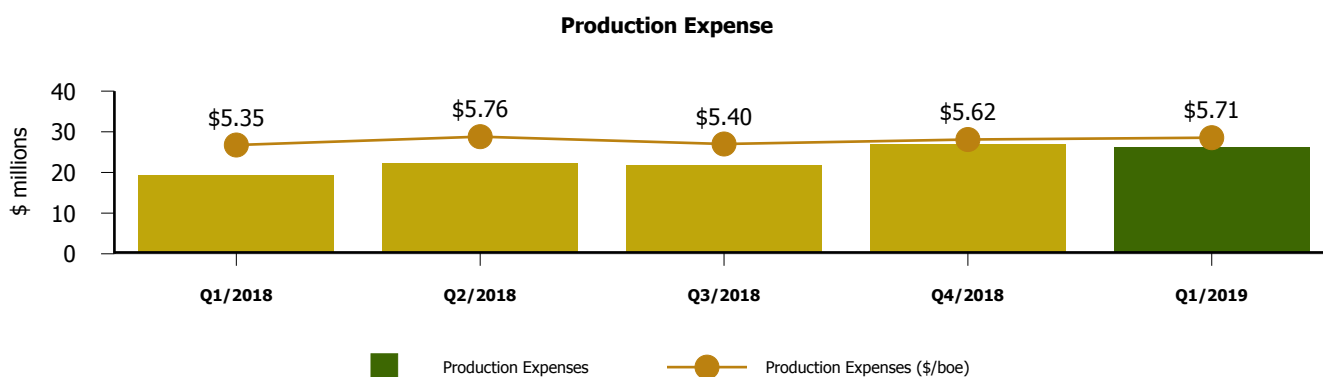
A breakdown of the production expense on a per boe basis between operated and non-operated fields are provided below:

	For the three months ended March 31,	
	2019	2018
Per unit (\$/boe) – based on sales volumes – operated ⁽¹⁾	9.99	9.37
Per unit (\$/boe) – based on sales volumes – non-operated ⁽¹⁾	4.33	4.10

(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, 2019 was \$5.71/boe compared to \$5.35/boe in the three months ended March 31, 2018. Production expense for the fourth quarter of 2018 was \$5.62/boe. Operated properties production expense in the first quarter of 2019 was \$9.99/boe compared to \$10.17/boe for the fourth quarter of 2018 and non-operated properties production expense in the first quarter of 2019 was \$4.33/boe compared to \$3.58/boe for the fourth quarter of 2018. The increase in operated production expense for the three months ended March 31, 2019 over the 2018 comparative period is a result of managing production on operated fields which resulted in decreased fixed cost absorption. The slight increase in non-operated production expense in the three months ended March 31, 2019 is a result of a higher number of workovers on Block LLA-34 over the 2018 comparative period.

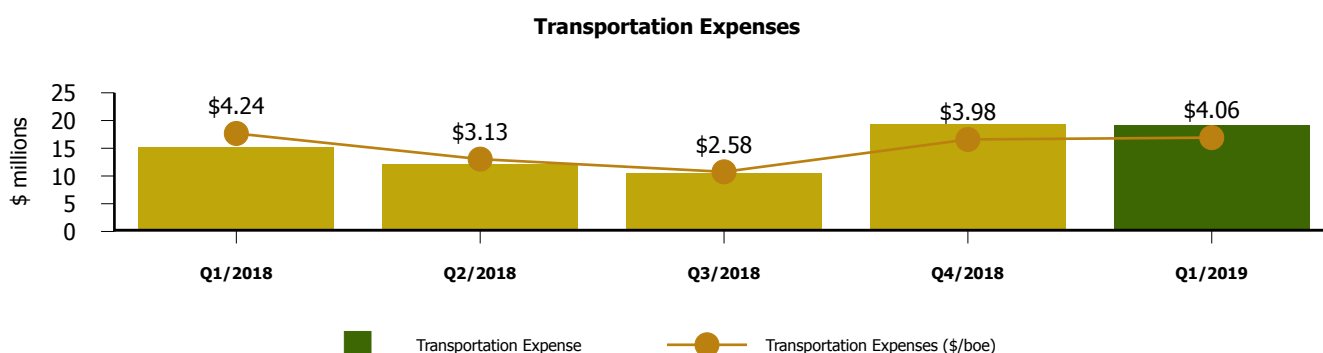


Colombian Transportation Expense

	For the three months ended March 31,	
	2019	2018
Transportation expense (\$000s)	\$ 19,146	\$ 15,343
Per unit (\$/boe)	4.06	4.24

Transportation expense includes trucking costs incurred to transport production to several offloading stations for sale and in some instances an oil transportation tariff from delivery point to the buyer's facility and pipeline tariffs.

