

Extractive Sector Transparency Measures Act - Annual Report

Reporting Entity Name	Parex Resources Inc.					
Reporting Year	From	1/1/2017	To:	12/31/2017	Date submitted	5/29/2018
Reporting Entity ESTMA Identification Number	E798884	<input checked="" type="radio"/> Original Submission <input type="radio"/> Amended Report				
Other Subsidiaries Included (optional field)						
Not Consolidated						
Not Substituted						
Attestation Through Independent Audit	<p><i>In accordance with the requirements of the ESTMA, and in particular section 9 thereof, I attest that I engaged an independent auditor to undertake an audit of the ESTMA report for the entity(ies) and reporting year listed above. Such an audit was conducted in accordance with the Technical Reporting Specifications issued by Natural Resources Canada for independent attestation of ESTMA reports.</i></p> <p><i>The auditor expressed an unmodified opinion, dated 2018-05-25, on the ESTMA Report for the entity(ies) and period listed above. The independent auditor's report can be found at Calgary.</i></p>					
Full Name of Director or Officer of Reporting Entity	Kenneth G. Pinsky			Date	5/25/2018	
Position Title	Chief Financial Officer					

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Reporting Entity Name	Parex Resources Inc.		Currency of the Report USD
Reporting Entity ESTMA Identification Number	E798884		
Subsidiary Reporting Entities (if necessary)			

Payments by Payee

Country	Payee Name ¹	Departments, Agency, etc... within Payee that Received Payments ²	Taxes	Royalties	Fees	Production Entitlements	Bonuses	Dividends	Infrastructure Improvement Payments	Total Amount paid to Payee	Notes ³⁴
Colombia	Federal Government of Colombia		27,950,000	46,490,000	550,000	-	200,000	-	-	75,190,000	A portion of royalties are paid in kind and valued as per the note below
Colombia	Municipality Aguazul		-	-	1,120,000	-	30,000	-	520,000	1,670,000	
Colombia	Municipality Cabuyaro		-	-	-	-	10,000	-	100,000	110,000	
Colombia	Municipality Paz de Ariporo		-	-	10,000	-	20,000	-	140,000	170,000	
Colombia	Municipality Plato		-	-	-	-	10,000	-	80,000	90,000	
Colombia	Municipality Pore		-	-	120,000	-	-	-	50,000	170,000	
Colombia	Municipality Puerto Boyaca		-	-	-	-	-	-	1,160,000	1,160,000	
Colombia	Municipality San Luis de Palenque		-	-	70,000	-	30,000	-	200,000	300,000	
Colombia	Municipality San Vicente de Chucurri		-	-	-	-	-	-	100,000	100,000	
Colombia	Municipality Simacota		-	-	10,000	-	10,000	-	570,000	590,000	
Colombia	Municipality Tame Arauca		-	-	40,000	-	20,000	-	1,130,000	1,190,000	
Colombia	Municipality Tauramena		20,000	-	40,000	-	710,000	-	1,160,000	1,930,000	
Colombia	Municipality Villa Nueva		10,000	-	10,000	-	200,000	-	870,000	1,090,000	
			27,980,000	46,490,000	1,970,000	-	1,240,000	-	6,080,000	83,760,000	

Additional Notes:

ALL PAYMENTS ARE REPORTED IN UNITED STATES DOLLARS (THE REPORTING CURRENCY OF THE REPORTING ENTITY) AND CONVERTED AT THE UNITED STATES DOLLAR TO COLOMBIAN PESO ANNUAL AVERAGE EXCHANGE RATE FOR THE PERIOD. THE WEIGHTED AVERAGE COLOMBIAN PESO TO UNITED STATES DOLLAR EXCHANGE RATE IS 2951:1.

ALL PAYMENTS WITHIN THE \$100,000 CAD PER PAYEE REPORTING THRESHOLD HAVE BEEN INCLUDED AND CONVERTED USING THE CAD/USD AVERAGE ANNUAL EXCHANGE RATE OF 1.30:1.

IF DETERMINABLE, IN-KIND PAYMENTS ARE VALUED AT COST. THE COST FOR ROYALTIES PAID IN-KIND IS NOT DETERMINABLE AND HAVE BEEN VALUED AT THE FAIR MARKET SALE PRICE AT THE TIME THE IN-KIND ROYALTY IS DELIVERED.

ALL VALUES HAVE BEEN ROUNDED TO THE NEAREST \$10,000.

