

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Parex Resources Inc. ("Parex" or "the Company") for the period ended June 30, 2016 is dated August 10, 2016 and should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the period ended June 30, 2016, as well as the Company's audited consolidated annual financial statements for the year ended December 31, 2015. The unaudited condensed interim consolidated financial statements and the audited consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board.

Additional information related to Parex and factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities, including the Company's Annual Information Form dated March 17, 2016, and may be accessed through the SEDAR website at www.sedar.com.

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

Company Profile

Parex is an oil and gas company actively engaged in crude oil exploration, development and production in Colombia. Headquartered in Calgary, Canada, Parex, through its foreign subsidiaries, holds interests in onshore exploration and production blocks totaling approximately 2,087,709 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 16 for the Advisory on Forward-Looking Statements and page 18 for Non-GAAP Terms used.

Three months ended June 30, 2016 ("second quarter or Q2") Highlights

- Quarterly oil production was 28,913 bbl/d, slightly in excess of oil production for the previous quarter ended March 31, 2016 and an increase of 7 percent over the prior year comparative period. Combined oil and natural gas production for the quarter was 29,136 boe/d. Oil sales in Q2 were approximately 1,472 bbl/d less than production due to a build in crude inventory;
- Generated funds flow from operations of \$31.8 million (\$0.21 per share basic) as compared to \$0.35 per share for the prior year comparative period and \$0.10 per share in the previous quarter. Funds flow has decreased from the comparative period due to lower oil prices partially offset by higher sales volumes;
- Realized Brent referenced sales price of \$39.69 per barrel ("bbl") during the period at a \$7.34/bbl discount to the average Brent price, and an operating netback of \$20.14/boe. Operating and transportation combined unit costs of \$16.27/boe were approximately 3 percent less than the first quarter of 2016 and 25 percent less than the prior year comparative period;
- Working capital increased to \$97.5 million at June 30, 2016 compared to \$80.0 million at March 31, 2016 and \$89.8 million in the comparative period. The Company has an undrawn bank credit facility of \$175.0 million;
- For the first half of 2016 where Brent oil price has averaged \$41.21/bbl, funds flow from operations exceeded capital expenditures by \$28.8 million and the Company has increased oil production; and
- Participated in drilling 3 wells in Colombia resulting in 1 oil well, 1 dry and abandoned and 1 abandoned prior to target depth.

Financial Summary

(Financial figures in 000s except per share amounts)	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Average daily production (bopd)	28,913	27,025	28,810	26,878
Average daily natural gas production (mcf/d)	1,340	-	1,265	-
Average oil and natural gas production (boe/d)	29,136	27,025	29,021	26,878
Production split (% crude oil)	99	100	99	100
Average realized sales price (\$/boe)	39.74	56.31	33.00	52.90
Operating netback (\$/boe)	20.14	29.66	13.69	25.69
Oil and natural gas sales	\$ 104,571	\$ 155,717	\$ 186,089	\$ 290,024
Funds flow from continuing operations	\$ 31,792	\$ 50,237	\$ 47,249	\$ 83,195
Per share – basic	0.21	0.35	0.31	0.60
Per share – diluted ⁽¹⁾	0.20	0.34	0.31	0.59
Net income (loss)	\$ (185)	\$ 1,814	\$ (7,815)	\$ (13,730)
Per share – basic	(0.00)	0.01	(0.05)	(0.10)
Per share – diluted	(0.00)	0.01	(0.05)	(0.10)
Capital Expenditures	\$ 13,922	\$ 37,234	\$ 18,429	\$ 64,197
Total assets (end of period)	\$ 921,665	\$ 1,051,150	\$ 921,665	\$ 1,051,150
Working capital surplus (end of period) ⁽²⁾	\$ 97,532	\$ 89,754	\$ 97,532	\$ 89,754
Bank debt (end of period) ⁽³⁾	-	-	-	-
Weighted average shares outstanding (000s)				
Basic	152,006	144,145	151,765	139,468
Diluted	155,148	146,847	154,482	141,630
Outstanding shares (end of period (000s))	152,268	150,108	152,268	150,108

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

⁽²⁾ Working capital calculation does not take into consideration the undrawn \$175.0 million (June 30, 2015 - \$200 million) available under the syndicated bank credit facility.

⁽³⁾ Syndicated bank credit facility borrowing base of \$175.0 million as at June 30, 2016.

Strategy

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

Principal Properties

As at June 30, 2016, 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, 20, 29 and 30	100%	201,864	201,864
LLA-57	100%	52,285	52,285
Los Ocarros	50%	31,066	15,533
El Eden	60%	6,397	3,838
Cabrestero	100%	29,562	29,562
LLA-40	50%	83,465	41,732
LLA-24	100%	147,100	147,100
LLA-26	100%	184,061	184,061
Cebucan	100%	109,185	109,185
Cerrero ⁽¹⁾	100%	83,903	83,903
Capachos ⁽¹⁾	50%	64,073	32,037
LLA-32	70%	57,040	39,928
LLA-10 ⁽¹⁾	50%	189,544	94,772
<i>Non-Operated Properties</i>			
LLA-34	55%	68,382	37,610
Balay	10%	4,500	450
Colombia Magdalena Basin			
<i>Operated Properties</i>			
VMM-11	100%	116,826	116,826
Morpho	100%	51,420	51,420
VIM-1	100%	223,651	223,651
VMM-9	100%	152,412	152,412
Aguas Blancas ⁽¹⁾	50%	13,386	6,693
De Mares ⁽¹⁾	50%	174,387	87,194
Playon ⁽¹⁾	50%	43,200	21,600
Total		2,087,709	1,733,656

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

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

2016 Guidance

With an expanded appraisal and exploration drilling program the Company now anticipates the 2016 capital expenditures to be \$110-120 million.

Firm Capital Expenditure Guidance	\$	90-100 million
Contingent Aguas Blancas (7 wells)		20 million
Total Capital Forecast 2016	\$	110-120 million

Parex has approximately \$98 million of net working capital, no debt and an undrawn bank facility available to fund future growth opportunities.

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 June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Average daily production				
Colombia – oil (bbl/d)	28,913	27,025	28,810	26,878
Colombia – natural gas (mcf/d)	1,340	-	1,265	-
Total (boe/d)	29,136	27,025	29,021	26,878
Production split (% crude oil production)	99	100	99	100
Average daily sales of oil and natural gas				
Colombia – produced oil (bbl/d)	27,441	26,557	29,504	26,732
Colombia – purchased oil (bbl/d)	1,249	3,560	1,269	3,307
Colombia – produced natural gas (Mcf/d)	1,340	-	1,265	-
Total (boe/d)	28,913	30,117	30,984	30,039
Operating netback (\$000s)				
Oil and natural gas sales ⁽¹⁾	\$ 104,571	\$ 155,717	\$ 186,089	\$ 290,024
Royalties	(8,808)	(11,977)	(15,040)	(22,453)
Net revenue	95,763	143,740	171,049	267,571
Production expense	(11,906)	(18,304)	(25,545)	(37,883)
Transportation expense	(32,414)	(39,384)	(66,599)	(81,405)
Purchased oil	(280)	(12,978)	(4,370)	(21,543)
Operating netback	\$ 51,163	\$ 73,074	\$ 74,535	\$ 126,740
Operating netback (per boe) ⁽¹⁾⁽²⁾				
Oil and natural gas sales	\$ 39.74	\$ 56.31	\$ 33.00	\$ 52.90
Royalties	(3.33)	(4.91)	(2.78)	(4.60)
Net revenue	36.41	51.40	30.22	48.30
Production expense	(4.51)	(7.50)	(4.72)	(7.76)
Transportation expense	(11.76)	(14.24)	(11.81)	(14.85)
Operating netback	\$ 20.14	\$ 29.66	\$ 13.69	\$ 25.69

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

⁽²⁾ Operating netback calculation excludes the impact of (gains) losses on commodity risk management contacts.

The Company's operating netback on a per boe basis for the three and six months ended June 30, 2016 was \$20.14/boe and \$13.69/boe compared to \$29.66/boe and \$25.69/boe for the three and six month periods ended in 2015. The first quarter of 2016 operating netback was \$8.06/boe. The average realized sales price in Colombia for the three and six months ended June 30, 2016 was \$39.74/boe and \$33.00/boe compared to \$27.10/boe for the first quarter of 2016.

Royalty charges for the three and six months ended June 30, 2016 were \$3.33/boe and \$2.78/boe in comparison to \$4.91/boe and \$4.60/boe in the comparative prior year periods. Royalty charges in the first quarter of 2016 were \$2.25/boe.

Production expense for the three and six months ended June 30, 2016 was \$4.51/boe and \$4.72/boe compared to \$7.50/boe and \$7.76/boe in the comparative periods. Production expense for the first quarter of 2016 was \$4.93/boe.

Transportation expense per boe for the three and six months ended was \$11.76/boe and \$11.81/boe compared to \$14.24/boe and \$14.85/boe in the comparative periods. Transportation expense in the first quarter of 2016 was \$11.86/boe.

Overall, the Company's benchmark Brent price increased by \$11.82/boe in the second quarter as compared to the first quarter of 2016, while the operating netback increased by \$12.08/boe. The Company realized cost savings on a per boe basis during the quarter for both production and transportation expense.

Colombian Oil and Natural Gas Sales

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

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Block LLA-34 (Tigana, Tua, Tarotaro, Tilo and Max fields)	16,806	14,208	17,161	13,267
Block LLA-26 (Rumba & Bazar Fields)	4,764	-	4,413	-
Block Cabrestero (Akira and Kitara fields)	3,161	2,210	2,672	2,563
Block LLA-32 (Kananaskis, Calona, and Carmentea fields)	1,329	5,405	1,497	5,481
Block LLA-30 (Adalia field)	1,437	673	1,338	859
Block Los Ocarros (Las Maracas field)	853	1,683	921	1,945
Other	563	2,846	808	2,763
Total Crude Oil Production	28,913	27,025	28,810	26,878
Natural gas production	223	-	211	-
Total crude oil and natural gas production	29,136	27,025	29,021	26,878
Crude oil inventory (build) draw	(1,472)	(468)	694	(146)
Average daily sales of produced oil and natural gas	27,664	26,557	29,715	26,732
Purchased oil	1,249	3,560	1,269	3,307
Sales Volumes	28,913	30,117	30,984	30,039

Oil and natural gas production for the second quarter of the year averaged 29,136 boe/d, an increase of approximately 8 percent from the second quarter of 2015. The decrease in oil and natural gas sales in the second quarter of 2016 to 28,913 boe/d compared to the reported Colombian oil sales of 30,117 boe/d for the three months ended June 30, 2015 was primarily a result of the 1,472 bbl/d crude oil inventory build, and a decrease in the volume of purchased oil partially offset by increased oil production in 2016.

b) Average Crude Oil Reference and Realized Prices

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Reference Prices				
Brent (\$/bbl)	47.03	63.50	41.21	59.35
Vasconia (\$/bbl)	41.03	58.79	35.23	54.33
WTI (\$/bbl)	45.70	57.95	39.85	53.34
Average Realized Prices				
Realized sales price (\$/bbl)	39.69	56.31	32.95	52.90
Realized oil hedging (loss) (\$/bbl)	(2.10)	-	(0.83)	-
Realized price after hedging (\$/bbl)	37.59	56.31	32.12	52.90
Realized price differential to Brent crude (\$/bbl)	(7.34)	(7.19)	(8.26)	(6.45)

During Q2 2016, the differential between Brent reference pricing and the realized crude oil sale price was \$7.34/bbl. The differential during Q2 was relatively in line with historical averages (see below). Differences between the Parex realized price and the Vasconia average is mainly a result of quality adjustments on certain oil sale contracts and timing of oil sales.