For the three months ended March 31, 2019 the cost of transportation on a per boe basis has increased to \$4.06/boe from the fourth quarter of 2018 of \$3.98/boe and decreased from the comparative period in 2018 of \$4.24/boe. This decrease is mainly a result of a higher percentage of oil sales being sold at the wellhead for which no transportation costs are paid by Parex. Accordingly, transportation expense will fluctuate period over period due to the mix of sales contracts types in force during the period.



General and Administrative Expense ("G&A")

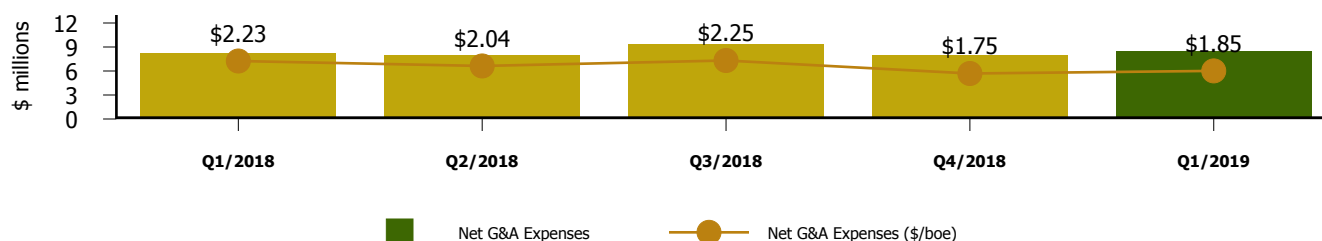
	For the three months ended March 31,	
(000s)	2019	2018
Gross G&A	\$ 10,971	\$ 10,649
G&A recoveries	(258)	(86)
Capitalized G&A	(2,186)	(2,408)
Total net G&A	\$ 8,527	\$ 8,155
Per unit (\$/boe) ⁽¹⁾	1.85	2.23

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

Net G&A was \$8.5 million for the three months ended March 31, 2019 compared to \$8.2 million for the same period in 2018. Gross G&A was \$11.0 million for the three months ended March 31, 2019 (three months ended March 31, 2018 - \$10.6 million). For the three months ended March 31, 2019 on a per boe basis net G&A has decreased 17 percent compared to the comparative period in 2018.

The Company's G&A expense is denominated in local currencies of COP and Cdn dollar which as they appreciate/depreciate have an impact on G&A expense. Refer to the foreign exchange sensitivity analysis on page 13 for further information.

Net General and Administrative Expenses



Share-Based Compensation

(\$000s)	For the three months ended March 31,	
	2019	2018
Equity settled share-based compensation expense	\$ 2,219	\$ 3,513
Cash settled share-based compensation expense	6,938	771
Total net expense	\$ 9,157	\$ 4,284

Share-based compensation expense was \$9.2 million for the three months ended March 31, 2019 compared to \$4.3 million for the same period in 2018. The increase is primarily due to the increase in cash settled share-based compensation as a result of an increase in share price to \$20.92 at March 31, 2019 from \$18.12 at March 31, 2018.

Equity settled share-based compensation expense was \$2.2 million for the three months ended March 31, 2019 compared to \$3.5 million for the same period in 2018. Equity settled share-based compensation includes the Company's stock option plan and the restricted share unit ("RSU") plan pursuant to which RSUs and performance based RSUs ("PSUs") have been awarded up until 2019. The decrease in the equity settled plan expense from the prior year is mainly related to a significant decrease in the issuance of equity settled compensation (options, RSUs, and PSUs, as applicable) under these plans in 2019 as compared to the prior year.

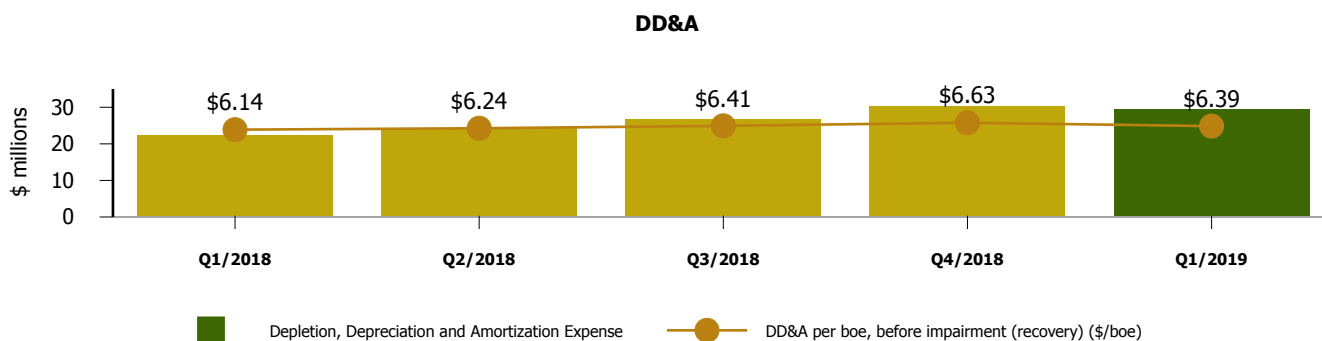
Cash settled share-based compensation relates to the Company's cash settled incentive plans and includes share appreciation rights ("SARs"), cash settled restricted share units ("CRSUs"), restricted share units ("RSUs"), performance share units ("PSUs") and deferred share units ("DSUs"). The CRSU plan will replace the current SAR plan as granted SARs vest, and are exercised. There will be no SAR grants going forward. For the three months ended March 31, 2019 there was an expense of \$6.9 million related to cash settled incentive plans compared to \$0.8 million expense for the same period in 2018. Obligations for payments of cash under the Company's cash settled incentive plans are accrued as expense over the vesting period based on the fair value of the units as described in note 14 of the interim financial statements for the three months ended March 31, 2019. As at March 31, 2019, the total cash settled incentive plans liability accrued was \$18.4 million (December 31, 2018 - \$14.1 million).