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Reporting Entity ESTMA Identification Number	E798884	
Subsidiary Reporting Entities (if necessary)		
	Currency of the Report	USD

Payments by Project

Country	Project Name ¹	Taxes	Royalties	Fees	Production Entitlements	Bonuses	Dividends	Infrastructure Improvement Payments	Total Amount paid by Project	Notes ²³
Colombia	Northern Llanos Basin	\$ -	\$ 3,830,000	\$ 330,000	\$ -	\$ 750,000	\$ -	\$ 1,480,000	\$ 6,390,000	A portion of royalties are paid in kind and valued as per the note below
Colombia	Southern Llanos Basin	\$ 10,000	\$ 42,310,000	\$ 1,250,000	\$ -	\$ 480,000	\$ -	\$ 2,420,000	\$ 46,470,000	A portion of royalties are paid in kind and valued as per the note below
Colombia	Magdalena Basin	\$ -	\$ 350,000	\$ 60,000	\$ -	\$ 10,000	\$ -	\$ 2,130,000	\$ 2,550,000	A portion of royalties are paid in kind and valued as per the note below
Colombia	Corporate	\$ 27,970,000	\$ -	\$ 330,000	\$ -	\$ -	\$ -	\$ 50,000	\$ 28,350,000	
	Total	\$ 27,980,000	\$ 46,490,000	\$ 1,970,000	\$ -	\$ 1,240,000	\$ -	\$ 6,080,000	\$ 83,760,000	

Additional Notes³:

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ALL VALUES HAVE BEEN ROUNDED TO THE NEAREST \$10,000.



May 25, 2018

Independent Auditor's Report

To Those Charged with ESTMA Governance at Parex Resources Inc.

We have audited the accompanying Extractive Sector Transparency Measures Act – Annual Report of Parex Resources Inc., which comprise the schedules of payments by payee and payments by project for the year ended December 31, 2017, and the related notes, which comprise a summary of significant accounting policies and other explanatory information (the “ESTMA Report”). The ESTMA Report has been prepared by management using the basis of accounting described in the notes, which is in accordance with the Extractive Sector Transparency Measures Act S.C. 2014, c.39, s 376 (the “Act”).

Management's responsibility for the financial statements

Management is responsible for the preparation of these financial statements in accordance with the basis of accounting described in the notes, and for such internal control as management determines is necessary to enable the preparation of an ESTMA report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the ESTMA Report based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the ESTMA Report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the ESTMA Report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the ESTMA Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the ESTMA Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the ESTMA Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Extractive Sector Transparency Measures Act – Annual Report of Parex Resources Inc. for the year ended December 31, 2017 is prepared, in all material respects, in accordance with the basis of accounting described in the notes.

*PricewaterhouseCoopers LLP
111 5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825*



Basis of accounting

Without modifying our opinion, we draw attention to the notes to the ESTMA Report, which describes the basis of accounting. The ESTMA Report is prepared to assist Parex Resources Inc. to comply with the reporting requirements of the Act. As a result, the ESTMA Report may not be suitable for another purpose.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta



INTRODUCTION

Parex Resources Inc. and its subsidiaries (collectively the "Company" or "Parex") has prepared the following consolidated report ("the Report") of payments made to government entities for the year ended December 31, 2017 as required by the Extractive Sector Transparency Measures Act S.C. 2014, c.39, s.376 ("ESTMA" or the "Act").

BASIS OF PREPARATION

The report is presented in United States dollars ("USD"), the Company's reporting currency and has been prepared in accordance with the requirements of the Act and the Natural Resources Canada ("NRCan") Technical Reporting Specifications.

The following is a summary of significant policies and judgments that the Company has made for the purpose of preparing the report.

Significant policies

Cash and in-kind payments

Payments are reported on a cash basis and have been reported in the period in which the payment was made. In-kind payments are converted to a equivalent cash value based on cost or, if cost is not determinable, the in-kind payment is reported at the fair market value. The valuation method for each payment has been disclosed in the notes section of the ESTMA Annual Report.

Payments to the "same payee" that meet or exceed \$100,000 CAD equivalent in one category of payment are disclosed. The exchange rate used to convert to the Company's reporting currency, USD, is the weighted average rate for the period of USD/CAD of 1.30. Payments are rounded to the nearest \$10,000 USD.

Payments made in Colombia are generally made in Colombian pesos. To convert Colombian peso payments to USD the Company used the 2017 weighted average exchange rate of Colombian peso to USD of 2951:1.

Payee

For the purposes of the Act, a payee is:

- a. Any government in Canada or in a foreign state;
- b. A body that is established by two or more governments; or
- c. Any trust, board, commission, corporation or body or other authority that is established to exercise or perform, or that exercises or performs, a power, duty or function of a government for a government referred to in paragraph (a) above or a body referred to in paragraph (b) above.

Payees include governments at any level, including national, regional, state, provincial, local, or municipal levels. Payees may include non-governmental entities if the benefit bestowed would have otherwise been provided by the government. Payees also include any government-owned or government-controlled entities that exercise or perform a power, duty or function of government.

Aboriginal and indigenous groups and organizations may also be regarded as a payee under the Act. Currently, the Corporation does not make payments to such groups.

Reportable Payments

A reportable payment for ESTMA purposes is one that:

- a. Is made to the same payee;
- b. Is made in relation to the commercial development of oil, gas or minerals; and
- c. Totals, as a single or multiple payments, \$76,923 USD or more in the year in one of the following prescribed seven payment categories.