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

Average price for the period	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Brent (\$/bbl)	47.03	35.21	44.69	51.16	63.50
Vasconia (\$/bbl)	41.03	29.71	37.15	45.83	58.79
Parex realized sales price (\$/bbl)	39.69	27.08	36.69	44.62	56.31
Parex realized price (differential) to Brent crude (\$/bbl)	(7.34)	(8.13)	(8.00)	(6.54)	(7.19)
Parex realized price (differential) to Vasconia crude (\$/bbl)	(1.34)	(2.63)	(0.46)	(1.21)	(2.48)

c) Natural Gas Revenue and Realized Prices

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Revenue (000's)	950	-	1,516	-
Realized sales price (\$/Mcf)	7.79	-	6.58	-

d) Oil and Natural Gas Revenue

Second quarter 2016 oil revenue decreased \$51.1 million or 33 percent as reconciled in the table below to the second quarter of 2015:

(\$000s)	
Oil and natural gas revenue, three months ended June 30, 2015	\$ 155,717
Sales volume of produced oil an increase of 3% (884 bopd)	3,589
Sales volume of purchased oil, a decrease of 65% (2,311 boe/d)	(9,384)
Oil sales price decrease of 29%	(46,301)
Sales volume of produced gas, an increase of 223 boe/d	950
Oil and natural gas revenue, three months ended June 30, 2016	\$ 104,571

Oil revenue decreased in the three months ended June 30, 2016 compared to the same period in 2015 due to the decline in world oil prices and decreased purchased oil sales. The decline in prices however has been partially offset by increased produced oil and natural gas sales. Produced oil sales for the three months ended June 30, 2016 were less than crude oil production due to a crude oil inventory increase of 133.9 Mbbls from the first quarter of 2016 (see "Colombian Crude Oil Inventory in Transit" below).

e) Colombian Crude Oil Inventory in Transit (Overlift)

As at June 30, (\$000s)	2016	2015
Crude oil in transit	\$ 290	\$ 7,718

As at June 30, 2016, the Company had 9.3 mbbls of crude oil inventory in transit, 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 \$31/bbl (\$33/bbl - 2015) 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)	June 30, 2016	March 31, 2016	Dec. 31, 2015	Sept. 30, 2015
Crude oil inventory in transit - beginning of the period	(124.6)	136.2	272.0	232.5
Oil production	2,631.1	2,611.9	2,629.9	2,518.6
Oil sales	(2,610.9)	(2,990.0)	(2,938.7)	(2,761.8)
Purchased oil	113.7	117.4	173.0	282.7
Crude oil inventory in transit (overlift) - end of the period	9.3	(124.6)	136.2	272.0
% of period production	-	-	5.1	10.8

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.

f) Purchased Oil

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Purchased oil expense (\$000s)	\$ 280	\$ 12,978	\$ 4,370	\$ 21,543

Purchased oil expense for the three and six months ended June 30, 2016 was \$0.3 million and \$4.4 million compared to \$13.0 million and \$21.5 million for the 2015 three and six month comparative periods. Transportation costs are incurred by the Company to transport purchased oil to sale delivery points. Purchased oil expense for the three months ended June 30, 2016 includes a reversal of purchased oil expense associated with the crude oil overlift position at March 31, 2016.

Colombian Royalties

	For the three months ended June 30,			For the six months ended June 30,		
	2016	2015		2016	2015	
Royalties (\$000s)	\$ 8,808	\$	11,977	\$ 15,040	\$	22,453
Per unit (\$/boe)	\$ 3.33	\$	4.91	\$ 2.78	\$	4.60
Percentage of sales ⁽¹⁾	8.4%		8.4%	8.3%		8.4%

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

In the three and six months ended June 30, 2016 royalties as a percentage of sales of 8.4% and 8.3% was comparable to the percentage in the three months ended March 31, 2016 and the prior year comparative periods.

In the second half of 2015 both the Tua and Tigana oil fields began being subject to the High Price Share royalty (HPR) as they have reached cumulative production greater than 5 million barrels. Royalties however are highly dependent on the global price of crude oil as oil prices and crude quality are components of both the base royalty and the HPR calculation. At a WTI price of \$50 the Company expects total royalties as a percentage of sales to be less than 10%.

Colombian Production Expense

	For the three months ended June 30,			For the six months ended June 30,		
	2016	2015		2016	2015	
Production expense (\$000s)	\$ 11,906	\$	18,304	\$ 25,545	\$	37,883
Per unit (\$/boe) ⁽¹⁾	\$ 4.51	\$	7.50	\$ 4.72	\$	7.76

⁽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 June 30,			For the six months ended June 30,		
	2016	2015		2016	2015	
Per unit (\$/boe) – based on sales volumes – operated ⁽¹⁾	\$ 5.28	\$	7.88	\$ 5.40	\$	8.38
Per unit (\$/boe) – based on sales volumes – non-operated ⁽¹⁾	\$ 3.92	\$	7.11	\$ 4.25	\$	7.08

⁽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 and six months ended June 30, 2016 was \$4.51/boe and \$4.72/boe compared to \$7.50/boe and \$7.76/boe in the comparative periods. Production expense for the first quarter of 2016 was \$4.93/boe. Operated properties production expense in the second quarter was \$5.28/boe compared to \$5.52/boe for the first quarter of 2016 and non-operated properties production expense in the second quarter was \$3.92/boe compared to \$4.54/boe for the first quarter of 2016. The quarter over quarter decrease in operated production expense relates to structural changes in managing costs and direct cost reductions with vendors. The depreciation of the Colombian peso has also had a minor role in the significant decrease in operated production expense. The quarter over quarter decrease in the non-operated properties production expense relates to Block LLA-34 as fixed operating cost absorption has increased as a result of increased production from this block.

As a result of the recent increase in oil prices from the Q1 2016 lows, Parex plans to bring some previously uneconomic fields back on to production beginning in August 2016. Parex expects production expense per boe to increase to approximately \$5.50/boe as a result of bringing these higher cost fields back on to production.

Colombian Transportation Expense

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Transportation expense (\$000s)	\$ 32,414	\$ 39,384	\$ 66,599	\$ 81,405
Per unit (\$/boe)	\$ 11.76	\$ 14.24	\$ 11.81	\$ 14.85

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. For the three months ended June 30, 2016, the cost of transportation on a per boe basis has decreased to \$11.76/boe from the first quarter of \$11.86/boe and decreased from the comparative period of \$14.24/boe. This is a result of decreased pipeline tariff fees, decreased trucking costs and the depreciation of the Colombian peso.

On a year to date basis transportation expense has decreased to \$11.81/boe from \$14.85/boe in the comparative period. The main reason for this decrease relates to increased available pipeline capacity as total Colombian oil production has decreased over the past year. The depreciation of the Colombian peso also had a strong impact on peso denominated truck transportation costs.

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

General and Administrative Expense ("G&A")

(\$000s)	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Gross G&A	\$ 9,441	\$ 11,158	\$ 19,120	\$ 22,786
G&A recoveries	(267)	(102)	(325)	(148)
Capitalized G&A	(906)	(1,776)	(1,701)	(3,633)
Total G&A	\$ 8,268	\$ 9,280	\$ 17,094	\$ 19,005
G&A reclassified to discontinued operations	-	-	-	149
Net G&A expense – continuing operations	\$ 8,268	\$ 9,280	\$ 17,094	\$ 18,856
Per unit (\$/boe) ⁽¹⁾	\$ 3.12	\$ 3.77	\$ 3.24	\$ 3.91

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

Net G&A from continuing operations was \$8.3 million and \$17.1 million for the three and six months ended June 30, 2016 compared to \$9.3 million and \$18.9 million for the same periods in 2015. Gross G&A was \$9.4 million and \$19.1 million for the three and six months ended June 30, 2016 (three and six months ended June 30, 2015 - \$11.2 million and \$22.8 million). On a per boe basis net G&A in the second quarter decreased 17% compared to the comparative period in 2015. Net G&A on a per boe basis is expected to continue to decrease as the Company increases its capital expenditures over the next six months resulting in increased G&A capitalization.

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

Share-Based Compensation Expense

(\$000s)	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Share-based compensation expense	\$ 1,467	\$ 1,297	\$ 2,666	\$ 2,700
Share appreciation rights expense	3,040	3,308	4,946	3,815
Restricted and deferred share unit expense	1,708	1,531	3,166	2,691
Share-based compensation expense	\$ 6,215	\$ 6,136	\$ 10,777	\$ 9,206
SARs (recovery) reclassified as discontinued operations	-	-	-	(22)
Total expense – continuing operations	\$ 6,215	\$ 6,136	\$ 10,777	\$ 9,228

Share-based compensation expense was \$10.8 million for the six months ended June 30, 2016 compared to \$9.2 million for the same period in 2015.

Share-based compensation expense relating to stock options was \$1.5 million for the three months ended June 30, 2016 compared to \$1.3 million for the same period in 2015.

Share appreciation rights (“SARs”) expense was \$3.0 million expense for the three months ended June 30, 2016 compared to \$3.3 million expense for the same period in 2015. The Company’s share price fluctuated from Cdn\$10.47 at June 30, 2015, Cdn\$10.16 at December 31, 2015 to Cdn \$12.51 at June 30, 2016. As at June 30, 2016, the total SARs liability accrued is \$9.0 million (December 31, 2015 - \$5.8 million).

