



CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Consolidated Balance Sheets (unaudited)

As at (thousands of United States dollars)	NOTE	September 30, 2020	December 31, 2019
ASSETS			
Current assets			
Cash and cash equivalents		\$ 353,257	\$ 396,839
Accounts receivable	5	85,784	149,510
Prepays and other current assets		11,219	8,363
Derivative financial instruments	19	—	511
Current income tax receivable	15	20,244	—
Crude oil inventory	6	1,620	653
		472,124	555,876
Deferred tax asset	15	27,087	89,254
Goodwill		73,452	73,452
Exploration and evaluation	7	155,171	142,916
Property, plant and equipment	8	820,650	823,083
		\$ 1,548,484	\$ 1,684,581
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 97,892	\$ 141,716
Current income tax payable	15	—	61,763
Current portion of decommissioning and environmental liabilities	12	3,510	8,366
		101,402	211,845
Lease obligation	9	217	770
Cash settled share-based compensation liabilities	14	7,870	12,379
Decommissioning and environmental liabilities	12	45,366	43,569
Deferred tax liability	15	35,407	13,573
		190,262	282,136
Shareholders' equity			
Share capital	13	789,897	812,684
Contributed surplus		44,826	48,573
Retained earnings		523,499	541,188
		1,358,222	1,402,445
		\$ 1,548,484	\$ 1,684,581

Commitments (note 21)

See accompanying Notes to the Consolidated Interim Financial Statements

Approved by the Board:

"signed"
Paul Wright
Director

"signed"
Bob MacDougall
Director

Consolidated Statements of Comprehensive Income (unaudited)

(thousands of United States dollars, except per share amounts)	NOTE	For the three months ended September 30,		For the nine months ended September 30,	
		2020	2019	2020	2019
Oil and natural gas sales	10	\$ 146,231	\$ 275,693	\$ 420,256	\$ 824,037
Royalties		(12,054)	(32,375)	(42,013)	(99,351)
Revenue		134,177	243,318	378,243	724,686
Commodity risk management contracts (loss)	19	—	—	(3,940)	—
Revenue		134,177	243,318	374,303	724,686
Expenses					
Production		20,339	29,662	64,773	81,878
Transportation		12,130	23,218	42,209	68,512
Purchased oil		7,145	15,397	20,705	36,637
General and administrative		8,572	5,746	26,110	23,303
Impairment of property, plant and equipment assets	8	—	—	7,000	—
Impairment of exploration and evaluation assets	7	—	5,544	—	5,544
Equity settled share-based compensation expense	13	747	1,787	2,627	5,818
Cash settled share-based compensation (recovery) expense	14	(793)	417	(3,412)	11,879
Depletion, depreciation and amortization	8	26,285	32,467	81,204	93,263
Foreign exchange (gain) loss		(248)	(632)	(9,813)	1,436
		74,177	113,606	231,403	328,270
Finance (income)	11	(281)	(2,034)	(1,879)	(6,320)
Finance expense	11	2,363	2,804	7,858	8,198
Net finance expense		2,082	770	5,979	1,878
Income before income taxes		57,918	128,942	136,921	394,538
Income tax expense					
Current tax expense	15	6,541	31,051	9,789	87,400
Deferred tax expense	15	23,758	40,634	84,002	66,362
		30,299	71,685	93,791	153,762
Net income and comprehensive income for the period		\$ 27,619	\$ 57,257	\$ 43,130	\$ 240,776
Basic net income per common share	16	\$ 0.20	\$ 0.40	\$ 0.31	\$ 1.63
Diluted net income per common share	16	\$ 0.20	\$ 0.39	\$ 0.30	\$ 1.60

See accompanying Notes to the Consolidated Interim Financial Statements

Consolidated Statements of Changes in Equity (unaudited)

For the nine months ended September 30,
(thousands of United States dollars)

	2020	2019
Share capital		
Balance, beginning of period	\$ 812,684	\$ 848,946
Issuance of common shares under share-based compensation plans	10,736	26,058
Repurchase of shares	(33,523)	(64,939)
Balance, end of period	789,897	810,065
Contributed surplus		
Balance, beginning of period	48,573	54,742
Share-based compensation	2,627	5,818
Options, RSUs and PSUs exercised	(6,374)	(12,239)
Balance, end of period	44,826	48,321
Retained earnings		
Balance, beginning of period	541,188	369,344
Net income for the period	43,130	240,776
Repurchase of shares	(60,819)	(149,233)
Balance, end of period	523,499	460,887
	\$ 1,358,222	\$ 1,319,273

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 September 30,		For the nine months ended September 30,	
		2020	2019	2020	2019
Operating activities					
Net income		\$ 27,619	\$ 57,257	\$ 43,130	\$ 240,776
Add (deduct) non-cash items					
Depletion, depreciation and amortization	8	26,285	32,467	81,204	93,263
Non-cash finance expense	11	1,556	1,481	5,331	3,675
Equity settled share-based compensation expense	13	747	1,787	2,627	5,818
Cash settled share-based compensation (recovery) expense	14	(793)	417	(3,412)	11,879
Deferred tax expense	15	23,758	40,634	84,002	66,362
Impairment of property, plant and equipment assets	8	—	—	7,000	—
Impairment of exploration and evaluation assets	7	—	5,544	—	5,544
Unrealized foreign exchange (gain) loss		(162)	2,347	(4,769)	(1,766)
Loss on settlement of decommissioning liabilities	12	374	799	361	1,660
Net change in non-cash working capital	17	(9,291)	1,783	(12,444)	(145,910)
Cash provided by operating activities		70,093	144,516	203,030	281,301
Investing activities					
Property, plant and equipment expenditures	8	(15,857)	(38,024)	(82,022)	(112,071)
Exploration and evaluation expenditures	7	(1,899)	(10,576)	(12,310)	(37,804)
Net change in non-cash working capital	17	(3,078)	(15,077)	(47,257)	(34,546)
Cash (used in) investing activities		(20,834)	(63,677)	(141,589)	(184,421)
Financing activities					
Issuance of common shares under equity-settled plans	13	1,670	5,767	4,362	13,819
Common shares repurchased	13	(30,816)	(50,221)	(94,342)	(214,172)
Payments on lease obligation	9	(229)	(168)	(649)	(501)
Net change in non-cash working capital	17	—	(70)	(2,046)	(4,288)
Cash (used in) financing activities		(29,375)	(44,692)	(92,675)	(205,142)
(Decrease) increase in cash for the period		19,884	36,147	(31,234)	(108,262)
Impact of foreign exchange on foreign currency-denominated cash balances		(1,016)	(4,076)	(12,348)	(4,419)
Cash, beginning of period		334,389	318,139	396,839	462,891
Cash, end of period		\$ 353,257	\$ 350,210	\$ 353,257	\$ 350,210

Supplemental Disclosure of Cash Flow Information (note 17)
See accompanying Notes to the Consolidated Interim Financial Statements

Notes to the Condensed Interim Consolidated Financial Statements

For the period ended September 30, 2020

(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 November 4, 2020.

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 nine months ended September 30, 2020 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, 2019, 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 November 4, 2020, 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

In March 2020, the World Health Organization declared a global pandemic following the emergence and rapid spread of a novel strain of the coronavirus ("COVID-19"). The outbreak and subsequent measures intended to limit the pandemic contributed to significant declines and volatility in financial markets. The pandemic has adversely impacted global commercial activity, including significantly reducing worldwide demand for crude oil. As a result of declining commodity prices and financial markets, the Company's share price and market capitalization significantly declined from December 31, 2019.

The full extent of the impact of COVID-19 on the Company's operations and future financial performance is currently unknown. It will depend on future developments that are uncertain and unpredictable, including the duration and spread of COVID-19, its continued impact on capital and financial markets on a macro-scale and any new information that may emerge concerning the severity of the virus. These uncertainties may persist beyond when it is determined how to contain the virus or treat its impact. The outbreak presents uncertainty and risk with respect to the Company, its performance, and estimates and assumptions used by Management in the preparation of its financial results.

A full list of the key sources of estimation uncertainty can be found in the Company's annual consolidated financial statements for the year ended December 31, 2019. The outbreak and current market conditions have increased the complexity of estimates and assumptions used to prepare the interim consolidated financial statements, particularly related to the estimation of recoverable amounts.

Determining the recoverable amount of a cash-generating unit ("CGU") or an individual asset requires the use of estimates and assumptions, which are subject to change as new information becomes available. The severe drop in commodity prices from in late March 2020, due to reasons noted above, have increased the risk of measurement uncertainty in determining the recoverable amounts, especially estimating economic crude oil and natural gas reserves and estimating forward commodity prices.

3. Summary of Significant Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year as described in note 3 of the Company's consolidated financial statements for the year ended December 31, 2019.

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, 2019 consolidated financial statements for details concerning determination of fair values.

5. Accounts Receivable

	September 30, 2020	December 31, 2019
Trade receivables	\$ 77,824	\$ 143,577
Value added taxes (VAT)	7,960	5,933
	\$ 85,784	\$ 149,510

Trade receivables consist primarily of oil sale receivables related to the Company's oil sales. VAT receivable is \$8.0 million as at September 30, 2020 (December 31, 2019 - \$5.9 million) and is recoverable within one year. All accounts receivable are expected to be received within twelve months and are thus recognized as current assets.

6. Crude Oil Inventory

	September 30, 2020	December 31, 2019
Crude oil inventory	\$ 1,620	\$ 653

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

7. Exploration and Evaluation Assets

Cost	
Balance at December 31, 2018	\$ 127,800
Additions	59,677
Transfers to PP&E	(25,590)
Changes in decommissioning liability	3,796
Exploration and evaluation impairment	(22,767)
Balance at December 31, 2019	\$ 142,916
Additions	12,310
Changes in decommissioning liability	(55)
Balance at September 30, 2020	\$ 155,171

Exploration and Evaluation ("E&E") assets consist of the Company's exploration projects which are pending either the determination of proved or probable reserves or impairment. Additions of \$12.3 million for the nine months ended September 30, 2020 represent the Company's share of costs incurred on E&E assets during the period primarily on the CPO-11, Fortuna and VIM-1 blocks.

There were no indicators of exploration and evaluation impairment in the period ended September 30, 2020.

During the year ended December 31, 2019, additions of \$59.7 million represent the Company's share of costs incurred on E&E assets during the period. During the year ended December 31, 2019 \$25.6 million of E&E assets were transferred to PP&E mainly related to the Boranda Block. Also in 2019, the Company recorded \$22.8 million of impairment charges primarily associated with LLA-10 Block in the Llanos basin.

At September 30, 2020 and December 31, 2019 the Company did not have any E&E assets in Canada.

8. Property, Plant and Equipment

	Canada	Colombia	Total
Cost			
Balance at December 31, 2018	\$ 3,867	\$ 2,064,880	\$ 2,068,747
Additions	121	148,398	148,519
Right-of-use-asset addition (non-cash)	2,227	—	2,227
Transfers from E&E assets	—	25,590	25,590
Changes in decommissioning and environmental liability	—	(3,077)	(3,077)
Balance at December 31, 2019	\$ 6,215	\$ 2,235,791	\$ 2,242,006
Additions	144	81,878	82,022
Changes in decommissioning and environmental liability	—	4,128	4,128
Balance at September 30, 2020	\$ 6,359	\$ 2,321,797	\$ 2,328,156

Accumulated Depreciation, Depletion and Amortization

Balance at December 31, 2018	\$ 3,678	\$ 1,289,538	\$ 1,293,216
Depletion and depreciation for the year	136	124,996	125,132
Depreciation - Right of Use Asset	767	—	767
DD&A included in crude oil inventory costing	—	(192)	(192)
Balance at December 31, 2019	\$ 4,581	\$ 1,414,342	\$ 1,418,923
Depletion and depreciation for the period	82	80,556	80,638
Depreciation - Right of Use Asset	566	—	566
DD&A included in crude oil inventory costing	—	379	379
Property, plant and equipment impairment	—	7,000	7,000
Balance at September 30, 2020	\$ 5,229	\$ 1,502,277	\$ 1,507,506

Net book value:

As at December 31, 2018	\$ 189	\$ 775,342	\$ 775,531
As at December 31, 2019	\$ 1,634	\$ 821,449	\$ 823,083
As at September 30, 2020	\$ 1,130	\$ 819,520	\$ 820,650

In the nine months ended September 30, 2020 property, plant and equipment ("PPE") additions of \$82.0 million mainly relate to drilling costs in Colombia at Block LLA-34, Cabrestero and Aguas Blancas blocks and facility costs at Block LLA-34 and Capachos block.

For the nine months ended September 30, 2020 future development costs of \$375.3 million (nine months ended September 30, 2019 - \$367.0 million) were included in the depletion calculation for development and production assets. For the nine months ended September 30, 2020 \$5.0 million of general and administrative costs (nine months ended September 30, 2019 - \$8.4 million) have been capitalized in respect of development and production activities during the current period.

As a result of the COVID-19 pandemic and the drastic decrease in forecast global crude oil prices compared to those at December 31, 2019, an indication of impairment was identified for all CGUs at March 31, 2020 and impairment tests were performed. The Company determined that the carrying amount of the Boranda CGU in the Magdalena Basin exceeded its recoverable amount and an impairment of \$7.0 million was recorded in the consolidated statements of comprehensive for the three month period ended March 31, 2020. All other CGU's were found to have recoverable amounts greater than carrying amounts. The recoverable amount for this testing was determined using fair value less cost of disposal. Future cash flows for the CGU's declined due to lower crude oil prices.

The fair value as determined for the Company's producing properties was consistent with the Company's independent qualified reserve evaluators reserve estimate at December 31, 2019, updated for forecast crude oil prices at March 31, 2020 and adjusting for the first quarter production and future development capital expenditures. There are no E&E assets associated with this CGU. Future cash flows were discounted using a rate of 11%. As at March 31, 2020, the recoverable amount of the CGU was estimated to be \$16.5 million. A 1% change to the assumed discount rate or a 5% change in forward price estimates over the life of the reserves would have an immaterial impact on the impairment.

The fair value estimation approach used, requires assumptions about revenue, future oil prices, tax rate and discount rates, all of which are level 3 inputs. The future oil prices used in the model are based on a forecast of crude oil prices by Parex' independent reserve evaluators.