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

DD&A expense (000s)	For the three months ended March 31,	
	2019	2018
DD&A expense (000s)	\$ 29,465	\$ 22,439
Per unit (\$/boe) ⁽¹⁾	6.39	6.14

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

First quarter 2019 DD&A was \$29.5 million (\$6.39/boe) compared to \$22.4 million (\$6.14/boe) for the same period in 2018. The increase in DD&A expense is mainly due to the increase in production over the prior period.



Foreign Exchange Loss

	For the three months ended March 31,	
	2019	2018
Foreign exchange loss (\$'000s)	\$ 6,686	\$ 4,579
Foreign Exchange Rates		
USD\$/CAD ⁽¹⁾	1.33	1.26
USD\$/Colombian peso ⁽¹⁾	3,137	2,859

(1) Average exchange rates for the period.

The Company's main exposure to foreign currency risk relates to the pricing of foreign currency denominated in Canadian dollars and Colombian pesos, as the Company's functional currency is the US dollar. The Company has exposure in Colombia and Canada on costs, such as capital expenditures, local wages, royalties and income taxes, all of which may be denominated in local currencies. The main drivers of foreign exchange losses are the revaluation of the Colombian peso denominated income tax, accounts payable and accounts receivable to US dollar at period end dates.

During the three months ended March 31, 2019, the total foreign exchange loss was \$6.7 million (three months ended March 31, 2018 – loss of \$4.6 million). For the three months ended March 31, 2019, \$0.5 million foreign exchange loss was realized and \$6.2 million foreign exchange loss was unrealized (three months ended March 31, 2018 - \$1.1 million foreign exchange loss is realized and \$3.5 million foreign exchange loss is unrealized). 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.

Offsetting the foreign exchange loss in the three months period ended March 31, 2019 is a gain on the foreign exchange COP collar in place (see Risk Management section below). The unrealized gain on the foreign exchange collar was \$5.0 million for the quarter which offsets the unrealized foreign exchange loss of \$6.2 million in the quarter.

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%	\$ 0.46	\$ (0.46)
Transportation expense	50%	\$ 0.20	\$ (0.20)
G&A expense	100%	\$ 0.19	\$ (0.19)

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 2019 per boe costs. This analysis ignores all other factors impacting cost structure including efficiencies, cost reduction strategies, etc.

Net Finance Expense (Income)

	For the three months ended March 31,	
	2019	2018
Bank charges and credit facility fees	\$ 624	\$ 420
Accretion on decommissioning and environmental liabilities	1,040	1,220
Interest and other income	(2,599)	(545)
Realized loss on foreign currency risk management contracts	1,359	—
Unrealized (gain) on foreign currency risk management contracts	(5,032)	—
Right of use asset interest	27	—
Gain on settlement of decommissioning liabilities	(11)	—
Net finance (income) expense	\$ (4,592)	\$ 1,095

	For the three months ended March 31,	
	2019	2018
Non-cash finance (income) expense	\$ (3,976)	\$ 1,220
Cash finance (income)	(616)	(125)
Net finance (income) expense	\$ (4,592)	\$ 1,095

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

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, in respect of any outstanding commodity or foreign exchange derivative contracts.

a) Risk Management Contracts - Brent Crude

At March 31, 2019 the Company had no crude oil risk management contracts in place. Parex has no outstanding draw on its credit facility or significant commitments due in the next 12 months and as such it is considered appropriate not to have any commodity derivative contracts in place at this time and thereby avoid the costs associated with these types of contracts.