Restricted share unit (“RSUs”) expense was \$1.7 million for the three months ended June 30, 2016 compared to \$1.5 million for the same period in 2015. The increase is mainly related to a higher number of RSUs outstanding in 2016 versus 2015.

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

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
DD&A expense (\$000s)	\$ 29,700	\$ 37,259	\$ 60,727	\$ 77,431
Per unit (\$/boe) ⁽¹⁾	\$ 11.20	\$ 15.15	\$ 11.50	\$ 15.91

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

Second quarter 2016 DD&A was \$29.7 million (\$11.20/boe) compared to \$37.3 million (\$15.15/boe) for the same period in 2015. This decrease is due to the significant increase in proved and probable reserves, a decrease in future development costs associated with the proved and probable reserves and a change in the CGU production mix from the prior comparative period.

Foreign Exchange Loss (Gain)

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Foreign exchange (gain) loss (\$000s)	\$ 17	\$ 4,383	\$ (460)	\$ 4,505
Foreign Exchange Rates				
CAD\$/US\$	0.78	0.81	0.75	0.81
Colombian peso/US\$	2,995	2,501	3,122	2,485

The Company’s main exposure to foreign currency risk relates to the pricing of foreign currency denominated in Canadian dollars and Colombian pesos, as the Company’s functional currency is the US dollar. The Company has exposure in Colombia and Canada on costs, such as capital expenditures, local wages, royalties and income taxes, all of which may be denominated in local currencies. The main drivers of foreign exchange (gains) losses are the revaluation of the Colombian peso denominated income tax, accounts payable and accounts receivable to USD at period end dates. During the three months ended June 30, 2016, the total foreign exchange loss was \$17,000 (three months ended June 30, 2015 – loss of \$4.4 million). Unrealized foreign exchange gains and losses may be reversed in the future as a result of fluctuations in exchange rates and are recorded in the Company’s consolidated statement of comprehensive income (loss). For the three months ended June 30, 2016, \$0.8 million foreign exchange loss is realized and \$0.8 million foreign exchange gain is unrealized (3 months ended June 30, 2015 - \$0.8 million foreign exchange loss is realized and \$3.6 million foreign exchange loss is unrealized).

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

Net Finance Expense (Income)

(\$000s)	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Bank charges and credit facility fees	\$ 894	\$ 791	\$ 1,322	\$ 1,946
Accretion on decommissioning and environmental liabilities	447	433	840	828
Unrealized loss (gain) on foreign currency risk management contracts	248	(2,924)	-	(1,925)
Realized loss on foreign currency risk management contracts	-	1,840	-	1,840
Interest and other income	(265)	(177)	(881)	(371)
Colombian net wealth tax	136	283	2,228	3,862
Net finance expense	\$ 1,460	\$ 246	\$ 3,509	\$ 6,180

(\$000s)	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Non-cash finance expense (income)	\$ 695	\$ (2,491)	\$ 840	\$ (1,097)
Cash finance expense	765	2,737	2,669	7,277
Net finance expense	\$ 1,460	\$ 246	\$ 3,509	\$ 6,180

Bank charges and credit facility fees relate to the undrawn credit facility. The Colombian Net Wealth Tax ("NWT") is assessed and becomes payable on the opening equity as at January 1st of each year beginning in 2015 extending until 2017, at rates from 1.15% in 2015 to 0.4% in 2017. The Company's NWT for 2016 is \$2.2 million. The 2016 NWT was accrued for in the first quarter of 2016 and is paid in two equal semi-annual installments in June and September.

Risk Management

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

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

a) Risk Management Contracts - Brent Crude

The following is a summary of the ICE Brent priced crude oil risk management contracts in place for the six months period ended June 30, 2016:

Period Hedged	Reference	Volume bbls/d	Sold Put	Purchased Put	Sold Call	Premium
January 1, 2016 to June 30, 2016	ICE Brent	5,000	\$47.75	\$52.50	\$70.00	\$1.00
February 1, 2016 to June 30, 2016	ICE Brent	15,000	\$25.00	\$35.00	\$45.00	\$2.08
July 1, 2016 to September 30, 2016	ICE Brent	5,000	\$30.50	\$38.00	\$47.00	\$1.00
July 1, 2016 to September 30, 2016	ICE Brent	5,000	\$34.25	\$40.25	\$49.50	\$1.00
October 1, 2016 to December 31, 2016	ICE Brent	5,000	-	\$35.00	\$60.00	-
October 1, 2016 to December 31, 2016	ICE Brent	5,000	-	\$40.00	-	\$1.65

Subsequent to June 30, 2016 Parex entered into the following ICE Brent priced crude oil risk management contract:

Period Hedged	Reference	Volume bbls/d	Sold Put	Purchased Put	Sold Call	Premium
September 1, 2016 to December 31, 2016	ICE Brent	5,000	\$36.50	\$41.50	-	\$1.00

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

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Realized loss on commodity risk management contracts	\$ 5,535	\$ -	\$ 4,686	\$ -
Unrealized loss on commodity risk management contracts	1,621	1,141	7,445	287
Total	\$ 7,156	\$ 1,141	\$ 12,131	\$ 287

The Company's net unrealized derivative loss on risk management contracts for the three and six months ended June 30, 2016 of \$1.6 million and \$7.4 million (three and six month period ended June 30, 2015 – loss of \$1.1 million and \$0.3 million) is attributable to the change in fair value of the derivative contracts from the prior period.

From June 30th to July 31st Brent crude prices have fallen approximately 15%. The mark-to market position on commodity risk management contracts is approximately a \$0.5 million liability at July 31, 2016 which is a \$7.5 million change from June 30, 2016.

b) Risk Management Contracts – Foreign Exchange

The following is a summary of the foreign currency risk management contracts settled during the six months ended June 30, 2016:

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

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

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Realized loss on foreign currency risk management contracts	\$ -	\$ 1,840	\$ -	\$ 1,840
Unrealized loss (gain) on foreign currency risk management contracts	248	(2,924)	-	(1,925)
Total	\$ 248	\$ (1,084)	\$ -	\$ (85)

Income Tax

The components of tax expense for the three and six months ended June 30, 2016 and 2015 were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Current tax expense (recovery)	\$ 2,353	\$ 9,073	\$ (294)	\$ 15,911
Deferred tax expense (recovery)	(3,821)	3,767	(21,134)	7,316
Tax expense (recovery)	\$ (1,468)	\$ 12,840	\$ (21,428)	\$ 23,227

The current and future tax (recovery) expense relates to the Company's operations in Colombia. Current tax in the second quarter of 2016 was \$2.4 million expense as compared to \$9.1 million expense in the comparative period. The decrease in the current tax expense from the prior period is a result of decreased Colombian cash flows as a result of the decrease in oil prices.

Deferred tax in the second quarter of 2016 was a recovery of \$3.8 million (\$3.8 million expense for the three months ended June 30, 2015). The main driver of the recovery was non-capital losses being generated in the quarter which are partially offsetting the deferred tax payable. The calculation of current and deferred income tax in Colombia is based on a number of variables which can cause swings in current and deferred income tax. These variables include but are not limited to the yearend producing reserves used in calculating depletion for tax purposes, the timing and number of dry hole write-offs permissible for Colombian tax purposes and currency fluctuations. At current benchmark crude oil prices and the Company's current capital expenditure budget, the Company expects total 2016 current tax expense to be approximately \$3-\$4 million.

Capital Expenditures

For the three months ended June 30, (\$000s)	Colombia		Canada		Total	
	2016	2015	2016	2015	2016	2015
Acquisition of unproved properties	51	1,497	-	-	51	1,497
Geological and geophysical	152	794	-	-	152	794
Drilling and completion	11,781	30,148	-	-	11,781	30,148
Well equipment and facilities	472	3,903	-	-	472	3,903
Other	1,466	788	-	104	1,466	892
Total capital expenditures	\$ 13,922	\$ 37,130	\$ -	\$ 104	\$ 13,922	\$ 37,234

For the six months ended June 30, (\$000s)	Colombia		Canada		Total	
	2016	2015	2016	2015	2016	2015
Acquisition of unproved properties	317	6,782	-	-	317	6,782
Geological and geophysical	270	709	-	-	270	709
Drilling and completion	12,630	46,023	-	-	12,630	46,023
Well equipment and facilities	3,573	9,679	-	-	3,573	9,679
Other	1,546	862	93	142	1,639	1,004
Total capital expenditures	\$ 18,336	\$ 64,055	\$ 93	\$ 142	\$ 18,429	\$ 64,197

Capital Expenditures Summary

During the six months June 30, 2016 the Company incurred \$18.4 million of capital expenditures compared to \$64.2 million in the same period of 2015. During Q2, 2016 the Company drilled 3 gross (2.55 net) wells, compared to 3 gross (3.0 net) wells in the comparative period. Parex reduced its capital expenditures with the expectation of lower benchmark oil prices. Capital expenditures are budgeted for 2016 to be \$110-120 million accordingly capital activity in the second half of the year is forecast to be greater than the prior six months.

During Q2, 2016, total drilling and completion costs were \$11.8 million of which the majority related to drilling, completion and capitalized workover costs in Colombia. In the second quarter of 2016 the Company's Colombian operations primarily utilized one drilling rig and one service rig.