Prices used at March 31, 2020 are as follows:

	2020	2021	2022	2023	2024	Thereafter
Brent (\$US/bbl)	38.64	45.50	52.50	57.50	62.50	2% increase per year

Prices used at December 31, 2019 are as follows:

	2020	2021	2022	2023	2024	Thereafter
Brent (\$US/bbl)	67.00	68.00	71.00	73.00	75.00	2% increase per year

There were no indicators of impairment at September 30, 2020.

9. Lease Obligation

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

	September 30, 2020
Less than 1 year	\$ 812
2-3 years	217
Total lease payments	1,029
Amounts representing interest over the term of the lease	(32)
Present value of net lease payments	997
Current portion of lease obligations	(780)
Non-current portion of lease obligations	\$ 217

The consolidated statements of comprehensive income for the nine months ended September 30, 2020 includes expenses related to leases as follows: \$50,464 of interest expense related to the lease obligation, \$0.6 million of depreciation for right-of-use assets, \$0.4 million of non-lease components associated with the office lease obligation and \$1.1 million related to short-term and low value leases.

Total cash outflows related to the office lease obligation were \$1.7 million for the nine months ended September 30, 2020.

10. Revenue

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

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Crude oil	\$ 141,669	\$ 272,378	\$ 408,315	\$ 814,836
Natural gas	4,562	3,315	11,941	9,201
Oil and natural gas sales	\$ 146,231	\$ 275,693	\$ 420,256	\$ 824,037

At September 30, 2020, receivables from contracts with customers, which are included in accounts receivable, were \$77.8 million (December 31, 2019 - \$143.6 million).

11. Net Finance Expense

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Bank charges and credit facility fees	\$ 419	\$ 524	\$ 2,116	\$ 2,863
Accretion on decommissioning and environmental liabilities	980	1,259	3,200	3,323
Interest and other income	(281)	(2,034)	(1,879)	(6,320)
Right of use asset interest	14	24	50	77
Loss on settlement of decommissioning liabilities	374	799	361	1,660
Loss on disposition of tangible assets	86	198	1,344	232
Expected credit loss provision	490	—	1,434	—
Other	—	—	(647)	43
Net finance expense	\$ 2,082	\$ 770	\$ 5,979	\$ 1,878

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Non-cash finance expense	\$ 1,930	\$ 2,280	\$ 5,692	\$ 5,335
Cash finance expense (income)	152	(1,510)	287	(3,457)
Net finance expense	\$ 2,082	\$ 770	\$ 5,979	\$ 1,878

12. Decommissioning and Environmental Liabilities

	Decommissioning	Environmental	Total
Balance, December 31, 2018	\$ 42,052	\$ 15,549	\$ 57,601
Additions	10,524	1,355	11,879
Settlements of obligations during the year	(10,536)	(1,229)	(11,765)
Loss on settlement of obligations	359	—	359
Accretion expense	3,166	1,426	4,592
Change in estimate - inflation and discount rates	1,455	170	1,625
Change in estimate - costs	(10,253)	(2,532)	(12,785)
Foreign exchange loss (gain)	477	(48)	429
Balance, December 31, 2019	\$ 37,244	\$ 14,691	\$ 51,935
Additions	1,428	480	1,908
Settlements of obligations during the period	(1,194)	(782)	(1,976)
Loss on settlement of obligations	361	—	361
Accretion expense	1,740	1,460	3,200
Change in estimate - inflation and discount rates	3,064	590	3,654
Change in estimate - costs	—	(1,489)	(1,489)
Foreign exchange (gain)	(6,025)	(2,692)	(8,717)
Balance, September 30, 2020	\$ 36,618	\$ 12,258	\$ 48,876
Current obligation	(1,939)	(1,571)	(3,510)
Long-term obligation	\$ 34,679	\$ 10,687	\$ 45,366

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 September 30, 2020, 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 \$57.0 million as at September 30, 2020 (December 31, 2019 – \$63.3 million) with the majority of these costs anticipated to occur in 2033 or later. A risk-free discount rate of 5.6% and an inflation rate of 3.1% were used in the valuation of the liabilities (December 31, 2019 – 6.7% risk-free discount rate and a 3.1% inflation rate). The risk-free discount rate and the inflation rate used are based on forecast Colombia rates.

Included in the decommissioning liability is \$1.9 million (December 31, 2019 – \$4.3 million) that is classified as a current obligation.

The total undiscounted amount of cash flows required to settle the Company's environmental liability is approximately \$18.5 million as at September 30, 2020 (December 31, 2019 – \$21.5 million) with the majority of these costs anticipated to occur in 2033 or later in Colombia. A risk-free discount rate of 5.6% and an inflation rate of 3.1% were used in the valuation of the liabilities (December 31, 2019 – 6.7% risk-free discount rate and a 3.1% inflation rate). The risk-free discount rate and the inflation rate used are based on forecast Colombia rates.

Included in the environmental liability is \$1.6 million (December 31, 2019 – \$4.1 million) that is classified as a current obligation.

13. Share Capital

a) Issued and outstanding common shares

	Number of shares	Amount
Balance, December 31, 2018	155,013,908	\$ 848,946
Issued for cash – exercise of options and RSUs	2,960,620	17,737
Allocation of contributed surplus – exercise of options and RSUs	—	13,772
Repurchase of shares	(14,679,474)	(67,771)
Balance, December 31, 2019	143,295,054	\$ 812,684
Issued for Cash - exercise of options, RSUs and PSUs	986,536	4,362
Allocation of contributed surplus – exercise of options, RSUs and PSUs	—	6,374
Repurchase of shares	(7,245,000)	(33,523)
Balance, September 30, 2020	137,036,590	\$ 789,897

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

In the nine months ended September 30, 2020, a total of 986,536 options, RSUs and PSUs were exercised for proceeds of \$4.4 million (year ended December 31, 2019 - 2,960,620 options and RSUs were exercised for proceeds of \$17.7 million).

Also in 2020, the Company repurchased 7,245,000 common shares pursuant to its Normal Course Issuer Bid at a cost of \$94.3 million (average cost per share of Cdn\$17.39). In 2019, the Company repurchased 14,679,474 common shares pursuant to its Normal Course Issuer Bid at a cost of \$223.9 million (average cost per share of Cdn\$20.41). The cost to repurchase common shares at a price in excess of their average book value has been charged to retained earnings.

b) Stock options

The Company has a stock option plan which provides for the issuance of options to the Company's officers and certain employees to acquire common shares. The maximum number of options reserved for issuance under the stock option plan may not exceed 9% of the number of common shares issued and outstanding. The stock options vest over a three-year period and expire five years from the date of grant.

	Number of stock options	Weighted average exercise price Cdn\$/option
Balance, December 31, 2018	4,341,747	13.14
Granted	228,300	19.23
Exercised	(2,104,304)	11.12
Balance, December 31, 2019	2,465,743	15.42
Granted	260,400	21.91
Exercised	(448,700)	12.82
Forfeited	(4,800)	18.53
Balance, September 30, 2020	2,272,643	16.67

Stock options outstanding and the weighted average remaining life of the stock options at September 30, 2020 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
\$10.94 - \$15.41	214,502	0.40	\$ 11.71	214,502	0.40	\$ 11.71
\$15.42 - \$15.84	899,852	1.12	\$ 15.66	899,852	1.12	\$ 15.66
\$15.85 - \$17.13	485,355	1.44	\$ 16.02	485,355	1.44	\$ 16.02
\$17.14 - \$19.81	362,784	2.85	\$ 18.64	180,776	2.69	\$ 18.60
\$19.82 - \$22.18	310,150	4.25	\$ 21.75	16,583	3.60	\$ 20.95
	2,272,643	1.82	\$ 16.67	1,797,068	1.30	\$ 15.63

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

For the nine months ended September 30,	2020	2019
Risk-free interest rate (%)	1.33	1.76
Expected life (years)	4	4
Expected volatility (%)	37	40
Forfeiture rate (%)	3	3
Expected dividends	—	—

The weighted average fair value at the grant date for the nine months ended September 30, 2020 was Cdn\$6.69 per option (nine months ended September 30, 2019 - Cdn\$6.41 per option). The weighted average share price on the exercise date for options exercised in the nine months ended September 30, 2020 was Cdn\$20.57 (nine months ended September 30, 2019 - Cdn\$21.52).

c) Restricted and performance share units

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

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

	Number of RSU's	Weighted average exercise price Cdn\$/RSU
Balance, December 31, 2018	2,527,068	0.01
Exercised	(856,316)	0.01
Cancelled/Forfeited/Expired	(7,434)	0.01
Balance, December 31, 2019	1,663,318	0.01
Exercised	(332,906)	0.01
Cancelled/Forfeited/Expired	(36,443)	0.01
Balance, September 30, 2020	1,293,969	0.01

RSUs outstanding and the weighted average remaining life of the RSUs at September 30, 2020 are as follows:

Exercise price Cdn\$	RSUs outstanding		RSUs vested	
	Number of RSUs	Weighted average remaining life (years)	Number of RSUs	Weighted average remaining life (years)
0.01	1,293,969	1.45	1,126,709	1.31

The fair value of each RSU granted is based on the market price of Parex shares on the date of issuance. For the nine months ended September 30, 2020 a weighted average forfeiture rate of 3% was applied (nine months ended September 30, 2019 - 3%).

Pursuant to the restricted share unit plan, the Company has granted performance share units to certain employees. The performance share units vest three years after the grant date and expire one month after the vesting date. PSUs may be granted with certain performance measures, specified at the grant date as determined by the Company's Board of Directors. Based upon the achievement of the performance measures, a pre-determined adjustment factor of between 0-2x is applied to PSUs eligible to vest at the end of the performance period. In March 2020 the board of directors approved a multiplier of 1.98X be applied to the 2017 PSU grant resulting in 101,430 PSU's issued.

	Number of PSU's	Weighted average exercise price Cdn\$/PSU
Balance, December 31, 2018	320,500	0.01
Balance, December 31, 2019	320,500	0.01
Granted by performance factor	101,430	0.01
Exercised	(204,930)	0.01
Balance, September 30, 2020	217,000	0.01

The fair value of each PSU granted is based on the share price at which the common shares of the Company traded for on the grant date. The weighted average fair value at the grant date for nine months ended September 30, 2020 was Cdn\$16.01 per PSU.

d) Equity settled share-based compensation

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Option expense	\$ 304	\$ 491	\$ 900	\$ 1,470
Restricted and performance share units expense	443	1,296	1,727	4,348
Total equity settled share-based compensation expense	\$ 747	\$ 1,787	\$ 2,627	\$ 5,818

14. Cash Settled Share-Based Compensation Plans

a) Share appreciation rights ("SARs")

Parex Colombia has a SARs plan that provides for the issuance of SARs to certain employees of Parex Colombia. The plan entitles the holders to receive a cash payment equal to the excess of the market price of the Company's common shares at the time of exercise over the grant price. SARs 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, 2018	1,591,866	13.90
Exercised	(989,225)	13.33
Forfeited	(33,869)	15.42
Balance, December 31, 2019	568,772	14.80
Exercised	(137,553)	14.59
Forfeited	(5,771)	11.22
Balance, September 30, 2020	425,448	14.91

As at September 30, 2020, 425,448 SARs were vested (December 31, 2019 - 531,844).

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 nine months ended September 30,	2020	2019
Risk-free interest rate (%)	1.02	1.66
Expected life (years)	0.9	1.0
Expected volatility (%)	38	35
Share price (\$/Cdn)	14.03	20.30
Expected dividends	—	—

As at September 30, 2020, the total SARs liability accrued is \$0.9 million (December 31, 2019 - \$4.6 million) all of which is classified as current in accordance with the three-year vesting period.

b) Deferred share units ("DSUs")

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

	Number of DSU's
Balance, December 31, 2018	219,350
Granted	26,435
Balance, December 31, 2019	245,785
Granted	35,320
Exercised on board retirement	(63,960)
Balance, September 30, 2020	217,145

The fair value at the grant date is equivalent to the five-day weighted average share price at which the common shares of the Company traded for immediately preceding the grant date. The weighted average fair value at the grant date for the nine months ended September 30, 2020 was Cdn\$15.41 per DSU (nine months ended September 30, 2019 - Cdn\$21.47 per DSU).

Given the DSUs vest immediately, obligations for payments of cash under the DSUs plan are accrued as compensation expense immediately based on the fair value of the DSU. As at September 30, 2020, the total DSUs liability accrued is \$2.3 million (December 31, 2019 - \$4.5 million) all of which is classified as long-term in accordance with the terms of the DSU plan.

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

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

	Number of CRSUs
Balance, December 31, 2018	785,075
Granted	551,020
Exercised	(306,251)
Forfeited	(38,174)
Balance, December 31, 2019	991,670
Granted	321,878
Exercised	(461,855)
Forfeited	(20,542)
Balance, September 30, 2020	831,151

The weighted average fair value at the grant date for nine months ended September 30, 2020 was Cdn\$21.75 per CRSU (nine months ended September 30, 2019 Cdn\$19.02 per CRSU).

Obligations for payments of cash under the CRSUs plan are accrued as compensation expense over the vesting period based on the fair value of CRSUs. The fair value of CRSUs is equivalent to the trading value of a common share of the Company on the valuation date. As at September 30, 2020, the total CRSUs liability accrued is \$5.2 million (December 31, 2019 - \$11.8 million) of which \$1.6 million (December 31, 2019 - \$4.0 million) is classified as long-term in accordance with the three-year vesting period.

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

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

CosRSU:

	Number of CosRSUs
Balance, December 31, 2018	—
Granted	655,185
Forfeited	(6,000)
Balance, December 31, 2019	649,185
Granted	594,020
Exercised	(216,379)
Balance, September 30, 2020	1,026,826

CosPSU:

	Number of CosPSUs
Balance, December 31, 2018	—
Granted	222,100
Balance, December 31, 2019	222,100
Granted	211,600
Balance, September 30, 2020	433,700

As at September 30, 2020, no CosRSUs and CosPSUs were vested.

The weighted average fair value at the grant date for the nine months ended September 30, 2020 was Cdn\$21.42 per CosRSU and CosPSU (nine months ended September 30, 2019 Cdn\$19.28 per CosRSU and CosPSU.)