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

	For the three months ended March 31,	
	2019	2018
Premiums paid on commodity risk management contracts	\$ —	\$ 180
Unrealized loss on commodity risk management contracts	\$ —	216
Total	\$ —	\$ 396

The Company's unrealized derivative position on risk management contracts for the three months ended March 31, 2018 was a loss of \$0.2 million. The realized loss on commodity risk management contracts includes premiums paid for the three months ended March 31, 2018 of \$0.2 million.

b) Risk Management Contracts – Foreign Exchange

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

The following is a summary of the foreign currency risk management contracts in place as at March 31, 2019:

Period Hedged	Reference	Currency Option Type	Amount USD	Strike Price COP
June 28, 2018 to April 25, 2019	COP	Costless Collar	\$43,350,000	2,750-3,160
July 24, 2018 to July 25, 2019	COP	Costless Collar	\$60,000,000	2,750-3,100

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

	For the three months ended March 31,	
	2019	2018
Realized loss on foreign currency risk management contracts	\$ 1,359	\$ —
Unrealized (gain) on foreign currency risk management contracts	(5,032)	—
Total	\$ (3,673)	\$ —

The fair value of the foreign currency risk management contracts is recorded in the financial statement line item "Derivative financial instruments" in the consolidated balance sheet. Parex has in place foreign currency derivative contracts to manage foreign currency risk of its tax payable obligation that is denominated in COP.

The Company recorded a \$5.0 million unrealized gain and a \$1.4 million loss on these contracts in the three months ended March 31, 2019 which is recorded in the financial statement line item "Finance income" and "Finance expense", respectively in the consolidated statements of comprehensive income.

Income Tax

The components of tax expense for the three months ended March 31, 2019 and 2018 were as follows:

	For the three months ended March 31,	
	2019	2018
Current tax expense	\$ 24,466	\$ 27,280
Deferred tax expense	10,645	550
Tax expense	\$ 35,111	\$ 27,830

Current tax expense in the first quarter of 2019 was \$24.5 million as compared to \$27.3 million expense in the comparative period. The decrease from the comparative period is a result of increased depletion expense for tax purposes related to the tax restructuring completed in Q2 2018, partially offset by an increase in Colombian business cash flows year over year.

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

In 2019 the Company expects the effective tax rate on consolidated before tax cash flow to be approximately 14-17% at Brent crude prices between \$60-\$70/bbl with potential variances based on timing and number of exploration dry hole write-offs and ending 2019 proved developed reserves (which are the basis of the tax depletion expense calculation in Colombia).

Capital Expenditures

For the three months ended March 31, (\$000s)	Colombia		Canada		Total	
	2019	2018	2019	2018	2019	2018
Acquisition of unproved properties	\$ 80	\$ (15)	\$ —	\$ —	\$ 80	\$ (15)
Geological and geophysical	133	1,873	—	—	133	1,873
Drilling and completion	39,578	47,994	—	—	39,578	47,994
Well equipment and facilities	12,639	8,356	—	—	12,639	8,356
Other	81	—	22	2	103	2
Total capital expenditures	\$ 52,511	\$ 58,208	\$ 22	\$ 2	\$ 52,533	\$ 58,210

Capital Expenditures Summary

During the three months ended March 31, 2019 the Company incurred \$52.5 million of capital expenditures compared to \$58.2 million in the same period of 2018. During Q1, 2019 the Company drilled 8 gross (5.30 net) wells, compared to 12 gross (8.85 net) wells in the comparative period. During Q1, 2019, total drilling and completion costs were \$39.6 million of which the majority related to drilling, completion and capitalized workover costs at Block LLA-34, Cabretero Block, Capachos, and Aguas Blancas. Facilities costs in Q1, 2019 were due to the building of the Capachos block natural gas processing facility and Block LLA-34 flowline construction.

During the three months ended March 31, 2019 capital expenditures of \$52.5 million were self funded from funds flow provided by operations of \$126.6 million. The Company strives to fund its annual capital expenditures from funds flow and has demonstrated this goal since 2012 however on a quarterly basis funds flow may be greater or less than capital expenditures due to timing of capital programs and other variables.

Summary of Quarterly Results

Three months ended (\$000s)	Mar. 31, 2019	Dec. 31, 2018	Sep. 30, 2018	Jun. 30, 2018
Average daily oil and natural gas production (boe/d)	51,208	49,300	45,020	42,625
Average realized sales price - oil (\$/boe)	52.33	55.42	61.69	61.96
Financial (000s except per share amounts)				
Oil and natural gas sales	\$ 246,594	\$ 270,599	\$ 250,909	\$ 241,765
Funds flow provided by (used in) operations ⁽³⁾	\$ 126,580	\$ 150,658	\$ 147,147	\$ (15,765)
Per share – basic	0.84	0.97	0.95	(0.10)
Per share – diluted ⁽¹⁾	0.81	0.95	0.92	(0.10)
Net income	\$ 82,014	\$ 54,060	\$ 88,731	\$ 188,601
Per share – basic	0.54	0.35	0.57	1.21
Per share – diluted	0.53	0.34	0.55	1.18
Capital Expenditures, excluding corporate acquisitions	\$ 52,533	\$ 76,758	\$ 66,808	\$ 100,567
Total assets (end of period)	\$ 1,761,136	\$ 1,726,972	\$ 1,681,115	\$ 1,586,249
Working capital surplus (end of period) ⁽²⁾	\$ 207,414	\$ 218,526	\$ 143,243	\$ 66,050

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

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

(3) For the three months ended June 30, 2018, funds flow provided by operations includes a \$137.5 million (\$0.88 per share basic) charge for a voluntary tax restructuring, refer to the "Income Tax" section.