During the six months ended June 30, 2016 capital expenditures of \$18.4 million were self funded from funds flow from operations of \$47.2 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)	June 30, 2016	March 31, 2016	Dec. 31, 2015	Sep. 30, 2015
Average daily oil and natural gas production (boe/d)	29,136	28,900	28,588	27,377
Average realized sales price – oil and natural gas (\$/boe)	39.74	27.10	36.69	44.62
Financial (000s except per share amounts)				
Oil sales	\$ 104,571	\$ 81,518	\$ 107,816	\$ 123,249
Funds flow from continuing operations	\$ 31,792	\$ 15,457	\$ 33,628	\$ 13,448
Per share – basic	0.21	0.10	0.22	0.09
Per share – adjusted diluted ⁽¹⁾	0.20	0.10	0.22	0.09
Net (loss)	\$ (185)	\$ (7,630)	\$ (3,474)	\$ (27,417)
Per share – basic	(0.00)	(0.05)	(0.02)	(0.18)
Per share – diluted	(0.00)	(0.05)	(0.02)	(0.18)
Capital Expenditures, excluding corporate acquisitions	\$ 13,922	\$ 4,507	\$ 23,611	\$ 37,674
Total assets (end of period)	\$ 921,665	\$ 943,675	\$ 957,966	\$ 1,003,271
Working capital surplus (end of period) ⁽²⁾	\$ 97,532	\$ 79,955	\$ 76,708	\$ 62,689

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

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

Three months ended (\$000s)	June 30, 2015	March 31, 2015	Dec. 31, 2014	Sep. 30, 2014
Average daily oil and natural gas production (boe/d)	27,025	26,729	26,544	25,175
Average realized sales price - oil (\$/boe)	56.31	49.42	60.08	94.40
Financial (000s except per share amounts)				
Oil and gas sales	\$ 155,717	\$ 134,307	\$ 160,584	\$ 228,648
Funds flow from continuing operations	\$ 50,237	\$ 32,958	\$ 49,759	\$ 89,006
Per share – basic	0.35	0.24	0.37	0.70
Per share – adjusted diluted ⁽¹⁾	0.34	0.24	0.37	0.69
Net (loss) income	\$ 1,814	\$ (15,544)	\$ (146,612)	\$ 16,768
Per share – basic	0.01	(0.12)	(1.09)	0.13
Per share – diluted	0.01	(0.12)	(1.09)	0.13
Capital Expenditures, excluding corporate acquisitions	\$ 37,234	\$ 26,963	\$ 83,571	\$ 56,799
Total assets (end of period)	\$ 1,051,150	\$ 1,010,116	\$ 1,034,415	\$ 1,266,610
Working capital surplus (end of period) ⁽²⁾	\$ 89,754	\$ 9,878	\$ 3,261	\$ 45,321
Bank debt (end of period)	\$ -	\$ 39,500	\$ 35,000	\$ 42,305

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

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

Factors that Caused Variations Quarter Over Quarter

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

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

Liquidity and Capital Resources

As at June 30, 2016 the Company had a working capital surplus of \$97.5 million, excluding amounts available under the credit facility, as compared to working capital surplus at March 31, 2016 of \$80.0 million and a working capital surplus of \$89.8 million in the comparative period. Bank debt was \$nil compared to \$nil at March 31, 2016 and \$nil in the comparative period. The credit facility has a current borrowing base of \$175.0 million. At June 30, 2016 Parex held \$94.4 million of cash, compared to \$91.5 million at March 31, 2016 and \$103.9 million in the comparative period. The Company's cash balances reside in current accounts, the majority of which are held on account in Canada and Barbados in USD. The increase in the Company's cash as compared to the previous quarter is a result of the Company generating cash flow in excess of capital expenditures in the three months ended June 30, 2016.

Parex' senior secured credit facility ("credit facility") with a syndicate of banks has a current borrowing base of \$175 million. Key covenants include a rolling four quarters total funded debt to adjusted EBITDA test of 3:50:1, and other standard business operating covenants. Given there is \$nil balance drawn on the facility as at June 30, 2016, the Company is in compliance with all covenants. The Company had the credit facilities borrowing base redetermined at \$175.0 million in May 2016 during the semi-annual review. See "Contractual Obligations, Commitments and Guarantees". The next annual review is scheduled to occur at the end of October 2016. There can be no assurance that the credit facilities will be renewed at the current borrowing base level at that time. As the Company currently has zero bank debt and no plans in 2016 to utilize the credit facility, the next re-determination is not expected to impact the Company's current or future operations or reduce the 2016 outlook.

Outstanding Share Data

Parex is authorized to issue an unlimited number of voting common shares without nominal or par value. As at June 30, 2016 the Company had 152,267,718 common shares outstanding.

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

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

	Number	%
Common shares	152,290,818	94%
Stock options	7,064,043	5%
Restricted share units	2,100,515	1%
Deferred share units	78,600	-
	161,533,976	100%

As of the date of this MD&A, total stock options, RSU's and DSU's outstanding represent approximately 6 percent of the total issued and outstanding common shares.

Contractual Obligations, Commitments and Guarantees

In the normal course of business, Parex has entered into arrangements and incurred obligations that will affect the Company's future operations and liquidity. These commitments primarily relate to exploration work commitments including seismic and drilling activities. The Company has discretion regarding the timing of capital spending for exploration work commitments, provided that the work is completed by the end of the exploration periods specified in the contracts or the Company can negotiate extensions of the exploration periods. Given the low oil price environment the Colombian energy regulator ("ANH") has instituted means by which Companies can apply for extensions of phase commitments for a nine month extended period. The Company has been very proactive in applying for extensions on many blocks which will assist with the Company matching cash flows from operations with capital expenditures. The Company's exploration commitments are described in the Company's AIF dated March 17, 2016 under "Description of Business - Principal Properties". These obligations and commitments are considered in assessing cash requirements in the discussion of future liquidity.

In Colombia, the Company has provided guarantees to the ANH and Empresa Colombiana de Petroleos S.A. ("Ecopetrol") which on June 30, 2016 were \$143.2 million (March 31, 2016 - \$141.5 million) to support the exploration work commitments on its blocks. The guarantees have been provided in the form of letters of credit for varying terms. Export Development Canada ("EDC") has provided performance security guarantees under the Company's \$200.0 million (March 31, 2016 - \$200.0 million) performance guarantee facility to support approximately \$119.1 million (March 31, 2016 - \$117.5 million) of the letters of credit issued on behalf of Parex. 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 commitments as at June 30, 2016:

(\$000s)	Total	<1 year	1 – 3 years	3 – 4 years	>5 years
Exploration	\$ 252,495	169,444	83,051	-	-
Office and accommodations ⁽¹⁾	4,888	1,874	2,331	497	186
Decommissioning and environmental expenditures	55,438	3,609	7,218	7,218	37,393
Total	\$ 312,821	174,927	92,600	7,715	37,579

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

Decommissioning Liabilities

	Decommissioning		Environmental		Total
Balance, December 31, 2014	\$	23,812	\$	10,277	\$ 34,089
Additions		2,724		725	3,449
Settlements of obligations during the year		(193)		(246)	(439)
Accretion expense		1,162		426	1,588
Additions related to change in estimate		(694)		(140)	(834)
Foreign exchange (gain)		-		(2,454)	(2,454)
Balance, December 31, 2015	\$	26,811	\$	8,588	\$ 35,399
Additions		103		703	806
Settlements of obligations during the period		-		(74)	(74)
Accretion expense		719		121	840
Additions related to change in estimate		-		2,002	2,002
Foreign exchange loss		-		470	470
Balance, June 30, 2016	\$	27,633	\$	11,810	\$ 39,443
Current obligation		-		(2,640)	(2,640)
Long-term obligation	\$	27,633	\$	9,170	\$ 36,803

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

The total decommissioning and environmental liability is estimated based on the Company's net ownership in wells drilled as at June 30, 2016, the estimated costs to abandon and reclaim the wells and well sites and the estimated timing of the costs to be paid in future periods. The total undiscounted amount of cash flows required to settle the Company's decommissioning liability is approximately \$37.4 million as at June 30, 2016 (December 31, 2015 – \$36.7 million) with the majority of these costs anticipated to occur in 2020 or later. A weighted average risk-free discount rate of 5.25 percent and an inflation rate of 2.5 percent were used in the valuation of the liabilities (December 31, 2015 – 5.25 percent weighted average risk-free discount rate and a 2.5 percent inflation rate). The discount rates used are a blend of US and Colombia risk-free rates.

The total undiscounted amount of cash flows required to settle the Company's environmental liability is approximately \$18.0 million as at June 30, 2016 (December 31, 2015 – \$15.1 million) with the majority of these costs anticipated to occur in 2017 or later in Colombia. A risk-free discount rate of 8 percent and an inflation rate of 4 percent were used in the valuation of the liabilities (December 31, 2015 – 8 percent risk-free discount rate and a 4 percent inflation rate). The discount rate used is based on a Colombia risk-free rate.

Included in the environmental liability is \$2.6 million (December 31, 2015 – \$2.1 million) that is classified as a current obligation.

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

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

Advisory on Forward-Looking Statements

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

- the Company's operational strategy and focus, including targeted jurisdictions and technologies used to execute its strategy;
- the Company's approach to manage subsurface and commercial risks;
- the Company's exploration blocks subject to farm-in and earning requirements and the effect on the Company's land holdings as lands deemed non-commercial are released;
- activities to be undertaken in various areas including the fulfillment of exploration commitments and farm-in obligations;
- terms of exploration and production contracts and the timing of release of exploration property deemed non-commercial in respect of the exploration contracts;
- the Company's range of its capital program budget for 2016 and the Company's plans to fund its 2016 capital program from funds flow from operations;
- the Company's forecasted 2016 oil production, capital activity, capital budget and funds flow from operations;
- drilling plans including the targeted number of wells to be drilled, including the anticipated locations of such wells, plans to acquire seismic on the VIM-1 block and timing of drilling, completion and tie-in of wells;
- expected royalty rates and effect of oil prices and crude quality on the Company's overall base royalty as a percentage of sales and the calculation of the HPR;
- the Company's plans to bring some previously uneconomic fields back on to production and the anticipated timing thereof and Parex' expectation that production expense per boe will increase as a result thereof;
- expected transportation costs on a per boe basis for the remainder of 2016 and effect of the marketing mix, delivery points and the Colombian peso/US\$ exchange rate on the variability of such transportation costs;
- the expected effect of increased capital expenditures on 2016 G&A;
- the Company's expectation that at a WTI price of \$50 the Company expects total royalties as a percentage of sales to be less than 10%;
- terms and cost of share-based compensation plans, including option plan, restricted share unit plan, deferred share unit plan and share appreciation rights;
- foreign currency risk and the ability to reverse unrealized foreign exchange gains and losses in the future;

- the Company's risk management strategy and the use of derivatives primarily with financial institutions to manage movements in the price of crude oil, fluctuations in the US/COP exchange rate and interest rate movements;
- terms of the Company's risk management contracts, including the mark-to market position on commodity risk management contracts, and the Company's ability to manage and forecast cash flow;
- the Company's estimated amount of current tax expense for 2016;
- terms of the Company's credit facility including the timing of the next borrowing base redetermination;
- terms of the Company's exploration and other contractual commitments and their timing of settlement;
- estimated amounts, timing and the anticipated sources of funding for the Company's environmental, decommissioning and restoration obligations; and
- effect of business and environmental risks on the Company.