Obligations for payments of cash under the CosRSUs and CosPSUs plans are accrued as compensation expense over the vesting period based on the fair value of RSUs and PSUs. The fair value of CosRSUs and CosPSUs is equivalent to the trading value of a common share of the Company on the valuation date. As at September 30, 2020, the total CosRSUs and CosPSUs liability accrued is \$7.1 million (December 31, 2019 - \$7.1 million) of which \$4.0 million (December 31, 2019 - \$3.9 million) is classified as long-term in accordance with the three-year vesting period.

e) Cash settled share-based compensation

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
SARs (recovery) expense	\$ (727)	\$ (1,199)	\$ (2,690)	\$ 1,300
DSUs (recovery) expense	(323)	(169)	(1,515)	1,020
CRSUs (recovery) expense	(870)	946	(2,300)	5,492
CosRSUs and CosPSUs expense	1,127	839	3,093	4,067
Total cash settled share-based compensation (recovery) expense	\$ (793)	\$ 417	\$ (3,412)	\$ 11,879
Cash payments made upon exercise in the period	\$ 519	\$ 2,078	\$ 11,577	\$ 8,615

15. Income Tax

The components of tax expense for the three and nine months ended September 30, 2020, and 2019 were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Current tax expense	\$ 6,541	\$ 31,051	\$ 9,789	\$ 87,400
Deferred tax expense	23,758	40,634	84,002	66,362
Income tax expense	\$ 30,299	\$ 71,685	\$ 93,791	\$ 153,762

16. Net Income per Share

a) Basic net income per share

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Net income				
Net income for the purpose of basic net income per share	\$ 27,619	\$ 57,257	\$ 43,130	\$ 240,776
Weighted average number of shares for the purposes of basic net income per share (000s)	138,303	144,081	139,882	147,531
Basic net income per share	\$ 0.20	\$ 0.40	\$ 0.31	\$ 1.63

b) Diluted net income per share

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Net income				
Net income used to calculate diluted net income per share	\$ 27,619	\$ 57,257	\$ 43,130	\$ 240,776
Weighted average number of shares for the purposes of basic net income per share (000s)	138,303	144,081	139,882	147,531
Dilutive effect of stock options, RSUs and PSUs on potential common shares	1,588	3,014	1,595	2,987
Weighted average number of shares for the purposes of diluted net income per share (000s)	139,891	147,095	141,477	150,518
Diluted net income per share	\$ 0.20	\$ 0.39	\$ 0.30	\$ 1.60

For the three and nine months ended September 30, 2020, 672,934 stock options (three and nine months ended September 30, 2019 - 228,300) were excluded from the diluted weighted average shares calculation as they were anti-dilutive.

17. Supplemental Disclosure of Cash Flow Information

a) Net change in non-cash working capital

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Accounts receivable	\$ (16,724)	\$ 2,827	\$ 63,726	\$ (46,712)
Prepays and other current assets	(261)	3,471	(2,856)	(6,531)
Oil inventory	(339)	(1,356)	(967)	(2,723)
Accounts payable and accrued liabilities	5,707	(16,925)	(120,053)	(122,623)
Depletion related to oil inventory	80	407	379	798
Decommissioning and environmental liabilities	(832)	(1,788)	(1,976)	(6,953)
Net change in non-cash working capital	\$ (12,369)	\$ (13,364)	\$ (61,747)	\$ (184,744)
Operating	\$ (9,291)	\$ 1,783	\$ (12,444)	\$ (145,910)
Investing	(3,078)	(15,077)	(47,257)	(34,546)
Financing	—	(70)	(2,046)	(4,288)
Net change in non-cash working capital	\$ (12,369)	\$ (13,364)	\$ (61,747)	\$ (184,744)

b) Interest and taxes paid

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Cash interest paid	\$ —	\$ (4)	\$ —	\$ (1)
Cash income taxes paid	\$ —	\$ —	\$ 45,008	\$ 136,251

18. Capital Management

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

Parex has a senior secured credit facility which as at September 30, 2020 had a borrowing base in the amount of \$200.0 million (December 31, 2019 - \$200.0 million). The credit facility is intended to serve as a means to increase liquidity and fund cash needs as they arise. As at September 30, 2020, \$nil (December 31, 2019 - \$nil) was drawn on the credit facility.

The Company has also provided a general security agreement to Export Development Canada ("EDC") in connection with the performance security guarantees that support letters of credit provided to the Colombian National Hydrocarbon Agency ("ANH") related to the exploration work commitments on its Colombian concessions (see note 21 - Commitments). This performance guarantee facility has a limit of \$150.0 million (December 31, 2019 - limit of \$150.0 million) of which \$18.1 million (December 31, 2019 - \$25.4 million) is utilized at September 30, 2020. At September 30, 2020, there is an additional \$21.1 million (December 31, 2019 - \$22.5 million) of letters of credit that are provided by a Latin American bank on an unsecured basis.

As at September 30, 2020, the Company's net working capital surplus was \$370.7 million (December 31, 2019 - \$344.0 million), of which \$353.3 million is cash.

Parex has the ability to adjust its capital structure by drawing on its existing secured credit facility and making adjustments to its capital expenditure and share buy-back programs to the extent the capital expenditures are not committed. The Company considers its capital structure at this time to include shareholders' equity and the credit facility. As at September 30, 2020 shareholders' equity was \$1,358.2 million (December 31, 2019 - \$1,402.4 million).

19. Financial Instruments and Risk Management

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

a) Credit risk

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

The Company for the nine months ended September 30, 2020 had the majority of its oil sales to 10 counterparties. The accounts receivable balance as at September 30, 2020 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 September 30, 2020, there were no accounts receivable past due (December 31, 2019 - \$nil).

b) Liquidity risk

The Company's approach to managing liquidity risk is to have sufficient cash and/or credit facilities to meet its obligations when due. Management typically forecasts cash flows for a period of 12 to 36 months to identify any financing requirements. Liquidity is managed through daily and longer-term cash, debt and equity management strategies. These include estimating future cash generated from operations based on reasonable production and pricing assumptions, estimating future discretionary and non-discretionary capital expenditures and assessing the amount of equity or debt financing available. The Company is committed to maintaining a strong balance sheet and has the ability to change its capital program based on expected operating cash flows. The balance drawn on the Company's \$200.0 million credit facility at September 30, 2020 was \$nil.

The following are the contractual maturities of financial liabilities at September 30, 2020:

	Less than 1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities	\$ 89,506	—	—	—	\$ 89,506
Lease obligation	780	217	—	—	997
Cash settled equity plans payable	7,606	7,870	—	—	15,476
Total	\$ 97,892	8,087	—	—	\$ 105,979

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

	Less than 1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities	\$ 125,282	—	—	—	\$ 125,282
Current income tax payable	61,763	—	—	—	61,763
Lease obligation	867	770	—	—	1,637
Cash settled equity plans payable	15,567	12,379	—	—	27,946
Total	\$ 203,479	13,149	—	—	\$ 216,628

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 September 30, 2020, the Company had no outstanding commodity price risk management contracts.

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Realized loss on commodity risk management contracts	\$ —	\$ —	\$ 3,940	\$ —
Total	\$ —	\$ —	\$ 3,940	\$ —

d) Foreign currency risk

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

As at September 30, 2020, the Company had no outstanding foreign currency risk management contracts.

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Premiums paid on foreign currency risk management contracts	\$ —	\$ 211	\$ —	\$ 211
Realized loss on foreign currency risk management contracts	—	950	511	4,679
Unrealized (gain) on foreign currency risk management contracts	—	(1,106)	—	(8,378)
Total	\$ —	\$ 55	\$ 511	\$ (3,488)

The Company recorded a \$1.1 million unrealized gain and a \$1.2 million realized loss on these contracts in the three months ended September 30, 2019 which is recorded in the financial statement line item "Foreign exchange (gain) loss" while it was previously recorded in the financial statement line items "Finance income" and "Finance expense".

20. Segmented Information

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

For the three months ended September 30, 2020 (unaudited)	Canada	Colombia	Total
Oil and natural gas sales	\$ —	\$ 146,231	\$ 146,231
Royalties	—	(12,054)	(12,054)
Revenue	—	134,177	134,177
Expenses			
Production	—	20,339	20,339
Transportation	—	12,130	12,130
Purchased oil	—	7,145	7,145
General and administrative	3,539	5,033	8,572
Equity settled share-based compensation expense	747	—	747
Cash settled share-based compensation (recovery) expense	803	(1,596)	(793)
Depletion, depreciation and amortization	220	26,065	26,285
Foreign exchange (gain) loss	(345)	97	(248)
	4,964	69,213	74,177
Finance (income)	(147)	(134)	(281)
Finance expense	295	2,068	2,363
Net finance expense	148	1,934	2,082
Income (loss) before taxes	(5,112)	63,030	57,918
Current tax expense	—	6,541	6,541
Deferred tax expense	981	22,777	23,758
Net income (loss)	\$ (6,093)	\$ 33,712	\$ 27,619
Capital assets (end of period)	\$ 1,100	\$ 974,721	\$ 975,821
Capital expenditures	\$ 39	\$ 17,717	\$ 17,756
Total assets (end of period)	\$ 137,774	\$ 1,410,710	\$ 1,548,484

For the three months ended September 30, 2019 (unaudited)	Canada		Colombia		Total
Oil and natural gas sales	\$	—	\$	275,693	\$ 275,693
Royalties		—		(32,375)	(32,375)
Revenue		—		243,318	243,318
Expenses					
Production		—		29,662	29,662
Transportation		—		23,218	23,218
Purchased oil		—		15,397	15,397
General and administrative		3,522		2,224	5,746
Impairment of exploration and evaluation assets		—		5,544	5,544
Equity settled share-based compensation expense		1,787		—	1,787
Cash settled share-based compensation expense (recovery)		3,897		(3,480)	417
Depletion, depreciation and amortization		228		32,239	32,467
Foreign exchange (gain) loss		269		(901)	(632)
		9,703		103,903	113,606
Finance (income)		(1,277)		(757)	(2,034)
Finance expense		229		2,575	2,804
Net finance expense (income)		(1,048)		1,818	770
Income (loss) before taxes		(8,655)		137,597	128,942
Current tax expense		749		30,302	31,051
Deferred tax expense		—		40,634	40,634
Net income (loss)	\$	(9,404)	\$	66,661	\$ 57,257
Capital assets (end of period)	\$	1,790	\$	957,104	\$ 958,894
Capital expenditures	\$	54	\$	48,546	\$ 48,600
Total assets (end of period)	\$	81,828	\$	1,511,974	\$ 1,593,802
For the nine months ended September 30, 2020 (unaudited)					
Oil and natural gas sales	\$	—	\$	420,256	\$ 420,256
Royalties		—		(42,013)	(42,013)
Revenue		—		378,243	378,243
Commodity risk management contracts (loss)		—		(3,940)	(3,940)
Revenue		—		374,303	374,303
Expenses					
Production		—		64,773	64,773
Transportation		—		42,209	42,209
Purchased oil		—		20,705	20,705
General and administrative		11,951		14,159	26,110
Impairment of property, plant and equipment assets		—		7,000	7,000
Equity settled share-based compensation expense		2,627		—	2,627
Cash settled share-based compensation (recovery) expense		1,578		(4,990)	(3,412)
Depletion, depreciation and amortization		648		80,556	81,204
Foreign exchange (gain) loss		1,563		(11,376)	(9,813)
		18,367		213,036	231,403
Finance (income) expense		(2,757)		878	(1,879)
Finance expense		1,195		6,663	7,858
Net finance expense (income)		(1,562)		7,541	5,979
Income (loss) before taxes		(16,805)		153,726	136,921
Current tax expense		—		9,789	9,789
Deferred tax expense (recovery)		(479)		84,481	84,002
Net income (loss)	\$	(16,326)	\$	59,456	\$ 43,130
Capital assets (end of period)	\$	1,100	\$	974,721	\$ 975,821
Capital expenditures	\$	144	\$	94,188	\$ 94,332
Total assets (end of period)	\$	137,774	\$	1,410,710	\$ 1,548,484

For the nine months ended September 30, 2019 (unaudited)	Canada	Colombia	Total
Oil and natural gas sales	\$ —	\$ 824,037	\$ 824,037
Royalties	—	(99,351)	(99,351)
Revenue	—	724,686	724,686
Expenses			
Production	—	81,878	81,878
Transportation	—	68,512	68,512
Purchased oil	—	36,637	36,637
General and administrative	13,213	10,090	23,303
Impairment of exploration and evaluation assets	—	5,544	5,544
Equity settled share-based compensation expense	5,818	—	5,818
Cash settled share-based compensation expense	5,087	6,792	11,879
Depletion, depreciation and amortization	673	92,590	93,263
Foreign exchange loss (gain)	(46)	1,482	1,436
	24,745	303,525	328,270
Finance (income)	(3,027)	(3,293)	(6,320)
Finance expense	1,472	6,726	8,198
Net finance expense (income)	(1,555)	3,433	1,878
Income (loss) before taxes	(23,190)	417,728	394,538
Current tax expense	1,647	85,753	87,400
Deferred tax expense	—	66,362	66,362
Net income (loss)	\$ (24,837)	\$ 265,613	\$ 240,776
Capital assets (end of period)	\$ 1,790	\$ 957,104	\$ 958,894
Capital expenditures	\$ 79	\$ 149,796	\$ 149,875
Total assets (end of period)	\$ 81,828	\$ 1,511,974	\$ 1,593,802

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

21. Commitments

a) Colombia

At September 30, 2020, performance guarantees are in place with the Colombian National Hydrocarbon Agency ("ANH") for certain blocks. The guarantees are in the form of issued letters of credit totaling \$39.2 million (December 31, 2019 - \$47.9 million) to support the exploration work commitments in respect of the 22 blocks in Colombia.

At September 30, 2020, Export Development Canada ("EDC") has provided the Company's bank with performance security guarantees to support approximately \$18.1 million (December 31, 2019 - \$25.4 million) of the letters of credit issued on behalf of Parex. The EDC guarantees have been secured by a general security agreement issued by Parex in favour of EDC. At September 30, 2020, there is an additional \$21.1 million (December 31, 2019 - \$22.5 million) of letters of credit that are provided by a Latin American bank on an unsecured basis. The letters of credit issued to the ANH are reduced from time to time to reflect completed work on an ongoing basis.