Three months ended (\$000s)	Mar. 31, 2018	Dec. 31, 2017	Sep. 30, 2017	Jun. 30, 2017
Average daily oil and natural gas production (boe/d)	40,586	39,007	36,195	34,291
Average realized sales price - oil (\$/boe)	55.98	50.43	41.16	40.26
Financial (000s except per share amounts)				
Oil and natural gas sales	\$ 202,450	\$ 180,738	\$ 136,956	\$ 124,995
Funds flow provided by operations ⁽³⁾	\$ 100,901	\$ 93,861	\$ 65,998	\$ 51,763
Per share – basic	0.65	0.61	0.43	0.34
Per share – diluted ⁽¹⁾	0.64	0.59	0.42	0.33
Net income	\$ 71,512	\$ 55,921	\$ 55,527	\$ 3,524
Per share – basic	0.46	0.36	0.36	0.02
Per share – diluted	0.45	0.35	0.35	0.02
Capital Expenditures, excluding corporate acquisitions	\$ 58,210	\$ 66,341	\$ 51,434	\$ 59,008
Total assets (end of period)	\$ 1,229,897	\$ 1,121,908	\$ 1,057,859	\$ 1,015,540
Working capital surplus (end of period) ⁽²⁾	\$ 205,771	\$ 163,401	\$ 140,292	\$ 128,347

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

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

(3) For the three months ended June 30, 2017, funds flow provided by operations includes a \$15.0 million (\$0.09 per share basic) charge for a one-time legal settlement.

Factors that Caused Variations Quarter Over Quarter

During the first quarter of 2019, production of 51,208 boe/d was in excess of oil production for the previous quarter ended December 31, 2018. Revenue and funds flow provided by operations were lower than the previous quarter mainly due to a decrease in realized prices and volumes sold. Working capital decreased to \$207.4 million from \$218.5 million at December 31, 2018.

During the fourth quarter of 2018, production of 49,300 boe/d was in excess of production compared to the previous quarter ended September 30, 2018. Revenue was higher than the previous quarter due to increased sales volumes partially offset by a decrease in world oil prices in the period. Funds flow provided by operations was higher than the previous quarter also due to increased sales volumes partially offset by a decrease in realized sales prices per barrel. Capital expenditures for the fourth quarter of 2018 were \$76.8 million compared to \$66.8 million in the prior quarter mainly related to drilling on Block LLA-34, Cabrestero Block, and Capachos Block.

During the third quarter of 2018, production of 45,020 boe/d was in excess of production for the previous quarter ended June 30, 2018. Revenue was higher than the previous quarter due to an increased sales volumes and a slight increase in world oil prices in the period, however this increase was partially offset by an inventory build of 1,420 boe/d. Funds flow provided by operations was higher than the previous quarter due to a voluntary tax restructuring that had a \$137.5 million impact on the three months ended June 30, 2018. Capital expenditures for the third quarter of 2018 were \$66.8 million compared to \$100.6 million in the prior quarter. The Q3, 2018 capital expenditures mainly related to drilling on Block LLA-34, Cabrestero Block, Capachos and Aguas Blancas.

During the second quarter of 2018, production of 42,625 boe/d was in excess of production for the previous quarter ended March 31, 2018. Revenue was higher than the previous quarter mainly due to an increase in world oil prices and an increase in production in the period. Funds flow provided by operations was negative \$15.8 million which is significantly lower than the previous quarter due to a voluntary tax restructuring that had a \$137.5 million impact. Adjusting for this one-time tax charge, funds flow increased to \$121.7 million, which is higher than the previous quarter.

During the first quarter of 2018, production of 40,586 boe/d was in excess of oil production for the previous quarter ended December 31, 2017. Revenue and funds flow provided by operations were higher than the previous quarter mainly due to an increase in volumes sold and higher realized prices. Working capital increased to \$205.8 million from \$163.4 million at December 31, 2017 mainly due to funds flow provided by operations of \$100.9 million being in excess of capital expenditures of \$58.2 million.

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, 2019 the Company had a working capital surplus of \$207.4 million, excluding funds available under the credit facility, as compared to working capital surplus at December 31, 2018 of \$218.5 million. Bank debt was \$nil as at March 31, 2019, December 31, 2018 and March 31, 2018. The credit facility has a current borrowing base of \$200.0 million (December 31, 2018 - \$200.0 million) and is subject to a borrowing base redetermination to be completed by the end of May 2019. At March 31, 2019 Parex held \$432.9 million of cash, compared to \$462.9 million at December 31, 2018 and \$294.5 million at March 31, 2018. The Company's cash balances reside in current accounts, the majority of which are held on account in Canada and Barbados in USD. The decrease in the Company's cash and working capital position from prior period is mainly a result of free cash flow for the three months ended March 31, 2019 used to buy back outstanding shares and timing of cash payments period over period.