These forward-looking statements are subject to numerous risks and uncertainties, including but not limited to: the impact of general economic conditions in Canada and Colombia; industry conditions including changes in laws and regulations including adoption of new environmental laws and regulations, and changes in how they are interpreted and enforced in Canada and Colombia; continued volatility in market prices for oil; the impact of significant declines in market prices for oil; competition; lack of availability of qualified personnel; the results of exploration and development drilling and related activities; partner approval of capital work programs and other matters requiring approval; imprecision in reserve and resource estimates; the production and growth potential of Parex' assets; obtaining required approvals of regulatory authorities in Canada and Colombia; risks associated with negotiating with foreign governments as well as country risk associated with conducting international activities; fluctuations in foreign exchange or interest rates; environmental risks; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and natural gas industry; ability to access sufficient capital from internal and external sources; risk that the Company will not be able to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its undeveloped properties; risk of failure to achieve the anticipated benefits associated with acquisitions; risks related to the lawsuit brought in Texas against Parex and certain foreign subsidiaries; failure of counterparties to perform under the terms of their contracts; the risks discussed under "Risk Factors" in the Company's AIF dated March 17, 2016 and under "Decommissioning and Environmental Liabilities" and "Business Environment and Risks" in this MD&A, and other factors, many of which are beyond the control of the Company. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

Although the forward-looking statements contained in this MD&A are based upon assumptions which management believes to be reasonable, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. With respect to forward-looking statements contained in this MD&A, Parex has made assumptions regarding, among other things: current and future commodity prices and royalty regimes; availability of skilled labour; timing and amount of capital expenditures; uninterrupted access to areas of the Company's operations and infrastructure; future exchange rates; the price of oil; the impact of increasing competition; conditions in general economic and financial markets; availability of drilling and related equipment; effects of regulation by governmental agencies; recoverability of reserves and future production rates; royalty rates; future operating costs; foreign exchange rates; the status of litigation; timing of drilling and completion of wells; that the Company will have sufficient cash flow, debt or equity sources or other financial resources required to fund its capital and operating expenditures and requirements as needed; that the Company's conduct and results of operations will be consistent with its expectations; that the Company will have the ability to develop the Company's oil and gas properties in the manner currently contemplated; current or, where applicable, proposed industry conditions, laws and regulations will continue in effect or as anticipated as described herein; that the estimates of the Company's reserves volumes and the assumptions related thereto (including commodity prices and development costs) are accurate in all material respects; that the Company will be able to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its undeveloped properties; and other matters. The ability of the Company to carry out its business plan is primarily dependent upon the continued support of its shareholders, the discovery of economically recoverable reserves and the ability of the Company to obtain financing to develop such reserves.

Forward-looking statements and other information contained in this MD&A concerning the oil and natural gas industry in the countries in which it operates and the Company's general expectations concerning this industry are based on estimates prepared by Management using data from publicly available industry sources as well as from resource reports, market research and industry analysis and on assumptions based on data and knowledge of this industry which the Company believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and

performance characteristics. While the Company is not aware of any material misstatements regarding any industry data presented herein, the oil and natural gas industry involves numerous risks and uncertainties and is subject to change based on various factors.

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

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

Non-GAAP Terms

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

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

(000s)	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Funds flow provided by continuing operations	\$ 31,792	\$ 50,237	\$ 47,249	\$ 83,195
Weighted average number of shares for the purposes of basic funds flow (000s)	152,006	144,145	151,765	139,468
Dilutive effect of share options on potential common shares	3,142	2,703	2,717	2,162
Weighted average number of shares for the purposes of diluted funds flow	155,148	146,848	154,482	141,630

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

Adjusted EBITDA is defined as net income (loss) before interest, taxes, depletion and depreciation and adjusted for other non-cash items, transaction costs and extraordinary and non-recurring items.

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

(000s)	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Funds flow from continuing operations	\$ 31,792	\$ 50,237	\$ 47,249	\$ 83,195
Capital expenditures, excluding corporate acquisitions	13,922	37,234	18,429	64,197
Free cash flow	\$ 17,870	\$ 13,003	\$ 28,820	\$ 18,998

Business Environment and Risks

There have been no significant changes during the six months ended June 30, 2016 to the risks and uncertainties identified in the Company's Annual Information Form dated March 17, 2016.

Internal Controls over Financial Reporting

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

Off-Balance-Sheet Arrangements

The Company did not enter into any off-balance-sheet arrangements during the three months ended June 30, 2016.

Financial Instruments and Other Instruments

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

Accounting Policies and Estimates

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

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Consolidated Balance Sheets (unaudited)

As at (thousands of United States dollars)	NOTE	June 30, 2016	December 31, 2015
ASSETS			
Current assets			
Cash		\$ 94,439	\$ 94,823
Accounts receivable	5	77,394	79,855
Prepays and other current assets		3,711	8,396
Crude oil inventory	6	290	3,207
Derivative financial instruments	17	-	2,566
		175,834	188,847
Deferred tax asset	13	14,807	-
Goodwill		73,452	73,452
Exploration and evaluation	7	123,752	121,354
Property, plant and equipment	8	533,820	574,313
		\$ 921,665	\$ 957,966
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 63,268	\$ 67,080
Derivative financial instruments	17	8,033	-
Current income and equity tax payable	13	4,361	42,957
Current portion of decommissioning and environmental liabilities	11	2,640	2,102
		78,302	112,139
Other long-term liabilities	10	1,554	1,969
Decommissioning and environmental liabilities	11	36,803	33,297
Deferred tax liability	13	62,308	68,635
		178,967	216,040
Shareholders' equity			
Share capital	12	817,449	812,737
Contributed surplus		37,263	33,388
Retained earnings		(112,014)	(104,199)
		742,698	741,926
		\$ 921,665	\$ 957,966

Commitments (note 19)

See accompanying Notes to the Consolidated Interim Financial Statements

Approved by the Board:



Paul Wright

Director



Ron Miller

Director

Consolidated Statements of Comprehensive Income (Loss) (unaudited)

(thousands of United States dollars, except per share amounts)	NOTE	For the three months ended June 30,		For the six months ended June 30,	
		2016	2015	2016	2015
Oil sales		\$ 104,571	\$ 155,717	\$ 186,089	\$ 290,024
Royalties		(8,808)	(11,977)	(15,040)	(22,453)
Revenue		95,763	143,740	171,049	267,571
Commodity risk management contracts	17	(7,156)	(1,141)	(12,131)	(287)
		88,607	142,599	158,918	267,284
Expenses					
Production		11,906	18,304	25,545	37,883
Transportation		32,414	39,384	66,599	81,405
Purchased oil		280	12,978	4,370	21,543
General and administrative		8,268	9,280	17,094	18,856
Share-based compensation	12	6,215	6,136	10,777	9,228
Depletion, depreciation and amortization	8	29,700	37,259	60,727	77,431
(Gain) on settlement of decommissioning liabilities		-	(25)	-	(25)
Foreign exchange (gain) loss		17	4,383	(460)	4,505
		88,800	127,699	184,652	250,826
Finance (income)	9	(265)	(177)	(881)	(371)
Finance expense	9	1,725	423	4,390	6,551
Net finance expense		1,460	246	3,509	6,180
Income (loss) from continuing operations before income taxes		(1,653)	14,654	(29,243)	10,278
Income tax (recovery) expense					
Current tax (recovery) expense	13	2,353	9,073	(294)	15,911
Deferred tax (recovery) expense	13	(3,821)	3,767	(21,134)	7,316
		(1,468)	12,840	(21,428)	23,227
Net income (loss) and comprehensive income (loss) from continuing operations after income taxes		\$ (185)	\$ 1,814	\$ (7,815)	\$ (12,949)
(Loss) from discontinued operations after income taxes		-	-	-	(781)
Net income (loss) and comprehensive income (loss) for the period		\$ (185)	\$ 1,814	\$ (7,815)	\$ (13,730)
Basic net income (loss) per common share – continuing operations	14	\$ (0.00)	\$ 0.01	\$ (0.05)	\$ (0.09)
Diluted net income (loss) per common share – continuing operations	14	\$ (0.00)	\$ 0.01	\$ (0.05)	\$ (0.09)
Basic and diluted net (loss) per common share – discontinued operations	14	\$ 0.00	\$ 0.00	\$ 0.00	\$ (0.01)

See accompanying Notes to the Consolidated Interim Financial Statements

Consolidated Statements of Changes in Equity (unaudited)

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

		2016		2015
Share capital				
Balance, beginning of period	\$	812,737	\$	694,110
Issuance of common shares under option plans		4,712		2,744
Issued through bought deal financing		-		113,620
Share issue costs		-		(4,997)
Balance, end of period	\$	817,449	\$	805,477
Contributed surplus				
Balance, beginning of period	\$	33,388	\$	26,106
Share-based compensation		5,831		5,391
Options exercised		(1,956)		(1,028)
Balance, end of period	\$	37,263	\$	30,469
Retained earnings (deficit)				
Balance, beginning of period	\$	(104,199)	\$	(59,578)
Net (loss) for the period		(7,815)		(13,730)
Balance, end of period	\$	(112,014)	\$	(73,308)
	\$	742,698	\$	762,638

See accompanying Notes to the Consolidated Interim Financial Statements

Consolidated Statements of Cash Flows (unaudited)

(thousands of United States dollars)	NOTE	For the three months ended June 30,		For the six months ended June 30,	
		2016	2015	2016	2015
Operating activities					
Net income (loss) from continuing operations		\$ (185)	\$ 1,814	\$ (7,815)	\$ (12,949)
Add (deduct) non-cash items					
Depletion, depreciation and amortization	8	29,700	37,259	60,727	77,431
Non-cash finance expense (income)	9	695	(2,491)	840	(1,097)
Share-based compensation	12	6,215	6,136	10,777	9,228
Deferred tax (recovery) expense	13	(3,821)	3,767	(21,134)	7,316
Unrealized foreign exchange (gain) loss		(796)	3,572	(1,795)	3,990
Unrealized loss on commodity risk management contracts	17	1,621	1,141	7,445	287
Gain on settlement of decommissioning liabilities		-	(25)	-	(25)
Abandonment costs paid		(74)	(176)	(74)	(176)
Stock appreciation rights paid		(1,563)	(760)	(1,722)	(810)
Funds flow from continuing operations		31,792	50,237	47,249	83,195
Net change in non-cash working capital – continuing operations	15	(18,656)	11,384	(31,700)	(24,995)
Cash provided by operating activities – continuing operations		13,136	61,621	15,549	58,200
Cash used in operating activities – discontinued operations		-	-	-	(238)
Cash provided by operating activities		13,136	61,621	15,549	57,962
Investing activities					
Property, plant and equipment expenditures	8	(13,847)	(18,773)	(16,031)	(34,097)
Exploration and evaluation expenditures	7	(75)	(18,461)	(2,398)	(30,100)
Net change in non-cash working capital	15	1,437	(22,974)	(1,028)	(4,294)
Cash used in investing activities – continuing operations		(12,485)	(60,208)	(19,457)	(68,491)
Cash provided by investing activities – discontinued operations		-	-	-	1,672
Cash used in investing activities		(12,485)	(60,208)	(19,457)	(66,819)
Financing activities					
Issuance of common shares under option plans	12	2,002	1,400	2,756	1,716
Issuance of common shares through bought deal financing	12	-	113,620	-	113,620
Share issue costs		-	(4,997)	-	(4,997)
Long-term debt (repaid)		-	(39,500)	-	(35,000)
Cash provided by financing activities		2,002	70,523	2,756	75,339
Increase (decrease) in cash for the period		2,653	71,936	(1,152)	66,482
Impact of foreign exchange on foreign currency-denominated cash balances		289	(625)	768	(1,588)
Cash, beginning of period		91,497	32,583	94,823	39,000
Cash, end of period		\$ 94,439	\$ 103,894	\$ 94,439	\$ 103,894

Supplemental Disclosure of Cash Flow Information (15)

See accompanying Notes to the Consolidated Interim Financial Statements

Notes to the Condensed Interim Consolidated Financial Statements

For the period ended June 30, 2016

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

1. Corporate Information

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

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

The condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on August 10, 2016.