The value of the Company's exploration commitments as at September 30, 2020 in respect of the Colombia work commitments are estimated to be as follows:

2020	\$	3,500
2021		56,854
2022		5,425
2023		13,000
Thereafter		89,091
	\$	167,870

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 September 30, 2020 are as follows:

	Total	2020	2021	2022	2023	2024	Thereafter
Office and accommodations	\$ 8,105	898	2,454	1,605	1,628	1,520	—

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Parex Resources Inc. ("Parex" or "the Company") for the period ended September 30, 2020 is dated November 4, 2020 and should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the period ended September 30, 2020, as well as the Company's audited consolidated annual financial statements for the year ended December 31, 2019. 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 10, 2020 ("AIF"), and may be accessed through the SEDAR website at www.sedar.com.

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

Company Profile

Parex is an oil and gas company actively engaged in crude oil exploration, development and production in Colombia. Headquartered in Calgary, Canada, Parex, through its foreign subsidiaries, holds interests in onshore exploration and production blocks. 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 21 for the Advisory on Forward-Looking Statements and page 23 for Non-GAAP Terms used.

Three months ended September 30, 2020 ("third quarter or Q3") Highlights

- Quarterly average production was 44,305 boe/d (97% crude oil), an increase of approximately 11% on a per basic share basis over the previous quarter ended June 30, 2020. Production decreased 13% on a per basic share basis over the prior year comparative period as a result of the Company reducing production volumes in the low oil price environment. Refer to "Consolidated Results of Operations" for split by product type;
- Recognized net income of \$27.6 million (\$0.20 per share basic) compared to net income of \$19.3 million (\$0.14 per share basic) in the previous quarter ended June 30, 2020 and net income of \$57.3 million (\$0.40 per share basic) in the comparative quarter of 2019;
- Generated an operating netback of \$23.10/boe (2019 - \$36.21/boe) and funds flow provided by operations ("FFO") netback of \$19.53/boe (2019 - \$29.61/boe) from an average Brent price of \$43.34/bbl (2019 - \$62.03/bbl);
- Funds flow provided by operations were \$79.4 million (\$0.57 per share basic) as compared to funds flow provided by operations of \$142.7 million (\$0.99 per share basic) for the prior year comparative period; FFO was reduced in the current quarter due to lower sales volumes and lower Brent prices;
- Capital expenditures were \$17.8 million compared to \$48.6 million in the comparative period of 2019. Capital expenditures were fully funded from FFO;
- Utilized a portion of free funds flow of \$61.6 million to purchase and cancel 2,305,000 of the Company's common shares for a total cost of \$30.8 million (average price of Cdn\$16.45/share) pursuant to the Company's normal course issuer bid ("NCIB") program;
- Working capital was \$370.7 million at September 30, 2020 compared to \$339.3 million at June 30, 2020 and \$279.9 million at September 30, 2019. The Company has an undrawn syndicated bank credit facility of \$200.0 million; and

- Participated in drilling 2 gross (1.55 net) wells in Colombia resulting in 2 oil wells, for a success rate of 100% compared to drilling 9 gross (5.30 net) wells in the comparative period of 2019.

Financial Summary

(Financial figures in \$'000s except per share amounts)	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Light Crude and Medium Crude Oil (bbl/d)	4,626	8,135	5,814	6,832
Heavy Crude Oil (bbl/d)	38,309	43,862	39,488	44,415
Average daily oil production (bbl/d) ⁽¹⁾	42,935	51,997	45,302	51,247
Average daily conventional natural gas production (mcf/d) ⁽¹⁾	8,220	6,288	7,050	5,556
Average oil and natural gas production (boe/d)	44,305	53,045	46,477	52,173
Production split (% crude oil)	97	98	97	98
Realized sales price (\$/boe)	33.88	53.59	31.07	55.33
Operating netback (\$/boe) ⁽²⁾	23.10	36.21	19.53	37.90
Oil and natural gas sales	146,231	275,693	420,256	824,037
Funds flow provided by operations ⁽²⁾	79,384	142,733	215,474	427,211
Per share – basic	0.57	0.99	1.54	2.90
Per share – diluted ⁽²⁾	0.57	0.97	1.52	2.84
Net income	27,619	57,257	43,130	240,776
Per share – basic	0.20	0.40	0.31	1.63
Per share – diluted	0.20	0.39	0.30	1.60
Capital expenditures	17,756	48,600	94,332	149,875
Free funds flow ⁽²⁾	61,628	94,133	121,142	277,336
Total assets (end of period)	1,548,484	1,593,802	1,548,484	1,593,802
Working capital surplus (end of period) ⁽³⁾	370,722	279,949	370,722	279,949
Bank debt (end of period) ⁽⁴⁾	—	—	—	—
Weighted average shares outstanding (000s)				
Basic	138,303	144,081	139,882	147,531
Diluted	139,891	147,095	141,477	150,518
Outstanding shares (end of period) (000s)	137,037	143,304	137,037	143,304

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

(2) Non-GAAP term. See "Non-GAAP Terms" on page 23.

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

(4) Credit facility borrowing base of \$200.0 million as at September 30, 2020.

2021 Corporate Guidance

As per the Company's normal annual disclosure practices, provided below is Parex' corporate guidance for 2021:

	2020 Estimate	2021 Guidance
Brent crude average price	\$42/bbl	\$ 45/bbl
Production (average for period)	46,000 - 46,500 boe/d	47,000 - 49,000 boe/d
Total capital expenditures ⁽¹⁾	\$130 - \$140 million	\$165 - \$185 million
Funds flow provided by operations (FFO)	\$275 - \$285 million	\$320 - \$340 million
Free funds flow (FFO mid-point less total capital expenditures mid-point)	\$145 million	\$155 million
Share buy-back program ⁽²⁾	\$165 million	\$150 million
Outstanding shares (end of period) ⁽²⁾	131 million	118 - 120 million
Production per share growth	-7%	14%
Estimated working capital (end of period)	\$330 million	\$335 million
Bank debt outstanding (end of period)	nil	nil

(1) Q4 2020 and 2021 work program is dependent on ensuring the health and safety of staff and the communities where the Company operates, therefore, planned capital expenditures may only be partially completed.

(2) It is expected that Parex will purchase the maximum allowable 13,986,994 shares under its normal course issuer bid in 2020. Budgeted free funds flow will be used to fund a 2021 normal course issuer bid under which Parex would expect to purchase the maximum allowable number of shares (~10% of public float outstanding), subject to the approval by the TSX of a 2021 normal course issuer bid. Cost of the 2021 share buy-back program assumes an average share price of \$15/share CAD.

The planned 2021 capital expenditures are split between maintenance, development/appraisal and exploration/new growth programs. The mid-point of the 2021 production guidance reflects year-over-year production growth of approximately 4% as compared to 2020 and does not include potential additional production volumes resulting from the 7-9 wells included in the exploration program.

Under this guidance scenario, at forecast Brent pricing levels of \$45/bbl, the Company expects to generate a significant amount of free funds flow. With forecast working capital to be approximately \$330 million at December 31, 2020 and forecasted significant free funds flow in 2021, the Company expects to return capital to shareholders by buying back another 10% of its outstanding public float in 2021, (subject to TSX approval of a 2021 normal course issuer bid for the Company). Further the Company will have significant optionality to invest in conventional oil and gas growth opportunities if considered appropriate.

Parex will continue to be responsive to changes in commodity prices by managing its production volumes, capital budget and cash costs, further protecting its balance sheet and shareholder value. However, the Company expects minimal changes to production, capital expenditures and total share re-purchases under a current Brent oil pricing scenario.

2021 Netback Sensitivity Estimates

Brent crude price (\$/bbl)	\$40	\$45	\$50
Operating Netback (\$/boe)	\$19	\$23	\$27
Effective tax rate (%) ⁽¹⁾	5%	8%	12%
FFO Netback (\$/boe) ⁽²⁾	\$16	\$19	\$22

(1) Effective tax rate is the expected current tax effective rate on funds flow from operations.

(2) Assumes Brent/Vasconia crude differential less than \$3.75/bbl.

Financial and Operational Results

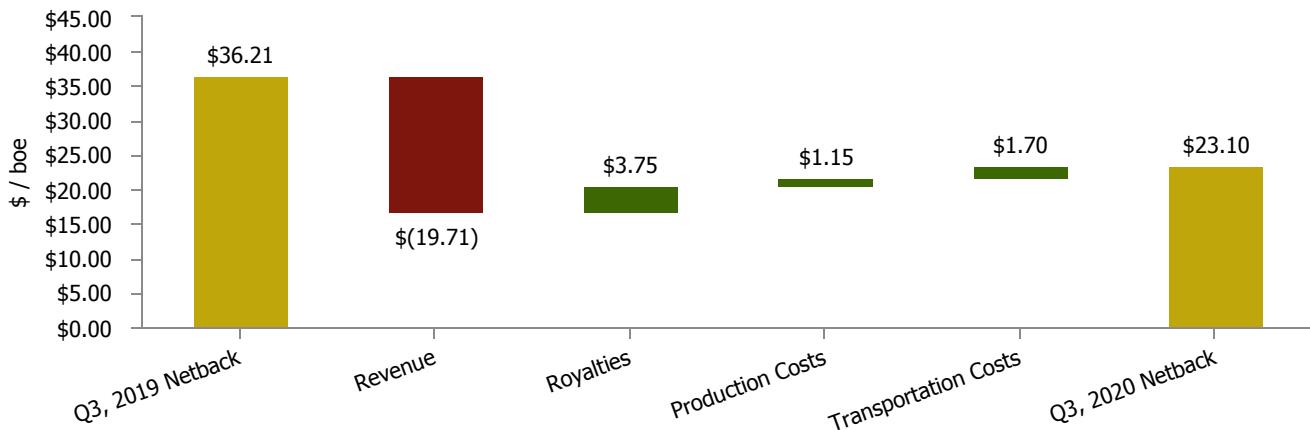
Consolidated Results of Operations

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Average daily production				
Light Crude and Medium Crude Oil (bbl/d)	4,626	8,135	5,814	6,832
Heavy Crude Oil (bbl/d)	38,309	43,862	39,488	44,415
Crude oil (bbl/d)	42,935	51,997	45,302	51,247
Conventional Natural Gas (mcf/d)	8,220	6,288	7,050	5,556
Total (boe/d)	44,305	53,045	46,477	52,173
Production split (% crude oil production)	97	98	97	98
Average daily sales of oil and natural gas				
Produced crude oil (bbl/d)	42,802	51,353	45,082	50,826
Purchased crude oil (bbl/d)	2,737	3,513	3,105	2,798
Produced natural gas (mcf/d)	8,220	6,288	7,050	5,556
Total (boe/d)	46,909	55,914	49,362	54,550
Operating netback (000s) ⁽¹⁾				
Oil and natural gas sales	\$ 146,231	\$ 275,693	\$ 420,256	\$ 824,037
Royalties	(12,054)	(32,375)	(42,013)	(99,351)
Net revenue	134,177	243,318	378,243	724,686
Production expense	(20,339)	(29,662)	(64,773)	(81,878)
Transportation expense	(12,130)	(23,218)	(42,209)	(68,512)
Purchased oil	(7,145)	(15,397)	(20,705)	(36,637)
Operating netback	\$ 94,563	\$ 175,041	\$ 250,556	\$ 537,659
Operating netback (per boe) ⁽¹⁾				
Oil and natural gas sales	\$ 33.88	\$ 53.59	\$ 31.07	\$ 55.33
Royalties	(2.97)	(6.72)	(3.31)	(7.03)
Net revenue	30.91	46.87	27.76	48.30
Production expense	(5.00)	(6.15)	(5.11)	(5.80)
Transportation expense	(2.81)	(4.51)	(3.12)	(4.60)
Operating netback	\$ 23.10	\$ 36.21	\$ 19.53	\$ 37.90

(1) Refer to page 23 "Non-GAAP Terms" for a description and details of the operating netback calculation.

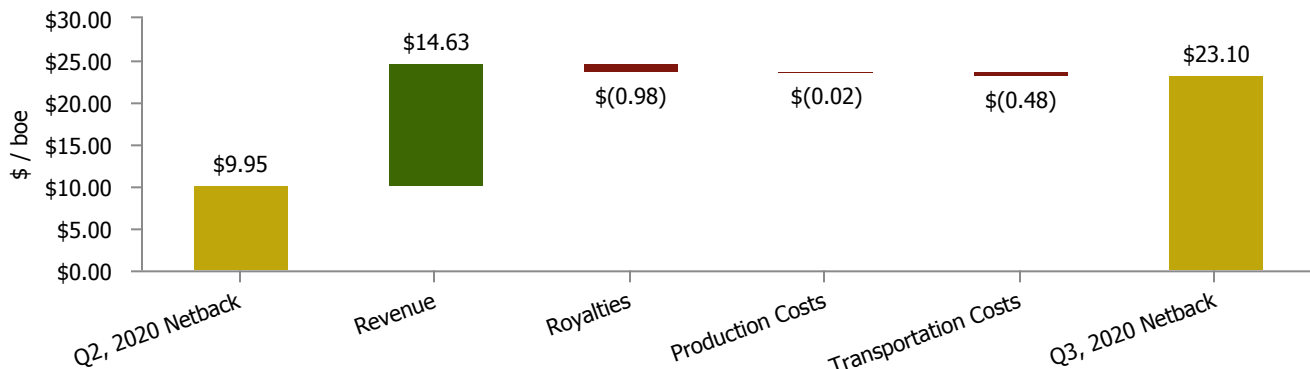
**Change in Operating Netback by Component
Q3/19 vs. Q3/20**



Overall, the Company's benchmark Brent price decreased by \$18.69/bbl, while revenue decreased by \$19.71/boe in the third quarter of 2020 as compared to the third quarter of 2019. The decrease in revenue relative to the Brent crude benchmark decrease is mainly a result of increased wellhead sales as compared to the comparative period. Royalties decreased by \$3.75/boe as a result of lower crude prices in the quarter. Production costs decreased by \$1.15/boe mainly as a result of the depreciation of the Colombian peso. Transportation costs decreased \$1.70/boe as a result of increased wellhead sales in the quarter.

Overall, the operating netback decreased by \$13.11/boe vs a Brent benchmark crude decrease of \$18.69/bbl.