Parex' senior secured credit facility ("credit facility") with a syndicate of banks has a current borrowing base of \$200.0 million. Key covenants include a rolling four quarters total funded debt to adjusted EBITDA test of 3:50:1, and other standard business operating covenants. Given there is \$nil balance drawn on the facility as at March 31, 2019, the Company is in compliance with all covenants. The next annual review is scheduled to occur at the end of May 2019 and as there is no draw on the facility the bank syndicate annual review will not have an impact on Parex' 2019 guidance.

Refer to note 21 - Commitments of the interim financial statements for the period ended March 31, 2019 for a description of the performance guarantee facility with Export Development Canada ("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, 2019 the Company had 149,374,556 common shares outstanding compared to 155,013,908 at December 31, 2018. At May 7, 2019 the common shares outstanding has been reduced to 147,344,163 due to the NCIB.

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

As at May 7, 2019 Parex has the following securities outstanding:

	Number	%
Common shares	147,344,163	95 %
Stock options	4,244,931	3 %
Restricted and performance share units	2,524,419	2 %
	154,113,513	100%

As of the date of this MD&A, total stock options, RSUs and PSUs outstanding represent approximately 5 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. 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, 2019 were \$119.3 million (December 31, 2018 - \$111.6 million) to support the exploration work commitments on its blocks. The guarantees have been provided in the form of letters of credit for varying terms. Export Development Canada has provided performance security guarantees under the Company's \$150.0 million (December 31, 2018 - \$150.0 million) performance guarantee facility to support approximately \$88.0 million (December 31, 2018 - \$79.7 million) of the letters of credit issued on behalf of Parex at March 31, 2019. Also at March 31, 2019, there is an additional \$31.3 million (December 31, 2018 - \$31.9 million) of letters of credit that are provided by a Latin American bank on an unsecured basis. The letters of credit issued to the ANH and Ecopetrol are reduced from time to time to reflect the work performed on the various blocks.

The following table summarizes the Company's estimated undiscounted commitments as at March 31, 2019:

(000s)	Total	<1 year	1 – 3 years	3 – 5 years	>5 years
Exploration	\$ 125,089	29,503	6,495	89,091	—
Office and accommodations ⁽¹⁾	10,429	1,774	3,920	3,215	1,520
Decommissioning and Environmental Obligations	56,531	6,640	—	—	49,891
Total	\$ 192,049	37,917	10,415	92,306	51,411

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

Decommissioning and Environmental Liabilities

	Decommissioning		Environmental		Total
Balance, December 31, 2017	\$	36,774	\$	15,906	\$ 52,680
Additions		7,974		6,146	14,120
Settlements of obligations during the year		(8,060)		(2,352)	(10,412)
Loss on settlement of obligations		5,531		—	5,531
Accretion expense		2,657		2,231	4,888
Additions related to change in estimate - inflation and discount rates		(1,703)		(139)	(1,842)
Additions related to change in estimate - costs		2,604		(4,252)	(1,648)
Foreign exchange (gain)		(3,725)		(1,991)	(5,716)
Balance, December 31, 2018	\$	42,052	\$	15,549	\$ 57,601
Additions		993		0	993
Settlements of obligations during the period		(2,613)		(46)	(2,659)
Gain on settlement of obligations		(11)		0	(11)
Accretion expense		813		227	1,040
Additions related to change in estimate - costs		(1,370)		(460)	(1,830)
Foreign exchange loss		1,036		361	1,397
Balance, March 31, 2019	\$	40,900	\$	15,631	\$ 56,531
Current obligation		(3,966)		(2,674)	(6,640)
Long-term obligation	\$	36,934	\$	12,957	\$ 49,891

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, 2019, 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 \$70.6 million as at March 31, 2019 (December 31, 2018 – \$70.3 million) with the majority of these costs anticipated to occur in 2022 or later. A risk-free discount rate of 7.5 percent and an inflation rate of 3.2 percent were used in the valuation of the liabilities (December 31, 2018 – 7.5 percent risk-free discount rate and a 3.2 percent inflation rate). The risk-free discount rate and the inflation rate used are based on forecast Colombia rates.

Included in the decommissioning liability is \$4.0 million (December 31, 2018 – \$6.6 million) that is classified as a current obligation. During the three months ended March 31, 2019 the loss on settlement of obligations of \$0.0 million (December 31, 2018 – \$5.5 million) primarily related to higher than expected abandonment costs on the El Eden block.

The total undiscounted amount of cash flows required to settle the Company's environmental liability is approximately \$22.7 million as at March 31, 2019 (December 31, 2018 – \$20.8 million) with the majority of these costs anticipated to occur in 2020 or later in Colombia. A risk-free discount rate of 7.5 percent and an inflation rate of 3.2 percent were used in the valuation of the liabilities (December 31, 2018 – 7.5 percent risk-free discount rate and a 3.2 percent inflation rate). The risk-free discount rate and the inflation rate used are based on forecast Colombia rates.