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

a) *Statement of compliance*

The condensed interim consolidated financial information for the three and six months ended June 30, 2016 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, 2015, which have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”).

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of August 10, 2016, the date of approval by the Board of Directors.

b) *Basis of measurement*

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

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

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

In preparing these condensed interim consolidated financial statements, the significant judgements made by management in applying the group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2015.

3. Summary of Significant Accounting Policies

There is no impact on the condensed interim consolidated financial statements for the adoption of new accounting standards effective January 1, 2016. The accounting policies adopted are consistent with those of the previous financial year as described in note 3 of the Company’s consolidated financial statements for the year ended December 31, 2015.

4. Determination of Fair Values

The methods used in the determination of fair value, for financial and non-financial assets and liabilities have not changed from the previous financial year. Refer to note 4 of the December 31, 2015 consolidated financial statements for details concerning determination of fair values.

5. Accounts Receivable

	June 30, 2016	December 31, 2015
Trade receivables	\$ 34,569	\$ 26,395
Colombia income taxes receivable	37,045	46,992
Receivables from partners	69	2,465
Value added taxes (VAT)	5,711	4,003
	\$ 77,394	\$ 79,855

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

6. Inventory

	June 30, 2016	December 31, 2015
Crude oil inventory	\$ 290	\$ 3,207

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

7. Exploration and Evaluation Assets

	Colombia Total
Cost	
Balance at December 31, 2014	\$ 132,048
Additions	60,335
Transfers to PP&E	(44,121)
Changes in decommissioning liability	117
Exploration and evaluation impairment	(27,025)
Balance at December 31, 2015	\$ 121,354
Additions	2,398
Balance at June 30, 2016	\$ 123,752

Exploration and Evaluation ("E&E") assets consist of the Company's exploration projects which are pending either the determination of proved or probable reserves or impairment. Additions represent the Company's share of costs incurred on E&E assets during the period. For the six months ended June 30, 2016 no transfers from E&E to PP&E were made.

During the year ended December 31, 2015 amounts transferred to PP&E of \$44.1 million were primarily associated with the Block LLA-26 assets. Also in 2015, the Company recorded \$27.0 million of impairment charges on its E&E assets mainly related to Block LLA-57.

8. Property, Plant and Equipment

	Canada		Colombia		Trinidad & Tobago		Total
Cost							
Balance at December 31, 2014	\$	3,393	\$	1,426,111	\$	238	\$ 1,429,742
Additions		214		64,933		-	65,147
Transfer from E&E assets		-		44,121		-	44,121
Dispositions		-		-		(238)	(238)
Changes in decommissioning and environmental liability		-		2,498		-	2,498
Balance at December 31, 2015	\$	3,607	\$	1,537,663	\$	-	\$ 1,541,270
Additions		93		15,938		-	16,031
Changes in decommissioning and environmental liability		-		2,808		-	2,808
Balance at June 30, 2016	\$	3,700	\$	1,556,409	\$	-	\$ 1,560,109
Accumulated Depreciation, Depletion and Amortization							
Balance at December 31, 2014	\$	2,815	\$	784,487	\$	238	\$ 787,540
Depletion and depreciation for the year		247		152,152		-	152,399
DD&A included in crude oil inventory costing		-		(3,888)		-	(3,888)
Dispositions		-		-		(238)	(238)
Impairment		-		31,144		-	31,144
Balance at December 31, 2015	\$	3,062	\$	963,895	\$	-	\$ 966,957
Depletion and depreciation for the period		152		60,575		-	60,727
DD&A included in crude oil inventory costing		-		(1,395)		-	(1,395)
Balance at June 30, 2016	\$	3,214	\$	1,023,075	\$	-	\$ 1,026,289
Net book value:							
At December 31, 2014	\$	578	\$	641,624	\$	-	\$ 642,202
At December 31, 2015	\$	545	\$	573,768	\$	-	\$ 574,313
At June 30, 2016	\$	486	\$	533,334	\$	-	\$ 533,820

In the six months ended June 30, 2016 property, plant and equipment (“PPE”) additions mainly relate to appraisal drilling on Block LLA-34 and exploration drilling on Block LLA-32 and Cabrestero. There were no transfers from E&E for the six months ended June 30, 2016 (six months ended June 30, 2015 - \$nil).

For the six months ended June 30, 2016 future development costs of \$252.1 million (six months ended June 30, 2015 - \$360.8 million) were included in the depletion calculation for development and production assets. For the six months ended June 30, 2016 \$1.7 million of general and administrative costs (six months ended June 30, 2015 - \$3.6 million) have been capitalized in respect of development and production activities during the current period.

During 2015, additions of \$65.2 million mainly related to development expenditures in Colombia at Block LLA-32, Block LLA-34 and Rumba. In the year ended December 31, 2015 \$44.1 million was transferred from E&E assets. Also in 2015, the Company recorded \$31.1 million of impairment charges related to a Llanos Basin CGU.

9. Net Finance Expense (Income)

	For the three months ended June 30,			For the six months ended June 30,		
	2016	2015		2016	2015	
Bank charges and credit facility fees	\$ 894	\$ 791	\$	\$ 1,322	\$ 1,946	
Accretion on decommissioning and environmental liabilities	447	433		840	828	
Unrealized loss (gain) on foreign currency risk management contracts	248	(2,924)		-	(1,925)	
Realized loss on foreign currency risk management contracts	-	1,840		-	1,840	
Interest and other income	(265)	(177)		(881)	(371)	
Colombian net wealth tax	136	283		2,228	3,862	
Net finance expense	\$ 1,460	\$ 246	\$	\$ 3,509	\$ 6,180	

	For the three months ended June 30,			For the six months ended June 30,		
	2016	2015		2016	2015	
Non-cash finance expense (income)	\$ 695	\$ (2,491)	\$	\$ 840	\$ (1,097)	
Cash finance expense	765	2,737		2,669	7,277	
Net finance expense	\$ 1,460	\$ 246	\$	\$ 3,509	\$ 6,180	

10. Other Long-Term Liabilities

Other long-term liabilities are comprised of the following:

	June 30, 2016	December 31, 2015
Long-term SARs payable	\$ 1,554	\$ 1,969

11. Decommissioning and Environmental Liabilities

	Decommissioning		Environmental		Total
Balance, December 31, 2014	\$ 23,812	\$	10,277	\$	34,089
Additions	2,724		725		3,449
Settlements of obligations during the year	(193)		(246)		(439)
Accretion expense	1,162		426		1,588
Additions related to change in estimate	(694)		(140)		(834)
Foreign exchange (gain)	-		(2,454)		(2,454)
Balance, December 31, 2015	\$ 26,811	\$	8,588	\$	35,399
Additions	103		703		806
Settlements of obligations during the period	-		(74)		(74)
Accretion expense	719		121		840
Additions related to change in estimate	-		2,002		2,002
Foreign exchange loss	-		470		470
Balance, June 30, 2016	\$ 27,633	\$	11,810	\$	39,443
Current obligation	-		(2,640)		(2,640)
Long-term obligation	\$ 27,633	\$	9,170	\$	36,803

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

The total decommissioning and environmental liability is estimated based on the Company's net ownership in wells drilled as at June 30, 2016, the estimated costs to abandon and reclaim the wells and well sites and the estimated timing of the costs to be paid in future periods. The total undiscounted amount of cash flows required to settle the Company's decommissioning liability is approximately \$37.4 million as at June 30, 2016 (December 31, 2015 – \$36.7 million) with the majority of these costs anticipated to occur in 2020 or later. A weighted average risk-free discount rate of 5.25 percent and an inflation rate of 2.5 percent were used in the valuation of the liabilities (December 31, 2015 – 5.25 percent weighted average risk-free discount rate and a 2.5 percent inflation rate). The discount rates used are a blend of US and Colombia risk-free rates.

The total undiscounted amount of cash flows required to settle the Company's environmental liability is approximately \$18.0 million as at June 30, 2016 (December 31, 2015 – \$15.1 million) with the majority of these costs anticipated to occur in 2017 or later in Colombia. A risk-free discount rate of 8 percent

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

Included in the environmental liability is \$2.6 million (December 31, 2015 – \$2.1 million) that is classified as a current obligation.