**Change in Operating Netback by Component
Q2/20 vs. Q3/20**



In the third quarter of 2020, the Company's benchmark Brent price increased by \$9.95/bbl, while revenue increased by \$14.63/boe. The increase in revenue relative to the Brent crude benchmark increase is mainly a result of stronger Vasconia pricing as compared to the comparative period and decreased well head sales in the quarter. Royalties increased by \$0.98/boe as a result of higher crude prices in the quarter. Transportation costs increased \$0.48/boe as a result of decreased wellhead sales in the quarter.

Overall, the operating netback increased by \$13.15/boe vs a Brent benchmark crude increase of \$9.95/bbl.

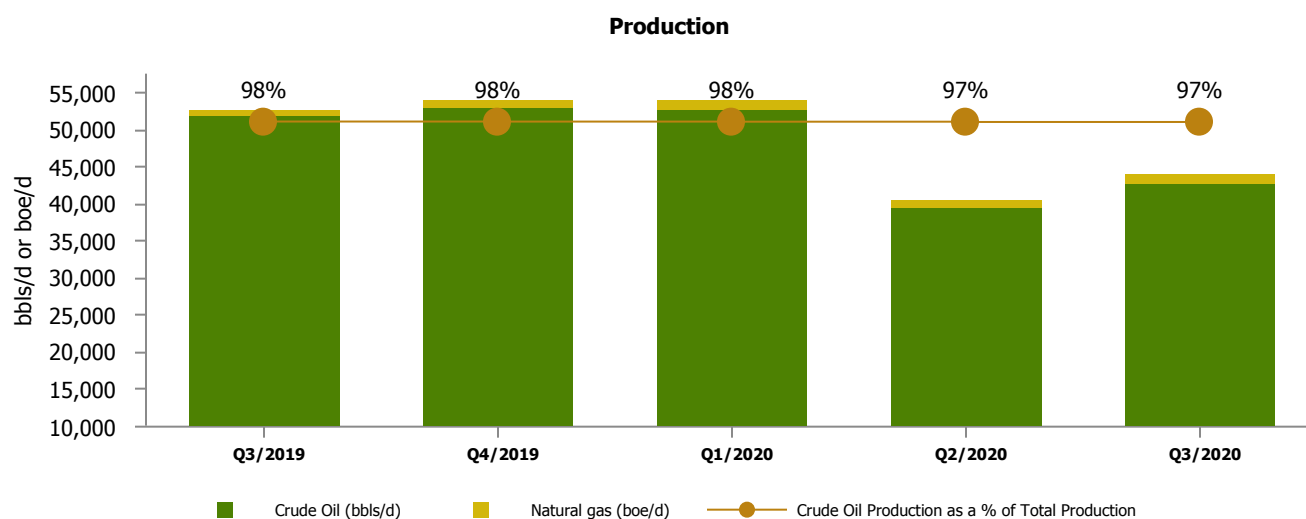
Oil and Natural Gas Sales

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

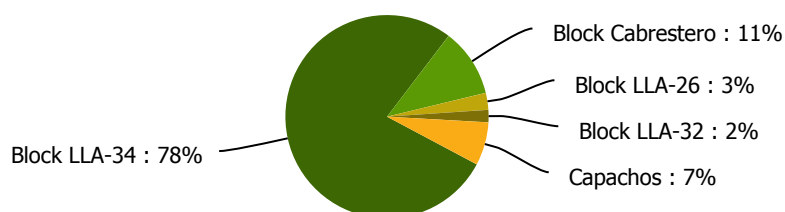
	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Block LLA-34 (Tigana, Jacana, Tua and Tarotaro fields)	33,032	38,094	34,735	37,998
Block Cabrestero (Bacano and Akira fields)	4,620	5,895	4,480	6,130
Block Capachos (Capachos and Andina fields)	2,925	3,051	3,147	2,269
Block LLA-26 (Rumba field)	1,144	1,878	1,089	1,679
Block LLA-32 (Kananaskis, Calona, Carmentea and Azogue fields)	839	1,407	1,157	1,488
Other	375	1,672	694	1,683
Total Crude Oil Production	42,935	51,997	45,302	51,247
Natural gas production	1,370	1,048	1,175	926
Total Crude oil and natural gas production	44,305	53,045	46,477	52,173
Crude oil inventory (build)	(133)	(644)	(220)	(421)
Average daily sales of produced oil and natural gas	44,172	52,401	46,257	51,752
Purchased oil	2,737	3,513	3,105	2,798
Sales Volumes	46,909	55,914	49,362	54,550

Oil and natural gas production for the third quarter of 2020 averaged 44,305 boe/d, a decrease of approximately 16% from the comparative third quarter of 2019 and an 8% increase from the second quarter of 2020 as a result of voluntarily curtailing production in response to the significant decline in world oil prices and ongoing uncertainty in market conditions resulting from the COVID-19 pandemic. In the third quarter of 2020 the Company began bringing back additional production from previously shut-in or curtailed fields.

Oil and natural gas sales in the third quarter of 2020 were 46,909 boe/d compared to 55,914 boe/d for the third quarter of 2019. The decrease in oil sales was a result of the decrease in oil production and purchased oil purchases/sales over the comparative period.



**Production By Area
(Three Months ended September 30, 2020)**



b) Crude Oil Reference and Realized Prices

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Reference Prices				
Brent (\$/bbl)	43.34	62.03	42.65	64.79
Vasconia (\$/bbl)	40.35	59.18	37.64	61.71
WTI (\$/bbl)	40.88	56.41	38.41	57.09
Average Realized Prices				
Realized sales price (\$/boe)	33.88	53.59	31.07	55.33
Realized price (differential) to Brent crude (\$/boe)	(9.46)	(8.44)	(11.58)	(9.46)

During Q3 2020, the differential between Brent reference pricing and the Company's realized sale price was \$9.46/boe. The differential to Brent crude during Q3 2020 decreased by \$4.68/boe compared to the second quarter of 2020 where the differential was \$14.14/boe (see below).

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

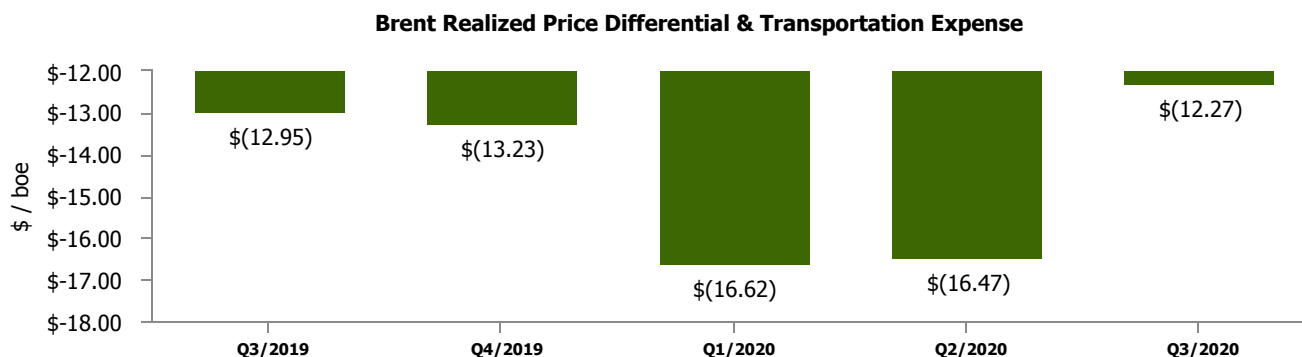
Average price for the period	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Brent (\$/bbl)	43.34	33.39	51.05	62.49	62.03
Vasconia (\$/bbl)	40.35	26.70	45.97	58.50	59.18
Brent/Vasconia crude (differential) (\$/bbl)	(2.99)	(6.69)	(5.08)	(3.99)	(2.85)
Parex quality differential (\$/bbl)	(0.35)	(0.44)	(0.18)	(0.72)	(0.38)
Parex wellhead and cargo export sales discount (\$/bbl)	(6.12)	(7.01)	(7.32)	(4.78)	(5.21)
Parex realized sales price (\$/boe)	33.88	19.25	38.47	53.00	53.59
Parex realized price (differential) to Brent crude (\$/boe)	(9.46)	(14.14)	(12.58)	(9.49)	(8.44)
Parex transportation expense (\$/boe) ⁽¹⁾	(2.81)	(2.33)	(4.04)	(3.74)	(4.51)
Parex price differential and transportation expense (\$/boe)	(12.27)	(16.47)	(16.62)	(13.23)	(12.95)

(1) See Transportation section below.

Differences between Parex' realized price and Vasconia crude price is mainly related to quality adjustments, wellhead sale marketing contracts, and timing of oil sales compared to quarter averages. The differential between Vasconia crude pricing and Brent crude pricing also affects Parex' realized sales price and is set in liquid global markets and therefore attributed to factors that are beyond the Company's control. The recent significant decrease in global crude oil prices beginning in March 2020 widened the Brent/Vasconia differential to as high as \$10/bbl in April and May 2020. In the third quarter of 2020 the Vasconia differential improved to \$2.99/bbl average for Q3 2020 vs \$6.69 in Q2 2020.

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

In 2019 the combined price differential and transportation expense had trended downward due to the shrinking of Vasconia crude differential and the depreciation of the Colombian peso, however in the fourth quarter of 2019 this differential began to widen. In the second quarter of 2020, this differential widened further by approximately \$2.70/boe compared to the fourth quarter of 2019 and the price differential plus transportation expense increased by \$3.24/boe mainly as a result the dramatic decrease in world oil prices beginning in March 2020 as a result of the COVID-19 pandemic. During the third quarter of 2020, the differential improved dramatically compared to the first two quarters of 2020. This improvement was due to a reduction of heavy crude differentials which the Company realized through its Vasconia blended crude.



c) Natural Gas Revenue and Realized Prices

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Revenue (000's)	\$ 4,562	\$ 3,315	\$ 11,941	\$ 9,201
Realized sales price (\$/Mcf)	6.03	5.73	6.18	6.07

Parex natural gas revenues were \$4.6 million and \$11.9 million for the three and nine months ended September 30, 2020 compared to \$3.3 million and \$9.2 million in the same period of 2019. The increase in natural gas sales from the prior periods is related to increased natural gas volumes sold from Block LLA-32 and the Capachos block.

d) Oil and Natural Gas Revenue

Third quarter 2020 oil and natural gas revenue decreased \$129.5 million or 47% as reconciled in the table below to the third quarter of 2019:

(\$000s)

Oil and natural gas revenue, three months ended September 30, 2019	\$ 275,693
Sales volume of produced oil, a decrease of 17% (8,551 bopd)	(42,437)
Sales volume of purchased oil, a decrease of 22% (776 bopd)	(3,852)
Oil sales price decrease of 37%	(84,420)
Sales volume and price change of produced natural gas	1,247
Oil and natural gas revenue, three months ended September 30, 2020	\$ 146,231

Oil and natural gas revenue decreased in the three months ended September 30, 2020 compared to the same period in 2019 mainly due to the decrease in world oil prices and decreased sales volumes of produced and purchased oil.

e) Crude Oil Inventory in Transit

As at September 30,

(\$000s)

	2020	2019
Crude oil in transit	\$ 1,620	\$ 4,169

As at September 30, 2020, the Company had 88.0 mbbls of crude oil inventory in transit compared to 175.8 mbbls at September 30, 2019, 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 \$18/bbl incurred in bringing the crude oil to its existing condition and location.

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

For the periods ended (mbbls)	Sep. 30, 2020	Jun. 30, 2020	Mar. 31, 2020	Dec. 31, 2019
Crude oil inventory in transit - beginning of the period	75.7	250.5	27.7	175.8
Oil production	3,940.2	3,615.2	4,830.4	4,885.2
Oil sales	(4,179.7)	(4,073.5)	(4,922.8)	(5,360.9)
Purchased oil	251.8	283.7	315.2	327.6
Crude oil inventory in transit - end of the period	88.0	75.9	250.5	27.7
% of period production	2.2	2.1	5.2	0.6

Crude oil inventory build and (draw) from period to period are subject to factors that the Company does not control such as timing of the number of shipments from storage to export. Crude oil inventory as a percentage of quarterly production at September 30, 2020 was 2.2%. Parex expects crude oil inventory in future periods to be line with normal historic levels of below 5% of period production.

f) Purchased Oil

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Purchased oil expense (\$000s)	\$ 7,145	\$ 15,397	\$ 20,705	\$ 36,637

Purchased oil expense for the three and nine months ended September 30, 2020 was \$7.1 million and \$20.7 million compared to \$15.4 million and \$36.6 million for the 2019 comparative period and \$3.3 million in the second quarter of 2020. Purchased oil expense has decreased in the third quarter of 2020 compared to the same period of 2019 as a result of a decrease in oil blending operations and a decrease in purchases of partner crude at certain fields, primarily at the Capachos field. Purchased oil expense increased in the third quarter of 2020 compared to the second quarter of 2020 as a result of an increase in the purchase of partner crude. Transportation costs are incurred by the Company to transport purchased oil to sale delivery points.

Royalties

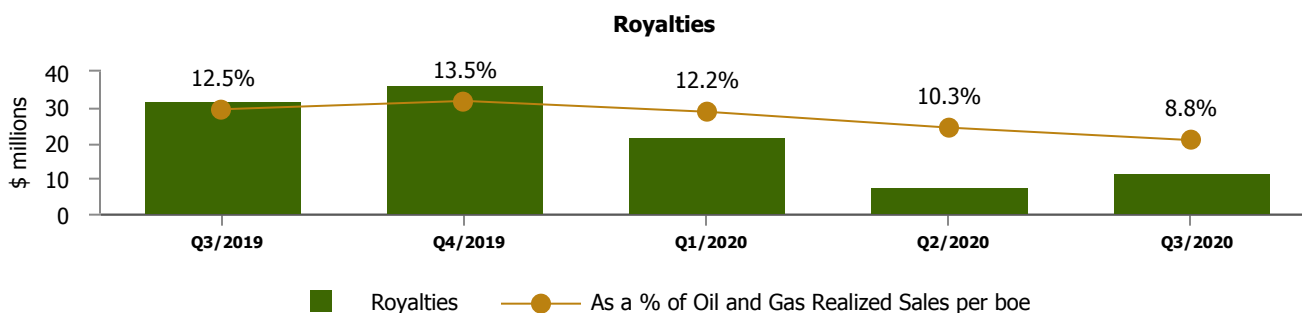
	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Royalties (\$000s)	\$ 12,054	\$ 32,375	\$ 42,013	\$ 99,351
Per unit (\$/boe)	2.97	6.72	3.31	7.03
Percentage of sales ⁽¹⁾	8.8	12.5	10.7	12.7

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

In the three and nine months ended September 30, 2020 royalties as a percentage of sales were 8.8% and 10.7% compared to 10.3% during the three months ended June 30, 2020, and 12.5% and 12.7% for the 2019 comparative periods. The decrease in royalties as a percentage of sales in the quarter from the previous quarter ended June 30, 2020 is a result of lower benchmark WTI prices which are used in the high price share royalty ("HPR") calculation. Benchmark WTI price for three and nine months ended September 30, 2020 were \$40.88 and \$38.41 compared to \$28.04 during the three months ended June 30, 2020, and \$56.41 and \$57.09 for the 2019 comparative periods.