Included in the environmental liability is \$2.7 million (December 31, 2018 – \$2.7 million) that is classified as a current obligation.

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

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

Advisory on Forward-Looking Statements

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

- Parex' expectation that it will invest \$200 - \$230 million in capital projects in 2019;
- the Company's operational strategy and focus, including targeted jurisdictions and technologies used to execute its strategy;
- 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;
- the Company's expected capital expenditures for 2019, including the expected allocation of such expenditures and the Company's plans to fund its 2019 capital program from funds flow from operations;
- the Company's anticipated annual production for 2019 including the percentage of such production that is oil;
- the Company's anticipated funds flow provided by operations of \$575 - \$625 million for 2019;
- the Company's expectation regarding Q2 2019 average production;
- the Company's expectation regarding Q2 2019 and 2019 Brent/Vasconia crude differential
- the timing of payment of total decommissioning and environmental liability cost;
- the Company's expectations regarding the per boe and G&A expense impact caused by appreciation and depreciation of the Colombian peso;
- the effect of the Colombian peso/US\$ exchange rate on the variability of general and administrative, transportation, and production costs;
- 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;
- the expected effect of changes in commodity and foreign exchange forward strip prices on the fair value of financial contracts;
- the Company's estimated effective tax rate for 2019;
- terms of the Company's credit facility including the timing of the next borrowing base redetermination;
- the Company's expectation that the next redetermination of its credit facility will not impact the 2019 guidance; and
- estimated amounts, timing and the anticipated sources of funding for the Company's exploration, office and accommodations, environmental, decommissioning and restoration obligations.

- the statements set forth under "Accounting Policies and Estimates" in this MD&A.

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; risk of failure to achieve perceived benefits from voluntary tax restructuring; failure of counterparties to perform under the terms of their contracts; changes to pipeline capacity; risk that Parex' evaluation of its existing portfolio of development and exploration opportunities is not consistent with its expectations; failure to meet expected production targets; risk that the review of strategic repositioning alternatives will not result in a transaction; the risks discussed under "Risk Factors" in the Company's AIF and under "Decommissioning and Environmental Liabilities" in this MD&A, and other factors, many of which are beyond the control of the Company. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

Although the forward-looking statements contained in this MD&A are based upon assumptions which management believes to be reasonable, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. With respect to forward-looking statements contained in this MD&A, Parex has made assumptions regarding, among other things: current and future commodity prices and royalty regimes; 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; timing and number of dry hole write-offs permitted for Colombian tax purposes; 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; on-stream timing of production from successful exploration wells; operational performance of non-operated producing fields; pipeline capacity; the benefits of initiating a review of strategic repositioning alternatives; and other matters. The ability of the Company to carry out its business plan is primarily dependent upon the continued support of its shareholders, the discovery of economically recoverable reserves and the ability of the Company to obtain financing or generate sufficient cash flow to develop such reserves.

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 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, operating netback per boe, funds flow provided by operations per boe, funds flow netback per boe, free funds flow and diluted 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.

Adoption of IFRS 16 Leases had an immaterial impact on netbacks, funds flow provided by operations and EBITDA non-GAAP measures.

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

(\$000s)	For the three months ended March 31,	
	2019	2018
Funds flow provided by operations	\$ 126,580	\$ 100,901
Company produced oil and natural gas sales in period	4,578,660	3,591,090
Funds flow provided by operations per boe	27.65	28.10

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

(000s)	For the three months ended March 31,	
	2019	2018
Funds flow provided by operations	\$ 126,580	\$ 100,901
Weighted average number of shares for the purposes of basic funds flow	151,581	155,037
Dilutive effect of share options on potential common shares	3,765	3,053
Weighted average number of shares for the purposes of diluted funds flow	155,346	158,090

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 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)	2019	2018
Oil and natural gas revenue excluding risk management contracts	\$ 246,594	\$ 202,450
Denominator (BOEs)		
Company produced oil and natural gas sales in period	4,578,660	3,591,090
Purchased oil volumes sold	133,920	25,650
Total oil and natural gas sales volumes	4,712,580	3,616,740
Sales price per boe	\$ 52.33	\$ 55.98

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)	2019	2018
Royalty expense	\$ 29,270	\$ 26,179
Denominator (BOEs)		
Company produced oil and natural gas sales in period	4,578,660	3,591,090
Royalty expense per boe	\$ 6.39	\$ 7.29

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)	2019	2018
Production Expense	\$ 26,157	\$ 19,202
Denominator (BOEs)		
Company produced oil and natural gas sales in period	4,578,660	3,591,090
Production expense per boe	\$ 5.71	\$ 5.35

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)	2019	2018
Transportation Expense	\$ 19,146	\$ 15,343
Denominator (BOEs)		
Company produced oil and natural gas sales in period	4,578,660	3,591,090
Purchased oil volumes sold	133,920	25,650
Total oil and natural gas sales volumes	4,712,580	3,616,740
Transportation expense per boe	\$ 4.06	\$ 4.24

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

(\$000s)	For the three months ended March 31,	
	2019	2018
Funds flow provided by operations	\$ 126,580	\$ 100,901
Capital expenditures, excluding corporate acquisitions	52,533	58,210
Free funds flow	\$ 74,047	\$ 42,691

Business Environment and Risks

There have been no significant changes during the three months ended March 31, 2019 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, 2019.