12. Share Capital

a) Issued and outstanding common shares

	Number of shares		Amount
Balance, December 31, 2014	134,689,938	\$	694,110
Issued for cash – exercise of options and RSUs	1,849,364		6,263
Issued through bought deal financing	14,950,000		113,620
Share issue costs	-		(4,997)
Allocation of contributed surplus – exercise of options and RSUs	-		3,741
Balance, December 31, 2015	151,489,302	\$	812,737
Issued for cash – exercise of options and RSUs	778,416		2,756
Allocation of contributed surplus – exercise of options and RSUs	-		1,956
Balance, June 30, 2016	152,267,718	\$	817,449

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

b) Stock options

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

	Number of options	Weighted average exercise price Cdn\$/option
Balance, December 31, 2015	7,854,511	8.11
Granted	25,000	11.54
Exercised	(621,534)	5.73
Forfeited	(193,334)	8.22
Balance, June 30, 2016	7,064,643	8.33

Stock options outstanding and the weighted average remaining life of the stock options at June 30, 2016 are as follows:

Exercise price Cdn\$	Options outstanding			Options vested		
	Number of options	Weighted average remaining life (years)	Weighted average exercise price Cdn\$/option	Number of options	Weighted average remaining life (years)	Weighted average exercise price Cdn\$/option
\$4.36 - \$6.06	421,586	1.42	4.65	384,084	1.35	4.52
\$6.07 - \$6.22	2,911,345	2.29	6.07	1,746,087	2.29	6.07
\$6.23 - \$10.59	1,717,503	3.34	9.94	560,406	3.33	9.91
\$10.60 - \$11.24	1,916,500	4.36	10.94	-	-	-
\$11.25 - \$13.93	97,709	3.53	11.83	23,125	2.92	12.04
	7,064,643	3.07	8.33	2,713,702	2.38	6.69

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

For the six months ended June 30,	2016	2015
Risk-free interest rate (%)	0.64	0.89
Expected life (years)	4	4
Expected volatility (%)	47	47
Expected dividends (Cdn \$)	-	-
Forfeiture rate (%)	3	3

The weighted average fair value at the grant date of options issued during the six months ended June 30, 2016 was Cdn\$4.30 per option (six months ended June 30, 2015 - Cdn\$2.44 per option). The weighted average share price on the exercise date for options exercised in the six months ended June 30, 2016 was Cdn\$12.45 (six months ended June 30, 2015 – Cdn\$9.43 per option).

c) Share appreciation rights (“SARs”)

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

	Number of SARs	Weighted average exercise price Cdn\$/SAR
Balance, December 31, 2015	3,475,001	9.01
Granted	126,493	12.02
Exercised	(365,108)	6.79
Forfeited	(212,635)	10.42
Balance, June 30, 2016	3,023,751	9.29

As at June 30, 2016, 642,815 SARs were vested (December 31, 2015 – 893,702).

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

For the six months ended June 30,	2016	2015
Risk-free interest rate (%)	0.54	0.58
Expected life (years)	4	3
Expected volatility (%)	47	46
Share price (Cdn \$)	\$ 12.51	\$ 10.47
Expected dividends (Cdn \$)	-	-

As at June 30, 2016, the total SARs liability accrued was \$9.0 million (December 31, 2015 - \$5.8 million) of which \$1.6 million (December 31, 2015 - \$2.0 million) is classified as long-term in accordance with the three year vesting period. For the six months ended June 30, 2016, Parex recorded \$4.9 million of compensation cost related to the outstanding SARs (six months ended June 30, 2015 – \$3.8 million) and paid \$1.7 million (six months ended June 30, 2015 - \$0.9 million) under the plan.

d) Restricted share units (“RSUs”)

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

	Number of RSU’s	Weighted average exercise price Cdn\$/RSU
Balance, December 31, 2015	2,306,965	0.01
Granted	8,100	0.01
Exercised	(156,882)	0.01
Forfeited	(35,168)	0.01
Balance, June 30, 2016	2,123,015	0.01

RSUs outstanding and the weighted average remaining life of the RSUs at June 30, 2016 are as follows:

Exercise price Cdn\$	RSUs outstanding		RSUs vested	
	Number of options	Weighted average remaining life (years)	Number of options	Weighted average remaining life (years)
0.01	2,123,015	3.53	525,252	2.56

The fair value of each RSU granted is based on the market price of Parex shares on the date of issuance. The weighted average fair value at the grant date for the six months ended June 30, 2016 was Cdn\$11.53 per RSU (six months ended June 30, 2015 – Cdn\$6.53 per RSU). For the six months ended June 30, 2016 a weighted average forfeiture rate of 3% was applied (six months ended June 30, 2015 – 3%).

e) 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 shares vest immediately, are equivalent in value to the five day weighted average share price at which the common shares of the Company traded for immediately preceding the grant date, and are settled in either common shares or cash at the discretion of the Company. DSUs can only be redeemed following departure from the Company in accordance with the terms of the DSU Plan.

	Number of DSU’s	Weighted average exercise price Cdn\$/DSU
Balance, December 31, 2015 and June 30, 2016	78,600	0.01

There were no DSUs granted during the six months ended June 30, 2016. The weighted average fair value at the grant date for the year ended December 31, 2015 was Cdn\$10.88 per DSU.

f) Share-based compensation

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Share-based compensation expense	\$ 3,175	\$ 2,828	\$ 5,831	\$ 5,391
SARs expense	3,040	3,308	4,946	3,815
Total	\$ 6,215	\$ 6,136	\$ 10,777	\$ 9,206
SARs (recovery) reclassified as discontinued operations	-	-	-	(22)
Total – continuing operations	\$ 6,215	\$ 6,136	\$ 10,777	\$ 9,228

13. Income Tax

The components of tax expense for the three and six months ended June 30, 2016 and 2015 were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Current tax expense (recovery)	\$ 2,353	\$ 9,073	\$ (294)	\$ 15,911
Deferred tax expense (recovery)	(3,821)	3,767	(21,134)	7,316
Tax expense (recovery)	\$ (1,468)	\$ 12,840	\$ (21,428)	\$ 23,227

14. Net Income (Loss) per Share

a) Basic net income (loss) per share

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Net income (loss)				
Net income (loss) for the purpose of basic net income (loss) per share – continuing	\$ (185)	\$ 1,814	\$ (7,815)	\$ (12,949)
Net (loss) for the purpose of basic net (loss) per share – discontinued operations	-	-	-	(781)
Net income (loss) for the period	\$ (185)	\$ 1,814	\$ (7,815)	\$ (13,730)
Weighted average number of shares for the purposes of basic net income (loss) per share (000s)	152,006	144,145	151,765	139,468
Basic net income (loss) per share – continuing operations	(0.00)	0.01	(0.05)	(0.09)
Basic net (loss) per share – discontinued operations	-	-	-	(0.01)
Basic net income (loss) per share	\$ (0.00)	\$ 0.01	\$ (0.05)	\$ (0.10)

b) Diluted net income (loss) per share

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Net income (loss) – continuing operations				
Net income (loss) used to calculate diluted net income (loss) per share – continuing operations	\$ (185)	\$ 1,814	\$ (7,815)	\$ (12,949)
Weighted average number of shares for the purposes of basic net income (loss) per share (000s)				
	152,006	144,145	151,765	139,468
Dilutive effect of share options on potential common shares	-	2,703	-	-
Weighted average number of shares for the purposes of diluted net income (loss) per share				
	152,006	146,848	151,765	139,468
Diluted net income (loss) per share	\$ (0.00)	\$ 0.01	\$ (0.05)	\$ (0.09)
Net (loss) – discontinued operations				
Net (loss) used to calculate diluted net (loss) per share – discontinued operations	\$ -	\$ -	\$ -	\$ (781)
Weighted average number of shares for the purposes of diluted net (loss) per share				
	-	-	-	139,468
Diluted net (loss) per share – discontinued operations	\$ -	\$ -	\$ -	\$ (0.01)

At June 30, 2016, 97,709 (December 31, 2015 - 3,685,542) share options had an exercise price in excess of the average market value of the shares from the option grant date to the end of the period. As a result, these share options are excluded from the calculation of diluted earnings (loss) per share.

15. Supplemental Disclosure of Cash Flow Information

a) Net change in non-cash working capital

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Accounts receivable	\$ 15,872	\$ 28,827	\$ 2,461	\$ 32,566
Prepays and other current assets	(938)	2,024	4,685	697
Oil inventory	(290)	(239)	2,917	3,241
Accounts payable and accrued liabilities	(31,965)	(42,407)	(41,396)	(63,996)
Depletion related to oil inventory	102	205	(1,395)	(1,797)
Net change in non-cash working capital	\$ (17,219)	\$ (11,590)	\$ (32,728)	\$ (29,289)
Operating	(18,656)	11,384	(31,700)	(24,995)
Investing	1,437	(22,974)	(1,028)	(4,294)
Financing	-	-	-	-
Net change in non-cash working capital	\$ (17,219)	\$ (11,590)	\$ (32,728)	\$ (29,289)

b) Interest and taxes paid

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Cash interest paid	\$ 187	\$ 372	\$ 235	\$ 571
Cash income and equity taxes paid	\$ 15,050	\$ 24,755	\$ 18,291	\$ 24,755

16. Capital Management

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

The Company manages its capital to achieve the following:

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

Parex has a senior secured credit facility which as at June 30, 2016 had a borrowing base in the amount of \$175.0 million. The credit facility is intended to serve as means to increase liquidity and fund cash needs as they arise. As at June 30, 2016, \$nil (December 31, 2015 - \$nil) was drawn on the credit facility.

The Company has also provided a general security agreement to Export Development Canada (“EDC”) in connection with the performance security guarantees that support letters of credit provided to the Colombian National Hydrocarbon Agency (“ANH”) and Empresa Colombiana de Petroleos S.A. (“Ecopetrol”) related to the exploration work commitments on its Colombian concessions (see note 19 - Commitments). This performance guarantee facility has a limit of \$200.0 million (December 31, 2015 – limit of \$200.0 million) of which \$119.1 million (December 31, 2015 - \$123.7 million) is utilized at June 30, 2016.

As at June 30, 2016 the Company’s net working capital surplus is \$97.5 million (December 31, 2015 - \$76.7 million), of which \$94.4 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 June 30, 2016 shareholders’ equity was \$742.7 million (December 31, 2015 - \$741.9 million).

17. Financial Instruments and Risk Management

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

a) Credit risk

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

The Company for the six months ended June 30, 2016 had the majority of its oil sales to 10 counterparties. Accounts receivable balance as at June 30, 2016 are substantially made up of receivables with customers in the oil and gas industry and are subject to normal industry credit risks. The Company historically has not experienced any collection issues with its crude oil customers. At June 30, 2016 there are \$0.7 million of accounts receivable past due, all of which are considered collectible (December 31, 2015 - \$1.1 million).

b) Liquidity risk

The Company’s approach to managing liquidity risk is to have sufficient cash and/or credit facilities to meet its obligations when due. Management typically forecasts cash flows for a period of 12 to 36 months to identify any financing requirements. Liquidity is managed through daily and longer-term cash, debt and equity management strategies. These include estimating future cash generated from operations based on reasonable production and pricing assumptions, estimating future discretionary and non-discretionary capital expenditures and assessing the amount of equity or debt financing available. The Company is committed to maintaining a strong balance sheet and has the ability to change its capital program based on expected operating cash flows. The balance drawn on the Company’s \$175.0 million credit facility at June 30, 2016 was \$nil.