Taxes

This category includes taxes paid by the Company on its income, profits or production in relation to the commercial development of oil and gas resources. Taxes paid in Colombia include corporate income tax, equity tax, bank tax, and industry and commerce taxes that relate to the commercial development of oil. Consumption taxes, personal income taxes and taxes withheld by the Company on behalf of others are excluded as per the Act.

Royalties

Royalties are payments for the rights to extract oil and gas resources, typically at a set percentage of revenue. Both cash royalties and royalties paid in-kind are reported in this category. If determinable, in-kind payments are valued at cost. The cost for royalties paid in-kind is not determinable and have been valued at the fair market sale price at the time the in-kind royalty is delivered.

Fees

This category may include environmental license fees, permits, and other regulatory charges. The fee category is broad and includes payments to payees that in substance is a fee. Amounts paid in ordinary course commercial transactions in exchange for services provided by a payee are excluded.

Production entitlements

A payee's share of oil, gas or mineral production under a production sharing agreement or similar contractual or legislated arrangement is reported under this category. For the year ended December 31, 2017, there were no reportable production entitlement payments to a payee.

Bonuses

This category includes signing, discovery, production, community investment and any other type of bonus paid to a payee in relation to the commercial development of oil and gas resources.

Dividends

Dividends are payments, other than dividends paid to a payee as an ordinary shareholder of the Company on shares that were acquired by the payee on the same terms as were available at the time of acquisition to other shareholders that are not in lieu of any other reportable payment. For the year ended December 31, 2017, there were no reportable dividend payments to a payee.

Infrastructure improvement payments

This payment category consists of payments for the construction of infrastructure that do not relate primarily to the operational purposes of the Company and to which there is direct benefit to the payee.

Significant Estimates and Judgements

The preparation of the Report in accordance with the Act requires the use of judgements, estimates and assumptions which includes the evaluation of the substance, rather than the form, of the payment.

Payments by Project Level

Payments have been reported at the project level as required by the Act. A "project" means the operational activities are governed by a single contract, license, lease, concession or similar legal agreement that forms the basis for a payment liability with a payee. If multiple such agreements are substantially interconnected, they would be considered a single project.

"Substantially interconnected" means forming a set of operationally and geographically integrated contracts, licenses, leases or concessions or related agreements with substantially similar terms that are signed with a government and give rise to payment liabilities.

The Company has determined that the operational activities governed by surface or mineral lease contracts related to key operational areas are substantially interconnected and has reported payments related to each such area as a single project. The Company has considered geographical location and common infrastructure as two key indicators for making this determination.

Commercial Development

The Act defines 'commercial development of oil, gas or minerals' as:

- a) The exploration or extraction of oil, gas or minerals;
- b) The acquisition or holding of a permit, license, lease or any other authorization to carry out any of the activities referred to in paragraph (a); or
- c) Any other prescribed activities in relation to oil, gas or minerals.

Payments made by the Company to payees relating to the commercial development of oil, gas or minerals ("commercial development") are disclosed in this Report. The Company's initial processing activities which are integrated with its extraction operations are included in commercial development. The Report excludes payments that are not related to the Company's commercial development activities.

Refunds, rebates and credits

Amounts paid to payees have been reported at the amount paid by the Company, including instances where an applicable credit or rebate reduces the amount payable, to reflect the net cash payment to the payee. Cash refunds or rebates received from payees have not been reported where they have not been applied as a credit to amounts owing.

Attribution of payments

Where a payment was made for the Company by another entity, such payment has been deemed to have been made by the Company and has been included in this Report. This may include payments not directly made to a payee, or were not received directly by the payee. Whether a payment is made for the Company may be difficult to determine and depends on the facts and circumstances including legal and contractual requirements in various jurisdictions.

Payments made in situations of joint control

The Company reports all cash payments that it pays directly to a payee, and includes all amounts paid as an operator as part of an unincorporated joint arrangement (i.e. a working interest). This

is the case even where the Company as the operator has been proportionally and directly reimbursed by its non-operating partners.

In circumstances where the Company is a non-operator in an unincorporated joint arrangement and the operator is not a Reporting Entity under ESTMA, the Company records its working interest share of ESTMA related payments to payees made by the operator based on information provided by the operator as prescribed by ESTMA Guidance section 3.7.

Corporate Social Responsibility (“CSR”) Payments

The ESTMA Report includes CSR payments that the Company is contractually obligated to make to a payee, or to another party under the direction of a payee, as a result of the Company’s commercial development. Additionally, the Company has reported voluntary CSR payments which have been made to a payee, or to another party where the nature, timing or extent of the payment is controlled by a payee, and relates directly to the Company’s commercial development. CSR payments have been included in infrastructure improvement payments and bonuses categories based on the nature of the CSR payment.