Financial Instruments and Other Instruments

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

Summary of Significant Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year as described in note 3 of the Company's consolidated financial statements for the year ended December 31, 2018, except for the following adoption of new accounting standards effective January 1, 2019:

a) Adoption of IFRS 16, Leases

Effective January 1, 2019, the Company adopted IFRS 16 Leases ("IFRS 16"), which replaces previous IFRS guidance on leases: IAS 17 Leases ("IAS 17"). Under IAS 17, lessees were required to determine if the lease was a finance or operating lease, based on specified criteria of whether the lease transferred significantly all the risks and rewards associated with ownership of the underlying asset. Finance leases were recognized on the consolidated balance sheet while operating leases were recognized in net income (loss) and comprehensive income (loss) in the consolidated statements of comprehensive income (loss). IFRS 16 introduced a single lease accounting model for lessees which requires a right-of-use ("ROU") asset and liability to be recognized on the balance sheet for contracts that are, or contain, a lease. The Company adopted IFRS 16 using the modified retrospective approach, whereby the cumulative effect of initially applying the standard was recognized as a \$2.2 million increase to ROU assets (included in "Property, Plant and Equipment") with a corresponding increase to lease obligations (the non-current portion of \$1.5 million is recorded in "Lease Obligation" and the current portion of \$0.7 million is recorded in "accounts payable and accrued liabilities"). On adoption of IFRS 16, the Company's lease liabilities related to contracts classified as a lease are measured at the discounted present value of the remaining minimum lease payments, excluding short-term and low-value leases. The ROU assets recognized were measured at amounts equal to the present value of the lease obligations. The weighted average incremental borrowing rate used to determine the lease obligation at adoption was approximately 5.0%. The ROU asset and lease obligation recognized relate to the Company's head office lease in Calgary. The Company elected to not apply lease accounting to certain leases for which the lease term ends within 12 months of the date of initial application. The measurement of lease obligations are subject management's judgment and the application incremental borrowing rate.

IFRS 16 Leases ("IFRS 16") - In January 2016, the IASB issued IFRS 16, which replaces IAS 17 Leases ("IAS 17") and related interpretations. IFRS 16 requires the recognition of a ROU asset and lease liability on the balance sheet for most leases, where the entity is acting as a lessee. For lessees applying IFRS 16, the dual classification model of leases as either operating leases or finance leases no longer exists, effectively treating all leases as finance leases. IFRS 16 allows lessors to continue with the dual classification model for recognized leases with the resultant accounting remaining unchanged from IAS 17.

The standard is in effect for annual periods beginning on or after January 1, 2019. The Company has applied the modified retrospective transition approach.

On initial adoption, the Company applied the following optional expedients permitted under the standard. Some expedients are available on a lease-by-lease basis, while others are applicable by class of underlying asset.

- Certain short-term leases and leases of low value assets that have been identified at January 1, 2019, have not been recognized on the balance sheet.
- In their initial measurement upon transition, some leases having similar characteristics will be measured as a portfolio by applying a single discount rate.

Upon adoption the Company evaluated how to account for the ROU asset at either its carrying amount as if IFRS 16 had been applied since the commencement date of the lease, or an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized immediately before the date of transition. This determination was made on a lease by lease basis. At January 1, 2019, the Company recognized its ROU asset for the lease of its head office space as equal to the lease liability. This will result in the recognition of an ROU asset that is equal to its corresponding lease liability on transition. As a result there is no impact on opening retained earnings at January 1, 2019.

The adoption of IFRS 16 resulted in an increase in the Company's total assets and liabilities as the Company recognizes leases on its balance sheet that were not recognized prior to adoption. Future net income will be impacted as the finance charges and depreciation charges associated with lease contracts are not expected to correspond in any one period to the amount of related cash flows.

The Company's leases that have been recognized on its balance sheet at January 1, 2019 include leases of real estate. The impacts of IFRS 16 disclosed herein are subject to change in future periods pending updates to individual contract terms, assumptions, and other facts and circumstances arising subsequent to the date of these financial statements.

The financial statement impact of IFRS 16 is subject to certain management judgments and estimates. Most notably, extension and termination provisions are included in certain lease contracts. In determining the lease term to be recognized, Management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.

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Chief Operating Officer

Kenneth G. Pinsky
Chief Financial Officer & Corporate Secretary

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ABBREVIATIONS**Oil and Natural Gas Liquids**

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

Other

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

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