The decrease in royalty expense to \$12.1 million and \$42.0 million in the three and nine months ended September 30, 2020 compared to \$32.4 million and \$99.4 million for the 2019 comparative prior year periods is a result of lower benchmark WTI prices used in the calculation of royalties and decreased oil production and sales over the prior period.

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



Production Expense

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Production expense (000s)	\$ 20,339	\$ 29,662	\$ 64,773	\$ 81,878
Per unit (\$/boe) ⁽¹⁾	5.00	6.15	5.11	5.80

(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 September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Per unit (\$/boe) – based on sales volumes – operated ⁽¹⁾	6.09	8.05	7.33	8.57
Per unit (\$/boe) – based on sales volumes – non-operated ⁽¹⁾	4.62	5.40	4.35	4.76

(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.

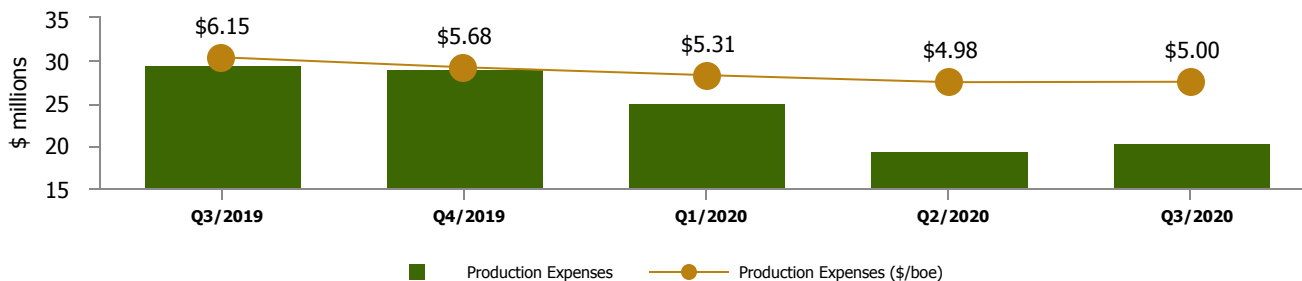
Production expense for the three and nine months ended September 30, 2020 was \$5.00/boe and \$5.11/boe compared to \$6.15/boe and \$5.80/boe in the three and nine months ended September 30, 2019. Production expense for the second quarter of 2020 was \$4.98/boe.

Operated properties production expense in the third quarter of 2020 was \$6.09/boe compared to \$7.59/boe for the second quarter of 2020 and non-operated properties production expense in the third quarter of 2020 was \$4.62/boe compared to \$3.34/boe for the second quarter of 2020.

The decrease in operated production expense for the nine months ended September 30, 2020 over the 2019 comparative period is mainly the result of the depreciation of the Colombian peso, additional production from the Capachos field, and the voluntary shut-in of higher operating cost fields compared to the prior period.

The decrease in non-operated production expense for nine months ended September 30, 2020 over the 2019 comparative period is mainly the result of the depreciation of the Colombian peso.

Production Expense



Transportation Expense

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Transportation expense (\$000s)	\$ 12,130	\$ 23,218	\$ 42,209	\$ 68,512
Per unit (\$/boe)	2.81	4.51	3.12	4.60

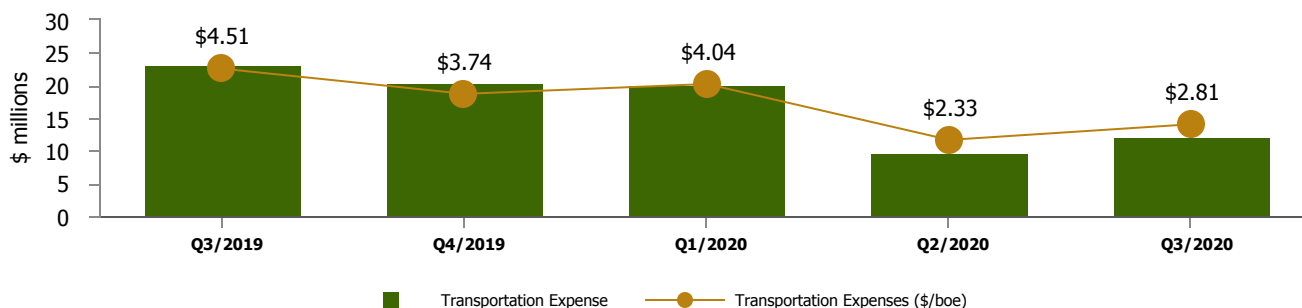
Transportation expense includes trucking costs incurred to transport production to several offloading stations for sale and in some instances an oil transportation tariff from delivery point to the buyer's facility and pipeline tariffs.

For the three months ended September 30, 2020 the cost of transportation on a per boe basis has increased to \$2.81/boe from the second quarter of 2020 of \$2.33/boe and decreased from the comparative period in 2019 of \$4.51/boe. Transportation expense will fluctuate period over period due to the mix of sales contracts types in force during the period. The increase from the second quarter of 2020 is mainly due to an increase in oil sale cargo exports where Parex records the full cost of transportation to the point of export vs. wellhead sales in the period.

The combined transportation expense and price differential from Brent, on a per boe basis, has decreased from the second quarter of 2020 and is comparable to the prior year comparative period. See "Crude Oil Reference and Realized Prices".

On a year to date basis, transportation expense has decreased to \$3.12/boe from \$4.60/boe in the comparative period in 2019 mainly as a result of decreased crude cargo exports and a higher percentage of wellhead sales.

Transportation Expenses



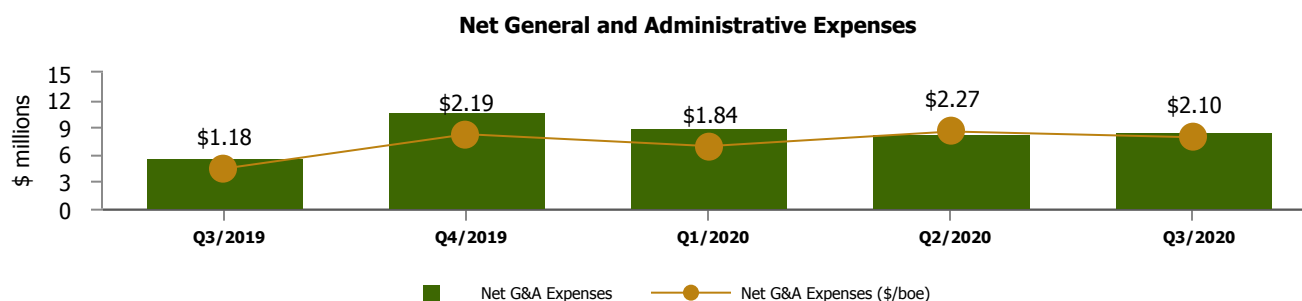
General and Administrative Expense ("G&A")

(000s)	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Gross G&A	\$ 10,217	\$ 9,687	\$ 31,698	\$ 32,840
G&A recoveries	(201)	(440)	(585)	(1,153)
Capitalized G&A	(1,444)	(3,501)	(5,003)	(8,384)
Total net G&A	\$ 8,572	\$ 5,746	\$ 26,110	\$ 23,303
Per unit (\$/boe) ⁽¹⁾	2.10	1.18	2.05	1.64

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

Net G&A was \$8.6 million and \$26.1 million for the three and nine months ended September 30, 2020 compared to \$5.7 million and \$23.3 million for the same periods in 2019. Net G&A has increased mainly as a result of decreased capitalized G&A and G&A recoveries as a result of less capital activity compared to the prior year. Gross G&A was \$10.2 million and \$31.7 million for the three and nine months ended September 30, 2020 (three and nine months ended September 30, 2019 - \$9.7 million and \$32.8 million). For the nine months ended September 30, 2020 on a per boe basis net G&A has increased 25% compared to the comparative period in 2019 as result of voluntary curtailment of production in the second and third quarter of 2020.

The Company's G&A expense is denominated in local currencies of COP and Cdn dollar which as they appreciate/depreciate have an impact on G&A expense. Refer to the "Foreign Exchange Sensitivity Analysis" on page 14 for further information.



Share-Based Compensation

(\$000s)	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Equity settled share-based compensation expense	\$ 747	\$ 1,787	\$ 2,627	\$ 5,818
Cash settled share-based compensation (recovery) expense	(793)	417	(3,412)	11,879
Total net (recovery) expense	\$ (46)	\$ 2,204	\$ (785)	\$ 17,697

Share-based compensation recovery was \$0.8 million for the nine months ended September 30, 2020 compared to \$17.7 million of expense recorded for the same period in 2019. The decrease is primarily due to the decrease the Company's share price and its impact on cash-settled compensation as explained below.

Equity settled share-based compensation expense was \$0.7 million for the three months ended September 30, 2020 compared to \$1.8 million for the same period in 2019. Equity settled share-based compensation includes the Company's stock option plan and the restricted share unit ("RSU") plan pursuant to which RSUs and performance based RSUs ("PSUs") have been awarded up until 2019. The decrease in the equity settled plan expense from the prior year is mainly related to the decrease in the awards remaining to be amortized under these plans as compared to the prior year.

Cash settled share-based compensation relates to the Company's cash settled incentive plans and includes share appreciation rights ("SARs"), cash settled restricted share units ("CRSUs"), cash or share settled restricted share units ("CosRSUs"), cash or share settled performance share units ("CosPSUs") and deferred share units ("DSUs"). The CRSU plan will replace the current SAR plan for the Colombian employees as granted SAR's vest, and are exercised. There will be no SAR grants going forward. For the three months ended September 30, 2020 there was a recovery of \$0.8 million related to cash settled incentive plans compared to \$0.4 million expense for the same period in 2019. The decrease in expense is attributable to the decrease in Parex share price to Cdn\$14.03 at September 30, 2020 from Cdn \$20.30 at September 30, 2019, partially offset by the increase in issuance of cash settled compensation. Obligations for payments of cash under the Company's cash settled incentive plans are accrued as expense over the vesting period based on the fair value of the units as described in note 14 of the interim financial statements for the nine months ended September 30, 2020. As at September 30, 2020, the total cash settled incentive plans liability accrued was \$15.5 million (December 31, 2019 - \$27.9 million).

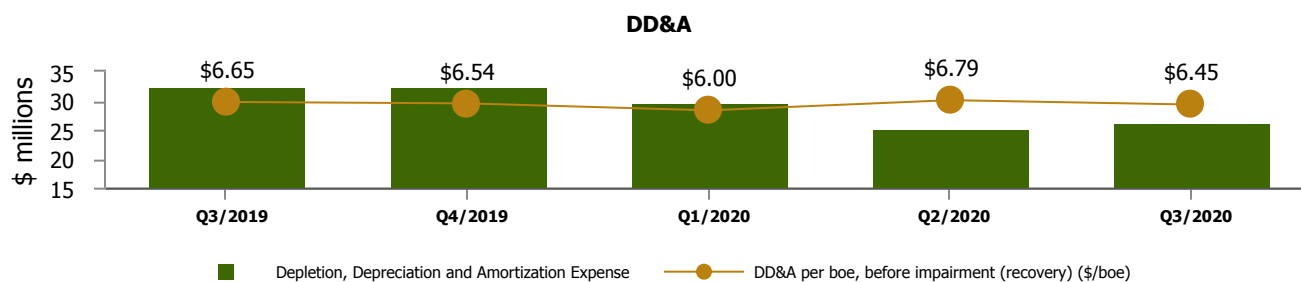
Cash payments to settle cash settled share-based compensation in the three and nine months ended September 30, 2020 was \$0.5 million and \$11.6 million compared to \$2.1 million and \$8.6 million for the same periods in 2019.

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
DD&A expense (000s)	\$ 26,285	\$ 32,467	\$ 81,204	\$ 93,263
Per unit (\$/boe) ⁽¹⁾	6.45	6.65	6.38	6.55

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

Third quarter 2020 DD&A was \$26.3 million (\$6.45/boe) compared to \$32.5 million (\$6.65/boe) for the same period in 2019. The decrease in DD&A expense is due to the increase in proved and probable reserves over the prior period. DD&A on a \$/boe basis has remained relatively flat compared to the prior period.



Foreign Exchange (Gain) Loss

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Foreign exchange (gain) loss	\$ (248)	\$ (687)	\$ (10,324)	\$ 4,924
Foreign currency risk management contracts loss (gain)	—	55	511	(3,488)
Total foreign exchange (gain) loss	\$ (248)	\$ (632)	\$ (9,813)	\$ 1,436
Foreign Exchange Rates				
USD\$/CAD\$ ⁽¹⁾	1.33	1.32	1.35	1.33
USD\$/Colombian peso ⁽¹⁾	3,730	3,338	3,704	3,239

(1) Average exchange rates for the period.

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

For the three months ended September 30, 2020, the total foreign exchange gain was \$0.2 million (three months ended September 30, 2019 – gain of \$0.6 million) attributable to the appreciation of COP against the USD. Unrealized foreign exchange gains and losses may be reversed in the future as a result of fluctuations in exchange rates and are recorded in the Company's consolidated statements of comprehensive income.