The following are the contractual maturities of financial liabilities at June 30, 2016:

	Less than 1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities ⁽¹⁾	\$ 63,806	-	-	-	\$ 63,806
SARs payable	7,495	1,554	-	-	9,049
Total	\$ 71,301	1,554	-	-	\$ 72,855

⁽¹⁾ Includes the liability on Derivative Financial Instruments.

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

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

c) Commodity price risk

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

As at June 30, 2016, the Company had outstanding risk management contracts which are used to manage its exposure to fluctuations in the price of crude oil.

The following is a summary of the ICE Brent priced crude oil risk management contracts in place during the six months ended June 30, 2016:

Period Hedged	Reference	Volume bbls/d	Sold Put	Purchased Put	Sold Call	Premium
January 1, 2016 to June 30, 2016	ICE Brent	5,000	\$47.75	\$52.50	\$70.00	\$1.00
February 1, 2016 to June 30, 2016	ICE Brent	15,000	\$25.00	\$35.00	\$45.00	\$2.08
July 1, 2016 to September 30, 2016	ICE Brent	5,000	\$30.50	\$38.00	\$47.00	\$1.00
July 1, 2016 to September 30, 2016	ICE Brent	5,000	\$34.25	\$40.25	\$49.50	\$1.00
October 1, 2016 to December 31, 2016	ICE Brent	5,000	-	\$35.00	\$60.00	-
October 1, 2016 to December 31, 2016	ICE Brent	5,000	-	\$40.00	-	\$1.65

The fair value of the ICE Brent priced crude oil risk management contracts is a \$8.0 million liability (December 31, 2015 – asset of \$2.6 million) and is recorded in the financial statement line item “Derivative financial instruments” in the consolidated balance sheet.

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

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Realized loss on commodity risk management contracts	\$ 5,535	\$ -	\$ 4,686	\$ -
Unrealized loss on commodity risk management contracts	1,621	1,141	7,445	287
Total	\$ 7,156	\$ 1,141	\$ 12,131	\$ 287

As shown in the table above, as at June 30, 2016, Parex had committed to the future sale of 1,840,000 barrels of oil with collars and puts from Brent oil prices of \$30.50 to \$60.00 per bbl. The following sensitivity shows the resulting unrealized loss (gain) and impact on (loss) income before tax for the oil hedged contracts if Brent oil price were to increase/decrease by \$10/bbl from the spot rate as at June 30, 2016:

	Brent Price	Impact for the six months ended June 30, 2016	
		Increase of 10/bbl	Decrease of 10/bbl
Oil hedged contract loss (gain)	Period end	\$ 8,454	\$ (4,842)

Subsequent to June 30, 2016 Parex entered into the following ICE Brent priced crude oil risk management contract:

Period Hedged	Reference	Volume bbls/d	Sold Put	Purchased Put	Sold Call	Premium
September 1, 2016 to December 31, 2016	ICE Brent	5,000	\$36.50	\$41.50	-	\$1.00

d) Foreign currency risk

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

The following is a summary of the foreign currency risk management contracts settled during the six months ended June 30, 2016:

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

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

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Realized loss (gain) on foreign currency risk management contracts	\$ -	\$ 1,840	\$ -	\$ 1,840
Unrealized loss (gain) on foreign currency risk management contracts	248	(2,924)	-	(1,925)
Total	\$ 248	\$ (1,084)	\$ -	\$ (85)

18. Segmented Information

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

For the three months ended June 30, 2016 (unaudited)					
	Canada		Colombia		Total
Oil sales	\$	-	\$	104,571	\$ 104,571
Royalties		-		(8,808)	(8,808)
Revenue		-		95,763	95,763
Commodity risk management contracts		-		(7,156)	(7,156)
		-		88,607	88,607
Expenses					
Production		-		11,906	11,906
Transportation		-		32,414	32,414
Purchased oil		-		280	280
General and administrative		2,734		5,534	8,268
Share-based compensation		3,175		3,040	6,215
Depletion, depreciation and amortization		77		29,623	29,700
Foreign exchange (gain) loss		51		(34)	17
		6,037		82,763	88,800
Finance (income)		(139)		(126)	(265)
Finance expense		746		979	1,725
Net finance expense		607		853	1,460
Net income (loss) before taxes		(6,644)		4,991	(1,653)
Current tax expense		-		2,353	2,353
Deferred tax (recovery)		-		(3,821)	(3,821)
Net income (loss)	\$	(6,644)	\$	6,459	\$ (185)
Capital assets (end of period)	\$	486	\$	657,086	\$ 657,572
Capital expenditures	\$	-	\$	13,922	\$ 13,922
Total assets (end of period)	\$	77,962	\$	843,703	\$ 921,665

For the three months ended June 30, 2015 (unaudited)					
	Canada		Colombia		Total
Oil sales	\$	-	\$	155,717	\$ 155,717
Royalties		-		(11,977)	(11,977)
Revenue		-		143,740	143,740
Commodity risk management contracts		-		(1,141)	(1,141)
		-		142,599	142,599
Expenses					
Production		-		18,304	18,304
Transportation		-		39,384	39,384
Purchased oil		-		12,978	12,978
General and administrative		3,413		5,867	9,280
Share-based compensation		2,829		3,307	6,136
Depletion, depreciation and amortization		55		37,204	37,259
(Gain) on settlement of decommissioning liabilities		-		(25)	(25)
Foreign exchange loss		533		3,850	4,383
		6,830		120,869	127,699
Finance (income)		(123)		(54)	(177)
Finance expense		2,377		(1,954)	423
Net finance (income) expense		2,254		(2,008)	246
Net income (loss) before taxes		(9,084)		23,738	14,654
Current tax expense		-		9,073	9,073
Deferred tax expense		-		3,767	3,767
Net income (loss)	\$	(9,084)	\$	10,898	\$ 1,814
Capital assets (end of period)	\$	613	\$	764,915	\$ 765,528
Capital expenditures	\$	104	\$	37,130	\$ 37,234
Total assets (end of period)	\$	66,786	\$	984,364	\$ 1,051,150

For the six months ended June 30, 2016 (unaudited)					
	Canada		Colombia		Total
Oil sales	\$	-	\$	186,089	\$ 186,089
Royalties		-		(15,040)	(15,040)
Revenue		-		171,049	171,049
Commodity risk management contracts		-		(12,131)	(12,131)
Expenses				158,918	158,918
Production		-		25,545	25,545
Transportation		-		66,599	66,599
Purchased oil		-		4,370	4,370
General and administrative		6,881		10,213	17,094
Share-based compensation		5,831		4,946	10,777
Depletion, depreciation and amortization		153		60,574	60,727
Foreign exchange (gain) loss		(974)		514	(460)
		11,891		172,761	184,652
Finance (income)		(267)		(614)	(881)
Finance expense		888		3,502	4,390
Net finance expense		621		2,888	3,509
Net (loss) before taxes		(12,512)		(16,731)	(29,243)
Current tax (recovery)		-		(294)	(294)
Deferred tax (recovery)		-		(21,134)	(21,134)
Net income (loss)	\$	(12,512)	\$	4,697	\$ (7,815)
Capital assets (end of period)	\$	486	\$	657,086	\$ 657,572
Capital expenditures	\$	93	\$	18,336	\$ 18,429
Total assets (end of period)	\$	77,962	\$	843,703	\$ 921,665

For the six months ended June 30, 2015 (unaudited)						
	Canada		Colombia		Trinidad & Tobago	Total
Oil sales	\$	-	\$	290,024	\$	\$ 290,024
Royalties		-		(22,453)	-	(22,453)
Revenue		-		267,571	-	267,571
Commodity risk management contracts		-		(287)	-	(287)
Expenses				267,284	-	267,284
Production		-		37,883	-	37,883
Transportation		-		81,405	-	81,405
Purchased oil		-		21,543	-	21,543
General and administrative		7,363		11,493	-	18,856
Share-based compensation		5,392		3,836	-	9,228
Depletion, depreciation and amortization		107		77,324	-	77,431
(Gain) on settlement of decommissioning liabilities		-		(25)	-	(25)
Foreign exchange loss		568		3,937	-	4,505
		13,430		237,396	-	250,826
Finance (income)		(227)		(144)	-	(371)
Finance expense		3,350		3,201	-	6,551
Net finance expense		3,123		3,057	-	6,180
Net income (loss) before taxes		(16,553)		26,831	-	10,278
Current tax expense		-		15,911	-	15,911
Deferred tax expense		-		7,316	-	7,316
Net income (loss) from continuing operations	\$	(16,553)	\$	3,604	\$	\$ (12,949)
Net (loss) from discontinued operations		-		-	(781)	(781)
Net income (loss)	\$	(16,553)	\$	3,604	\$	\$ (13,730)
Capital assets (end of period)	\$	613	\$	764,915	\$	\$ 765,528
Capital expenditures	\$	142	\$	64,055	\$	\$ 64,197
Total assets (end of period)	\$	66,786	\$	984,364	\$	\$ 1,051,150

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.

19. Commitments

a) Colombia

At June 30, 2016 performance guarantees are in place with the ANH and Ecopetrol. The guarantees are in the form of issued letters of credit totaling \$143.2 million (December 31, 2015 - \$150.3 million).

At June 30, 2016 EDC has provided the Company's bank with performance security guarantees to support approximately \$119.1 million (December 31, 2015 - \$123.7 million) of the letters of credit issued on behalf of Parex. The EDC guarantees have been secured by a general security agreement issued by Parex in favour of EDC. The letters of credit issued to the ANH and Ecopetrol are reduced from time to time to reflect completed work on an ongoing basis.

The value of the Company's exploration commitments as at June 30, 2016 in respect of the Colombia blocks are estimated to be as follows:

2016	\$	21,163
2017		164,132
Thereafter		67,200
	\$	252,495

b) Operating leases

In the normal course of business, Parex has entered into arrangements and incurred obligations that will impact the Company's future operations and liquidity. These commitments include leases for office space and accommodations.

The existing minimum lease payments for office space and accommodations at June 30, 2016 are as follows:

	Total	2016	2017	2018	2019	2020	Thereafter
Office and accommodations	\$ 4,888	1,182	1,384	1,064	992	53	213

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John F. Bechtold

Lisa Colnett

Robert J. Engbloom

Wayne K. Foo

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Paul D. Wright

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ABBREVIATIONS

Oil and Natural Gas Liquids

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

Other

WTI	West Texas Intermediate
Brent	Brent Ice

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