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

Foreign Exchange Sensitivity Analysis

Cost component	Estimated percent of cost denominated in local currency	\$/boe Impact of change in local currency/\$USD exchange rate	
		10% appreciation of local currency	10% depreciation of local currency
Production expense	80%	\$ 0.40	\$ (0.40)
Transportation expense	80%	\$ 0.22	\$ (0.22)
G&A expense	100%	\$ 0.21	\$ (0.21)

The table above displays the estimated per boe impact of a change in Parex' local currencies and the effect on Parex' key cost components. The component impact in \$/boe terms uses Q3 2020 per boe costs. This analysis ignores all other factors impacting cost structure including efficiencies, cost reduction strategies, etc.

Net Finance Expense

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Bank charges and credit facility fees	\$ 419	\$ 524	\$ 2,116	\$ 2,863
Accretion on decommissioning and environmental liabilities	980	1,259	3,200	3,323
Interest and other income	(281)	(2,034)	(1,879)	(6,320)
Right of use asset interest	14	24	50	77
Loss on settlement of decommissioning liabilities	374	799	361	1,660
Loss on disposition of tangible assets	86	198	1,344	232
Expected credit loss provision	490	—	1,434	—
Other	—	—	(647)	43
Net finance expense	\$ 2,082	\$ 770	\$ 5,979	\$ 1,878

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Non-cash finance expense	\$ 1,930	\$ 2,280	\$ 5,692	\$ 5,335
Cash finance expense (income)	152	(1,510)	287	(3,457)
Net finance expense	\$ 2,082	\$ 770	\$ 5,979	\$ 1,878

Bank taxes and credit facility fees relate to bank taxes paid in Colombia and the standby fees related to the undrawn credit facility. The non-cash components of net finance expense include the accretion on decommissioning and environmental liabilities, loss on settlement of decommissioning liabilities, and the expected credit loss provision which has increased due to the COVID-19 pandemic and its impact on credit markets and ratings.

Risk Management

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

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

a) Risk Management Contracts - Brent Crude

At September 30, 2020 the Company had no crude oil risk management contracts in place.

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Realized loss on commodity risk management contracts	\$ —	\$ —	\$ 3,940	\$ —
Total	\$ —	\$ —	\$ 3,940	\$ —

b) Risk Management Contracts – Foreign Exchange

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

As at September 30, 2020, the Company had no outstanding foreign currency risk management contracts.

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Premiums paid on foreign currency risk management contracts	\$ —	\$ 211	\$ —	\$ 211
Realized loss on foreign currency risk management contracts	—	950	511	4,679
Unrealized (gain) on foreign currency risk management contracts	—	(1,106)	—	(8,378)
Total	\$ —	\$ 55	\$ 511	\$ (3,488)

The Company recorded a \$1.1 million unrealized gain and a \$1.2 million realized loss on these contracts in the three months ended September 30, 2019 which is recorded in the financial statement line item "Foreign exchange (gain) loss" while it was previously recorded in the financial statement line item "Finance income" and "Finance Expense".

Income Tax

The components of tax expense for the three and nine months ended September 30, 2020 and 2019 were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Current tax expense	\$ 6,541	\$ 31,051	\$ 9,789	\$ 87,400
Deferred tax expense	23,758	40,634	84,002	66,362
Tax expense	\$ 30,299	\$ 71,685	\$ 93,791	\$ 153,762

Current tax expense in the third quarter of 2020 was \$6.5 million as compared to \$31.1 million expense in the comparative period. The decrease from the prior year comparative period is mainly a result of a decrease in operating cash flows from the prior period.

Deferred tax expense in the three months ended September 30, 2020 was \$23.8 million, the decrease from the comparative period is mainly related to the foreign exchange impact of the Colombian peso denominated tax basis, which has decreased as a result of the depreciation of the Colombian peso to US dollar from June 30, 2020 to September 30, 2020. The Colombian peso decreased 3% versus the US dollar from these period end dates.

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

Capital Expenditures

For the three months ended September 30, (\$000s)	Colombia		Canada		Total	
	2020	2019	2020	2019	2020	2019
Acquisition of unproved properties	\$ 173	\$ 469	\$ —	\$ —	\$ 173	\$ 469
Geological and geophysical	146	3,749	—	—	146	3,749
Drilling and completion	12,927	47,149	—	—	12,927	47,149
Well equipment and facilities	4,458	(2,823)	—	—	4,458	(2,823)
Other	13	2	39	54	52	56
Total capital expenditures	\$ 17,717	\$ 48,546	\$ 39	\$ 54	\$ 17,756	\$ 48,600

For the nine months ended September 30, (\$000s)	Colombia		Canada		Total	
	2020	2019	2020	2019	2020	2019
Acquisition of unproved properties	\$ 488	\$ 1,424	\$ —	\$ —	\$ 488	\$ 1,424
Geological and geophysical	924	8,017	—	—	924	8,017
Drilling and completion	84,021	122,826	—	—	84,021	122,826
Well equipment and facilities	8,625	17,474	—	—	8,625	17,474
Other	130	55	144	79	274	134
Total capital expenditures	\$ 94,188	\$ 149,796	\$ 144	\$ 79	\$ 94,332	\$ 149,875

Capital Expenditures Summary

During the nine months ended September 30, 2020 the Company incurred \$94.3 million of capital expenditures compared to \$149.9 million in the same period of 2019. During Q3 2020 the Company drilled 2 gross (1.55 net), compared to drilling 9 gross (5.30 net) wells in the comparative period upon the re-activation of the development and exploration program. During Q3, 2020, total drilling and completion costs were \$12.9 million of which the majority related to drilling, completion and capitalized workover costs at Block LLA-34, Cabrestero block and Fortuna block. Facilities costs in Q3 2020 were due to the Block LLA-34 flowline construction.

During the nine months ended September 30, 2020 capital expenditures of \$94.3 million were self-funded from funds flow provided by operations of \$215.5 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.

Non-cash Impairment Charges

(\$000s)	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Impairment of PP&E related to Boranda CGU	\$ —	\$ —	\$ 7,000	\$ —
Impairment of E&E assets	\$ —	\$ 5,544	\$ —	\$ 5,544
Total non-cash impairment charges before deferred income tax recoveries	\$ —	\$ 5,544	\$ 7,000	\$ 5,544

As a result of the COVID-19 pandemic and the significant decrease in forecast global crude oil prices compared to those at December 31, 2019, an indication of impairment was identified for all CGUs at March 31, 2020 and impairment tests were performed. The Company determined that the carrying amount of the Boranda CGU in the Magdalena Basin exceeded its recoverable amount and an impairment of \$7.0 million was recorded in the consolidated statements of comprehensive (loss) for the three month period ended March 31, 2020. All other CGU's were found to have recoverable amounts greater than carrying amounts. The recoverable amount for this testing was determined using fair value less cost of disposal. Future cash flows for the CGU's declined due to lower crude oil prices.

The fair value as determined for the Company's producing properties was consistent with the Company's independent qualified reserve evaluators reserve estimate at December 31, 2019, updated for forecast oil prices at March 31, 2020 and adjusting for first quarter production and future development capital expenditures. There are no E&E assets associated with this CGU. Future cash flows were discounted using a rate of 11%. As at March 31, 2020, the recoverable amount of the CGU was estimated to be \$16.5 million. The impairment of \$7.0 million was due to the lower crude oil price forecast at March 31, 2020 assumed in the fair value calculation compared to the prior year. A 1% change to the assumed discount rate or a 5% change in forward price estimates over the life of the reserves would have an immaterial impact on the impairment.

The future oil prices used in the model are based on a forecast of crude oil prices by Parex' independent reserve evaluators.

Prices used at March 31, 2020 are as follows:

	2020	2021	2022	2023	2024	Thereafter
Brent (\$US/bbl)	38.64	45.50	52.50	57.50	62.50	2% increase per year

Prices used at December 31, 2019 are as follows:

	2020	2021	2022	2023	2024	Thereafter
Brent (\$US/bbl)	67.00	68.00	71.00	73.00	75.00	2% increase per year

There were no indicators of impairment at June 30, 2020 or September 30, 2020.

An impairment of E&E assets of \$5.5 million was recorded in the consolidated statement of comprehensive income for the three and nine months ended September 30, 2019 associated with the Morpho block costs in the Middle Magdalena basin as the block has been relinquished and the net book value of costs impaired to \$nil.

Summary of Quarterly Results

Three months ended (\$000s)	Sep. 30, 2020	Jun. 30, 2020	Mar. 31, 2020	Dec. 31, 2019
Average daily oil and natural gas production (boe/d)	44,305	40,858	54,295	54,221
Average realized sales price - oil (\$/boe)	33.88	19.25	38.47	53.00
Financial (000s except per share amounts)				
Oil and natural gas sales	\$ 146,231	\$ 80,407	\$ 193,618	\$ 289,585
Funds flow provided by operations ⁽¹⁾	\$ 79,384	\$ 38,777	\$ 97,313	\$ 143,269
Per share – basic	0.57	0.28	0.69	1.00
Per share – diluted ⁽¹⁾	0.57	0.27	0.68	0.98
Net income (loss)	\$ 27,619	\$ 19,290	\$ (3,779)	\$ 87,218
Per share – basic	0.20	0.14	(0.03)	0.61
Per share – diluted	0.20	0.14	(0.03)	0.60
Capital Expenditures, excluding corporate acquisitions	\$ 17,756	\$ 5,310	\$ 71,266	\$ 58,321
Total assets (end of period)	\$ 1,548,484	\$ 1,533,377	\$ 1,610,341	\$ 1,684,581
Working capital surplus (end of period) ⁽²⁾	\$ 370,722	\$ 339,310	\$ 330,356	\$ 344,031

(1) Non-GAAP term. See "Non-GAAP Terms" below. In the second quarter of 2019, Parex changed the way it calculates and presents funds flow from operations. Comparative periods have also been adjusted for this change.

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

Three months ended (\$000s)	Sep. 30, 2019	Jun. 30, 2019	Mar. 31, 2019	Dec. 31, 2018
Average daily oil and natural gas production (boe/d)	53,045	52,252	51,208	49,300
Average realized sales price - oil (\$/boe)	53.59	59.92	52.33	55.42
Financial (000s except per share amounts)				
Oil and natural gas sales	\$ 275,693	\$ 301,750	\$ 246,594	\$ 270,599
Funds flow provided by operations ⁽¹⁾	\$ 142,733	\$ 150,973	\$ 133,505	\$ 154,211
Per share – basic	0.99	1.03	0.88	0.99
Per share – diluted ⁽¹⁾	0.97	1.00	0.86	0.97
Net income	\$ 57,257	\$ 101,505	\$ 82,014	\$ 54,060
Per share – basic	0.40	0.69	0.54	0.35
Per share – diluted	0.39	0.67	0.53	0.34
Capital Expenditures, excluding corporate acquisitions	\$ 48,600	\$ 48,742	\$ 52,533	\$ 76,758
Total assets (end of period)	\$ 1,593,802	\$ 1,574,528	\$ 1,657,956	\$ 1,642,120
Working capital surplus (end of period) ⁽²⁾	\$ 279,949	\$ 240,087	\$ 207,414	\$ 218,526

(1) Non-GAAP term. See "Non-GAAP Terms" below. In the second quarter of 2019, Parex changed the way it calculates and presents funds flow from operations. Comparative periods have also been adjusted for this change.

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

Factors that Caused Variations Quarter Over Quarter

During the third quarter of 2020, production of 44,305 boe/d was greater than oil production for the previous quarter ended June 30, 2020. Revenue and funds flow provided by operations were higher than the previous quarter mainly due to an increase in realized prices and volumes sold. Working capital increased to \$370.7 million from \$339.3 million at June 30, 2020.

During the second quarter of 2020, production of 40,858 boe/d was less than oil production for the previous quarter ended March 31, 2020. Revenue and funds flow provided by operations were lower than the previous quarter mainly due to a decrease in realized prices and volumes sold. Working capital increased to \$339.3 million from \$330.4 million at March 31, 2020.

During the first quarter of 2020, production of 54,295 boe/d was in excess of oil production for the previous quarter ended December 31, 2019. Revenue and funds flow provided by operations were lower than the previous quarter mainly due to a decrease in realized prices and volumes sold. Working capital decreased to \$330.4 million from \$344.0 million at December 31, 2019.

During the fourth quarter of 2019, production of 54,221 boe/d was in excess of oil production for the previous quarter ended September 30, 2019. Revenue and funds flow provided by operations were higher than the previous quarter due to an increase in volumes sold, partially offset by a decrease in realized prices. Working capital increased to \$344.0 million from \$279.9 million at September 30, 2019.

During the third quarter of 2019, production of 53,045 boe/d was in excess of oil production for the previous quarter ended June 30, 2019. Revenue and funds flow provided by operations were lower than the previous quarter due to a decrease in realized prices, partially offset by an increase in volumes sold. Working capital increased to \$279.9 million from \$240.1 million at June 30, 2019.

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

Liquidity and Capital Resources

As at September 30, 2020 the Company had a working capital surplus of \$370.7 million, excluding funds available under the credit facility, as compared to working capital surplus at December 31, 2019 of \$344.0 million. Working capital increased in the third quarter due to free cash flow being generated during the quarter. Bank debt was \$nil as at September 30, 2020, December 31, 2019 and September 30, 2019. The credit facility has a current borrowing base of \$200.0 million (December 31, 2019 - \$200.0 million). At September 30, 2020 Parex held \$353.3 million of cash, compared to \$396.8 million at December 31, 2019 and \$350.2 million at September 30, 2019. The Company's cash balances reside in current accounts, the majority of which are held on account in Canada, Barbados, Bermuda and Colombia in USD.

Parex' senior secured credit facility with a syndicate of banks has a current borrowing base of \$200.0 million. Key covenants include a rolling four quarters total funded debt to adjusted EBITDA test of 3:50:1, and other standard business operating covenants. Given there is \$nil balance drawn on the facility as at September 30, 2020, the Company is in compliance with all covenants. The next annual review is scheduled to occur in May 2021.

Refer to note 21 - Commitments of the interim financial statements for the period ended September 30, 2020 for a description of the performance guarantee facility with Export Development Canada as well as the unsecured letters of credit.

Outstanding Share Data

Parex is authorized to issue an unlimited number of voting common shares without nominal or par value. As at September 30, 2020 the Company had 137,036,590 common shares outstanding compared to 143,295,054 at December 31, 2019 a decrease of 4.4%. At November 4, 2020 the common shares outstanding has been reduced to 134,670,509.

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

As at November 4, 2020 Parex has the following securities outstanding:

	Number	%
Common shares	134,670,509	97 %
Stock options	2,194,991	2 %
Restricted and performance share units	1,332,801	1 %
	138,198,301	100 %

As of the date of this MD&A, total stock options, RSUs and PSUs outstanding represent approximately 3% of the total issued and outstanding common shares.

Contractual Obligations, Commitments and Guarantees

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

In Colombia, the Company has provided guarantees to the Colombian National Hydrocarbon Agency ("ANH") which on September 30, 2020 were \$39.2 million (December 31, 2019 - \$47.9 million) to support the exploration work commitments on its blocks. The guarantees have been provided in the form of letters of credit for varying terms. Export Development Canada has provided performance security guarantees under the Company's \$150.0 million (December 31, 2019 - \$150.0 million) performance guarantee facility to support approximately \$18.1 million (December 31, 2019 - \$25.4 million) of the letters of credit issued on behalf of Parex at September 30, 2020. Also at September 30, 2020, there is an additional \$21.1 million (December 31, 2019 - \$22.5 million) of letters of credit that are provided by a Latin American bank on an unsecured basis. The letters of credit issued to the ANH are reduced from time to time to reflect the work performed on the various blocks.

The following table summarizes the Company's estimated undiscounted commitments as at September 30, 2020:

(000s)	Total	<1 year	1 – 3 years	3 – 5 years	>5 years
Exploration	\$ 167,870	\$ 34,804	\$ 43,975	\$ 89,091	\$ —
Office and accommodations ⁽¹⁾	7,936	2,444	3,558	1,934	—
Decommissioning and Environmental Obligations	75,507	3,510	—	—	71,997
Total	\$ 251,313	\$ 40,758	\$ 47,533	\$ 91,025	\$ 71,997

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

Decommissioning and Environmental Liabilities

	Decommissioning	Environmental	Total
Balance, December 31, 2018	\$ 42,052	\$ 15,549	\$ 57,601
Additions	10,524	1,355	11,879
Settlements of obligations during the year	(10,536)	(1,229)	(11,765)
Loss on settlement of obligations	359	—	359
Accretion expense	3,166	1,426	4,592
Change in estimate - inflation and discount rates	1,455	170	1,625
Change in estimate - costs	(10,253)	(2,532)	(12,785)
Foreign exchange loss (gain)	477	(48)	429
Balance, December 31, 2019	\$ 37,244	\$ 14,691	\$ 51,935
Additions	1,428	480	1,908
Settlements of obligations during the period	(1,194)	(782)	(1,976)
Loss on settlement of obligations	361	—	361
Accretion expense	1,740	1,460	3,200
Change in estimate - inflation and discount rates	3,064	590	3,654
Change in estimate - costs	—	(1,489)	(1,489)
Foreign exchange (gain)	(6,025)	(2,692)	(8,717)
Balance, September 30, 2020	\$ 36,618	\$ 12,258	\$ 48,876
Current obligation	(1,939)	(1,571)	(3,510)
Long-term obligation	\$ 34,679	\$ 10,687	\$ 45,366

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 September 30, 2020, 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 \$57.0 million as at September 30, 2020 (December 31, 2019 – \$63.3 million) with the majority of these costs anticipated to occur in 2033 or later. A risk-free discount rate of 5.6% and an inflation rate of 3.1% were used in the valuation of the liabilities (December 31, 2019 – 6.7% risk-free discount rate and a 3.1% inflation rate). The risk-free discount rate and the inflation rate used are based on forecast Colombia rates.

Included in the decommissioning liability is \$1.9 million (December 31, 2019 – \$4.3 million) that is classified as a current obligation.

The total undiscounted amount of cash flows required to settle the Company's environmental liability is approximately \$18.5 million as at September 30, 2020 (December 31, 2019 – \$21.5 million) with the majority of these costs anticipated to occur in 2033 or later in Colombia. A risk-free discount rate of 5.6% and an inflation rate of 3.1% were used in the valuation of the liabilities (December 31, 2019 – 6.7% risk-free discount rate and a 3.1% inflation rate). The risk-free discount rate and the inflation rate used are based on forecast Colombia rates.

Included in the environmental liability is \$1.6 million (December 31, 2019 – \$4.1 million) that is classified as a current obligation.

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

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

Advisory on Forward-Looking Statements

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

- the Company's operational strategy, plans, priorities and focus;
- 2020 estimated and 2021 guidance for Brent crude average price, average production, total capital expenditures, funds flow provided by operations, free funds flow, amount spent on the Company's share buy-back program, outstanding shares at end of the applicable period, production per share growth, estimated working capital at end of the applicable period, bank debt outstanding at end of applicable period and assumptions underlying such estimates and guidance;
- expectation that the Company will generate free funds flow above planned capital expenditures in 2021;
- allocation of 2021 planned capital expenditures;
- year-over-year production growth of approximately 4% in 2021;
- expectation that Parex will purchase the maximum allowable shares under its normal course issuer bid;
- Parex' 2021 share buy-back program and the sources of funding;
- expectation that there will be minimal changes required to 2021 production, capital expenditures and total share re-purchase under the current Brent oil pricing scenario;
- 2021 netback sensitivity estimates;
- fluctuation in Brent/Vasconia crude differential;
- expectation that crude oil inventory in future periods to be in line with normal historic levels;
- the amount and timing of payment of total decommissioning and environmental liability cost;

- the Company's expectations regarding the per boe and G&A expense impact caused by appreciation and depreciation of the Colombian peso;
- the effect of the Colombian peso/US\$ exchange rate on the variability of general and administrative, transportation, and production costs;
- foreign currency risk and the ability to reverse unrealized foreign exchange gains and losses in the future;
- the Company's risk management strategy and the use of derivatives primarily with financial institutions to manage movements in the price of crude oil, fluctuations in the US/COP exchange rate and interest rate movements;
- terms of the Company's credit facility including the timing of the next borrowing base redetermination;
- terms of certain contractual obligations; and
- the Company's expectation that only the grants under the Company's stock option plan and the exercise of previously issued RSUs and PSUs will result in common shares issued from treasury.

These forward-looking statements are subject to numerous risks and uncertainties, including but not limited to: the impact of general economic conditions in Canada and Colombia; industry conditions including changes in laws and regulations including adoption of new environmental laws and regulations, and changes in how they are interpreted and enforced in Canada and Colombia; continued volatility in market prices for oil; the impact of the COVID-19 pandemic and the ability of Parex to carry on its operations as currently contemplated in light of the COVID-19 pandemic; the impact of significant declines in market prices for oil; competition; lack of availability of qualified personnel; the results of exploration and development drilling and related activities; partner approval of capital work programs and other matters requiring approval; imprecision in reserve and resource estimates; the production and growth potential of Parex' assets; obtaining required approvals of regulatory authorities in Canada and Colombia; risks associated with negotiating with foreign governments as well as country risk associated with conducting international activities; fluctuations in foreign exchange or interest rates; environmental risks; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and natural gas industry; ability to access sufficient capital from internal and external sources; risk that the Company will not be able to obtain contract extensions or fulfill the contractual obligations required to retain its rights to explore, develop and exploit any of its undeveloped properties; risk of failure to achieve the anticipated benefits associated with acquisitions; risk of failure to achieve perceived benefits from voluntary tax restructuring; failure of counterparties to perform under the terms of their contracts; changes to pipeline capacity; risk that Parex' evaluation of its existing portfolio of development and exploration opportunities is not consistent with its expectations; failure to meet expected production targets; risk that the review of strategic repositioning alternatives will not result in a transaction; the risks discussed under "Risk Factors" in the Company's AIF and under "Decommissioning and Environmental Liabilities" in this MD&A, and other factors, many of which are beyond the control of the Company. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

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

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

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

This MD&A contains future oriented financial information and financial outlook information (collectively "FOFI") about the Company's prospective capital expenditures and working capital. 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.

Oil & Gas Matters Advisory

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

Non-GAAP Terms

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

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

Funds flow provided by operations, is a non-GAAP measure that includes all cash generated from operating activities and is calculated before changes in non-cash working capital. In Q2 2019, the Company changed how it presents funds flow provided by operations to present on a more comparable basis to industry presentation. Amounts have been restated for prior periods. A reconciliation from cash provided by operating activities to funds flow provided by operations is as follows:

(\$000s)	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Cash provided by operating activities	\$ 70,093	\$ 144,516	\$ 203,030	\$ 281,301
Net change in non-cash working capital	9,291	(1,783)	12,444	145,910
Funds flow provided by operations	\$ 79,384	\$ 142,733	\$ 215,474	\$ 427,211

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

(\$000s)	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Funds flow provided by operations	\$ 79,384	\$ 142,733	\$ 215,474	\$ 427,211
Denominator (BOEs)				
Company produced oil and natural gas sales in period	4,063,824	4,820,892	12,674,608	14,128,913
Funds flow provided by operations per boe	\$ 19.53	\$ 29.61	\$ 17.00	\$ 30.24

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

(\$000s)	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Funds flow provided by operations	\$ 79,384	\$ 142,733	\$ 215,474	\$ 427,211
Capital expenditures	17,756	48,600	94,332	149,875
Free funds flow	\$ 61,628	\$ 94,133	\$ 121,142	\$ 277,336

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

(000s)	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Funds flow provided by operations	\$ 79,384	\$ 142,733	\$ 215,474	\$ 427,211
Weighted average number of shares for the purposes of basic funds flow	138,303	144,081	139,882	147,531
Dilutive effect of share options on potential common shares	1,588	3,014	1,595	2,987
Weighted average number of shares for the purposes of diluted funds flow	139,891	147,095	141,477	150,518

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

Operating netback per boe

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

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

(\$000s)	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Oil and natural gas revenue excluding risk management contracts	\$ 146,231	\$ 275,693	\$ 420,256	\$ 824,037
Denominator (BOEs)				
Company produced oil and natural gas sales in period	4,063,824	4,820,892	12,674,608	14,128,913
Purchased oil volumes sold	251,804	323,196	850,675	763,968
Total oil and natural gas sales volumes	4,315,628	5,144,088	13,525,283	14,892,881
Sales price per boe	\$ 33.88	\$ 53.59	\$ 31.07	\$ 55.33

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

(\$000s)	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Royalty expense	\$ 12,054	\$ 32,375	\$ 42,013	\$ 99,351
Denominator (BOEs)				
Company produced oil and natural gas sales in period	4,063,824	4,820,892	12,674,608	14,128,913
Royalty expense per boe	\$ 2.97	\$ 6.72	\$ 3.31	\$ 7.03

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

(\$000s)	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Production Expense	\$ 20,339	\$ 29,662	\$ 64,773	\$ 81,878
Denominator (BOEs)				
Company produced oil and natural gas sales in period	4,063,824	4,820,892	12,674,608	14,128,913
Production expense per boe	\$ 5.00	\$ 6.15	\$ 5.11	\$ 5.80

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

(\$000s)	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Transportation Expense	\$ 12,130	\$ 23,218	\$ 42,209	\$ 68,512
Denominator (BOEs)				
Company produced oil and natural gas sales in period	4,063,824	4,820,892	12,674,608	14,128,913
Purchased oil volumes sold	251,804	323,196	850,675	763,968
Total oil and natural gas sales volumes	4,315,628	5,144,088	13,525,283	14,892,881
Transportation expense per boe	\$ 2.81	\$ 4.51	\$ 3.12	\$ 4.60

Business Environment and Risks

Parex is exposed to various market and operational risks. For a discussion of these risks please refer to the Parex' AIF for the year ended December 31, 2019 as filed on SEDAR at www.sedar.com or Parex' website at www.parexresources.com.

COVID-19

The COVID-19 pandemic has resulted in emergency actions taken by governments worldwide which has had an effect in all of our operating jurisdictions. The actions taken by these governments have typically included, but is not limited to travel bans, mandatory and self-imposed quarantines and isolations, social distancing, and the closing of non-essential businesses which has had significant negative effects on economies, including a substantial decline in crude oil and natural gas demand. Additionally, such actions have resulted in volatility and disruptions in regular business operations, supply chains and financial markets as well as declining trade and market sentiment. COVID-19 as well as other factors have resulted in the deepest drop in crude oil prices that global markets have seen since 1991. With the rapid spread of COVID-19, oil prices and the global equity markets have deteriorated significantly and are expected to remain under pressure. The extreme supply/demand imbalance is anticipated to cause a reduction in industry spending in 2020. These events and conditions have caused a significant decrease in the valuation of oil and natural gas companies and a decrease in confidence in the oil and natural gas industry. COVID-19 also poses a risk on the financial capacity of Parex' contract counterparties and potentially their ability to perform contractual obligations.

The full extent of the risks surrounding the COVID-19 pandemic is continually evolving. The following risks disclosed in our Annual Information Form for the year ended December 31, 2019 may be exacerbated as a result of the COVID-19 pandemic: market risks related to the volatility of oil and gas prices, volatility of foreign exchange rates, volatility of the market price of common shares, and hedging arrangements; operational risks related to increasing operating costs or declines in production levels, operator performance and payment delays, and government regulations, ability to obtain additional financing, and variations in foreign exchange rates; and other risks related to cyber-security as our workforce moves to remote connections, accounting adjustments, effectiveness of internal controls, and reliance on key personnel, management, and labour.

Internal Controls over Financial Reporting

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

Off-Balance-Sheet Arrangements

The Company did not enter into any off-balance-sheet arrangements during the nine months ended September 30, 2020.

Financial Instruments and Other Instruments

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

Summary of Significant Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year as described in note 3 of the Company's consolidated financial statements for the year ended December 31, 2019.

DIRECTORS

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Chairman of the Board

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Sigmund Cornelius

Robert Engbloom

Bob MacDougall

Glenn McNamara

Carmen Sylvain

David Taylor

Paul Wright

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President and Chief Executive Officer

Eric Furlan
Chief Operating Officer

Kenneth Pinsky
Chief Financial Officer & Corporate Secretary

Lee DiStefano
President, Parex Colombia & Country Manager

Ryan Fowler
Sr. Vice President, Exploration & Business Development

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

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ABBREVIATIONS**Oil and Natural Gas Liquids**

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

Other

WTI	West Texas Intermediate
Brent	Brent Ice
Vasconia	Vasconia Crude
FFO	Funds flow provided by (used in) operations

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